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Working Paper

The quest for global monetary policy coordination

Economics Discussion Papers, No. 2018-59

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Bruni, Franco; Siaba Serrate, José; Villafranca, Antonio (2018) : The quest for global monetary policy coordination, Economics Discussion Papers, No. 2018-59, Kiel Institute for the World Economy (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/181071>

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The quest for global monetary policy coordination

Franco Bruni, José Siaba Serrate, and Antonio Villafranca

Abstract

This paper puts forward a proposal to help monetary policies confront the challenge of the “normalisation” of money creation and interest rates. The difficult unwinding of years of unorthodox policies put financial stability at risk in major monetary centres and in EMEs. The authors argue that global coordination is crucial to facing this challenge. They propose to convene appropriate official meetings to coordinate in an explicit, formal, and well-communicated way the process of normalisation and the discussions on the needed long-term changes in the strategy and institutional setting of monetary policies.

(Submitted as [Global Solutions Paper](#))

JEL E51 E58 E61 E63 F33 F42

Keywords Monetary policy; central banks; global cooperation; financial stability; international institutions

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Citation Franco Bruni, José Siaba Serrate, and Antonio Villafranca (2018). The quest for global monetary policy coordination. Economics Discussion Papers, No 2018-59, Kiel Institute for the World Economy.

<http://www.economics-ejournal.org/economics/discussionpapers/2018-59>

Received June 21, 2017 **Accepted as Economics Discussion Paper** August 2, 2017

Published August 3, 2018

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Normalisation: a global challenge for monetary policies

Today's monetary policies are confronted with a crucial challenge that can be labelled "**normalisation**". For years, the worldwide creation of liquidity has been relying on unconventional instruments: it has been overabundant with an extremely low level of interest rates. Monetary expansion has been driven by the policy decisions of the developed world¹. With the global recovery and the end of the fears of deflation, the times have come to get back to normal money creation and interest rate settings: "monetary policy normalisation is essential in rebuilding policy space. It can create room for countercyclical policy, help reduce the risk of the emergence of financial vulnerabilities, and contribute to restraining debt accumulation"².

Normalisation is a challenge for **technical reasons**, as the shrinkage of central banks' balance sheets, the reabsorption of excess liquidity, the increase in short-term rates and the end of the direct manipulation of medium-long term interest rates, can be complicated to implement with the right timing and in the right order. Moreover, it is far from clear whether or not central banks will try to reproduce the **old normal** or converge to a **new normal** where monetary expansion will expire but their balance sheets will remain very large and the role of the interbank market will be kept narrower by their direct motherly relations with the banking systems³. However, given the very uncertain features of normalisation, the main reason to consider it a challenge has to do with the **reaction of markets**. Their expectations interact with normalisation announcements⁴ in ways that may diffuse panic and precipitate liquidity crises and disruptive volatility in asset and currency prices. **Financial stability is at risk**, particularly in an over-leveraged global economy⁵ where "it is not just the amount of public and private debt

¹ Past contributions by the T20 have analysed policy issues arising from unconventional monetary expansions. See, for instance Think Tank 20, 2013.

² BIS (2018), p. xiv. Already several years ago a T20-2014 paper by José Siaba Serrate (Siaba Serrate, 2014), included in the recommendations for the Brisbane G20, was arguing along lines very much related to the present policy brief. At that time though the normalisation problem could be safely presented as a less urgent process than today: "The path advanced economies must take in returning to normalcy will be a multi-stage, multi-year process....Unwinding unconventional monetary policies will not be an easy task. These are uncharted waters".

³ See, for instance, Claeys and Demertzis, 2017, and their rich list of reference on the topic.

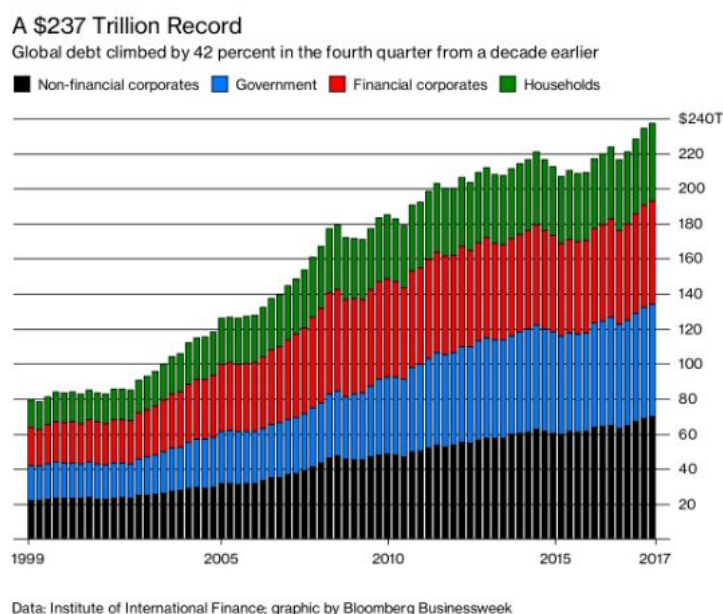
⁴ QE announcements have had impressively large impacts on exchange rates and sovereign spreads, in proportion to the total changes that happened following factual QE interventions. For recent estimates of ECB's QE announcements effects (and related literature) see Bulligan and Delle Monache, 2018.

⁵ See, for instance, Tanzi, 2018, reporting the following impressive statistics:

which is worrying, but also the deterioration in its average quality”⁶. The deterioration is a consequence of the “poor resource allocation” caused by easy financial conditions with limited market discipline, permitting “the survival of ultimately unprofitable firms and [weakening] the incentives for sovereigns to ensure fiscal space”⁷.

The challenge of normalisation looks difficult and risky also because each central bank tends to proceed along lines that reflect the specificities of its own country or currency region. **That monetary policies do not need to be coordinated is part of current orthodoxy**, also in academic research. On the basis of their “new open economy macroeconomic model”, Obstfeld and Rogoff (2002) conclude that there might be concern about the fact that “countries chose monetary rules that are optimal from a national perspective but not from a global perspective. ... Surprisingly, this lack of coordination may not be a big problem even in a world with significant economic integration. As domestic monetary rules improve, and as international asset markets become more complete, there are plausible circumstances in which the outcome of a Nash monetary rule-setting game begins to approximate the outcome of a cooperative system”.

However, the orthodox view is increasingly controversial. “The bank of central banks”, **the BIS, is the strongest official advocate for monetary cooperation**. It suggests going beyond the letter of national mandates⁸ and proposes considering as an example for monetary policy the



⁶ Kapoor, 2018: “...There are only 11 sovereigns and only two U.S. firms left with a AAA rating, and there is a continuing decline in the average credit quality of outstanding loans and bonds. Servicing and *rolling over this debt is likely to become much more expensive as monetary policy normalises after years of quantitative easing*” (italics is ours).

⁷ BIS (2018), p.12.

⁸ See, for instance, BIS (2015), p.97, “Moving towards a more efficient outcome would require greater cooperation, including ad hoc joint action, and possibly even agreement on *rules of the game that constrain domestic policies*” (italics ours).

internationalisation of financial regulation and supervision. However, **individual central banks appear disinclined to weaken the defense of their national perspectives**. Comments and speeches from the US Fed are typically concentrated on arguing that dollar policies are coherent with domestic objectives while overlooking their potential impact in terms of instability in EMEs⁹. Powell (2013), for instance, states that: “the Federal Reserve's mandate, like those of other central banks, is focused on the pursuit of domestic policy objectives. This focus is entirely appropriate”¹⁰. As for the ECB's position, it usually couples orthodox statements on the inevitability of a domestic orientation of monetary policies with a broad-minded recognition that global common shocks and international spillovers justify the search for some informal and non-explicit coordination of monetary policies to “benefit from alignment of policies [and] a shared diagnosis of the root causes of the challenges that affect us all”¹¹. The argument is also used that, more than coordination with other central banks, exchange rate flexibility and non-monetary policies (fiscal, macro-prudential, financial regulation and supervision, structural reforms) can be an effective way to confront destabilising spillovers.

However, the problems of **global shocks** and of **international spillovers** look increasingly serious and deserve deeper attention. Spillovers are usually considered undesired damage hitting EMEs, caused by policies adopted in major countries. However, “**global spillovers can also have [second round] implications for the core countries at their origin**. The collective size of the countries exposed to the spillovers suggests that what happens there could also have significant financial and macroeconomic effects in the economies that originated the spillovers”¹².

The main factor that explains the disquieting size and length of global unconventional monetary expansion has been the new worldwide disconnection between the path of money creation and the path of price level increases. This disconnection has caused a global tendency to what must be recognised as **competitive monetary easing**¹³. Global interdependences are now such that **without coordination the needed reversal of that easing, the recently started “narrow normalisation path”¹⁴, will be harder and bumpier**. Complications are starting to arise from the fact that the initial phase of the path looks “highly asynchronous, with the Federal Reserve raising policy rates while the ECB and the Bank of Japan continue with large-scale asset purchases and negative rates”¹⁵, which “may have offset the impact of the Fed's monetary

⁹ At a time when EMEs authorities were insisting on critiques of US inward-looking policies, Bernanke, 2013, gave a famous defensive speech. For an opposite view, see Rajan (2014).

¹⁰ More recently, Powell, 2017, squarely asserts: “the best thing the Federal Reserve can do – not just for the United States, but for the global economy at large – is to keep our house in order through the continued pursuit of our dual mandate.”

¹¹ Draghi, 2016. Also Cœuré, 2014, after stressing the orthodox position, admits the existence of some scope for informal and non-explicit coordination: “The literature suggests that international monetary policy coordination may be instrumental in achieving a globally optimal solution, [but] it generally concludes that the gains from coordination are small relative to an environment in which national policy-makers pursue optimal domestic policies...[Moreover,] explicit and binding forms of monetary policy coordination [are] difficult [as] central banks operate under different mandates, time horizons, objectives and accountability arrangements. They are ultimately backed by their domestic fiscal authority and report to their domestic parliament. ... This does not imply that regular dialogues between central banks as well as exchanges of views during meetings at the IMF, the BIS, the G20 and at regional level, are not useful. In fact, I believe that it is quite the contrary.”

¹² BIS (2018), p.37.

¹³ Rajan (2014).

¹⁴ BIS (2018) gives this title to its monetary policy chapter.

¹⁵ BIS (2018), p.25.

policy normalisation”¹⁶.

Normalisation requires striking a difficult and delicate balance between fast and gradual adjustments of intermediate monetary targets and instruments. Forward guidance and credibility are essential. **The first move of a normalising country could trigger expectations that complicate the decision process of the other normalisers** with unforeseeable consequences for the credibility of the policy announcements of all of them. Moreover, as “during the phases in which interest rates remain low in the main international funding currencies, emerging economies (EMEs) tend to benefit from easy financial conditions; these effects then play out in reverse once interest rates rise”¹⁷. **When normalisation gets enacted in the most developed monetary regions, EMEs must undergo a difficult adjustment** of their debtor positions denominated in the leading currencies. They will also have to adapt macroeconomic strategies to a rising cost of capital. They could be seriously hurt by the unwinding of the “search for yield” that has been in place since the beginning of the crisis. Their financial fragility could then emerge as a source of global trouble.

The difficulty of enacting a well-managed global normalisation of monetary policies has causes that extend over the theoretical framework on which monetary strategies are based and over the institutional setting surrounding central banks. These problems can be considered **long-term challenges** for monetary policies. They picture a situation where a lack of clarity, trust and international consensus in monetary instruments can weaken their effectiveness and aggravate sources of financial stability. A short list of these long-term issues can also show their connections with the short-term challenge of normalisation:

- The relationship between monetary policy and inflation, the main pillar of today’s monetary strategies, has been weak since the end of the past century: until the Great Recession, liquidity and credit grew much faster than prices while during recent years vigorous monetary expansions went together with subdued inflation often threatening deflation. Moreover, price level dynamics increasingly respond to global forces, thus eluding the influence of uncoordinated national or regional monetary policies. The root causes of the problem are complex to single out and deserve important research efforts: they probably include growing imperfections in the transmission of monetary to financial conditions which cannot but make normalisation much more complicated and uncertain¹⁸.
- Unconventional policies and their initial unwinding have shown some weakening of the credibility of monetary announcements, which have perhaps been overdone by an intense reliance on “forward guidance”¹⁹. Credibility is also essential to allow a smooth, gradual process of normalisation.
- Quantitative easing is raising doubts about central bank independence from governments and markets²⁰ and about the boundary between monetary and fiscal

¹⁶ BIS (2018), p.31.

¹⁷ BIS (2018), p.36.

¹⁸ See BIS (2018), ch.II, commenting the fact that, for instance, “until at least the first quarter of 2018, no tightening of financial conditions accompanied the normalisation of US monetary policy” which started more than two years before.

¹⁹ Among the many possible citations: “The markets do not appear to believe the Fed”: Wessel (2015); Larry Summers (2017): “the Fed is not credible with the markets”; “Fed Officials admit they have lost some credibility on inflation”: Miller(2017).

²⁰ The literature is obviously immense on this topic. To single out a synthetic reading on “potential threats to central bank independence” one can point, for instance, to the beautiful column by Charles Goodhart and Rosa Lastra (2018).

policies²¹ as many observers note that massive central banks' purchases of long term securities and sovereigns may have significant distributive consequences and modify the incentives to fiscal adjustments. These types of problems also have potential consequences for normalisation, as fiscal and distributional pressures on central banks can complicate their independent and coordinated plans to bring back liquidity, credit and interest rates to more normal levels, and on their decisions to fix the “new normal” levels as well.

- The evolution of financial regulations after the global and Eurozone financial crises has complicated the transmission mechanism of monetary policy, defied the separateness of monetary and financial stability targets and questioned the respective roles of monetary and macro-prudential policies and authorities. The current pressures and the first steps to weaken regulation in the US²² need careful scrutiny as they could result in unintended destabilising effects and interfere with monetary normalisation. The explicit definition and introduction of macro-prudential policies has been one of the great advances in the last decade: however, their role looks still insufficient and controversial, their design inadequate; moreover, the manoeuvring of their instruments is not well orchestrated with monetary policies and lacks international coordination²³. Any attempt to coordinate monetary policies cannot but take into account macro-prudential tools, which renders coordination even more ambitious and difficult.

The need for coordinated monetary policies

Both short- and long-term challenges that confront monetary policies require a more intense **global cooperation**. The latter can help to manage normalisation and start solving the conceptual, strategic and institutional problems that, in the longer run, hinder trust in the effectiveness of monetary policy tools.

First and foremost, **cooperation can be helpful to overcoming problems that render the “normalisation” of monetary policy a difficult operation that can put financial stability at risk**. The difficulty and risks of normalisation tend to postpone its completion, unnecessarily prolonging the extra-expansionary stance of monetary policies and the use of unorthodox monetary tools. The global game suffers from a “first-mover problem” which only cooperation can remedy. The ubiquitous political bias for easing aggregate demand policies made the 2008-9 G20-guided coordinated monetary expansion simpler to obtain than the opposite move we need today. The

²¹ See, for instance, Reuters Staff (2016), Ohlsson (2017), Davtyan (2017)

²² https://www.washingtonpost.com/business/economy/divided-house-passes-major-bank-deregulation-bill-sends-to-trump/2018/05/22/6f3bb562-5dd2-11e8-a4a4-c070ef53f315_story.html?utm_term=.cbbca5adabde

²³ BIS (2018) devotes the entire chapter IV to a wide and deep survey of macro-prudential policies, their relationship with monetary policies and their impact of global stability. Special attention is devoted to unsatisfactory domestic and international governance of these policies as “The multiple purposes of the instruments, the scope for strong political pressure and the mismatch between the mandate and tools put an onus on adequate governance arrangements”: p.70. On international coordination of macro-prudential policies “the case is perhaps easiest to make in preventing cross-border arbitrage, ie ‘leakages’. The Basel agreement on reciprocity in the implementation of the Basel III CCyB is one such example”, p.76.

marked asynchrony of the current efforts of normalisation²⁴ is also a proof of their difficulty.

Normalisation can be shaped and timed differently in the various countries and monetary regions, according to the different features of the past unorthodox expansion, to the specific aspects of the regional financial systems and to the macroeconomic situations. But the effectiveness of its strategy as well as its technicalities **can benefit from coordination** and, possibly, from mutual help. Gradual asset sales by the Fed, for instance, that aimed at shrinking its balance sheet, can be easier if the other major central banks, and the markets as well, are sufficiently informed about US strategy and perhaps even ready to provide help.

Different central banks' bylaws should not be an insurmountable obstacle to agreeing on a coordinated feature of normalisation. To square with national mandates, the "coordinated strategies" will turn out to be a "**least common denominator**" of national views on what should be done in a coordinated fashion to cope with the deep cobweb of interdependences that link national monetary systems. Any specific aspect will have to be decided at a national level. However, the common denominator will be crucial and help the markets to be more stable.

The most important potential benefit of monetary policy coordination is its **impact on markets' expectations and reactions**. Markets should know that the complex process is governed in a cooperative manner. This prevents them from panicking and discourages destabilising speculation based on expected strategic hostilities among central banks and on their alleged differences in timing and scope. The whole process can then take place with smaller divergences and volatilities of interest and exchange rates, smoother capital flows and less impact on stock prices. The timely provision of well-considered information is one of the main remedies to market imperfections. **Markets should, therefore, be informed** in an official manner about the main agreements reached by the coordination process.

In fact, some coordination (together with the exchange of crucial information) has always taken place among the major central banks: they have also special occasions to do so, like their regular **bimonthly meetings in Basle**. The BIS hosts the Global Economy Meeting (GEM), the Economic Consultative Committee and the All Governors' Meeting. GEM provides guidance for important Basle-based central bank committees²⁵. In addition, the Central Bank Governance Group and the Irving Fisher Committee on Central Bank Statistics, with a broader membership than GEM, meet and work at the BIS²⁶. Parts of the material produced by these groups and of the proceedings of these meetings are made available in various forms by the participants. However, **none of the BIS or IMF meetings aims at explicit and formal coordination of monetary policy decisions**. Importantly, **no meeting is committed to communicating coordinated strategies to the markets**.

In spite of the political and institutional difficulties of explicit coordination of monetary policies, we propose to profit from the current urgent normalisation issue to make a special effort. **Central bankers should regularly and officially discuss and agree on some basic features of their monetary policy strategies, communicate their decisions to the markets and commit to following the agreed upon points**. To the extent that coordinated decisions internalise the complex interdependencies of national central banks' measures and their respective domestic consequences, **the joint deliberations do not conflict with national**

²⁴ As noted by BIS (2018), p.25.

²⁵ The Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Markets Committee.

²⁶ https://www.bis.org/about/bimonthly_meetings.htm

mandates. Moreover, **internationally coordinated decisions are already the norm in micro and macro prudential regulations** that are increasingly connected with monetary policies: there is therefore no reason to exclude the explicit coordination of the latter to pursue financial stability²⁷. Obviously, the set of coordinated decisions will be smaller than the set of all the measures taken by individual central banks, which will maintain their basic autonomy. Note that, in theory, such a process of coordinated deliberations, by involving reciprocal official, communicated commitments among monetary authorities of different countries, would act as a **powerful “commitment technology”, a device to increase the credibility** of each of them by the general public, market operators and governments as well, also by strengthening the defenses of central bank independence from political pressures springing from national fiscal policies. The improvement in credibility, by interacting with market expectations, would also directly benefit the domestic impact of their policies.

The benefits of jointly communicated deliberations on the normalisation process are easy to understand. Only a sufficiently transparent coordination can convince the markets that each normaliser has a compatible plan to move, with the tools and speed appropriate for that country but not harmful for other countries' plans. Already several years ago, in his contribution on the matter²⁸, John B. Taylor showed how **the benefits of international coordination increase when monetary policies do not follow a set of established rules**. While with rule-based policies the benefits of preventing international spillovers with international coordination can be shown to be rather contained, deviations from rules-based policy at several central banks create incentives for other central banks to deviate from such policies. In other words, spillovers become very large and damaging so that the benefits of international coordination are much larger and worth pursuing. As rules cannot easily govern the complex *tâtonnement* which is now required for going back to normal liquidity, normal central banks' balance sheets, normal interest rates, both policy effectiveness and financial stability would greatly benefit from coordinated monetary announcements, increasing the trust of the markets in a consistent strategy to reach a rule-based new normal.

Coordination positively affects the behaviour of **major financial markets** connecting the advanced countries that coordinate their policies. However, its stabilising impact involves the **emerging economies** as well, their exchange rates and cross border capital flows. Interest rate spillovers into EMEs become expected and gradual, easier to manage by central banks with interventions and timely currency swaps to which EMEs access can be expanded and stabilised. Quite obviously, the benefits of coordination for emerging economies are higher the deeper the **involvement of EMEs monetary authorities in the coordinating arrangements**. While the main strategies cannot but be adopted by the major central banks, the voice of EMEs authorities should play a role and their information set should be such as to allow them to maximise their benefits in terms of stability.

²⁷ BIS, 2015, p.99, has a particularly sharp and spiky paragraph: “Many reject a global perspective in the realm of monetary policy. Accordingly, domestic mandates ask major reserve-issuing central banks to set policy for a smaller economic domain than that occupied by their currencies. This interpretation of domestic mandates contrasts sharply with successful international cooperation in the realm of financial regulation and supervision. There, *national mandates have not precluded extensive international cooperation and the development of global rules*” (italics ours).

²⁸ Taylor, 2013

Destabilising spillovers of reserve countries' monetary policies into EMEs, to be sure, such as those that in 2013–4 caused a postponement of normalisation in the US²⁹, have long been recognised as a possible, though debatable, justification for international coordination and/or mitigating arrangements like currency swap facilities³⁰. Note, however, that today's challenge of normalisation calls for coordination among advanced countries also to avoid instability risks in the same reserve countries.

The term “normalisation” describes the gradual exit from the extraordinary **stance** of monetary policies that was adopted to deal with the major crises of the last 8–10 years. However, normalisation must be extended to the **instruments** used by monetary authorities, which for some time have been rather non-standard: while some innovations can become permanent parts of a reinstated orthodoxy (like some elements of forward guidance), the plan is to substantially normalise the central banks' set of tools. The basic strategy to move towards the normalisation of instruments should, at least in part, be included in the coordination process and in the communication of its conclusions. The latter would serve as a coordinated **road map** for coming monetary policy decisions. The various central banks would be able to act differently, but in a way jointly agreed upon and communicated, fully in accord with the recent stronger reliance on **forward guidance**. The organisation of the coordination procedure can thus become a **multilateral cooperative research effort to devise the future developments of monetary policy techniques in an increasingly interconnected monetary world** where idiosyncratic decisions of individual countries, if taken without the understanding and agreement of the other main monetary actors, are bound to become increasingly destabilising or ineffective.

This effort can result in a **permanent multilateral forum** for monetary coordination, **with special attention to carefully communicating its deliberations to the markets**. Communication, to be sure, “might even be viewed as a macro-prudential tool in its own right”³¹. The perspective of such a forum can **bridge the short-run need to cope with normalisation and the requirement to face the above mentioned longer term challenges to monetary policies**. The latter calls for a combined theoretical and practical planned action to update theories and institutions, possibly also including some aspects of central banks' bylaws that are now biasing monetary strategies towards an emphasis on national interest that does not square with the increasingly intense global financial links. It is also essential **to cope with the increasingly evident links between pure monetary policy themes and issues in financial regulation**. Coordinated international efforts should be devoted to stimulating an adequate scholarly research attention to the long-term issues.

The short-term management of normalisation can serve as an opportunity to start a wider and permanent endeavour to use **global cooperation for renovating the conceptual and institutional framework of monetary policy strategies and techniques**. This action plan should be publicly announced and should provide for the appropriate communication of its works and conclusions. It should start as soon as possible, at least among the major monetary centres of the world, even if its results must wait the “long-term” to become evident. Long-term challenges, as argued above, put at risk the credibility and effectiveness of monetary policies, spreading doubts and scepticisms that can severely weaken financial stability and growth. The

²⁹ See, for instance, Eichengreen and Gupta, 2013

³⁰ See, for instance, Mohan and Kapur, 2014

³¹ BIS (2018), p. 70. See also Committee on the Global Financial System (2016).

urgency of normalisation efforts should also be an excuse and a justification to try an ambitious path towards the clarification and solution of more structural issues. Along the latter path, the **contribution of scientific and technical research** is obviously essential and should be exploited with appropriate arrangements involving the main international research networks that connect academic thinking with policy-making.

A **multilateral initiative is therefore needed** to convene and host the meetings where official coordination takes place, both on the short-term front of normalisation and along the longer term action plan facing the more general and fundamental challenges. The initiative could be formally considered by the G20 under the umbrella of the Mutual Assessment Process (MAP) established within the G20 at the 2009 Pittsburgh Summit to tackle the problem of key imbalances via cooperation and coordination.³² We propose the **Bank for International Settlements** as the appropriate venue, as well as providing the secretariat of the “**Global Monetary Policy Coordination Meetings**” (GMPCM)³³. The BIS seems a more neutral and less politicised place than the IMF. Moreover, Basle, as the host and the secretariat of the BCBS, and of the bimonthly central bankers’ meetings and various central bank committees, is also better suited to emphasise and facilitate the connections between monetary and regulatory issues and to organise in a more flexible manner, with variable geometry, the meetings where major central banks are joined by EMEs monetary authorities.

However, for obvious reasons, the IMF is very much connected with the BIS and its central bankers’ meetings and cannot be a stranger to this process. We therefore propose to start with **two official meetings** each year:

- a “spring session” of the GMPCM, hosted and organised by the BIS, with the help of the IMF, where the main aspects of yearly monetary policy strategies are coordinated behind closed doors and then suitably communicated;
- an “autumn session” taking place on the occasion of the annual meeting of the IMF, as a separate event convened by the BIS secretariat of the GMPCM in conjunction with IMF representatives and in accord with the IMFC, where the implementation of the spring strategic lines of action is checked, supplementary themes are proposed and discussed and the first plans for next year’s works are drafted. An adequately documented communiqué is then issued on the results of the autumn session.

³² See IMF, 2018. Through MAP, G20 countries were supposed to identify shared objectives for the global economy, as well as the policies needed (not only monetary policies, for sure) and the progress made to reach them. The IMF – with other institutions such as the World Bank and the OECD – provided technical advice on imbalances, policies and their collective impact on request of the G20. Peer pressure was considered as the mechanism to make it work and correct deviations. But after a successful start when the crisis was a strong threat to everybody, its influence rapidly faded as national interests first diverged, and then prevailed, as usual.

³³ The Monetary Meetings might be thought as a partial replacement (or a component) of the much more encompassing MAP initiative, which also had the purpose to examine the spillover effects of national policies on other countries and world growth. While very specifically devoted to monetary policy issues and also aiming at urgent and highly technical central banks’ decisions, the GMPCM can be thought of as belonging to an established G20-centred tradition of much wider efforts of macroeconomic global coordination. The latter includes the Global Coordination Council (see United Nations, 2009 and Ocampo and Stiglitz, 2011) and, in monetary matters, the various efforts to reform the international monetary system, like the Palais-Royal Initiative, 2011.

Both sessions of the GMPCM initiative should have their **core meeting** where **only central bankers are involved**, thus preserving their crucial “independence”. The initiative should not be interpreted as a weakening of their autonomy – quite the contrary! – nor as an occasion to better hold them accountable to elected politicians. The core communiqué should also be authored exclusively by central bankers.

International coordination, as noted above, will try to find and communicate agreements on general strategic lines of action and will not eliminate the **accountability** of central bankers **to national political authorities** from which they derive their mandate. In fact the specific decisions will take place at the national level even if they will strive to be respectful of the “**least common denominator**” agreed upon during the GMPCM. Once more, the denominator is not in contrast with **national interest, pursued by internalising the network of international interdependences, through which each country affects other countries’ conditions and, in its turn, is affected by them.**

Note that coordinating monetary policy strategies also involves the careful **consideration of the shocks with which non-monetary policies can impact monetary equilibrium**. Two major examples are the consequences of poorly designed, ill-timed **fiscal policies** and of protectionist **trade wars**. These shocks might require a huge coordination and rapid turnaround efforts of monetary policies down the road to avoid long-term negative outcomes, as well as the aggressiveness of excessively delayed monetary counteractions. GMPCM might serve to prepare authorities well in advance on how to deal with this type of issues. This function of the meetings seems particularly useful during the complex and delicate normalisation period.

Wider side-meetings and workshops could be part of the GMPCM and take place, particularly during the autumn session, with finance ministers, regulators, think tanks and academics, with variable geometry, to generate institutional cooperation on the issues that have been referred to above as the “long-term challenges” of monetary policies, as well as to integrate and bridge the decisions and the needs of monetary authorities with the design of other policies. Appropriate communications should also be organised and scheduled in such a way as to spread substantive and rigorous information about the works of the side-meetings. The careful planning of the sessions is therefore a crucial task of the hosting/convening institutions.

Perhaps the most urgent “long term” issue that goes beyond the problem of normalisation and may be deeply and officially discussed in the side-meetings is the **place of financial stability in the mandate of central banks and the role of central banks in the governance of macro-prudential policies**. The joint use of monetary and macro-prudential tools could be considered in order to manage normalisation and then tackled as a crucial longer-term theme to be discussed with the cooperation of academics and the contribution of government representatives. The T20 and the G20 may emphasise the subject in their future agendas.

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