

The ECB's Mandate: Does it Need to be Modified to be Fit for the Future?



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A Revised ECB Strategy: What are the Changes Needed?



- *A symmetric* inflation target
- End of the two-pillar structure
- *Average* inflation targeting?
- *Higher* inflation target?

A Symmetric Inflation Target



- No case for the current “downward bias”
- No obvious drawback of symmetry
- Announcement can only help
- A target band?

End of the Two-Pillar Structure



- May have been justified in the early years, not anymore
 - In practice, more a distraction than a useful tool
- Galí (2012): “The Monetary Pillar and the Great Financial Crisis,” in *The Great Financial Crisis: Lessons for Financial Stability and Monetary Policy*, European Central Bank.
- Relevant financial indicators can be subsumed in the “economic analysis”
 - Necessary asset purchase programmes should not be precluded by constraints on monetary aggregates

Average Inflation Targeting?



- “Systematic forward guidance”
- Need for transparency
- Possible desirable features:
 - Asymmetry
 - “Double-contingency” (vis a vis binding ELB)
 - Clarification of the extent of the intended overshooting
- Weaknesses:
 - Hinges critically on anticipation effects
 - Near-surgical capabilities required may raise doubts
 - Risk of failure

A Higher Inflation Target?

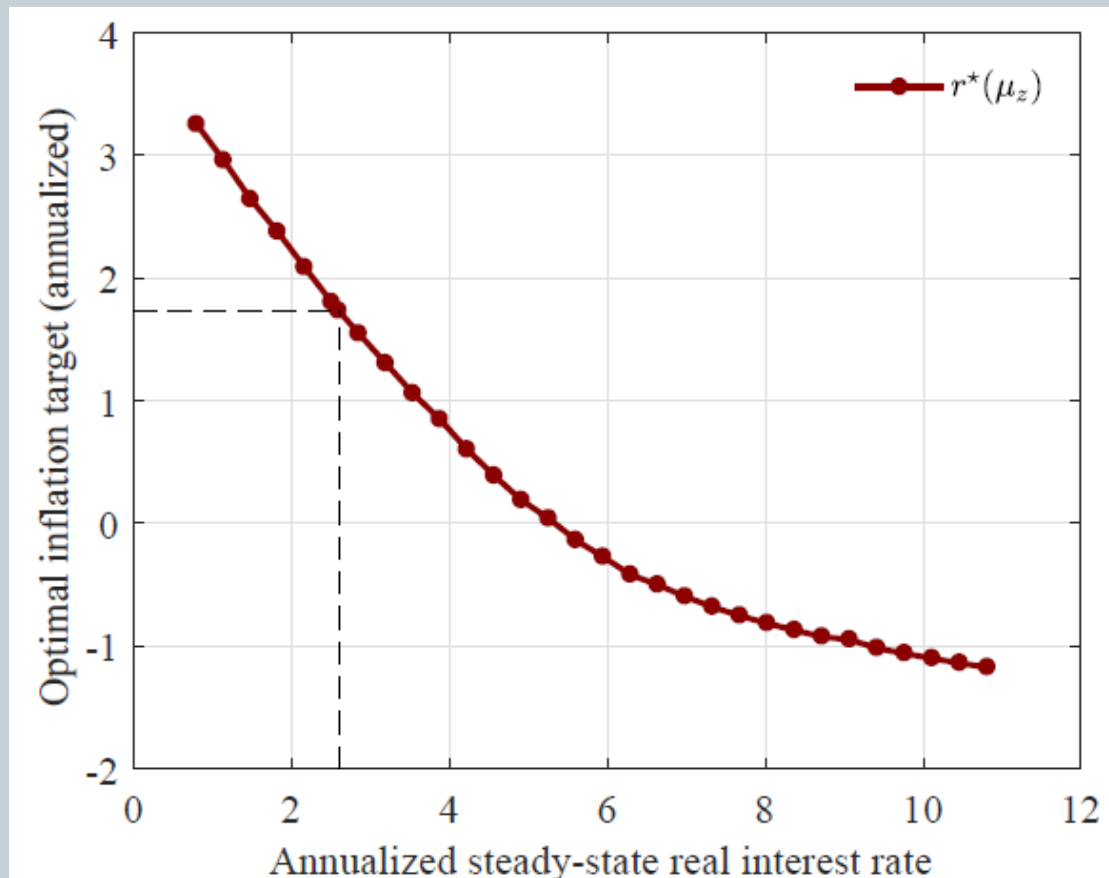


- Logical consequence of a permanently lower r^*

A Higher Inflation Target?



- Logical consequence of a permanently lower r^*



A Higher Inflation Target?



- Logical consequence of permanently lower r^*
- Problem: transition from current “undershooting”
- Suggested approach based on:
 - “gradualism”
 - “opportunism” in the timing of adoption

Concluding Remarks



- Four elements for a revised ECB strategy
 - *A symmetric* inflation target
 - End of the two-pillar structure
 - *Average* inflation targeting?
 - *Higher* inflation target?
- No reason to preempt open discussion on any of them
- Need to explain clearly why they are or are not adopted