General Discussion of ‘Monetary Policy Frameworks Away from the ELB’

Participants began by noting that it was important to use macroeconomic models that can accommodate backward-looking inflation expectations formation in the inflation-generation process. There was increasing empirical evidence that a significant component of inflation expectations was formed with reference to past inflation outcomes and this had implications for the assessment of the performance of different monetary policy frameworks over time. It was noted that in recent years, some central banks had undertaken framework assessments that had not accounted for this. One participant noted that it would also be useful for central banks to compare how their framework-based monetary policy decisions performed over time compared to ‘optimal’ policy rules that could serve as benchmarks. Given that central banks were now institutionalising regular framework reviews (e.g. every five years), developing and improving tools for evaluating the performance of monetary policy frameworks against benchmarks would be very important.

Some participants were struck by the similarity in interest rate lift-off profiles in developed economies in response to recent high inflation. There was a brief discussion of the potential implications of different central banks making similar monetary policy decisions given they had different monetary policy frameworks. One participant noted that recent inflationary shocks had been similar and similarly timed across countries, and that inflation dynamics in each country once shocks hit had also been similar. These factors might have contributed to the similarity of monetary policy responses across countries, even given different policy frameworks.