

Discussion: Hitting the Elusive Inflation Target

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Qatar Centre for Global Banking & Finance Annual Conference
May 17, 2021

This presentation represents the views of the author and not those of the Bank of England or any of its policy committees.

Deflationary bias poses a challenge for many policymakers.

This paper attributes it to

- Low long-run nominal interest rates
- Symmetric policy framework

Deflationary bias → potential for deflationary spirals

Even a large risk of encountering the ZLB is enough to trigger this

- Forward looking price setters anticipate that policymakers will be unable to stabilise the economy in the event of a large negative shock at the ZLB.
- Expectations are crucial.

Changes that make ZLB episodes more likely/persistent can exacerbate the bias

Policy implications

- Asymmetric strategy corrects the ZLB constraint.
- Unlike dynamic rules, strategy is not history dependent.

Implementation

- Asymmetric range around the inflation objective: $[1.5 - 2.85]$.

- Policymaker that is perceived as forward looking: credible
- Policymaker that is perceived as myopic: opportunistic reflation
- Learning about a new framework while transitioning at the ZLB
(Bodenstein, Hebden, and Winkler, 2019)

To what extent has our symmetric framework to blame?

- An asymmetric target to deal with asymmetric constraints.
- Are there other sources of asymmetry or constraints?

- Differences from a higher inflation target
(Adam, 2021; Andrade et al., 2021; L'Hullier and Schoenle, 2020)
- Is the ZLB a real constraint on policy? And do price-setters believe it is?
 - Empirical irrelevance of the ZLB (Debortoli, Gali, and Gambetti, 2019)
- Monetary-fiscal interaction

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