The unanchored central banker: discussion

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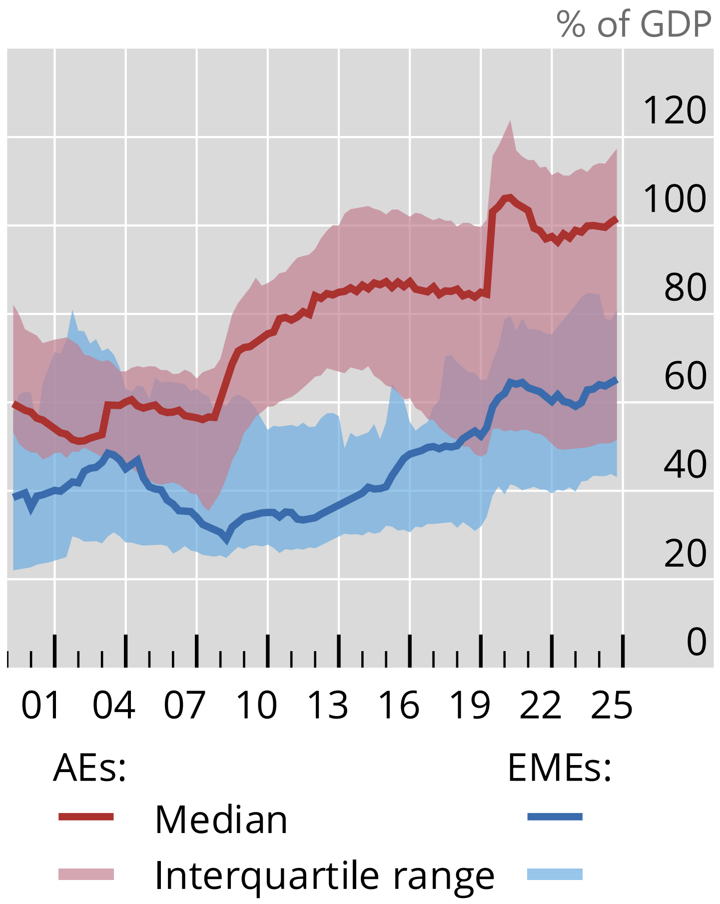
SUERF BAFFI Bocconi e-lecture, 2 September 2026

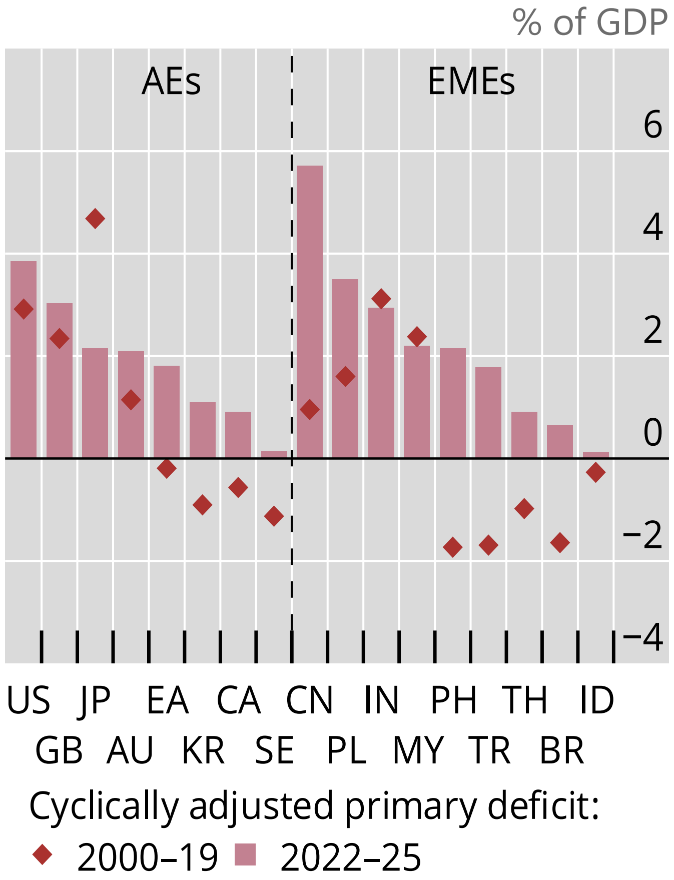
The views expressed are solely mine and do not reflect those of the Bank for International Settlements

Emphasis on fiscal fragility is appropriate

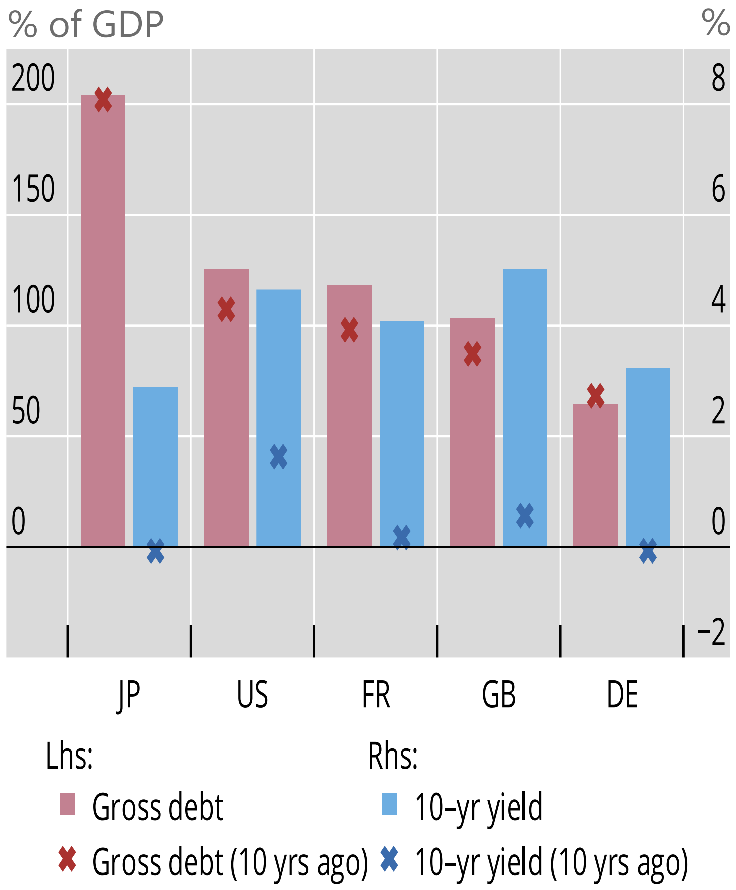
Government debt to GDP on the rise



Deficits have increased



Increasing interest payments

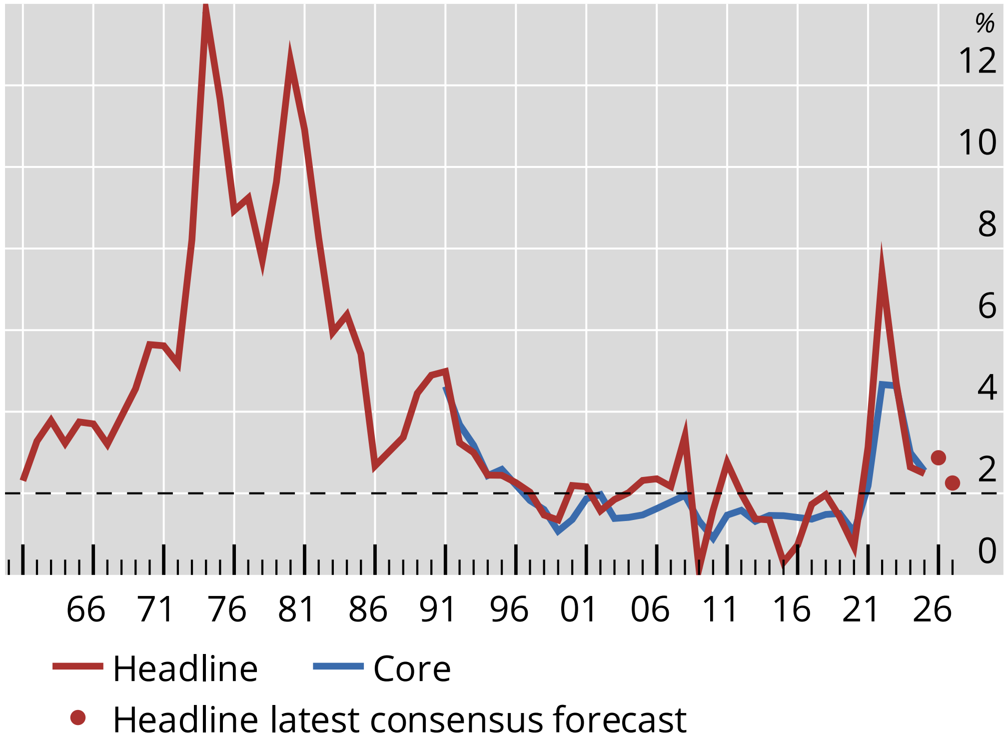


Implications for central banks

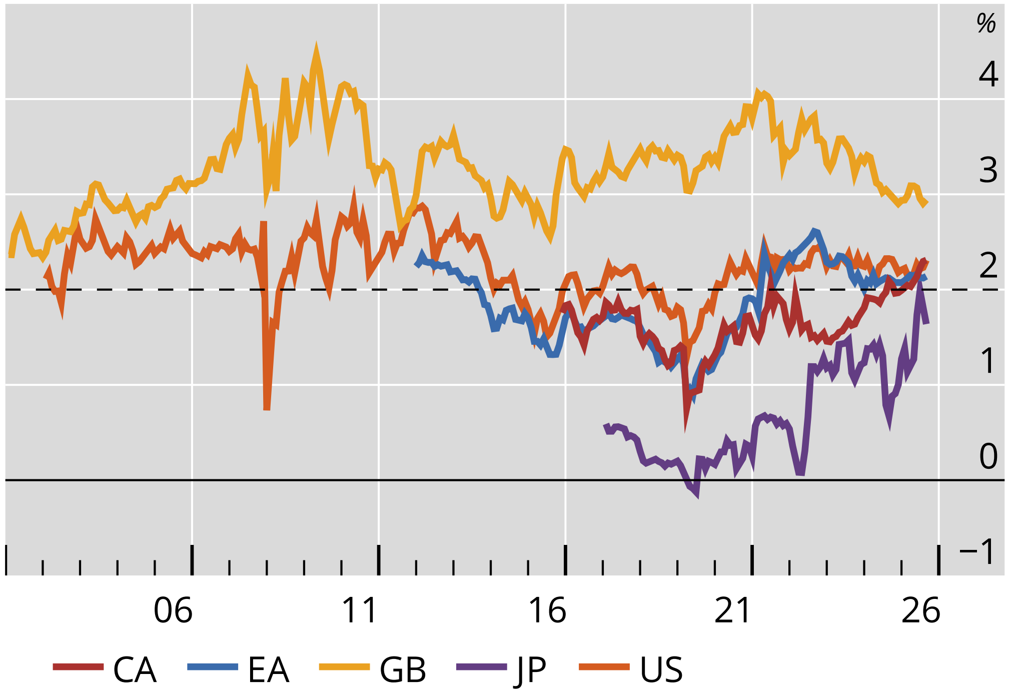
- Risk of fiscal dominance
  - But short and medium-term inflation expectations remain anchored
  - Suggesting credibility of central banks' inflation targets is maintained

Inflation developments in advanced economies: Expectations remain anchored

Headline and core inflation[1]



Five-year, five-year forward expected inflation[2]



[1] GDP-PPP weighted averages for 16 AEs (where data available). Core inflation defined as headline inflation excluding food and energy. [2] Based on data for nominal and inflation adjusted government bonds, except for EA (swap based).

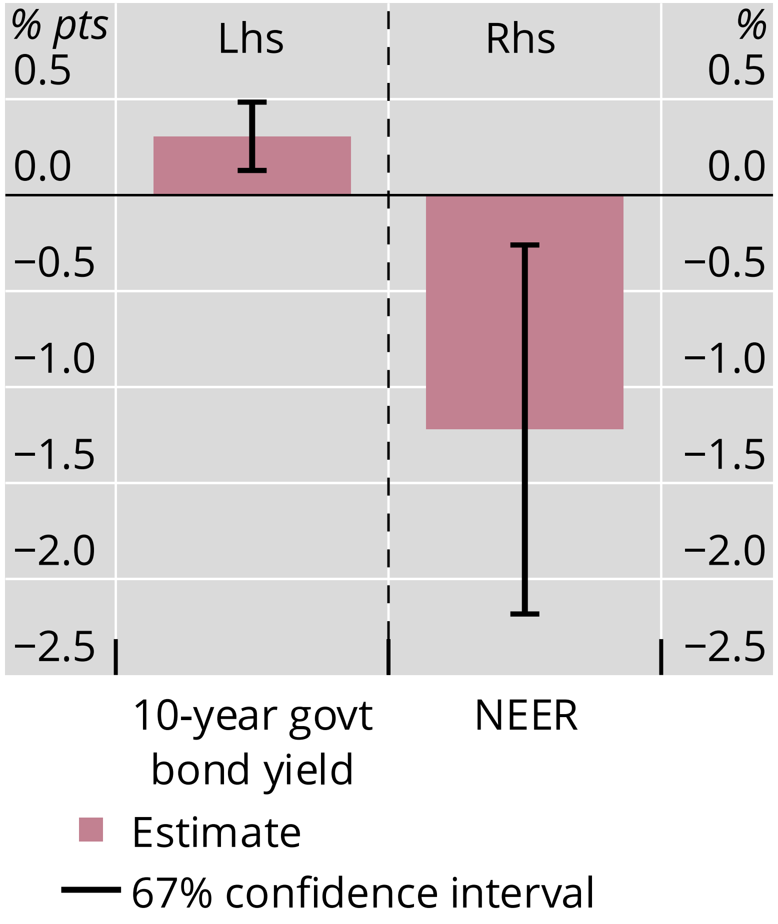
Sources: Bloomberg; Consensus Economics; LSEG Datastream; national data; BIS.

Implications for central banks

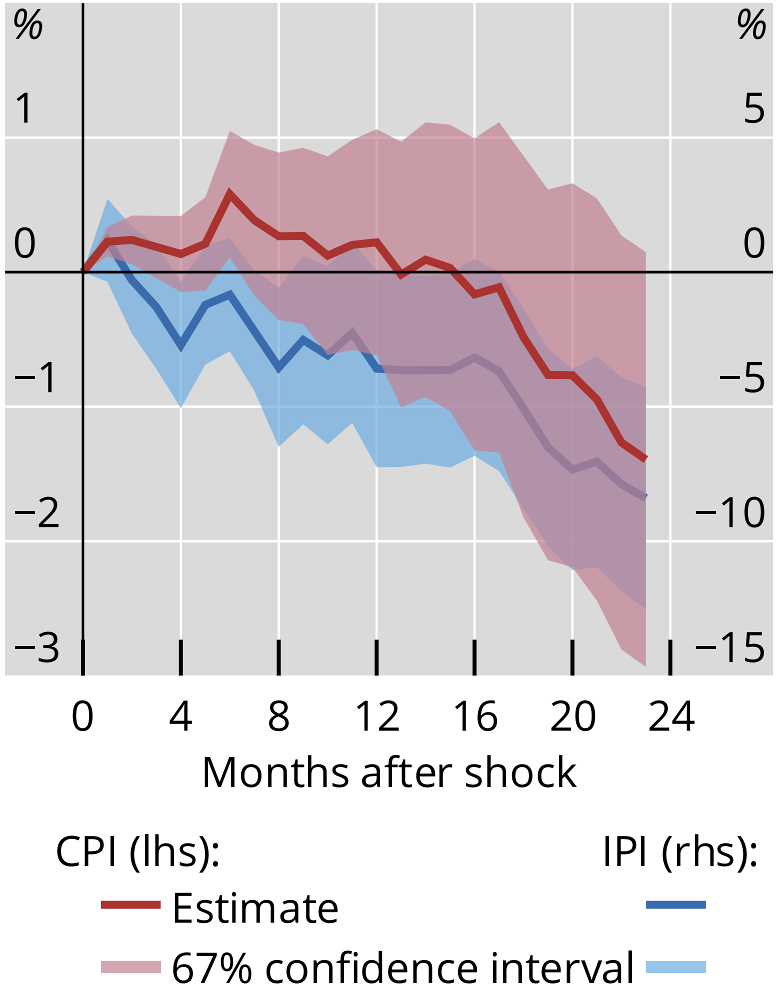
- Higher frequency of fiscal risk shocks
  - BIS AER 2026 highlights a new fiscal-financial stability nexus:
    - Increasing role of highly leveraged NBFIs in government bond markets
    - Stress can now spread rapidly and more widely – via funding markets, across borders and between banks and nonbanks
  - Central bank challenges:
    - fiscal risk repricing tightens financial conditions quickly, but effects on inflation are more uncertain
    - high public debt can make monetary transmission more complex
    - financial market dysfunction may need to be addressed, but costly in terms of market discipline
  - A firm commitment to medium-term price stability remains key.

The financial and real effects of fiscal risk repricing

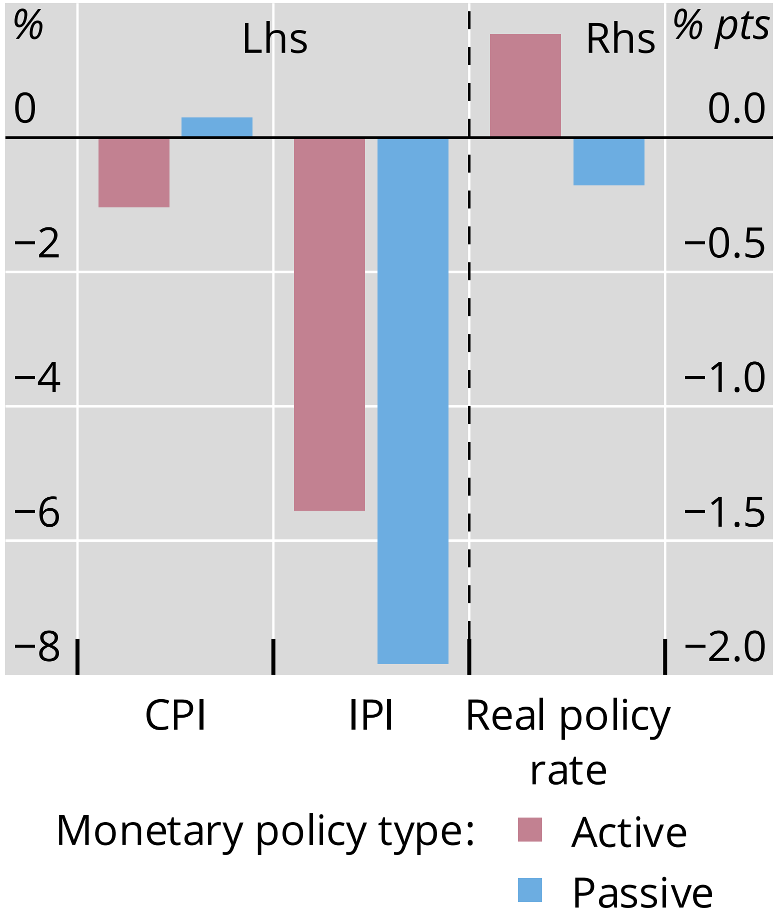
Higher fiscal risks lead to tighter financial conditions…



…and affect growth and inflation



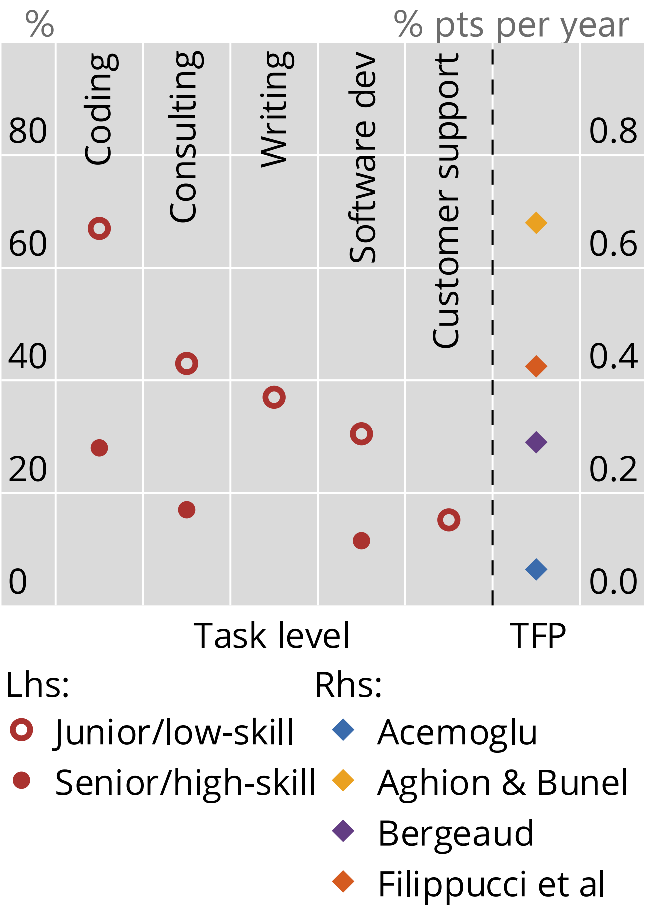
Passive monetary policy exacerbates these effects



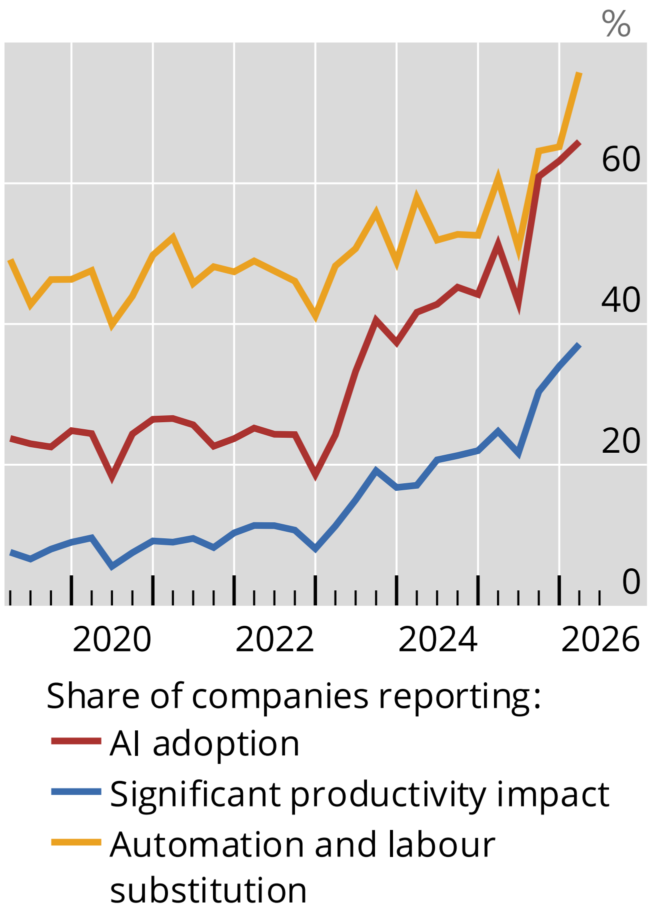
Source: Gorea, Xuan Ng and Zampolli, 2026, Financial and real effects of fiscal risk

AI offers productivity promises

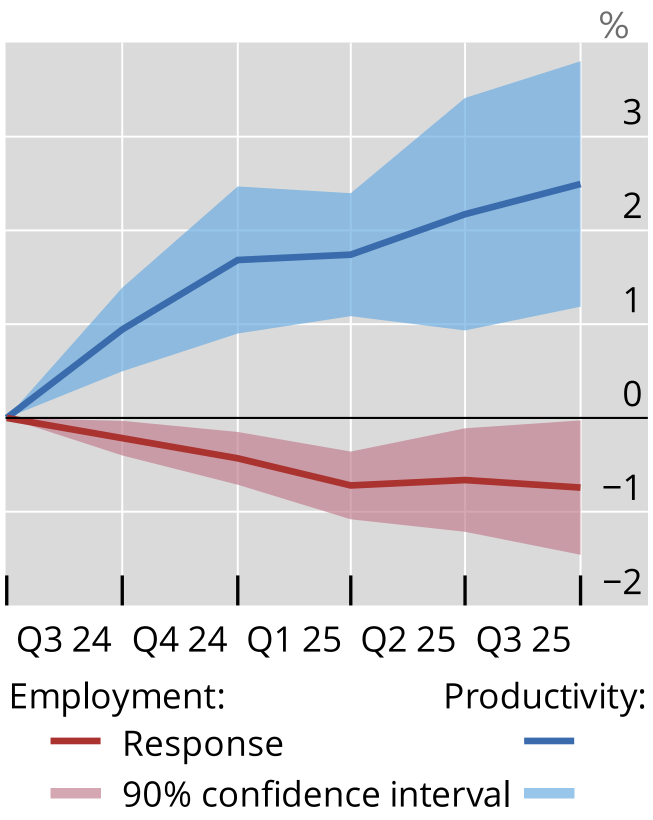
Estimates of productivity gains from AI vary



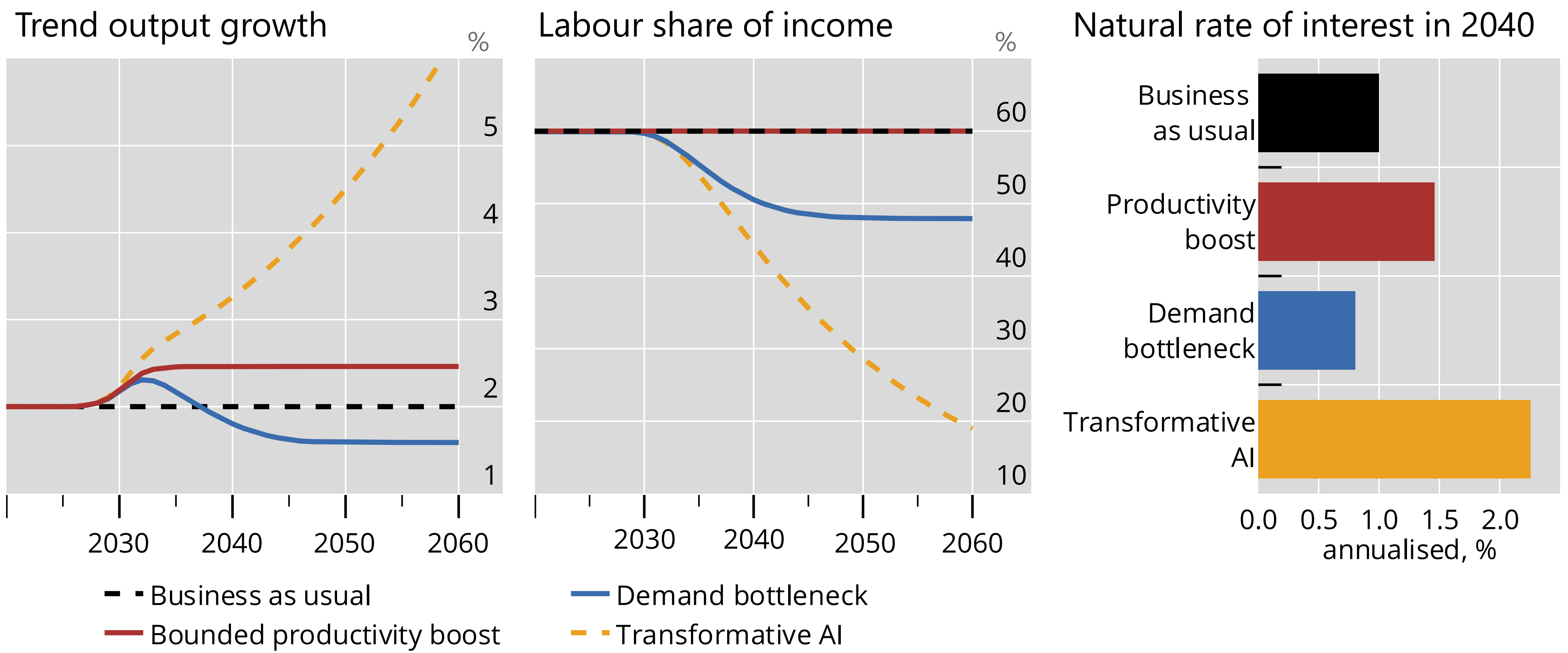
In earnings calls, more firms signal intent to automate



AI-exposed firms boost productivity and hire less labour



AI's impacts on long-term growth, r-star and inflation remain highly uncertain



Source: Rungcharoenkitkul (2026)

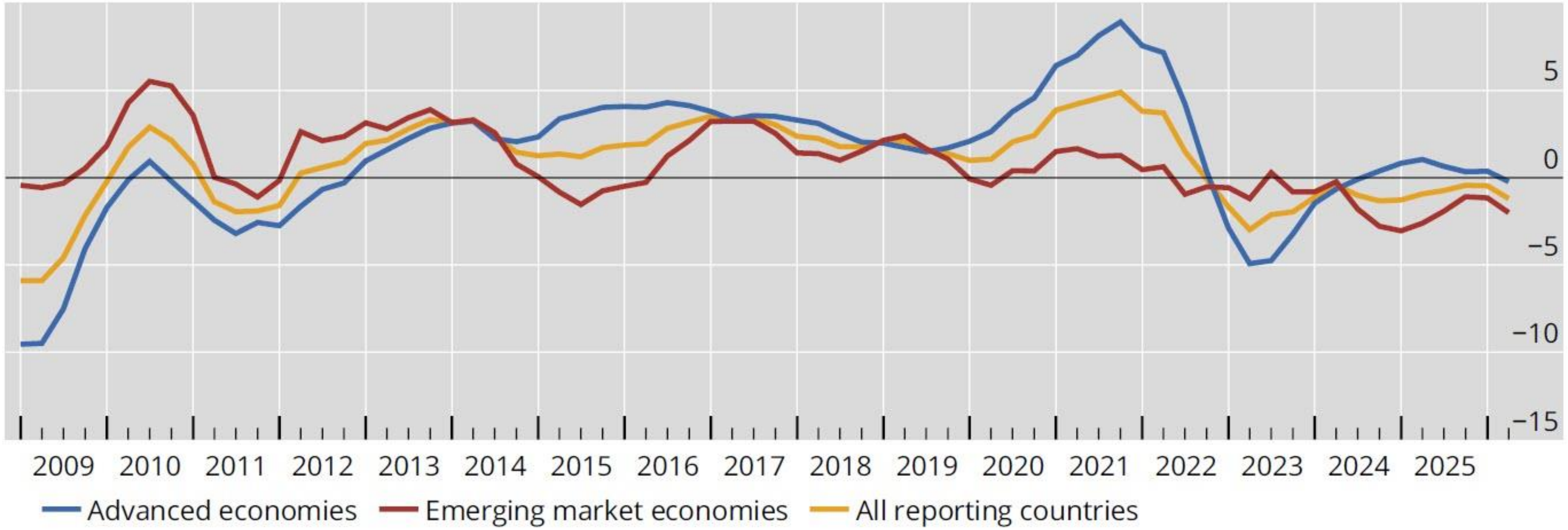
Role of housing

- With ageing, the demand for housing should fall, leading to disinflationary pressures

Aggregate developments in real residential property prices[1]

Year-on-year changes, in per cent

Graph 1



[1] Based on quarterly averages based on rolling GDP and PPP exchange rates; CPI-deflated.

Source: BIS selected residential property price series.