

Discussion of 'Monetary Policy without an Anchor' – Bocola, Døvis, Jørgensen and Kirpalani (2026)

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Any opinions expressed are those of the author and do not reflect those of the Reserve Bank of Australia.

A very simplified summary

- Optimal policy for a dual-mandate central bank (simplified):
 - Set policy in a way that balances inflation deviations vs employment deviations:

$$u_t - u^* = \Psi(\pi_t - \pi^*)$$

$$\Psi = \frac{\alpha}{1 - \alpha} \frac{-d\pi_t/di_t}{du_t/di_t}$$

- The optimal weight on inflation relative to unemployment, Ψ , depends on:
 - (1) preferences/relative cost of deviations: $\frac{\alpha}{1 - \alpha}$
 - (2) how much policy can affect inflation vs unemployment: $\frac{-d\pi_t/di_t}{du_t/di_t}$

A very simplified summary

- **Reputation channel** – policy actions influence people’s beliefs about central bank’s desire to reduce inflation (vs focus more on employment); this affects inflation expectations, and therefore actual inflation
 - Policy has a stronger effect on inflation (for a given unemployment effect):

$$\frac{-d\pi_t/di_t}{du_t/di_t} \text{ is larger}$$

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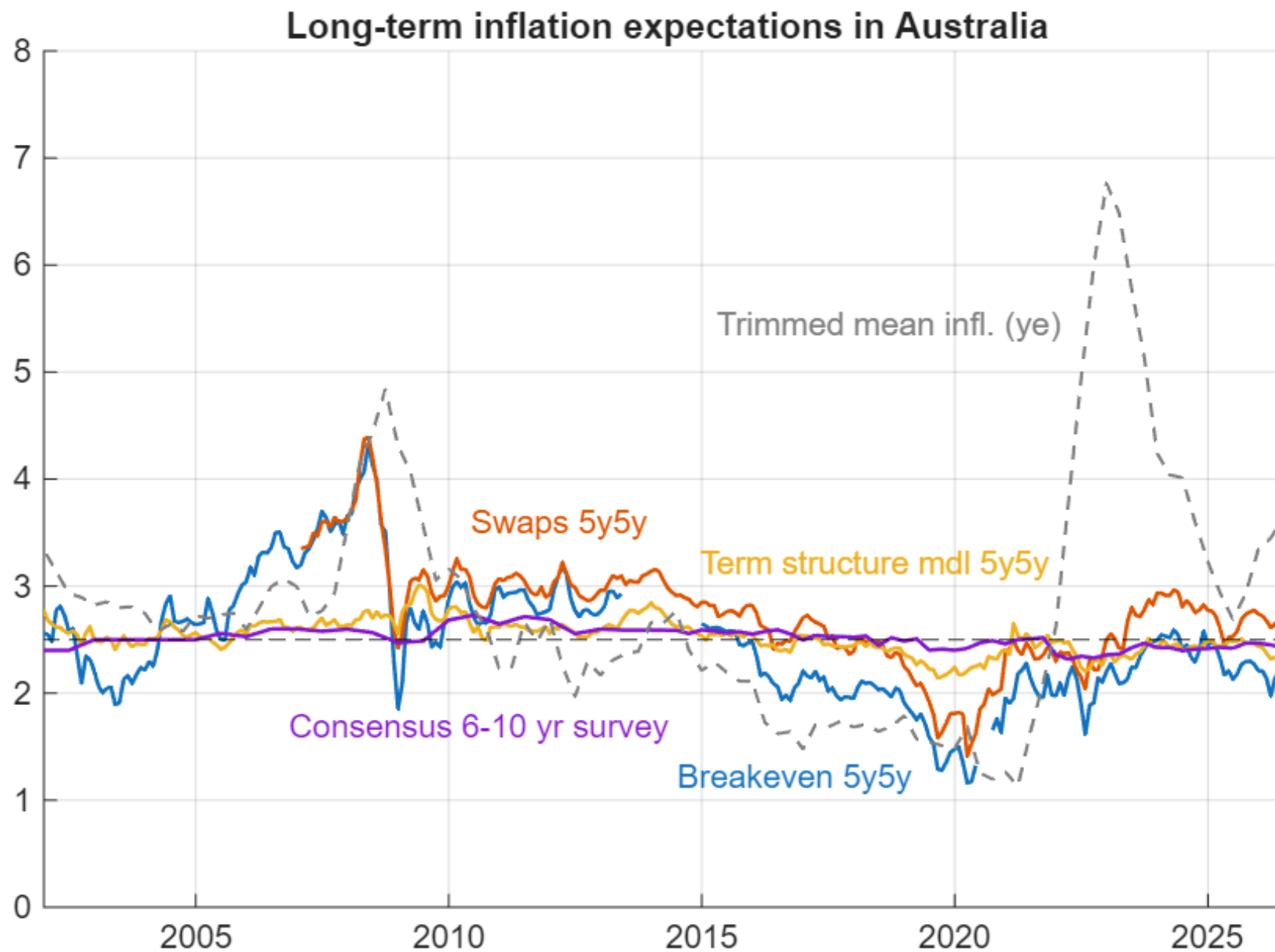
- Ψ is larger: policy should respond more strongly to inflation, and less strongly to employment
- **Reputation is persistent** – reputation channel amplifies the effect of current policy on inflation further in future, so policy should be more forward-looking/pre-emptive
- **Strength depends on uncertainty about central bank** – when people are uncertain about central bank’s preferences/strategy, they will update their beliefs more in response to policy actions

$$\text{uncertainty about central bank type} \implies \frac{-d\pi_t/di_t}{du_t/di_t} \text{ is larger} \implies \Psi \text{ is larger}$$

- **Measurement** – quantify channel using sensitivity of long-term inflation expectations to monetary policy surprises.

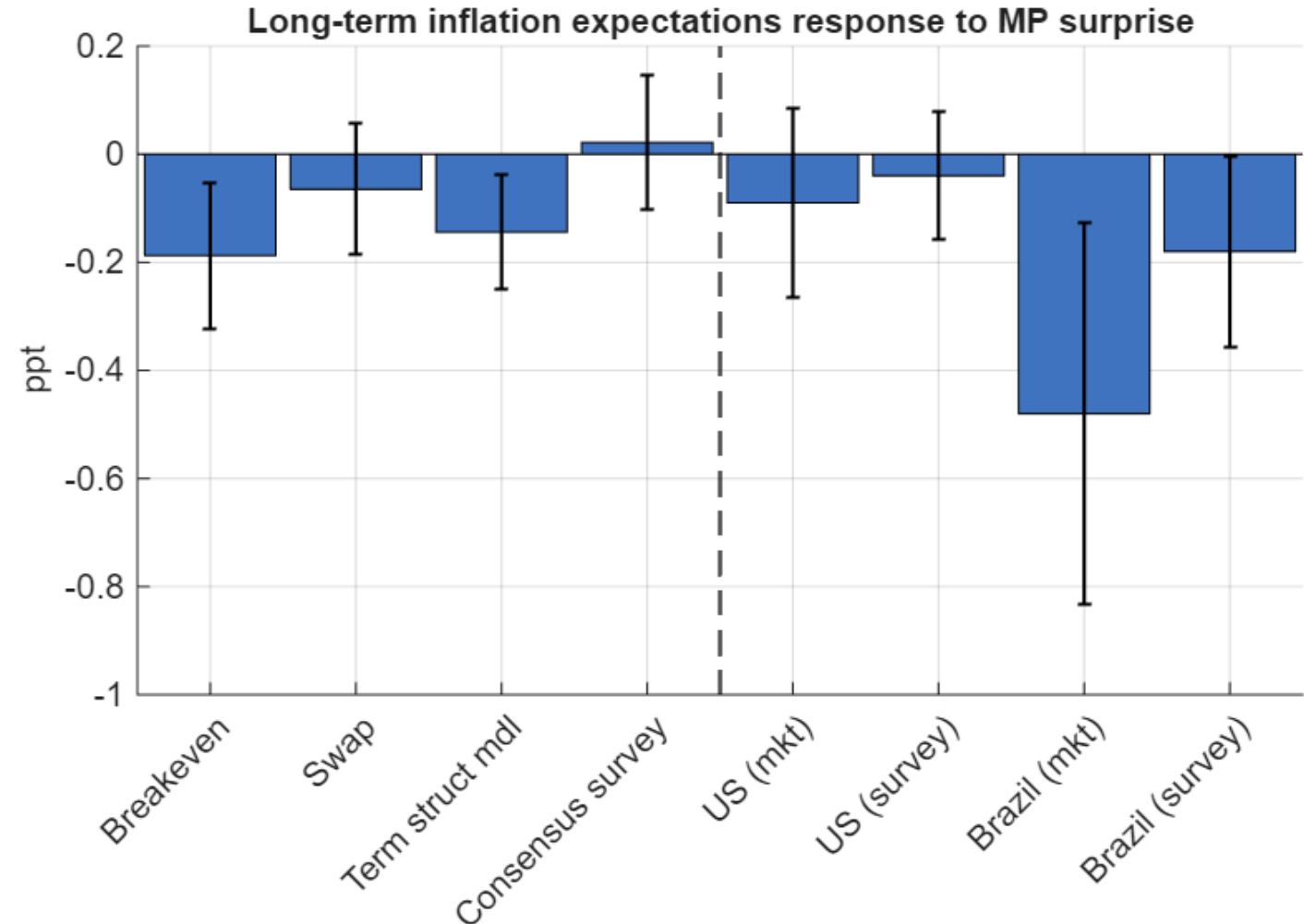
Some key contributions

- Similar logic to other learning models (e.g. Carvalho et al 2023; Eusepi and Preston 2018). In this
 - In those models, people are uncertain about long-run inflation and adjust beliefs based on inflation surprises
 - Similarly implies that policy has stronger and more persistent effect on inflation via its effect on beliefs
 - Optimal policy therefore more inflation-focused and pre-emptive
- But here people are learning about policymakers' preferences over mandate variables
 - Monetary policy surprises, rather than inflation surprises, are what influence beliefs – measure strength from monetary policy shock
 - Hump-shaped strength – policy affects strength of channel by influencing agents' uncertainty; beliefs can 'anchor' at either end (not necessarily at inflation target)



Exploring the 'reputation channel' in Australia

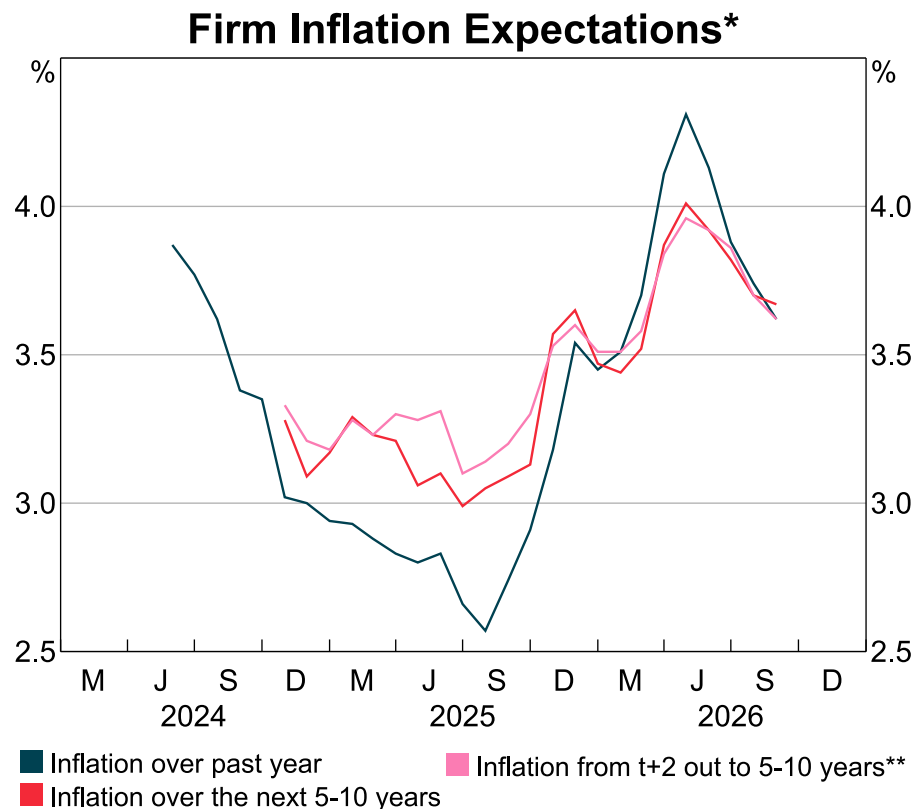
- Regress change in inflation expectation measure on change in 1-month OIS on MP decision days.
 - Sample = 2010 to 2026
 - 2-day change for breakevens and swaps; 1-month change for term structure mdl; 1-2 quarter change for survey



What do we learn from long-term expectations of markets/professional forecasters?

- Results focus on long-term inflation expectations of financial-market participants and professional forecasters (for good reasons).
- In theory, what matters for inflation is nominal marginal cost expectations of firms, with more weight on near-term horizon (Preston 2005; Werning 2022).
 - For wages: medium-term inflation expectations of households/unions/firms.
 - Evidence that household short-term inflation expectations explain a lot of recent inflation surge, not professional forecaster expectations or long-term expectations (Coibion and Gorodnichenko 2025; Beaudry et al 2024; Armantier et al 2026).
- What is the policy-relevant takeaway from LT expectations of markets/forecasters, and are they a sufficient measure of 'anchoring'?
 - Are LT expectations of markets/forecasters a signal of likely evolution of household/firm shorter-term expectations?
 - Could we see LT expectations of markets/forecasters remain anchored and insensitive to policy, even while ST-MT expectations of households/firms fluctuate, respond to policy, and worsen policy trade-offs?
 - Especially if policy communication is framed around long-term inflation expectations

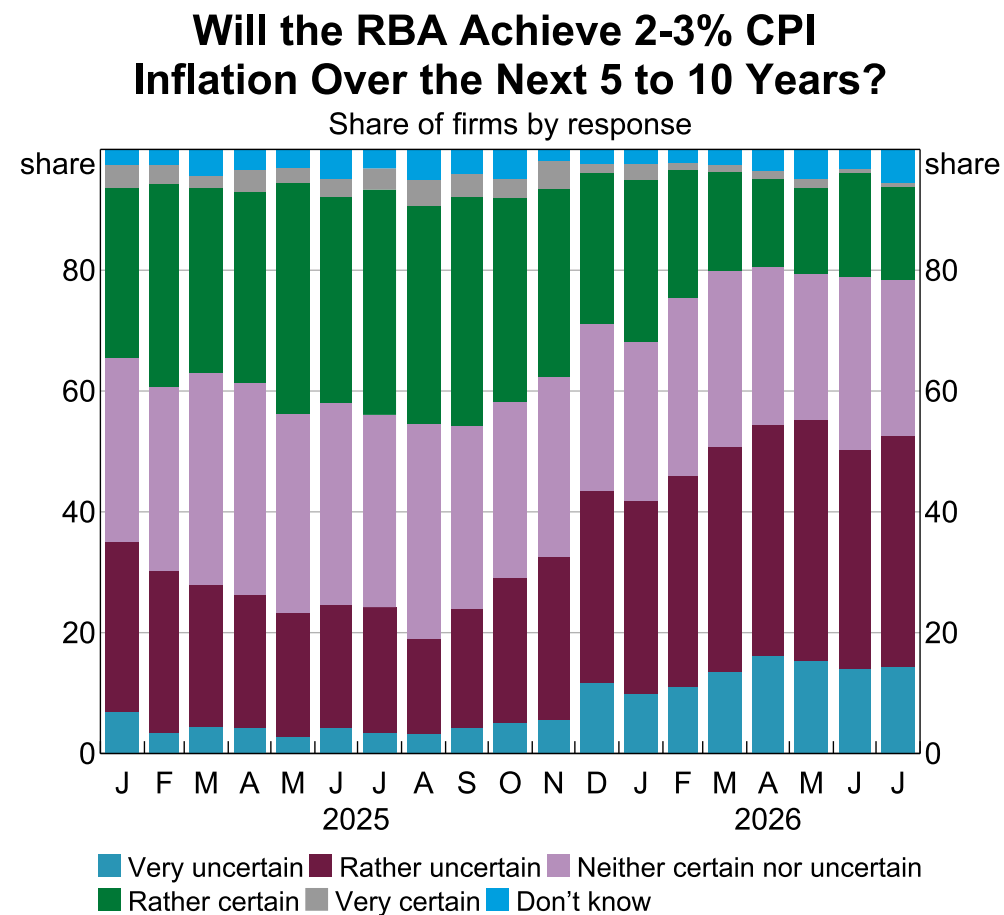
Firms' inflation expectations



* 10 per cent two-sided trim

** Calculated by assuming long-run expectations are for the average rate over the coming 5 years.

Source: Business Outlook Scenario Survey (BOSS).



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Policy given uncertainty about anchoring

- What is the takeaway for policymakers in 'anchored' countries?
 - One possible conclusion: if the reputation channel is weak and Phillips curve is flat, then policy should mostly focus on managing unemployment
- Authors' caveat: reputation channel can operate via medium-term expectations, which are more sensitive to policy
- But also: we are highly uncertain about anchoring and the costs could be significant.
- So what should policymakers do?
 1. Focus on unemployment, but monitor expectations data for signs of de-anchoring.
 - AE policy during recent inflation surge?
 - Would the de-anchoring be easily observable? Will reactive policy be very costly?
 2. Pre-emptive and cautious policy (least-regrets) – act *as if* reputation channel is stronger than it appears to be.
 - E.g. Gust and Lopez-Salido (2025)
 - Does this sacrifice the benefits of anchoring and create unnecessary employment deviations? How much insurance should we buy?