Central Bank Monitoring

I / 2020

CZECH NATIONAL BANK

In this issue

Starting with this issue, the group of central banks we monitor is extended to include the Czech National Bank. GDP growth is slowing across all the economies monitored and there is a risk of a substantial downturn in global economic activity due to the threat of a coronavirus pandemic. As a result, some central banks have cut their key interest rates and are also using other measures to support their economies. The Federal Reserve lowered its interest rates by 0.5 pp at an extraordinary meeting in early March. A day later, the Canadian central bank reduced its rates by the same amount. The UK central bank followed suit a week later, also cutting rates by 0.5 pp and introducing support measures to help fund businesses and households. The ECB left its interest rates unchanged. However, it adopted a number of measures to support the smooth functioning of financial markets and lending. Before the coronavirus outbreak, the Swedish Riksbank raised interest rates by 0.25 pp. The Czech National Bank also increased its rates to the same extent. The ECB has launched a review of its monetary policy this year. In this context, it has been discussing a potential change to the definition of its inflation target and the degree of flexibility used to achieve it. *Spotlight* focuses on reviews of central banks' monetary policies. In our *Selected speech*, Isabel Schnabel, member of the Executive Board of the ECB, defends the ECB's monetary policy and explains why it needs to use unconventional instruments.

Central banks continued to adopt measures to help their economies face the impacts of the pandemic also after the closing date of this issue. However, these measures (summed up in the following paragraph) are not included in the publication.

The Norwegian central bank cut its key interest rate by 0.5 pp to 1% on 12 March. The Swedish Riksbank also presented measures to support the economy on 13 March. It will lend up to SEK 500 billion to Swedish companies via commercial banks to safeguard their access to credit. The US Fed cut the target range for its interest rate by a further 0.5 pp to 0–0.25% at a second extraordinary meeting (15 March). It is simultaneously launching a massive quantitative easing programme totalling USD 700 billion. On 16 March the RBNZ also announced extraordinary measures: it cut its key interest rate by 0.75 pp to a record low of 0.25% and promised to hold the rate at this level for at least 12 months.

This publication aims to provide economists and other specialists with information on the latest monetary policy developments, strategies and communications at selected central banks.

Current and past issues can be downloaded free from the *Monetary policy* section of the CNB website https://www.cnb.cz/en/monetary-policy/monitoring/, where you can also download a file containing a list of all the thematic articles and speeches.

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Closing date for this issue: 12 March 2020.

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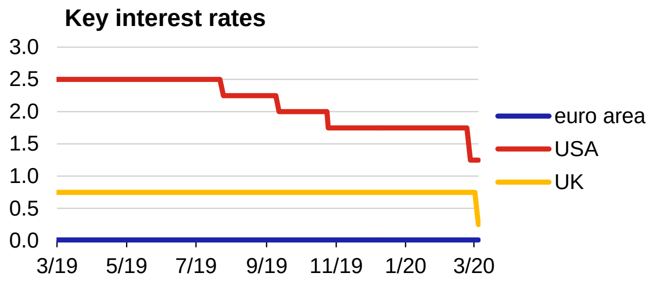
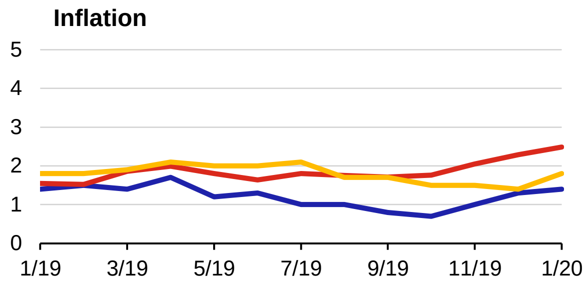
I. LATEST MONETARY POLICY DEVELOPMENTS AT SELECTED CENTRAL BANKS

I.1 KEY CENTRAL BANKS OF THE EURO-ATLANTIC AREA

	Euro area (ECB)	USA (Fed)	United Kingdom (BoE)
Inflation target	<2%[1]	2%[2]	2%
MP meetings (rate changes)	23 Jan (0.0);(0.0)[3] 12 Mar (0.0);(0.0)[3]	28–29 Jan (0.00) 3 Mar (-0.50): extraordinary	19 Dec (0.00) 30 Jan (0.00) 10 Mar (-0.50): extraordinary
Current basic rate	0.00%; -0.50%[3]	1.00–1.25%[4]	0.25%
Latest inflation	1.2% (Feb 2020)[5]	2.5% (Jan 2020)	1.8% (Jan 2020)
Expected MP meetings	30 Apr 4 Jun	17–18 Mar[6] 28–29 Apr 9–15 Jun[6]	26 Mar 7 May
Other expected events	6 Jun: publication of forecast	mid-July 2020: publication of Monetary Policy Report	7 May: publication of Monetary Policy Report
Expected rate movements[7]	→	→	→

Note: [1] ECB definition of price stability "below but close to 2%"; [2] January 2012 definition of inflation target; [3] deposit rate; [4] chart shows upper boundary of band; [5] flash estimate; [6] meeting associated with summary of FOMC economic forecasts; [7] direction of expected change in rates in next three months taken from Consensus Forecasts.





At its March meeting, the **ECB** left interest rates unchanged but adopted a set of measures to add monetary policy stimulus in response to the economic impacts of the pandemic. It decided to conduct additional longer-term refinancing operations (LTROs) to provide liquidity support to the euro area financial system. It also decided to apply more favourable terms to TLTRO III operations during the period from June 2020 to June 2021. Interest rates will be 0.25 pp below the average rate applied in the main refinancing operations during this period. The amount that banks are entitled to under this programme will also increase. In addition, the ECB will increase the asset purchase programme by an additional EUR 120 billion until the end of the year. The March ECB forecast only partly reflects the latest developments. The GDP outlook has been lowered significantly, especially for this year, when GDP will increase by 0.8%. It will grow by 1.3% in 2021 and 1.4% in 2022. The ECB foresees inflation at 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022.

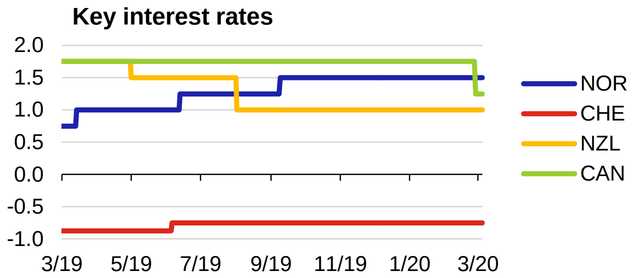
The **Fed** lowered the target range for its benchmark federal funds rate by 0.5 pp to 1–1.25% at an extraordinary meeting on 3 March. It did so due to concerns about an economic downturn due to the spread of the coronavirus. The market expects a further 0.5 pp cut in the benchmark rates in the following three to four months. The fundamentals of the US economy remain strong. The FOMC's December GDP outlook is unchanged from the September forecast. It expects GDP growth of 2.2% in 2019, 2.0% in 2020 and 1.9% in 2021. The inflation forecast is 1.6% for this year (compared with 1.8% in September) and around 2% for the following two years. The unemployment outlook is fluctuating around 3.6%.

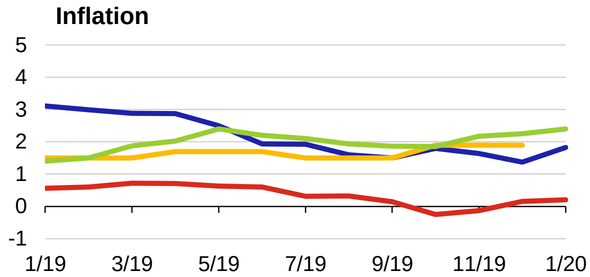
The **BoE** cut its key rate by 0.5 pp to 0.25% at a special meeting on 10 March. It left the stock of government and corporate bond purchases unchanged. It also introduced a term funding scheme for small and medium-sized enterprises (TFSME), under which businesses may borrow from commercial banks at interest rates close to the key rate over the next year. The FPC released the countercyclical capital buffer with immediate effect and will keep the rate at zero for at least 12 months. The measures are aimed at mitigating the impacts of the spread of the coronavirus on the economy and overcoming the short-term shock. Economic activity slowed last year due to Brexit uncertainties. GDP grew by 1.1% year on year in 2019 Q4. For the years ahead, the BoE lowered its GDP growth outlook (before the introduction of the extraordinary measures) from 1.25% to 0.75% in 2020 and from 1.75% to 1.5% in 2021. Inflation was 1.8% January, close to the target. However, the BoE does not expect inflation to fully reach the target until the end of 2022.

I.2 SELECTED INFLATION-TARGETING NON-EU COUNTRIES

	Norway (NB)	Switzerland (SNB)	New Zealand (RBNZ)	Canada (BoC)
Inflation target	2%	0–2%	2%	2%
MP meetings (rate changes)	19 Dec (0.00) 23 Jan (0.00)	12 Dec (0.00)	12 Feb (0.00)	22 Jan (0.00) 4 Mar (-0.50)
Current basic rate	1.5%	-0.75%[1]	1.0%	1.25%
Latest inflation	1.8% (Jan 2020)	0.2% (Jan 2020)	1.9% (2019 Q4)	2.4% (Jan 2020)
Expected MP meetings	19 Mar 7 May	19 Mar	25 Mar 13 May	15 Apr
Other expected events	19 Mar: publication of Monetary Policy Report	18 Mar: publication of Quarterly Bulletin	13 May: publication of Monetary Policy Statement	15 Apr: publication of Monetary Policy Report
Expected rate movements[2]	→	→	→	→

Note: [1] new SNB key monetary policy rate; [2] direction of expected change in rates in next three months taken from Consensus Forecast survey or, in the case of New Zealand, from RBNZ survey.





The **NB** left its key interest rate unchanged at 1.5% in the last three months. This was consistent with the NB's previous rhetoric. The NB does not expect the rate to change in the coming period. Inflation is close to the inflation target and economic growth remains quite strong. According to the NB's estimates, the Norwegian economy is probably near a cyclical peak. Based on the December 2019 forecast, the NB expects CPI-ATE (inflation adjusted for tax changes and excluding energy products) to be roughly at the 2% target in the course of this year and a little above it for the rest of the forecast period. The countercyclical capital buffer is at the highest possible level, i.e. 2.5%. According to the NB's forecast, growth in credit to households will slow slightly to 5% and growth in credit to non-financial corporations to less than 7%.

The **SNB** kept its policy rate at -0.75%. It remains willing to intervene in the foreign exchange market as necessary. In its latest December forecast (a new forecast will be published on 19 March), the SNB expects inflation at 0.1% in 2020 and 0.5% in 2021. The Swiss economy grew by 0.9% in 2019 (the SNB had expected 1%). In Q4, it expanded by 0.3% quarter on quarter and 1.5% year on year according to the initial estimate. For this year, the SNB expects growth of between 1.5% and 2%.

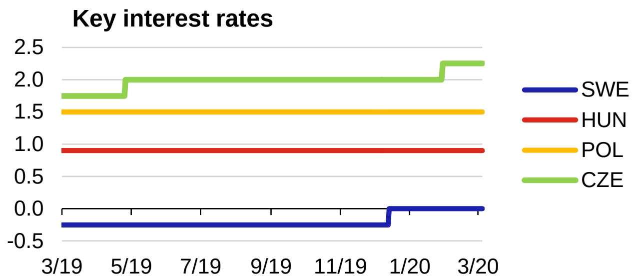
The **RBNZ** left its official rate at 1%. Employment is slightly above its maximum sustainable level and inflation is close to the inflation target. According to the RBNZ, low interest rates remain necessary to keep employment and inflation around target. The RBNZ expects economic growth to accelerate in 2020 H2, driven by monetary and fiscal stimulus. Inflation is currently just below the target (at 1.9% in Q4). It is expected to rise temporarily (to 2.2%) in 2020 Q1 and then settle around the 2% target. GDP growth rose slightly to 2.3% in Q3 (from 2.1%); the RBNZ expects growth of 1.6% in both 2019 Q4 and 2020 Q1. Economic growth will exceed 2% in 2020.

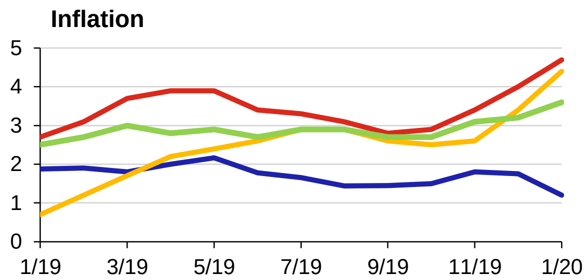
The **BoC** cut its key rate by 0.5 pp to 1.25%, even though the economy has been operating close to potential with inflation on target. The rate cut is due to the expected materialisation of a negative shock to the domestic and global economy caused by the Covid-19 epidemic. Inflation increased temporarily to 2.4% in January due to faster growth in fuel prices. It will later return close to the 2% target. The annual growth of the Canadian economy slowed to 0.3% in Q4 (from 1.1% in Q3). In the January forecast, GDP is projected to grow by 1.3% in Q1 and then accelerate to 2%.

I.3 SELECTED CENTRAL BANKS OF INFLATION-TARGETING EU COUNTRIES

	Sweden (Riksbank)	Hungary (MNB)	Poland (NBP)	CNB
Inflation target	2%[1]	3%	2.5%	2%
MP meetings (rate changes)	19 Dec (+0.25) 11 Feb (0.00)	17 Dec (0.00) 28 Jan (0.00) 25 Feb (0.00)	7–8 Jan (0.00) 4–5 Feb (0.00) 3–4 Mar (0.00)	18 Dec (0.00) 6 Feb (+0.25)
Current basic rate	-0.25%; -1.00%[2]	0.9%; -0.05%[2]	1.50%	2.25%
Latest inflation	1.2% (Jan 2020)	4.7% (Jan 2020)	4.4% (Jan 2020)	3.7% (Feb 2020)
Expected MP meetings	27 Apr	24 Mar 28 Apr 26 May	7–8 Apr 5–6 May 2–3 Jun	26 Mar 7 May[3]
Other expected events	28 Apr: publication of Monetary Policy Report	24 Mar: publication of Inflation Report	mid-Mar: publication of Inflation Report	14 May: publication of Inflation Report
Expected rate movements[4]	→	→	→	→

Note: [1] CPIF – consumer price index including fixed interest rate; [2] deposit rate; [3] publication of new forecast; [4] direction of expected change in rates in next three months taken from Consensus Forecast survey.





The **Riksbank** raised its policy rate by 0.25 pp to 0% in December and left it unchanged in February. This decision had been announced by the bank in advance and was expected by the public. The Riksbank expects rates to be unchanged during the entire forecast period. With effect from July 2019 to December 2020, the Riksbank will purchase government bonds totalling SEK 45 billion (i.e. around half of the principal payments and coupons it will receive from the bond portfolio during this period). The purchases are intended to maintain the portfolio at an appropriate level and continue the Riksbank's presence on the market. The CPIF inflation outlook for this year was cut from 1.7% to 1.3% and that for next year is unchanged at 1.7%. The GDP growth outlook is almost unchanged at 1.3% for 2020 and 1.8% for 2021.

The **MNB** kept its base rate at 0.9% and its deposit rate at -0.05%. Inflation increased – probably only temporarily – to 4.7% in January, due mainly to higher fuel and food prices. The MNB expects inflation to return to the tolerance band by the end of 2020 Q1, The Hungarian economy grew by 4.5% in Q4. The growth was driven mainly by services. GDP rose by 4.9% in 2019. GDP growth will slow to 3.7% in 2020 and 3.5% in 2021. Since September 2019, the MNB has been buying corporate bonds to diversify funding to the domestic corporate sector. It raised the target amount of the Bond Funding for Growth Scheme from HUF 300 billion to HUF 450 billion. Under the complementary Funding for Growth Scheme Fix, participating credit institutions had concluded loan contracts with domestic SMEs totalling more than HUF 400 billion as of the end of January, an increase of about HUF 100 billion compared with the end of October 2019.

The **NBP** left its interest rate at 1.5%. GDP growth is slowing gradually but maintaining a solid pace (3.2% in 2019 Q4). It is being supported by consumption growth, fuelled by rapid wage growth and positive consumer confidence. According to the NBP's March projection, there is a 50% probability that GDP growth will be in the range of 2.5–3.9% this year (against 2.7–4.4% in the November 2019 projection) and slow to 2.1–3.9% next year (against 2.3–4.2%). The forecast for consumer price inflation in 2020 is in the range of 3.1–4.2% (against 2.1–3.6% in November). According to the NBP, there is a 50% probability that inflation will be in the range of 1.7–3.6% in 2021 (against 1.6–3.6% in November).

The **CNB** raised its key interest rate by 0.25 pp to 2.25% in February, due mainly to domestic inflation pressures. Inflation remained above the upper boundary of the tolerance band around the CNB's target in February 2020 (3.7%). The growth of the Czech economy slowed markedly at the end of 2019 (to 1.8% in 2019 Q4; 2.4% for 2019 as a whole). GDP growth is forecasted at 2.3% this year and 2.8% next year. It will continue to be driven mainly by rising consumption spending by Czech households. Inflation will be slightly above the target at the monetary policy horizon, i.e. 2.3% in 2021 Q1 and 2.1% in 2021 Q2.

II. NEWS OVER THE LAST THREE MONTHS

ECB launches review of its monetary policy

At the end of January, the ECB launched the previously announced review of its monetary policy strategy (see the December CBM), which is due to be completed by the end of 2020, and started up a related information website. As part of the review, the ECB will also organise "ECB Listens" events for the public; the bank will use the ideas from these events in its review (the first such event, hosted by Christine Lagarde and Philip R. Lane, was due to take place in Brussels on 26 March but has been postponed due to the coronavirus epidemic). The ECB has also launched a web portal where the public can submit suggestions for the review by 24 April.

The review will encompass, in particular, the quantification of the inflation target and the monetary policy toolkit, along with macroeconomic analyses, ECB communication, financial stability, employment and environmental sustainability. The last review of the ECB's monetary policy strategy took place in 2003, when, among other things, the specification of the inflation target was refined (from "below 2%" to "below, but close to 2%"). The monetary policy strategy itself was adopted in 1998.

Reviews are also in progress or in preparation at other central banks. At the US Fed, a monetary policy review was launched at the end of 2018 (see the December 2018 CBM), during which the Fed also organised public "Fed Listens" events. The results of the review should be published during the first half of this year. According to a speech given by outgoing BoE governor Mark Carney, an internal research review of the BoE monetary policy framework will take place this year. The regular five-year review of the BoC's monetary policy will be conducted in 2021. Monetary policy reviews at central banks are discussed in the current *Spotlight* article.

Central banks respond to growing threat to economies from coronavirus

Central banks are responding to the increasing threat posed by the spreading coronavirus epidemic. Their measures, such as lowering rates or providing liquidity, are aimed at facilitating the smooth functioning of financial markets. In Southeast Asia, central banks took concrete steps back in early February, when the Chinese central bank (PBoC) provided markets with additional liquidity of over USD 170 billion and the central banks of Thailand and the Philippines cut their interest rates (by 0.25 pp). In mid-February they were joined by the central bank of Indonesia (also with a cut of 0.25 pp). Governments in affected areas (for example South Korea, Singapore and Italy, the most affected country in Europe) are joining central banks in providing fiscal incentives, tax breaks or cheap loans to affected firms.

In late February and early March, other central banks also started to respond to the spread of the coronavirus. They also called on governments to help their economies with fiscal stimuli and other measures. Statements on monitoring the situation and readiness to act were issued by the US Fed (28 February), the ECB and the Bank of Japan (2 March). The governor of the BoE expressed similar views in a hearing at the UK Parliament (3 March) A joint statement was also issued by G7 finance ministers and central bank governors (3 March). Following its announcement, the BoJ provided banks with additional liquidity of over USD 4.5 billion. A few days after its announcement (3 March), the US Fed cut interest rates by 0.5 pp. Rates were lowered on the same day by the Australian RBA (by 0.25 pp) and the central bank of Malaysia (by 0.25 pp) and subsequently (4 March) by the Bank of Canada (by 0.5 pp). A week later (11 March), the Bank of England also cut its policy rate by 0.5 pp, released the countercyclical capital buffer and launched measures to support lending. The ECB has not yet followed suit with rate cuts, but has said it is prepared to act; markets expect some form of monetary policy easing.

Monetary Policy Committee established at Norges Bank

The new Norwegian central bank act, which entered into force on 1 January 2020, established a five-member Monetary Policy and Financial Stability Committee at Norges Bank. The Committee is responsible for conducting monetary policy and should also contribute to promoting financial stability (in the area of financial stability in Norway, the Ministry of Finance sets the level of the countercyclical capital buffer (CCyB); Norges Bank has only an advisory role and publishes its advice on the CCyB also in its Monetary Policy Report). The Committee is headed by the NB governor. The other members are the two NB deputy governors and two external members. Other parameters of Norwegian monetary policy and its communication have not changed. After the monetary policy meeting, an "Assessment" will continue to be published as part of the press release. The Assessment will contain information about the monetary policy decision and will reflect an exchange of views and assessments by the Committee; any dissents will be reported. The first monetary policy meeting of the Committee took place on 23 January.

CNB starts publishing attributed minutes of its monetary policy meetings

This year, the CNB started publishing attributed minutes of the Bank Board's monetary policy meetings, i.e. attaching names to the arguments of its members in the minutes. Previously, only the Swedish Riksbank had published attributed minutes of its policy meetings. The purpose of attaching names to arguments is to enable the public to better understand the Bank Board members' thinking and the reasons for their voting. This should increase the predictability of the decision-making of the individual Bank Board members and hence also of the Bank Board as a whole. The first attributed minutes were published after the monetary policy meeting on 6 February.

Andrew Bailey becomes new Bank of England governor

In mid-March, Andrew Bailey, former head of the British financial regulator, the FCA, became the new BoE governor for an eight-year term, replacing Canadian Mark Carney. The new governor's main task will be to ensure the smooth functioning of the British economy at the time of the UK's withdrawal from the European Union. However, his most pressing task is to limit the economic impact of the current coronavirus epidemic. After leaving the BoE, Mark Carney will become the UN special envoy for climate action and finance.

Search is on for new Bank of Canada governor

The current governor of the Bank of Canada announced that he would not seek another term of office after his seven-year mandate expires in early June. The recruitment process for the selection of a new governor is ongoing and is expected to be completed by spring 2020.

III. SPOTLIGHT: MONETARY POLICY REVIEWS AT CENTRAL BANKS

In-depth monetary policy reviews are currently under way at the two most important central banks in the Euro-Atlantic area – the European Central Bank and the US Federal Reserve. The possibility of various, often radical, changes is mentioned in connection with these reviews. The question is, however, whether such expectations are exaggerated, as past reviews have rarely led to significant changes in monetary policy frameworks. This article provides an overview of the recent reviews conducted at the central banks we monitor, and traces what changes have been made to monetary policy based on them.[1]

Inflation-targeting central banks are subject to greater scrutiny

The very nature of inflation targeting means that central banks operating such policy are open and strive to communicate with the public and explain the principles and reasoning behind their decisions. Openness and effective communication help to anchor inflation expectations and contribute to the proper functioning of monetary policy transmission. They also make it necessary for banks to constantly verify whether their monetary policy foundations still reflect the surrounding economic reality and whether improvements can be made. This is why inflation-targeting central banks conduct monetary policy reviews most frequently. Such reviews may be purely internal, performed by the bank's own economic experts and researchers, or may be conducted with the aid of external assessors or entrusted exclusively to an external team.[2] The findings of the review may be reflected in changes to policy parameters and potentially – depending on the law of the land – to the central bank act or other regulations. Often, however, reviews merely produce recommendations that are incorporated into monetary policy-making either not at all or not until several years later.

Reviews can be classified by their thematic scope

A monetary policy review can be classified according to various criteria, such as who commissions it, who conducts it, how regular it is, and how wide-ranging it is thematically. The following types of reviews can be distinguished in terms of their scope – that is, whether they examine the suitability of individual monetary policy parameters, whether they also monitor the effectiveness of the bank's decision-making processes, or whether they also deal with the bank's relations with other institutions that have a bearing on monetary policy:

- reviews of monetary policy regime parameters
    - for example, a review of a monitored variable (the CPI or another index) or of the forecasting system (model settings), tools or rates used
    - a review of the inflation target – only if setting the target is in the central bank's remit
    - usually conducted internally by the central bank and its experts
- reviews of the effectiveness of monetary policy and decision-making processes
    - all of the above, plus an examination of the functioning of the monetary policy decision-making bodies in the bank
    - a review of several years of monetary policy-making and an assessment of its effectiveness and correctness
    - conducted in cooperation with external experts, often, for example, former governors of other central banks, or purely externally.
- comprehensive reviews also covering the distribution of powers between the central bank and other institutions
    - all of the above, plus a review of relations between the central bank, other institutions that have a bearing on monetary policy (such as supervisors and regulators) and decision-making bodies (parliament, government, etc.)
    - may lead to an amendment of the central bank act
    - usually initiated externally and conducted either purely externally or by external and internal experts working in cooperation

The type of review and who commissions and conducts it depend to a large extent on the distribution of monetary policy powers between the central bank and other institutions, such as the parliament or government. In some countries, all monetary policy parameters (including the level of the inflation target) are set by the central bank; elsewhere, the central bank only has operational independence, i.e. the power to select its monetary policy instruments.

[1] This article draws on information from a February 2020 BIS document on monetary policy reviews in BIS member countries.

[2] This article does not cover the regular reports on activities which central banks submit to parliaments or other bodies and which summarise their activities over the past year. These regular summaries are not intended for making changes, although they may help identify areas on which reviews should focus.

The following table presents an overview of the recent reviews at the central banks we monitor, along with their findings. The table also states the type of review, who initiated it, who conducted it, and who decided to translate its results into changes in the monetary policy framework, the central bank act or relevant regulations.

Table: Recent monetary policy reviews at the central banks monitored

	Year	Type	Initiated by	Conducted by	Changes decided by	Outcome
ECB	Ongoing 2020	Review of parameters	Central bank		Central bank	Ongoing; to cover formulation of inflation target, toolkit, analyses, communication, etc. (LINK)
	2003	Review of parameters	Central bank	Internal and external	Central bank	Among other things, inflation target refined ("below, but close to 2%") (LINK)
Fed	Ongoing 2019–2020	Review of parameters	Central bank		Central bank	Broad review, excluding dual mandate and 2% inflation target, but including review of strategy, tools and communication (LINK)
Bank of England	2020	Review of parameters	Central bank	Central bank		Annual internal research review, to be part of review commenced by government, which will probably take place in 2020 (originally planned for 2019) (LINK)
	2013	Review of parameters	Government	External	Government	MPC's remit clarified, annual affirmation of BoE's powers by government introduced (LINK)
Norges Bank	2017 (covering 2001–2016)	Review of parameters	Government	External and internal		Analyses with no recommendations (LINK)
	2017	Comprehensive review	Government	Government	Parliament	2018 legislation on NB monetary policy clarified and inflation target lowered from 2.5% to 2%; five-member committee for monetary policy and financial stability began functioning in 2020 (LINK)
RBNZ	2018–2020	Comprehensive review	Government	External and internal	Parliament	Phase 1: monetary policy incorporated into RBNZ Act: dual mandate, monetary policy committee instituted (LINK) Phase 2 underway; legislation, institutional relations, financial stability, etc. (LINK)
	2001	Review of effectiveness	Government	External		Some recommendations (e.g. to institute formal MPC) adopted only after later amendment of legislation (LINK)
Bank of Canada	Scheduled for 2021	Review of parameters	Government and central bank			(Regular five-year review, LINK)
	2016	Review of parameters	Government and central bank	Central bank	Government and central bank	Higher inflation target considered (not introduced); consideration of financial imbalances when setting rates (not introduced) (LINK)
Riksbank	2016–2019	Comprehensive review	Government	External	Parliament	Changes to Riksbank Act proposed, including switch to dual mandate, independence and reporting (open for comments until April 2020) (LINK)
	2016 (covering 2010–2015)	Review of effectiveness	Parliament	External		Recommendations on monetary policy (e.g. target specification), financial stability powers, mandate and organisation of bank; some adopted in later change to law (2017): switch from CPI to CPIF, tolerance band of ±1 pp around target (LINK)
	2011 (2005–2010)	Review of effectiveness	Parliament	External		Recommendations to clarify Riksbank mandate, improve communication (LINK)
	2006 (1995–2005)	Review of effectiveness	Parliament	External		Recommendations on monetary policy implementation (LINK)
MNB	Scheduled for 2020	Review of parameters	Central bank		Central bank	(Review not yet specified, LINK)
	2015	Review of parameters	Central bank	Central bank	Central bank	Review of inflation target; introduction of tolerance band of ±1 pp around 3% inflation target (LINK)

Note: Monetary policy reviews have not taken place in recent years at the Swiss SNB, the Polish NBP and the Czech National Bank.
Source: Central bank websites, BIS.

The periodicity of reviews is proportionate their scope: a longer period means greater depth

Generally speaking, the deeper and more comprehensive is the review, the less often it is performed. A deeper, broad-based monetary policy review logically also takes more time. Major changes to monetary policy and institutional arrangements cannot be made too often either, as this could undermine public confidence in the central bank and its internal processes.

At present, only the Bank of Canada conducts regular periodic reviews, doing so at five-year intervals. Its regular reviews were announced at the same time as the inflation targeting regime was introduced in 1991. The primary objective was to ascertain whether the target had been appropriately chosen and whether it might be necessary to change it. For this reason, the reviews are officially referred to as the "renewal of the inflation-control target". The first review was conducted in 1993, and the suitability of the target was confirmed. The next review, performed in 1998, also renewed the target level. The periodicity of subsequent reviews was then set at regular five-year intervals. In 2001, research papers on topical monetary policy issues became a part of these regular reviews.

Other central banks also undertake regular reviews, but with no officially fixed frequency. These institutions include the Bank of England, whose review is initiated by the UK Treasury at approximately six-year intervals, and the RBNZ, where, under a new law, formal monetary policy reviews will be conducted in a five-year cycle. There is also talk that other central banks may carry out periodic reviews. For example, US Fed chair Jerome Powell mentioned this possibility at a press conference after the FOMC monetary policy meeting in late October.[3]

The inclination towards regularity is also linked with central banks' efforts to bolster their legitimacy. Regular reviews indicate that a central bank is open to change and is not closed to new approaches and that it is willing to self-critically examine its past decisions and actions and to "admit mistakes" in general.

Most reviews, however, have not led to fundamental changes in monetary policy

Although monetary policy reviews offer an opportunity for major changes to be made to the monetary policy framework, most of the reviews that have taken place to date have led only to recommendations or to slight adjustments to monetary policy. For example, transitions to inflation targeting have in most cases been due to external circumstances (such as the abandonment of a fixed exchange rate) or to internal research and a subsequent decision at the central bank. Some central bankers are quite sceptical about formal, regularly organised reviews. For example, former Fed vice chair Stanley Fischer has said that a well-organised central bank does not need regular reviews to respond to incoming structural shocks.

[3] "I would imagine that this entire monetary policy review will become institutionalized and be done every few years." Jerome Powell at a press conference following a meeting of the US Fed held on 30 October 2019, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20191030.pdf>

IV. SELECTED SPEECH: Isabel Schnabel (ECB): Narratives about the ECB's monetary policy – reality or fiction?

A recently appointed member of the ECB's Executive Board, Isabel Schnabel, in her February speech at the Juristische Studiengesellschaft, defended the ECB's monetary policy and explained the reasons for the need to use unconventional measures. She also focused on the most discussed side effects of these measures.

According to Isabel Schnabel, the monetary policy of the ECB has contributed to one of the longest economic upswings in post-war German history. Despite this success, the public debate about monetary policy has become more heated in parts of the euro area, and especially in Germany. Although the economic success is reflected in high approval rates for the euro and above-average trust in the ECB from Germans, the ECB has been facing fierce criticism in an atmosphere of rising aggression. It seems that negative interest rates, introduced by the ECB in June 2014, are the chief cause of these deep feelings of discontent. The question therefore arises as to why the ECB needed to make use of this measure.

The explanation lies in the real equilibrium interest rate, which is the basis for monetary policy rate setting. The level of the equilibrium rate is determined by a number of structural factors, such as a country's demographic situation or capacity to innovate. Estimates of this unobservable variable indicate that it has fallen markedly over the past 20 years in the euro area, possibly even to negative values. This suggests that the supply of capital is matched with relatively low demand, or that the desire to save is meeting with a comparatively low propensity to invest. However, a real equilibrium rate close to zero or even negative reduces the scope for the central bank to cut rates. The ECB is not the only central bank faced with this problem. The equilibrium interest rate has been falling across large parts of the industrialised world. One important driver behind this trend is a fall in long-term trend growth, reflecting a decline in productivity growth, demographic change and a move away from capital-intensive industries towards less capital-intensive service industries.

A key conclusion from the foregoing considerations is that it is not primarily the central bank that is responsible for low real equilibrium interest rates. It is not within the power of the central bank to change the structural conditions that would turn around this negative trend. These developments have an impact on the toolbox of central banks, which had to resort to a number of unconventional instruments in order achieve their inflation targets. The ECB's measures were not restricted to negative interest rates, but also included forward guidance, longer-term refinancing operations and an extensive bond purchase programme. These measures were not only necessary to fulfil the mandate of price stability. They also had considerable positive effects on growth and employment. All of this does not mean, however, that unconventional policy measures do not have their problems. The ECB monitors and takes into consideration possible side effects of their policy. Schnabel focuses on three of the side effects that have attracted the most discussion.

As regards the impact of monetary policy on income and wealth distribution, Schnabel notes that it is not part of the ECB's mandate to ensure high interest rates for savers. She also refutes the narrative on the "expropriation" of German savers, as the average real return on savings since the introduction of the euro is around the average of the previous 24 years in Germany. Nor can we ignore the positive effects of monetary policy on the labour market, which have benefited poorer income groups in particular.

The effects of the low rate policy on the corporate landscape are also often discussed. The theory is that low rates sustain "zombie firms", i.e. firms whose profitability is so low that they would not be viable at higher rates. Profitability is not a measure of future economic success, but even if it is taken as a yardstick, a systematic increase in unprofitable businesses cannot be seen in the euro area. One explanation is that low rates benefit all firms, especially healthy ones, to which banks are more willing to provide loans. Moreover, they seem to have led to a decline in firms with negative profitability by stimulating the economy. However, this improvement in the situation should not belie the existing structural deficiencies curbing the potential growth of the euro area. To address them, the resilience of the banking sector must be enhanced – which was the aim of establishing the banking union – and the capital market developed.

The third discussed side effect of loose monetary policy is the emergence of price bubbles in the financial and real estate markets. These risks should be taken very seriously. That is why developments in real estate prices are rightly coming under particular scrutiny. To assess the risks for financial stability, we must also look at the development of indebtedness. While private indebtedness in the euro area as a whole (relative to GDP) has barely risen in recent years, public debt has risen considerably. But it is up to politicians, not the ECB, to tackle the problem of high public debt.

Schnabel concludes that addressing the side effects of unconventional monetary policy instruments lies primarily in the remit of fiscal and social welfare policy and regulatory and supervisory authorities. Of course, the central bank also needs to take these effects into account when making its decisions, especially when they have repercussions for price stability. Careful consideration of the costs and benefits must be an integral part of monetary policy decisions. The question as to how exactly this should be done will be part of the ECB's review of its monetary policy strategy this year.

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