

Monetary policy in the polycrisis new normal

Nonlinearities and the question of symmetry in the conduct of policy



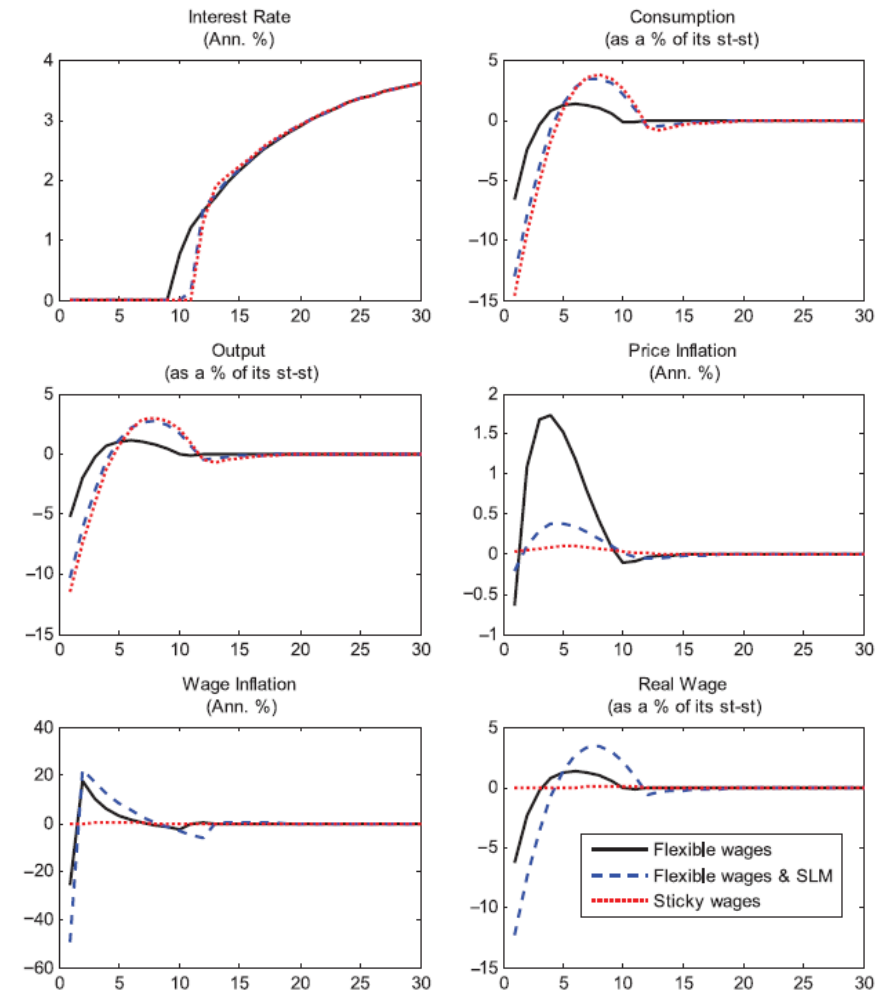
Michal Horvath



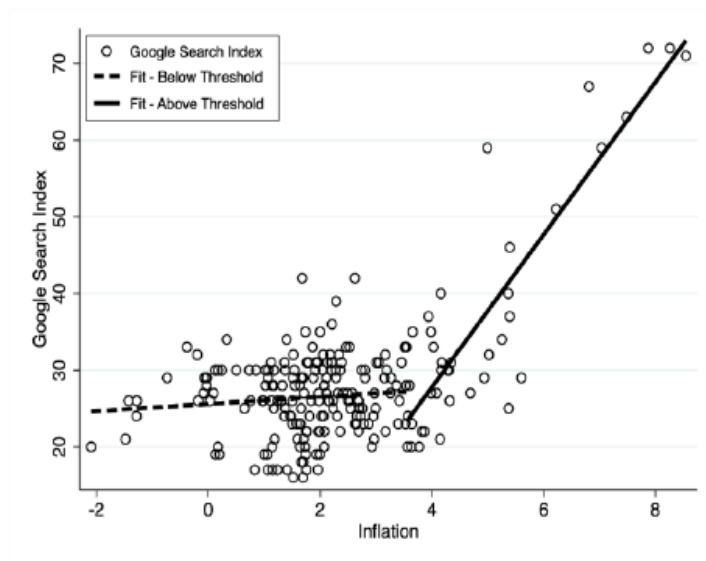
Vienna, 11 June 2024

Motivation

- **ZLB** - a key nonlinearity
– studied extensively
- **High inflation** period brought new phenomena
- What does this imply for **symmetry** in monetary policy (goals) in a new “**polycrisis normal**”?



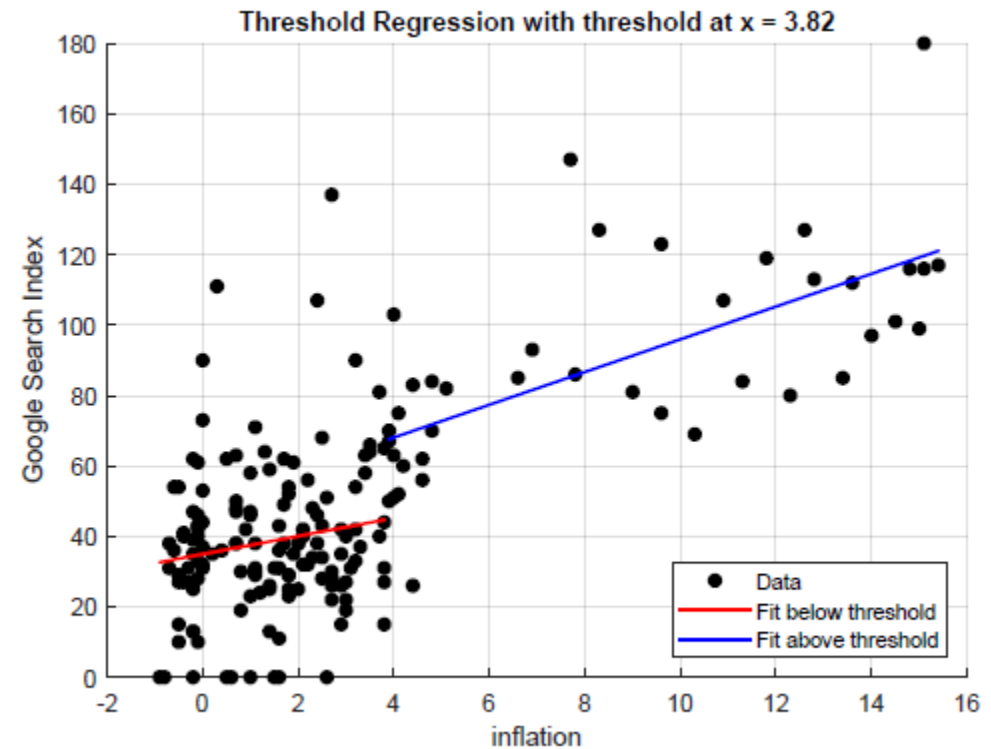
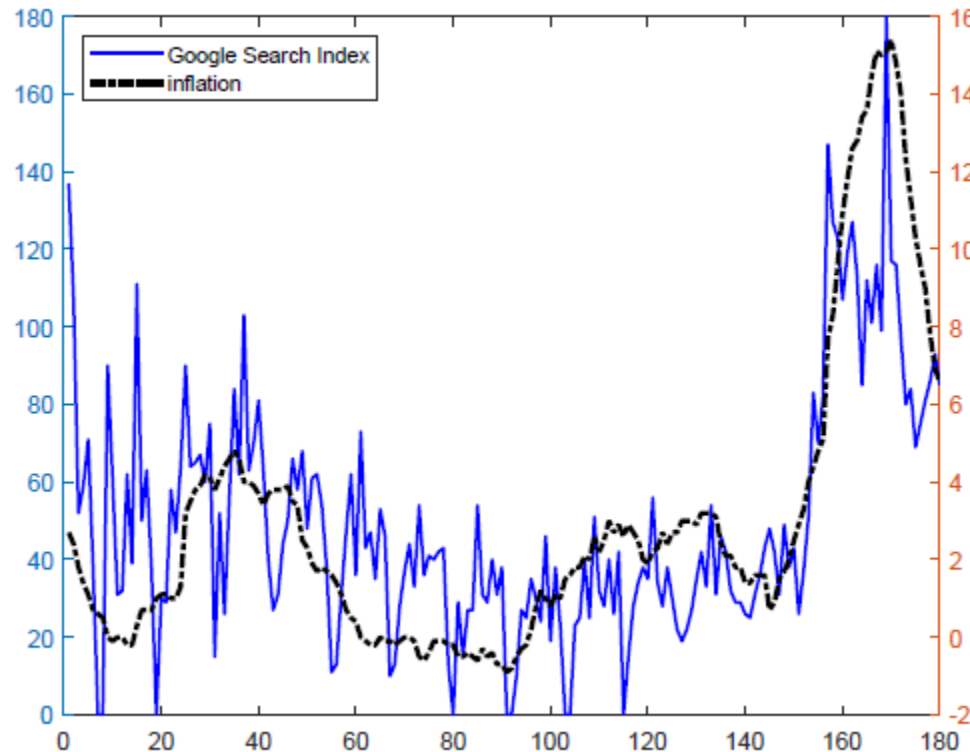
Main narrative



- Beyond a certain **threshold** rate, people start **paying attention** to inflation, firms start **re-setting prices faster**.
- This threshold rate is possibly **pretty low**.
- Threshold effects may have relevant economic **consequences**.
- (How) Should it be considered in the **design of monetary policy** strategy?

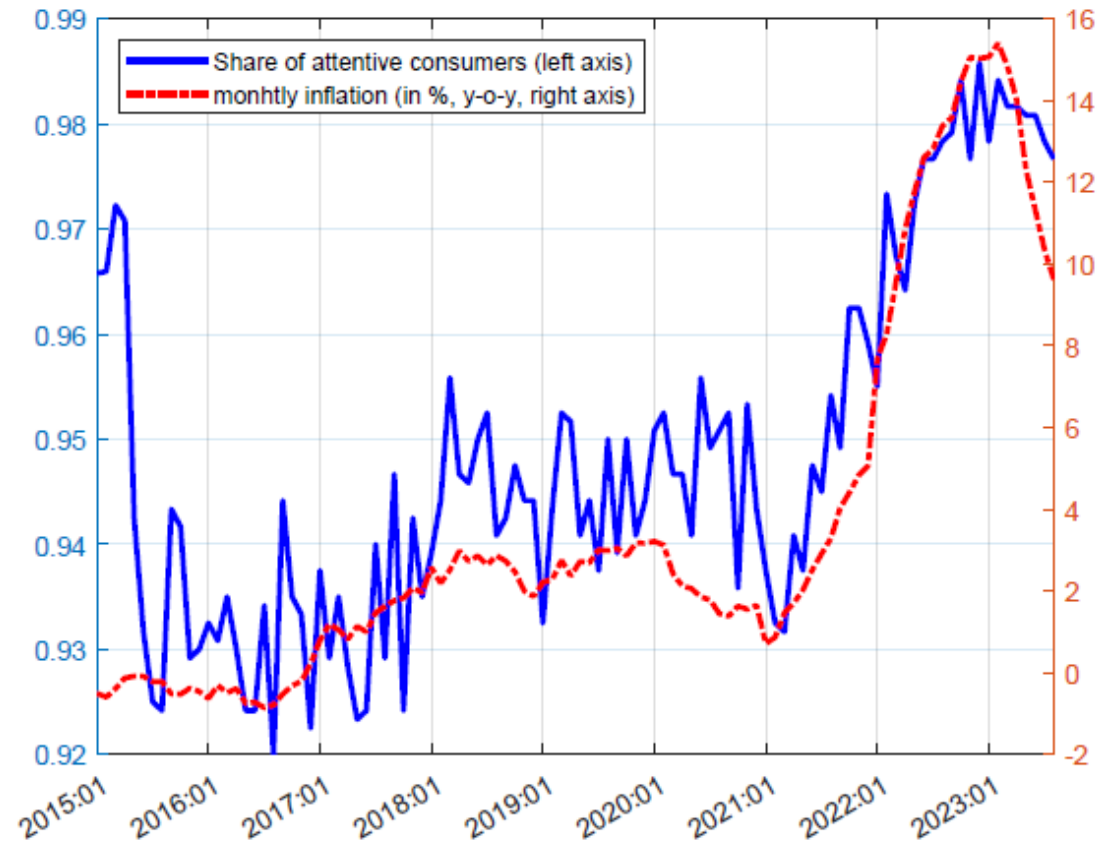
Attention to inflation

Replicating Korenok et al. (2023) on Slovak data

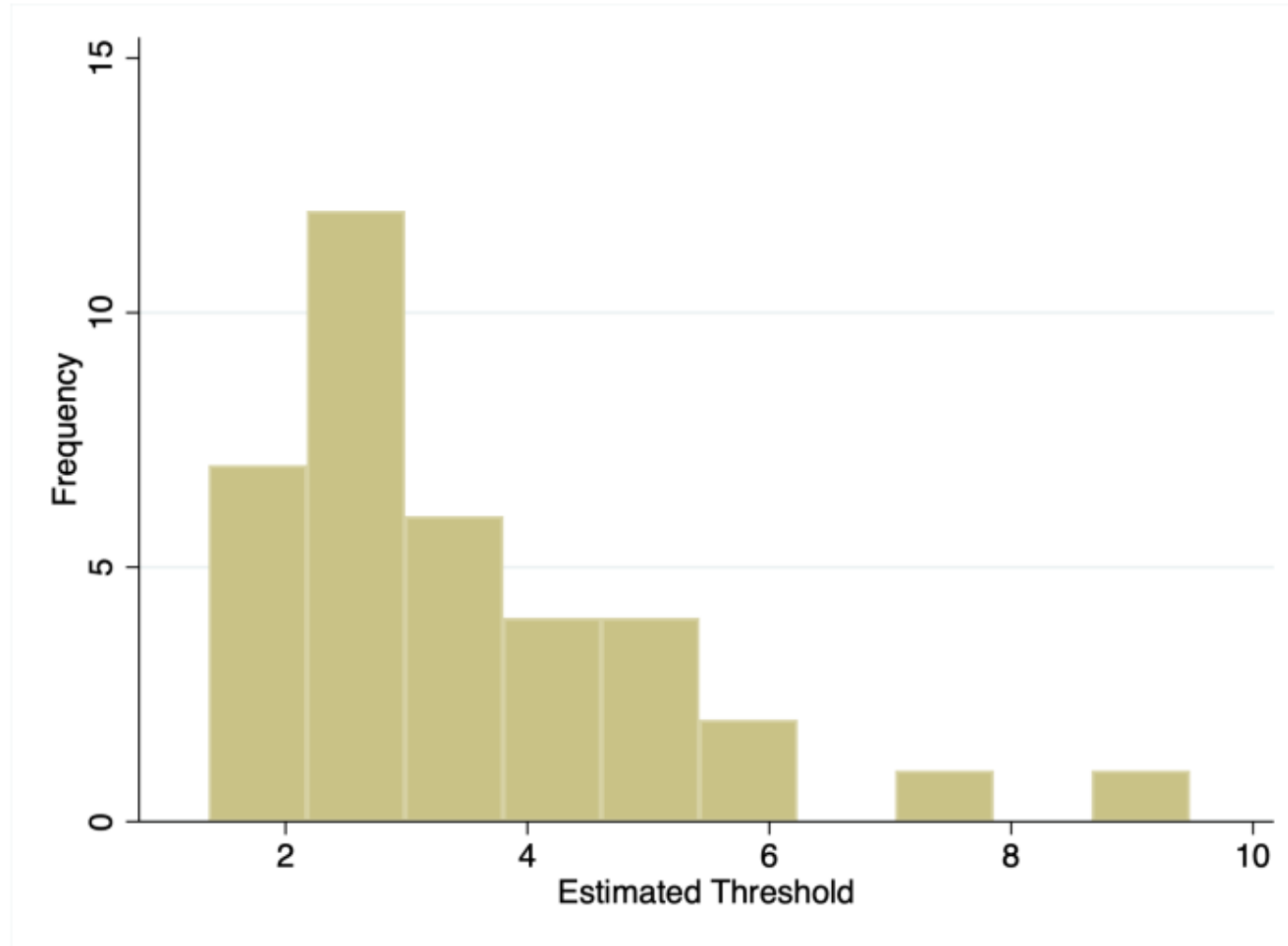


Attention to inflation

- Based on Bracha and Tang (2022), using detailed data from Joint Harmonised EU Consumer Survey
- How do you think consumer prices have developed over the last 12 months? (qualitative)
 - (1-“Don’t know”) plotted as attentive consumers

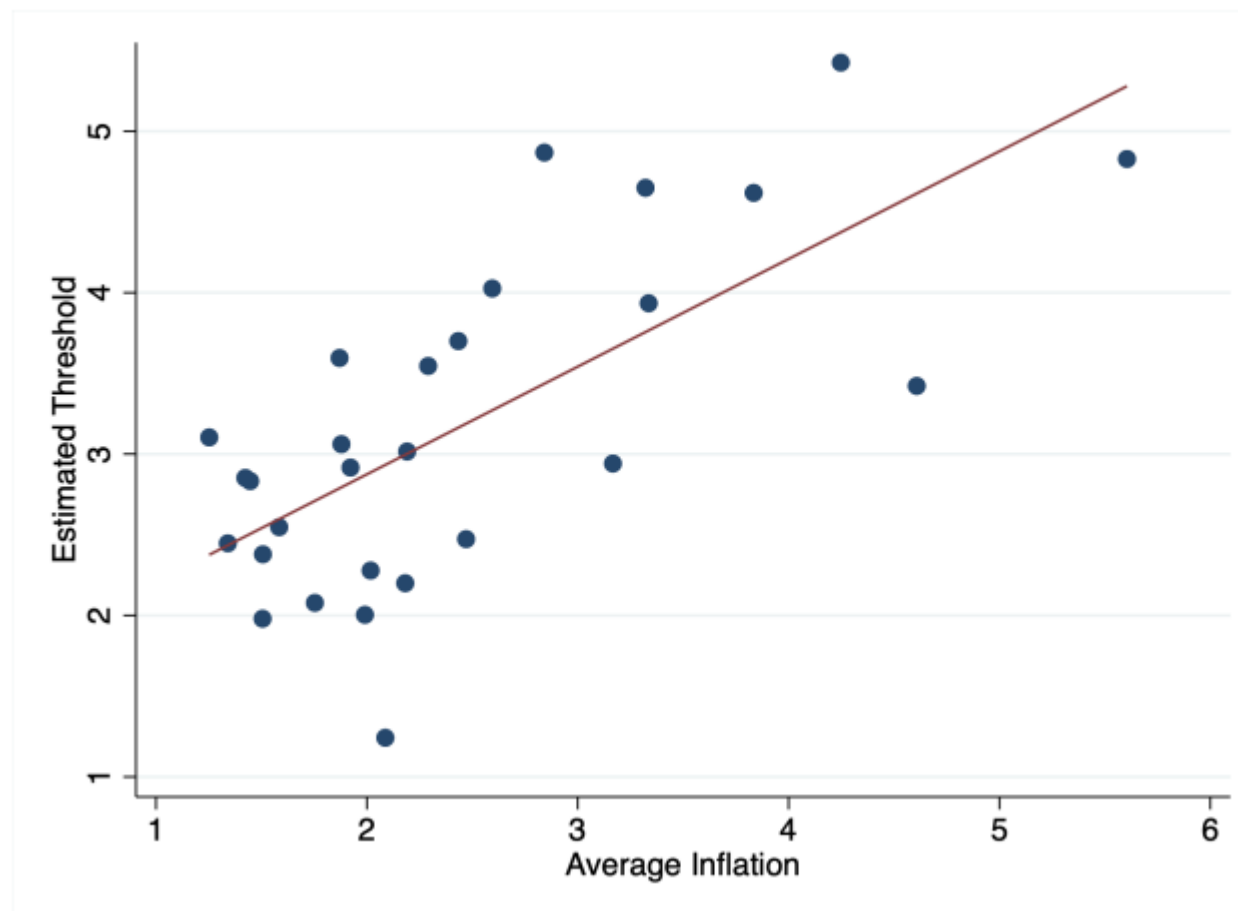


Attention to inflation - thresholds



Source: Korenok et al. (2023)

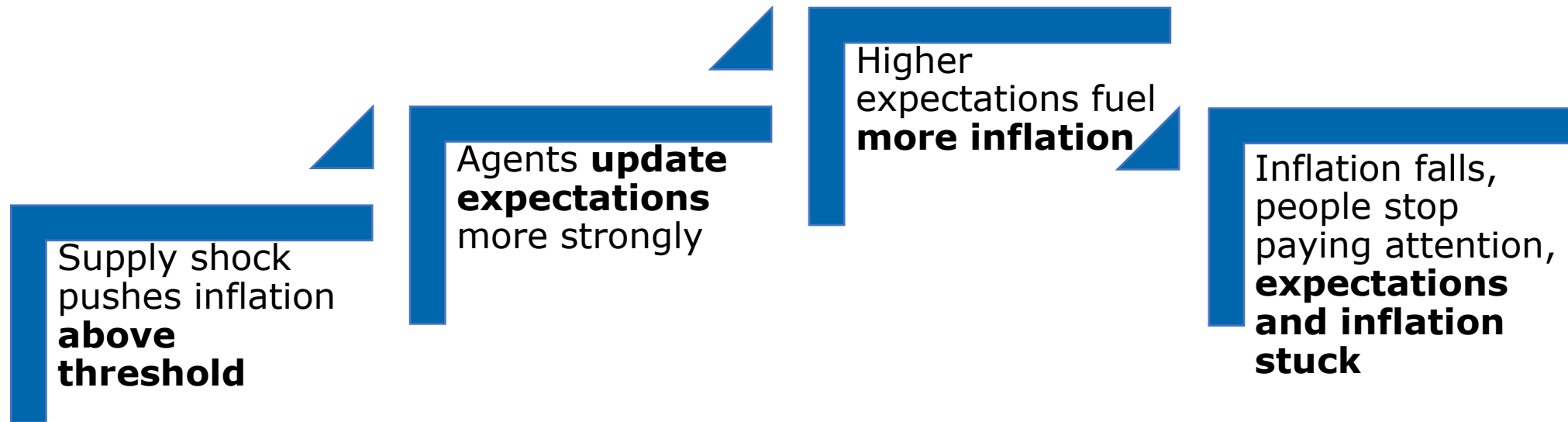
Does this matter?



Source: Korenok et al. (2023)

Does this matter?

- Pfäuti (2024)



Does this narrative work?

	whole sample (1)	surge (2)	defl. times (3)	drop (4)	normal times (5)
average π_t	2.9%	9.1%	-0.3%	12.3%	2.1%
average π_t^e	9.4%	18.0%	4.4%	26.1%	8.4%
readiness to spend	18.8%	14.5%	21.0%	11.9%	19.0%
Right time to purchase					
(A) higher inflation (π_{DHW}^e)	0.033*** (0.003)	0.042*** (0.005)	0.013 (0.010)	-0.008 (0.011)	0.035*** (0.004)
(B) at least constant inflation	0.011*** (0.004)	0.035*** (0.007)	0.019** (0.007)	-0.015* (0.006)	0.008* (0.005)
(C) EM_{AGM}	0.014*** (0.004)	0.019 (0.016)	0.024** (0.008)	0.024 (0.021)	0.011** (0.005)
(D) IM_{AGM}	0.001*** (0.000)	0.002*** (0.001)	0.001 (0.001)	0.000 (0.001)	0.001*** (0.000)
(E) all quant. π^e	0.001*** (0.000)	0.002*** (0.000)	0.002** (0.001)	0.001 (0.001)	0.001*** (0.000)
Controls					
Demographics	X	X	X	X	X
Expectations	X	X	X	X	X
π_t	X	X	X	X	X
i_t	X	X	X	X	X
No. obs.	119,387	11,322	23,877	3,185	81,003
No. obs. IM	96,945	10,753	15,579	2,891	67,722

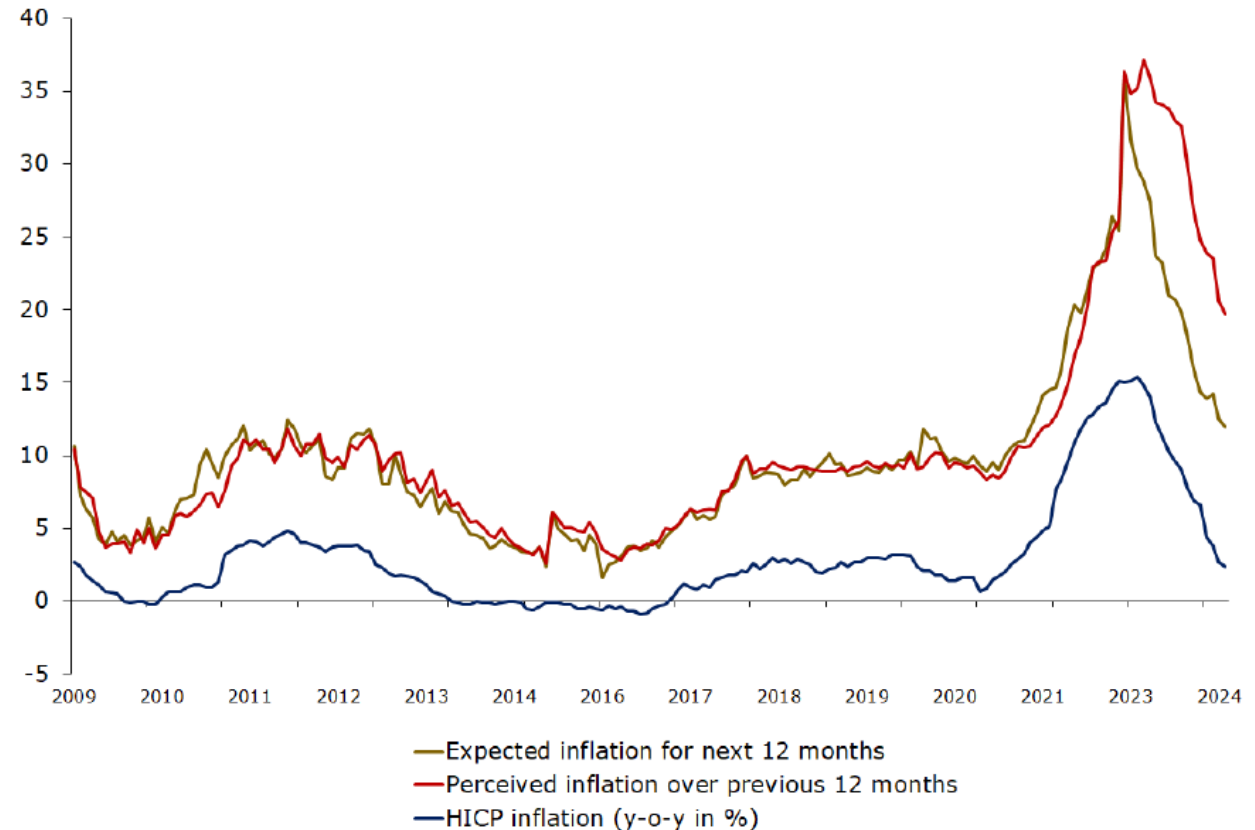
Standard errors, clustered at the quarter level, in parentheses.

Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Notes: This table reports the estimated marginal effects of a binomial logit regression evaluated at the sample mean. We control for the quantitative perceived inflation in the regressions that use the quantitative inflation expectation questions and control for the qualitative inflation perception in the regressions using the qualitative inflation expectation measures.

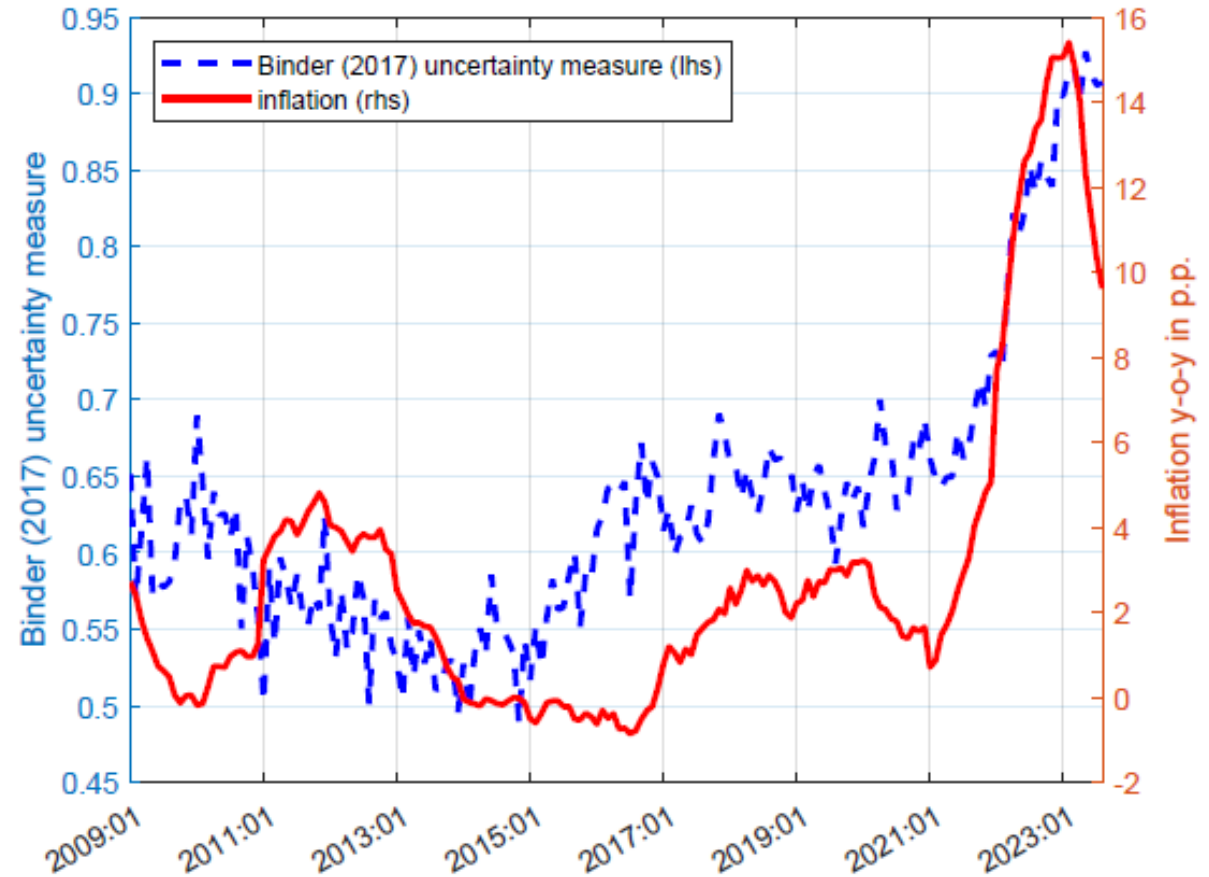
Does this narrative work?

Euro area:
Expectations falling
faster than
perceptions



Does this narrative work?

- Higher inflation also brings higher **uncertainty**
- Measure following Binder (2017)
 - Round answers + “Don’t know”
- Uncertainty associated with **lower consumption**



Does this narrative work?

Attentive but uncertain people answering “I don’t know” conditional on providing a perceived inflation figure:

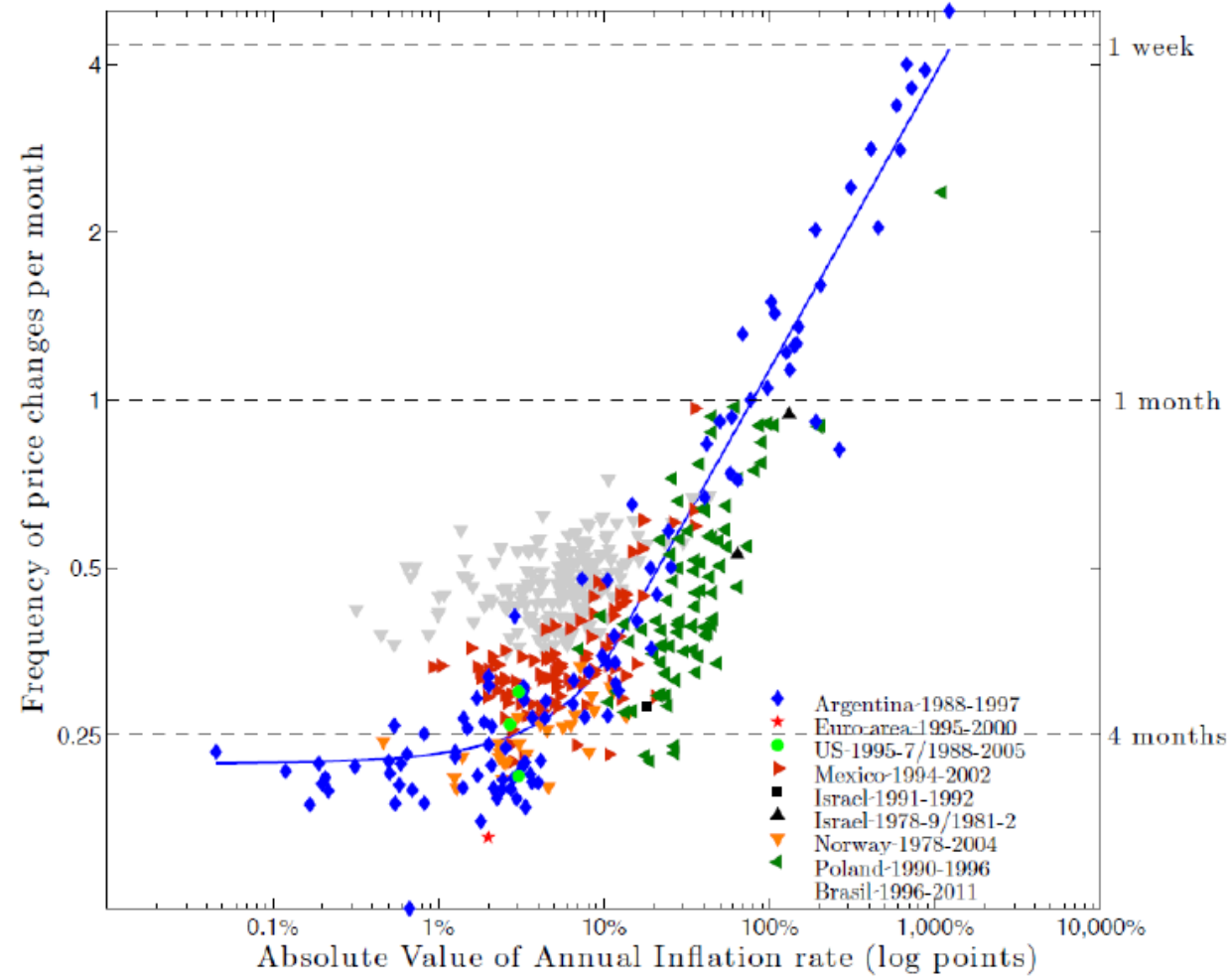
	whole sample (1)	surge (2)	defl. times (3)	drop (4)	normal times (5)
Right time to purchase					
π_{DHW}^e	0.034*** (0.003)	0.045*** (0.005)	0.013 (0.010)	-0.004 (0.010)	0.036*** (0.004)
$\pi_{Don't\ know}^e$	-0.035*** (0.008)	-0.056*** (0.012)	-0.012 (0.021)	-0.035** (0.017)	-0.033*** (0.010)
Controls					
Demographics	X	X	X	X	X
Expectations	X	X	X	X	X
π_t	X	X	X	X	X
i_t	X	X	X	X	X
No. obs.	122,681	11,902	24,533	3,385	82,861

Standard errors, clustered at the quarter level, in parentheses.
Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Marencak (forthcoming)

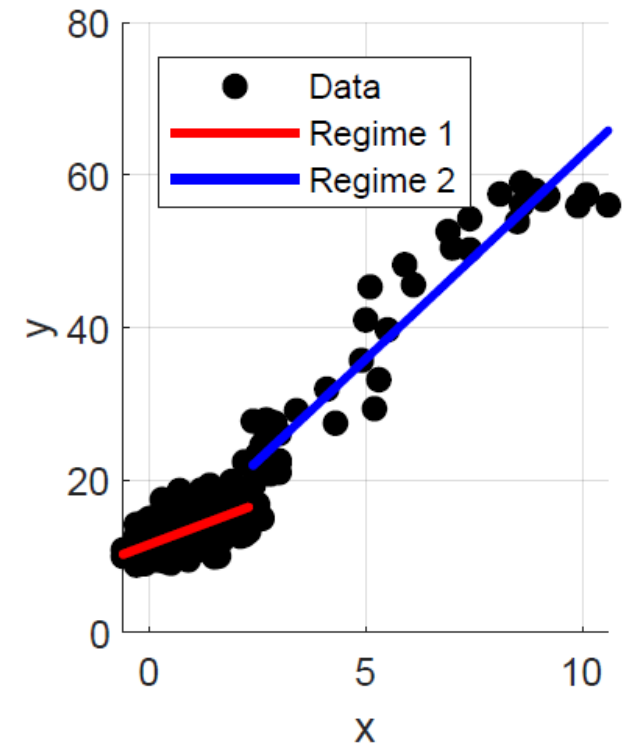
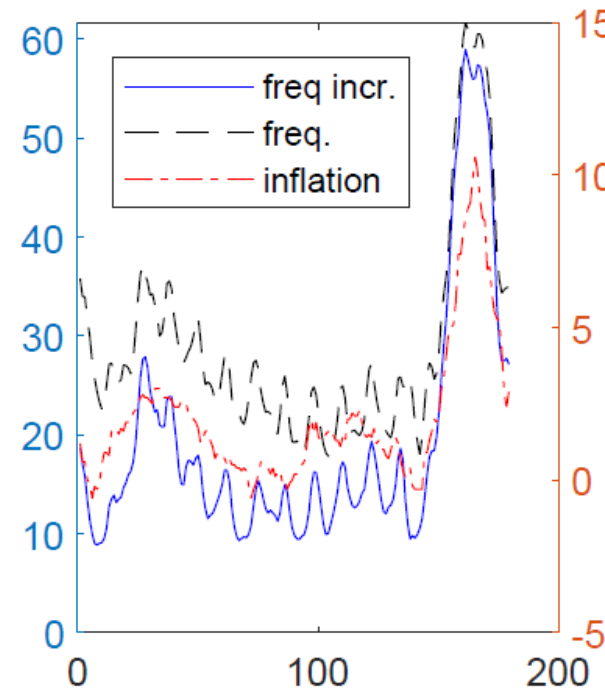
Source: Marencak (forthcoming)

Firms' price setting



Firms' price setting

- Data from EC Harmonised Survey on **whether firms expect prices to increase, decrease or stay the same over the next 3 months**
- **Retail sector:** price re-setting most closely linked to inflation
- **Clear threshold effect** (at 2.36 pct)



Source: Marencak (forthcoming)

Policy implications?

- “**Seeing through shocks**” can be a **risky** strategy
- More **forceful action** on both sides of the target under IT
- How would **alternative strategies** perform?

