EXIT TO WHAT? THE *STATUS QUO ANTE* OR SOME NEW NORMAL?

GENEVA CONFERENCE ON: "EXIT STRATEGIES: TIME TO THINK ABOUT THEM"

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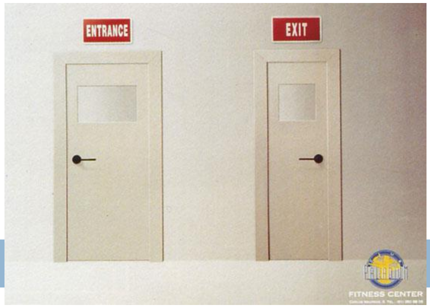
The pre-conference consensus

- CBs should be independent.
- CBs should be transparent and communicative.
- Monetary policy decisions made by committee
- Flexible inflation targeting (with ≈ 2% target)
- Main policy instrument is overnight interest rate.
- CBs’ balance sheets should be modestly-sized and super-safe.
- CBs should not allocate credit.

Developments in the crisis

- CBs did not always look independent.
- Communication changed dramatically.
- Inflation targeting became irrelevant.
- Zero lower bound → use of new instruments
- Balance sheets got larger and riskier.
- Some CBs engaged in credit allocation.
- CBs were drawn more deeply into bank supervision and regulation ("sup and reg").

Issues for after the exit



1. **Is flexible inflation targeting still the best monetary policy?**

- Or is financial stability as or more important?
- What about a triad?: inflation, employment, and financial stability

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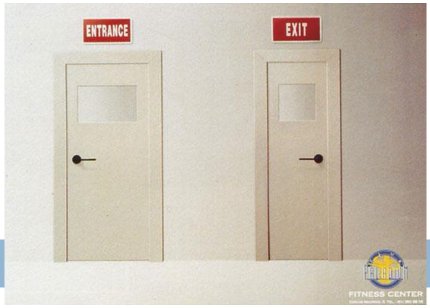

1. Is flexible inflation targeting still the best monetary policy?
2. Should a financial stability goal be added to central bank mandates (if they do not already have one)? If so, how?
3. Should central banks strive to return their balance sheets to (roughly) the pre-crisis size and composition, or are more-or-less permanent changes in order?

- Will CBs need/want to operate across the yield curve?
- Will CBs need/want to operate on risk premia? (which is a form of credit allocation)

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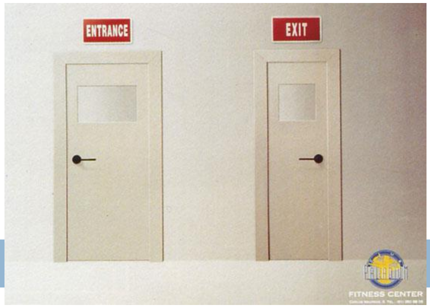

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- Can/should CBs go back to pre-crisis ways?

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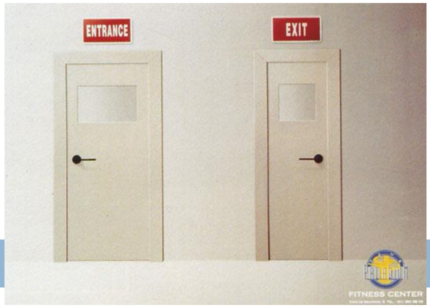

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6. What macroprudential tools, if any, should central banks add?
7. How deeply should central banks be involved in bank sup and reg? How, if at all, should that job be related to monetary policy?

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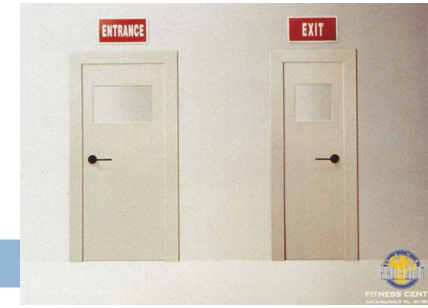

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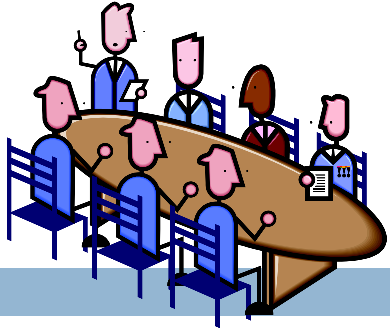
Questions for discussion



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