Monetary Dialogue – 26 February 2018

Questions proposed by the Monetary Expert Panel

At their meeting of 26 October 2017 ECON Coordinators had an exchange of view on the working of the Monetary Dialogue and decided that the monetary expert should complement the requested paper with two or three questions to be used as guidance/input for MEPs discussion with ECB President in the Q&A session of the Monetary Dialogue. What follows is the list of questions, for two selected topics, suggested by the Monetary Expert Panel for the Monetary Dialogue of 26 February 2018. Papers and questions are available at [http://www.europarl.europa.eu/committees/en/econ/monetary-dialogue.html](http://www.europarl.europa.eu/committees/en/econ/monetary-dialogue.html)

**Topic 1: Interaction between euro-denominated payment systems and ECB monetary policy: challenges ahead for the single currency**

**BRUEGEL (Francesco PAPADIA)**

- The ECB has systematically over-forecasted inflation and under-forecasted employment: which lessons do you draw from these systematic mistakes?
- Why is it so important to achieve a rate of inflation so precisely close to 2 per cent? What's wrong with something around 1%?
- Do you fear large economies, like the US and the euro-area engaging into competitive devaluations?

**DIW Berlin, German Institute for Economic Research - Queen Mary University of London (Andromachi GEORGOSOULI)**

- Suppose that the relocation policy is successful and that euro-denominated clearing is eventually relocated in mainland Europe: How does the ECB intends to treat any systemic risk implications out of the natural tendency of central clearing to concentrate in one or two jurisdictions?
- How do we know what is the optimal level of market concentration in euro-denominated clearing services? Is there any relevant data that we can draw upon?

**LSE, London School of Economics (Corrado MACCHIARELLI, Mara MONTI)**

- On the issue of post-Brexit euro-clearing, should the status quo be preserved – with the presence of systematically important extraterritorial CCPs (e.g., London Clearing House) outside of the remit of the ESMA – what would be the ECB’s preferred approach in terms of supervising those CCPs?
- Do you see any risks for the consolidation of the Capital Market Union in Europe if the ECB will not be allowed any competences to regulate the European securities and clearing systems?
Topic 2: An economic recovery with little signs of inflation acceleration: transitory phenomenon or evidence of a structural change?

Daniel GROS (CEPS, Centre for European Policy Studies)

- Does the recent spike in (equity) market volatility and slightly higher long term rates justify delay in the exit from the bond buying? Two answers seem possible: 1. Higher volatility means less demand (investment down?) meaning the ECB should keep expansionary stance for longer. 2. Higher nominal (and real) long term rates indicate a stronger economy, meaning the ECB should exit quicker.

Hence sub-questions:

- Will market volatility impact the real economy (of the euro area)?
- When the PSPP was started the ECB argued that most of the impact came when the bond buying was announced (not when it started).
- Does this argument apply also the tapering/exit, i.e. has the announced tapering already been fully priced by the market?

OFCE, Observatoire Français des Conjonctures Économiques, (Christophe BLOT, Jérôme CREEL, Paul HUBERT)

- Does the ECB worry about the risk of a potential “currency war” with the US? May it consider adopting a more explicit communication concerning the euro exchange rate policy?
- Is the ECB concerned with a risk of stock market correction in the euro area?
- Does the ECB expect an increase in long-term interest rates (following US sovereign yields) despite its on-going unconventional measures and may it impinge on future monetary policy?

Andrew Hughes HALLETT (Copenhagen Business School)

- What do the MEPs think the effect of automation should be on inflation and monetary policy? Is there any evidence that it has had that kind of effect in the euro-zone?
- Is there a case, in their view, for greater (or at least a systematic attempt at) coordination between monetary, fiscal and structural reform policies in difficult times?

CASE, Centre for Social and Economic Research (Marek DABROWSKI)

- Does the increasing asset prices should be considered as the sign of increasing inflationary pressures??
- To which extent continuation of asset purchase programmes contributes to further financial deleveraging and decline in money multiplier?
- If economy is growing, negative output gap is disappearing and unemployment rate is going down does it make sense to push inflation up towards 2%?
Does the weak and unstable relationship between inflation and economic activity have a concrete impact on your monetary strategy? In particular: does it influence your assessment of your policies’ impact on inflation, the time horizon within which you aim to reach your target, and your views on potential trade-offs?

There is increasing evidence that monetary policy can have undesirable side-effects (e.g. on productivity and long-run growth prospects) the longer interest rates stay at very low levels. The associated costs could surpass the costs of limited deviations of inflation rates from their target. Do you take these costs into account in your discussions about the appropriate stance of monetary policy?

Considering all the challenges monetary policy is facing right now (including uncertainty about the effectiveness of monetary policy in impacting inflation, increasing risks of undesired side-effects of very low interest rates, and cross-country heterogeneities in the euro area), could a discussion about adjustments to the monetary framework, e.g. towards a more flexible inflation target with a target range, be fruitful?