Perspectives on Euro Area Monetary Policy

What can we learn about the monetary policy strategy of the European Central Bank (ECB) in light of the evolution of nominal and real rates in the euro area since January 1999? Is that policy consistent with the mandate that the Treaty has given it and the way the Governing Council has developed that mandate? Are the criticisms of little concern for growth and employment often raised against ECB policy justified? What are the main risks facing the ECB? Where is monetary policy (and interest rates) likely to go from here?

These are some of the questions that will be addressed by Jordi Galí, Director of the Center for Research on International Economics (CREI), as well as Professor at Universitat Pompeu Fabra, Visiting Professor at MIT, and Programme Director of the CEPR, who will present ‘Perspectives on Euro Area Monetary Policy’ as part of the Institute for Fiscal Studies Lunchtime Policy Sessions, due to take place 19 – 24 August 2005.

A special emphasis will be given to the recent pattern and future outlook for interest rates in the euro area, as seen under the lens of modern monetary theory. In that context, Professor Galí will explain and discuss the importance of the “natural interest rate” concept, and how estimates of the latter, as well as the uncertainty surrounding those estimates, should be taken into account by the ECB when designing its monetary policy, and may thus help predict future interest rate decisions. Professor Galí will argue that, contrary to widespread view held by the financial press and the general public, monetary policy in the euro area had an “expansionary bias” over the past four years, as reflected in real interest rates persistently below levels sustainable in the medium term. Alternative hypotheses to explain that behavior will be provided, together with a discussion of how the latter may affect ECB’s ability to meet its goals in the future.

ENDS

Notes to editors:

1. Jordi Galí will present ‘Perspectives on Euro Area Interest Rates’ from 1pm – 2pm on Saturday 20th August as part of the Econometric Society World Congress 2005 in London. Please contact Bonnie Brimstone on 020 7291 4800 to reserve a place.

2. The Institute for Fiscal Studies Lunchtime Policy Sessions are supported by Blackwell Publishing and the ESRC.