



EUROPEAN CENTRAL BANK  
EUROSYSTEM



# **Review of the ECB's Monetary Policy Strategy**

The Banco de Portugal listens to academia

## I. Event overview

On 11 December 2020, the Banco de Portugal hosted its first public listening event under the ECB's Monetary Policy Strategy Review as a webinar aimed at the academic community.

The event brought together 245 participants (196 students and 49 lecturers) from 19 Economics and Management schools in Portugal.

Attending the event on behalf of the Banco de Portugal was the Governor, Mário Centeno, and the Head of the Economics and Research Department, Nuno Alves, who introduced the topic and revealed their expectations for the event. The moderator was the Head of the Communication and Museum Department, Bruno Proença. Six lecturers and four students made comments and asked questions during the session.

## II. Main topics discussed

### 1. Why are we listening?

The ECB wants to know what euro area citizens think about its monetary policy. This is why the Banco de Portugal – as part of the Eurosystem – is organising a number of events to listen to the opinions of Portuguese citizens. Given that universities are leading think tanks in any society, their opinions and ideas are very important to this review.

The Banco de Portugal will publish a summary of the outcome of these events on its website and will submit the opinions, suggestions and concerns expressed by the participants to the ECB. The ideas that come out of these events will help the ECB make better decisions on its future strategy. The review's final outcome is expected to be released in the second half of 2021.

The participants welcomed the ECB's initiative to listen to European citizens on its policy and release the outcome of the listening events. This practice is conducive to a more robust future strategy.

### 2. The price stability objective

The ECB's current objective is to keep euro area inflation below, but close to, 2% over the medium term.

Luís Aguiar Conraria, Professor at the University of Minho, noted that there is currently a trend of considering that inflation is no longer a problem, which is a mistake. Central banks may have become the victims of their own success. It is very important not to jeopardise central bank independence, which was essential to achieve price stability. Under the present circumstances, it is important to reflect on which conditions provide a safety margin against the lower bound on interest rates, namely how to raise inflation. The adoption of a price level targeting strategy might be an alternative to consider. Another alternative would be to raise the inflation target to 4%, although this would have the disadvantage of leading to an increased volatility of inflation rates.

Other mechanisms that could eliminate the lower bound on nominal interest rates might also be considered.

Manuel da Mota Freitas, Professor at the University of Porto, argued for an average inflation targeting strategy with a higher inflation target. Such a change should be coordinated at international level so as to avoid unwanted volatility. As for how the ECB measures inflation, the HICP is a limited indicator of the impact of prices on people's lives. It is important to have an indicator that captures the prices of financial assets and home ownership costs.

### 3. Secondary monetary policy objectives

Once price stability is ensured, the ECB should contribute to achieving the European Union's objectives. These include, for example, balanced economic growth, full employment and social progress, and a high level of protection and improvement of the quality of the environment. The ECB should also contribute to policies related to the stability of the financial system.

Margarida Abreu, Professor at the University of Lisbon, considers that climate change and inherent responses, such as the Green Deal, will transform the European economy. The Eurosystem should be an agent of change, incorporating this issue into its new monetary policy strategy. Choosing not to be involved in this unifying cause might have reputational costs for the ECB. Monetary policy should promote green finance.

Luís Aguiar Conraria, Professor at the University of Minho, considers that monetary policy should not be too broad in its aims. It cannot place climate change at the same level as concerns over employment or financial stability to avoid compromising the simplicity desired for the ECB's objective.

### 4. Monetary policy instruments

Luís Aguiar Conraria, Professor at the University of Minho, pointed out that the ECB's response to the current pandemic crisis was appropriate and faster than in previous crises, but cautioned against the risks posed by the continued use of non-standard policies. In particular, public debt purchases might not be in line with the ECB's mandate and might jeopardise its independence. This argument was also raised by other participants.

Manuel Mota Freitas, Professor at the University of Porto, noted that, from among the non-standard measures used, it might be worth keeping the TLTROs in the monetary policy toolkit. These measures address issues related to differences between euro area countries with lower risks to the ECB's independence.

The students raised concerns about the TLTROs' ability to provide incentives for lending to firms and households and questioned whether these operations might not induce banks to take excessive risk.

Margarida Abreu, Professor at the University of Lisbon, highlighted the importance of having tools more geared towards supporting the lending channel in transmitting monetary policy.

## 5. Other considerations

António Afonso, Professor at the University of Lisbon, pointed out how important it is to reflect on the interactions between the implementation of monetary policy and fiscal policy. Extraordinary public debt purchase measures seem to be becoming the new normal. The ECB might be perceived as being at the service of fiscal policies.

Manuel Mota Freitas, Professor at the University of Porto, argued that it might not make much sense to keep the two pillars of analysis separate. The ECB cannot have two anchors; it should formally abandon the monetary aggregates targets. Integrating the two pillars would allow for better communication of monetary policy decisions.

Isabel Horta Correia, Professor at the Universidade Católica Portuguesa, underscored the importance of not losing sight of the permanent tension between monetary policy acting as a stabiliser in reaction to shocks in the short term and the medium to long-term horizon in which the mandate will be assessed and where inflation is determined by monetary forces. The monetary pillar provides this link, and that should be taken into account in the reflexion on its reformulation.

Álvaro Aguiar, Professor at the University of Porto, suggested that the ECB should perform regular ex post assessments of its monetary policy decisions and disclose them to the public. Such a practice would help reduce the ECB's accountability deficit and strengthen its reputation. In the current environment where multilateralism is in crisis, it is important to strengthen international cooperation and coordination among central banks.

## 6. Main messages or Final notes

Several participants underlined the importance of ensuring the ECB's independence, which has been crucial to act imaginatively whenever the circumstances have demanded it.

Several participants considered it important to have a higher inflation target or adopt price level targeting or average inflation targeting strategies in order to avoid the lower bound.

The Banco de Portugal's Governor, Mário Centeno, noted that economic policy decisions are not without costs or risks, but are always made taking into account a counterfactual analysis. This is also the case for monetary policy. Ensuring the functioning of the transmission mechanisms has called for the use of non-standard measures. There is no predisposition to limit the possibilities for monetary policy to act, in full respect of the scope provided for by the Treaties, which is significant.

In closing, the Governor highlighted the exceptional nature of this review in terms of scope and thanked the participants for their input and contributions to the reflection process.

### III. Annex

[Event programme](#) (link)

List of participating universities:

- Católica Lisbon School of Business & Economics
- Católica Porto Business School
- FEP - Faculdade de Economia da Universidade do Porto
- Instituto Politécnico de Castelo Branco
- Instituto Politécnico do Porto
- Instituto Superior de Administração e Gestão (ISAG)
- Instituto Superior de Economia e Gestão da Universidade de Lisboa (ISEG)
- ISCAL - Instituto Superior de Contabilidade e Administração de Lisboa
- ISCTE Business School
- Lancaster University Management School
- Nova School of Business and Economics
- Universidade da Beira Interior
- Universidade de Aveiro
- Universidade de Coimbra - Faculdade de Economia
- Universidade de Évora - Departamento de Economia
- Universidade de Trás-os-Montes e Alto Douro
- Universidade do Minho - Escola de Economia e Gestão
- Universidade dos Açores
- Universidade Portucalense Infante D. Henrique