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## What will monetary policy look like after the crisis?

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*The conduct of monetary policy has changed dramatically since the financial crisis in several dimensions. This article asks whether these changes will be temporary or permanent based on surveys of central bank heads and academic economists.*

Ten years after the financial crisis, one key question is whether the various changes in monetary policy that have been introduced since then will turn out to be temporary, or whether we have witnessed a permanent change in the way monetary policy is and will be conducted. To shed light on this question, we conducted surveys of central bank heads and academic economists across four themes: central bank mandates, monetary policy tools, central bank communication and the relationship between central banks and governments<sup>[2]</sup>. The results are reported in Blinder et al. (2017) and a summary is provided in this article.

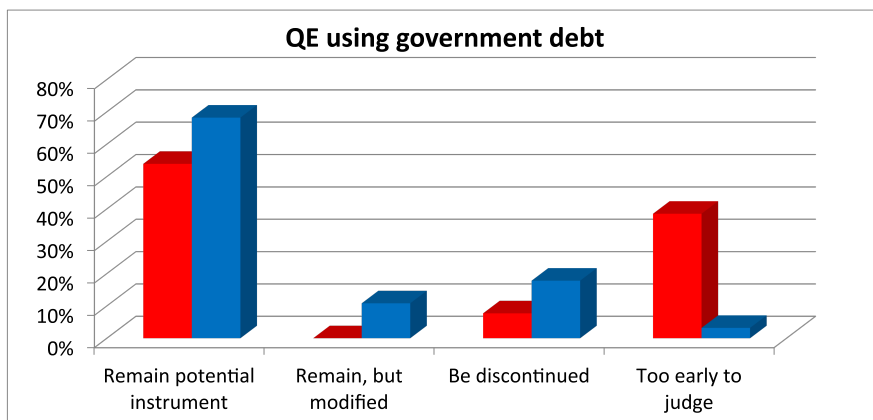
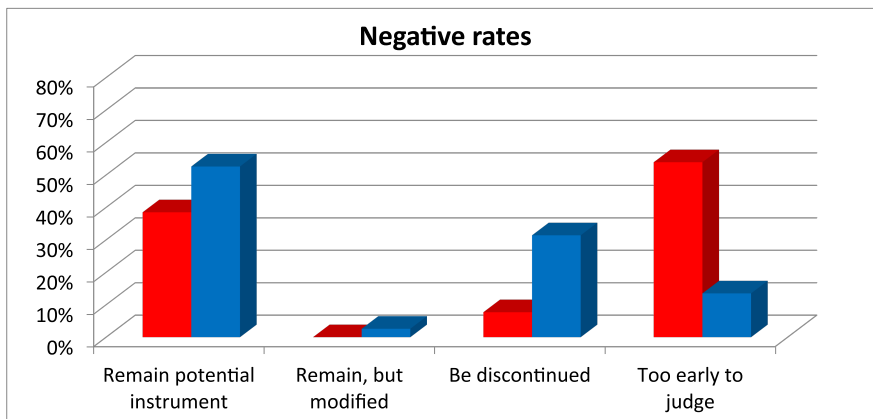
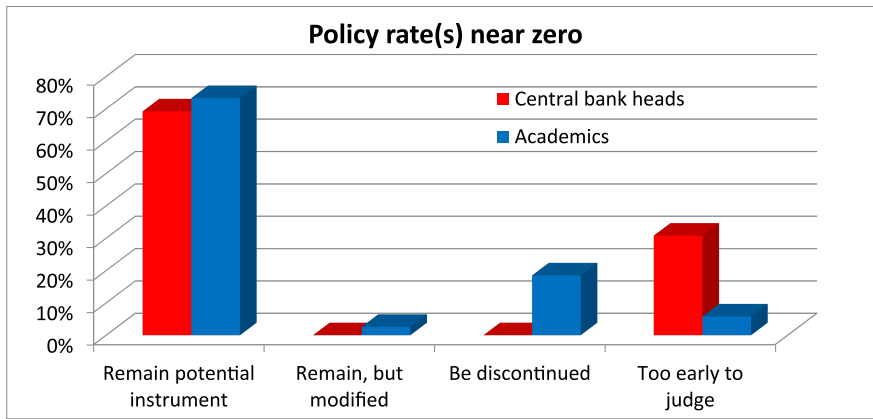
### Central bank mandates

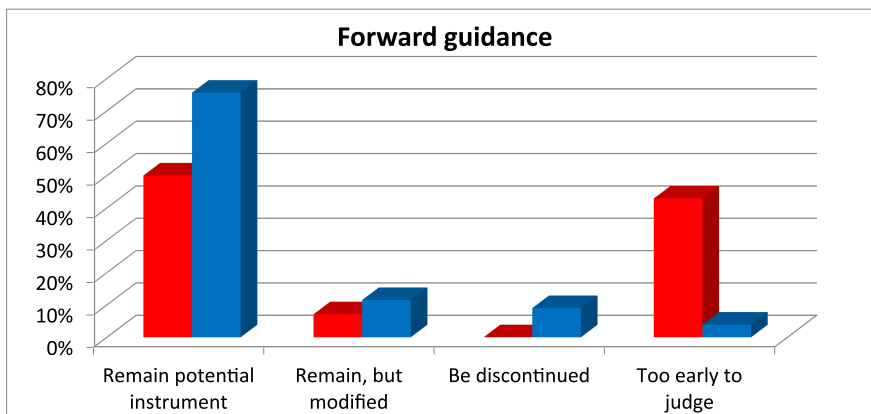
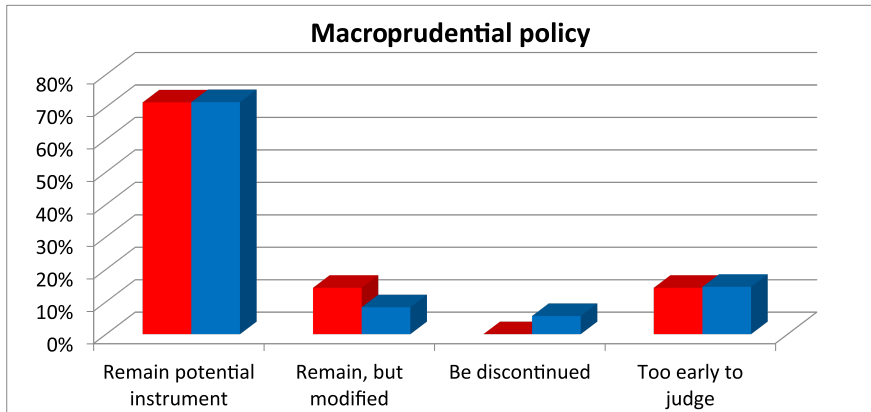
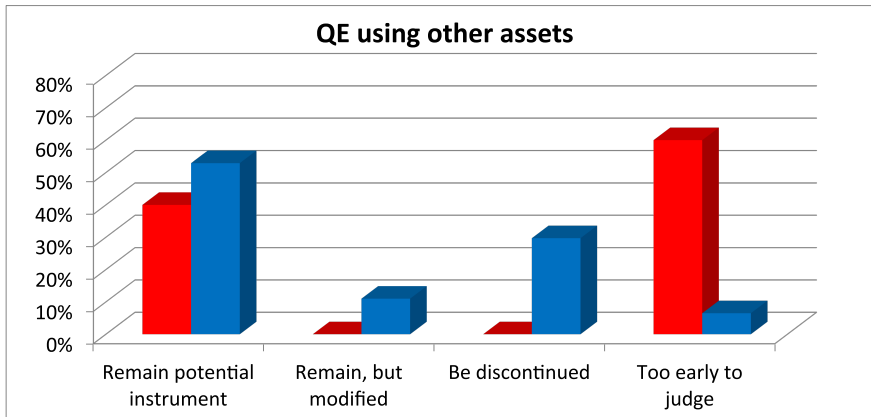
Several central banks have seen their mandates expanded since the global financial crisis. The ECB, for instance, has taken on a macroprudential as well as a microprudential role. The survey results show that a majority of respondents (62 percent of central bankers and 54 percent of academics) have reconsidered what would be the most appropriate mandate of their country's central bank. In particular, in a move away from the predominant pre-crisis view that central banks should mainly be concerned with price stability, many respondents to our surveys mention that financial stability considerations should also be part of the central bank mandate.

### Monetary policy instruments

Confronted with a massive financial crisis and its repercussions, as well as stubbornly low inflation rates, central banks resorted to a large number of unconventional monetary policies. The surveys cover respondents' opinions about the most important ones: policy rates that are near zero or even negative, asset purchase programmes using different asset classes, macroprudential measures and forward guidance. Chart 1 summarises the responses. Central bank heads are typically more cautious in their responses, often finding it too early to pass judgement on a particular tool. A more detailed analysis reveals, however, that those central bank heads who have previously deployed a particular tool view this tool much more favourably. Accordingly, they are more likely to think that this tool should remain in the central bank's toolkit, whether in current or modified form. In contrast, academic economists tend to have made up their minds and to favour keeping most of the tools. The relatively more far-reaching tools (negative rates vs. rates near zero, and quantitative easing using other assets vs. quantitative easing using government debt) are seen more critically by both groups, with a substantially larger percentage of academics suggesting that they should be discontinued. The area in which both respondent groups agree most is macroprudential policy, with large majorities calling for its continued usage.

Chart 1: Views about the future of unconventional monetary policy tools





Notes: The chart shows response shares obtained from central bank heads in advanced economies (red bars) and from academic economists (blue bars). Source: Blinder et al. (2017).

## Central bank communication

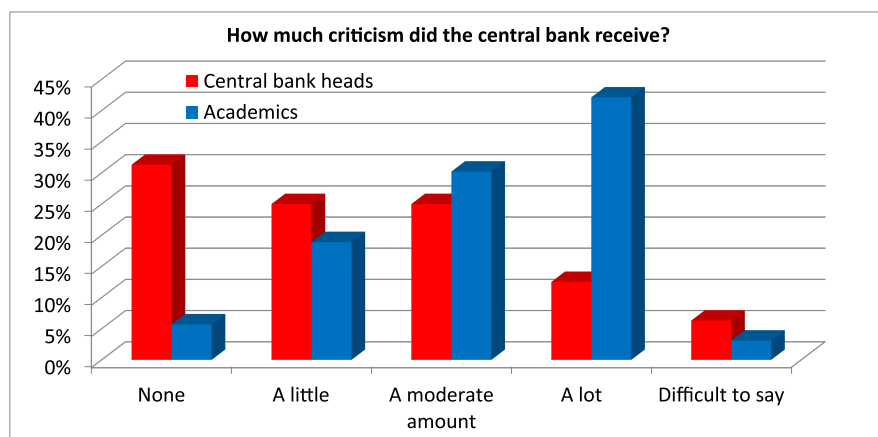
The survey results show clearly that central banks have stepped up their communication efforts. More than 80% of central bankers and academics think that communication has intensified, and there is consensus that these changes are here to stay, or will go even further. The concrete form of these changes, however, seems less certain. With regard to forward guidance, for instance, most academics would like to tie its horizon to incoming data, whereas central bankers prefer purely qualitative forward guidance not tied to either economic data or calendar dates. A better understanding of the effectiveness of different types of forward guidance is therefore warranted. Coenen et al. (2017) provides some evidence of this by examining how different types of forward guidance shape private-sector expectations, by looking at how

government bond yields respond to macroeconomic surprises and by studying the disagreement across economic forecasters. They argue that forward guidance has been more credible when it was tied to a calendar date in the distant future or when it was tied to incoming data (in contrast to forward guidance that is purely qualitative or tied to a calendar date not too far in the future). The credibility of forward guidance is, furthermore, strengthened if it is accompanied by an asset purchase programme, indicating that the various monetary policy tools interact and should therefore not be judged in isolation.

## Central bank independence

In some countries, the central bank's crisis-fighting efforts did not go undisputed. Interestingly, academics generally think that their country's central bank received more criticism than the central bankers themselves thought it did (see Chart 2). They are also more concerned about changes to their central bank's independence from their government, with almost 40 percent seeing moderate or even substantial threats to independence – in contrast to more than 70 percent of central bankers seeing no or only little threats to independence.

**Chart 2: Assessment of the criticism central banks have received in their crisis-fighting efforts**



Notes: The chart shows response shares obtained from central bank heads in advanced economies (red bars) and from academic economists (blue bars). Source: Blinder et al. (2017).

## Final remarks

The financial crisis changed the way central banks conduct monetary policy in several dimensions. Due to the severity of the crisis and the need for central banks to act quickly, there was often little time to consider the pros and cons of the various measures. Still, the results of our surveys lead us to expect that a large majority of these changes is here to stay. In particular, we expect that, in the future, central banks will operate with broader mandates, employ a wider range of policy tools and place even more emphasis on their communication.

## References

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Coenen, G., Ehrmann, M., Gaballo, G., Hoffmann, P., Nakov, A., Nardelli, S., Persson, E. and Strasser, G. (2017). "[Communication of monetary policy in unconventional times](#)", *Working Paper Series*, No 2080, ECB, Frankfurt am Main, June.

[1] Disclaimer: This article was written by Michael Ehrmann (Head of the Monetary Policy Research Division in the Directorate General Research) together with Alan Blinder, Jakob de Haan and David-Jan Jansen. The authors thank Katrin Assenmacher, Geoff Kenny and Oreste Tristani for their comments. The views expressed here are those of the authors and do not necessarily represent the views of the European Central Bank, De Nederlandsche Bank or the Eurosystem.

[2] The surveys were conducted between February and May 2016. Responses were received from 55 central banks and 159 members of the NBER and CEPR research networks. While the central bank responses were highly dispersed geographically (with respondents from Africa, the Americas, Asia and Oceania as well as Europe), most academic respondents were from the United States, the United Kingdom and the euro area. Further details on the underlying sample are provided in Table 1 of Blinder et al. (2017).

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