

Getting Policies Right

Remarks for Policy Panel “How should the interaction between finance ministries and central banks be structured?”

Franziska Ohnsorge

Geneva, September 27, 2019

Two Questions

1 **What has been achieved?** *Lower inflation, better anchored inflation expectations, fewer crises, in part because of coincidence of stronger monetary and fiscal policy frameworks and other supporting policies.*

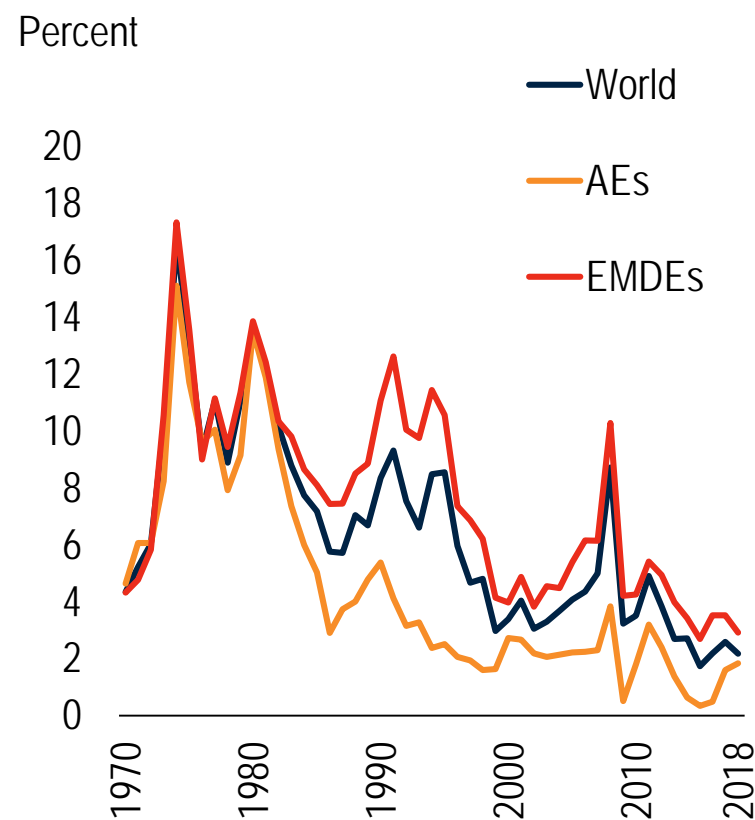
2 **Will the achievements last?** *Achievements are at risk in the event of retreat from globalization, central bank independence, or sound fiscal positions.*

* *EMDEs = Emerging Market and Developing Economies*

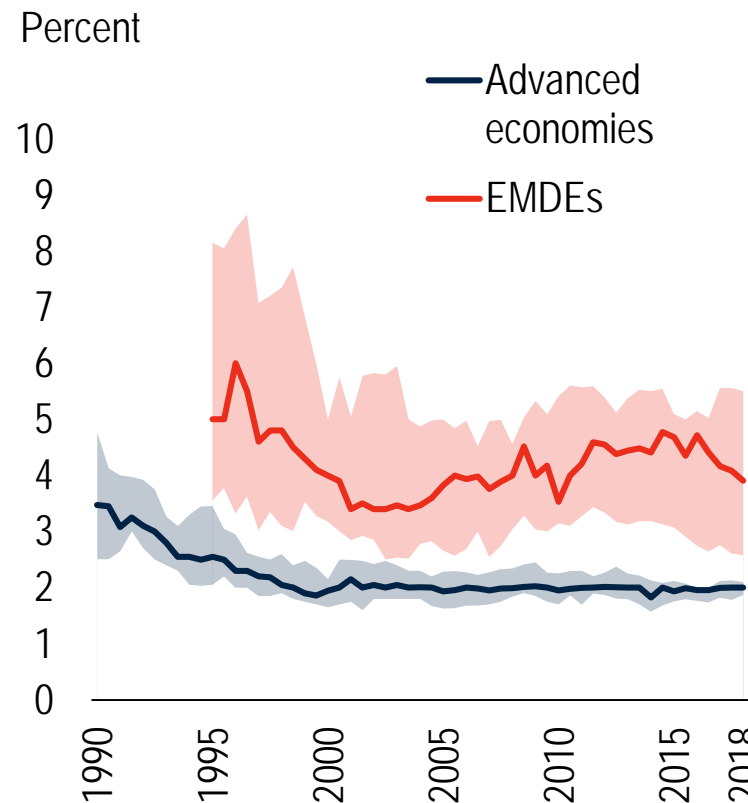
Macroeconomic Stability

Lower Inflation, Better-Anchored Inflation Expectations, Fewer Crises

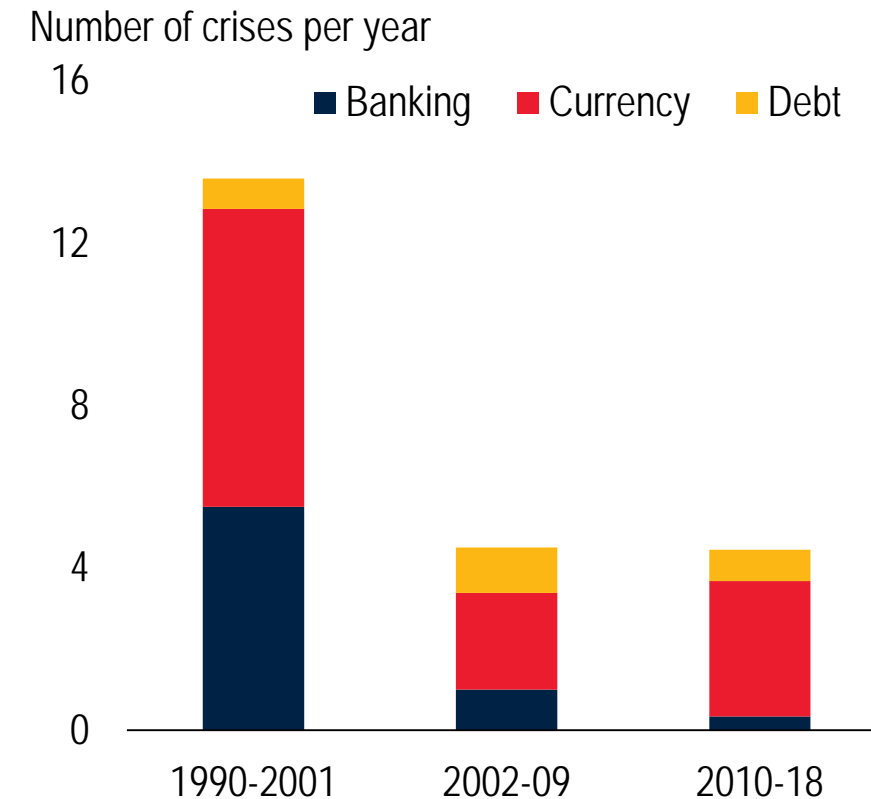
CPI inflation



Inflation Expectations



Number of financial crises



Source: World Bank, [Kose et al. \(2019\)](#).

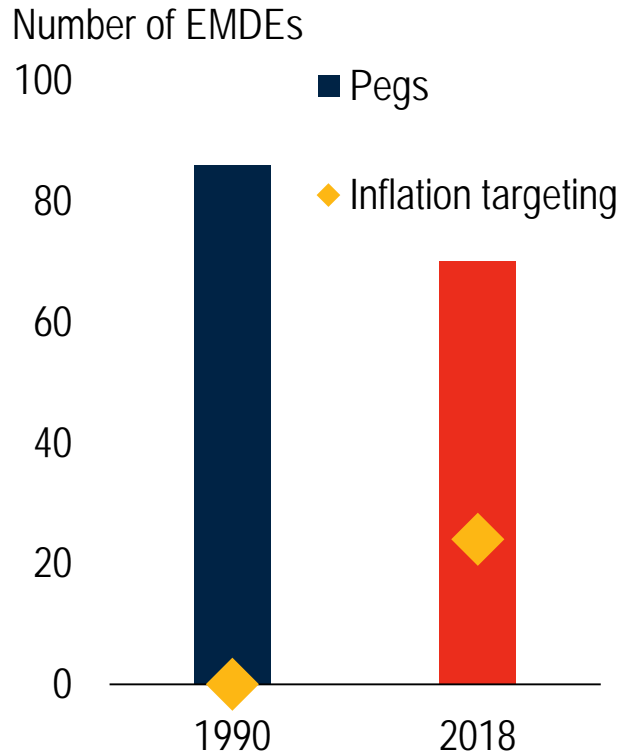
3

Left panel: "AEs" stands for advanced economies. Median headline CPI (consumer price index) inflation of 152 countries (29 advanced economies and 123 EMDEs). Center panel: Inflation expectations refer to 5-year-ahead consensus forecasts of annual inflation for 24 advanced economies and 23 EMDEs. Right panel: Banking, currency and debt crises as defined in Laeven and Valencia (2018).

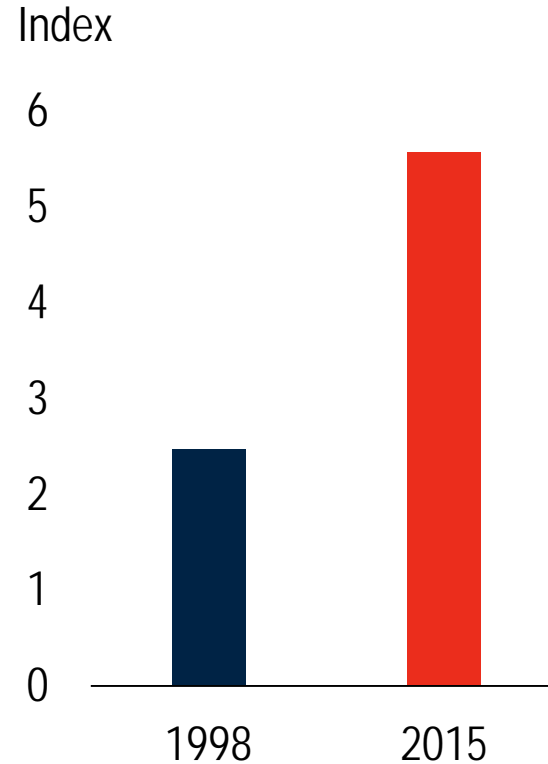
Monetary and fiscal policy frameworks

Strengthened in many EMDEs in 2000s

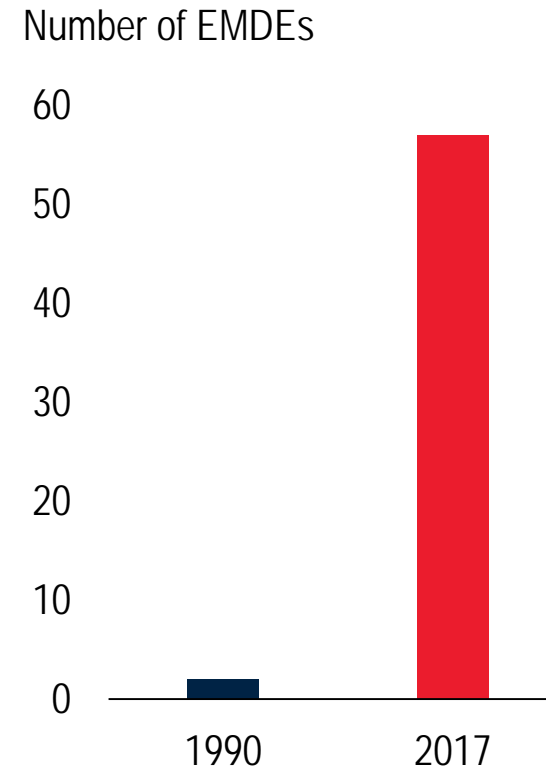
EMDEs with exchange rate pegs, inflation targeting



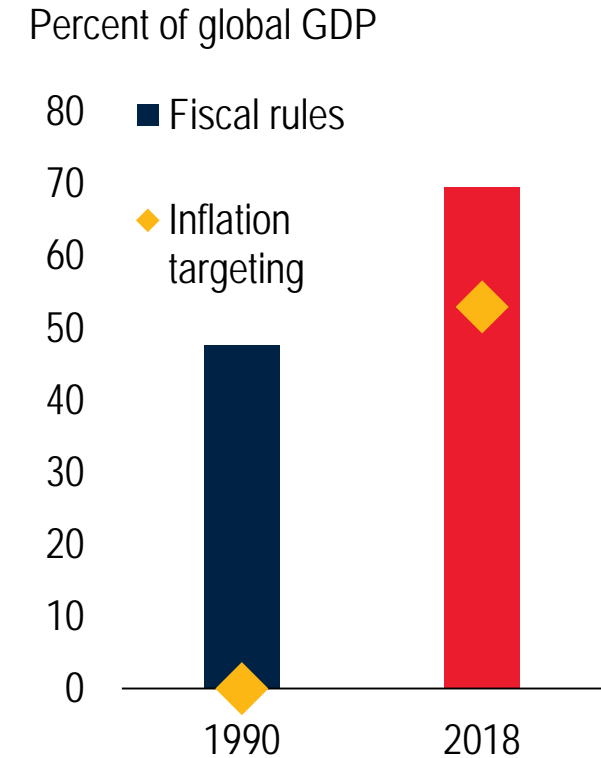
EMDE central bank indep. and transp.



EMDEs with fiscal rules



Countries with fiscal rules, inflation targeting



Source: [Kose et al. \(2019\)](#), World Bank, IMF AREAR, IMF Fiscal Rules Database, Dincer and Eichengreen (2015).

Left panel: "Pegs" stands for number of EMDEs with de jure currency boards, pegs, or crawl-like arrangements (2018) or de jure pegs or limited flexibility arrangements (1990). Second panel from left: unweighted averages. Data only available for 1998 and 2014.

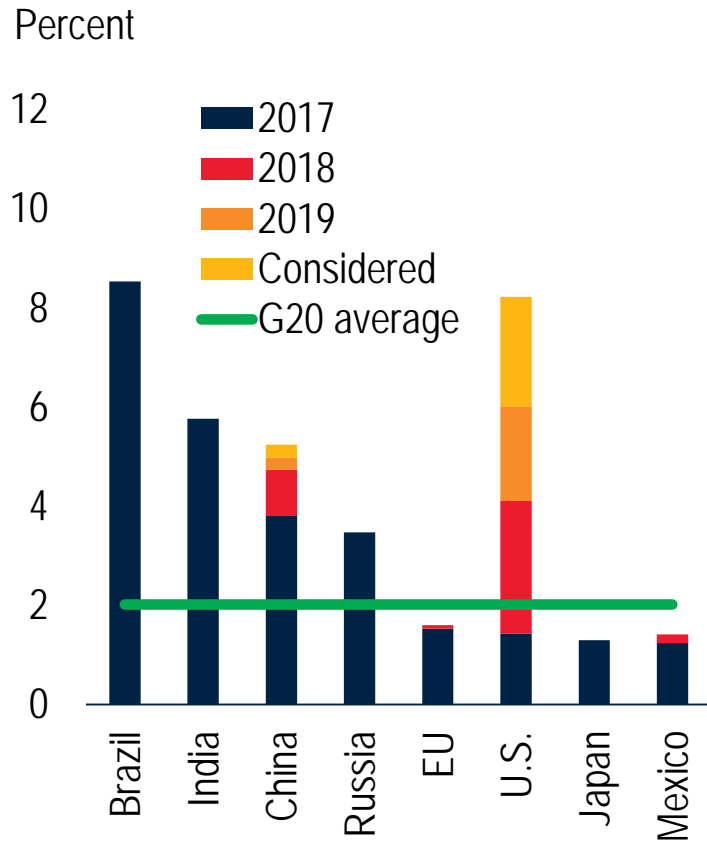
Two Questions

1 **What has been achieved?** *Lower inflation, better anchored inflation expectations, fewer crises, in part because of coincidence of stronger monetary and fiscal policy frameworks and other supporting policies.*

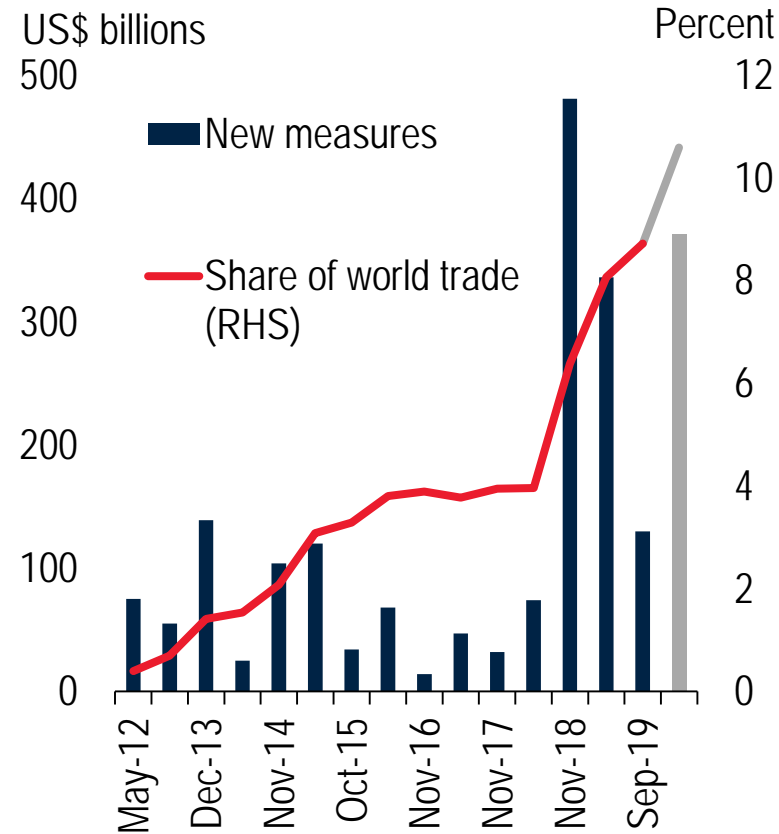
2 **Will the achievements last?** *Achievements are at risk in the event of retreat from globalization, central bank independence, or sound fiscal positions.*

Will Achievements Last? *Retreat from Globalization?*

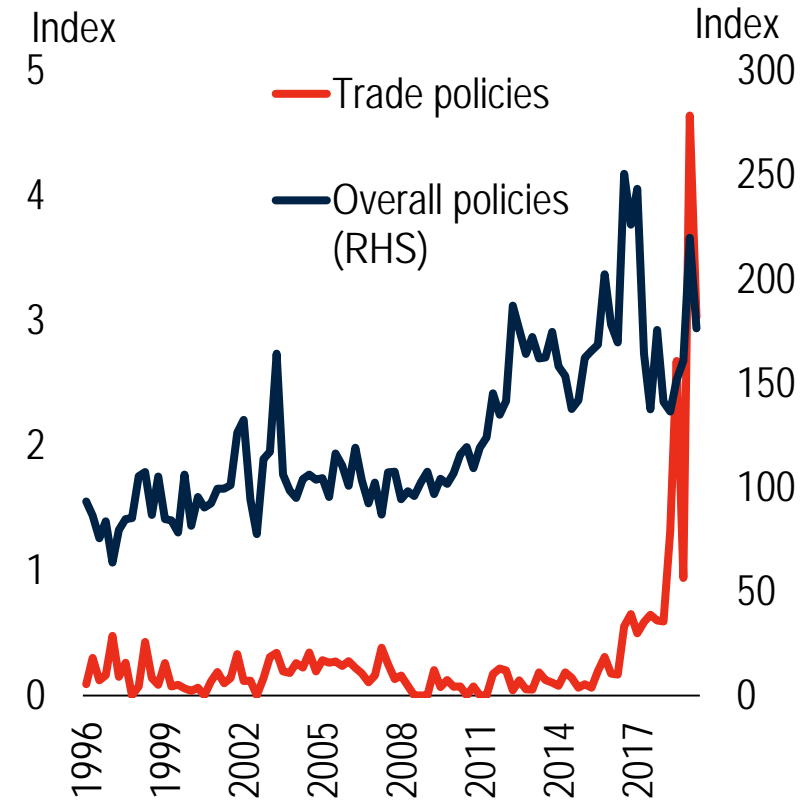
Tariffs



New G20 trade restrictions



World policy uncertainty



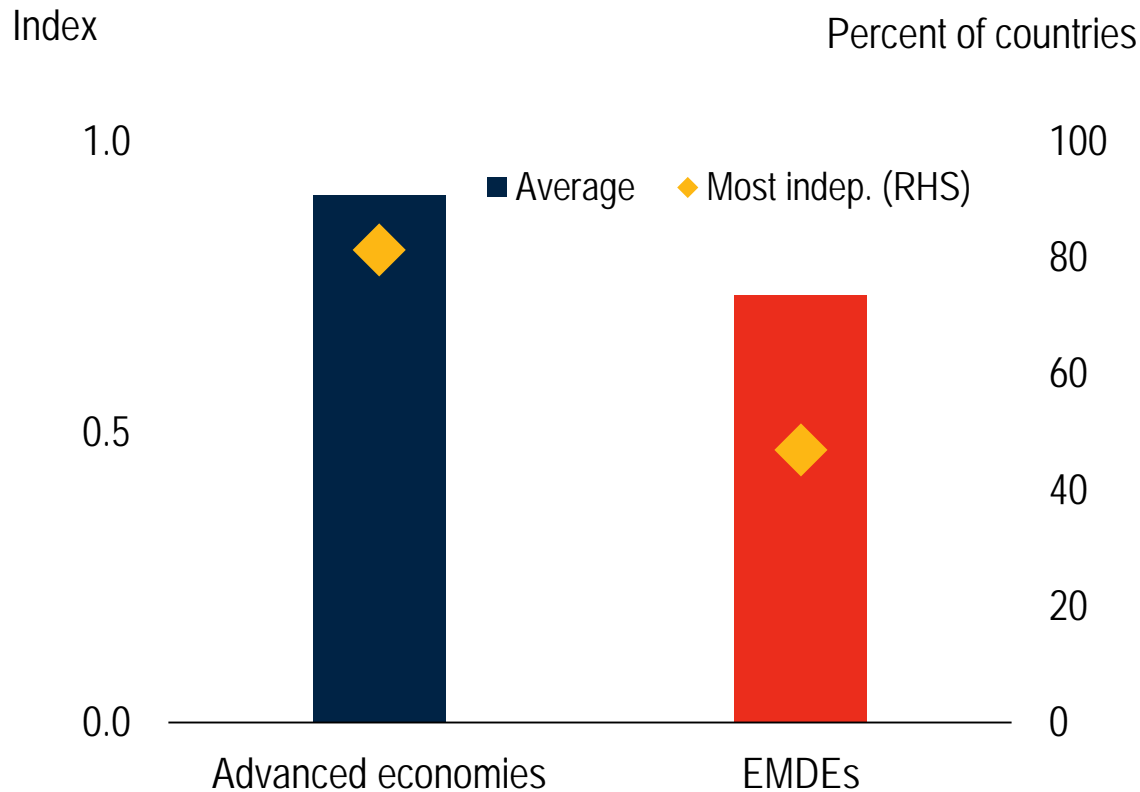
Sources: International Monetary Fund; UNComtrade, WTO, Ahir, Bloom and Furceri (2019), World Bank [Global Economic Prospects report](#).

Left panel: Trade-weighted average tariffs. Yellow bar denotes tariffs announced but not yet implemented. Red and orange bars denote tariffs effective in 2018 and 2019, respectively. Center panel: New trade restrictive measures (tariffs and non-tariff barriers) implemented by G20 members. Right panel: News-based measure of trade policy and overall policy uncertainty for 143 countries.

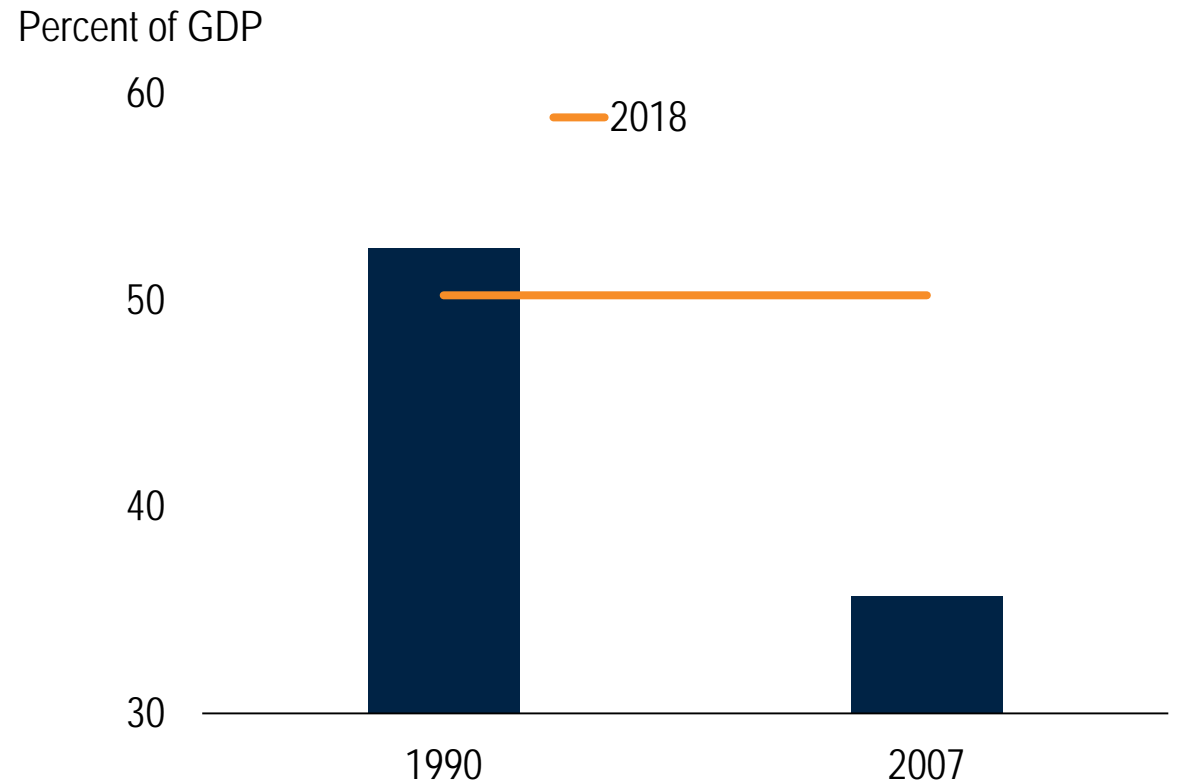
Will Achievements Last?

Fiscal Pressures?

Central bank independence



EMDE government debt

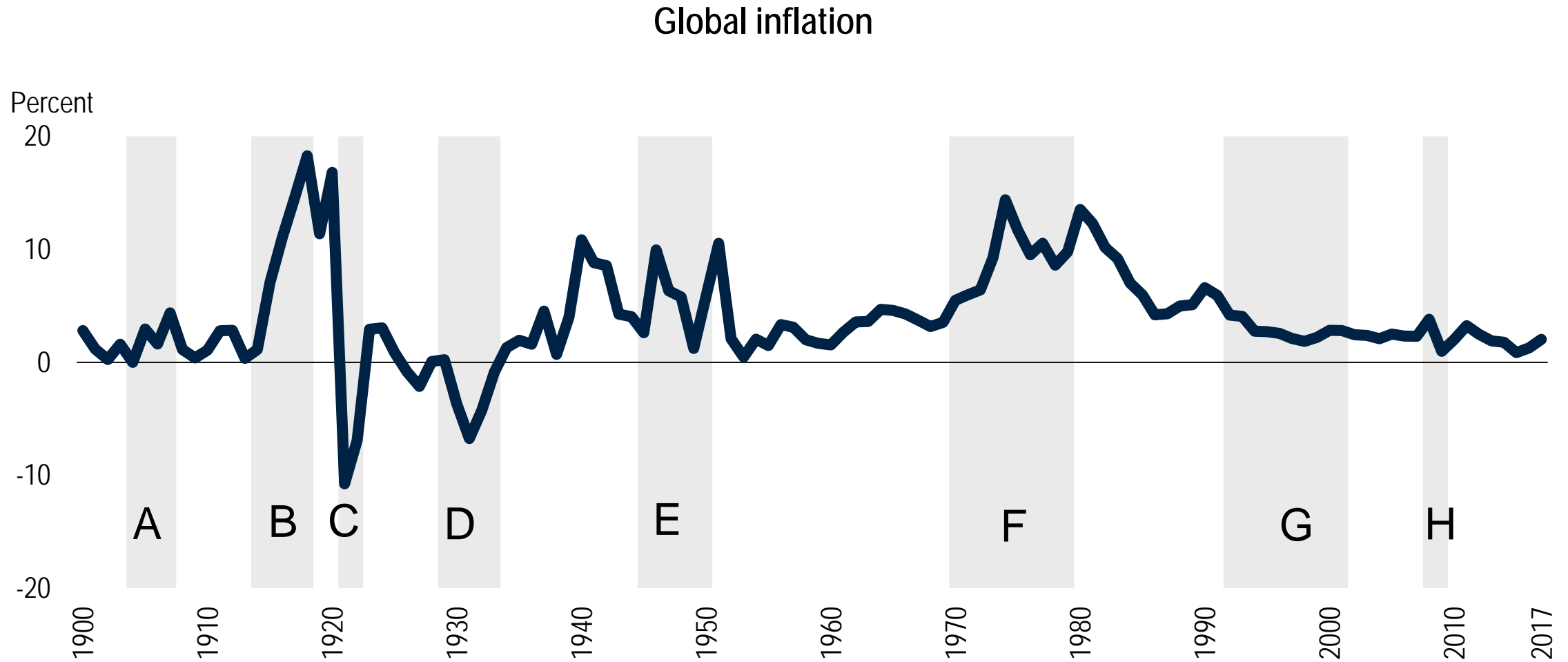


Sources: International Monetary Fund; [Kose et al. \(2017\)](#); UNComtrade, WTO, Dincer and Eichengreen (2019), World Bank.

Note: Unweighted averages. Independence defined based on answers to question "Are there explicit institutional arrangements or contracts for monetary policy between the monetary authorities and the government?" No central bank, contracts, or other institutional arrangements = 0. Central bank without explicit instrument independence or contract = ½. Central bank with explicit instrument independence for the body responsible for monetary policy or a central bank contract for monetary policy (although possibly subject to an explicit override procedure) = 1. "Average" (left panel) is unweighted average index of independence (1c); "Most" indicates countries with most independence (1c=1). Second panel from right: Based on 11 debt crises in EMDEs since 1990, as defined in Laeven and Valencia (2018). When there are multiple crises within five years, the one with the lowest real GDP growth is counted as an event. Long-term interest rates refer to nominal 10-year government bond yields, or bond yields with similar maturities. Right panel. Average inflation in EMDEs 1998-2015 for most (1) and moderate (0.5) independence.

Will Achievements Last?

Past Periods of Low Inflation Did Not Last



Source: [Kose et al. \(2019\)](#), Haver Analytics, ILO, IMF, OECD, UN, World Bank.

Note: Median of annual average inflation in 24 countries where data are available across the full period. A = Gold Standard and Stability (1880-1913). B = World War I and High Inflation (1914-18). C = Post World War I Depression and Deflation (1920-22). D = Great Depression (1929-33). E = World War II, Monetary Controls and Post-war Inflation (1945-49). E to F = Bretton Woods System of fixed exchange rates (1944-71). F = Floating Exchange Rates and Oil Shocks (OPEC, 1971-79). G = Introduction of Inflation Targeting (1990-2000). H = Global Financial Crisis.

Two Questions

- 1 What has been achieved?** *Lower inflation, better anchored inflation expectations, fewer crises, in part because of coincidence of stronger monetary and fiscal policy frameworks and other supporting policies.*
- 2 Will the achievements last?** *Achievements are at risk in the event of retreat from globalization, central bank independence, or sound fiscal positions.*

* *EMDEs = Emerging Market and Developing Economies*

Select Publications by the Prospects Group

- *Global Economic Prospects* – *June 2019*
(January and June)
- *Commodity Markets Outlook* – *April 2019*
(April and October)
- *Global Monthly*
- *Inflation in Emerging and Developing Economies* – *November 2018*
- *Why do Fiscal Multipliers Depend on Fiscal Positions?* – *March 2019*