Monetary policy past, present and future

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A single thread runs through the challenges monetary policy has faced over the past 40 years, those it is facing now and those that it may well face in the future: this is the changing nature of the business cycle. The nature of the cycle changed in the early to-mid 1980s, with recessions evolving from the inflation-induced to the financial cycle-induced kind. Deep shifts in policy regimes arguably help explain that change – financial liberalisation, the globalisation of the real economy and the establishment of credible anti-inflation regimes focused on near-term price stability. Now policymakers face an unprecedented constellation: recession risks in the context of monetary tightening to quell inflation, combined with financial vulnerabilities, notably in the form of historically high debt levels. Peering into the future, the environment may become structurally more inflationary, as a number of deep forces change direction once more. At all points, the interaction between monetary policy regimes and the economic environment has played a key role in setting the stage for the next challenge.