

# **The Context for Future Monetary Policy**

By Charles Goodhart

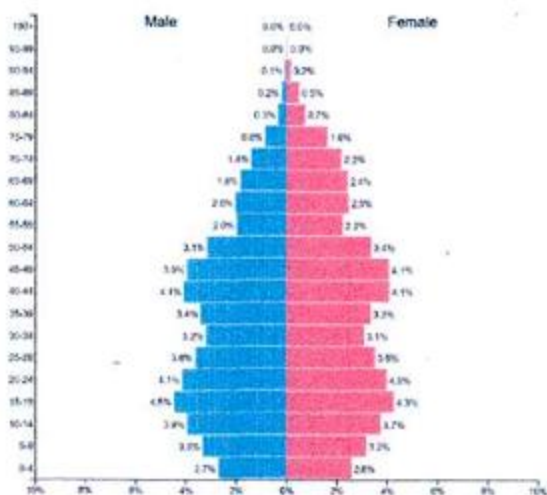
The thirty years from 1990 to 2020 were a most successful period for inflation targetry (IT), Central Bank Independence (CBI), in many countries, and particularly for catch-up growth in Poland.

However, the future will be in many ways different from the past. For example, the overall business strategy of Germany/Poland using cheap Russian energy to sell cars/machinery to China has become problematic.

However, in the next few minutes I shall concentrate instead on demographic and associated fiscal problems.

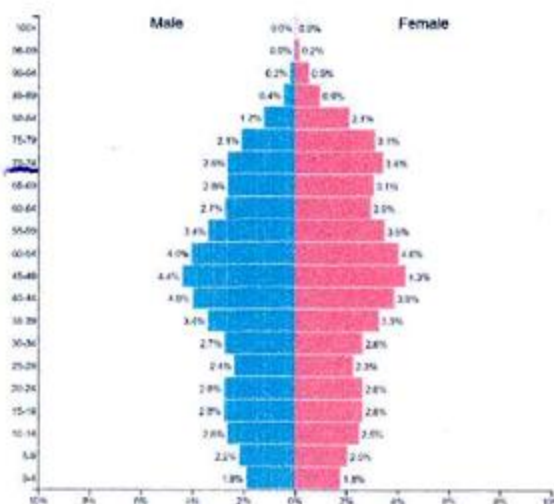
Poland ▼  
2000

Population: 38,258,071



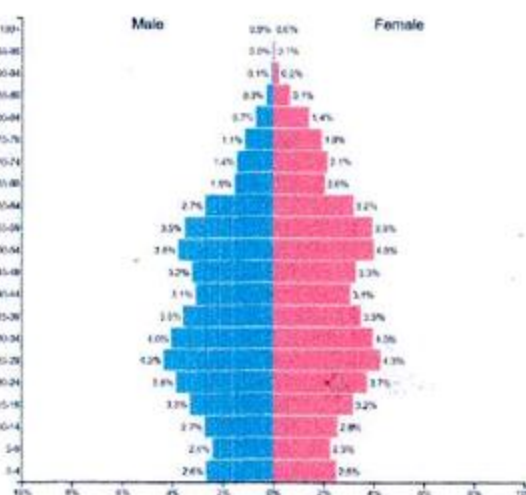
2030

Population: 37,198,542



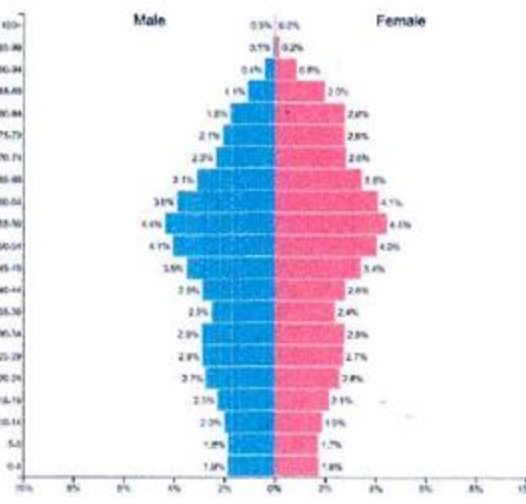
Poland ▼  
2010

Population: 38,095,351



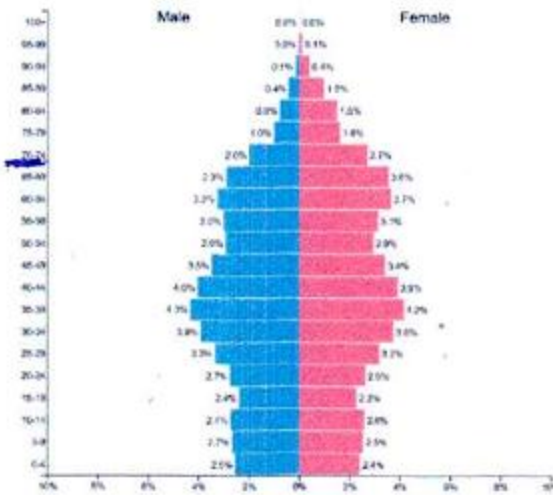
2040

Population: 35,179,553



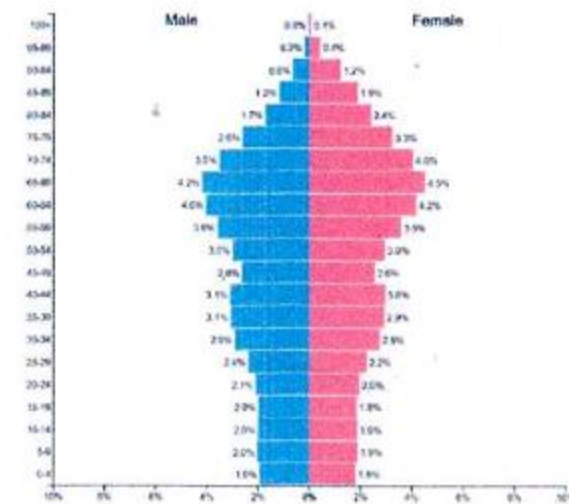
Poland ▼  
2020

Population: 38,171,011



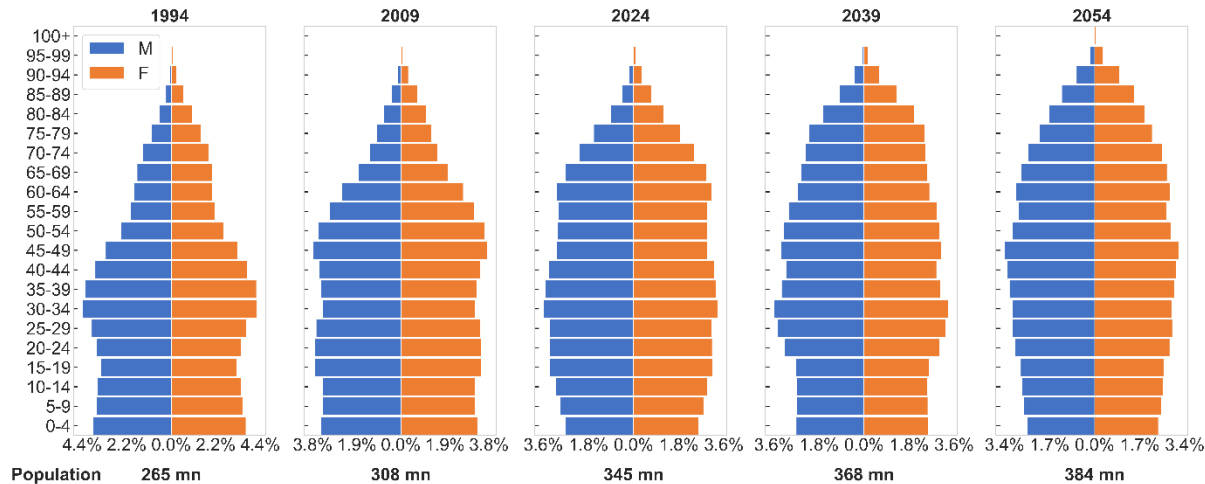
2050

Population: 32,814,096

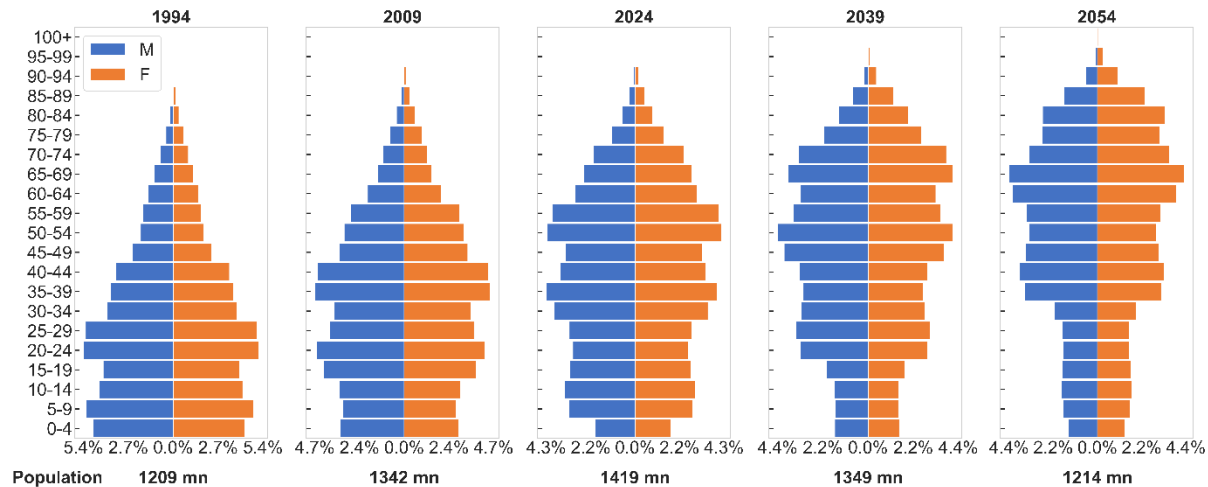


# Population Projections

## USA



## China

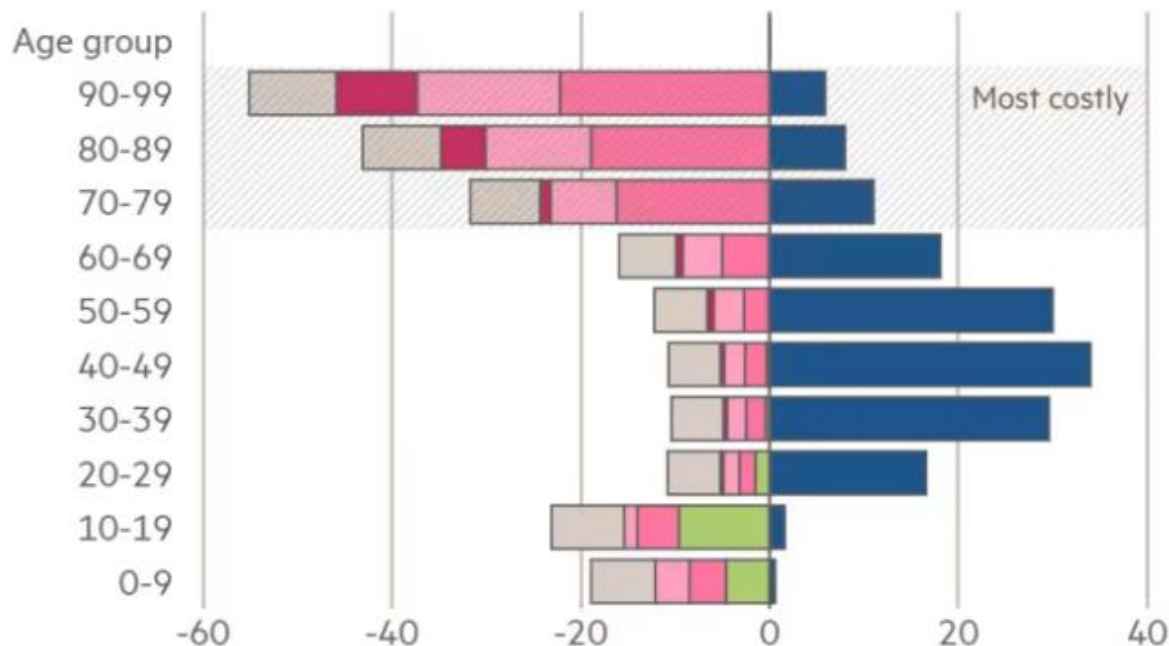


# A calibrated example of the relationship between Demography and Fiscal Developments

## Britain's tax and spend dilemma

Representative tax and government spending profiles for a person by age group in 2028-29 (£000s)

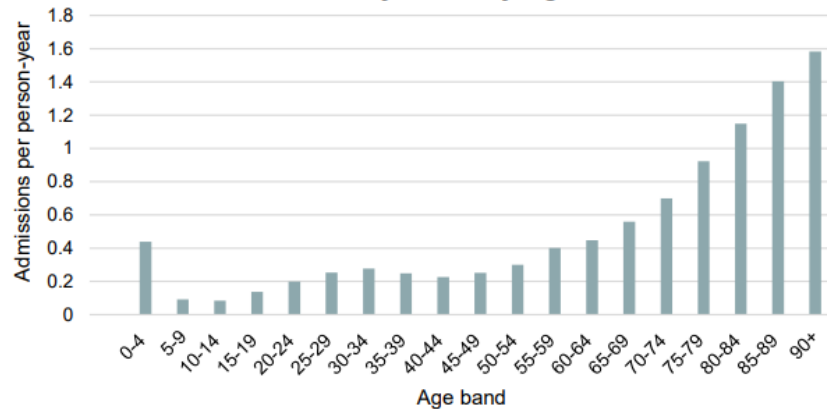
■ Tax revenue ■ Education ■ Welfare ■ Health  
■ Adult social care ■ Other spending



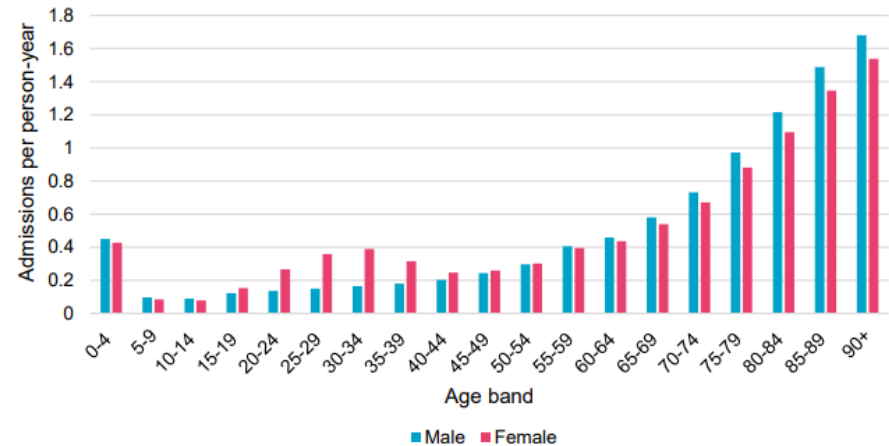
# Hospital admissions rise with age:

## *Baseline inpatient activity – by age and sex*

**Activity rates by age**



**Activity rates by age and sex**



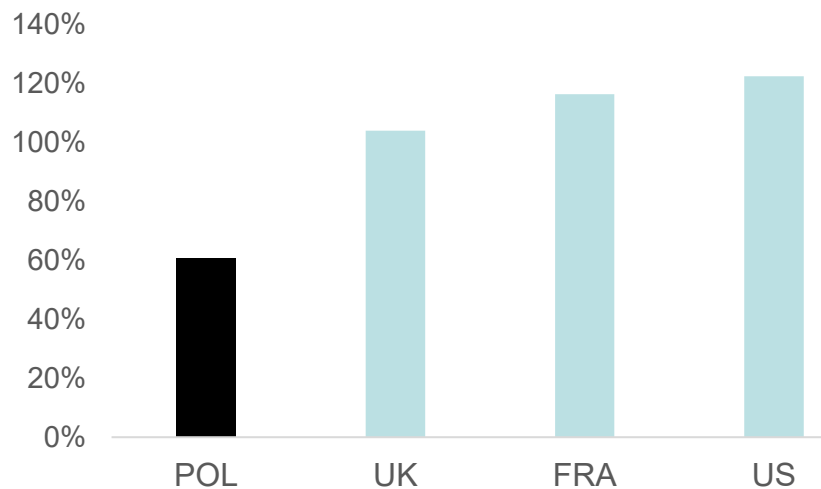
The publicly available HES inpatient data provides a breakdown of activity by age bands; it further provides the proportion of activity in each sex group. This information is used to approximate activity by sex in each age group, taking into account the population size and relative risk of admission for each sex.

## Poland Debt and deficit ratios

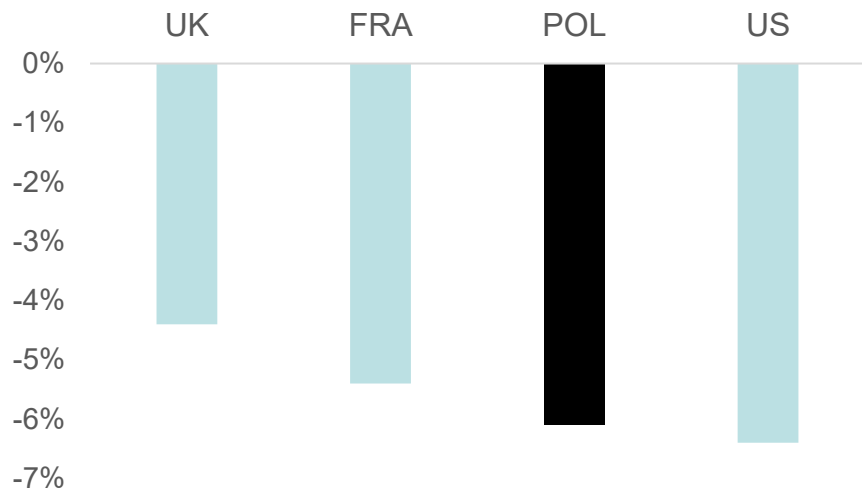
Estimated, IMF Fiscal Monitor (Apr 2025 edition)

		Gross Debt/GDP				Deficit/GDP
	POL	60.70%			UK	-4.40%
	UK	103.90%			FRA	-5.40%
	FRA	116.30%			POL	-6.10%
	US	122.40%			US	-6.40%

Gross Debt (% of GDP, 2025 Est)



Overall Deficit (% of GDP, 2025 Est, IMF)



The fiscal position in most of our countries is currently unsustainable with interest rates ( $i$ ) having risen and growth ( $g$ ) having fallen. But it is extremely difficult in a democratic country to raise taxes and/or cut public expenditures and then get re-elected.

Raising interest rates, e.g. to bring inflation back to target, raises  $i$ , lowers  $g$ , and makes fiscal policy even more problematic. So, pressures from fiscal authorities to lower  $i$ , and induce financial sector to buy more government debt.

Greater tension between monetary and fiscal authorities. Central bank can determine timing of inflation but not amount, so long as fiscal policy remains unsustainable (Cochrane).