

# Perspectives on Monetary Policy and the Framework Review

*Kristin Forbes*

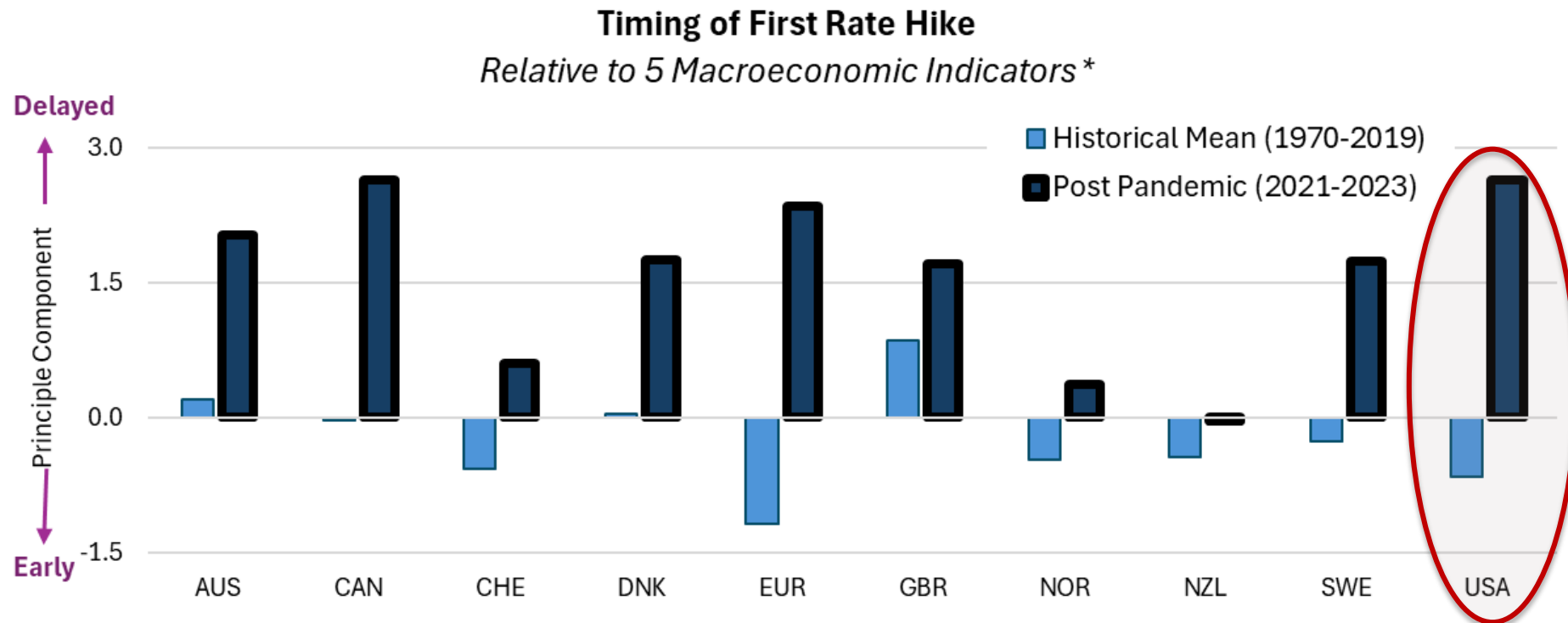
*MIT-Sloan School of Management, NBER & CEPR*



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# Post-Pandemic Inflation

## *Delayed Central Bank Response*

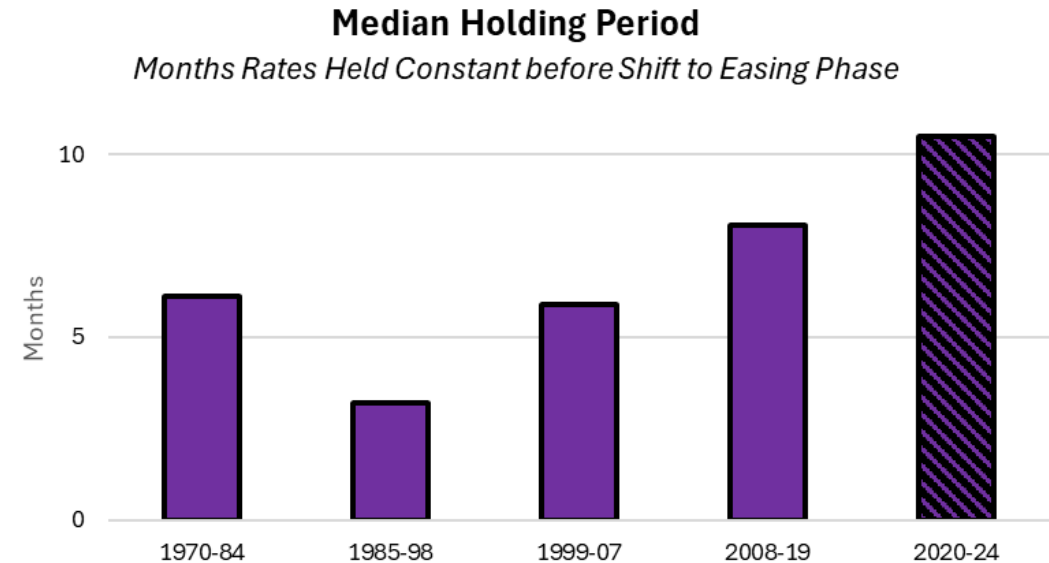
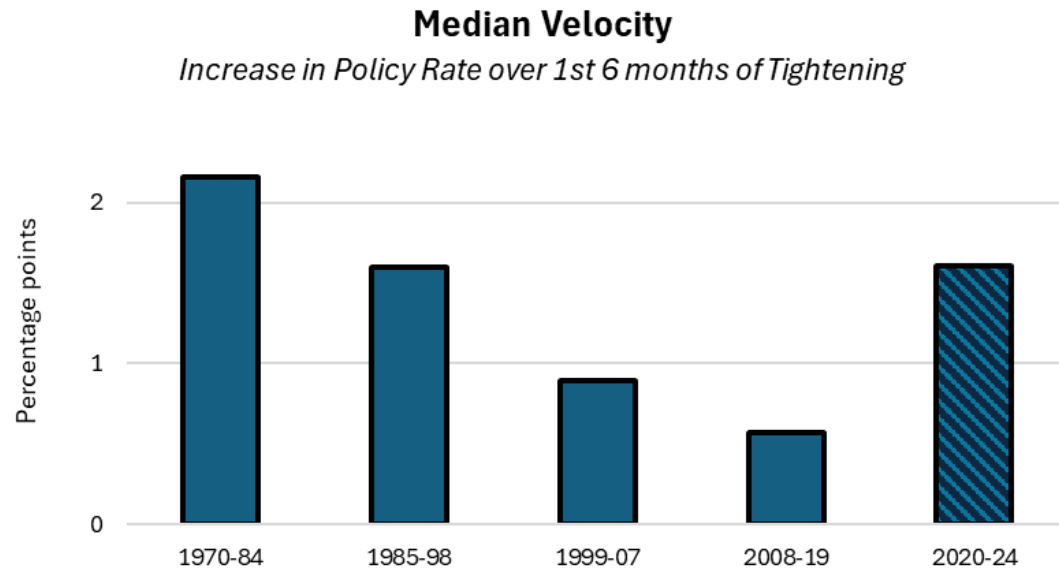


\*Principal component to assess timing based on: CPI (PCE) inflation, core inflation, unemployment gap, output gap and GDP growth.

**Source:** Forbes, Ha and Kose, "Sacrifice and Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level," work in progress for NBER Macroeconomics Annual (April 2025)

# Followed by Unusually Aggressive Tightening

## *Tightening Phases in Advanced Economies*

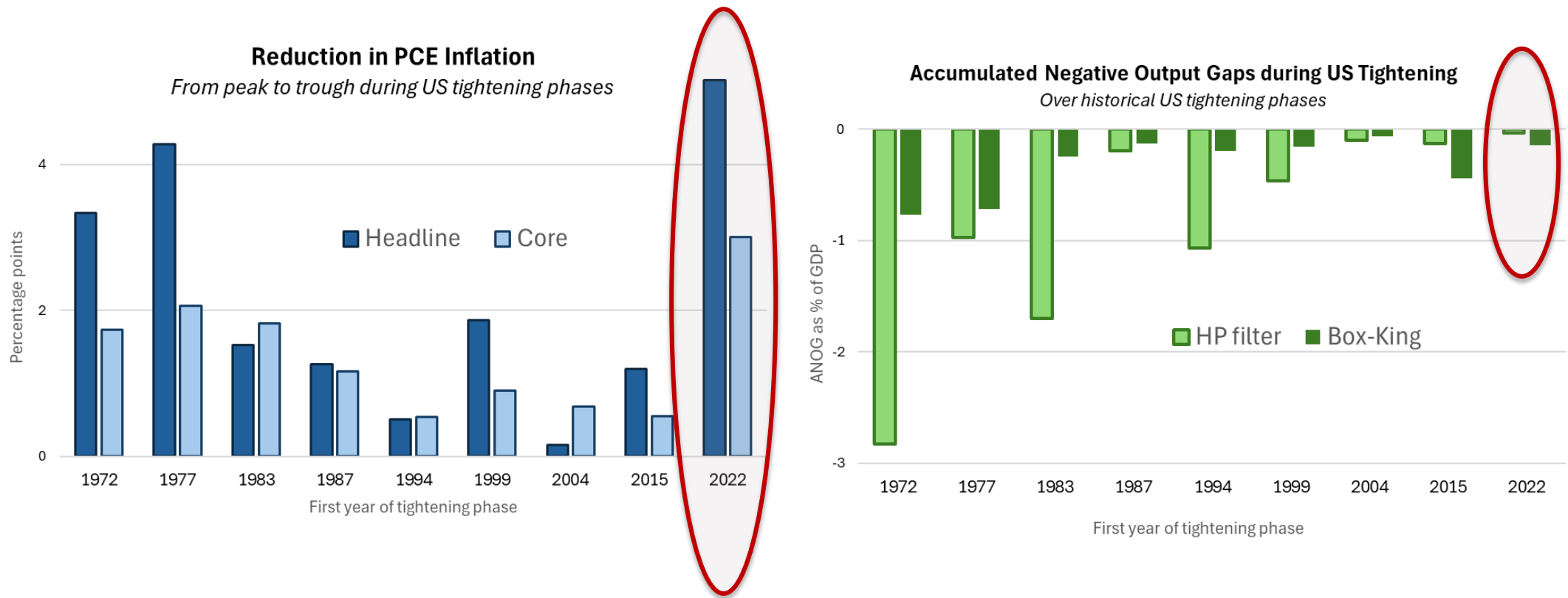


**Source:** Forbes, Ha and Kose (2024), “Rate Cycles”. Paper for ECB Forum on Central Banking in Sintra, Portugal. Graphs shows median values for sample of major advanced economies. Euro area members included individually before 1999 and the ECB from 1999.



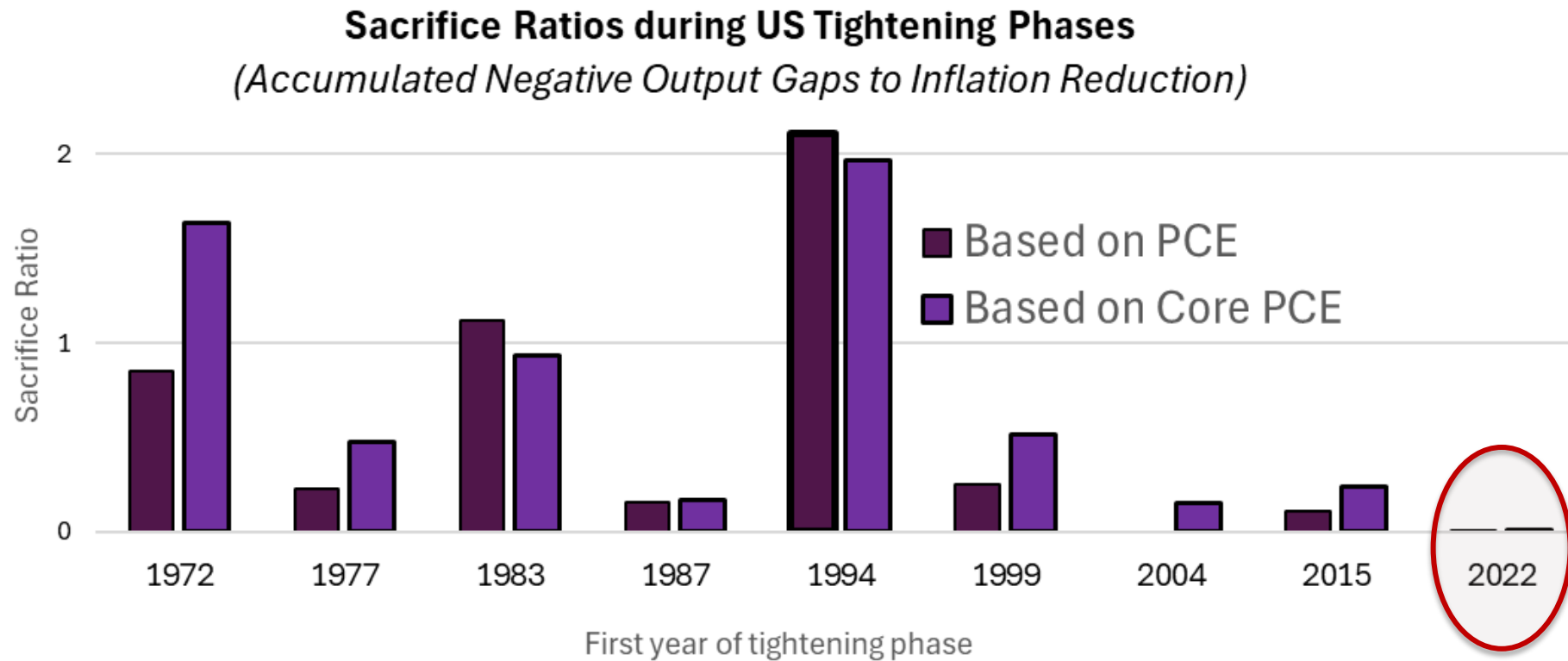
# Sharp Disinflation and Minimal Output Losses

## *US Experience Relative to Historical Tightening Phases*



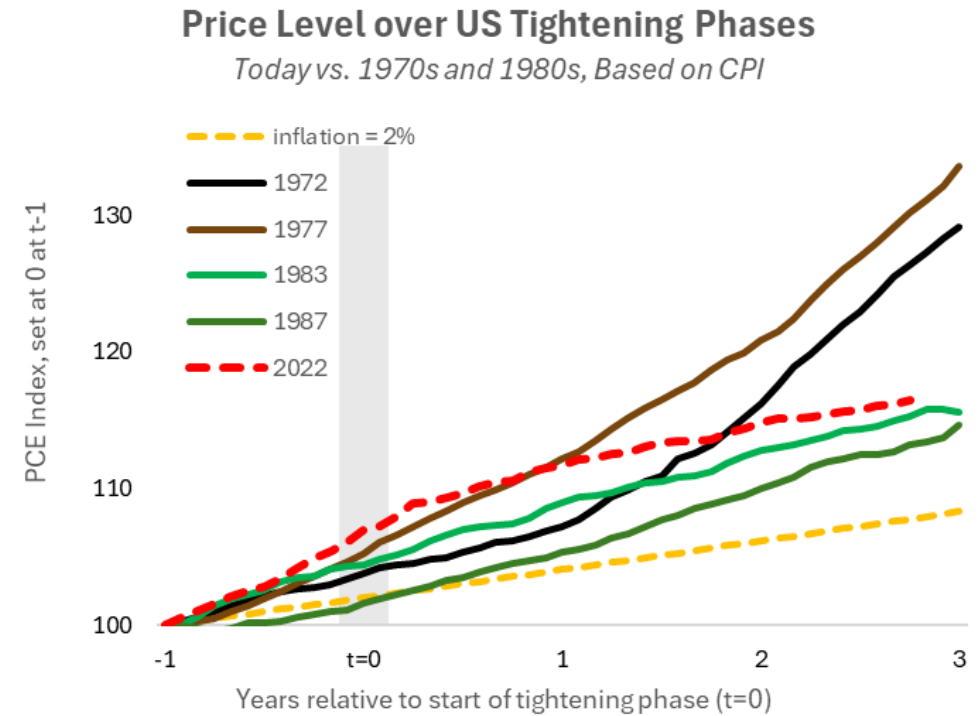
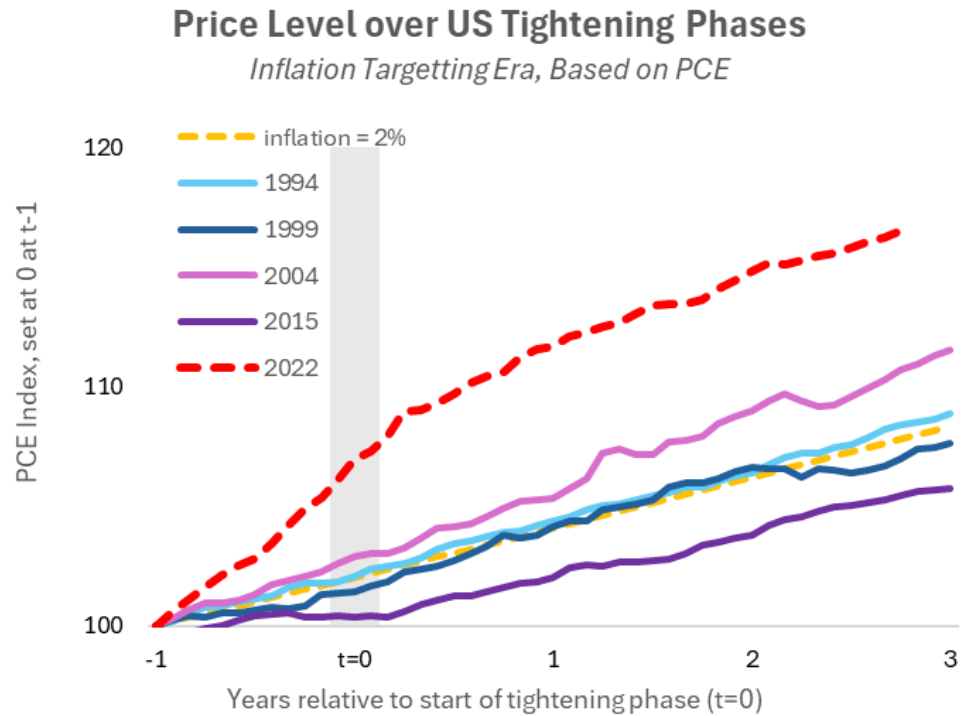
Source: Forbes, Ha and Kose, "Sacrifice and Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level," work in progress for NBER Macroeconomics Annual (April 2025)

# Record Low “Sacrifice”?



**Source:** Forbes, Ha and Kose, “Sacrifice and Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level,” work in progress for NBER Macroeconomics Annual (April 2025)

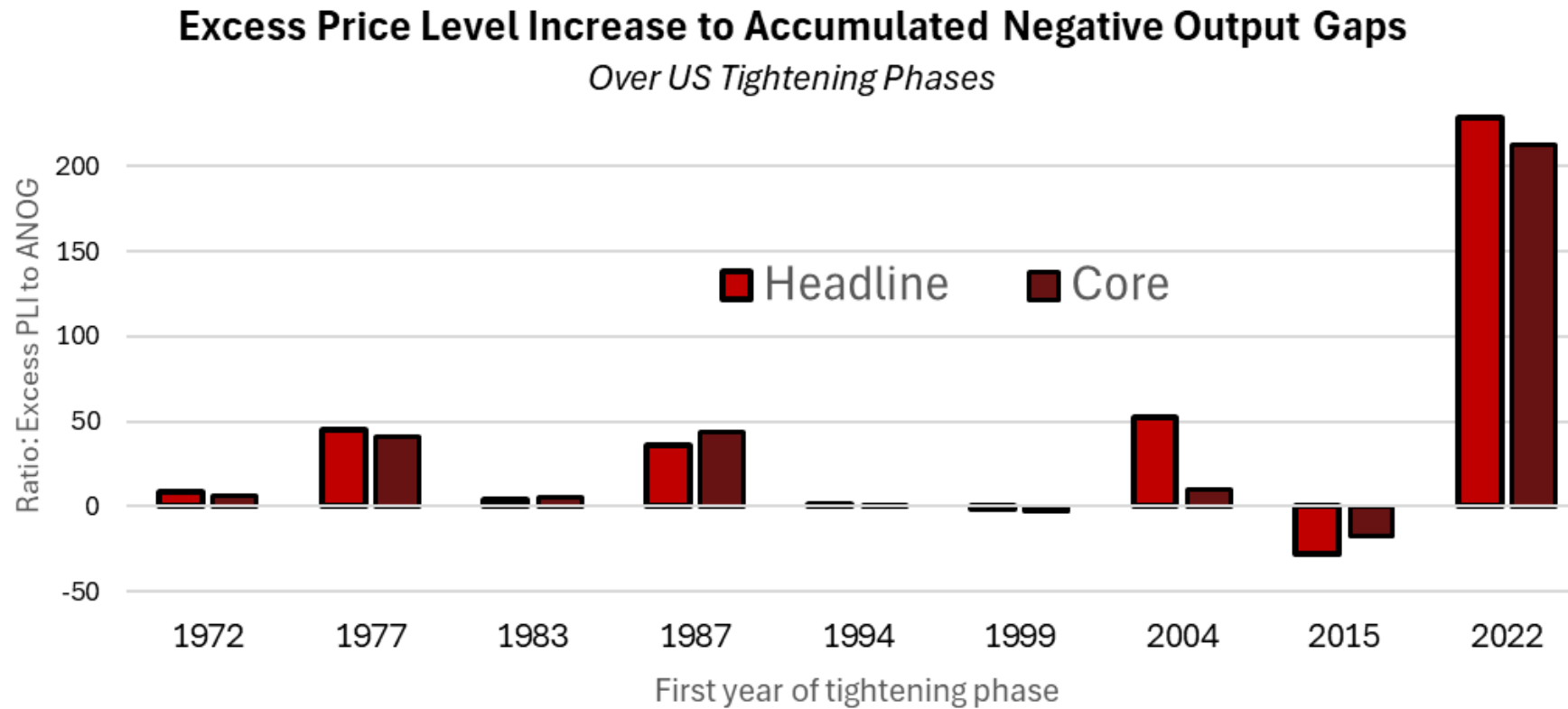
# But...an Overlooked Cost



**Source:** Forbes, Ha and Kose, "Sacrifice and Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level," work in progress for NBER Macroeconomics Annual (April 2025)

# Adjustment Thru Price Level vs Output Losses

## *Different Tradeoff than Historical Episodes*



**Source:** Forbes, Ha and Kose, "Sacrifice and Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level," work in progress for NBER Macroeconomics Annual (April 2025)

# Two Lessons for the Next Review

## 1. Maintain flexibility to quickly adjust strategy and be able to act preemptively to risks in both directions

- Strategy of “start late then sprint” accomplished some goals
- But with costs.... which could have been (much) worse

## 2. More discussion and consideration of the extent and duration of inflation misses in both directions

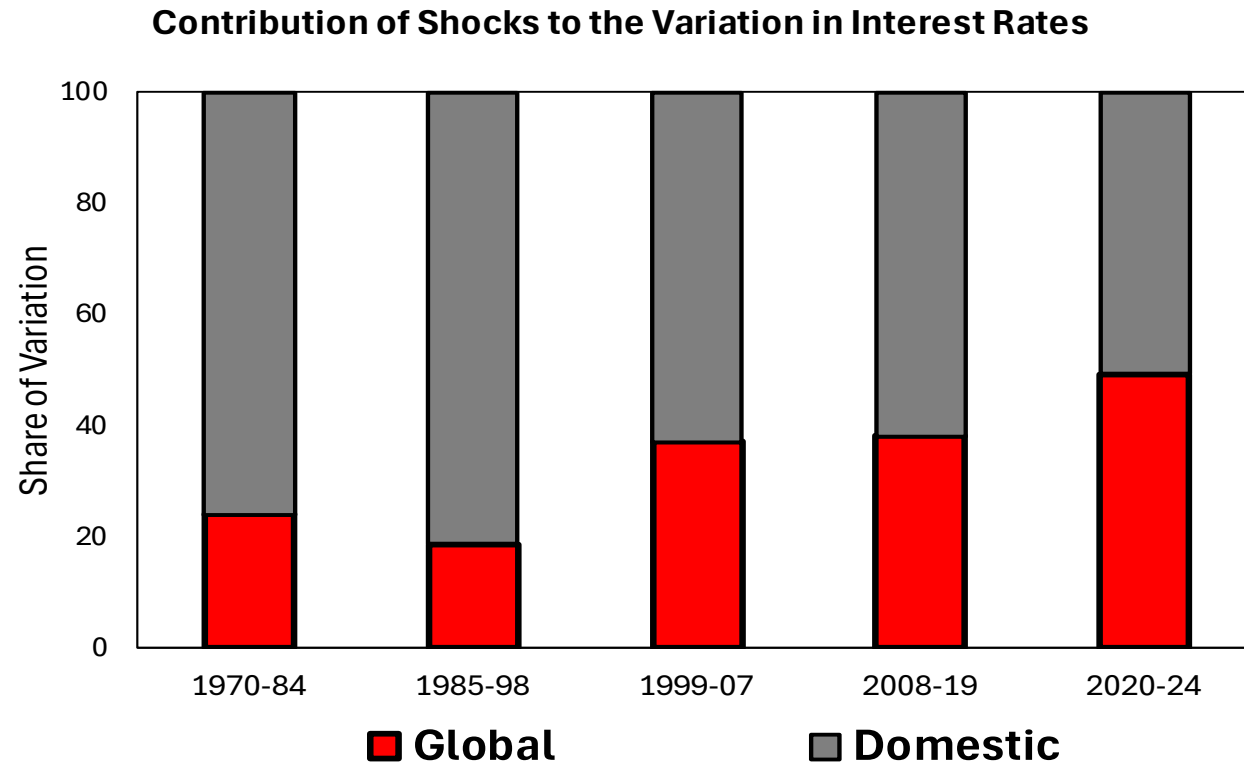
- “Price stability” is more than just returning inflation to target at some point in future
- May become more important if “anchor” is now weaker

**Theme: A framework that can effectively and proactively address risks to inflation (and employment) in both directions**



# Growing Role of Global Shocks

## *Not Unique to 2020-24 Period*



**Source:** Forbes, Ha and Kose (2025), "Heaven or Earth? The Evolving Role of Global Shocks for Domestic Monetary Policy" Role of shocks estimated using FAVAR model with 7 domestic and global shocks.