

Overview of the 2026 RBA Annual Conference on Monetary Policy Trade-offs*

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The annual RBA Conference brings together leading academics, central bankers and other economic practitioners to share ideas, challenge one another's thinking and explore topical policy issues from a range of perspectives. That exchange helps ensure that policymaking continues to draw on the best available research and practical experience.

The subject of the 2026 Conference was **Monetary Policy Trade-offs**. That is a broad topic, but it is also a very practical one. It goes to the heart of the decisions that central banks make.

In Australia, the Monetary Policy Board is responsible for contributing to price stability and full employment.¹ Much of the time, these objectives are complementary. Low and stable inflation provides the foundation for sustainable growth in employment and living standards. And an economy operating close to full employment is generally one in which demand and supply are reasonably well balanced.

But there are times when the objectives can pull in different directions, at least for a while. The clearest example arises following a persistent adverse supply shock, when inflation rises at the same time as output and real incomes weaken.² In such a case, the shock itself imposes costs that monetary policy cannot avoid: the country as a whole is poorer. To bring inflation back to target in a timely way, monetary policy may need to be tightened – but that weakens demand in the near term. A more gradual disinflation may reduce the immediate demand costs but prolongs the costs of inflation, and increases the risk that inflation becomes embedded in expectations and behaviour.

Managing these trade-offs is not as simple as selecting a point on a fixed and stable curve. The nature of the trade-offs depends on the shocks, the structure of the economy, how people respond, and the credibility of monetary policy. The trade-offs can also change over time, including as a result of the decisions made by central banks.

There is no mechanical rule that tells a monetary policy board exactly how quickly inflation should return to target in every circumstance. Models, forecasts and empirical estimates are essential inputs, but ultimately decisions require judgement. The purpose of this conference was to help sharpen that judgement.

Proceedings opened with a keynote address by Kristin Forbes (MIT Sloan School of Management), which set the scene by drawing on international experience across five decades of rate cycles to address the central question of the conference: how central banks should recognise, assess and manage trade-offs in an uncertain and shock-prone world.

Building on that broad perspective, the remaining sessions were organised around three questions. First, how might monetary policy trade-offs manifest? Second, how do we measure these trade-offs? And third, how does the anchoring of inflation expectations affect the trade-offs? A final panel brought these issues back to the practice of monetary policy.

1. How might trade-offs manifest?

This first question matters because the nature of a trade-off cannot be separated from the nature of the shock.³

* We thank Sue Black, Adam Cagliarini, Samuel Evangelinos, Andrew Hallam, Jonathan Hambur, Andrew Hauser, Sarah Hunter, Christopher Kent, Ekaterina Shabalina and Michelle Wright for their comments.

When inflation reflects excess demand, the direction of policy is usually clearer, even if the costs of adjustment remain significant. High inflation makes budgeting and planning harder, increases uncertainty and distorts price signals. High inflation also tends to impose the most significant burdens on households with limited financial buffers.

The policy problem is more acute when the shock also materially weakens economic activity. If prices are rising faster than nominal incomes, households experience a direct loss of purchasing power. At the same time, weaker activity may mean that unemployment and underemployment are already increasing. The costs on both sides of the mandate are then visible together, and monetary policy cannot eliminate the real economic loss caused by the shock. It can only influence how that loss is distributed over time.

The two presentations in this session examined increasingly important sources of such trade-offs. Jenny Chan (Bank of England) considered trade fragmentation, while Mark Howden (Australian National University) discussed the economic costs of climate change.

A common thread ran through both presentations: identifying a shock is not simply an exercise in attaching the right label to it. The source and persistence of the shock affect how central banks think about balancing their objectives. The presentations also served as a reminder that, in a fast-evolving world, it is not only the starting point that matters but what might happen in the future.

2. How do we measure these trade-offs?

This question is difficult because the relevant costs differ in their form, their incidence and their persistence.

Inflation affects nearly everyone to some degree, and is currently the top economic concern in Australia by some margin.⁴ It can erode real incomes if wages and other nominal incomes lag prices for a time. It can encourage households to spend more time searching for cheaper alternatives and working out how to make ends meet. It can encourage workers and firms to devote more resources to renegotiating wages, and to recruiting and retaining staff. High and volatile inflation can also make long-term planning more difficult and reduce the information contained in relative prices.

Some of these costs are widely dispersed and difficult to observe. A negotiated wage increase may be recorded in the data, but not the time and effort spent securing it. Changes in consumption can be measured, but the stress of managing a household budget when prices are changing rapidly is much harder to capture.

The costs of unemployment are more concentrated, but also more readily identified. A loss of employment reduces income and consumption and can carry substantial personal and social costs. Its effects can also persist. Workers may lose their place on the job ladder, experience depreciation of skills or return to work in a poorer match.

This gives rise to a central measurement challenge: how should we compare a broad cost that is difficult to quantify with a concentrated cost that is better understood and may be persistent? Both costs matter, and the weight we give them should not be unduly influenced by how readily each can be measured.

The three presentations in this session approached that challenge from several directions. Felipe Alves (Bank of Canada) examined how the costs of unemployment are distributed across workers, with a particular focus on lower-wage workers, and what this implies for assessing the benefits of sustaining a tight labour market. Andres Blanco (Federal Reserve Bank of Atlanta) examined the inflation costs that arise from the erosion of real wages and the effort workers then devote to searching for better paying jobs. And Ekaterina Shabalina (Reserve Bank of Australia) used HALLIE, the RBA's heterogeneous-agent model, to explore the uncertainty about the size and dispersion of these costs in Australia, and what policymakers can do to enhance the robustness of their decisions.

3. How does the anchoring of inflation expectations affect the trade-offs?

Anchored expectations are one reason modern economies have been better placed to absorb shocks than they were in the past. If households and firms remain confident that inflation will return to target in a reasonable time frame, they are less likely to change wages and prices in ways that perpetuate the effects of shocks on inflation. This gives monetary policy greater scope to look through temporary disturbances and to limit unnecessary variability in output and employment.⁵

But it should not be assumed that anchoring is a permanent feature of the landscape. It has to be earned and maintained through policy and communication.

Luigi Bocola (Stanford University) discussed how central bank actions can help anchor inflation expectations and how that influences the policy trade-offs. Raphael Schoenle (Brandeis University) explored how people form their inflation expectations, and how this formation can depend on people's experiences and memories.

The difficulty for policymakers is that the state of anchoring is imperfectly observed, and may change in ways that are neither smooth nor easily detected.

4. Dealing with trade-offs in practice

The final session brought the discussion back to the practice of monetary policy and how central banks deal with the issues raised in the rest of the conference. The panel comprised Soohyung Lee (Bank of Korea), Karen Silk (Reserve Bank of New Zealand) and Nicolas Vincent (Bank of Canada), and was moderated by Sarah Hunter (Reserve Bank of Australia).

That practical perspective is important. Monetary policy decisions must be made before all the evidence is available. Economies change, measurement is imperfect and the effects of policy occur with lags.⁶ The task is not to eliminate uncertainty, but to make good decisions in the presence of it.

Why this matters

The trade-offs discussed over the two days of the conference affect people's jobs, incomes, spending decisions and sense of security. That is why the work presented and discussed at this conference matters.

The RBA thanks the presenters, discussants, panellists and chairs for their contributions, the staff who organised the conference, and all participants for a candid and constructive exchange.

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- 1 Bullock M (2025), [‘The RBA’s Dual Mandate – Inflation and Employment’](#), Speech at the Anika Foundation Fundraising Lunch, Sydney, 24 July; and Hunter S (2026), [‘Defining Full Employment and Its Intertwined Relationship With Inflation’](#), Speech at the CEDA: In Conversation series, Perth, 12 February.
 - 2 For related discussion, see Hunter S (2026), [‘Understanding Supply Shocks and Their Implications for Monetary Policy’](#), Speech at the Australian Conference of Economists, Canberra, 8 July; and Bullock M (2026), [‘Monetary Policy in an Era of Shocks’](#), Speech at the Anika Foundation Fundraising Lunch, Sydney, 28 July.
 - 3 For related discussion, see Hauser A (2026), [‘Deglobalisation and Fragmentation: Mid Term Challenges for Central Banks’](#), Panel Participation at Institute of International Finance Global Outlook Forum, Washington D.C., 16 April; and Hunter S (2026), [‘Rethinking Macro Policy Frameworks for a Transforming, Shock-Prone World’](#), Panel Participation at 2026 Spring Meetings of the International Monetary Fund and the World Bank Group, Washington D.C., 17 April.
 - 4 Harden, Rickards and Wright (2026), [‘Listening to Australians: A New RBA Survey of the Community’](#), *RBA Bulletin*
 - 5 For further discussion, see Hunter S (2024), [‘Inflation Expectations – Why They Matter and How They Are Formed’](#), Speech at the Citi Australia and New Zealand Investment Conference, Sydney, 16 October.
 - 6 Hunter S (2024), [‘Shedding Light on Uncertainty: Using Scenarios in Forecasting and Policy’](#), Speech at the University of Adelaide SACES Lunch, Adelaide, 13 December.