



NBP

Narodowy Bank Polski

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Central banks: unable to counteract lowflation?

CoFEE 2016

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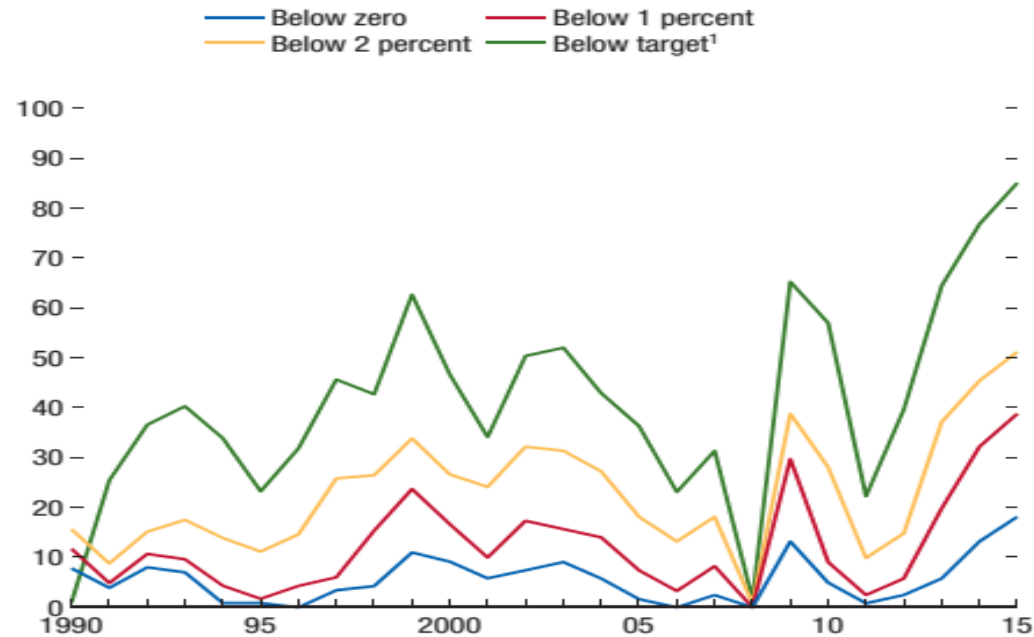
Question 1

Will we ever reach the inflation target again, or the permanently lowflation will be the new norm?

Three answers: I

- Inflation is low, but not everywhere (IMF, WEO, October 2016)

A large number of countries are currently facing low inflation or even deflation.



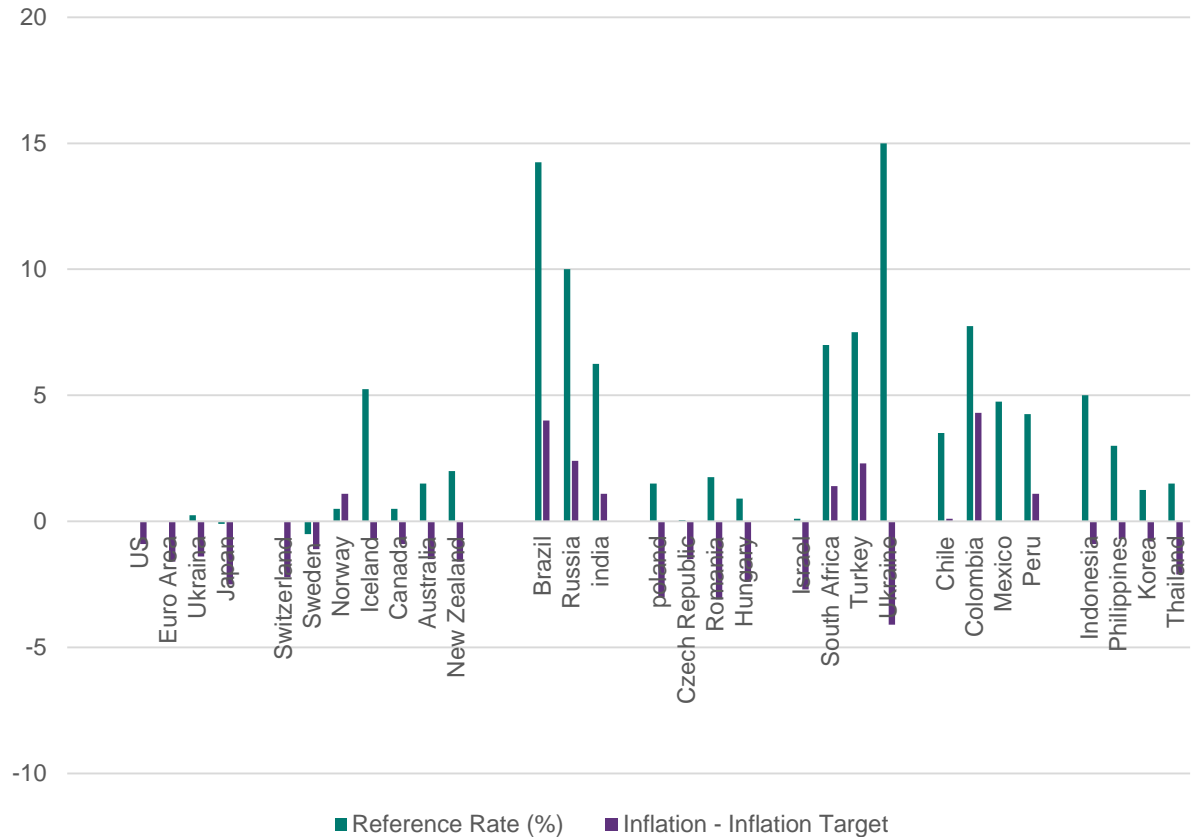
Sources: Consensus Economics; and IMF staff calculations.

Note: The figure is based on an unbalanced sample of 120 countries.

¹ Target refers to long-term inflation expectations from Consensus Economics (10-year inflation expectations) or inflation forecasts from the World Economic Outlook database (5-year inflation expectations).

Three answers: II

- Inflation deviations from the target are both positive and negative



Three answers: III

- Very different reasons for both low inflation and its deviation from the target (IMF, WEO, October 2016)

Figure 3.12. Contribution to Inflation Deviations from Targets Advanced Economies

(Percent)

Cyclical unemployment and weaker import prices can account for the bulk of the deviation of inflation from targets in advanced economies since the global financial crisis, but other unexplained factors have been playing an increasingly larger role more recently.

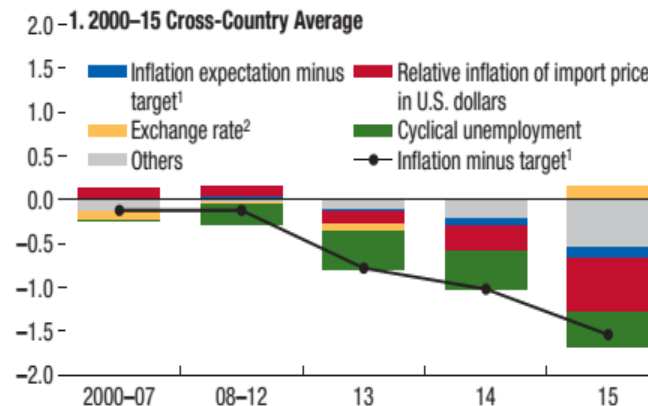
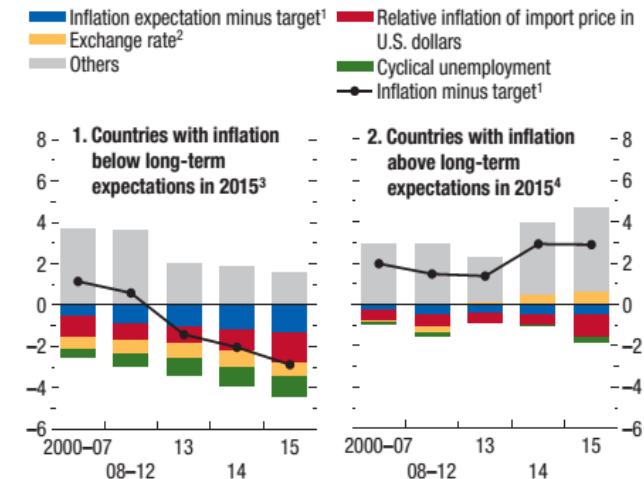


Figure 3.13. Contribution to Inflation Deviations from Targets: Emerging Market Economies

Economic slack and weak import prices also account for a large share of the observed disinflation in emerging market economies with inflation below long-term inflation expectations over the recent past. In contrast, exchange rate depreciations and other unexplained factors played a key role in emerging market economies in which inflation has been above long-term expectations.

2000-15 Cross-Country Average

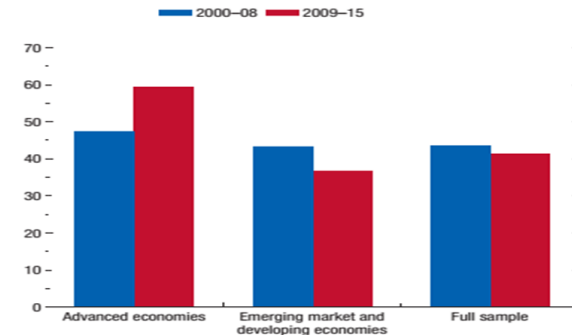


Lowflation in CEE: local or imported?

- Research done by our staff (Hałka and Szafranek 2015, Hałka and Szafranski 2015, Hałka and Kotłowski 2016) and elsewhere (Iossifov and Podpiera 2015, IMF WEO October 2016) show a substantial contribution to low inflation (deflation) in the region of imported deflationary shocks.

Figure 3.6. Share of Consumer Price Inflation Variation Explained by First Common Factor (Percent)

The share of consumer price inflation variation across advanced economies that can be attributed to global factors increased during 2009–15.



Source: IMF staff calculations.

Note: The figure reports the share of variation in headline consumer price inflation explained by the first common factor based on a principal component analysis. The sample comprises 120 economies, including 31 advanced economies.

Question 2:

A possible solution: negative interest rates. Harm or benefit?

- The right tool for cases of low inflation resulting from low demand.
- BUT: In case of imported inflation, notably reflecting lower commodity prices etc., policy should react like in any case of supply shock: literature suggests i.a. changes in communication or target (core inflation, nominal GDP).

Question 3: Central banks' balance sheets are getting into the focus. Comprehensive quantitative easing or targeted programmes?

- No Polish experience

Question 4: Optimal economic policy mix – cooperation of fiscal, monetary and prudential policy

- Obviously needed, but expansionary policies needed for growth or inflation?

Question 5: The Future of Inflation Targeting

- As bright as its past

Historical context

- Prices and performance in the long run
- Deflation and lowflation as a consequences of hard regimes (gold standard, financial system regulations after the recent crisis)?