

# Monetary Policy: Getting Back to Normal (Whatever That Is)

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# Why the shift towards normalising (or talking about normalising) monetary policy?



## Federal Reserve

- Reasonable growth, low unemployment, solid job gains.
- Inflation below target, but idiosyncratic factors.



## ECB

- Recovery gathering pace, unemployment declining.
- Confidence improving, inflation moving towards target.



## Bank of Japan

- 2.5% growth in Q2 -- sixth consecutive quarter of growth.
- Record low unemployment, core inflation only 0.5%.



# What does normalising monetary policy mean?

- Increasing policy interest rates.
  - How high a “normal” interest rate might be is an open question.
- Reducing the size of the central bank’s balance sheet.
- Adjusting the composition of the central bank’s balance sheet.
  - Private v. public assets.
  - Maturities.



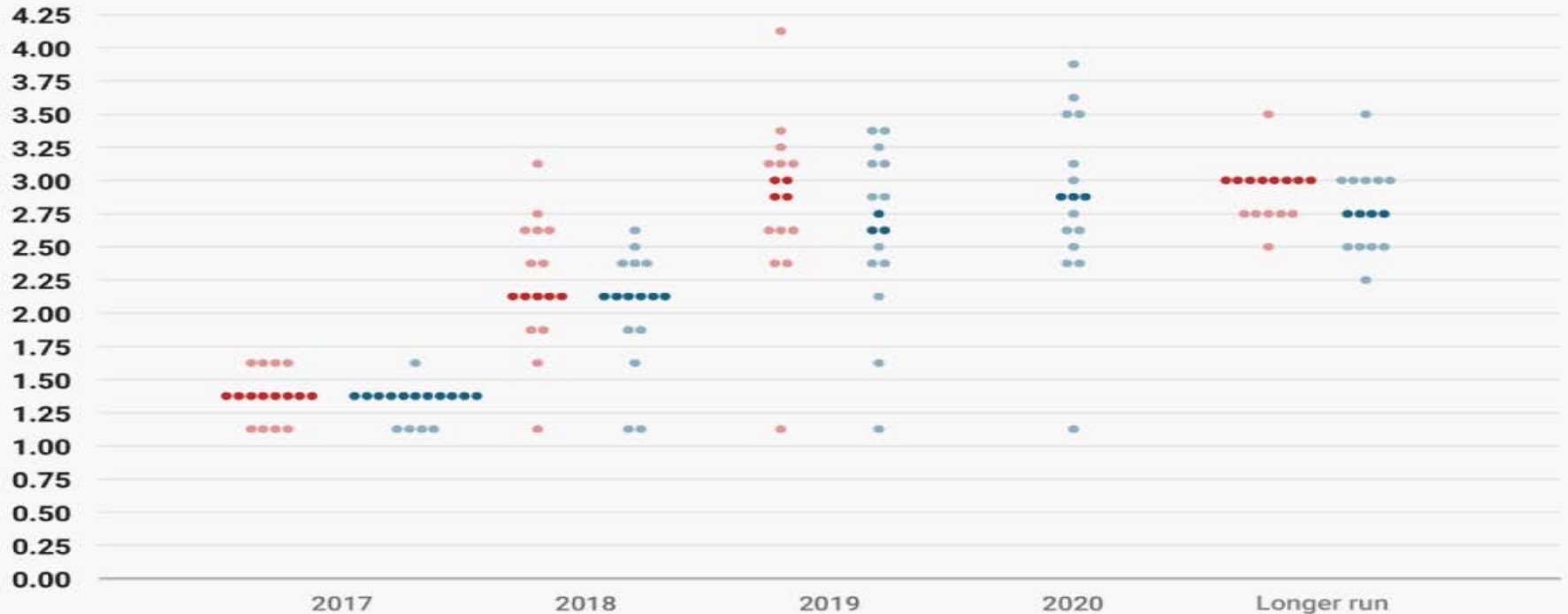
# FOMC Dot Plot

June & September 2017

## FED DOT PLOT

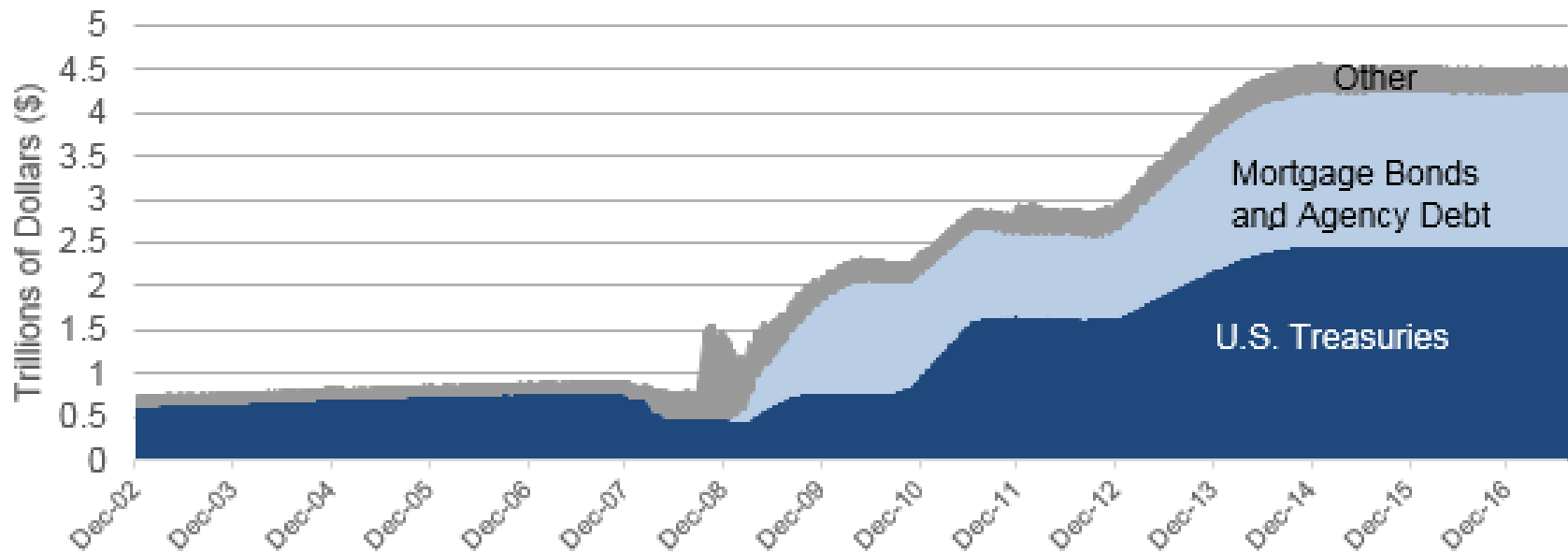
■ June ■ September

Percent rate



# Fed's balance sheet

## Federal Reserve's Assets



Source: Federal Reserve Board



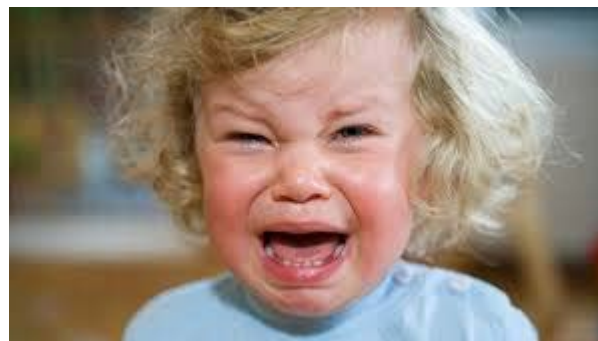
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# The Fed's strategic approach to normalisation: Lessons for other central banks?

- Set out path for policy rates, conditional on evolution of economy.
- Make unwinding the balance sheet a sideshow.
- Ready the market.
  - avoid ‘taper tantrum’.



# The Fed's strategic approach to normalisation: Lessons for other central banks?

- Make unwinding predictable, but with flexibility to adjust the pace.
- Be clear about the policy tool, but take into account the interaction between different dimensions of normalisation.
  - Implication: policy rates in euro area may stay very low for a very long time.
    - Macropru and fiscal policies important to counter cyclical divergences among member states.



Thank you for your attention



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