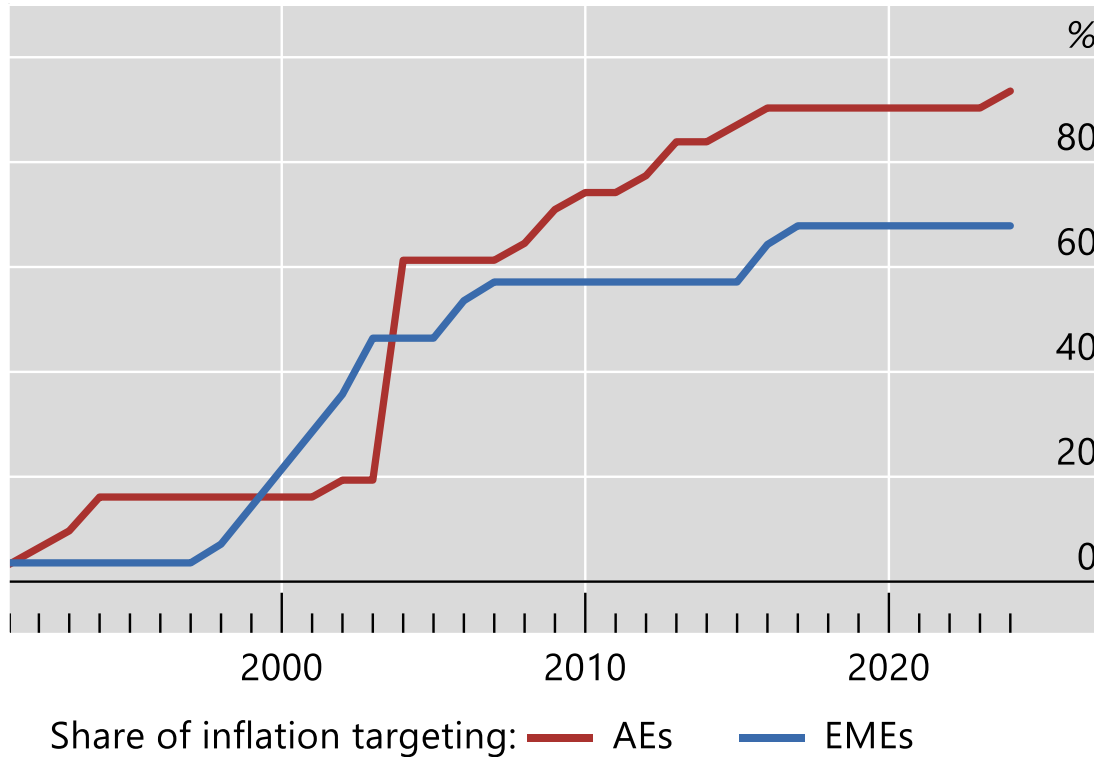# Whither inflation targeting as a global monetary standard?
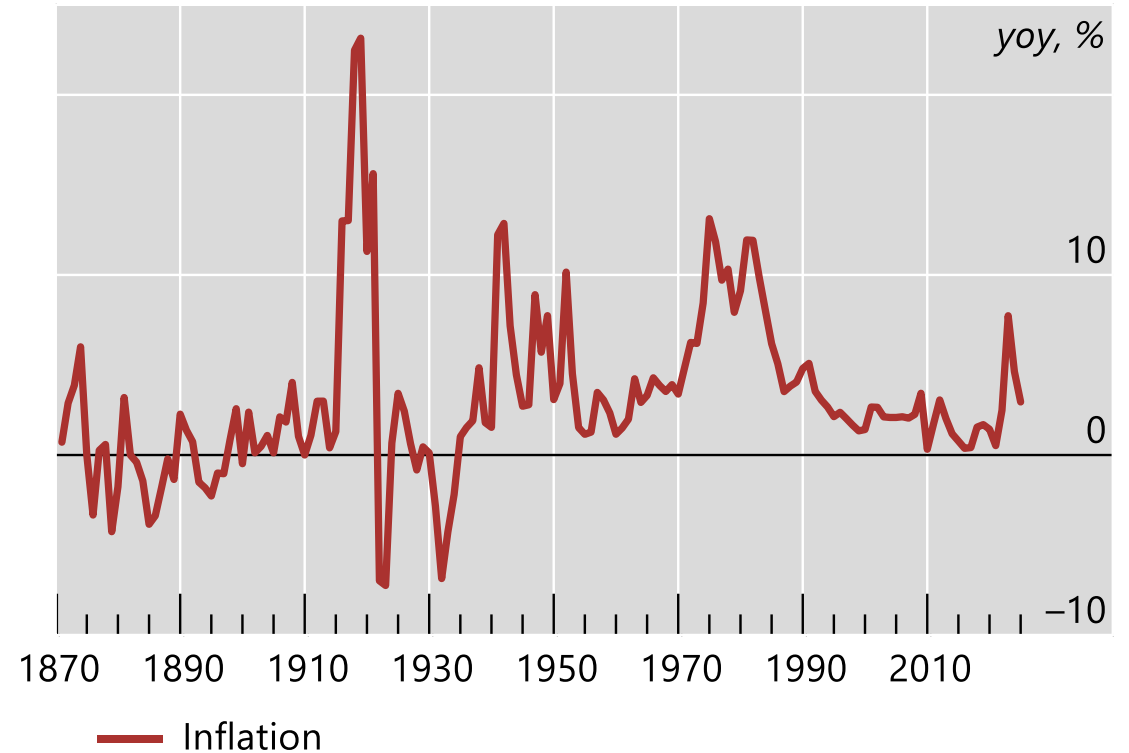
by Claudio Borio

Keynote address at the SARB Biennial Conference, *25 Years of Inflation Targeting: Lessons for the Future,* 27–28 March 2025

Inflation targeting and inflation
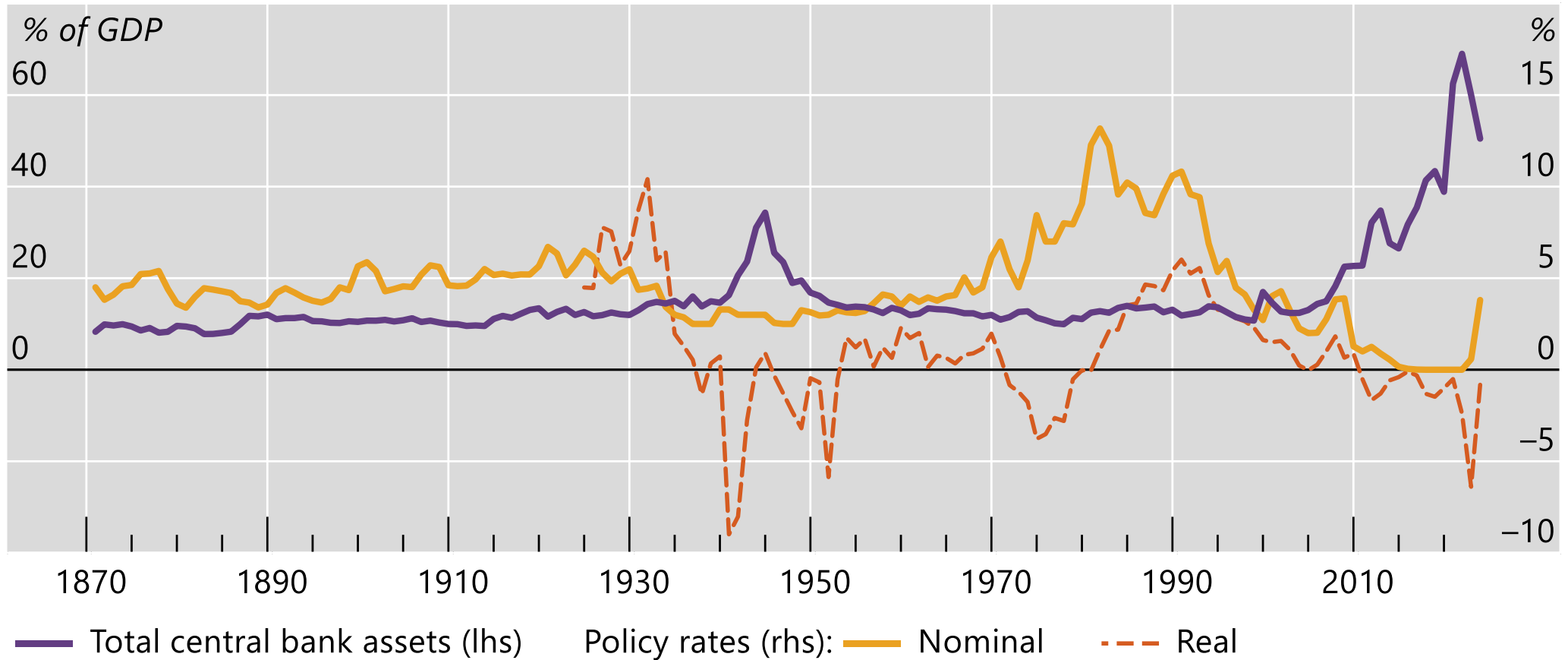
Spread of inflation targeting

Share of inflation targeting: —— AEs —— EMEs

Inflation

—— Inflation

Sources: BIS (2023); BIS (2024).

Loss in policy room for manoeuvre

% of GDP — *%*

Total central bank assets (lhs) — Policy rates (rhs): Nominal — Real

Inflation targeting and inflation
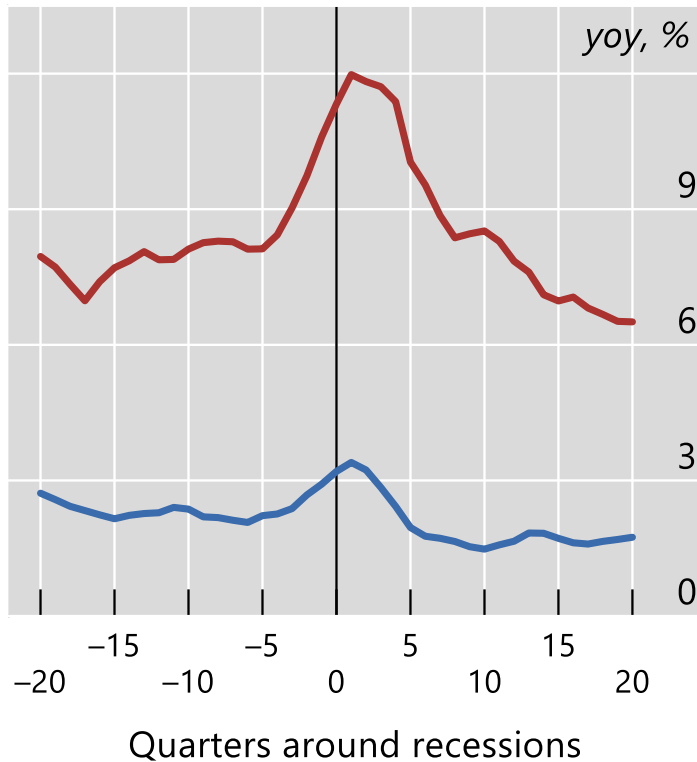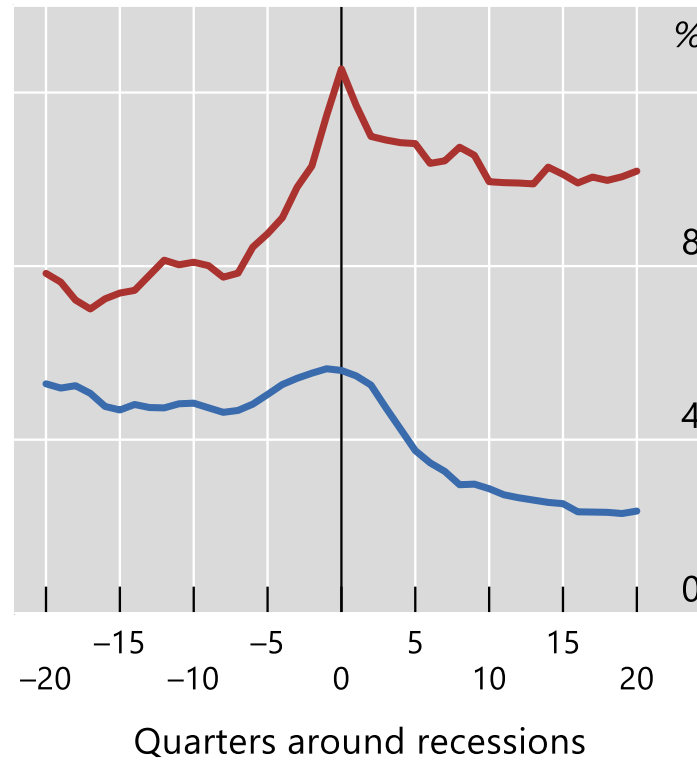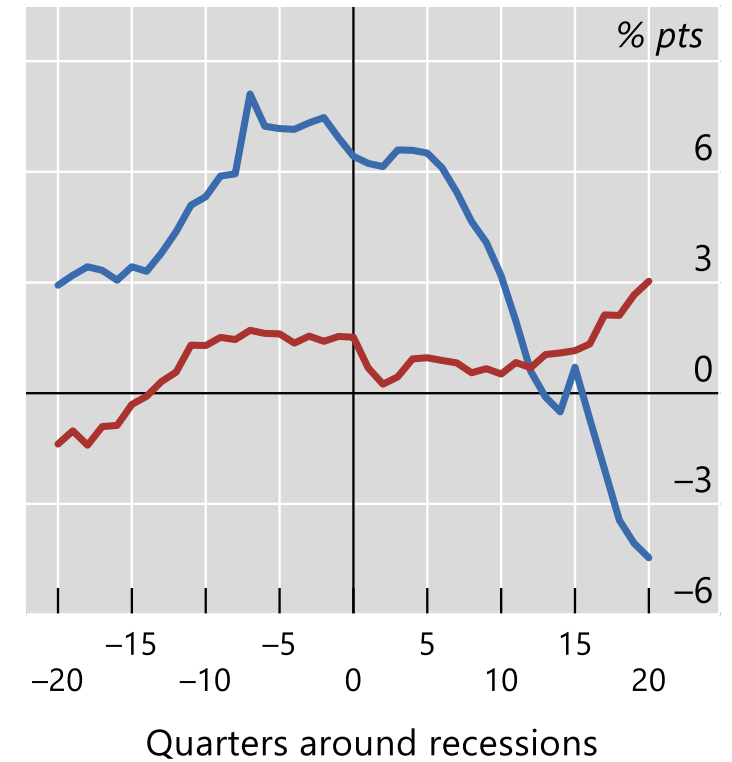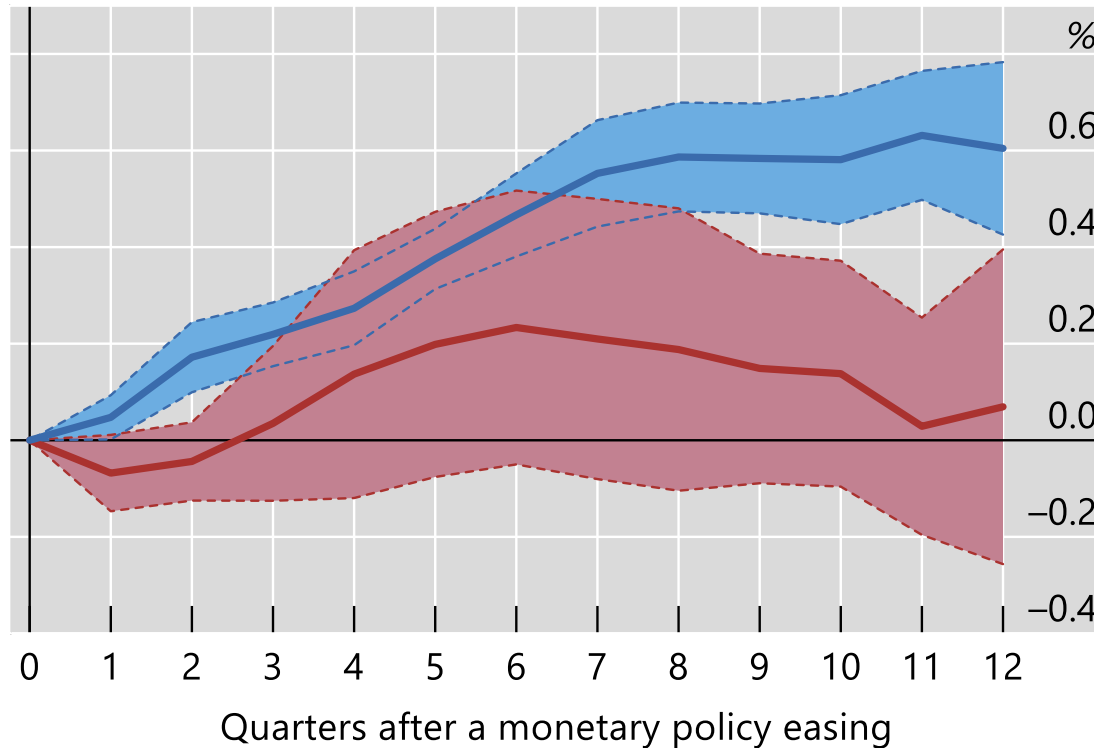

Sources: Borio et al (2020); BIS (2023).

Diminishing returns to impact of low-for-long interest rates

Low rates and economic activity

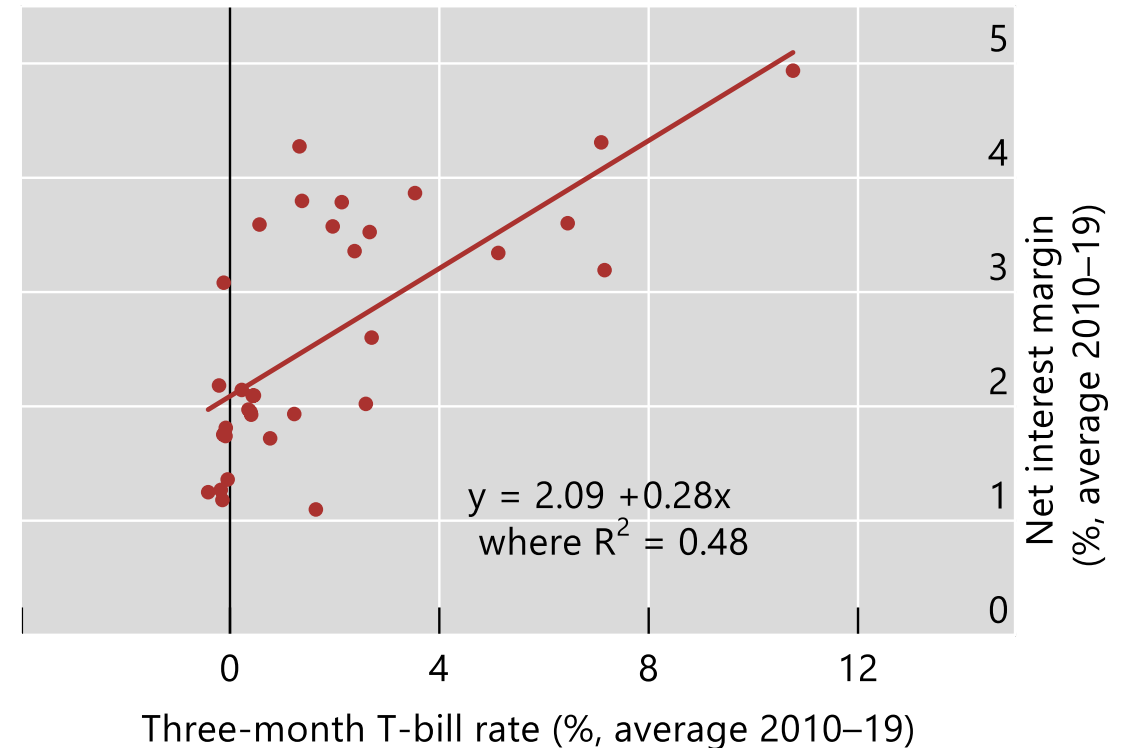Quarters after a monetary policy easing

Impact on bank net interest margins

$$y = 2.09 + 0.28x$$
$$\text{where } R^2 = 0.48$$

Three-month T-bill rate (%, average 2010–19)

Net interest margin (%, average 2010–19)

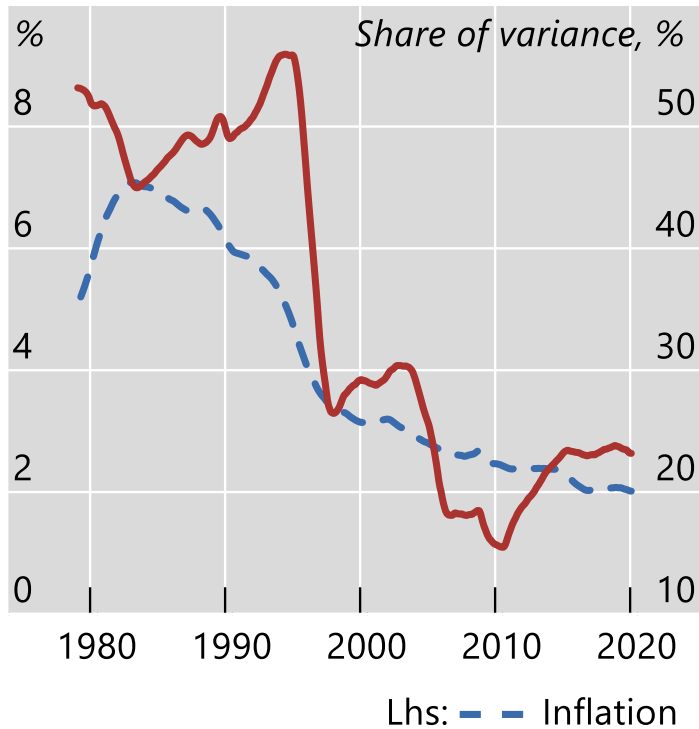Low interest rate: High interest rate:

Impact of 100 bp rate cut
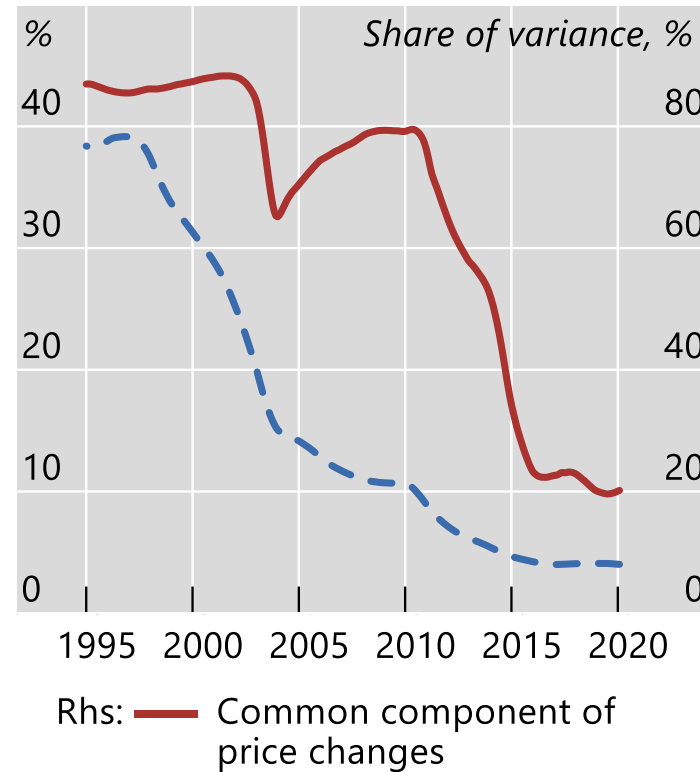
90% confidence interval

Sources: Ahmed et al (2024); BIS (2024).

The two-regime view of inflation

United States

Mexico

Link between wages and prices

Lhs: – – Inflation

Rhs: —— Common component of price changes

Low-inflation regime
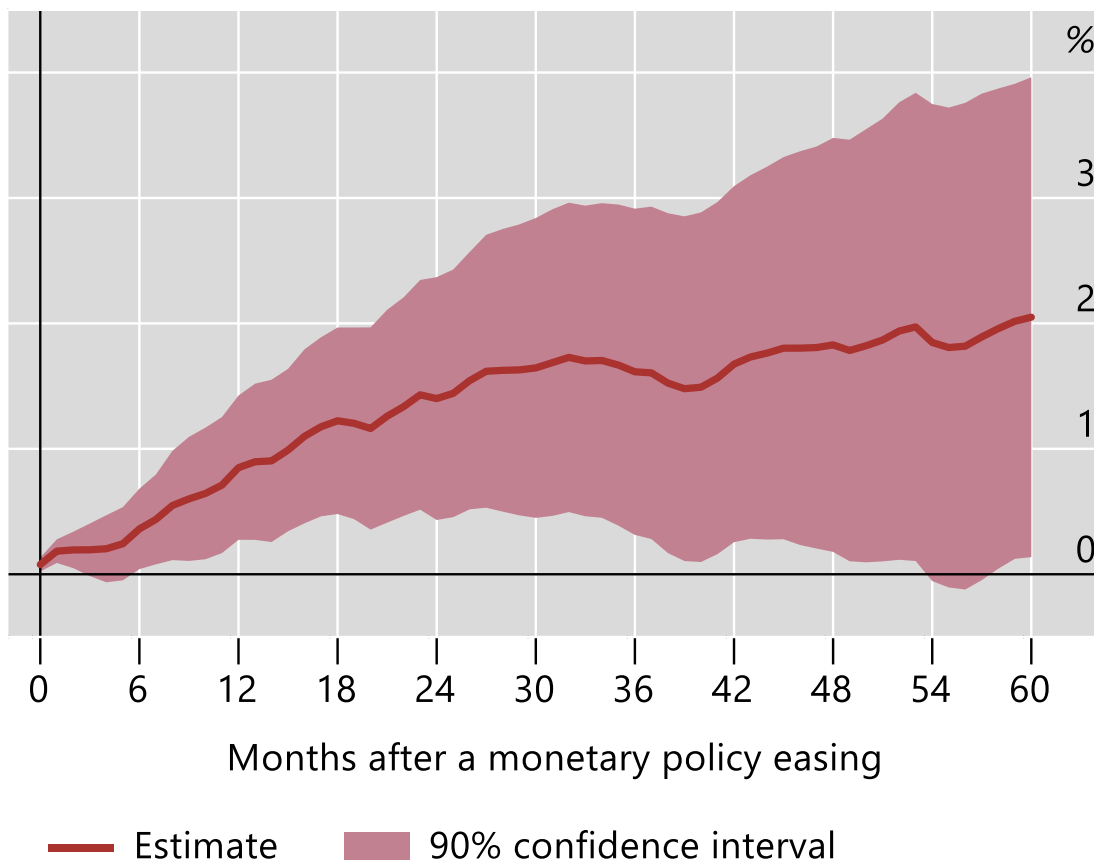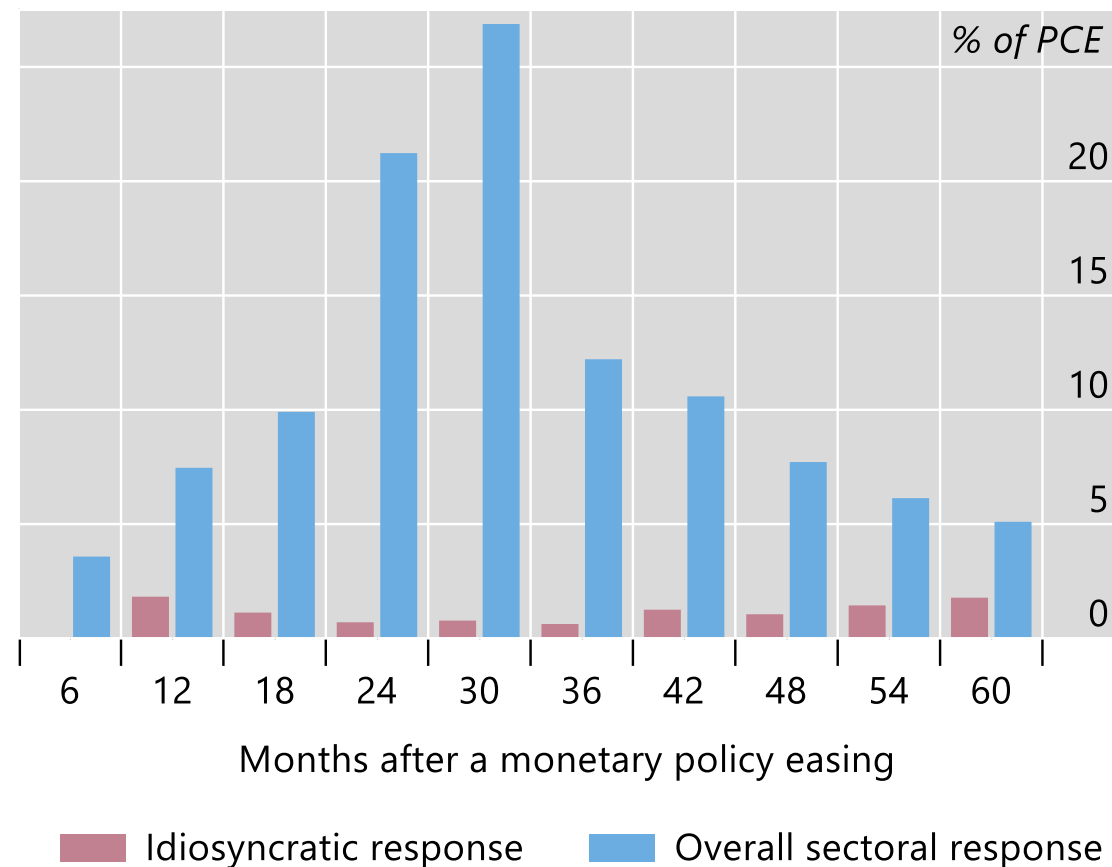High-inflation regime
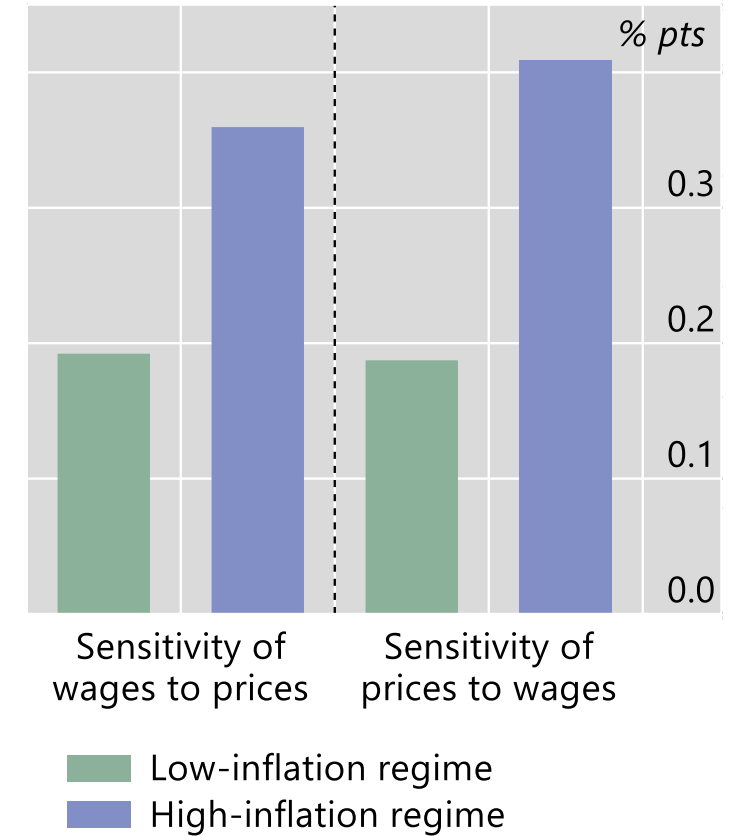
Sources: Borio, Lombardi, Yetman and Zakrajšek (2023); BIS (2024).

Monetary policy loses traction on inflation in a low-inflation regime

Monetary policy and the common component

Months after a monetary policy easing

— Estimate   � 90% confidence interval

Monetary policy and the idiosyncratic component

Months after a monetary policy easing

▬ Idiosyncratic response   ▬ Overall sectoral response

Sources: Borio, Lombardi, Yetman and Zakrajšek (2023); BIS (2024).

The Debt Trap

Lhs: —— Real policy rates   —— Long-term real rates   Rhs: ▨ Debt
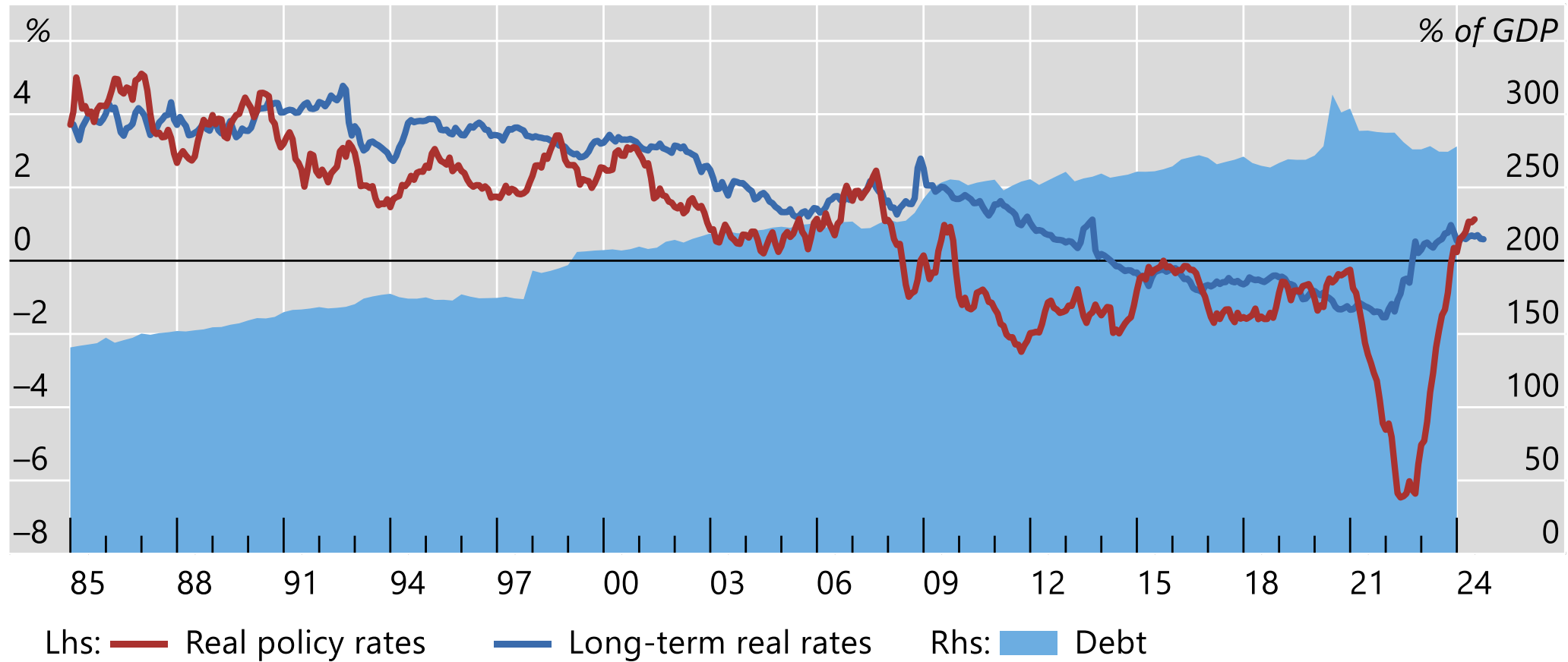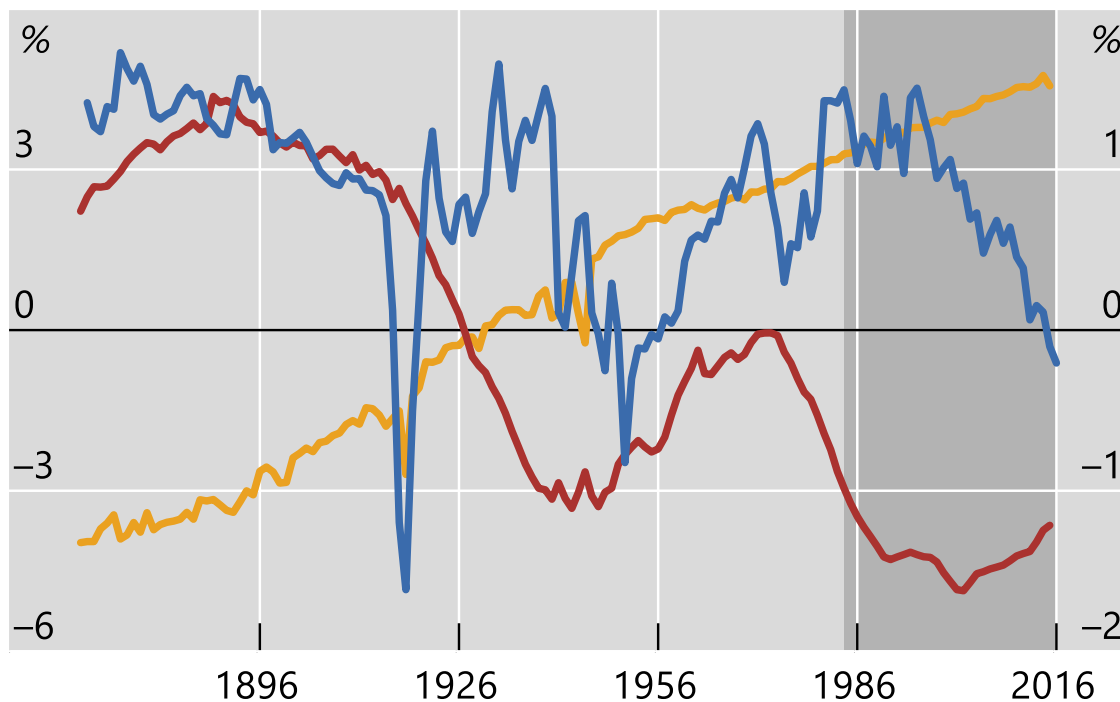
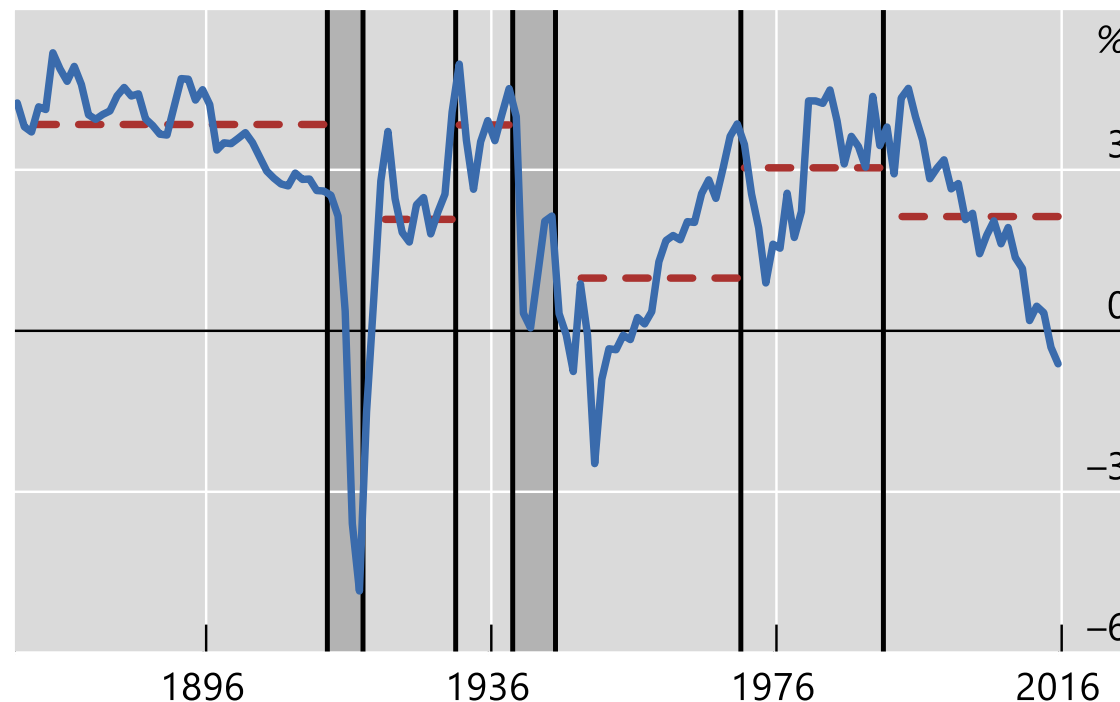Sources: Bloomberg; Datastream; national data; BIS calculations.

The natural rate of interest and its determinants: real or monetary?
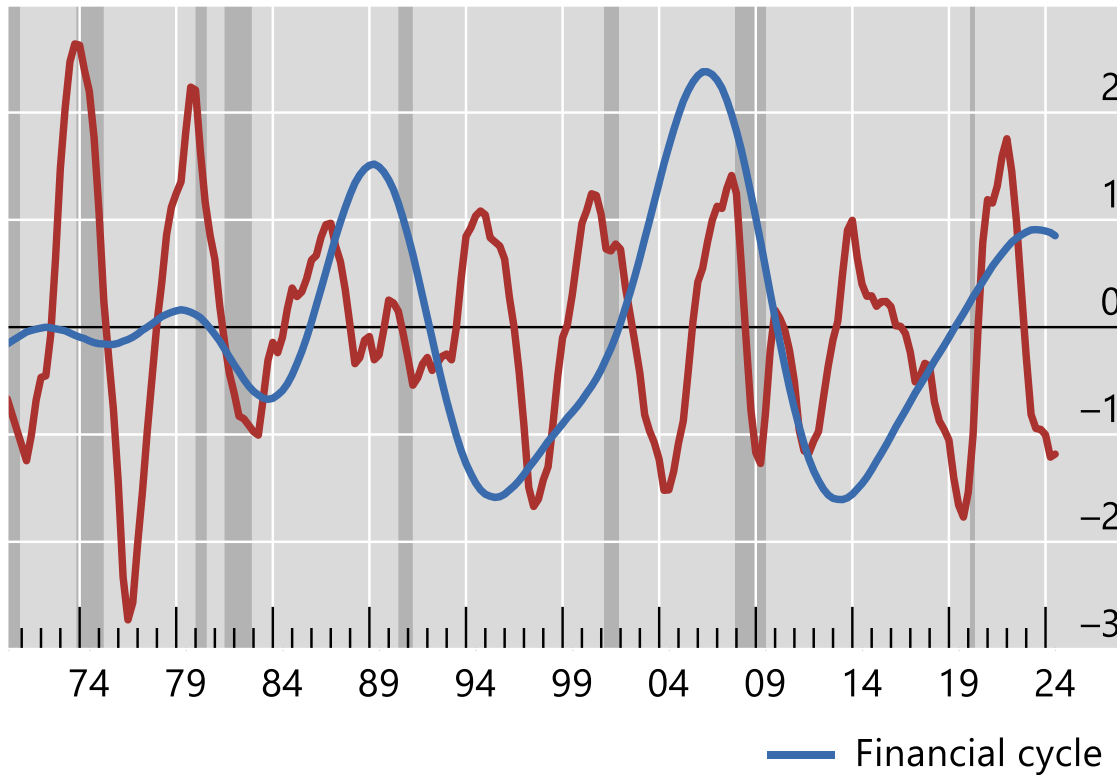

Demographic variables
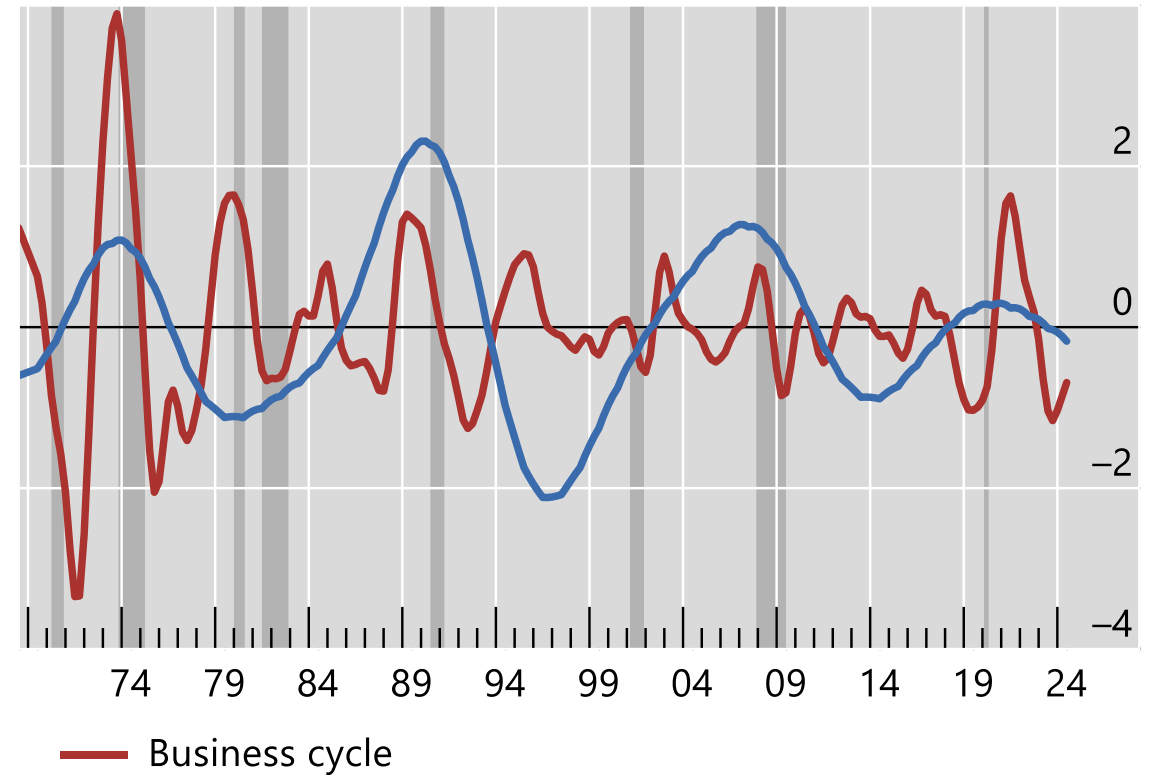
Median long-term rate across countries

Lhs: —— Long-term real rates

Rhs: —— Dependency   —— Life expectancy

—— Median   – – – Average

Sources: Borio et al (2022) and (2017).

The financial and business cycles

United States
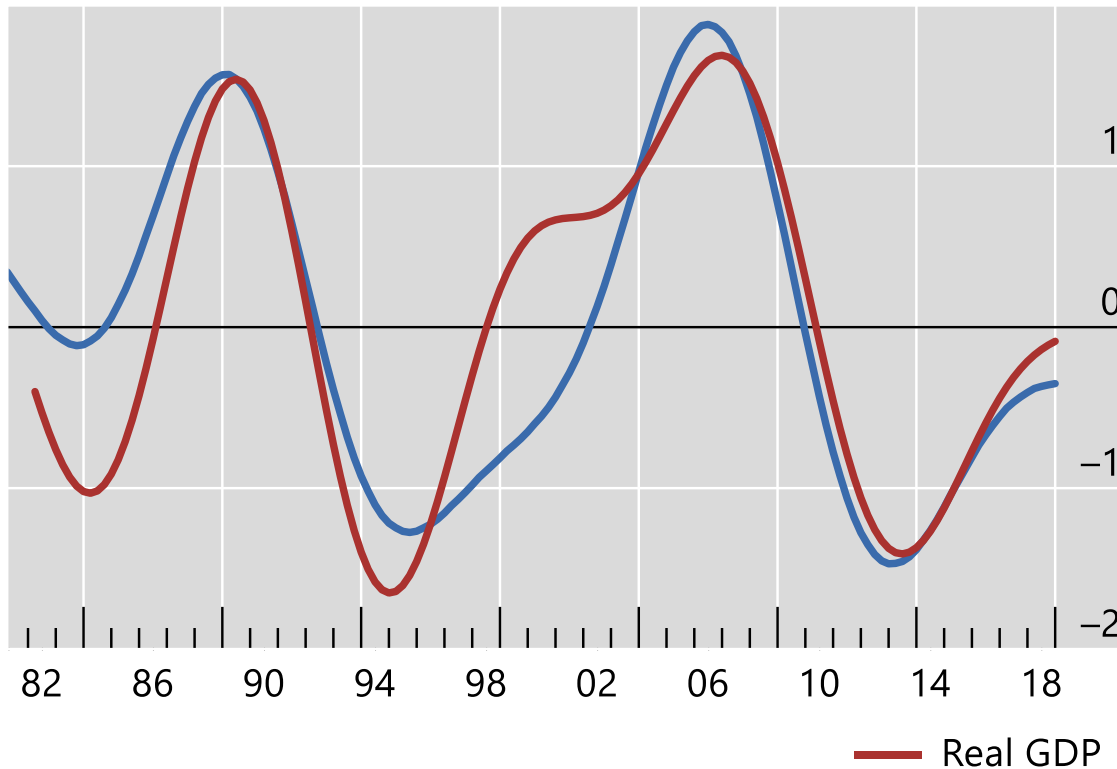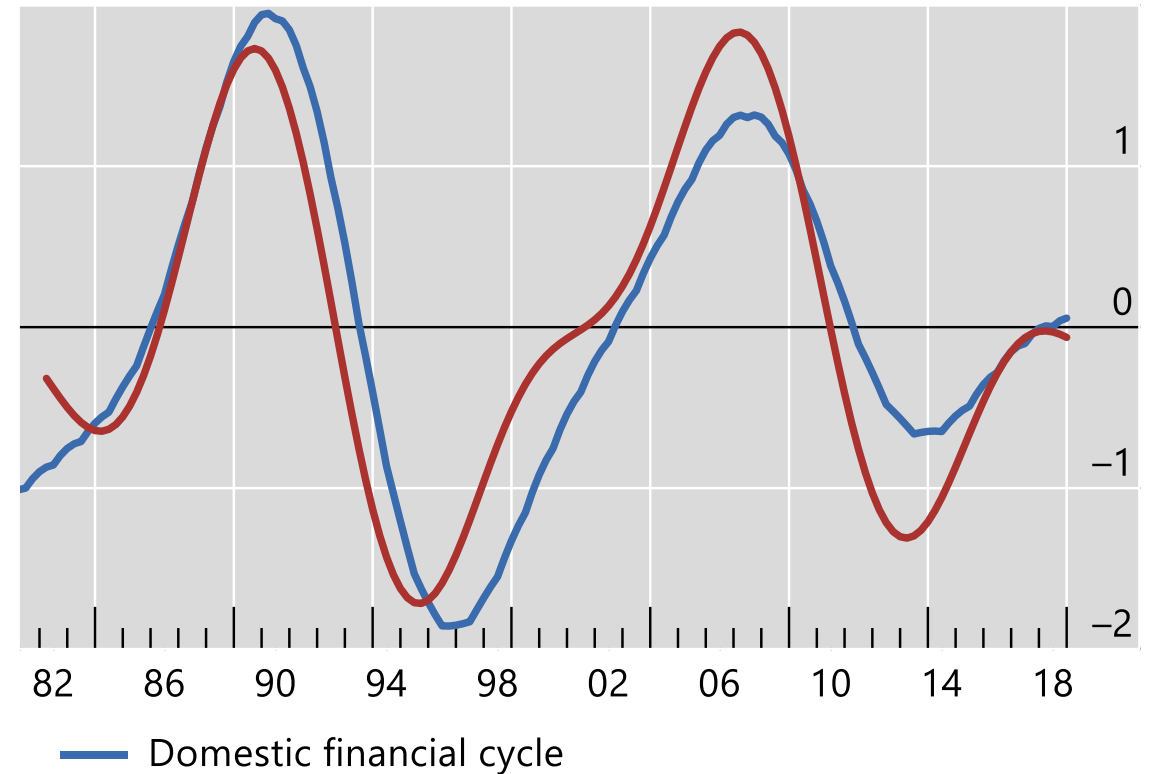
United Kingdom

Financial cycle —— Business cycle ——

Source: Drehmann et al (2012).

The domestic financial cycle and the medium-term business cycle co-move

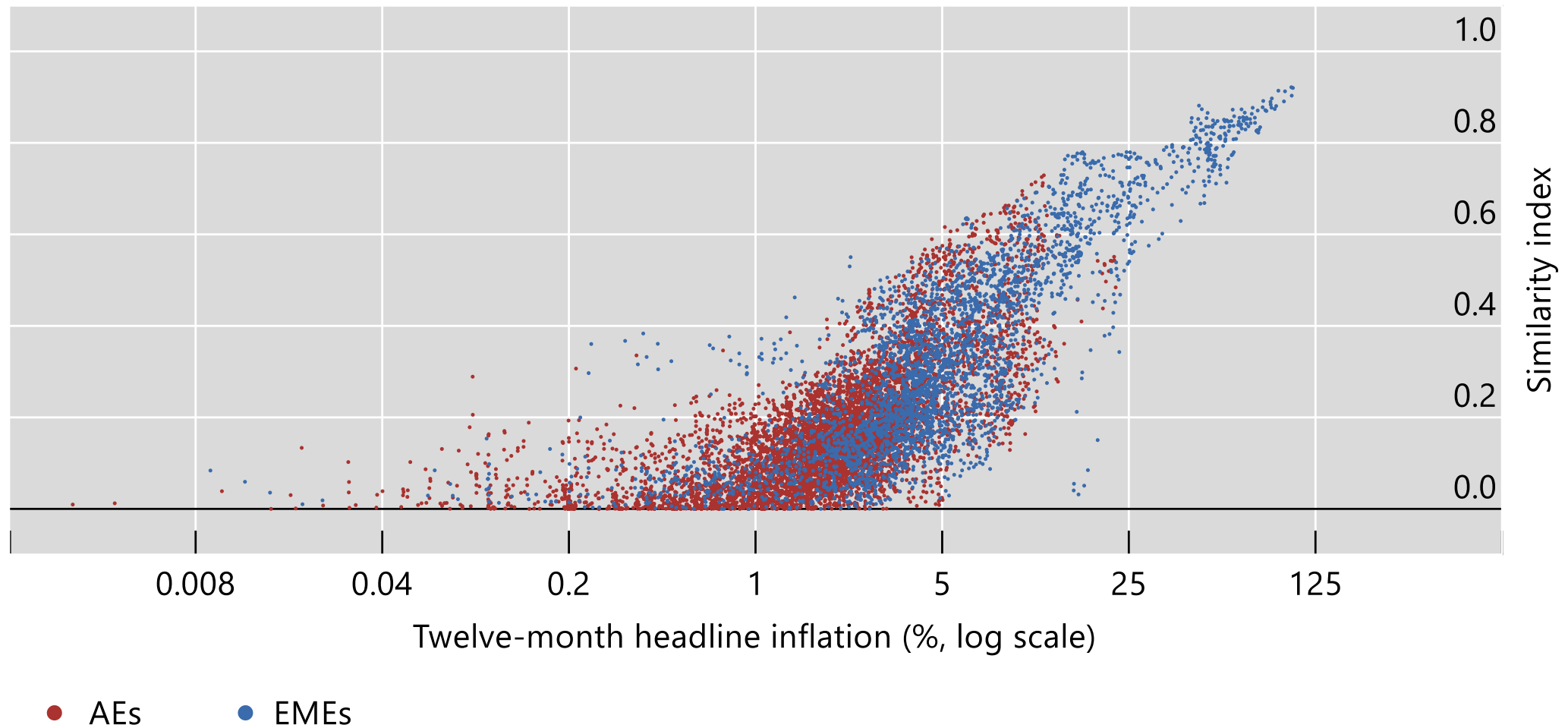United States

United Kingdom

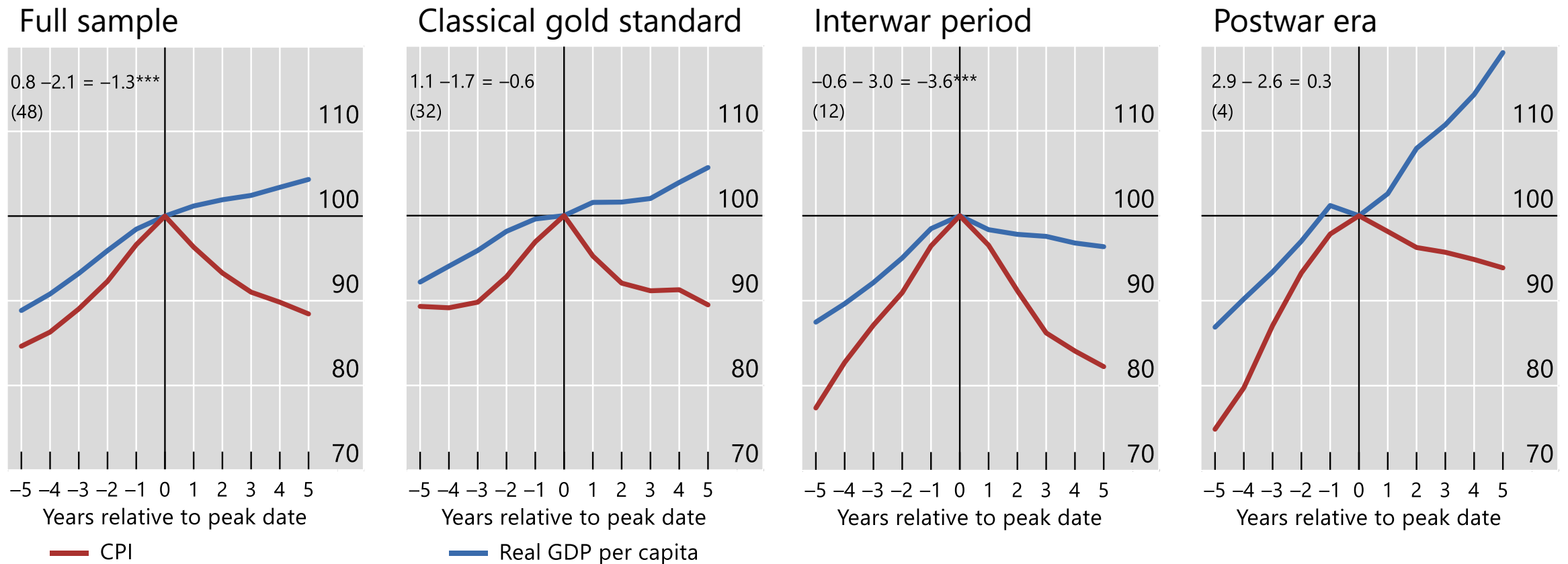Real GDP   Domestic financial cycle

Source: Aldasoro et al (2023).

BIS

Higher inflation as a co-ordinating device

Sources: Borio, Lombardi, Yetman and Zakrajšek (2023); BIS (2024).

Output cost of persistent goods and services price deflations

Full sample

$0.8 - 2.1 = -1.3^{***}$
(48)

Classical gold standard

$1.1 - 1.7 = -0.6$
(32)

Interwar period

$-0.6 - 3.0 = -3.6^{***}$
(12)

Postwar era

$2.9 - 2.6 = 0.3$
(4)

Years relative to peak date

— CPI   — Real GDP per capita

Thirty-eight economies, 1870–2013, variable peak year = 100.

Source: Borio et al (2015).