

MONETARY POLICY AFTER THE PANDEMIC

The session on monetary policy after the pandemics gave an opportunity for a conversation between Jean-Claude Trichet and other leaders that have shaped monetary policy in the past decade. They had a look at the past, the present and how monetary policy is likely to develop in the aftermath of COVI-19.

Janet Yellen, Former Chairwoman of United States Federal Reserve, began with her insight on how monetary policy changed through the last few decades. Starting with changes in the inflation rate, she noted that in the past the central banks had to deal with too high inflation, which is the opposite of the current situation. Nevertheless, the goal has always been to restore the credibility of central banks, that they are able to maintain financial stability. Dealing with inflation that is too low is particularly difficult, especially because of secular stagnation that reflects an ageing and low productivity growth. Since we reached effective lower bound, the solution is a non-standard monetary policy, which should no longer be treated as unconventional.

Our next guest, Zhou Xiaochuan, Former Governor of People's Bank of China was discussing his view of what monetary policy can and cannot achieve at a time like this. Certain problems are not solvable by monetary policy, such as the enforcement of social distancing rules. On the other hand, low-interest rates and excessive liquidity can affect the formation of potential bubbles. Surely, the monetary policy should provide effective deleveraging measures to potential bubbles. Undoubtedly objective of monetary policy is to achieve the inflation target, nevertheless, during crises growing complexity brought the demand for introduction of more objectives of monetary policy. He mentioned the balance of payment as an example of an additional objective for emerging markets. All in all, objectives should be modified depending on the situation.

Jean-Claude Trichet, Former President of ECB, expressed his positive view on the ECB's handling of the current crisis, including the Pandemic Emergency Purchase Programme (PEPP). He praises the Next Generation EU as an enormous and impressive step. He also emphasized the additional difficulties to the eurozone, as it acts as a collection of governments, in contrast to the US. For instance, the different cost competitiveness causes that the ECB has more problems to deal with inflation. He also expressed his concern about massive asset purchases and low-interest rates, which could be a threat to financial stability.

In this regard, chair Erkki Liikanen, Former Governor of Bank of Finland, started the discussion on the adequacy of tools as well as the readiness of institutions to maintain financial stability. Janet Yellen noticed that depends on the country. The United Kingdom can be an example were additional tools were allowed to use, compare to the US. She mentioned her concerns, as governor, about the lack of tools to deal with the excessive non-financial corporate debt. Governor Zhou said that China, in the absence of tools, tried to use counter-cyclical tools to ensure financial stability. Jean-Claude Trichet discusses euro area concerns regarding financial stability and in his view, non-financial institutions are particularly at risk as they are far less regulated than banks.

There was also a question about the independence of monetary policy. Trichet noted that too many objectives can disrupt independence, and independence is especially important when central banks need to act quickly, for example, to prevent the effects of a pandemic. Zhou claimed that in practice, independence is important when it comes to monetary policy, but other objectives should be coordinated with governments because central banks cannot easily deal with the problems alone.

The session ended with everyone agreeing on the importance of clearly communicating monetary policy actions not only to professionals but among the general public as well.

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