

# Old Challenges in New Clothes? *Conducting Monetary Policy*

*Kristin Forbes*

*MIT-Sloan School of Management, NBER & CEPR*



Financial Markets Conference 2023

Federal Reserve Bank of Atlanta

May 14, 2023

# Policy Interest Rates

Country / Area	12/30/06
Canada	4.25
ECB	3.50
Japan	~ 0
Norway	3.50
Sweden	2.50
Switzerland	2.50
UK	5.00
US	5.25
<b>G-8 average</b>	<b>3.32</b>

Source: IMF, *International Financial Statistics*



# Policy Interest Rates

Country / Area	12/30/06	05/11/23
Canada	4.25	4.50
ECB	3.50	3.75
Japan	~ 0	~ 0
Norway	3.50	3.25
Sweden	2.50	3.50
Switzerland	2.50	1.50
UK	5.00	4.50
US	5.25	5.25
<b>G-8 average</b>	<b>3.32</b>	<b>3.27</b>

Source: IMF, *International Financial Statistics*



# New Clothes?



## *The Emperor's New Clothes*

By Hans  
Christian  
Andersen

Source: Wikipedia



# Today

## Session Title

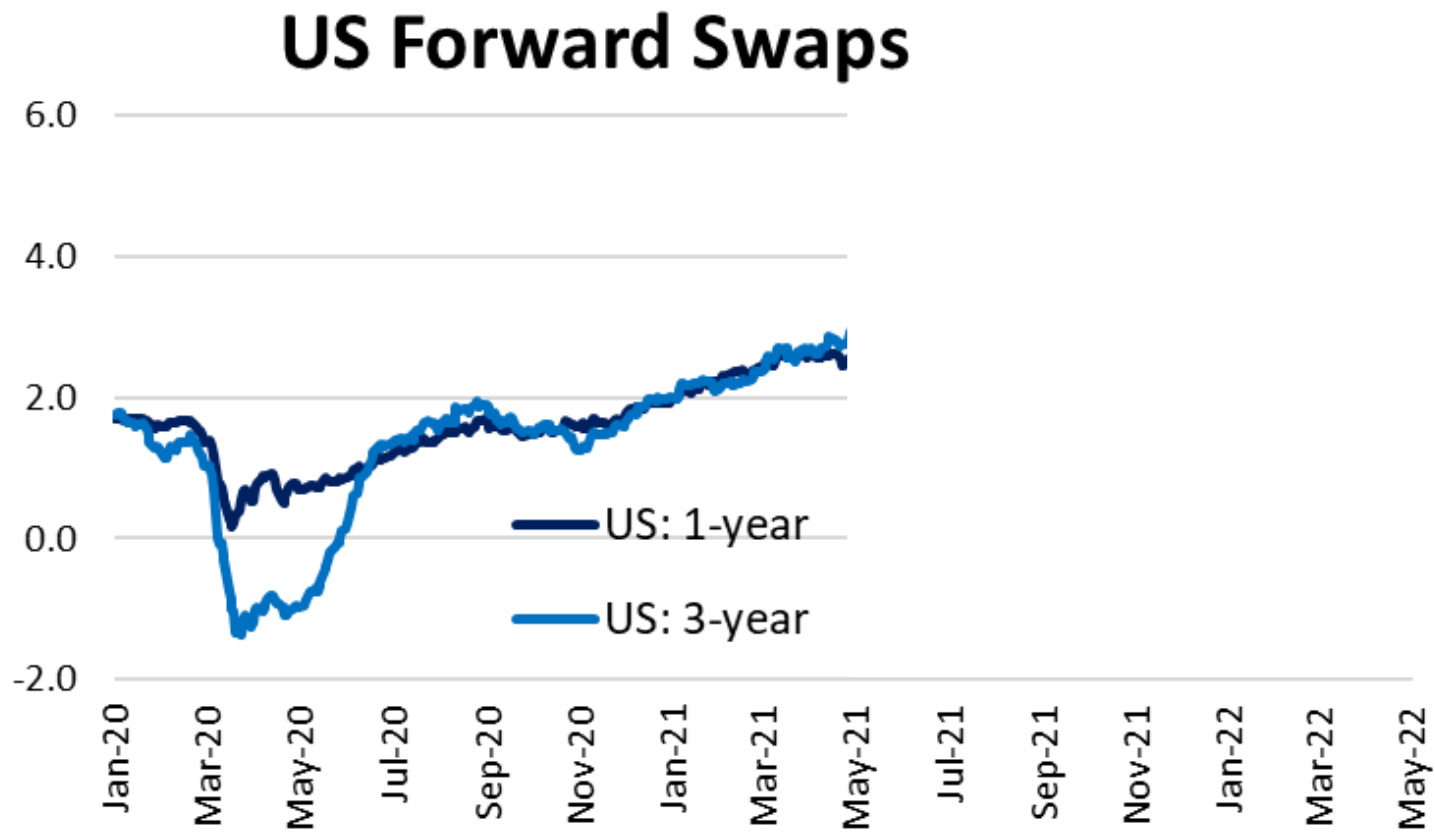
*How to Conduct Monetary Policy amid Higher Inflation and a Nonbinding Zero (Effective) Lower Bound*

## Three “Old” Lessons for Monetary Policy Today

- 1) Guidance vs. Optionality
- 2) Anchoring Inflation Expectations
- 3) Gradualism vs. Frontloading



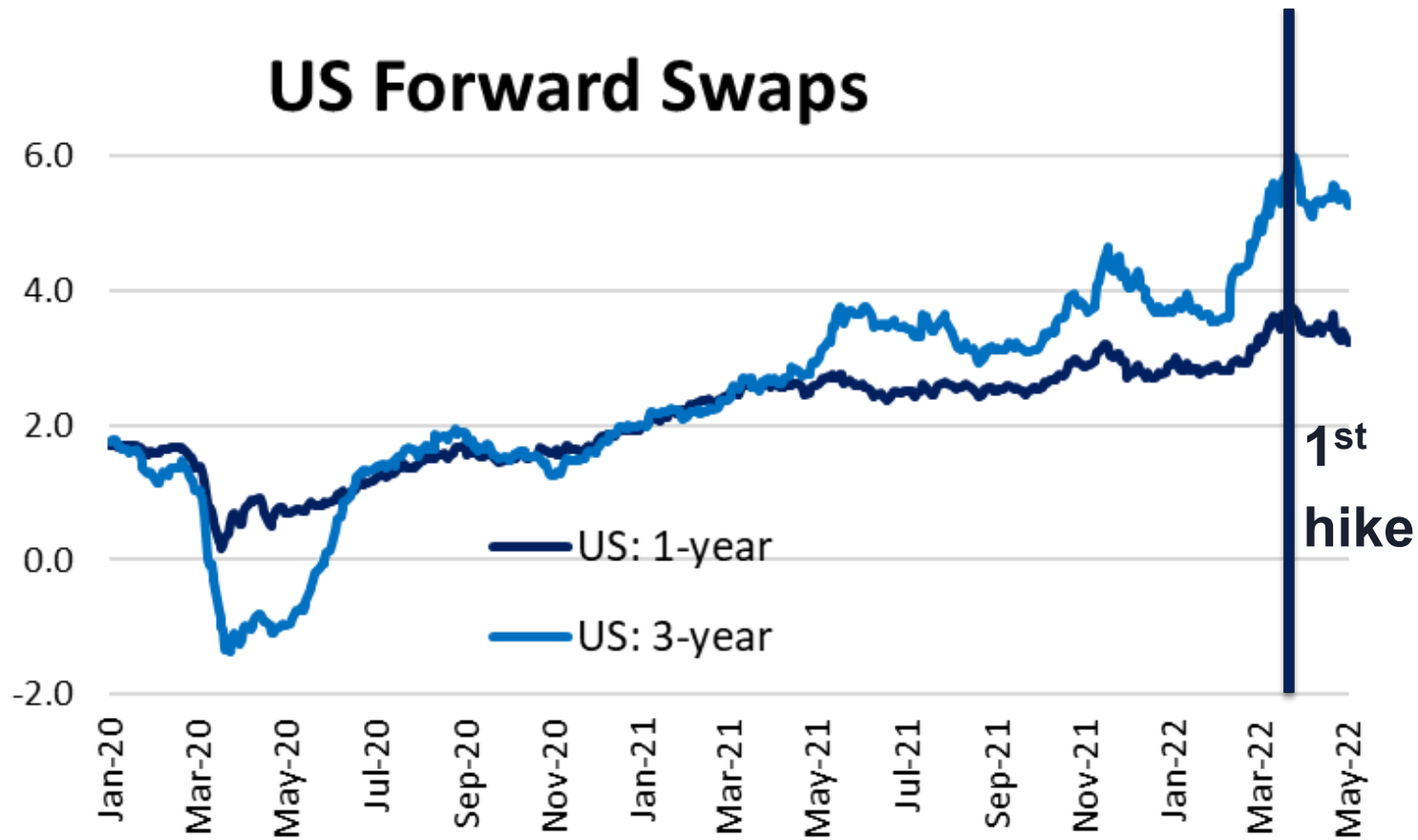
# 1. Guidance vs. Optionality



Source: Bloomberg



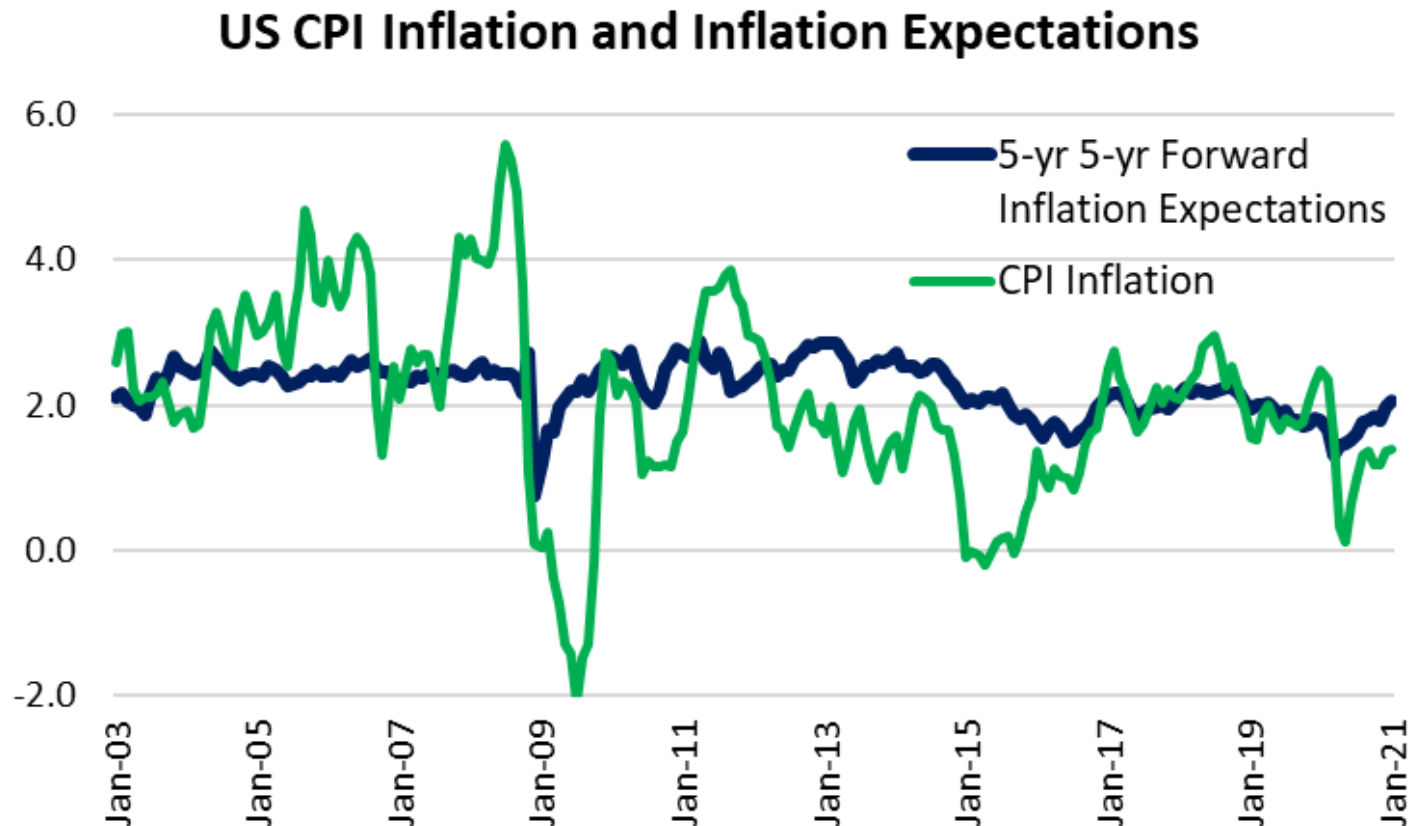
# 1. Guidance vs. Optionality



Source: Bloomberg



# 2. Anchoring Inflation Expectations

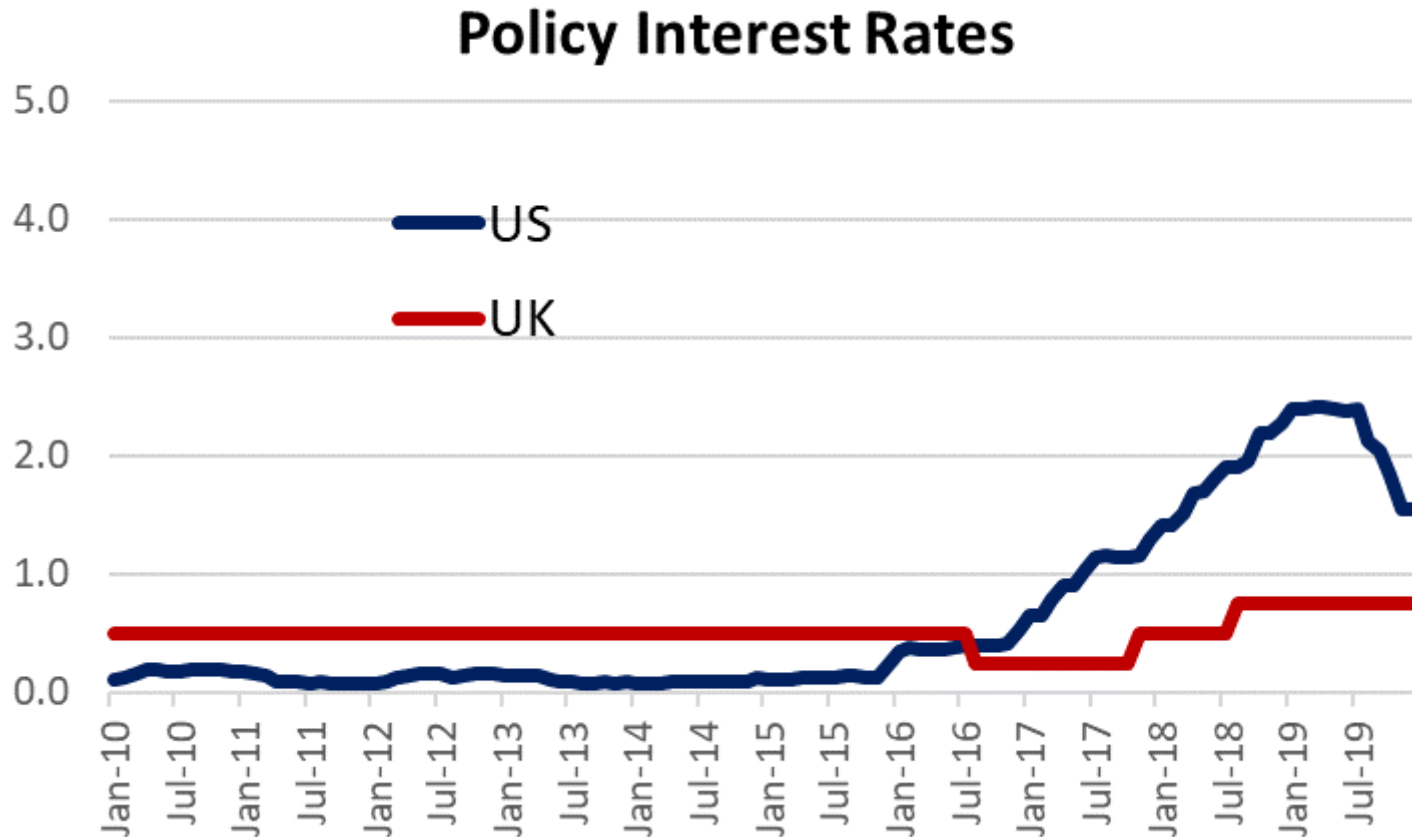


**Source:** Federal Reserve Economic Data, <https://fred.stlouisfed.org>





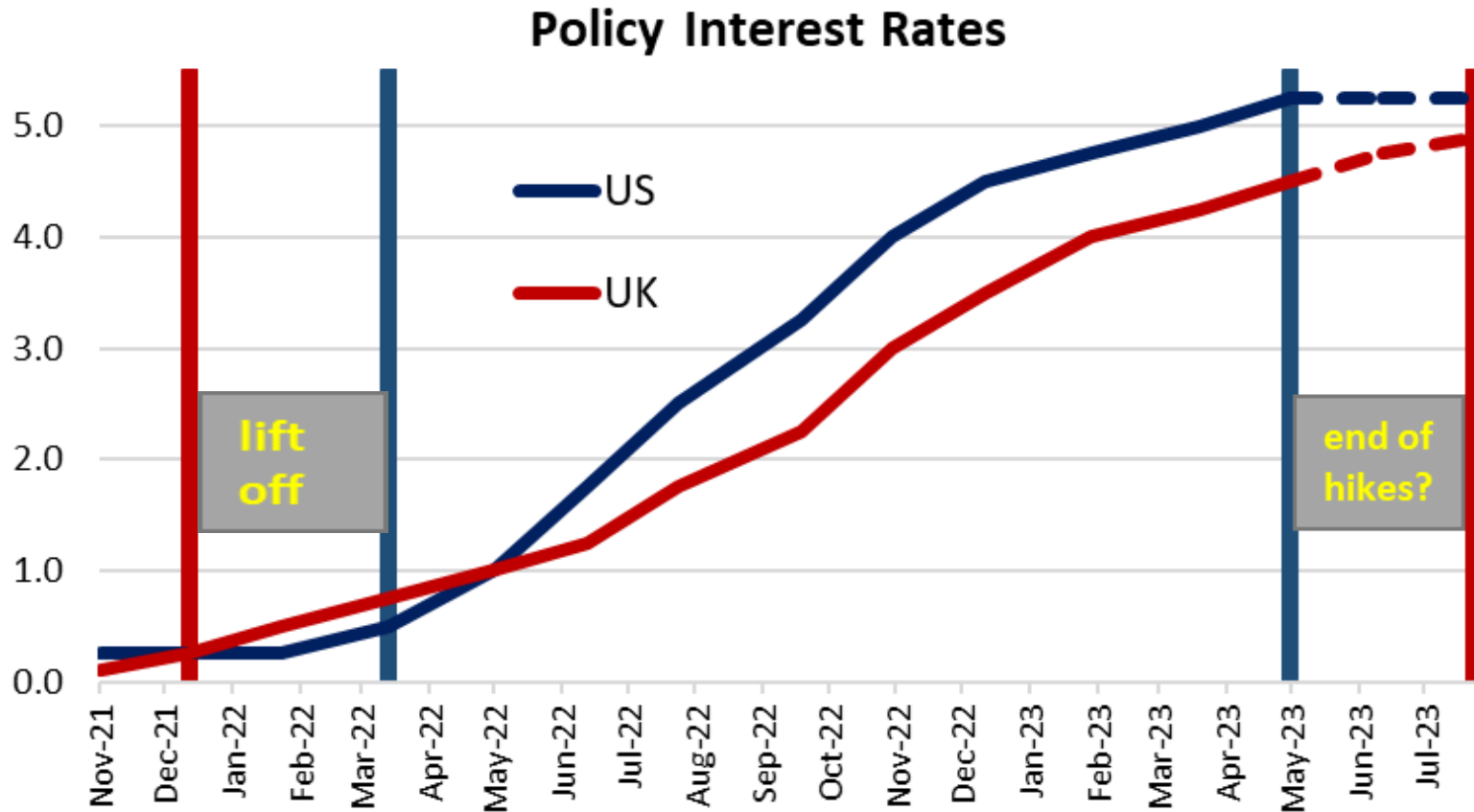
# 3. Gradualism vs. Frontloading



Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>



# 3. Gradualism vs. Frontloading



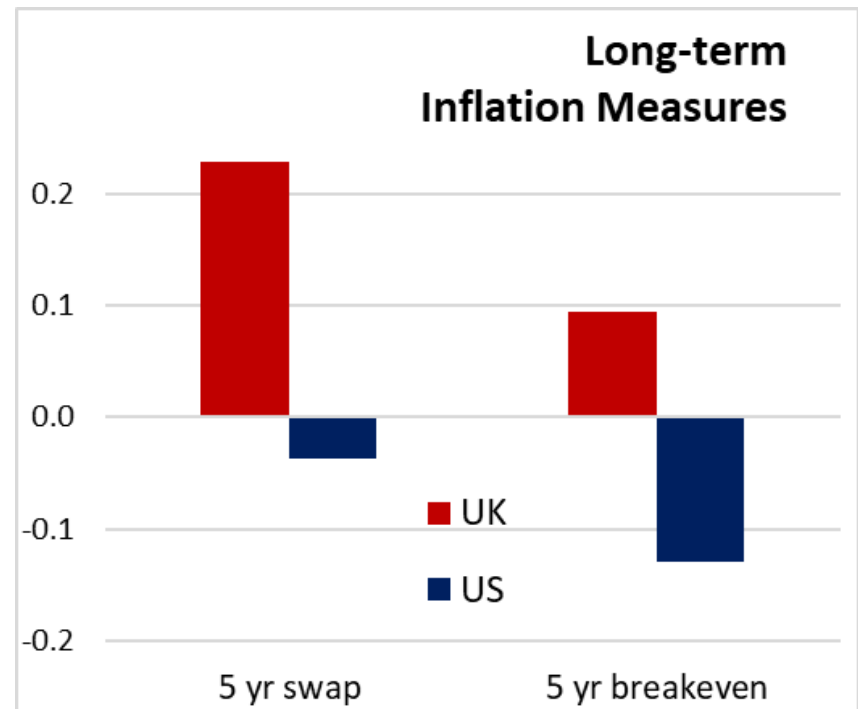
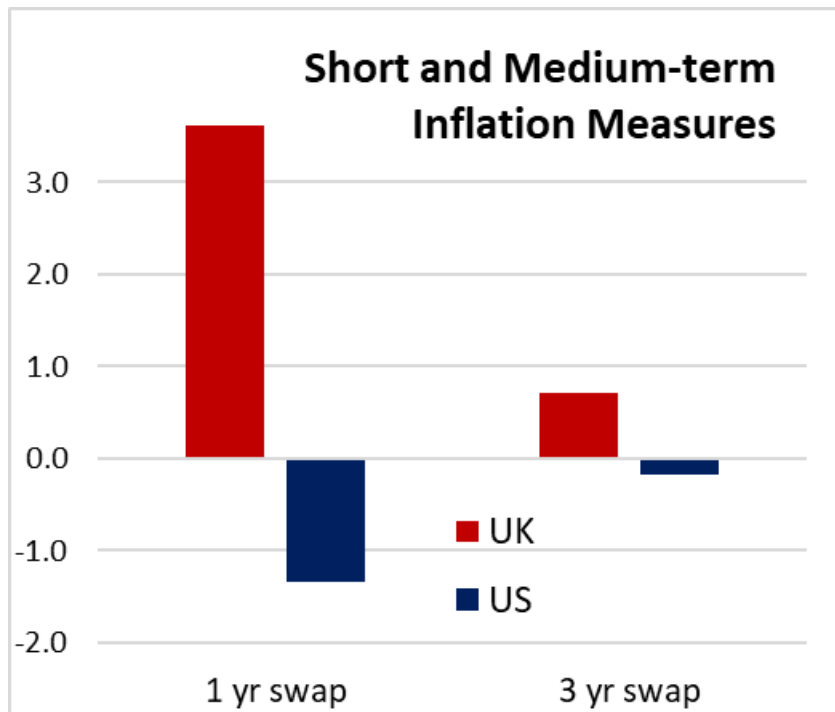
Source: Bloomberg



# 3. Gradualism vs. Frontloading

## *The Result*

Change from Dec 1, 2021 – Sept 1, 2022



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

