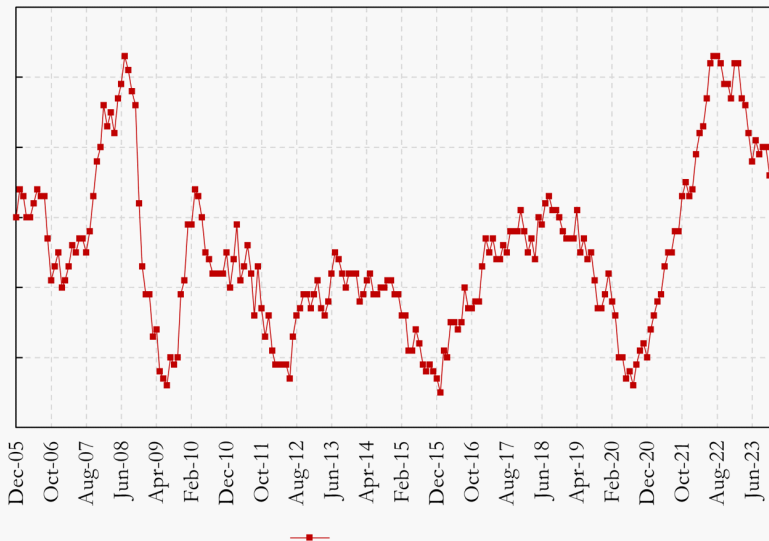


2025 ECB Framework Review: Recent Past and Outlook

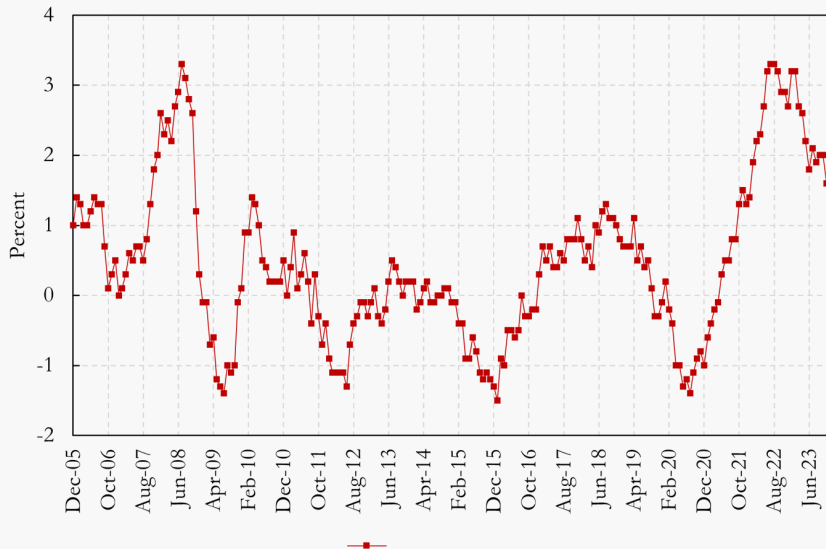
Refet S. Gürkaynak
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12 March 2025

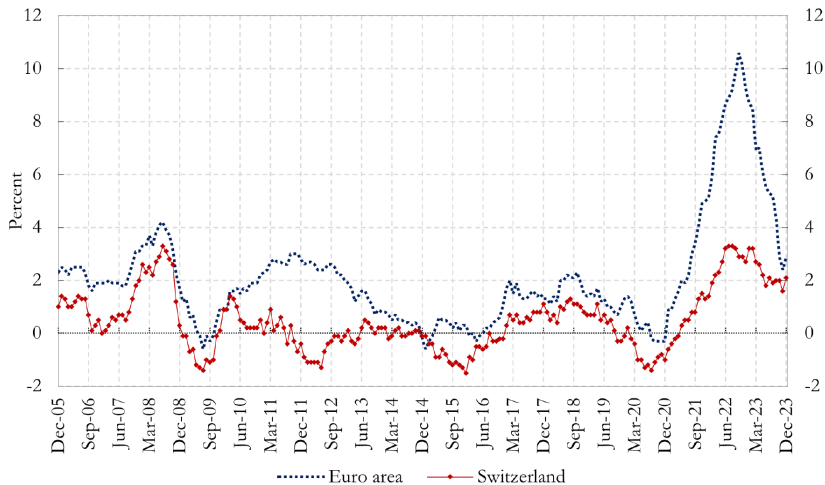
A Familiar Inflation Path



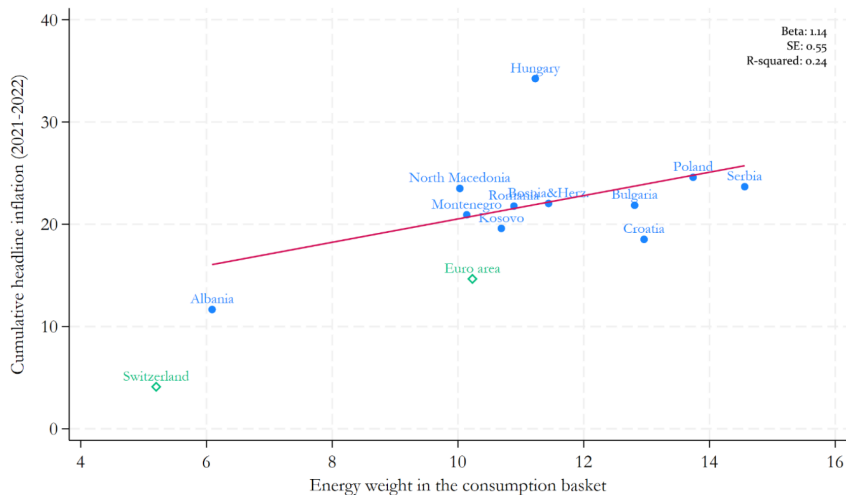
Less Familiar Scale



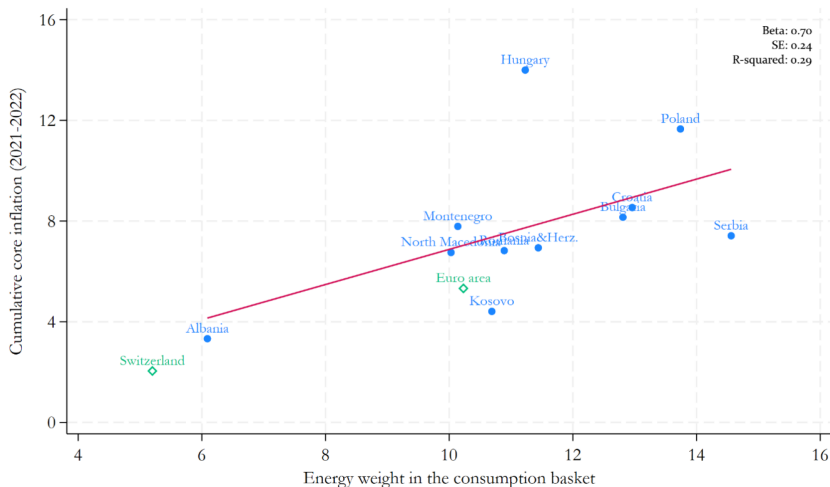
Euro Area and Switzerland



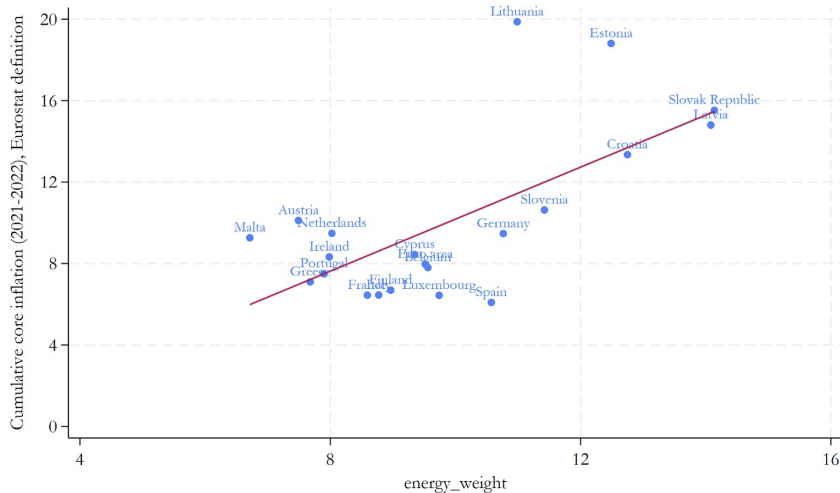
Weight of Energy in Consumption Basket and Headline Inflation



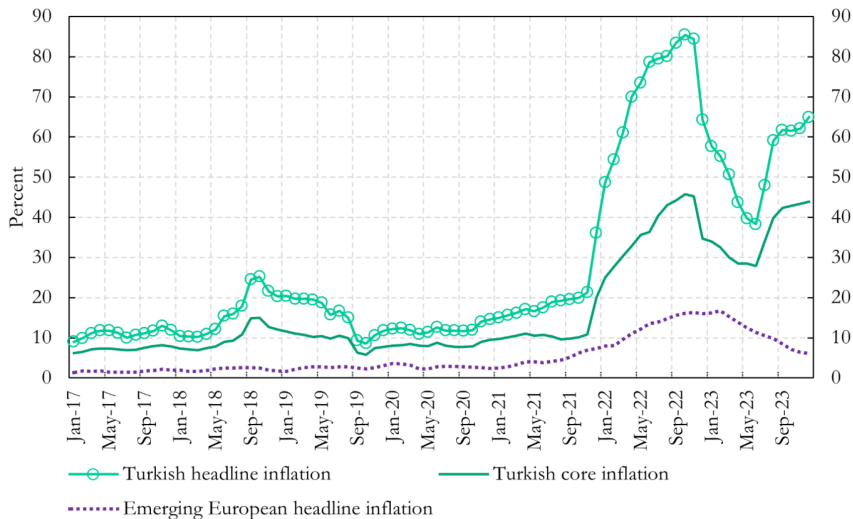
Weight of Energy in Consumption Basket and Core Inflation



Energy weight in basket and core inflation in EA



Exception that proves the rule



Post-Covid Inflation in Europe

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- Not the same as US inflation
- Not really an ongoing issue

“Inflation is transitory.”

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- But there is need for
 - Better understanding of transmission
 - More macroeconomic scenario analysis
 - Thinking about asymmetry of costs of policy errors
 - Review of communication

Transmission of monetary policy in EA

- ChaMP is doing wonderful work.
- But more to be done. Including heterogeneity at levels other than countries.
- ECB should lead in thinking of euro area as more than a collection of countries.

- Something we do better for financial stability

Scenario Analysis

- Something we do better for financial stability
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- What is the worst case scenario for fiscal expansion in euro area?

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- Policymakers understand this
- One of the reasons why policy is often “behind the curve”
- Getting the point across clearly is important

Review of communication

- Less

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- On monetary policy

Review of communication

- Less
- On monetary policy
- Informed by scenario analysis

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 - Decision making in the EU
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- Topics on which ECB can advise but not decide

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- Existing ECB policy framework works well in this regard
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- This too will break one day. No policy framework is permanently optimal. Today is not the day.