



# Monetary policy challenges during and after the pandemic

Policy Panel at the Fourth Biennial Conference on New Dimensions of Monetary Policy

Narodowy Bank Polski

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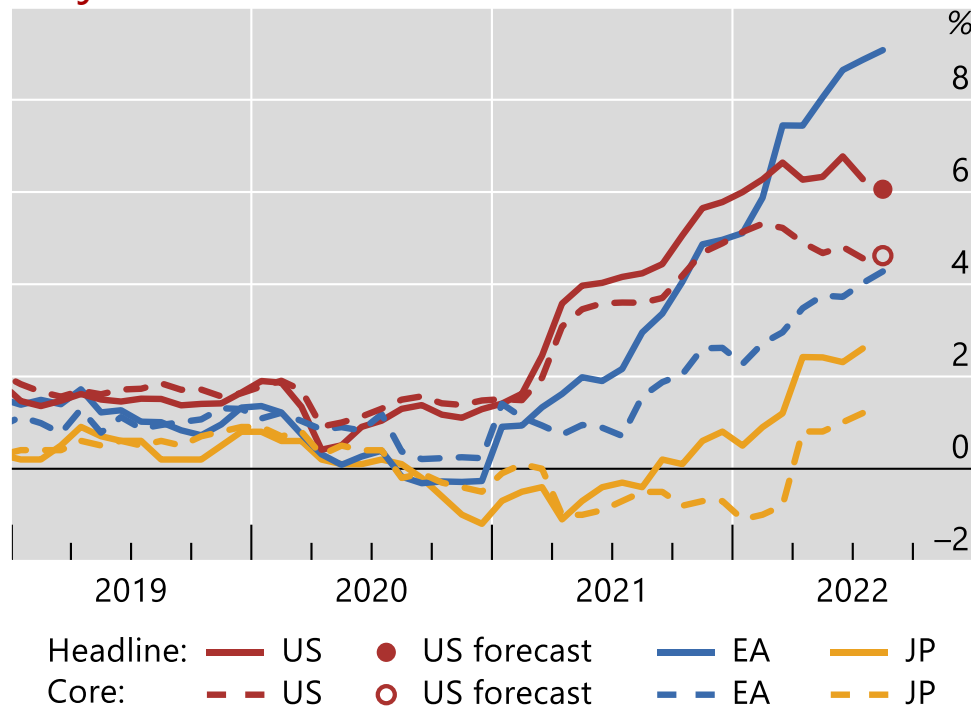
22 September 2022

\*The views expressed here are mine and not necessarily those of the Bank for International Settlements.

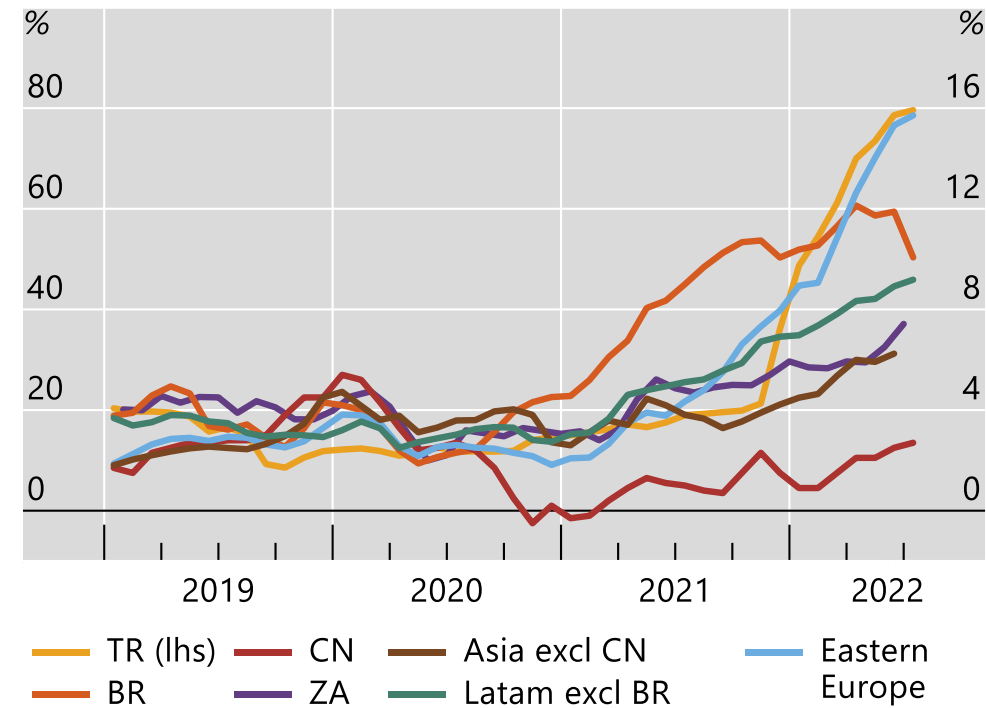
# Global drivers of inflation

# Inflation still elevated and rising globally although at lower pace

## Major AEs



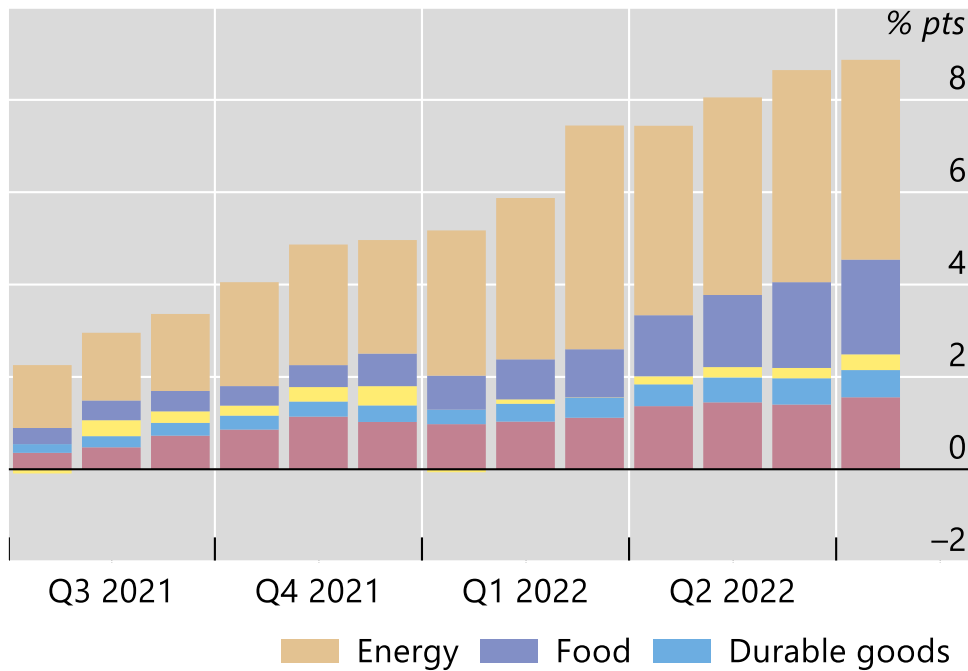
## EMEs



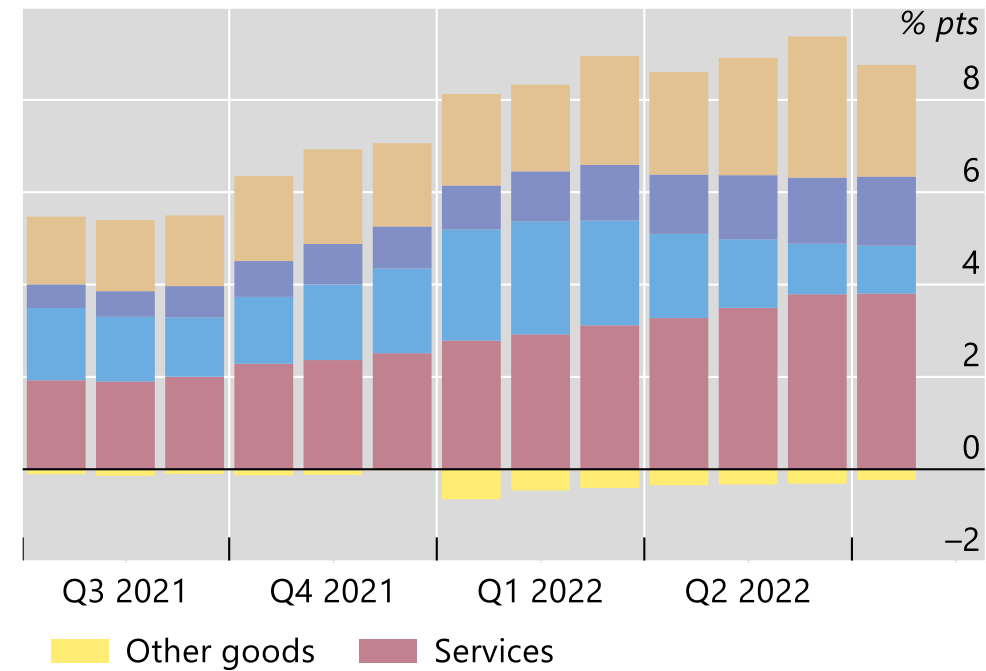
Source: BIS.

## Global factors explain a large share of the rise in inflation since 2021...

Euro Area

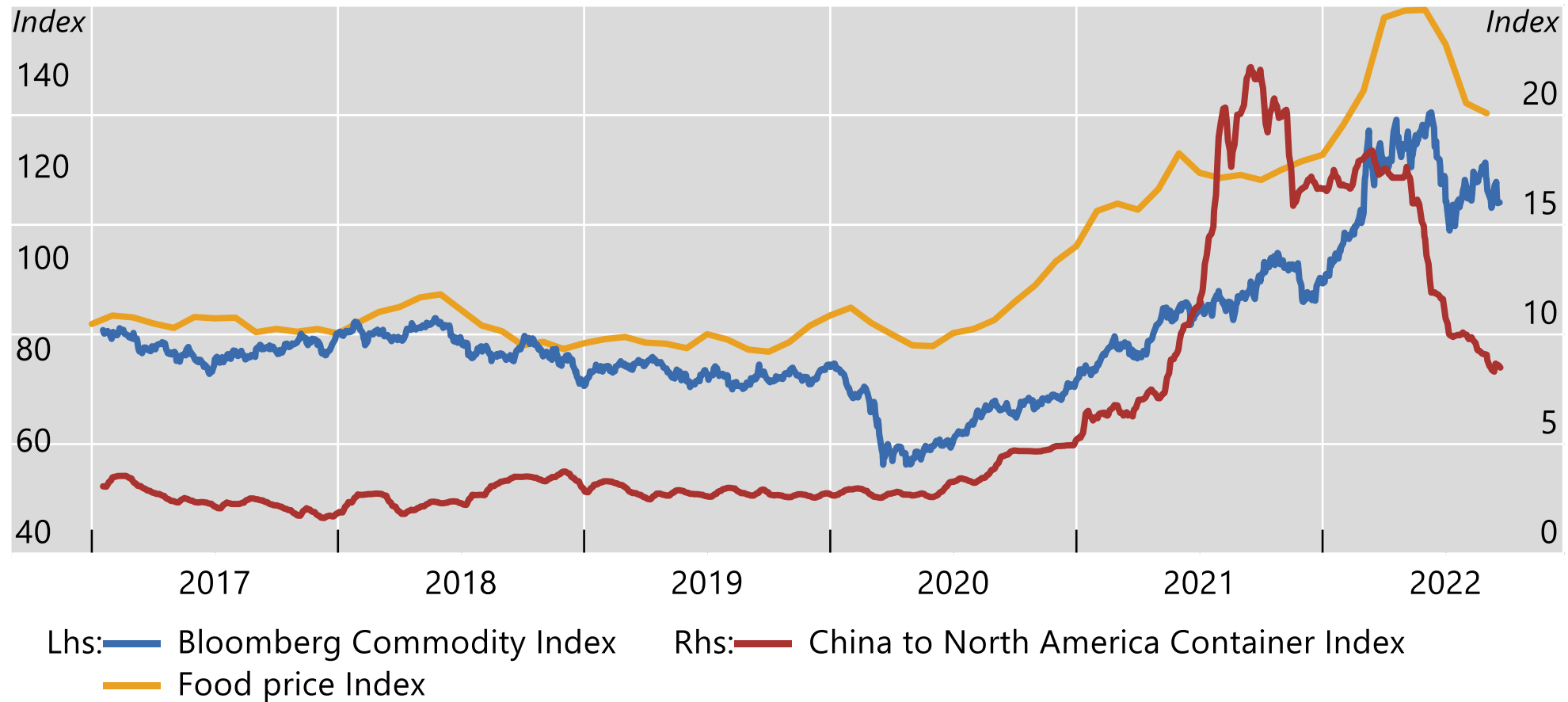


United States



Source: BIS.

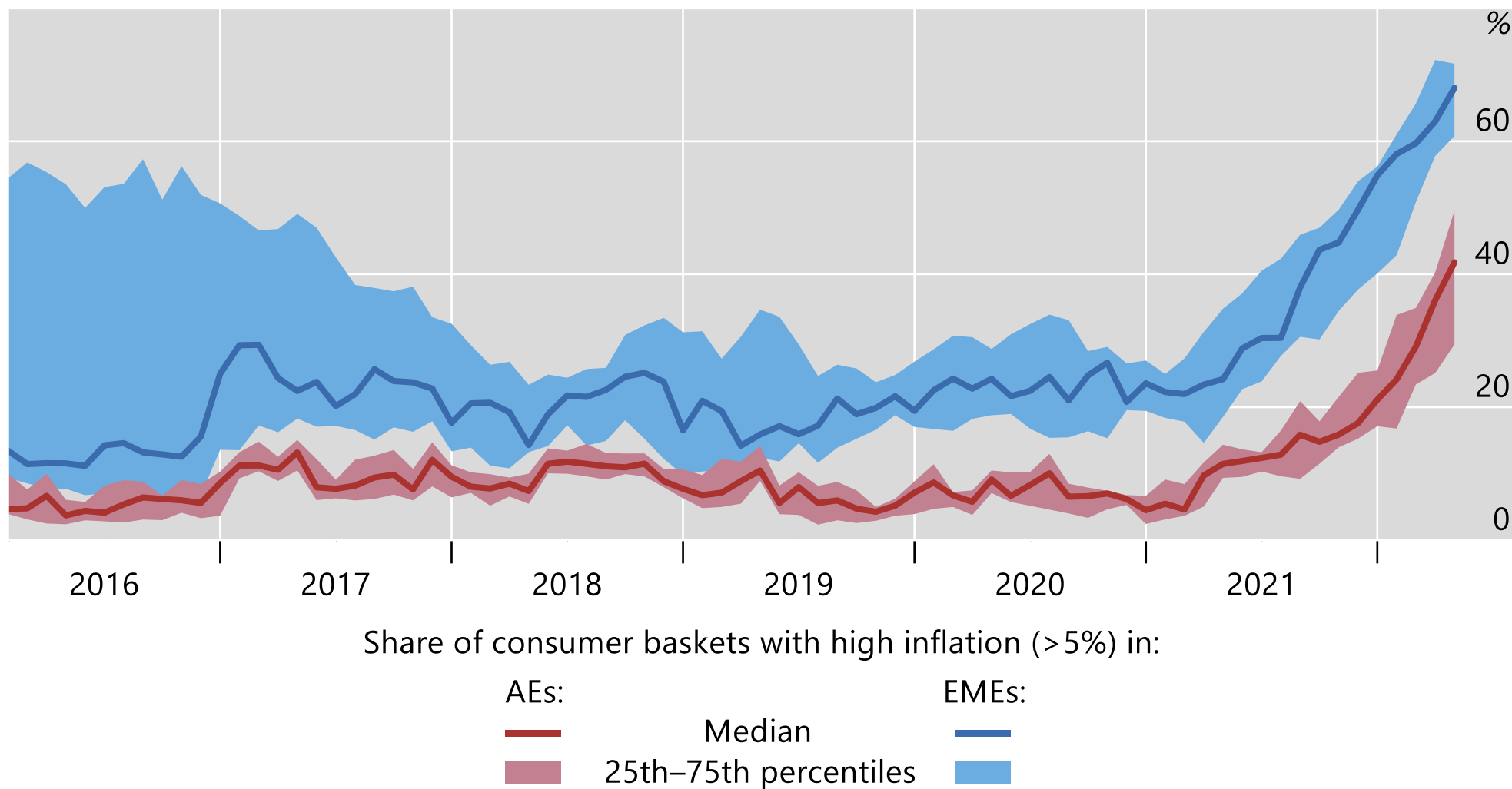
... but also of its recent moderation



Source: BIS.

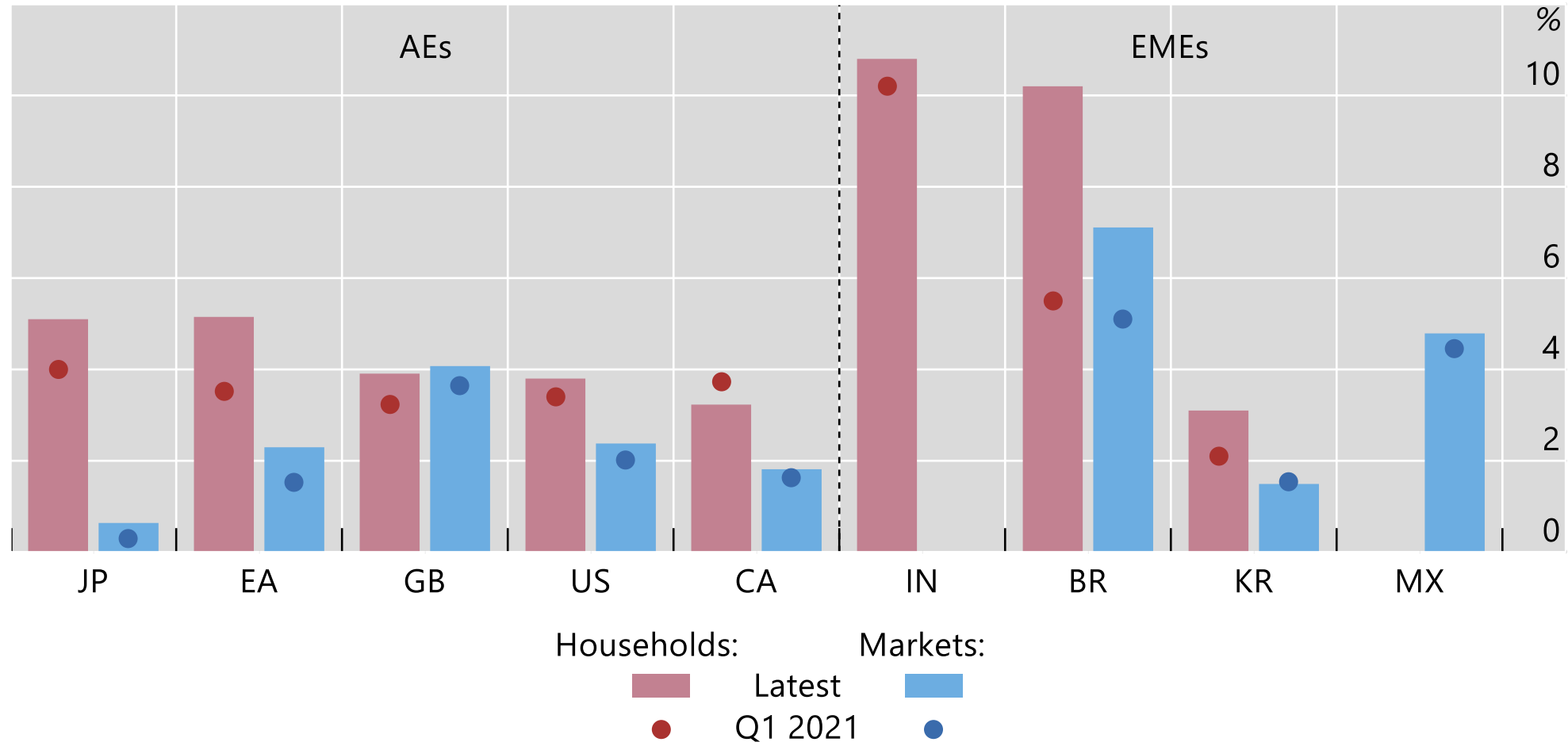
# Monetary policy challenges: What tightening path to curb inflation?

## Inflation broadens



Source: BIS Annual Economic Report 2022, June.

## Long-run inflation expectations rise above the inflation targets

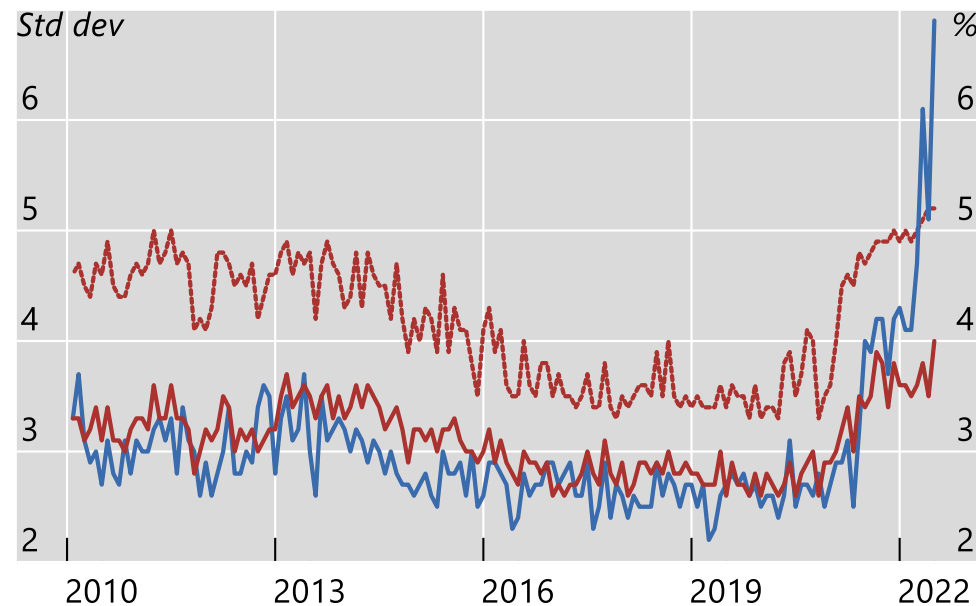


Source: Boissay, F, F De Fiore and E Kharroubi (2022): "Hard or soft landing?", BIS Bulletin, no 59, July.



...and the tails of their distribution thicken indicating households' concerns

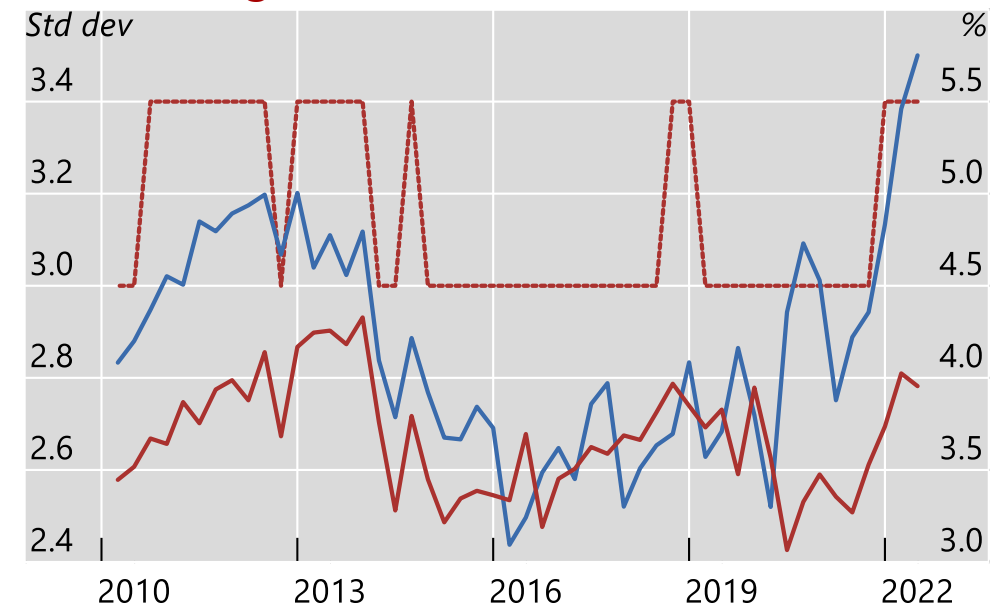
### United States



Five-year-ahead inflation expectations:

Lhs:                      Rhs:  
— Std dev      — Mean      ..... 75th percentile

### United Kingdom

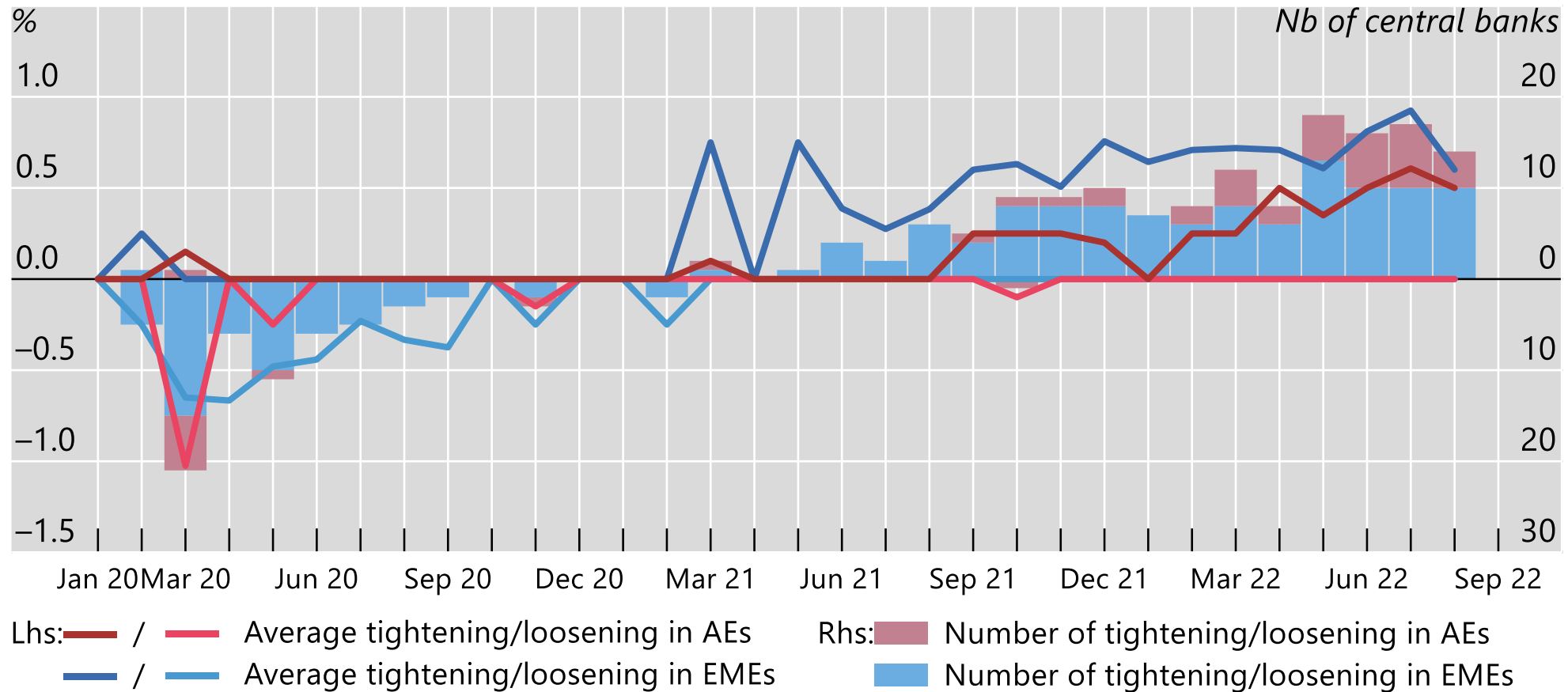


Five-year-ahead inflation expectations:

Lhs:                      Rhs:  
— Std dev      — Mean      ..... 75th percentile

Source: De Fiore, F, M J Lombardi and D Rees (2022): "Inflation indicators amid high uncertainty", BIS Bulletin, no 60, September.

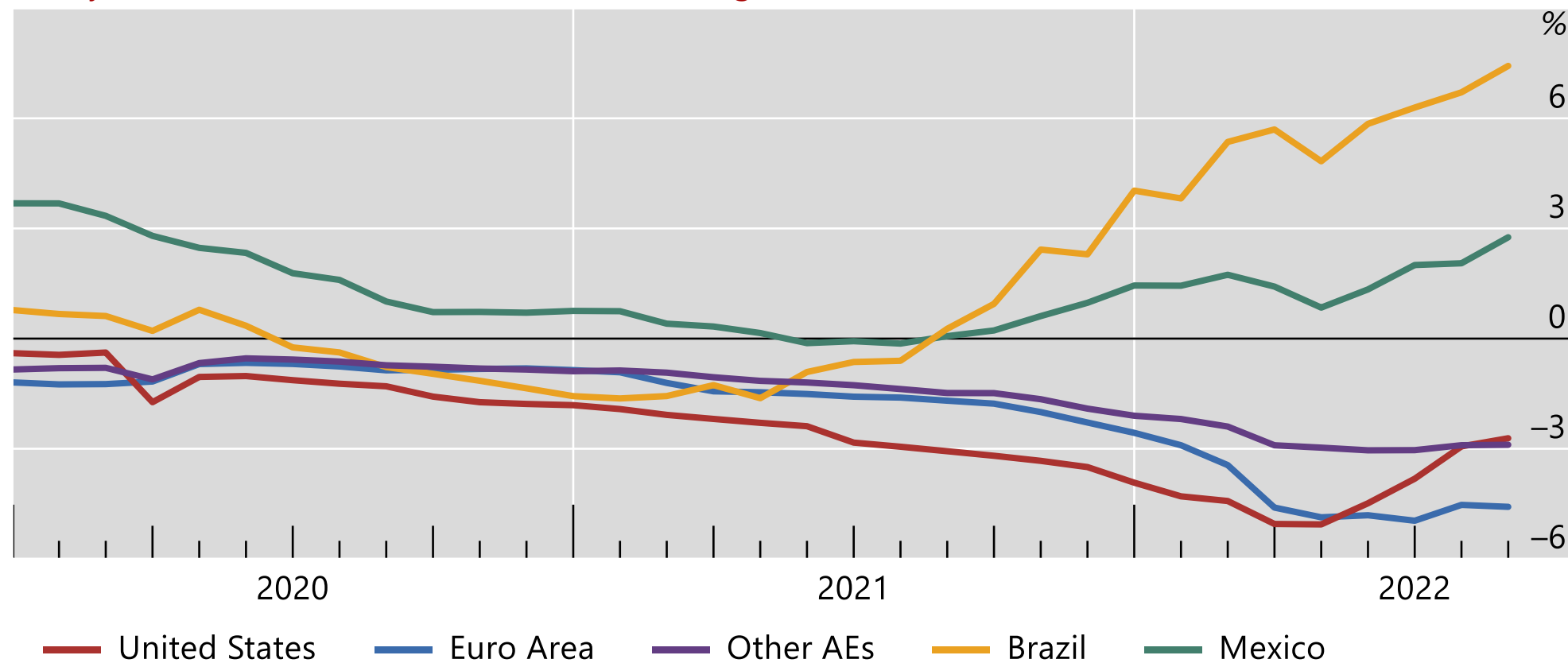
## Central banks enter a tightening cycle globally...



Source: BIS.

## ...but real interest rates remain negative in AEs

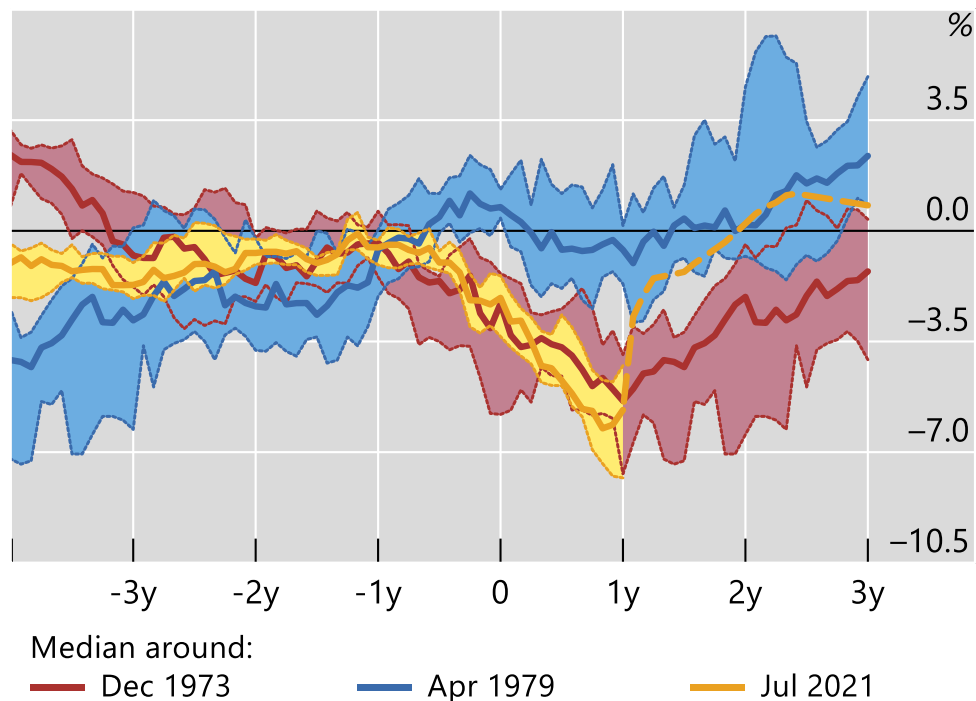
One-year ex ante real interest rates remained negative in AEs



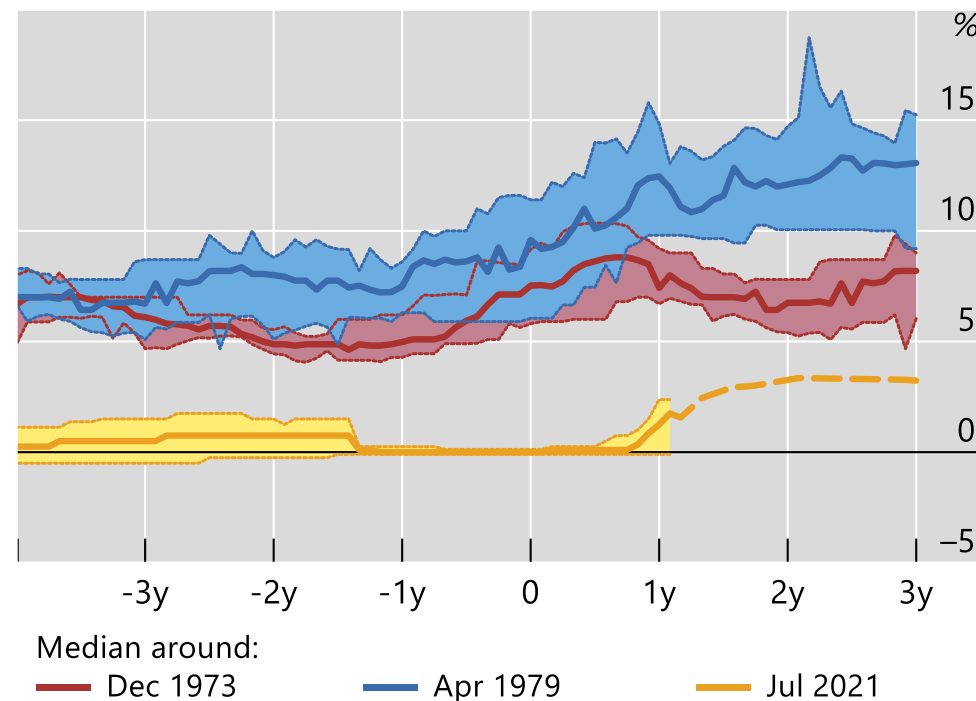
Source: BIS.

## Tightening similar to the one in the early '70s but more backloaded

Similar pattern of real rates as in early 1970s



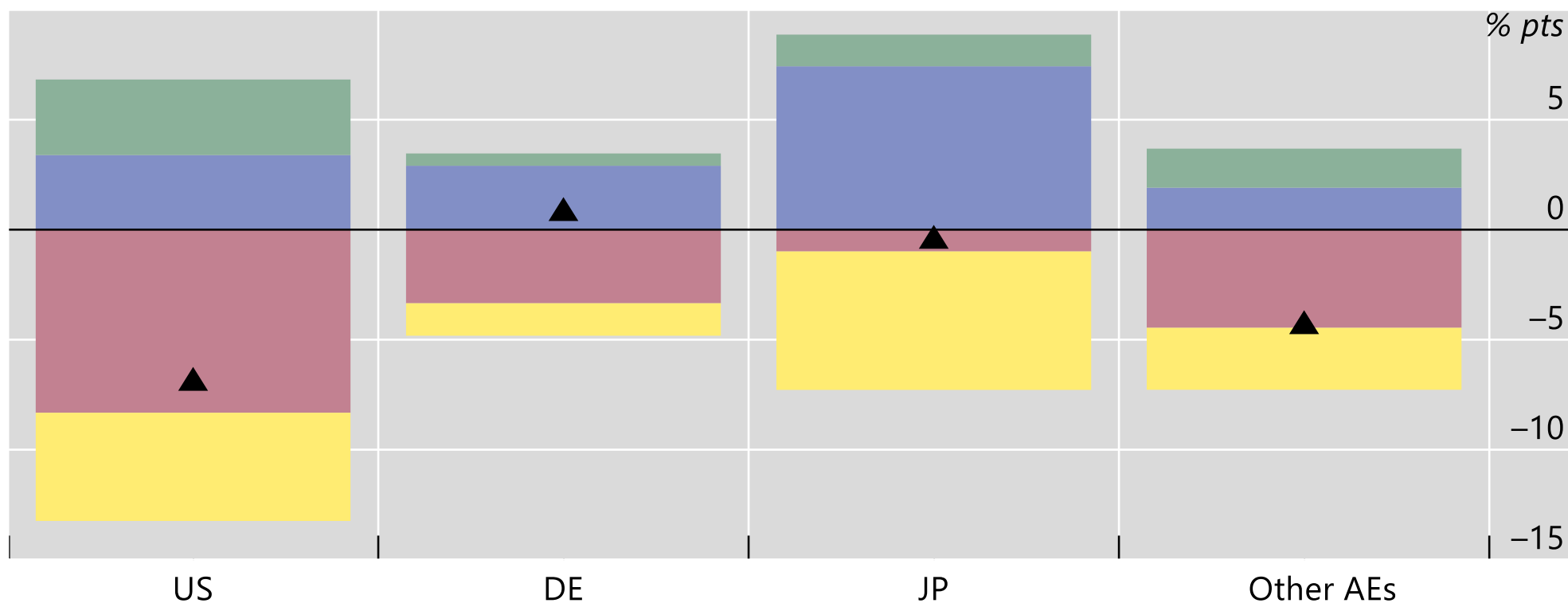
Tightening started later than in the 1970s



Source: BIS.

# Debt-to-GDP ratios decline despite interest rate tightening

Contributions to the change in 2022 debt-to-GDP ratio



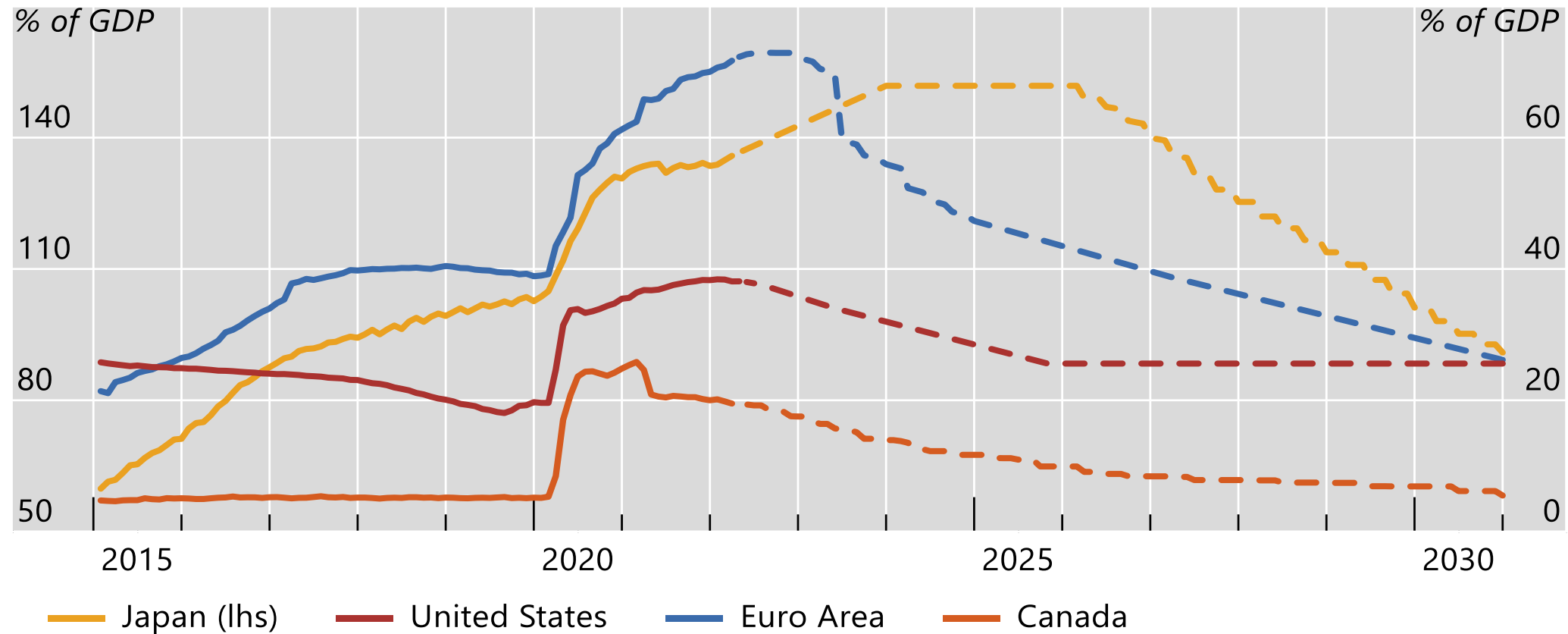
▲ Increase in public debt-to-GDP ratio

Contribution of:

- Primary deficit
- Nominal interest payments
- Inflation
- Real GDP growth

Source: BIS.

## Central bank balance sheet reduction begins but end point remains uncertain

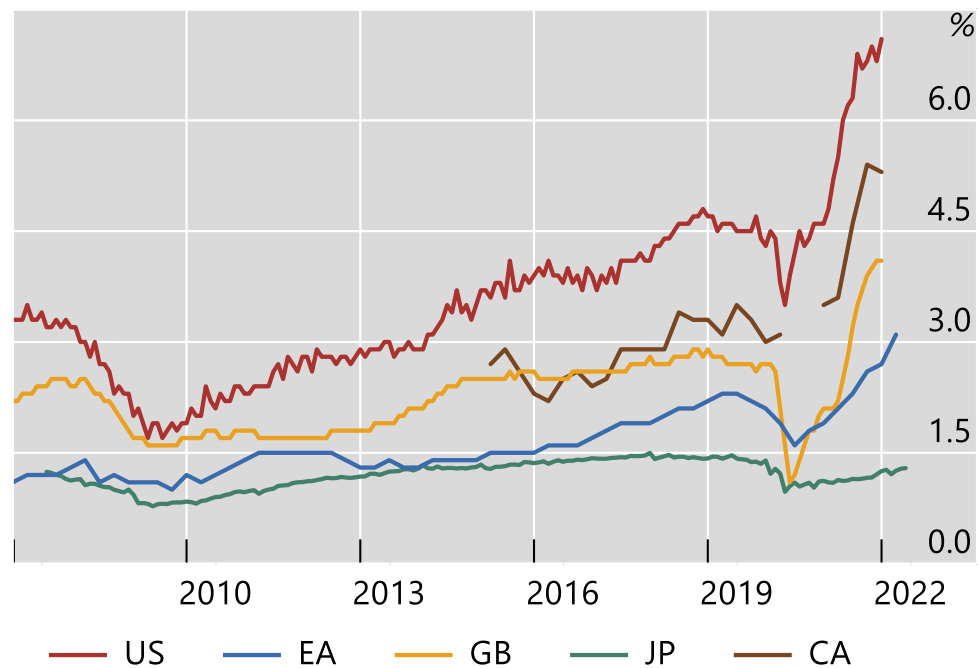


Source: BIS.

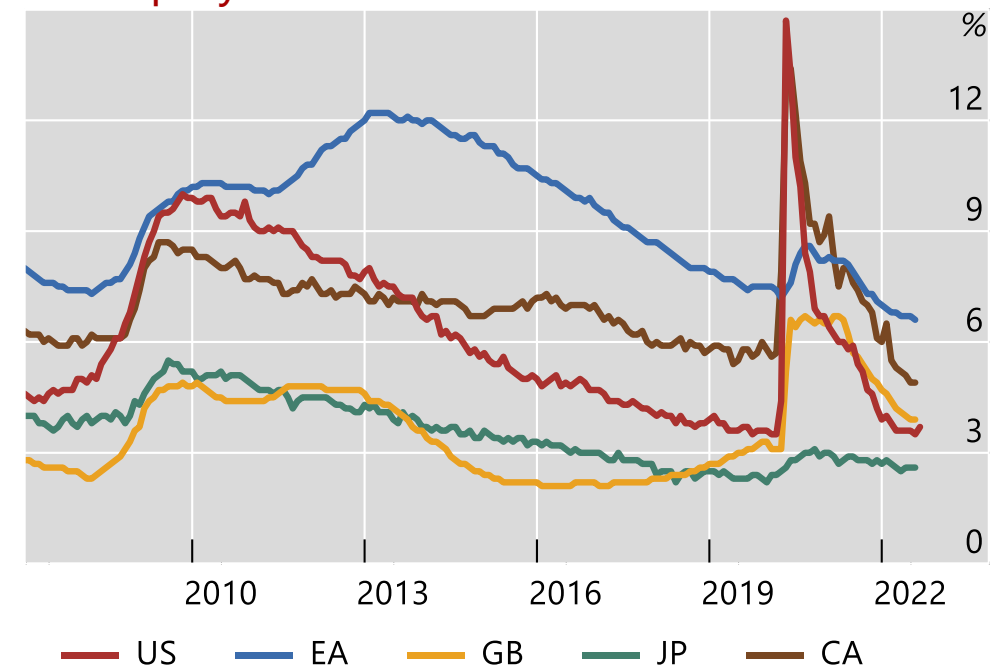
# Domestic drivers of the surge in inflation

## Among domestic factors, tight labour markets feature prominently

Job vacancies



Unemployment rates

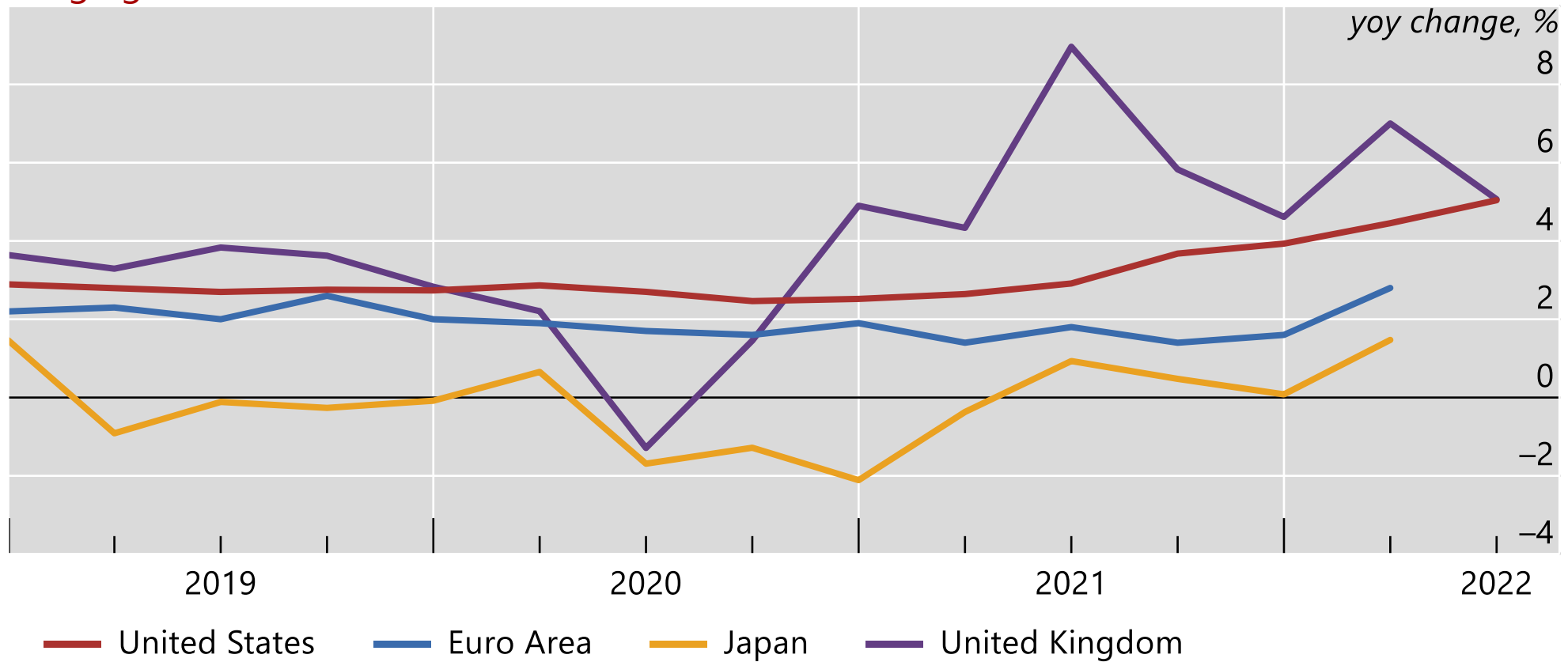


Source: BIS.



## Wage pressures are rising...

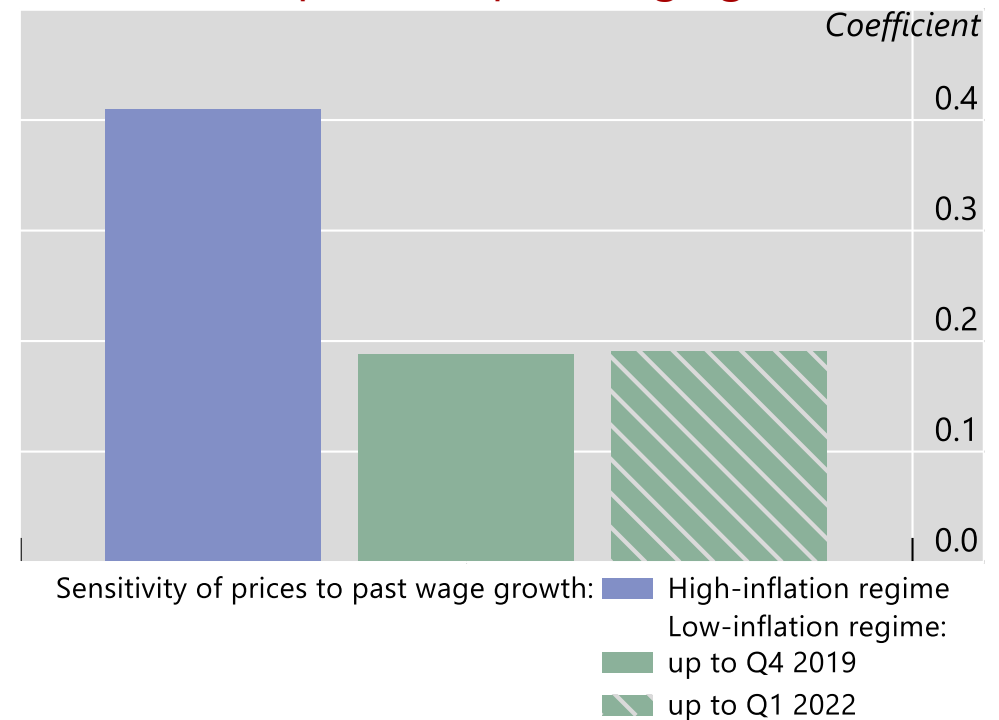
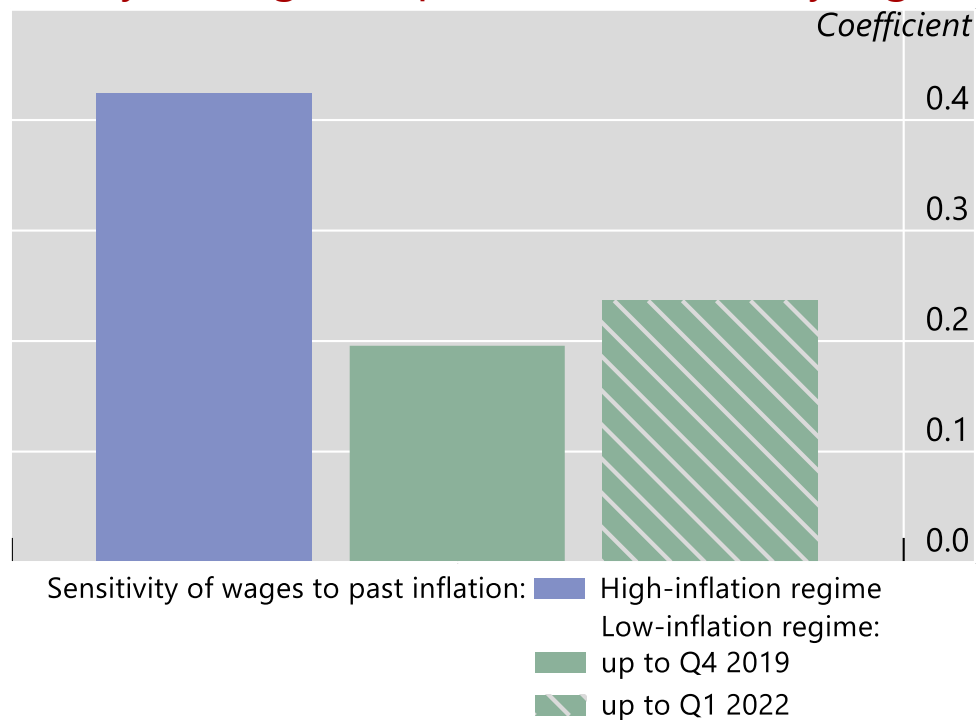
### Wage growth rate



Source: BIS.

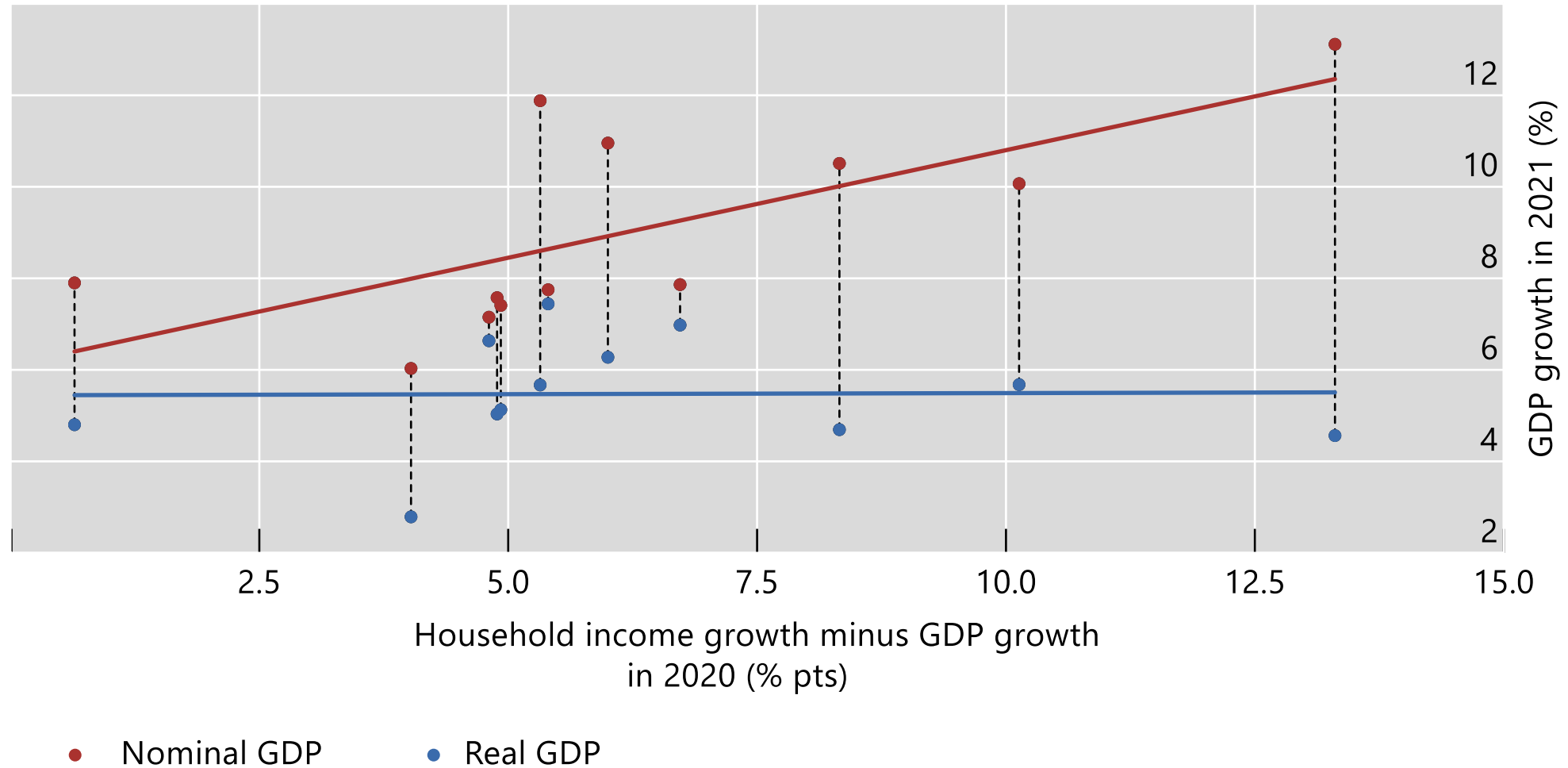
... but no clear signs of wage-price spirals yet

Sensitivity of wages to past inflation mildly higher... ... while that of prices to past wage growth is stable



Source: De Fiore, F, M J Lombardi and D Rees (2022): "Inflation indicators amid high uncertainty", BIS Bulletin, no 60, September.

## Expansionary fiscal policies add to inflationary pressures

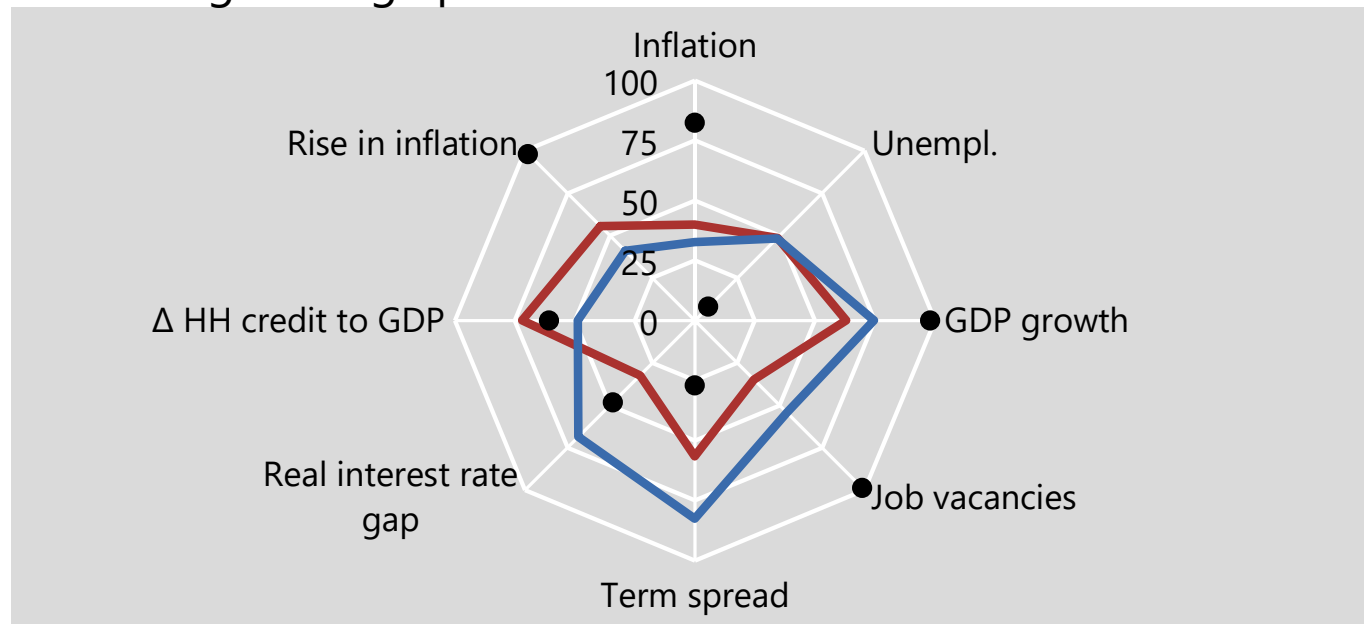


Source: BIS Annual Economic Report 2022, June.

What path of interest rates  
could curb inflation and prevent  
a hard landing?

Based on past tightening cycles, rising inflation and low rates herald hard landings...

% of all tightening episodes

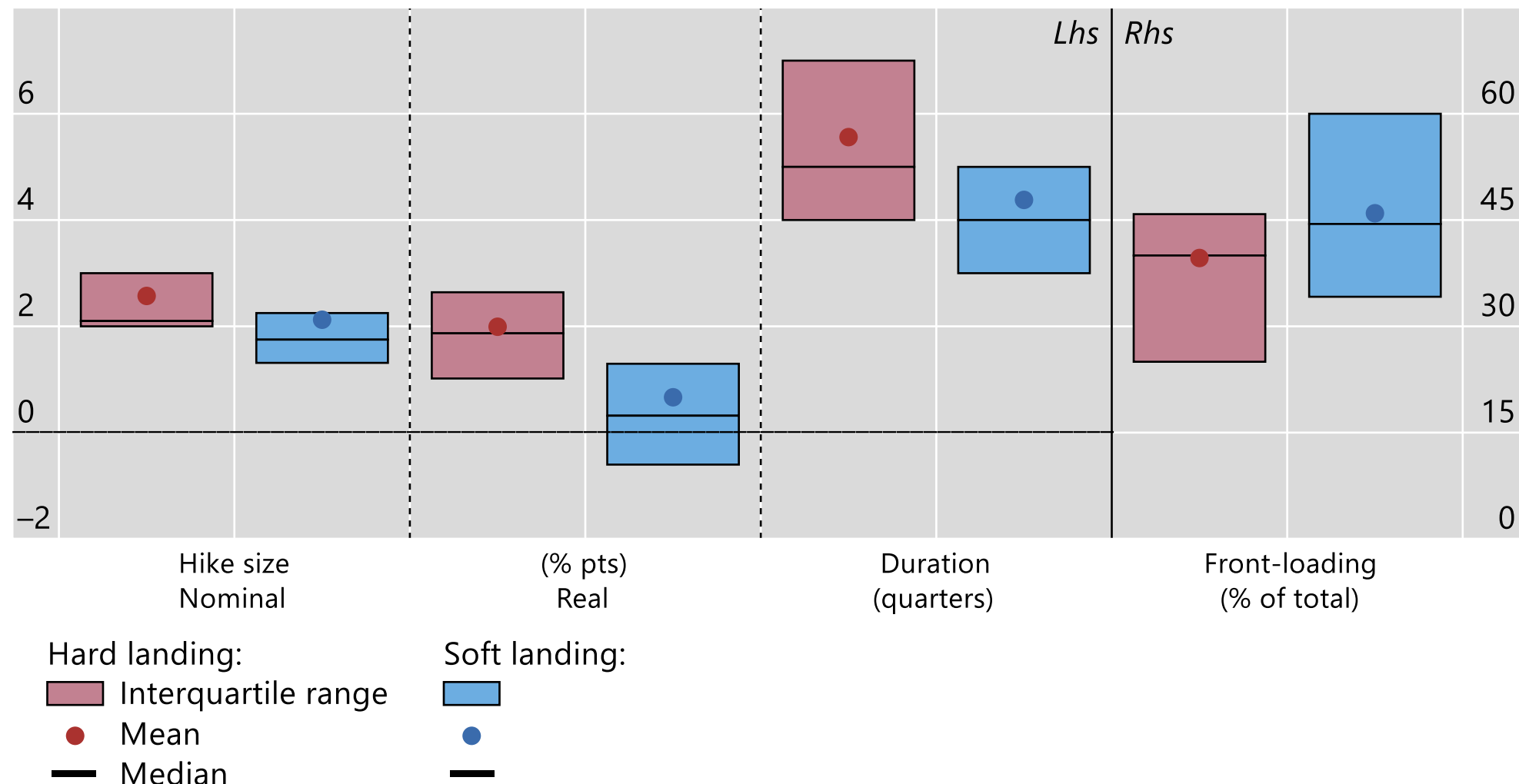


Conditions at the start of tightening episodes associated with:

- Hard landing
- Soft landing
- Latest observation (median)

Source: Boissay, F, F De Fiore and E Kharroubi (2022): “Hard or soft landing?”, BIS Bulletin, no 59, July.

# Shorter, more front-loaded hiking cycles are associated with softer landings

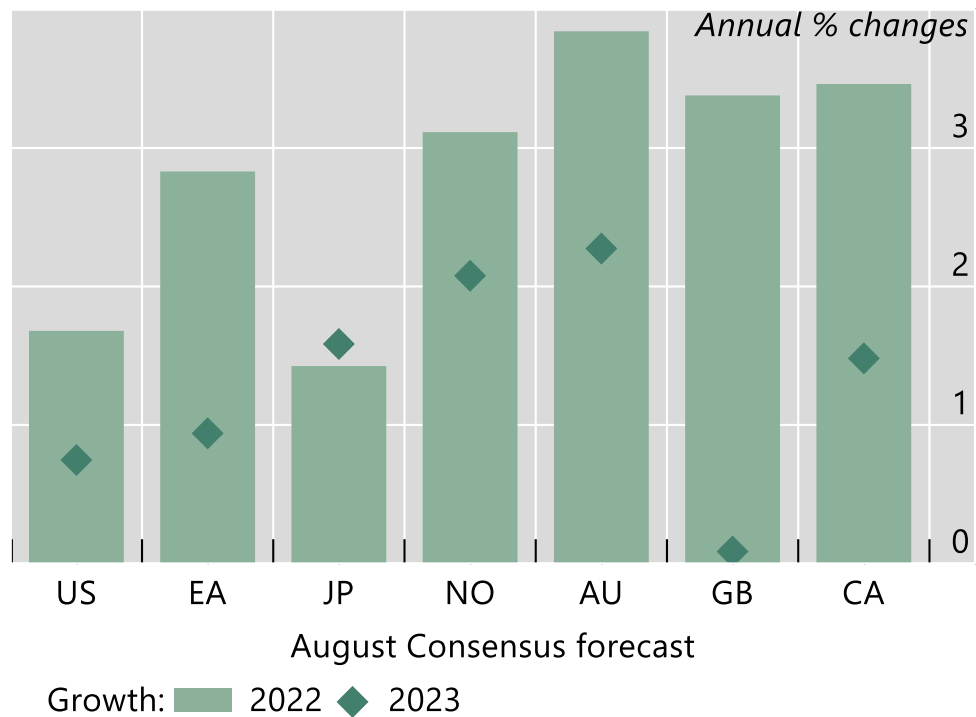


Source: Boissay, F, F De Fiore and E Kharroubi (2022): “Hard or soft landing?”, BIS Bulletin, no 59, July.

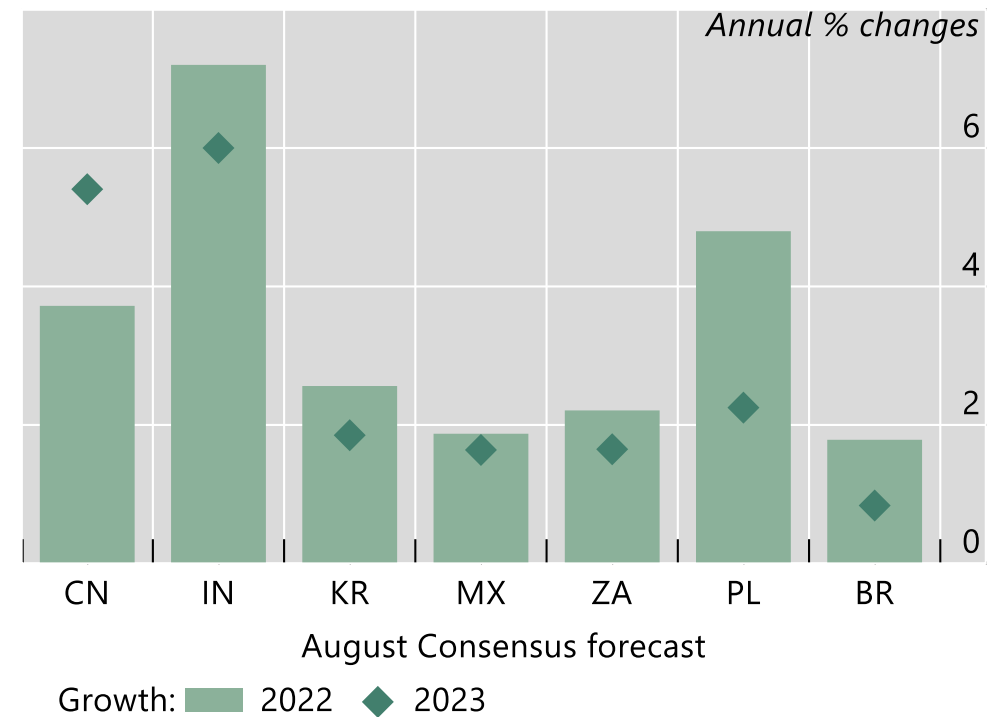
# Inflation and growth forecasts for 2023

## Forecasts for 2023 point to a slowdown in growth but no hard landing

### AEs



### EMEs

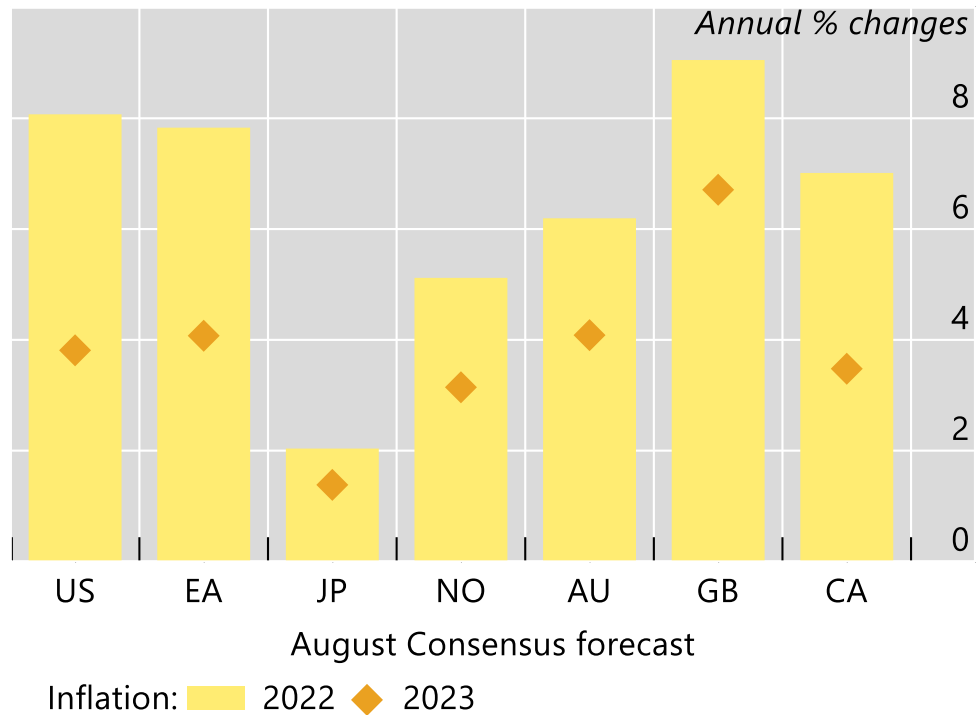


Source: BIS.

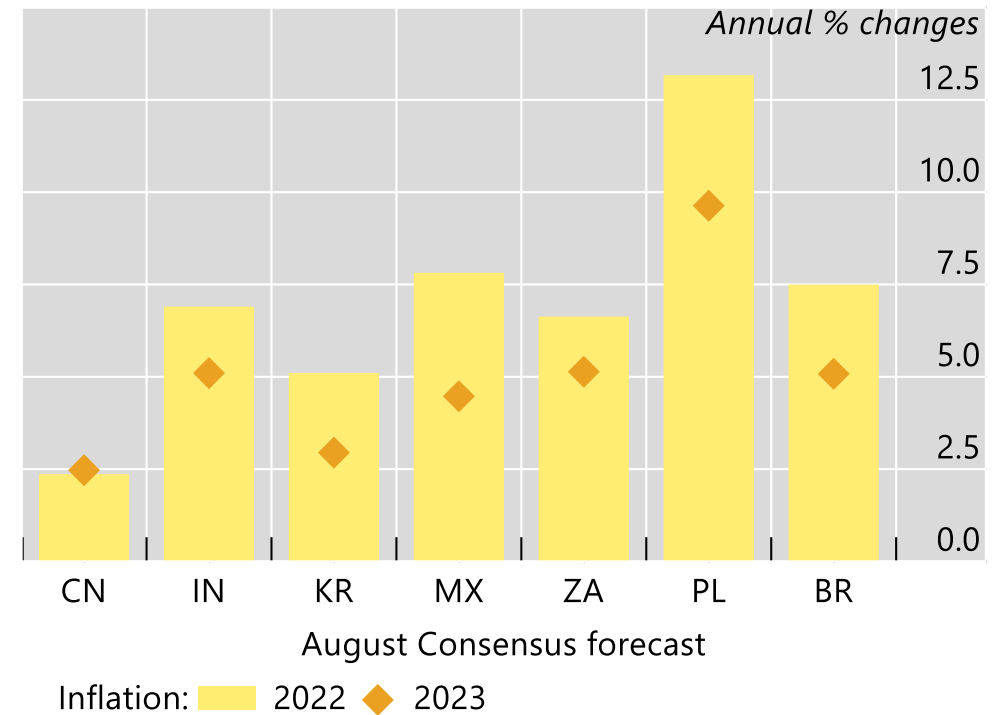


## Inflation forecasts for 2023 are gradually stabilising...

### AEs

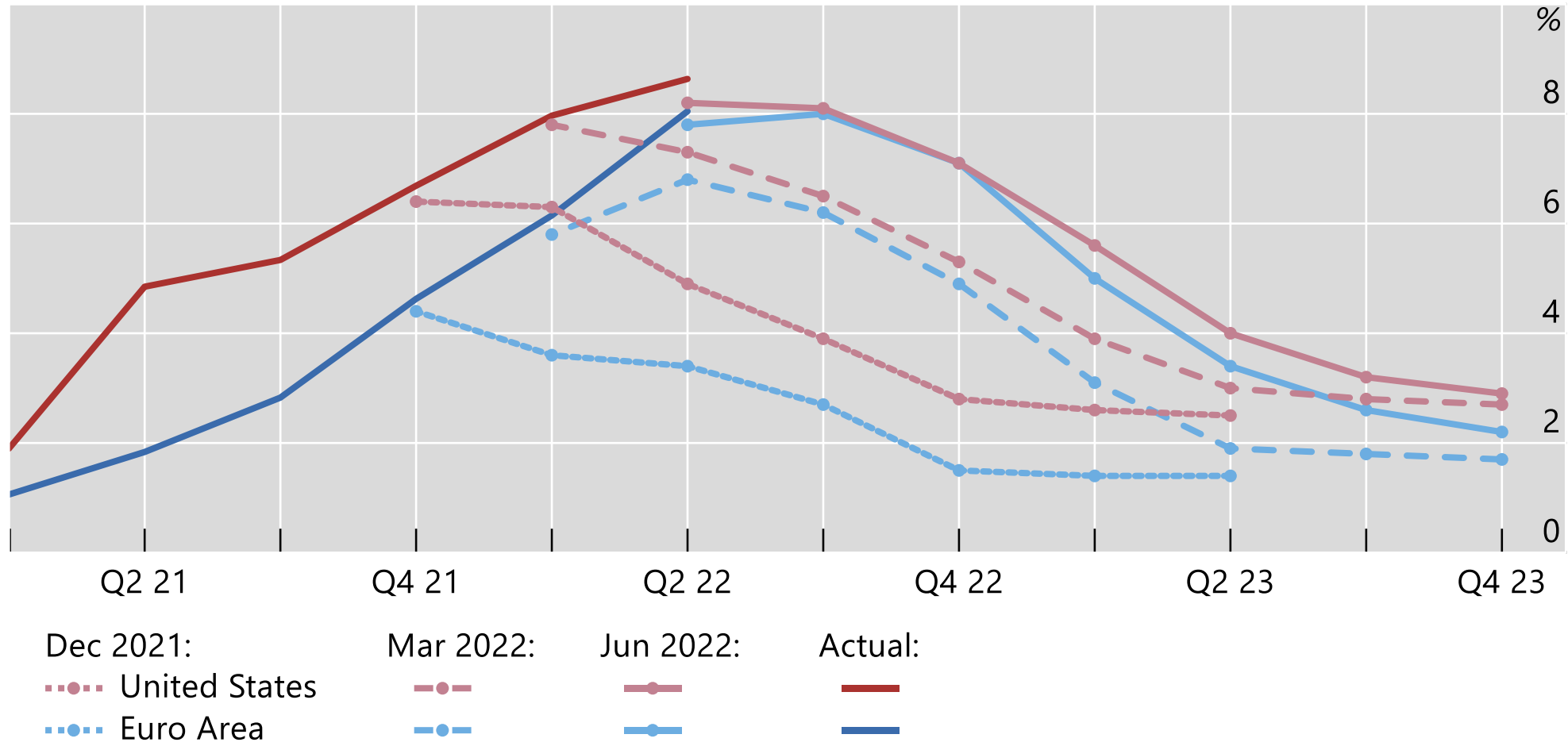


### EMEs



Source: BIS.

...but forecasted turning point kept shifting to the right since 2021

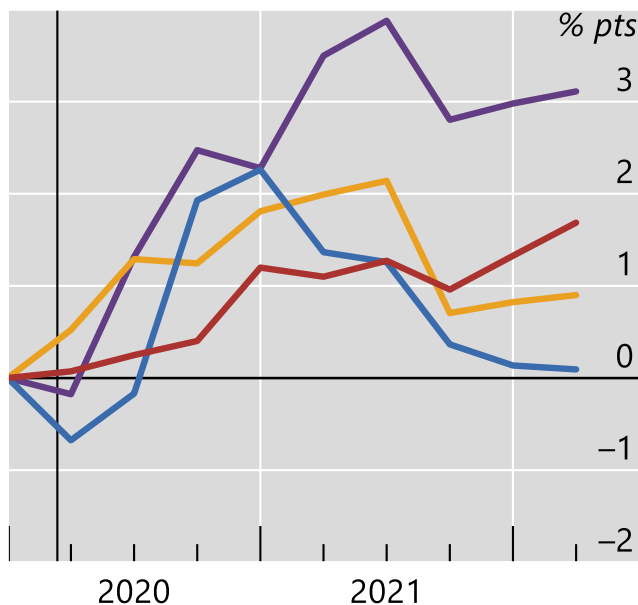


Source: BIS.

Reserve slide

# Current conditions could affect the odds of hard vs soft landing

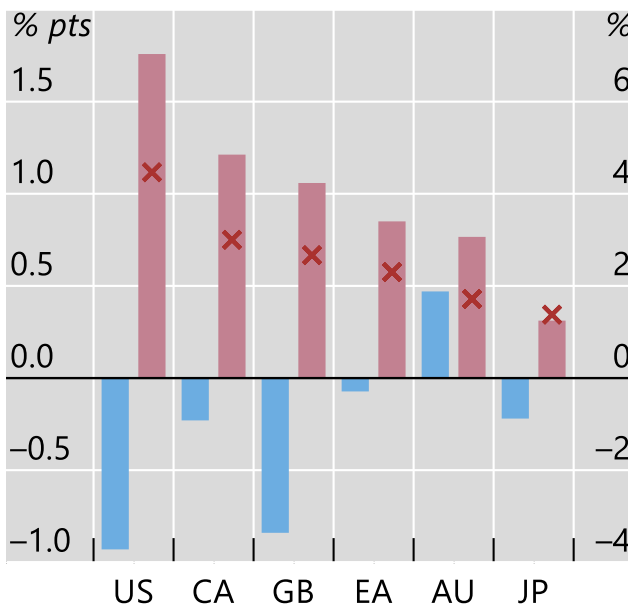
Households' consumption patterns are changing



Share of durable goods HH consumption:

- AU
- JP
- EA
- US

Vacancies and participation still far off pre-Covid levels

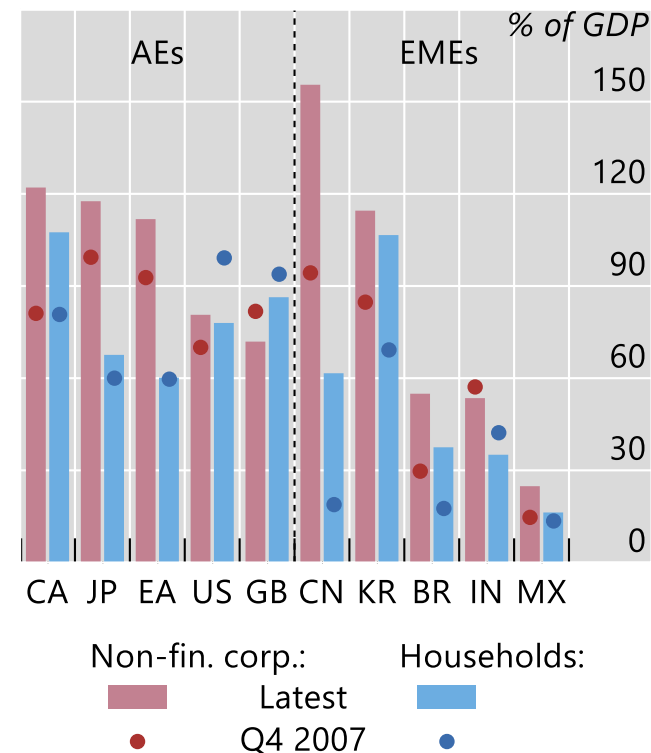


Lhs: Labour force particip. change since 2019

RhS: Job vacancy rates

- Q1 2022
- Q4 2019

Household and corporate debt levels are elevated



Source: Boissay, F, F De Fiore and E Kharroubi (2022): "Hard or soft landing?", BIS Bulletin, no 59, July.