

Peterson Institute for International Economics

Review of monetary policy strategy by central banks

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[00:05:18.20] - Adam S. Posen

Hello everyone, and welcome back to the Peterson Institute for International Economics. I'm Adam Posen, the Institute's president, and it's my pleasure to welcome our distinguished guests and speakers today for a discussion of the review of monetary policy strategy by central banks. The important message I think that's going to come across today beyond the very important specifics is that central banks are continuing on with their work despite the turbulence, despite the politics, despite the drama. The central banks of the world continue to build on and learn from their success in reversing the inflation of the 2020-2021 period. Although that legacy is, of course, lasting, and to build on and learn from the successes and failures, but mostly successes, of the inflation targeting regimes and other variants that they have been acting for those last few years. We're very fortunate today to have with us a trio of deputy governors from major central banks: Philip Lane from the European Central Bank, Clare Lombardelli—Clare Lombardelli, forgive me—from the Bank of England, and Anna Sijm from the Sveriges Riksbank. Swedish Royal Bank. I am just here to welcome people, and I will just say that we are fortunate again at the Peterson Institute to value our relationships with the central banking community and provide a forum for frank and substantive discussion.

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Today's event will be moderated by and introduced by, and frankly was inspired by, my colleague Pablo Hernández de Cos. Pablo has briefly been with us at the Peterson Institute as a nonresident senior fellow on what has turned into a whirlwind garden leave after a decade as the governor of— or nearly a decade as the governor of the Bank of Spain and member, of course, therefore, of the Governing Council of the ECB and critical roles he played at both the European and international level in issues of financial stability their interaction with monetary policy. He stepped down after his public service, and we talked about him joining us. And before I knew it, he was continuing the Hispanic domination of the Bank for International Settlements. As anyone who knows, Pablo will be the new general manager of the Bank of International Settlements from this June, and he's already taking his role. So he is the perfect person to

convene this group, and we're grateful to him and his colleagues for convening this. We look forward to continued work with all these central banks and the BIS on these topics and providing a forum for them to speak in Washington and globally.

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I will just make one more note that we managed to get one publication out of Pablo, which will be coming out, I believe, next week, apropos of today's discussion, Reflections for the ECB Monetary Policy Review. From the latest inflationary disinflationary episode. But with that, I will turn this over to former governor, soon-to-be general manager, Pablo Hernández de Cos. Thank you.

[00:08:47.04] - Pablo Hernández de Cos

Good morning, everybody. Thank you. Thank you very much, Adam, not only for the invitation to moderate this panel, but also for giving me the opportunity during this gardening leave to be in such an amazing institution as Peterson. I was starting to feel like at home, but now I will have to find a new home back in Europe, in Basel. And of course, thank you very much also to Philip, to Claire, and to Anna for accepting the invitation to be here. Thank you all for being here as well, including those that are virtually. So the— as Adango said, the topic of the panel is monetary policy strategy reviews by central banks. I guess it's also obvious to the audience that now central banks, most central banks, review regularly their monetary policy strategies. Perhaps it's interesting and important to emphasize what is the role, the objective of these reviews, which is basically, at least in my view, to adapt to evolving economic conditions. It's going to be obvious in these reviews that are going to be published soon by many central banks. And of course, also trying to incorporate lessons from the decisions that have been taken during the last year since the last review was prepared.

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This is also a very highly topical issue these days because a number of central banks have or are in the process of producing and communicating on new reviews in 2025. The Fed for sure, the ECB. In other cases, such as the Bank of England, Bernanke already reviewed in 2024 the forecasting for monetary policymaking and also the communication at the bank. In January this year, the Bank of Canada published its review of the bank's exceptional policy actions during the pandemic, on which I had the the privilege to participate. A monetary policy review will take place also in Canada in 2026. The Nordic banks published its new monetary policy statement last year. And then in the case of the Riksbank, there is an annual evaluation and also a 5-year review that is a bit different to the rest, but of course Anna will explain later. But of course, this is

topical not only because of this, it's also topical because the reviews are going to take place in a very different environment to the one that motivated those that were published, for example, in the case of the Fed or in the case of the ECB back in 2021.

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At that time, the context was one characterized by very low inflation, very low interest rates. And therefore, the major concern for central banks was the probability of hitting the lower bound of interest rates was high. And I was just reading yesterday night for the last time, Philip, the statement made by the Governing Council of the ECB. The shortest statement was one page. And the number of pages that we mentioned at that time, the lower bound was a good number, a good number, a very significant number. So now one could claim that inflationary forces are higher after the highest inflationary episode in many decades in many jurisdictions around the globe, and after a series of negative supply shocks that seems that are here to stay. It's not only that. I think that it's also important to take into account for these reviews that the central banks have tested some of the tools in a very different context. Including rate increases, reduction of balance sheets, performance of forward guidance, again, in a very different context to the one that initiated this forward guidance. So I also expect some lessons to be taken from this experience. It's also been a very challenging period for macroanalysis in general and for forecasting in particular, with significant forecasting errors I would say in all central banks, but I would say also in the rest of the public and private sector in the last years, from which we should also learn some lessons.

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And of course, I shouldn't forget to mention that the interactions between monetary policy and financial stability, for example, there were several important interactions within the last year that again tested some of the conclusions that had been reached by the central banks again back in 2021., but also between monetary policy and fiscal, monetary policy and fiscal policy. And I think this is going to be also a highly topical issue for the next year because, of course, debt is much higher in many countries, R is higher, and growth could be lower. So the dynamics of public debt could be an issue also for the implications for central bank policymaking. So we should expect lessons to be drawn in these dimensions. As well. So to discuss these topics, we are privileged to have 3 outstanding speakers that, if I can claim, because of course I offered the possibility for them to come, for me, the best thing that the 3 of them have is that very strong academic background with, of course, current responsibilities on monetary policymaking in central banks. First, we'll have Philip Lane. Which is Board and Governing Council member of the ECB since June 2019.

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Previously, he was Governor of the Central Bank of Ireland. Philip will focus today, I guess, on the ECB strategy review that is currently taking place. Then we'll have Claire Lombardelli, Deputy Governor for Monetary Policy at the Bank of England since 1st July 2024. And of course, you also know that Claire was Chief Economist at the OECD Previously, Claire is responsible at the Bank, among many other things, leading— she's leading the Bank's response to the Bernanke Review. So I guess Claire will focus on how the Bank is responding to the Bernanke Review. And then last but not least, Anna Salm is Deputy Governor at the Riksbank since May 2024, former professor of economics at the Stockholm University. And then Anna, in her initial presentation, will focus on experiences from the different external reviews commissioned by the Bank and the changes that they have given rise to within the Bank. So without further ado, Philip, please.

[00:15:44.05] - Philip R. Lane

So let me thank Adam and Pablo for the invitation to participate in this panel. Pablo, I think, covered a good amount in that introduction, but let me say a few basic points. First of all, in 2021, when we finished the last review, we pre-committed— it was a calendar-forward guidance, if you like— to say in 2025 we're going to take another look. So, we felt it was just good governance say let's not let this slide, let's not many years go by without taking a look at this strategy. So there's a pre-commitment which I suppose the Fed also had in theirs, which is to have a regular look. So one element of that is in principle these 4 years could have been uninformative. Nothing could have maybe happened that would say, well, and it could have been a very quick, you know, 30-minute review saying, look, you know, everything's, everything's the same. But of course it turned out to be, uh, not like that. So I think we have a lot to learn from this review. But I would say we have a strategy. Before 2021, okay, we had a strategy from 2003, but it's maybe incomplete, whereas in 2021 we wrote a fairly complete strategy.

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And so in reviewing that, you know, it's— there's no signal that we think it's kind of some— there's some big problem with it. And maybe the first point I will make is I'm so glad we had the strategy, which of course, you know, maybe ironically, uh, we published in summer '21 just as inflation was crossing the 2% target. And what I say, even though Pablo of course is correct that there was a lot of focus on the lower bound, in the review, but the review actually had a lot also about explaining what we would do away from the lower bound. And a lot of that has proven to be very helpful, at least from my point of view, in recent years. Maybe first and foremost, the absolute clarity of having a symmetric 2% target. You know, we couldn't kind of give ourselves

some wiggle room by saying, well, we have a range or some vague vague target, um, that we, we had the symmetric 2% target, and we've already said that's not up for discussion. We have high conviction having a clear target is really helpful. A second really important point, which I think has been very important, is we said away from the lower bound, we're conventional.

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Away from the lower bound, the policy rate is the tool. It's much more efficient. It's, it's the way monetary policy should operate. And essentially, the toolbox, the other elements, whether it's asset purchasing, targeted longer-term refinancing operations, and rate-forward guidance, and negative rates for that matter, they're in the toolbox. But you only use them basically when you run out of space in terms of the policy rate. I still get the question now is, if such and such happens, are you going to restart QE? Or if such and such— so why are you asking me this? We're away from the lower bound. We have a clear hierarchy. And it's so much more efficient to use the policy rate to deliver monetary policy. So as I mentioned, it's helpful. And I do think it's good timing to have this review now, because essentially we did go meeting by meeting. We mean that, but, and it's, you're super busy going meeting by meeting, so it's important also to kind of also to have exercises which, where we, you know, the year system staff is working hard right now to deliver, to prep, you know, the Governing Council for it to take that kind of 4-year perspective, as Pablo said, in terms of learning from what we've gone through.

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And I would say, maybe before I start giving my personal view on the current review, is the Governing Council has not, you know, drawn conclusions yet. We said this is going to be in the second half of the year. So what I'm saying today is my personal view, rather than trying to kind of preview anything from the review. So one element, and we had this also in the last review, is we spent time thinking about, okay, what, what we think are the big economic forces driving the European economy. There's a heavy emphasis there on forward, trying to be forward-looking about that because we're trying to develop a strategy for the coming years. So what we think are the kind of shocks or trend factors that will drive the European economy in the coming years. And in turn, you know, what kind of challenges does that pose for the execution of monetary policy? Now, of course, having been through the last 4 years, we've also learned quite a bit about the relationship between the economy and inflation. And in particular, I think number one is you can have configurations of shocks where you essentially get this nonlinear response.

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I mean, there's many nonlinearities out there, and it's combinations of nonlinearities I think are needed to go from being below target inflation to 10.6 at the peak. But, and of course, it's been an explosion of academic research and central bank staff research looking at that. So, one of the questions that we will have to consider in this review is, Exactly when should we think these nonlinearities kick in? Because, of course, if you see an upside shock, above-target shock to inflation, it's still the case— and the Norges Bank, who concluded their review a year ago, reiterated, look, you know, looking through supply shocks can make sense, but not always. So when is the trigger when you say, well, actually now it may get bound into expectations, it may lead to excessive persistence and so on? And one of the big issues here is how much do we learn from the pandemic and the war? Because the pandemic was not a classic supply shock. There was a big supply shock in there, but we also know, and actually hear well, across the street at Brookings a few weeks ago, there's a very good paper by Stock and Watson about trying to capture what was special about the pandemic.

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And what was special about the pandemic was this big rotation between goods demand and services demand. So in one direction in 2020, when people were at home, this surge in goods demand. And then of course, with the reopening, it went in the other direction. Absolutely. For example, in 2022, March '22, we had the Russian invasion of Ukraine, which was a really big surge in energy prices. But the European economy grew quite well in the middle of '22. Q2 and Q3 of '22 was the reopening of the Europe tourism, all of that. You cannot explain the euro area data by saying that's just a surprise. Because you would not have had that kind of strong growth rate in '22 just by looking at supply shocks. So I, I, well, I mean, unless, unless you take, I should say more precisely, unless you take into account the demand, the demand side sectoral implications of, of this supply shock you're, you're faced with. So I, I think probably that's a common issue is Having lived through this episode, exactly when do you say a supply shock or any kind of supply shock warrants essentially prompt attention from the central bank?

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Also for us, maybe differently to some others, what's been very interesting with this episode is there has been a re-anchoring of inflation expectations. Expectations. So, there was a good reason why we spent a lot of the last review concerned about downside risk and to say, how are we going to return to 2%? Now, there's a, you know, across surveys, market opinions and so on, if you look outwards, there's a high conviction that we will be at our target over time. So, there's a very strong anchor now, which is, I think, simplifies monetary policy quite a bit. Okay, so what I would say is, and look at the world we live in, when essentially, do we really think these are traditional shocks that we're facing? Or is the shocks to the economy coming from a

reconfiguration of global trade, reconfiguration of kind of the global rules of the game, on top of which we have the green transition and climate change still operating? Automation, AI, digitalization. So these are not pure shocks. We know they're happening. We don't know the exact speed and how they play out. But that's, I think, an interesting question. I mean, in the sense of many monetary economists typically like to just say, let's detrend or dummy out these things and kind of working out what is the cycle versus the trend in this period is going to be challenging.

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Okay, let me turn to— okay, whatever we think the economic scenarios might be, how should we respond? And going back to the toolbox, it is important to look at all the tools in our toolbox. But let me emphasize, beyond— most of the time, it's going to be the policy rate we're thinking about. The other tools are there for either the lower bound, and of course, you can think of configurations of shocks that bring us back to lower bound, but it's not the base case. These tools also potentially have roles in market stabilization episodes, you know, as opposed to, you know, Monty Stans type episodes. And of course, what I would say broadly speaking, you would— I think everyone would share the same overall sentiment. It is— there should be no doubt that in the end, the overriding commitment is to deliver 2% in medium term. And so agility and flexibility in using these tools is very important. Rather than saying, well, we said, you know, 8, 5 months ago, we had some sentence somewhere and we can't possibly deviate from that guidance. No, you have to respond when you see the world changing. And then maybe I'll just finish by talking about the conduct of monetary policy.

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Because in the end, this is really helpful meeting by meeting to have a strategy for how we conduct ourselves. And I think elements of this we already had, by the way, before the pandemic, even in 2019. We already at that point, because to the extent there's a critique about excessive focus on the baseline. So even in September 2019, I think we signaled we're going to cross-check the baseline with underlying inflation so that you're not just purely looking at the baseline forecast. The problem underlying inflation is it captures some elements, but it doesn't capture anticipation of new shocks. That's not going to be in underlying inflation measures. So, I think the more general philosophy has to be that you are trying to articulate to everyone how you take into account risk and uncertainty, not just the baseline. So, at the ECB Watchers, President Lagarde outlined a kind of what we do, which is essentially we try and give you a framework. We try and give you a kind of set of criteria where we've been emphasizing in this period of disinflation, underlying inflation, and the strength of monetary transmission. But more generally, it's articulating whatever risks you're facing.

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And I think that that is quite important. Maybe importantly for everyone who is intrigued by uncertainty is there's no universal result. If you say, well, uncertainty means you attenuate, you go more slowly or you go smaller steps. Sometimes true. On the other hand, on the other configurations, you go big to grapple with the uncertainty, you go big. So I think to be able to say that baseline is not the only guidance, I think is super important, but we also have to recognize that there's no magic answers on that. And maybe, Let me say the last point. It is in the last review we said the way we deal with the lower bound, because we do mention the lower bound in the last strategy statement, is we will be forceful or persistent and persistent in dealing with threats to below target inflation. We were forceful and persistent in dealing with above target inflation in recent years. So I think, you know, it's— If I were— what I wish we had written then, but of course hindsight is not available, is essentially whenever there's a threat to the anchor, whether it's a downside threat or an upside threat, we're going to be appropriately forceful or persistent in responding to that threat.

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So it's really just to underline the symmetric target. Of course, you have to take into account the lower bound. But you also take into account upside shocks, the anchoring risk, the dynamics of moving to a different regime and so on. So maybe I'll stop there in terms of this opening session and we'll come back to it in the panel. Thank you.

[00:30:12.11] - Clare Lombardelli

Hi everyone, it's great to be here. I'd like to also say Many thanks to Adam and to Pablo for inviting me to speak, and thanks to Philip for his comments too. I mean, I will start actually with the point that Philip emphasized around the framework for monetary policy in the UK, which is we have a mandate that is very clear. We have a primary objective, which is 2% symmetric inflation target. And subject to that secondary objective to support the government's priorities on growth and employment. So, that's the framework in which we operate monetary policy in the bank, and I'll talk a bit about the approach that's been taken to delivering that since independence of monetary policy, which is '97 in the UK, how that's evolved and how that's evolving going forward. And I will pick up the discussion of the Bernanke Review, which was— undertaken and published last year. So the bank's approach since independence has broadly been inflation forecasting based sort of monetary policy adjustment, and that has served the economy very well, particularly well through the NICE decade, if you like, the non-inflationary

constant expansionary decade when issues were mainly about calibrating monetary policy to the level of demand in the economy, and the shocks were relatively small.

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Small. It also worked well after the global financial crisis. Philip said, of course, the zero lower bound meant we had to widen the toolkit for monetary policy. All countries, you know, lots of countries did that. In the UK, that was particularly around QE, quantitative easing. But the framework proved robust and delivered broadly low and stable inflation despite a period of low growth and in particular low productivity growth in the UK. The framework was reviewed in 2013, was the last framework review that was undertaken. That came to this conclusion, the system worked well. There was an amendment made which was reflecting the primary and secondary objectives for monetary policy. There was an increasing focus on the flexibility over the time that could be taken to bring inflation to target as is appropriate. And responding to trade-off-inducing shocks. So there was this sort of consideration and explicit reference to thinking about the time, the appropriate time to bring inflation back to target. So the last 10 years, however, have been different, right? So the UK has faced a series of large shocks, many of these global, and shocks that have tended to push activity down and prices up, so presenting a trade-off.

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Between returning inflation to target and stabilizing output. And, you know, we're familiar with all of those— COVID, as Philip talked about, and the supply chain disruption that came sort of from that and beyond. Obviously, the energy price crisis. The UK, of course, we have Brexit. And now what we're facing with the sort of trade policy uncertainty and the consequences of that. And we think it's prudent to assume that this world that we are, that we've experienced is one that we should, you know, assume we will continue to be in. So that is more frequent, larger shocks and shocks to supply as well as demand. And we also need to think about the wider economic trends that are biting, now biting some of them in the monetary policy horizon. So that is things like energy shocks we know about, extreme weather events, some issues around supply chain, shifting geopolitics, for some countries, issues around demographics, all of those now becoming more pressing and more relevant to monetary policymaking. And in that world, processes that are anchored around a central view are less robust when it is genuinely more difficult to take a sort of central forecast approach to the outlook.

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I mean, forecasting is always difficult. Actually, in economics, knowing where you are currently is also difficult. But forecasting is always difficult if you're facing these these larger shocks and you're facing them with more frequency, it becomes, it becomes more difficult. So there's a case to do more to systematically consider a much wider range of scenarios to capture the wider uncertainties that are facing the economy and the wider risks around policymaking and the consequences of monetary policy. And to be able to explain policy in that context, not just of a sort of central view of the outlook, but a wider view on the risks and uncertainty that you face. And also to build the tools and the capabilities that you need to do that. So thinking about the ways in which we're using our tools as monetary policymakers, thinking about the frameworks that you can bring to that, thinking about not just forecasting, modeling, but also wider tools there. So the Bernanke Review, Ben Bernanke very, very kindly came and observed our processes and did a review of the Bank of England. I should be clear, this wasn't a framework review. It was narrower than that.

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Specifically the way in which we conduct our policymaking, the tools that we, the way the processes we use for that policymaking, and also explicitly about our communication. How do we communicate, how do we communicate both the outlook but also our policy and the reasons behind it? And what he concluded was we needed to more fundamentally adapt the toolkit that we are using and adapt our processes and our communications to this more uncertain and more shock-prone world and take us broader view of the economic outlook and the risks that it's facing. And of course we're now thinking about those recommendations, taking them forward, a lot of this, you know, working through our processes, and there's a lot of things that we are doing in response to that and that are sort of midway through this process, midway through this process now. So the first of that is we are just on a sort of simple level improving our tools and our kit. So we can do a lot more to widen the toolkit we are using for forecasting, the toolkit we're using to think about alternative scenarios and to think about them in two ways, both the mechanisms that exist within the economy, the relationships in the economy.

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So, you know, what if those relationships are slightly different for particular variables or the way they interact and also parameters. So what if actually you have different shocks, you have different parameters. Thinking about both of those for scenarios, so you could have different models, different relationships, you could also have different shocks hitting the economy. And so, a sort of broad sense of scenarios in that way. We're also thinking about our data platforms. So a lot of this, our models, our technology, a lot of this is about moving it, moving what we use closer to the sort of frontier, making our analytical toolkit more nimble so we can consider a

wider range. Of scenarios and how we do things, and more robust to, as I say, these different views of the world, different ways in which the economy may be now and may evolve over time. That means explicitly focusing less on a central forecast. He was very, very clear on that. We are increasingly looking at ways we can do that, both in terms of policymaking, where actually we've always taken a broader view of scenarios, a broader view of what could be going on in the world, but also in our communications, which have been quite anchored around a central forecast.

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And we think we're broadening that out now and thinking more about how do you consider a wider range of ways in which the world could evolve and, you know, different stories about that. So focus less on the central forecast, more on this wider, wider range and use that both for policymaking, how we think about what monetary policy should be, but also the way in which we communicate our outlook for the economy and the reasons behind that policy and the reason and the sort of way in which we are thinking about our policy reaction function. And that allows us to sort of evolve our communication and articulate it more effectively in the context of this much higher uncertainty, uncertainty world. Some of this is easier than others. You know, some parts of this are simpler than others. We're obviously working through a number of issues. We're working through our internal processes. We're upgrading our kit. That takes time. As those of you that work with, with data and analysis will know, it's a time-consuming process, but it's doable. And we're going through that process now. We've dipped our toe in the sort of scenario water. We talked about some different cases for the economy in November, which were particularly focused around inflation persistence, where there is uncertainty about how much inflation persistence there was in the economy at that time.

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And so we developed a number of different cases and talked about actually what they would mean is different for inflation, for growth, and what that would mean for the monetary policy reaction function. We're thinking through how do you square your use of scenarios to communicate uncertainty without actually sort of creating lightning rods of focus for particular examples. The idea here is that actually you're expressing the wider range of uncertainties about the economy, not giving very, very specific cases on, you know, it might be 25% chance it'll be like this. It's more to explain, look, it could be like this, or an alternative view is perhaps the relationships in the economy are moving in a different way. And that would mean these sorts of things. So how do you use a specific scenario that is specific enough to allow you to understand the sort of economic mechanisms you're testing without creating overfocus on one particular outcome? How— there's just a practical point of how do we manage the sort of pace

of the work in terms of the desire to progress this, but balancing that with the complexity of sort of the underlying models, the thinking, the policy tools that you'd want to use there.

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And of course, this differs for all central banks. We have a very specific constitutional setup. In the UK, we have a 9-person, one-member, one-vote committee. Everyone votes. Everyone is accountable for their vote individually. And so we are having to think, well, how as a committee together do we implement these reforms in a way that makes the most sense? And how do we do it in a way that there's huge advantage I think that comes from having that explicit diversity of thought built into your processes and the accountability that comes with that. How do we make sure we can get the most out of that in a framework in which we're thinking in this way? You know, how do you enable and make it easier, if you like, for policy— every member of the committee to think about their policy within this sort of broader world of having scenarios and a central forecast, and how do you put all that together? So, Specifics about the constitutional setup means there's no kind of off-the-shelf approach we can take from other central banks. We're doing a huge amount of looking at what other central banks do, and we're getting a lot of help and support, but there's no particular model that you can copy.

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And I think an interesting observation about these framework reviews is that it is interesting that every central bank does this differently. You know, there's no obvious best way of doing this. Different central banks adapt to their own— circumstances and make different choices, whether that is about policy paths, whether it is about the level of detail they get into on their discussion, all sorts of different things different central banks do differently. So we're thinking, what's the best approach that makes the most of our sort of constitutional setup? And I think perhaps the biggest challenge, and one that I'll end on, is a sort of profession-wide one, which is, you know, as a discipline, which we think of as perhaps the most scientific of the social sciences, how do we talk about and how do we handle uncertainty and how do we communicate that uncertainty to economic decision makers across the economy, you know, businesses, households, they are all planning, they're all making judgments and, you know, maximizing in their own way. How do we communicate that uncertainty in a way that is sort of constructive and helpful and supportive for the economy and how do we make policy in a rigorous and transparent way while also being realistic about that uncertainty and those risks.

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And here we are learning a lot of lessons both from the economics profession and the academic literature, but also from a number of other disciplines. So we learnt a lot, for example, during COVID about communication and communication of uncertainty from health professionals, scientists and all that, where you saw real changes in the way in which people communicated with businesses and the public about what the outlook could be and the uncertainty around that. So I think there's a real opportunity here for us to take those sort of rigorous tools of economics and use them in a policymaking context that recognizes the uncertainty that we're all trying to navigate through and helps economic agents navigate that uncertainty too. I'll stop there. Thanks very much.

[00:43:20.17] - Anna Seim

Okay, good morning and thank you very much to Adam and to Pablo for having me. I'm very happy to be here and to discuss these very interesting issues. There is supposed to be a clicker somewhere. Okay, so I wanted to start by saying that over the 30 years that the Riksbank has been targeting inflation, we have been subject to numerous external reviews. They have not all been strategic reviews in the proper sense of the word, but I think it's fair to say that along with Canada and New Zealand, we probably have the longest history of external reviews in the community. And the reasons for this can, of course, be traced back to the institutional setting of the Riksbank. We are highly independent. First off, we are a body under the parliament, not the government. There is what we call a double instruction ban, meaning that we cannot accept instructions from government agencies or the government, and they are also banned from, from giving such instructions. But with this great independence, of course, comes great responsibility and also a need for accountability and transparency. So, Claire talked about reaction functions, and we are trying to be as clear as possible in conveying our reaction functions.

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And we do this in two ways. One of them is that we publish minutes from the monetary policy meetings, which are essentially transcripts of what we say in the meetings. And the second thing is that we publish interest rate forecasts. That are consistent with meeting the inflation target over the horizon that we have in mind. So I would argue that this setup has served us well. So this is a graph showing you inflation expectations over the 1, 2, and 5-year horizons, along with actual inflation, which is the blue line. And what you see in this graph is that they have remained anchored at the target level of 2%, even when faced with severe adverse inflationary shocks. So turning to specifics, there are at least 5 different types of evaluations of the Riksbank. We do annual evaluations of the monetary policy pursued. We do more comprehensive reviews every 5 years, which touch upon these more strategic issues and the big picture. Then we've had more ad hoc reviews. First off, with respect to the Riksbank Act,

which was revised quite recently, we have a new Riksbank Act as of January 1st, 2023. 2023. But then we've also done more specific evaluations of individual departments at the Riksbank, commissioned by the Riksbank.

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So most recently, Elena Colletti, Frank Smets, and Silvana Tenreiro, for instance, evaluated the monetary— sorry, the research unit of the monetary policy department. And then of course, when it comes to our finances, we need to make sure that we comply with all the rules and we are under the scrutiny of this Swedish National Audit Office. So I wanted to talk a bit more about these first two types of reviews because they are more strategic in nature and I think more interesting to the audience here today. So first off, as I said, we are under the surveillance of the Parliament, in particular the Committee on Finance. So there are regular hearings in that committee where we answer to them and answer questions about monetary policy. In recent years, they've asked experts, practitioners, scholars to act as discussants on monetary policy. But with the passing of the new Riksbank Act 2023, this was made even more elaborate. So the Committee on Finance now commissions annual reviews of monetary policy from the Center for Monetary Policy and Financial Stability at Stockholm University, which I actually was one of the co-founders of prior to joining the bank. So I've actually been on both sides of these evaluations.

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I was part of the team that evaluated monetary policy 2022 prior to joining the Bank. I should say that the setup of these reviews resemble very much that of the Noyes Bank Watch. So it's external experts evaluating monetary policy. There are, of course, pros and cons with this type of evaluation. One is that if we are asked to evaluate monetary policy, say 2022, How can we actually observe the outcome given, you know, the lag in transmission in monetary policy? Should we look at the outcomes that particular year? We don't observe the long-term outcomes and so forth. And what's to say that reviewers know what is sound monetary policy? What's the counterfactual state? That's simply deeply unobservable and not something that we can assess. There are also these information asymmetries that central banks have access to more data, they know more about the plumbing and the specifics of monetary policy. And it's crucial that we at the Riksbank share the data with the reviewers so that they have access to the same data that the Riksbank did when making these decisions. But one should also be mindful of the benefits of hindsight when evaluating monetary policy, right?

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It's easy to say, you know, what about this surge in inflation? Why didn't you act sooner? So it's crucial that whenever you evaluate monetary policy, it should be based on the information available at the time and not the ex post narrative that we can think of. But there are many benefits of doing these regular reviews on a continuous basis. So we can easily follow up on the feedback provided one year. So did we implement any of the changes suggested by these reviewers and so on? So it's easy to follow up. And one of the features that we did in these reviews that was very popular actually, both in the debate and well received by the Riksbank, was that we could address misperceptions in the debate about monetary policy. Is it the case that, you know, negative interest rates were a mistake? QE conducive to asset price increases? Any kinds of issues that are circulating in the debate. I think that reviewers really have an important role to play in this regard, that they can act as mythbusters, someone suggested, a bit like objective referees in that sense. So the central bank has also been subject to these more comprehensive reviews every 5 years.

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So we've had numerous international scholars address various aspects of monetary policy from 1995 when we implemented the inflation target and onwards. So this is just a list of names. They've had slightly different focus over the years. It's been about, always about monetary policy, but it's also been about financial stability. It's been about how we communicate the interest rate forecast and and so forth. And I think they have led to different changes within the Bank to various degrees, but they have been always very well crafted and very useful to us. So at the moment, Morten Ravn and Carolyn Wilkins are working on a review covering 2015 to 2025. So we are looking forward to that. So I think that these reviews have led to changes within the Bank. One is that these More short-term annual evaluations have, for instance, emphasized the need for scenario analysis, which is something that the Riksbank has been doing for quite a few years. But we have been working even more intensely on scenarios complementing our interest rate trajectory in recent years. Goodfriend and King, 2016, suggested, for instance, changing the target variable from CPI to CPI at fixed rates. And this is also a change that was implemented in 2017.

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They also suggested evaluating the experiences of publishing these interest rate forecasts, which I think sets us aside from many other central banks. And also, they proposed a review of the Riksbank Act, for instance, clarifying the Riksbank's responsibility for financial stability. So this is also something that spurred the changes when we revised the Riksbank Act. But I would also like to emphasize that I think that these reviews are really public goods in the community of central banking, that we can all draw on them. So I think that the Bernanke Review has served

us really well in terms of what we need to do, like how we can improve forecasts, you know, modernize software and so forth. So this has been truly an inspiration to the Riksbank as well. So I think we should be mindful of that. So just to conclude and sum up a bit, I think that these annual reviews of monetary policy with the more short-term perspective has its pros, but they are very much complements to these long-term reviews that may take the bigger picture. I think reviews are particularly useful if they don't just, you know, point fingers and say, you know, you were late to react with monetary policy, but if they are a bit constructive and if they can say something about toolkits.

[00:51:46.27]

How should we think about uncertainty, as we said earlier today? How should we think about our models and how can we navigate uncertainty in terms of the decision process? And I do think that in light of these changing conditions that we are going through, these regular strategy reviews are truly important. If we think about the declining trend in the long-term neutral rate, for instance, prior to the pandemic, it's clear that, you know, the efficiency and the suitability of different tools has changed over time. So I would really like to advocate the usefulness of these regular strategy reviews. So thank you very much.

[00:52:49.16] - Pablo Hernández de Cos

Okay, so thank you, thank you very much to Philip, Claire, and Anna for very interesting introductory remarks. Now is the time to have a debate. And of course, start to prepare your questions because they will be willing to receive and to answer those questions. Maybe I will start myself with one of the comments that you made at the end, Anna. I was a bit surprised that in the previous two presentations, the concept of art start I think it was not mentioned, but you did at the end. And of course, this is one of the big issues. Of course, it received a lot of attention and for very good reasons back in 2021. And it was the fact that it was very low, was estimated to be very low. It was one of the main motivations behind the design of the monetary policy strategies back then. Well, since then, many things have happened, but let me link this concept of R^* with the one that you were emphasizing in a very significant manner during your interventions, which is uncertainty. So the question is, how do you see the discussion on R^* in the next strategy review and link in particular with uncertainty that we are all observing, including on the estimate of R^* , not only of course now, but it's always been the case.

[00:54:32.25]

And then maybe a second question, it's more about the definition of price stability. Well, I guess from your remarks, nobody was mentioning this as an issue, no, okay, to the potential necessity

of changing the definition of price stability to a person-symmetric target. But then there is an important element in my view, and it's been particularly relevant in the last years, which is 2% symmetric medium term. And the concept of medium term to me, in a context of very high uncertainty, will have to remain as a key element, including— and this is perhaps my more specific question— the flexibility on the duration of the medium term. So that is not that we take as given 18 months or whatever the idea that you have on your mind about the duration of the medium term, but that the duration in itself, the central bank can take it in a flexible manner precisely to respond in an optimal way to the different shocks, the persistence of the shocks to the economy. So if I may, I will ask you about these two specific questions, and then we can open the floor to the audience. Do you want to start, Philip?

[00:55:58.14] - Philip R. Lane

Okay. So when we think about R^* , when we think about R^* , maybe I'll jump back to the O3 review. So in terms of The world we live in, I think, with high conviction, has a lower r -star than 2003. So the probability of hitting the lower bound is, you know, not to be ignored. There may well have been an increase. Now we can get into philosophy: is it an increase in measured r -star, real r -star? Do our techniques to uncover r -star Were they kind of excessively pessimistic before the pandemic and so on? So whether it was a true change in All-Star or the way we measure it, I'm not sure. But I will say, so I'm not going to dwell on now versus 5 years ago, but over the last 20 years, All-Star has come down and there's nothing to suggest it's going to go back to the '03 level. So having But what, uh, so, so the issue is, okay, in that world you have to have a strategy that allows for the fact you may go near the lower bound. And so all the lower bound material, even though it's not a— it's not an expectation, I don't expect, uh, to be going back to lower bound.

[00:57:29.02]

But if you say, is the probability distribution, uh, is part of probability distribution going to lower bound? Yes. And so that's why we have a full toolbox and so on. Now, including here, by the way, a few weeks ago, heavily emphasizing ORSAR is kind of not so relevant for meeting-by-meeting decision-making. And where we are now, we're at 225. You know, we— with the staff published in February a range. The kind of focus in that article was that the kind of range from the kind of favorite models was 175 to 225. But all of those measures have standard errors around them. So, you know, of course when you're far away from that range, it's maybe helpful sometimes to say, look, we're restrictive. Or in the other direction, look, we're accommodative. But there's a pretty wide range to say, well, you know, is this a useful descriptor, especially in trying to get people to use a common language? So for monetary policy, what matters is if I see meeting by meeting or forecast by forecast above target inflation pressures rising, the playbook

is, well, you better, you know, move your interest rate up. If you see below target risk rising, you better move the interest rate down.

[00:58:52.23]

So it's a delta. The delta is what matters, you know, should I change my interest rate or not? Comparing that to the asymptotic equilibrium retrospectively, it's interesting. 30 years from now, when we— I can say, oh yeah, that's what our star was in the 2020s. But for now, it's not super, super useful. But let me just say, if you go to this just in passing, even in in even late '21, the market price in the yield curve had high conviction that even 5, 10 years out, the policy rate in Europe was going to be around zero nominal. So was that a comment about— or star, or was it a comment about, we think you're going to struggle to deliver 2% inflation, so you're going to have basically open-endedly accommodative policies for a long time. Whereas now, what's interesting is there's a high conviction that we will deliver to target, that the configuration of shocks is not obviously biased to the downside, to put it politely. And so, if you like, now what we have is market discussions of cyclical interest rate policy. But if you ask them, OK, 5 years from now, 10 years from now, where are you going to be?

[01:00:15.09]

We think you're going to be around some version of that range of neutral. I think that that creates— it's a lot easier to do, to handle monetary policy with a cyclical perspective than if that long-term anchor is lacking.

[01:00:30.10] - Pablo Hernández de Cos

Thank you. Claire?

[01:00:33.25] - Clare Lombardelli

Yeah, sure. Thanks. I will actually, I mean, obviously agree with— take a similar view on the r^* discussion. One thing I would add is, you know, it's obviously a really important concept And I think as a— you know, it really helps you think about the relationships in the economy. And of course, you need it for a lot of modeling, right? So you have to have an estimate of r^* in many of the different models that you use. But in terms of policymaking and thinking about actually the sort of short-term policy and the sort of meeting-by-meeting decision, what you're actually thinking about really and what matters most is how restrictive or loose is policy and how do you judge that. And there, obviously, the concept of R^* is useful, but as Philip says, you have no idea in the moment what it is now, and maybe you do over time, but that's why one of the things that in practice is really important and that I think we all do is you look at a whole

range of indicators and data to try and get a sense of, you know, actually monetary policy and what is its impact on the economy, you know, at this point in the cycle, how restrictive how restrictive is it?

[01:01:45.26]

And that means looking across whole ranges of, you know, monetary and financial conditions data, labor market data, what you're hearing from firms. It's a whole range of indicators. And I think that's another issue we haven't talked about around uncertainty and the world in which we're in and how do you make policy is actually the range of data that you have to be looking to, to try and calibrate your judgments, to test and cross-check them. This is a really— fast expanding area actually in terms of the availability of data, in terms of the way in which we can process it and think about it. But in terms of the sort of R-star question as a sort of practical policy question for decision making, look at it more that way as a sort of theoretical concept, obviously hugely, hugely important. Just on your question about sort of uncertainty and timing and those sorts of things, I mean, we in the UK did make an explicit change in 2013 to be explicit that actually the time taken to bring inflation back to target should be dependent on the circumstances and the particular shock that you are facing. And there will be some circumstances when it makes sense to take longer and some circumstances when it makes sense to bring inflation back more quickly.

[01:03:02.00]

And actually you want flexibility in your approach to that. Where we were very clear is you have to explain it. So, you know, if it's— it may be the case that you take a bit more time, but you have to be very, very clear and transparent about the judgments that you're making and why that would be the case.

[01:03:19.16] - Anna Seim

Right, so just very quickly on R^* . I agree with the previous comments. I think it's a very useful variable in terms of modeling. We need to think about it because of the fact that we publish forecasts for the policy rate, right, and that the interest rate trajectory needs to be absorbed by our perceived interval for the neutral rate in the long term. We do emphasize that the estimates that we publish of the neutral rate are truly the long-term estimates, and that, you know, in the short run, the policy rate can deviate substantially from that estimate, as it should. But I do think it's very useful. But I agree with Claire. I mean, for practical purposes, what's to say that, you know, we are at neutral, contractionary, expansionary? It becomes increasingly hard the closer you get to something that's akin to neutral. Level of the rate, right? In terms of bringing inflation

back to target, I would just like to add that as long as inflation expectations are anchored at the target level, we can afford a bit more flexibility. And I think that's why it's so important to have these robust frameworks in place. Thank you.

[01:04:20.23] - Pablo Hernández de Cos

Okay, thank you. So let's now open— we have around 15 minutes for discussion. Patrick, I will come back to this floor later.

[01:04:35.24] - Audience

Joe Gagnon, a senior fellow here at Peterson Institute. My question is for any of the panelists. We talked a lot about uncertainty and scenario analysis, and so when I hear that, I think of some exogenous shocks to your model. Could they be commodity supply, policy, technology, whatever that we have to think are possible and how to deal with that. But my question is, uh, what about what Philip mentioned, which was also nonlinearities in the model that you might not have recognized? I, I've worked on nonlinearities, inflation before COVID and since then there's been an explosion of work in that area. But there could be other nonlinearities. Do you have—is part of this— is part of the scenario analysis a systematic search for how your models could be wrong and what—how you deal about that or think about what that would mean for scenarios? Is that part of the framework that you envision?

[01:05:37.22] - Pablo Hernández de Cos

Who wants to?

[01:05:41.19] - Philip R. Lane

Well, maybe I'll say one thing. And there's an ECB working paper or some kind of publication about it, which is interesting, which is, of course, it doesn't take very long to run the model. You press a button, the model is wrong. So most of the forecast or the meeting preparation is in what ways is the model wrong on this occasion? Because otherwise, you don't need a meeting, I think. And what's interesting is when you zero in on forecasting, this is essentially the role of staff judgment. So, on this occasion, what is the nonlinearity we should be focusing on, if you like? So, and I think probably across all central banks, one of the big issues throughout this whole period is, because we know there's intrinsic persistence in inflation, for many reasons, if inflation is 4 this year, there's reasons like wage catch-up, you know, supply chains, why inflation might be 4 next year. And there's this kind of historical estimates of how quickly that fades out. But of course, that's— OK, when is history going to be a good guide? Should we nudge up that kind of persistence factor, nudge it down? And that's where data dependence and

trying to really learn— so of course, for us, when we— so we obviously do internally many, many different sensitivity analysis scenarios.

[01:07:14.22]

But over the last 5 years, we have published selectively scenarios. The pandemic, we published scenarios. The Russia-Ukraine war, we published scenarios. We published scenarios actually with the Middle East situation in autumn '23. But of course, behind that, many times we look internally. So let me differentiate between sensitivity analyses and scenarios. And for me, I would reserve scenarios. Like, you've got a whole narrative there. You narrate out, here's a particular way the world could turn. Whereas if you say, OK, what happens if the oil price is in the 90th percentile, not in the middle? What happens if the wage dynamic to prices varies? So there's a whole grid. You can do a whole grid. And because you do it every time, people understand. The nature of the sensitivity analyses, but the art or science of selecting, okay, what do we really think is the concrete upside or downside risk on this occasion, you know, I think is there. So maybe, Joe, I would say in our sensitivity analysis, that kind of model risk is, I think, routine. When I think about scenario analysis, it's more about, you know, as you say, the kind of shocks hitting the world and so on.

[01:08:39.27] - Clare Lombardelli

Yeah, if I can just add, I mean, I think it's a really great, great question, Joe. I would say, I mean, we think, we're thinking about scenarios as being more than just this sort of idea that you shock a parameter and you change it. Where it becomes helpful for policymaking, and I think it's really important that you choose, and as policymakers, we think about scenarios, and we choose the scenarios that are most useful for us in thinking about monetary policy settings and what should they be. But actually, it's this point about, you know, you have a view of the economy and how it might be turning out, but there could be alternative things going on. What if people's response to inflation and their formation of inflation expectations in the future is different from what it was in the past because of the high rates we've seen? For example, you know, what would that mean? And the value of doing scenarios in that way is, and using sort of bringing the macro modeling tools to that, is it allows you to think through all of the consequences of that story and how it would fit together and how different people would respond.

[01:09:39.14]

So I think, you know, you can do it in this sort of exogenous shock way. It's more useful, I think, if you think, well, hang on, what if our understanding of, you know, the Phillips curve is just different? What if it's just different at this point, what would that mean? How would that change

the behavior of lots of people in the economy and bringing it together? So I think that's the real value of it is it allows you to follow that sort of thought through and then think, and I think this is a really interesting area of work, OK, what does that mean for monetary policy? Both what should the sort of policy be, but also what are the consequences if you set monetary policy in one world when you might be in another and thinking through those kind of sort of the sort of loss functional welfare function.

[01:10:25.06] - Anna Seim

Right, so I do agree with this distinction between sensitivity analysis and scenario analysis that Philip made, which I think is an excellent point, but it's a very good question. I think we can work with uncertainty in different ways. We can think about satellite models that can inform whatever DSG model we have at the core of our, you know, projections and say, you know, we think this parameter is likely to be higher in the current environment than we should think about that sort of scenario. I think scenarios are useful for thinking about tail risks, but if you are in one of these sort of tail risk events where you risk a de-anchoring of expectations and so forth, it's very hard to say exactly how you would react. So it's very data dependent. So I guess the lesson that we learned is that we really need to think through these scenarios carefully. And because what markets do is that they go back and say, you talked about this scenario, aren't you actually in that situation now? What's to say that this is different from the scenario. So, we need to be careful in exactly how we formulate that and think about how would we truly act in that situation. Thank you.

[01:11:27.08] - Audience

Patrick. Yeah, my question is about these periodic policy reviews. So, I noticed that for the large central banks, ECB, Federal Reserve, it's largely an internal process. Obviously, they're looking at what other people are saying outside. For the smaller central banks, Sweden, you mentioned, New Zealand, Canada, it's very heavy reliance on external reviewers. And in the middle— and I'm wondering, maybe the large central banks might be missing a trick because in the middle we have Bank of England, which sometimes reaches out to somebody like Ben Bernanke. Are there inherent advantages in looking externally or special advantages in keeping it in-house?

[01:12:11.03] - Anna Seim

Yeah, if I could just comment on that. I think it's a very good question. I think we've gone with external reviewers because we want that outside bigger perspective, bigger picture. But I think it's also crucial that it's someone that has knowledge of the institutional features of that country. So I think that's the point you're making as well. So I think there's a trade-off there. Yeah.

[01:12:30.24] - Clare Lombardelli

I mean, I would, um, the only thing I would say, I would really agree with, I think there's huge value to looking externally. I mean, I would say that, right? I used to to be the chief economist at the OECD. But you can just, I mean, at the end of the day, we're all roughly trying to do the same thing and we have very sort of shared challenges. And so you can learn a huge amount, frankly, from looking at other countries and what they've done. And, you know, it's often the same debate and discussion and it's very interesting to understand, well, why did you pick that particular approach? What is it? You do, however, have to recognize, you know, there are different institutional setups which make a real difference, you know, different— actually some of the sort of constitutional political stuff that just becomes very different in the sort of structures that you're operating with, the size of your financial market, those sorts of things all make a difference. But I think the value— it's hard to argue against getting outside views on what you're doing. I mean, also just actually, you know, if I take the review that Dr. Bernanke did for us, I mean, It was brilliant that he had so much experience of how it could be different, but equally, you know, and a good connection to also the sort of academic side of this as well, which is bringing in new ideas.

[01:13:41.22]

That's the other thing I would say is you don't want to always just be using just former policymakers. You actually also want a mix really of people that will also be at the forefront, the frontier of the latest economic thinking too.

[01:13:56.18] - Philip R. Lane

So, so, um, Yeah, I think it's an interesting question. And, you know, when I was governor in Ireland, and indeed when as an academic, I participated in reviews of small central banks. So as you hinted at, there is a scale issue here. I think Jay Powell made a very useful remark the last week or two, which is basically there's no shortage of outside critics of the ECB. As he had some phrase about well-compensated, you know, watcher community. And of course, There's people here today. So what's interesting is the area at one level is well set up for that in terms of, you know, I don't need to commission the people in this room, they're going to write anyway. I think there is an issue where for academia, I mean, there's some really good East Europe area macro people and they write via the CPR, VoxEU, ECB Watchers. But what is maybe true is the euro area is this compendium of 20 member countries. By and large, most macro people in academia, they probably understand their own economy more than they understand the euro area. And so maybe I'll hear— it's an important institutional feature of the euro area or the ECB.

[01:15:12.12]

It is— it's a staff forecast. And with the review we're doing right now, it's so helpful for the Governing Council that we have a staff which I consider very independent, full of professional pride and professional standards. And a lot of that work has been published and will be published in the future. And so for me, the biggest foundation for when the Governing Council discusses this is we trust the Eurosystem staff. It's not Frankfurt, it's all the national central banks are involved. And having that kind of robustness that, oh yeah, well, if, if all of these central— if the staff across your system are kind of converging on some point, that gives a lot of confidence that this is a relevant point. So I would say in, in our particular situation, I, I think we're very happy to have the foundation of the staff prep work for, for the review. But we absolutely, through the watchers, through other ways, do try to listen to external voices.

[01:16:24.03] - Pablo Hernández de Cos

Thank you. I think we have at least time for at least one question, please.

[01:16:31.12] - Audience

Liz Unsal from the OECD. Just a quick question. There is a bit of a sense that inflation dynamics might have changed after COVID. Now we know that the sectoral changes in inflation could have a permanent impact on inflation expectations. Supply shocks may be more important going forward. Of course, one implication of this is that, as you all mentioned, there's more emphasis on scenario analysis. But more concretely, for monetary policy framework, what could this imply for the inflation target, the bands around the target, whether there should be some asymmetry? On the upside. So I just wanted to get your views on that. Thank you.

[01:17:09.14] - Pablo Hernández de Cos

You're coming from the OECD, you have to answer.

[01:17:15.22] - Clare Lombardelli

Great to see you, Phyllis. Look, it's a really good question. I mean, clearly, inflation dynamics may have changed, you know, in 10, 20 years' time, we might know. And of course, we're spending a huge amount of time now trying to think about that and analyze that. I think there's lots of reasons that you think you should be testing that hypothesis. As I mentioned in my previous answer, you know, you've had this long period of inflation being well above people's experience sort of historically. You know, for the UK, you have to go back to the 1970s to see

the sorts of numbers that we've seen in the sort of period a few years ago. There's also a set of questions about sort of pricing dynamics and the labor market and changes that we've seen in the labor market in response to COVID and wider trends and the interaction of these wider trends there. And of course, pricing dynamics are changing with technology as technology changes and all of those sorts of things. So all of these things are going on. There's a huge—it's not even clear what direction all of this is moving in. Right?

[01:18:26.07]

So you can think, well, some of these might think you're causing more upside risk to inflation, some more downside risk to inflation, some might mean these things move faster, some mean they move less quickly. In the absence of even being able to call the direction of the stuff, you're not going to change your inflation target on that. But actually, more importantly, what I would say is I think there is huge value on having a very clear, simple, symmetric inflation target that everyone knows, everyone understands, and the sort of cost of changing that itself is quite high, just because of the importance of the clarity of the mission, because inflation expectations are so core, as Anna said, to everything that we do and our ability to manage inflation in a way that minimizes costs to the economy. So, I think you'd put, you know, I would put a very, very high bar, and I actually don't I don't see any convincing evidence that we'd want to be looking at changing those things.

[01:19:28.20] - Anna Seim

Anna? Yes, so I agree that we should definitely maintain symmetric inflation targets. I think there are many benefits to that. Just very quickly on sort of what we learned through the inflation surge of 2022-23, I think we are developing new early indicators of price increases, looking at heat maps, that sort of thing. Forward-looking indicators, looking at surveys. I think that's the lesson learned that, you know, we, we came from this, uh, environment of very weak inflation, and I think we did learn that lesson that, you know, it could happen very quickly and we need to be vigilant. So I think, uh, that we have— there are lots of lessons learned from, from that inflation surge in terms of how we work with the data.

[01:20:10.28] - Philip R. Lane

Yep. So let me, especially with the, the last point about, um, 'Cause the mechanism is indeed, I think, price resetting becoming more frequent. And so we do surveys of pricing behavior. This is where the day-by-day data can also help. So, you know, I think this has been a valuable addition about to have a precise thing to look at. But let me go back to Do we really think the pandemic was a classic supply shock? Because I mean, it has this unique property that it also

led to this preference shift towards goods and then back towards services. And so I mean, here is different, but in Europe, overall level of consumption did not— never really got very high during this period. So you could hardly say, well, aggregate demand boomed in this period and therefore But demand for goods in 2021, demand for services in '22 did grow strongly, very quickly. So it was not a classic supply shock. There was this element also to it. And so the question for the future is classifying shocks really is one element. The second element is inflation has come back. To target within a couple of years now.

[01:21:38.11]

So the question was, how much will— because of course in the 1930s, so the people who say there's this generational footprint of high inflation or spectacular economic conditions, a lot is identified often in the 1930s, some is identified often in the 1970s, which is a decade of high inflation. So since we did get back to I hope to target more or less fairly quickly. And in the context of a decade of low inflation before that, you know, how elastic expectations are around the anchor, I think, is something that I'm going to have an open mind about, you know, in the future years.

[01:22:22.20] - Pablo Hernández de Cos

Okay. Well, unfortunately, we have to close the session here. Thank you very much again to Pete and Peterson for organizing it. Thank you also for your active participation. And thanks a lot, Anna-Claire and Philip, for accepting and for very good discussion.