Old Challenges in New Clothes? Conducting Monetary Policy

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Financial Markets Conference 2023
Federal Reserve Bank of Atlanta
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## Policy Interest Rates

<table>
<thead>
<tr>
<th>Country / Area</th>
<th>12/30/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>4.25</td>
</tr>
<tr>
<td>ECB</td>
<td>3.50</td>
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<tr>
<td>Japan</td>
<td>~ 0</td>
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<tr>
<td>Norway</td>
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<td><strong>G-8 average</strong></td>
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*Source: IMF, *International Financial Statistics*
## Policy Interest Rates

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*Source: IMF, *International Financial Statistics*
New Clothes?

The Emperor’s New Clothes

By Hans Christian Andersen

Session Title

*How to Conduct Monetary Policy amid Higher Inflation and a Nonbinding Zero (Effective) Lower Bound*

Three “Old” Lessons for Monetary Policy Today
1) Guidance vs. Optionality
2) Anchoring Inflation Expectations
3) Gradualism vs. Frontloading
1. Guidance vs. Optionality

US Forward Swaps

Source: Bloomberg
1. Guidance vs. Optionality

**US Forward Swaps**

- **US: 1-year**
- **US: 3-year**

Source: Bloomberg
2. Anchoring Inflation Expectations

Source: Federal Reserve Economic Data, https://fred.stlouisfed.org
3. Gradualism vs. Frontloading

Policy Interest Rates

Source: Federal Reserve Economic Data, https://fred.stlouisfed.org
3. Gradualism vs. Frontloading

Policy Interest Rates

- US
- UK

Source: Bloomberg
3. Gradualism vs. Frontloading

The Result

Change from Dec 1, 2021 – Sept 1, 2022

Short and Medium-term Inflation Measures

- UK
- US

1 yr swap
3 yr swap

Long-term Inflation Measures

- UK
- US

5 yr swap
5 yr breakeven

Source: Bloomberg
3 “Old” Styles are Back In

1) **Guidance vs. Optionality**
   - Beware the constraints of guidance
   - Maintain optionality

2) **Anchoring Inflation Expectations**
   - Do not take the anchor for granted

3) **Gradualism vs. Frontloading**
   - Adjust pace based on costs/benefits