

„The ECB and Its Watchers Conference 2025“

The ECB's Monetary Policy Toolbox in Light of Past Experience and Future Challenges

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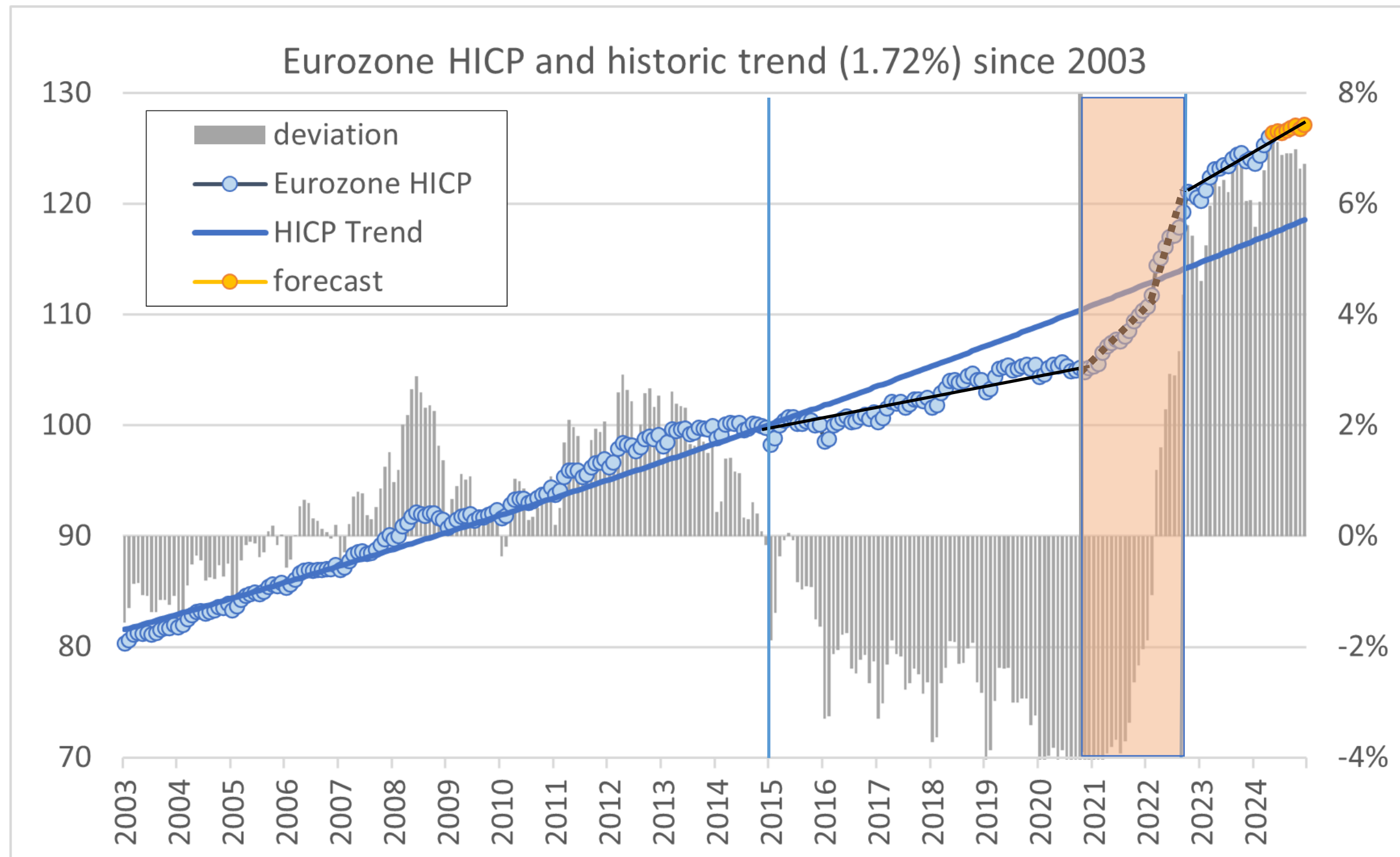
Former Chairman, UBS Group AG

Former President, Deutsche Bundesbank

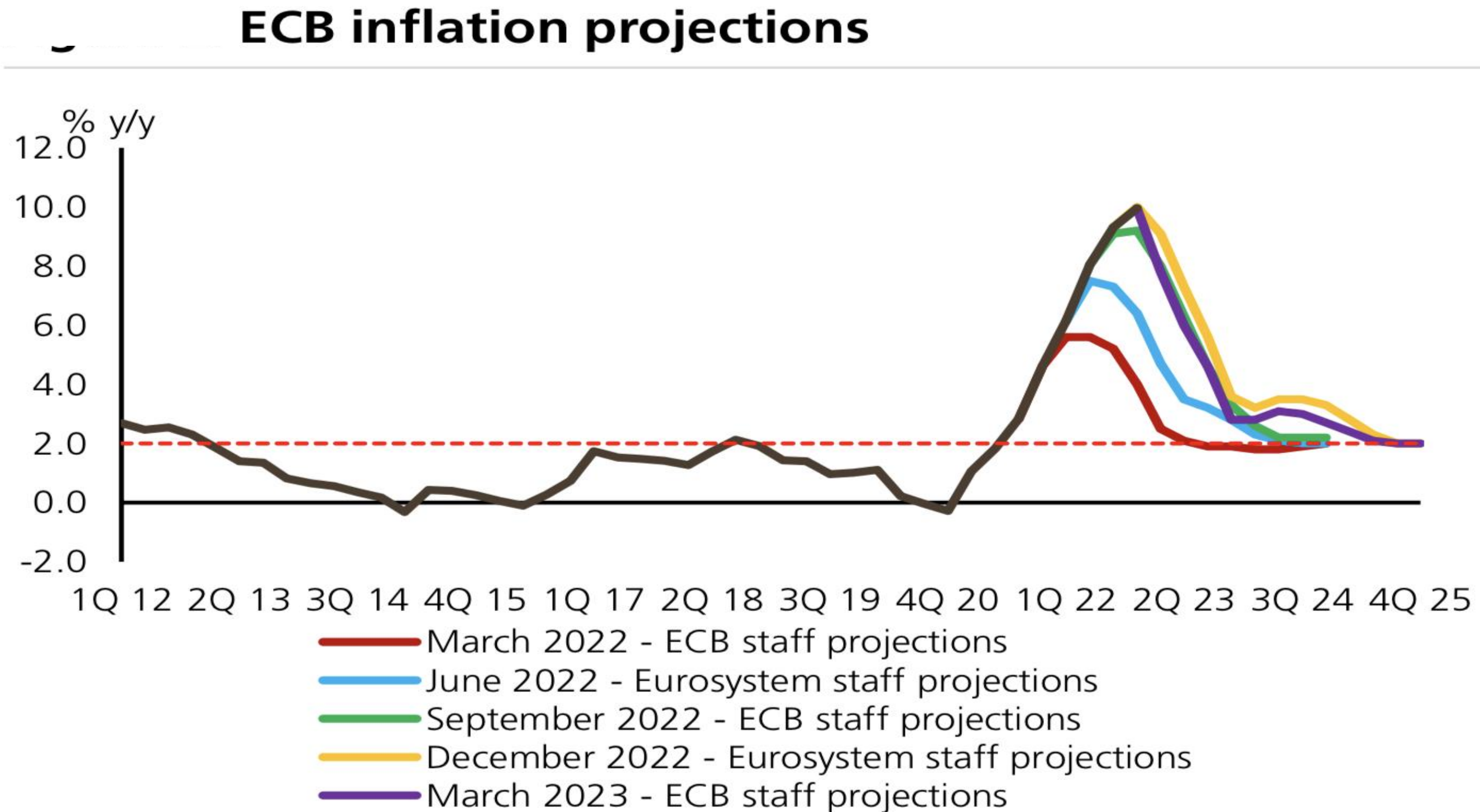
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Inflation and Monetary Policy – The Historical Track Record of the ECB

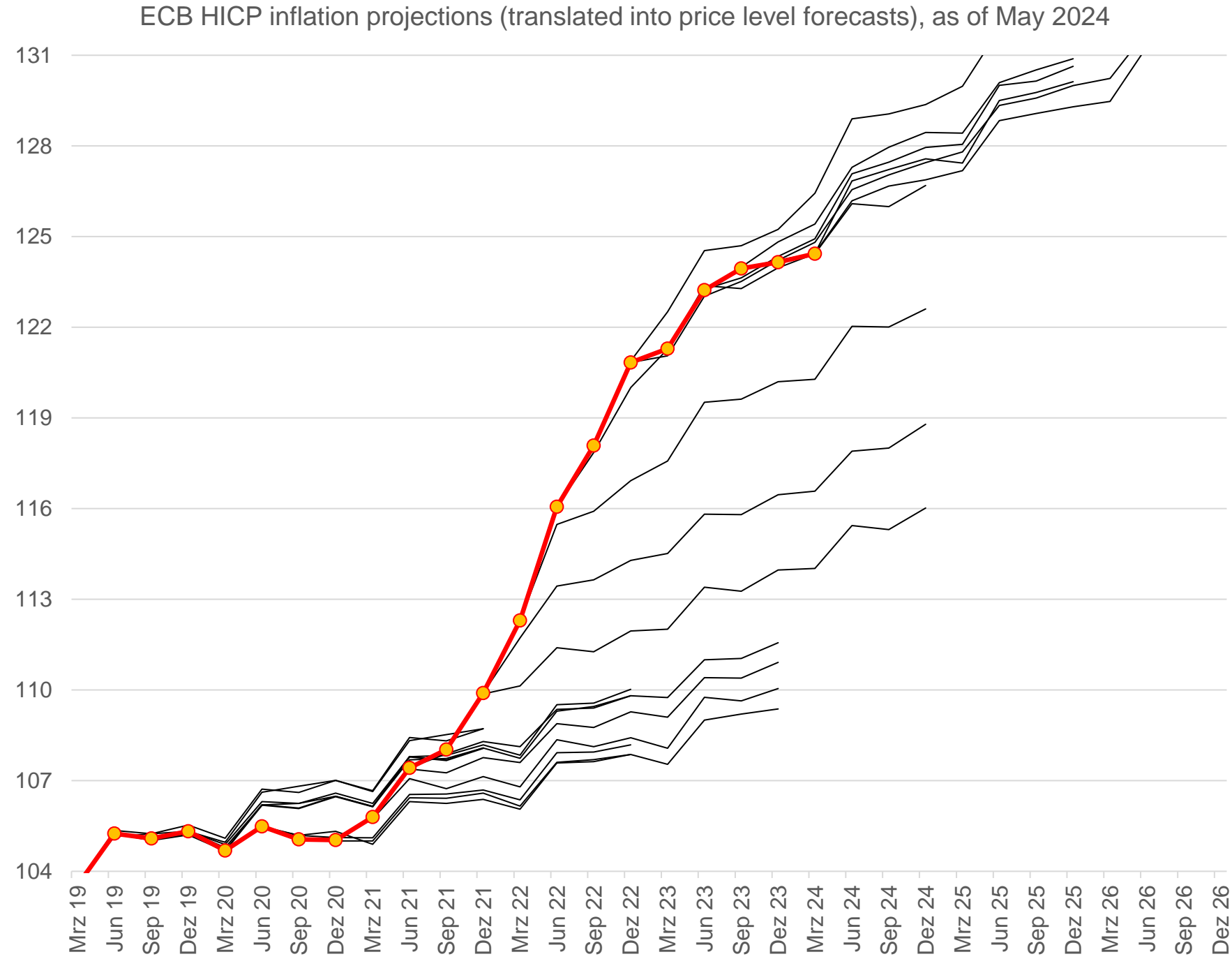


ECB Inflation Projections: a too benign for too long inflation outlook



Source: Haver and ECB

Inflation and Monetary Policy – a too benign for too long inflation outlook



Average Inflation Targeting by the FED (and the ECB's variant of it)

- A Policy Mistake -

Average Inflation Targeting was an ill-designed Monetary Policy Framework

- Too late tightening of monetary policy by design.
- Factually average inflation targeting amounts to price-level-targeting. Neither the Fed nor the ECB took a close look at the evolution of prices, the focus was on inflation through the lense of the problematic staff inflation forecasts.

Two blind-spots dominated monetary policy making:

- The benign inflation outlook of the staff projections led to a built-in recognition-lag for trend-breaks in the price level of at least 12 months or more. This **allowed inflation to run hot** (when policymakers were trying to run the economy hot).
- The **inflation forecast focus** added the built-in illusion that price increases would return to the inflation target with a lag (team transitory), adding to the complacency (forgetting that **2% long term inflation is a model assumption**).

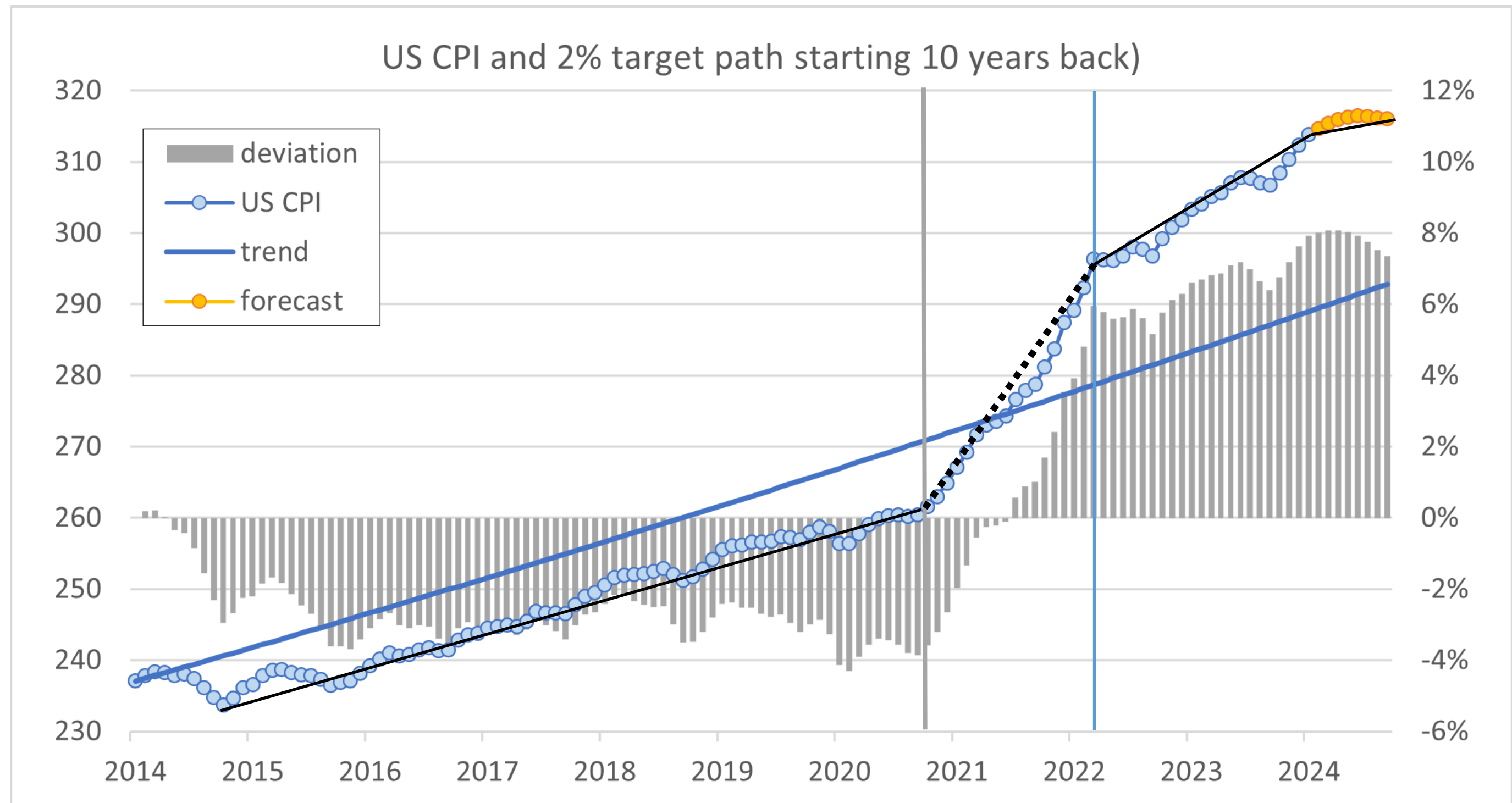
In addition, policy conditionality and forward-guidance added to monetary policy mistakes

Forward guidance led to the illusion that central banks knew more about the future path of the economy than they did.

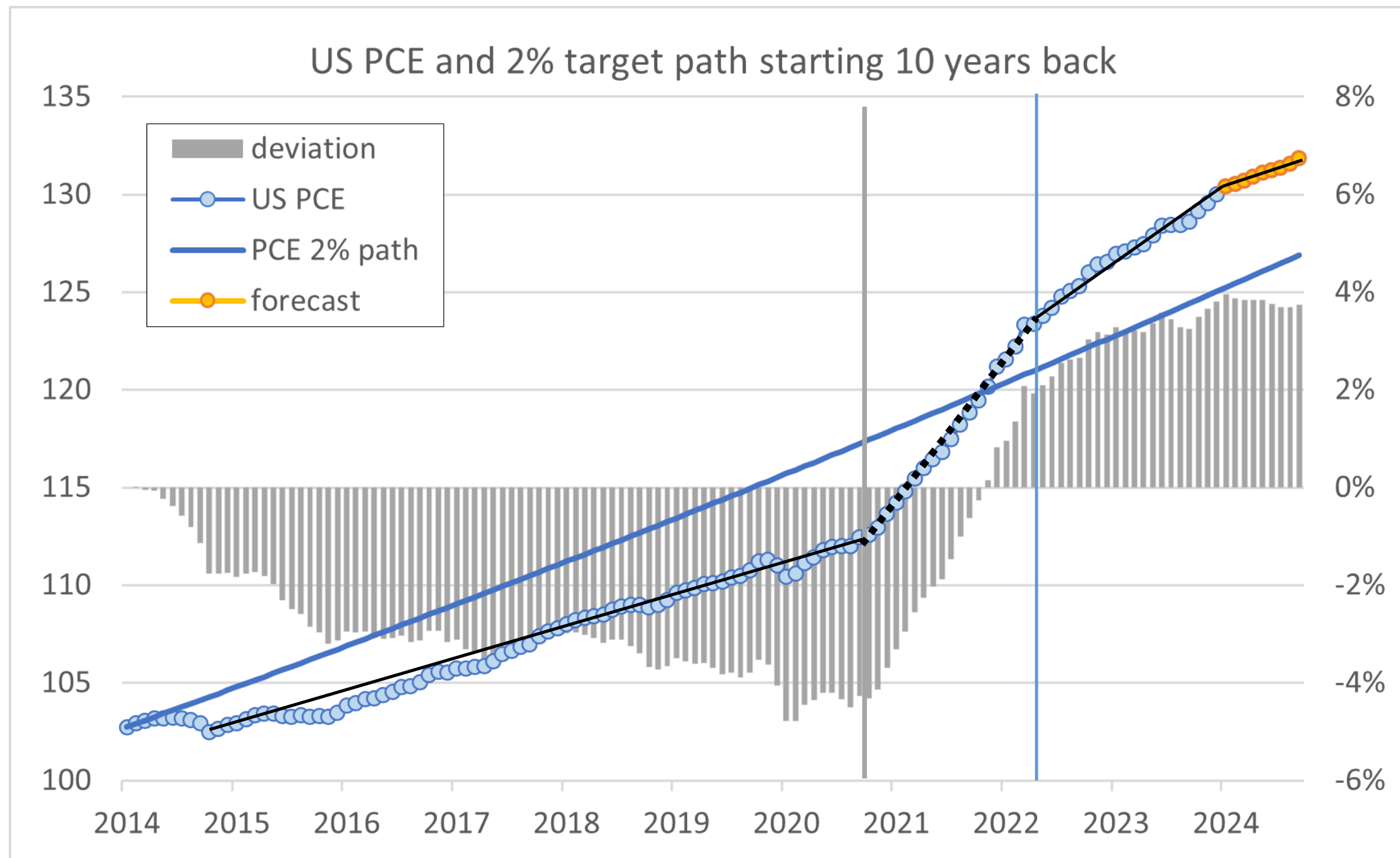
Pre-committing to a sequencing of balance sheet and interest rate policies was another policy mistake:

- The promise that balance sheet policies (tapering & ending asset purchases) would end before hiking interest rate led to central banks cornering themselves and waiting too long with the first rate hikes (loosing at least 3 more months).

Inflation and Monetary Policy – The Historical Track Record of the FED



Inflation and Monetary Policy – The Historical Track Record of the FED



End of Presentation