



Communication Department

PRESS RELEASE

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Banco de España roundtable on the ECB Monetary Policy Strategy Review

As part of the ECB monetary policy strategy review under way since January this year, the Banco de España yesterday organised a roundtable. It brought together academic economists from Spanish universities who specialise in macroeconomics and monetary and financial economics. The aim of this roundtable, with the presence of the Governor of the Banco de España, Pablo Hernández de Cos, and the Director General of Economics and Statistics, Óscar Arce, has been to garner the opinion of academic experts on the most appropriate definition of the ECB price stability objective, and how to attain that objective. This event highlights the resolve of the ECB and the other Eurosystem central banks, including the Banco de España, to approach different groups in civil society to learn of their views on euro area monetary policy.

The *Treaty on the Functioning of the European Union* establishes the price stability objective as the main mandate of the ECB, albeit conferring freedom on the ECB to formulate its exact definition. When it first commenced operating, the ECB defined price stability as harmonised inflation in the euro area of below 2 %. Under the 2003 monetary policy strategy review, the ECB clarified that its objective was to hold inflation below, but close to, 2 % in the medium term. The first part of the roundtable focused on discussing whether this formulation has produced the expected results and whether a reformulation is desirable, judging by the structural economic changes the euro area has undergone in this period and how such changes affect the ECB's scope for action and the optimal inflation objective. In particular, discussion turned on the reduction in the so-called natural or equilibrium interest rate, and on how this can affect monetary policy scope and the structural changes in the relationship between inflation and the economic cycle.


The second part of the session focused on how to achieve the price stability objective. Here, there was discussion of aspects relating to the monetary policy strategy per se, i.e. the relationship between the inflation objective and monetary policy coordination. In particular, discussions tackled the possibility of introducing monetary policy strategies specifically designed to address the constraints the lower bound on interest rates may pose for monetary policy conduct. Such strategies include most notably the possibility of offsetting below-target inflation deviations resulting from the influence of this bound with deviations above the objective, so that the price level or, alternatively, average inflation over a certain timeframe, should not depart excessively from a specific trend or objective figure. Discussions also

addressed the effectiveness and the secondary effects of the various monetary policy instruments available to the ECB, and the role these must play in the attainment of its price stability objective. A further matter for discussion was the possibility of the ECB adopting a more active role in relation to objectives other than price stability, such as the preservation of financial stability and combating climate change. There was likewise debate on the interactions between monetary and fiscal policy. Finally, the participants deliberated on communication by the ECB and the other Eurosystem central banks with households, firms and financial markets.

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