

Pianissimo

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In October economists Olivier Blanchard and Larry Summers coordinated a conference on “Rethinking macroeconomic policy”, a debating forum on the challenges posed for economic policy by the new environment of low levels of inflation and interest rates combined with slow growth in productivity and increasing inequality. Of course, this is not the only forum in which these subjects are being debated, but it is a good reference, because it addresses this great multidimensional challenge: monetary and fiscal policies, financial stability, the international dimension of the policies and of course inequality.

As regards monetary policy, there is an interesting reflection: it is essential to re-establish room for manoeuvre so as to be able to react to future crises. With interest rates close to zero and a significant proportion of debt in the hands of the central banks following the asset purchasing programmes (QE), the ability of monetary policy to respond to another crisis is severely curtailed. The main central banks, wary of being caught in a liquidity trap, have started the process of withdrawing monetary stimulus measures. However, the low rate of inflation and fear of unwanted market reaction translate directly into a very gradual exit from ultra-expansive policies.

The US Federal Reserve, which is the furthest advanced in this process, has raised interest rates only four times in two years, and in this week’s meeting it confirmed its readiness to raise them a further 25 bps in December, bringing the official rate to 1.50%. And only recently, three years after ending QE, has it started to reduce its holdings of debt, allowing some shrinking of its balance sheet. This week the Bank of England raised interest rates for the first time in ten years. However, this movement is not in anticipation of a rising cycle of rates; it merely reverses the cut that followed the Brexit referendum.. For its part, the ECB announced the halving of its asset purchases from January of next year, a decision widely discounted and welcomed, since cyclical conditions in the euro zone have been improving appreciably. The ECB continues to be very cautious, extending QE at least until September 2018 and implicitly signalling that rate hikes will not come until 2019.

So the room for manoeuvre is being re-established, but only very slowly, pianissimo. Which is why part of the academic world is asking whether we should explore new references to attain the objective of monetary policy.

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