

Can advanced-economy monetary policy respond effectively to the next downturn?

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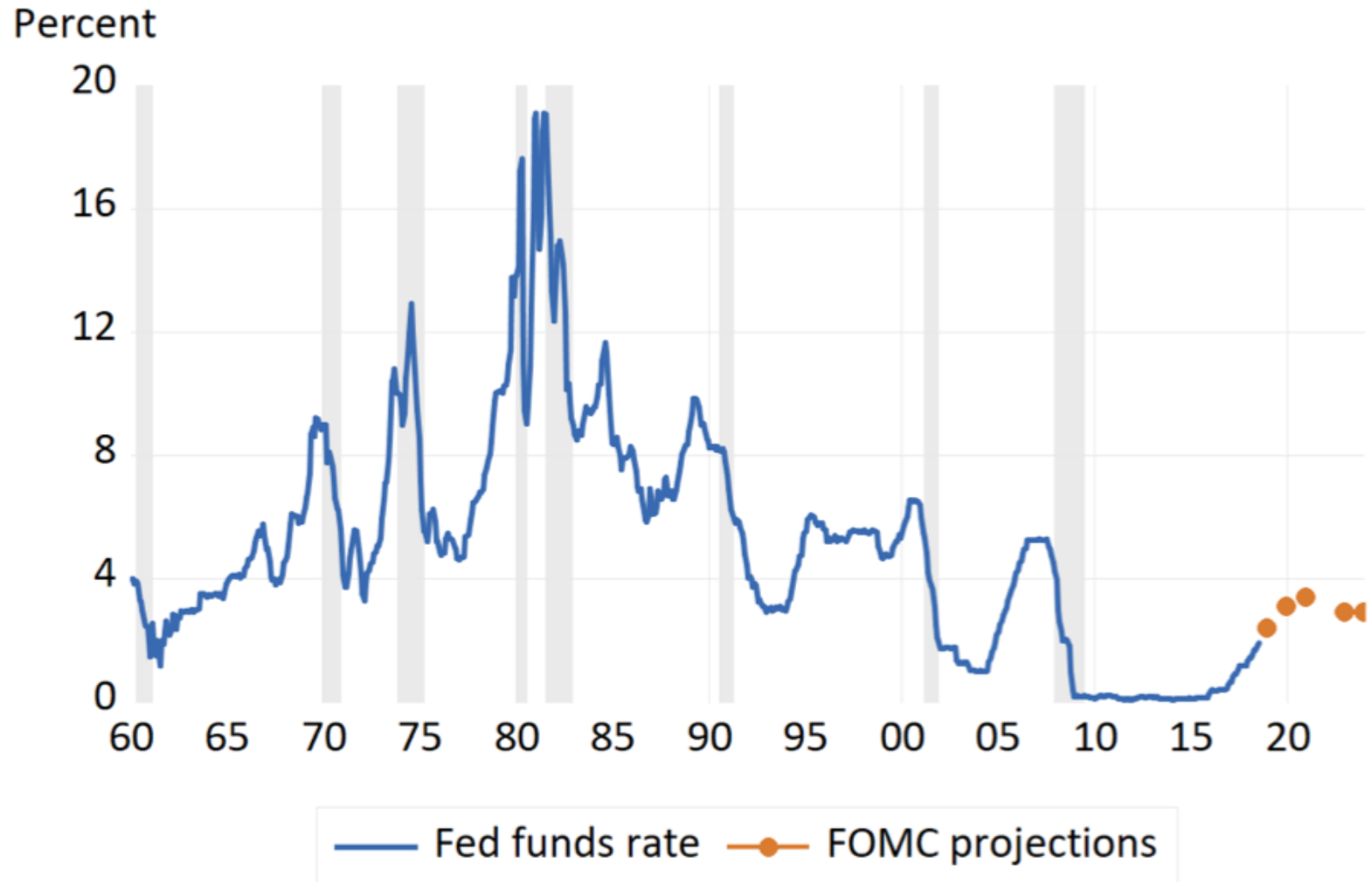
September 5, 2018

Can advanced-economy monetary policy respond effectively to the next downturn?

● Yes

1. Won't be able to cut rates as much as in past
2. Not necessarily a disaster
 - Forward guidance and QE are substitute
3. Strategies put in place now can strengthen monetary tools

Limited scope to cut interest rates in future recessions



Strategies put in place now can strengthen monetary tools

- Raise inflation objective?
 - How often will objective be revised?
 - If forward guidance/QE work, it is not necessary
- Strengthen forward-guidance
 - E.g., price-level target
 - “Bernanke rule” (temporary price level target at ELB) can provide clarity on how long rates will stay at ELB
- Policymakers are discussing these issues