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Opening Remarks

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Check against delivery!

Monetary policy and structural tectonic shifts

Ladies and gentlemen, distinguished guests!

Welcome to this year's OeNB Annual Economics Conference in cooperation with SUERF.

I would like to start by warmly welcoming everyone – whether you are joining us in person here at the OeNB or online. My sincere thanks go to our esteemed speakers, panelists and researchers for sharing their time and expertise. I would also like to extend my heartfelt appreciation to all those behind the scenes, whose hard work and dedication are making this event possible and enjoyable for us all.

At last year's conference, we explored the theme *"The central bank of the future: opportunities and challenges."* And our discussions then laid important groundwork for the issues we are facing today. Over the past year, we have witnessed a series of substantial challenges, each with the potential to reshape the global economic landscape and, in turn, the very framework in which monetary policy must operate.

It is in this context that we are approaching this year's theme: *"Monetary policy and structural tectonic shifts."* Much like how we feel and see tectonic shifts through earthquakes and volcanic eruptions, our world has recently experienced economic and geopolitical tremors – disruptions that have shaken long-held assumptions and institutions. In my opening remarks, I will briefly highlight three key developments that reflect these shifts, offering insights into their implications and addressing the critical questions they pose for the future of monetary policy.

Some reflections on the past twelve months

Let me start by looking back. Since our last conference, the inflation landscape has shifted significantly. Following a period of sharp price increases, we took decisive monetary policy action that helped to stabilize the situation. Encouragingly, these efforts were fruitful, and in June 2024, we began a process of gradually reducing key interest rates. With seven consecutive rate adjustments, we brought the deposit facility rate down to its current level of 2.25%.

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However, the inflation surge and subsequent developments have also revealed new layers of complexity in maintaining price stability. Today, central banks must navigate an environment that is more intricate than ever before. Traditional tools often behave in unpredictable ways when used in times of global disruptions. During the recent inflationary period, the factors at the forefront of our concerns included disrupted supply chains, volatile energy markets and the ongoing unwinding of unconventional monetary policy instruments.

As we look ahead, I believe we must approach the current challenges in two distinct blocks. First, what emerging trends would have shaped the economic and financial landscape if the current tectonic shifts originating in the United States had not occurred? In this context, I will touch on artificial intelligence, financial innovation and new insights into the natural rate of interest or r-star. Second, now, a couple of months into the second term of the Trump presidency, we find ourselves facing new challenges in truly uncharted territory. Frequently shifting economic signals from the United States continue to inject an added layer of unpredictability, further complicating the already complex task of policymaking.

Three big challenges shaping the future of money and policy

Let me briefly point out three big challenges we were already dealing with before Donald Trump got reelected. First, I would like to draw your attention to an innovation in the cryptocurrency sphere that has gained growing relevance and with a potential systemic impact: stablecoins. Unlike highly volatile crypto assets such as Bitcoin or Ethereum, stablecoins are pegged to reference assets like the US dollar, offering greater price stability and edging closer to meeting the traditional functions of money. Dollar-pegged stablecoins such as Tether and USDC have grown substantially in both market capitalization and global reach. Yet, as highlighted by Fed Board Governor Christoph Waller, this rapid growth brings with it serious regulatory and monetary policy implications.[1]

Second, also in the realm of technology, recent developments in artificial intelligence (AI) have the potential to fundamentally alter the way we live – and, by extension, the structure of the global economy. I suspect that most of today's audience has already interacted with AI in some form, whether for highly productive purposes or perhaps for more casual experimentation. Yet, the broader implications of AI extend far beyond personal use. From reshaping entire industries to transforming the very nature of work, AI introduces both unprecedented opportunities and significant challenges. One critical issue is that traditional economic indicators may fall short in capturing the true impact of AI-driven innovation, especially in knowledge-based sectors (see Baily, Brynjolfsson and Korinek, 2023).

Third, and this is where many of the points I have raised are coming together, the natural rate of interest, or r-star, has returned to center stage, with recent estimates suggesting a modest upward shift. In a recent paper, we examined the key factors influencing r-star. While overall productivity remains a fundamental driver, demographic trends also play a crucial role. Here, the outlook

[1] Christopher J Waller: Reflections on a maturing stablecoin market (accessed on May 13, 2025).

remains largely unchanged: our societies continue to age, and uncertainty persists about the long-term economic impact of migration. Therefore, pension reforms, such as raising the retirement age, could generate meaningful, and potentially lasting, upward effects on r-star (Breitenfellner et al., 2024).

Let me now briefly touch on the enormous global investment needed to fight climate change and how this connects to r-star. According to the International Energy Agency, annual investment in clean energy must reach USD 4.5 trillion by 2030 so that we stay on track for the 1.5-degree target.[2] Closing this gap through targeted public and private investment is not just a moral imperative but can also raise the global natural rate of interest. Productive, climate-aligned capital deepens investment demand and improves growth prospects, especially in regions with untapped potential. In this way, the green transition can contribute not only to achieving climate goals but also to ensuring macroeconomic sustainability.

Finally, central banks are very aware of the changing world and thus regularly engage in thorough reviews of their strategies. The Federal Reserve's current review, for instance, focuses on two main areas: an analysis of its policy approach, and its tools for communicating policy. Notably, the Federal Open Market Committee's 2% long-run inflation target is not part of this review. The Bank of Canada has reviewed its extraordinary policy actions during the COVID-19 crisis (ranging from emergency rate cuts to quantitative easing and forward guidance) and found that they had been crucial in stabilizing financial markets, supporting economic recovery.[3] Also, the Eurosystem is currently engaged in an intermediate strategy review, incorporating the lessons of recent years to refine and enhance our policy decisions. This ongoing process underscores our commitment to continuously improving decision-making in a rapidly evolving environment. While some of these reviews are still ongoing, I expect that many of the topics we are discussing today will be part of them.

A new US administration and the dramatic shifts it has unleashed

In my view, these were the pressing issues of our time even before US President Trump was reelected. And now, in his new term, we have already seen an unprecedented series of tectonic shifts, not only economically, but also in terms of global organization and institutional dynamics. To make sense of where we stand today, let me offer some structure, outlining four key challenges that have emerged since President Trump took office.

First, current US foreign and trade policies have triggered a series of events that continue to reverberate across Europe and the global economy. Frequent shifts in trade policy have fueled economic uncertainty, undermining stability and resulting in tangible losses for all parties

[2] International Energy Agency. 2024. World Energy Investment 2024. www.iea.org

[3] Review of the Bank of Canada's Exceptional Policy Actions During the Pandemic: Executive summary - Bank of Canada (accessed on May 13, 2025).

involved. Yet, there is currently no clear consensus in the academic literature on how monetary policy should best respond to such persistent and politically driven uncertainty.

Second, the Trump administration has decided to withdraw from important supranational initiatives and bodies, like the Paris Agreement and the World Health Organization. Even membership in the International Monetary Fund is currently under question. The US leaving the IMF would drastically reduce the international role of the USA and the US dollar even more. When a major global economy becomes an unreliable partner, it puts significant additional strain on already fragile global markets, making economic forecasts more complex and policy decisions even more challenging in an already uncertain environment.

Third, given this heightened uncertainty, the international role of the euro can be expected to grow. Amid erratic tariff decisions and threats to the Federal Reserve, global investors have shifted away from US assets toward gold, which leads to a depreciation of the US dollar. While this shift presents an opportunity for the euro to emerge as a more reliable and stable reserve currency, it also raises new questions for monetary policy. The well-known Triffin dilemma reminds us that countries issuing global reserve currencies are faced with the structural tension that builds when they must run trade deficits to provide global liquidity, even at the expense of long-term economic stability at home. For central banks, this creates a complex balancing act.

Fourth, a United States that appears less committed to Western security significantly weakens the military capabilities of NATO and leaves Europe more vulnerable to external threats. In response to these shifting dynamics, European countries have initiated a review of their common defense strategy and announced substantial increases in defense spending. As these fiscal impulses begin to unfold across the economy, the Eurosystem must remain highly vigilant, closely monitoring any inflationary pressures and responding with determination if needed.

How can we rethink monetary policy in a period of tectonic shifts?

Central banks must constantly adapt to a changing environment. That is why the Eurosystem has committed to regularly reviewing its strategy. Indeed, as I have mentioned before, we are currently undertaking an intermediate strategy review. This process draws on the lessons of recent years to refine and strengthen our approach to policymaking. It reflects our firm commitment to continuously improving how we assess, decide and act in a rapidly evolving environment.

In today's sessions, we will hear from keynote speakers Daniel Gros of Bocconi University and Huw Pill of the Bank of England, alongside a panel of distinguished experts. Their insights will help bring together academic perspectives and policy practice, enriching our collective understanding. Tomorrow, we will delve deeper into recent academic research and consider its implications for the future of monetary policy.

With that, I wish all of us a stimulating, thought-provoking and productive conference. I am confident that our discussions will not only deepen our understanding of the challenges ahead but also spark fresh ideas. Let us approach today's tectonic shifts not merely as threats, but as opportunities to shape a more resilient and forward-looking monetary policy.

Thank you!

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