Monetary and Fiscal Policymaking in Practice – Panel Discussion

The final part of the conference was a panel discussion focused on drawing the various themes of the conference together and gathering insights on monetary and fiscal policymaking in practice. Panellists began by discussing the aspects of monetary–fiscal interactions that were most relevant in their work. Participants then discussed the nature and extent of monetary–fiscal coordination that is appropriate outside of crisis periods, the institutional arrangements necessary to achieve this, and how concerns about the effective lower bound might affect these. The session concluded with a discussion of central bank independence. Paul Conway, Chief Economist at the Reserve Bank of New Zealand, moderated the discussion, which included the following panellists:

- Michele Bullock – Governor – Reserve Bank of Australia
- Joanne Hughes – Deputy Secretary, Economic Policy – New Zealand Treasury
- Shane Johnson – First Assistant Secretary, Macroeconomic Analysis and Policy Division – Australian Treasury

As the conference and panel discussion were conducted under the Chatham House Rule, no individual comments are attributed.

Introduction

Panellists began by reflecting on their respective interpretations of monetary–fiscal interactions and how these interactions occurred in practice. They first noted that what they were discussing were interactions, not formal coordination. Panellists acknowledged that it was important to understand current and expected fiscal policy settings when setting monetary policy. The discussion highlighted how it is important to go beyond aggregate measures of fiscal policy to properly understand the economic effects. Recent examples included the impact of public investment on private sector activity, the implications for the labour market from increased provision of healthcare services, and the role of state-level policies alongside national measures.

The discussion then turned to institutional arrangements. Panellists agreed that while the operational independence of central banks is of paramount importance, so too is open communication and information sharing between monetary and fiscal authorities. Such communication helps to ensure each institution's understanding of the functioning of the economy and policy frameworks is robust.

Key to these interactions are relationships built on trust, with the experiences during the global financial crisis and COVID-19 pandemic cited as evidence for this. Panellists agreed that the current arrangements have worked well due to strong institutional design and the integrity of policymakers, but that it was also prudent to strengthen these institutional arrangements where appropriate to ensure their resilience.

Interactions outside of crises

The panel considered the merits of active coordination outside of crises. Panellists agreed that monetary authorities should remain focused on price stability and that active coordination was not required to achieve price stability. It was agreed that long-term debt sustainability was important for price stability and for ensuring policy space for future crises, but that fiscal policy also had a broader set of policy goals and active coordination was not required.

The discussion then returned to institutional design. Panellists discussed whether fiscal rules could help fiscal and monetary policies achieve their objectives. It was agreed that while they are helpful as a crosscheck, there are trade-offs in the setting of fiscal rules, making it challenging to select the right target. Panellists emphasised that a holistic approach that included publishing fiscal strategies and long-term projections of debt levels was likely to be the best way to embed fiscal discipline, consistent with the current approach in both Australia and New Zealand. External credit ratings were cited as another mechanism that supports fiscal discipline.

Interactions at the effective lower bound

The panel then discussed how the nature of monetary–fiscal interactions changes as policy rates approach the effective lower bound. Participants noted the importance of identifying the least-cost policy mix, given the constraints on conventional monetary policy. Further, it was noted that some unconventional monetary policies can have fiscal implications, blurring the lines between monetary and fiscal policy. Given this, preparation for such scenarios during periods when the policy rate was away from the effective lower bound was seen as essential, as was learning from previous episodes.

The discussion then turned to the experience in Australia prior to the COVID-19 pandemic, with panellists noting that policy rates were near the lower bound while inflation was persistently below target. Panellists emphasised the importance of communication across institutions to best manage risks, though noted that maintaining operational independence was key. Relationships between the monetary and macroprudential authorities were highlighted as similarly important, as considerations around financial stability can affect monetary policy decisions near the lower bound.

Panellists returned to the fiscal implications of unconventional monetary policies. They considered the extent to which treasury departments should be involved in the design of unconventional policies such as bond purchase programs, given their fiscal implications. While direct instructions from the fiscal to the monetary authority were seen as undermining central bank independence, consultation between the two was considered important for designing effective programs, as was the case during the pandemic.

Safeguarding central bank independence

Panellists concluded the discussion with some brief remarks on safeguarding central bank independence. Panellists highlighted the importance of clear communications, particularly about what central banks can and cannot achieve, and maintaining credibility by not bowing to external pressures. Panellists also discussed the importance of learning, and of being transparent about what you have learned and how it has changed your thinking.