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LIETUVOS BANKAS
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New Dimensions of Monetary Policy

Monetary policy challenges during and after the pandemic

Marius Jurgilas
Bank of Lithuania

Challenges



Inflation is a global phenomenon



Abundance of tools (and objectives) but increasing uncertainty



All eyes on central banks, undeservingly



First times are shaky, this is the first one, for the eurozone

Inflation is a global phenomenon

Is it due to coincidence of shocks or coincidence of policies?

- COVID19: global coincidence of shocks and policy responses

- GVC: “slowbalisation”¹ ... financial integration ... geopolitical risks

- Climate change: someone must pay the cost

- War in Ukraine: scaling/acceleration operator

¹ Antràs (2021) “De-Globalisation? Global Value Chains in the Post-COVID-19 Age”

Abundance of tools (and objectives) but increasing uncertainty

Everything is possible¹ ... with the benefit of hindsight

- Transparency and forward guidance of MP: tail wiggling the dog?

- CBs overextended their reach: disintermediation

- Angeletos² et al 2020: expectations: under-reaction / over-reaction

- Reis³ 2022: wrong shocks, no anchor, no credibility, r-star emphasis

- Innovations in central banking is not an oxymoron

¹ Orphanides and Williams (2011) “Monetary policy mistakes and the evolution of inflation expectations”

² Angeletos et al (2020) “Imperfect macroeconomic expectations: evidence and theory”

³ Reis (2022) “The Burst of High Inflation in 2021-22: How and Why Did We Get Here?”

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“This time is different”

- GFC: shocks and second round effects in the financial sector

- NOW: structural problems, undiversified energy, supply chains

- Burns¹ 1979: importance of the **fiscal** and **monetary** discipline

- Policy coordination vs internalizing constraints of policy

Don't lose sight of own objective!

¹ Burns (2021) “The Anguish of Central Banking”, Per Jacobsson Lecture

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Single what? Not quite yet...

- “Single: market / “uniform” state-aid rules

- “Common” safe asset

- Ultimate diversity (even in banking balance sheets)

- The role of PEPP, TLTROs yet to be understood

- Long lead time and slow-moving policies



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Let's discuss!
