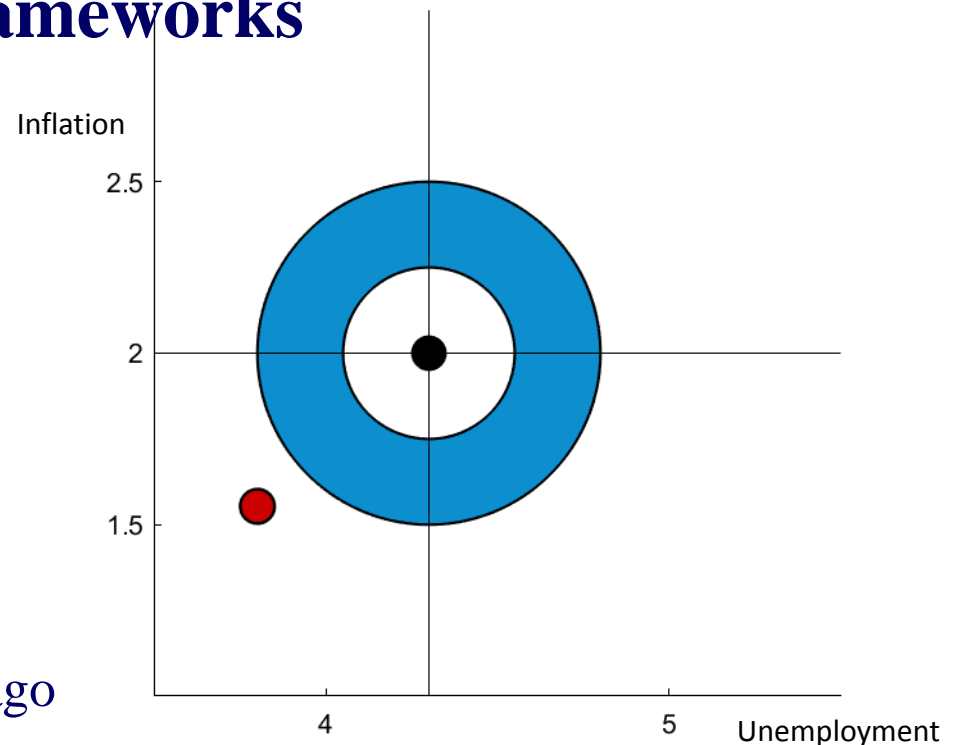

Long-Term Economic Trends and Monetary Policy Frameworks and Strategies

*Bank of Italy
May 6, 2019; Rome, Italy*

Charles L. Evans
President and CEO
Federal Reserve Bank of Chicago



The views I express here are my own and do not necessarily reflect the views of the Federal Open Market Committee (FOMC) or within the Federal Reserve System.

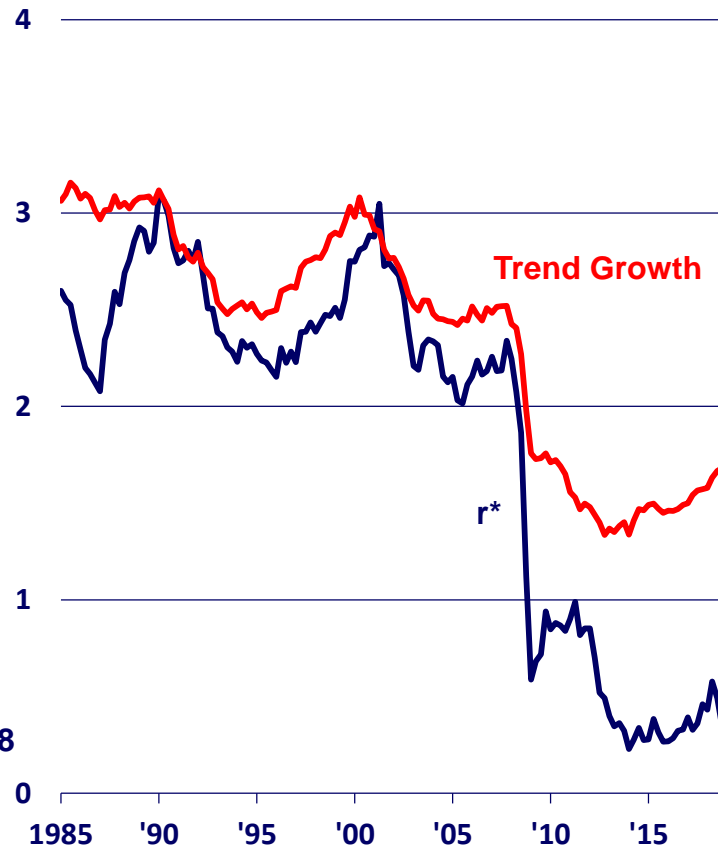
Low Neutral Interest Rates and Low Potential Growth

US

(percent)



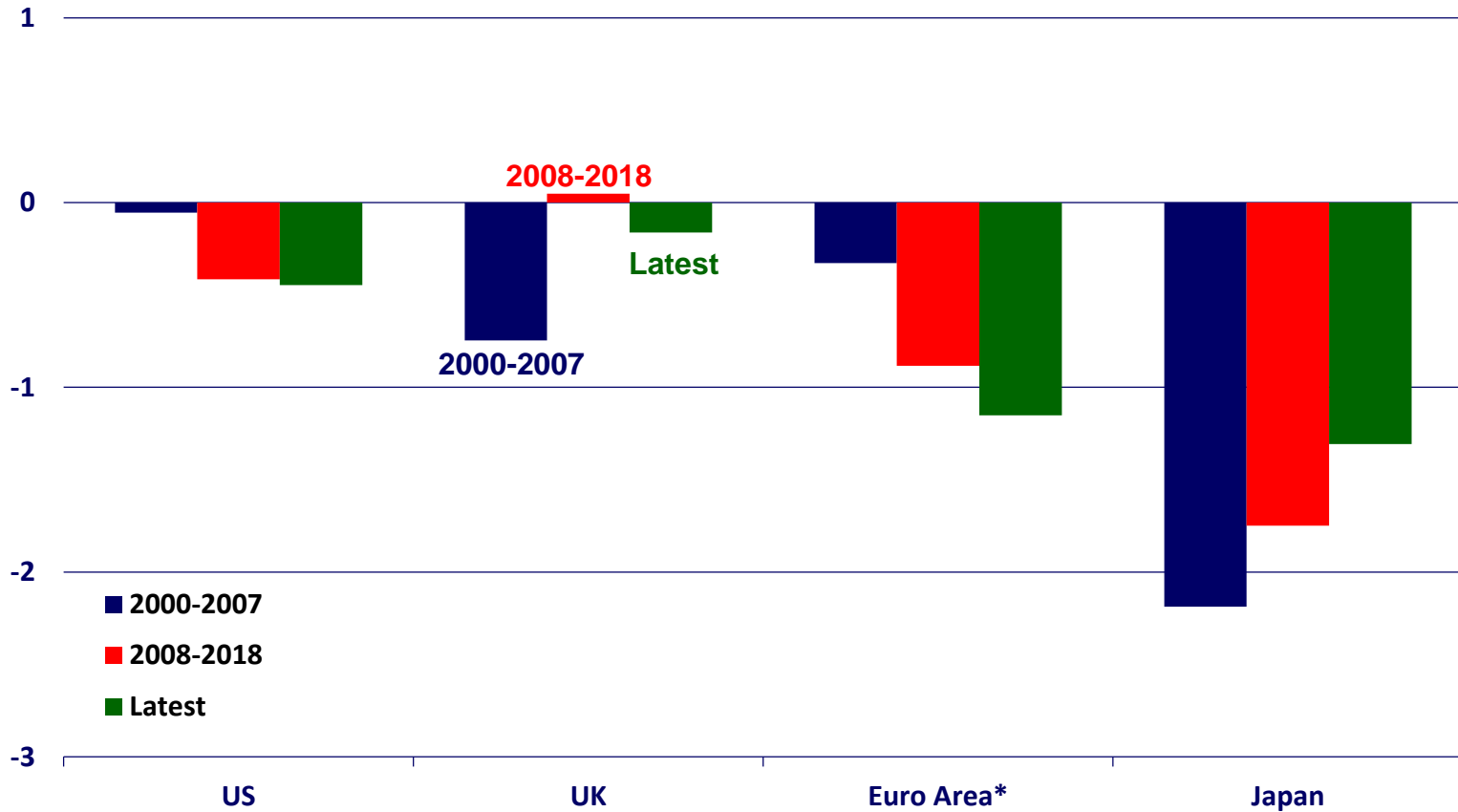
Advanced Economies



Estimates for Advanced Foreign Economies are GDP-weighted averages across the US, Canada, the Euro Area, and the UK using OECD estimates of GDP at purchasing power parity. Prior to 1995, Euro-Area weights are the summed weights of the eleven original euro area countries. Sources: Laubach and Williams (2003); Holston, Laubach, and Williams (2017); OECD

Undershooting Inflation Goals

Deviation from Central Bank Inflation Target

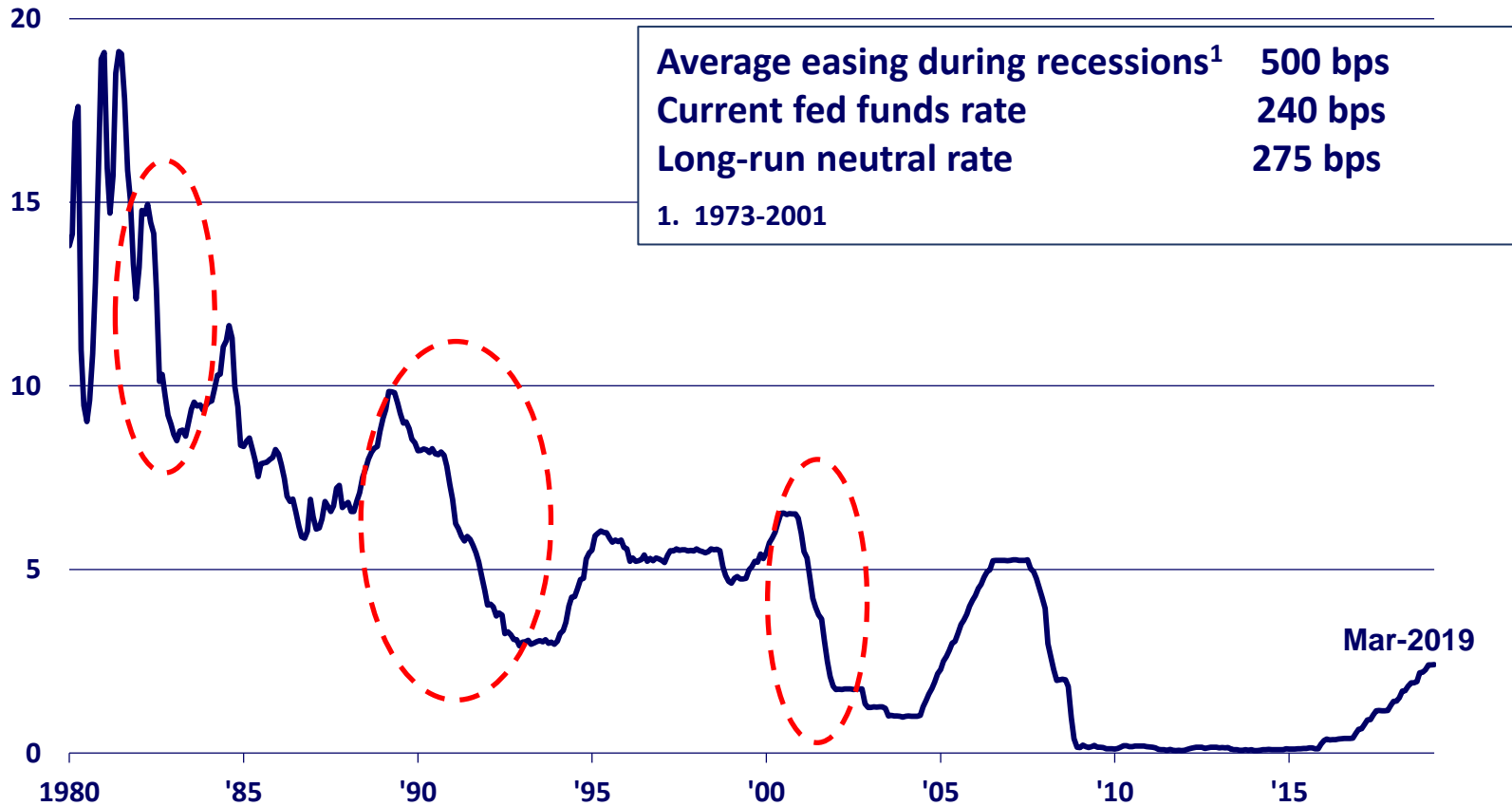


Source: Various statistical collection agencies

Conventional Monetary Policy Easing During Past Recessions

Federal Funds Rate

(percent)



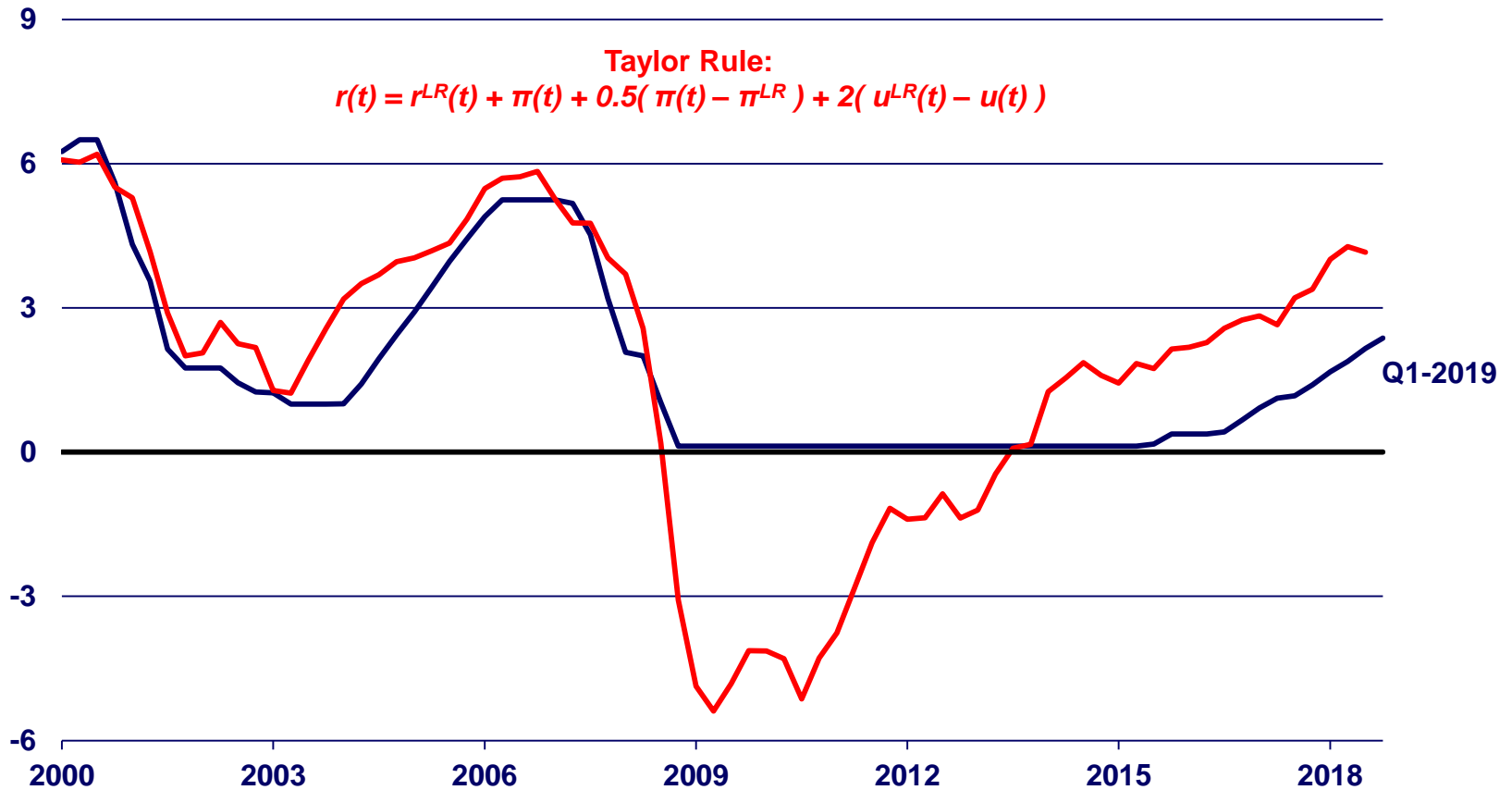
Source: Board of Governors of the Federal Reserve System

Features of Alternative Frameworks

- **Commitment to provide extraordinary policy accommodation during and after the ZLB episodes**
 - Policy prescriptions from simple rules (e.g. Taylor 1993, 1999) are inadequate
- **Following protracted periods of $\pi < \pi^*$, commit to $\pi > \pi^*$, potentially for extended periods**
- **Following protracted periods of $\pi > \pi^*$, possibly pursue policies that might generate significant increases in unemployment**

Fed Funds Rate And A Traditional Benchmark

Federal Funds Target Rate (percent)

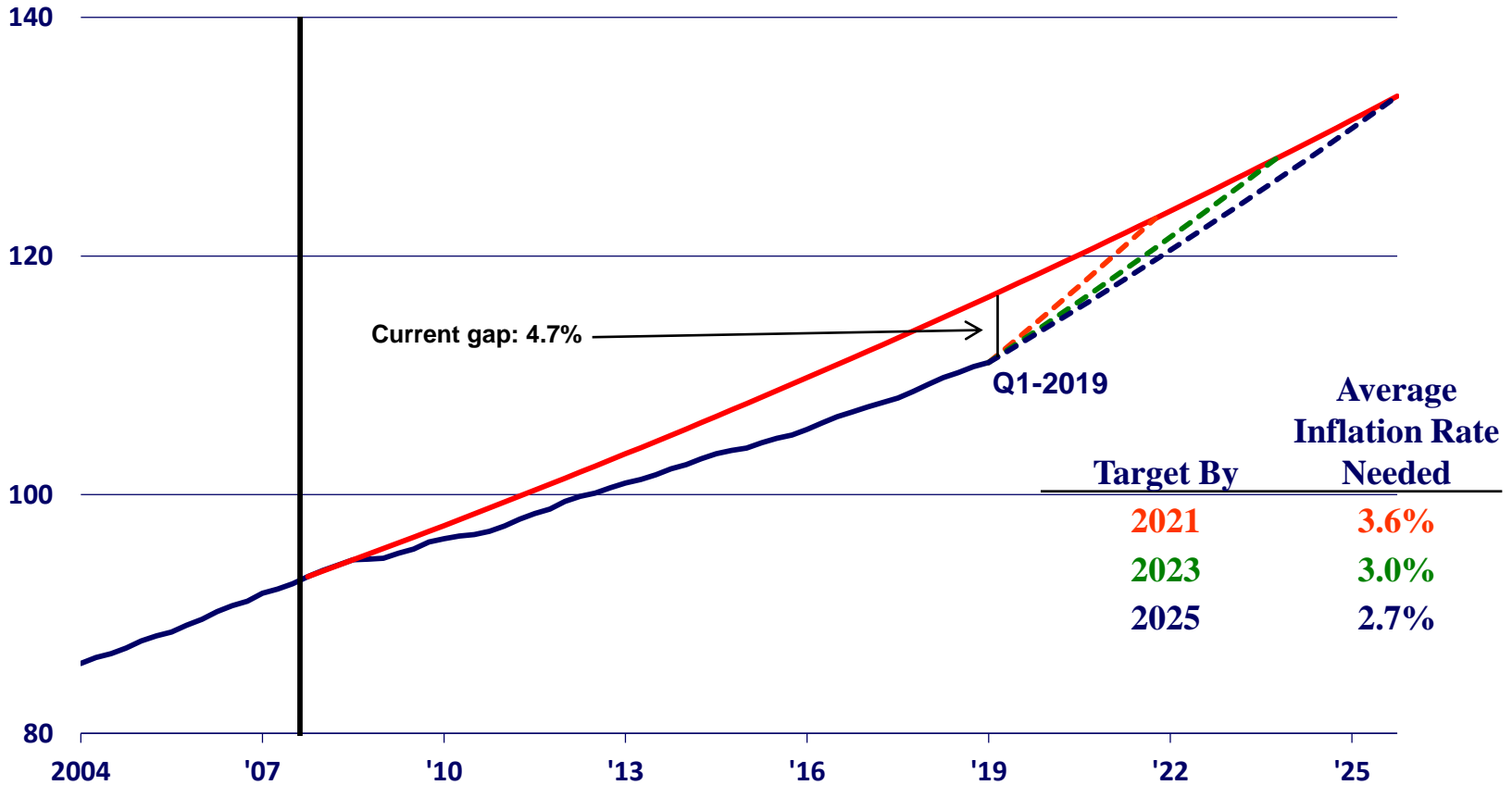


$r^{LR}(t)$ and $u^{LR}(t)$ from Blue Chip Consensus Forecast.

Source: February 2019 Monetary Policy Report, Board of Governors of the Federal Reserve System

State-Contingent Price Level Targeting

Core PCE Price Index



Source: Bureau of Economic Analysis and staff calculations

Some Questions

- **Can policymakers credibly commit to pursuing the policies prescribed by some of these alternatives?**
- **How will central banks communicate these strategies effectively?**
- **Will the public tolerate protracted periods of $\pi > \pi^*$?**
 - Will long-run inflation expectations change?
- **Following protracted period of $\pi > \pi^*$, what is the willingness to increase unemployment to bring inflation down to π^* ?**
- **What are the financial stability implications of the highly accommodative policies prescribed by the alternatives?**

My Key Considerations

- **Focus on outcome-based strategies**
 - In the U.S., focus on the dual mandate
- **No matter the framework, will need to take actions with unconventional tools (e.g. QE, forward guidance) to counter ZLB**
- **Address potential financial stability risks with regulatory and supervisory tools**
- **Credibility is key and essential for any framework**
- **First step: establish credibility in the current framework**
 - Symmetry of the inflation target