Economics
The Open-Access, Open-Assessment E-Journal
Vol. 13, 2019-5 | January 11, 2019 | http://dx.doi.org/10.5018/economics-ejournal.ja.2019-5

The quest for global monetary policy coordination

Franco Bruni, José Siaba Serrate, and Antonio Villafranca

Abstract
This paper puts forward a proposal to help monetary policies confront the challenge of the "normalisation" of money creation and interest rates. The difficult unwinding of years of unorthodox policies put financial stability at risk in major monetary centres and in EMEs. The authors argue that global coordination is crucial to facing this challenge. They propose to convene appropriate official meetings to coordinate in an explicit, formal, and well-communicated way the process of normalisation and the discussions on the needed long-term changes in the strategy and institutional setting of monetary policies.

(Published as Global Solutions Paper)

JEL E51 E58 E61 E63 F33 F42
Keywords Monetary policy; central banks; global cooperation; financial stability; international institutions

Authors
Franco Bruni, ISPI and Bocconi University, Milano, Italy, franco.bruni@unibocconi.it
José Siaba Serrate, University of Buenos Aires, UCEMA and CARI, Buenos Aires
Antonio Villafranca, ISPI, Milano

The authors express many thanks to an anonymous referee for his careful work. This paper is an enlarged and revised version of their policy brief prepared for the T20 Argentina 2018, where they have been co-chairs of the International Financial Architecture Task Force.

Citation Franco Bruni, José Siaba Serrate, and Antonio Villafranca (2019). The quest for global monetary policy coordination. *Economics: The Open-Access, Open- Assessment E-Journal*, 13 (2019-5): 1–16. http://dx.doi.org/10.5018/economics-ejournal.ja.2019-5

Received June 21, 2018 **Published as Economics Discussion Paper** August 3, 2018
Revised November 26, 2018 **Accepted** December 18, 2018 **Published** January 11, 2019

1 Introduction

In an increasingly integrated global financial market the international coordination of monetary policies becomes an increasingly important issue. This paper deals with the topic devoting special attention to the problems posed by the exhaustion of unconventional policies.

After arguing that the short term need to normalise policies makes an important case for coordination, the paper discusses the issue in more general terms and lists some longer term challenges that extend over the theoretical and institutional framework of monetary strategies and would also seem to benefit from a stronger international coordination effort.

The paper concludes with a concrete proposal to start this effort by convening bi-annual regular meetings of monetary authorities and assuring suitable communication of the results of these meeting to the markets.

2 Normalisation: a global challenge for monetary policies

Today's monetary policies are confronted with a crucial challenge that can be labelled "normalisation". For years, the worldwide creation of liquidity has been relying on unconventional instruments: it has been overabundant with an extremely low level of interest rates. Monetary expansion has been driven by the policy decisions of the developed world.[1] With the global recovery and the end of the fears of deflation, the times have come to get back to normal money creation and interest rate settings: "monetary policy normalisation is essential in rebuilding policy space. It can create room for countercyclical policy, help reduce the risk of the emergence of financial vulnerabilities, and contribute to restraining debt accumulation" BIS (2018: xiv).[2]

Normalisation is a challenge for technical reasons, as the shrinkage of central banks' balance sheets, the reabsorption of excess liquidity, the increase in short-term rates and the end of the direct manipulation of medium-long term interest rates, can be complicated to implement with the right timing and in the right order. Moreover, it is far from clear whether or not central banks will try to reproduce the old-normal or converge to a new-normal where monetary expansion will expire but their balance sheets will remain very large and the role of the interbank market will be kept narrower by their direct motherly relations with the banking systems.[3] However, given the very uncertain features of normalisation, the main reason to consider it a challenge has to do with the reaction of markets. Their expectations interact with

---

[1] Past contributions by the T20 have analysed policy issues arising from unconventional monetary expansions. See, for instance Think Tank 20 (2013).

[2] Already several years ago a T20-2014 paper by José Siaba Serrate (2014), included in the recommendations for the Brisbane G20, was arguing along lines very much related to the present policy brief. At that time though the normalisation problem could be safely presented as a less urgent process than today: "The path advanced economies must take in returning to normalcy will be a multi-stage, multi-year process….Unwinding unconventional monetary policies will not be an easy task. These are uncharted waters".

[3] See, for instance, Claeys and Demertzis (2017), and their rich list of reference on the topic.

normalisation announcements[4] in ways that may diffuse panic and precipitate liquidity crises and disruptive volatility in asset and currency prices. Financial stability is at risk, particularly in an over-leveraged global economy[5] where "it is not just the amount of public and private debt which is worrying, but also the deterioration in its average quality".[6] The deterioration is a consequence of the "poor resource allocation" caused by easy financial conditions with limited market discipline, permitting "the survival of ultimately unprofitable firms and [weakening] the incentives for sovereigns to ensure fiscal space" (BIS 2018: 12).

3 The issue of international coordination of monetary policies

The challenge of normalisation looks difficult and risky also because each central bank tends to proceed along lines that reflect the specificities of its own country or currency region. That monetary policies do not need to be coordinated is part of current orthodoxy, also in academic research**.** On the basis of their "new open economy macroeconomic model", Obstfeld and Rogoff (2002) conclude that there might be concern about the fact that "countries chose monetary rules that are optimal from a national perspective but not from a global perspective. … Surprisingly, this lack of coordination may not be a big problem even in a world with significant economic integration. As domestic monetary rules improve, and as international asset markets become more complete, there are plausible circumstances in which the outcome of a Nash monetary rule-setting game begins to approximate the outcome of a cooperative system". That the benefits of monetary policy coordination, if any, are fairly contained and uncertain has been for long a prevalent argument in the most prominent literature like Hamada (1976) and Oudiz and Sachs (1984).

However, the orthodox view is increasingly controversial. "The bank of central banks", the BIS, has been arguing for long in favor of monetary cooperation. It suggests going beyond the letter of national mandates[7] and proposes considering as an example for monetary policy the internationalisation of financial regulation and supervision. However, individual central banks appear disinclined to weaken the defense of their national perspectives. Comments and speeches from the US Fed are typically concentrated on arguing that dollar policies are coherent with

[4] QE announcements have had impressively large impacts on exchange rates and sovereign spreads, in proportion to the total changes that happened following factual QE interventions. For recent estimates of ECB's QE announcements effects (and related literature) see Bulligan and Delle Monache (2018).

[5] See, for instance, Tanzi (2018), reporting statistics on the impressive increase in global debt both before and after the 2008 financial crisis. Global debt growth (public and private) is also shown in McKinsey (2018) as well as in IMF (2018a: Fig. 1.6) and in BIS (2018:, Graph E.2).

[6] Kapoor (2018): "…There are only 11 sovereigns and only two U.S. firms left with a AAA rating, and there is a continuing decline in the average credit quality of outstanding loans and bonds. Servicing and *rolling over this debt is likely to become much more expensive as monetary policy normalises after years of quantitative easing*" (italics is ours).

[7] See, for instance, BIS (2015: 97), "Moving towards a more efficient outcome would require greater cooperation, including ad hoc joint action, and possibly even agreement on *rules of the game that constrain domestic policies*" (italics ours).

domestic objectives while overlooking their potential impact in terms of instability in EMEs.[8] Powell (2013), for instance, states that: "the Federal Reserve's mandate, like those of other central banks, is focused on the pursuit of domestic policy objectives. This focus is entirely appropriate".[9] As for the ECB's position, it usually couples orthodox statements on the inevitability of a domestic orientation of monetary policies with a broad-minded recognition that global common shocks and international spillovers justify the search for some informal and non-explicit coordination of monetary policies to "benefit from alignment of policies [and] a shared diagnosis of the root causes of the challenges that affect us all" (Draghi 2016).[10] The argument is also used that, more than coordination with other central banks, exchange rate flexibility and non- monetary policies (fiscal, macro-prudential, financial regulation and supervision, structural reforms) can be an effective way to confront destabilising spillovers.

However, the problems of global shocks and of international spillovers look increasingly serious and deserve deeper attention. Conventional channels of financial spillovers take place via asset prices and portfolio effects, via cross border balance sheet exposures, through trade linkages, through information and confidence effects. Spillovers are usually considered undesired damage hitting EMEs, caused by policies adopted in major countries. A well-known example is the impact of the US Fed's tapering announcement in 2013 on Brazil, Mexico and other EMEs, which has been so strong as to cause a temporary postponement of the Fed's moves. More recently, the monetary crises of countries like Turkey and Argentina, while certainly grounded in the countries' macroeconomic disequilibria and political problems, have certainly been aggravated by the contemporaneous increases in US interest rates.

But "global spillovers can have [second round] implications [also] for the core countries at their origin. The collective size of the countries exposed to the spillovers suggests that what happens there could also have significant financial and macroeconomic effects in the economies that originated the spillovers" (BIS 2018: 37).[11] To the extent that financial instability in some large middle.income countries is transmitted back in advanced economies, spillovers become a two-way street, with "spillbacks" spreading financial disorder in all directions.

As for the possibility of exchange rate flexibility and non-monetary policies to confront destabilising spillovers it is easy to see its limits. Suppose, for instance, a sudden increase in the

---

[8] At a time when EMEs authorities were insisting on critiques of US inward-looking policies, Bernanke, 2013, gave a famous defensive speech. For an opposite view, see Rajan (2014).

[9] More recently, Powell (2017) squarely asserts: "the best thing the Federal Reserve can do – not just for the United States, but for the global economy at large – is to keep our house in order through the continued pursuit of our dual mandate."

[10] Also Cœuré (2014), after stressing the orthodox position, admits the existence of some scope for informal and non-explicit coordination: "The literature suggests that international monetary policy coordination may be instrumental in achieving a globally optimal solution, [but] it generally concludes that the gains from coordination are small relative to an environment in which national policy-makers pursue optimal domestic policies … [Moreover,] explicit and binding forms of monetary policy coordination [are] difficult [as] central banks operate under different mandates, time horizons, objectives and accountability arrangements. They are ultimately backed by their domestic fiscal authority and report to their domestic parliament. … This does not imply that regular dialogues between central banks as well as exchanges of views during meetings at the IMF, the BIS, the G20 and at regional level, are not useful. In fact, I believe that it is quite the contrary".

[11] See also IMF (2016) and (2016a), where econometric estimates of spillovers and spillbacks show their increasing importance, diffusion and size.

dollar interest rate and consider its depreciating impact on Brazil's currency. Speculation can push the depreciation well beyond its stabilising effect on exports, while imports costs and inflation can further worsen the picture, especially when a restrictive monetary move doesn't fit the Brazilian cycle. Brazil's trade and net foreign investment can suffer instead of profiting from depreciation. Expansionary fiscal policy can try to stop capital outflows and support aggregate demand but a larger public deficit could instead cause an increase in country risk with opposite net effects. Macro-prudential instruments can be of help in preventing a systemic banking crisis in the country hit by speculative capital outflows but to stop the latter stricter capital controls would be needed, with significant side effects. Structural reforms can always be beneficial but require time to impact the suddenly hit economy. Substituting Brazil with the euro area in the example would limit both the size of the spillover and its negative effects and allow European non-monetary policies to better contain these effects. However, qualitatively, the effects will not change confirming the benefits of internalising the spillovers and spillbacks of US monetary authorities' decisions, possibly within a global coordination strategy.

The lack of consideration for global interdependences can be particularly dangerous given the current state of monetary strategies. The main factor that explains the disquieting size and length of global unconventional monetary expansion has been the new worldwide disconnection between the path of money creation and the path of price level increases. This disconnection has caused a global tendency to what must be recognised as competitive monetary easing (Rajan 2014). Global interdependences are now such that without coordination the needed reversal of that easing, the recently started "narrow normalisation path",[12] will be harder and bumpier. Complications are starting to arise from the fact that the initial phase of the path looks "highly asynchronous, with the Federal Reserve raising policy rates while the ECB and the Bank of Japan continue with large-scale asset purchases and negative rates" (BIS 2018: 25), which "may have offset the impact of the Fed's monetary policy normalisation" (BIS 2018: 31).

Normalisation requires striking a difficult and delicate balance between fast and gradual adjustments of intermediate monetary targets and instruments. Forward guidance and credibility are essential. The first move of a normalising country could trigger expectations that complicate the decision process of the other normalisers with unforeseeable consequences for the credibility of the policy announcements of all of them. This happens, for instance, when the optimal path of normalisation differs in different countries but markets are insufficiently informed to understand this fact and suspect that only the first mover will act, thus causing an unwarranted appreciation of its currency. A problem of this type seems to complicate, in particular, the understanding of the ECB's strategy when confronted with Fed's policy moves.

Moreover, as "during the phases in which interest rates remain low in the main international funding currencies, emerging economies (EMEs) tend to benefit from easy financial conditions; these effects then play out in reverse once interest rates rise" (BIS 2018: 36). When normalisation gets enacted in the most developed monetary regions, EMEs must undergo a difficult adjustment of their debtor positions denominated in the leading currencies. They will also have to adapt macroeconomic strategies to a rising cost of capital. They could be seriously hurt by the unwinding of the "search for yield" that has been in place since the beginning of the

[12] (BIS 2018) gives this title to its monetary policy chapter.

crisis. Their financial fragility could then spillback to the more advanced countries and emerge as a source of serious global trouble.

4 Normalisation and longer term challenges for monetary policy

The difficulty of enacting a well-managed global normalisation of monetary policies has causes that extend over the theoretical framework on which monetary strategies are based and over the institutional setting surrounding central banks. These problems can be considered long-term challenges for monetary policies, both for EMEs and for advanced economies. They picture a situation where a lack of clarity, trust and international consensus in monetary instruments can weaken their effectiveness and aggravate sources of financial stability. A short list of these long-term issues can also show their connections with the short-term challenge of normalisation:

- The relationship between monetary policy and inflation, the main pillar of today's monetary strategies, has been weak since the end of the past century: until the Great Recession, liquidity and credit grew much faster than prices while during recent years vigorous monetary expansions went together with subdued inflation often threatening deflation. Important economists criticise the standard 2% benchmark for inflation targeting in advanced economies sometimes as too low,[13] sometimes as too high[14] or theoretically weak. Misinterpretations of the target seem also to cause expansionary policies, dangerous for financial stability, when inflation is just a bit below 2%.[15] Moreover, price level dynamics increasingly respond to global forces, thus eluding the influence of uncoordinated national or regional monetary policies. The root causes of the problem are complex to single out and deserve important research efforts: they probably include growing imperfections in the transmission of monetary to financial conditions which cannot but make normalisation much more complicated and uncertain.[16]
- Unconventional policies and their initial unwinding have shown some weakening of the credibility of monetary announcements, which have perhaps been overdone by an intense reliance on "forward guidance".[17] Credibility is also essential to allow a smooth, gradual process of normalisation. The meaning of "new normal" is still very uncertain and its clarification requires some deep thinking on future monetary policy strategies and on the

---

[13] From Blanchard, since Blanchard et al. (2010), up to the recent Summers (2018).

[14] See, for instance Shiller (2018) who points to an original argument, involving impacts on asset prices, uncertainty and financial stability.

[15] See Taylor (2018) where other relevant observations are contained.

[16] See BIS (2018: ch. II) commenting the fact that, for instance, "until at least the first quarter of 2018, no tightening of financial conditions accompanied the normalisation of US monetary policy" which started more than two years before.

[17] Among the many possible citations: "The markets do not appear to believe the Fed": Wessel (2015); Larry Summers (2017): "the Fed is not credible with the markets"; "Fed Officials admit they have lost some credibility on inflation": Miller (2017).

role of central bank balance sheets. These thoughts involve macroeconomic theory as well as institutional aspects.

- Quantitative easing is raising doubts about central bank independence from governments and markets[18] and about the boundary between monetary and fiscal policies[19] as many observers note that massive central banks' purchases of long term securities and sovereigns may have significant distributive consequences[20] and modify the incentives to fiscal adjustments. These types of problems also have potential consequences for normalisation, as fiscal and distributional pressures on central banks can complicate their independent and coordinated plans to bring back liquidity, credit and interest rates to more normal levels, and on their decisions to fix the "new normal" levels as well.
- The evolution of financial regulations after the global and Eurozone financial crises has complicated the transmission mechanism of monetary policy, defied the separateness of monetary and financial stability targets and questioned the respective roles of monetary and macro-prudential policies and authorities. The current pressures and the first steps to weaken regulation in the US[21] need careful scrutiny as they could result in unintended destabilising effects and interfere with monetary normalisation. The explicit definition and introduction of macro-prudential policies has been one of the great advances in the last decade: however, their role looks still insufficient and controversial, their design inadequate; moreover, the manoeuvring of their instruments is not well orchestrated with monetary policies and lacks international coordination.[22] Any attempt to coordinate monetary policies cannot but take into account macro-prudential tools, which renders coordination even more ambitious and difficult.

To confront these long-term "structural" and "theoretical" issues it is crucial to avoid hiding their existence under the cover of urgent problems like the normalisation. On the contrary, initiatives taken to cope with short-term challenges should be exploited to encourage common reflections and research as well as some general coordinated deliberations to gradually improve on the long-term fronts. Our final "concrete proposal" tries to take this aspect into account.

---

[18] The literature is obviously immense on this topic. To single out a synthetic reading on "potential threats to central bank independence" one can point, for instance, to the beautiful column by Charles Goodhart and Rosa Lastra (2018).

[19] See, for instance, Reuters Staff (2016), Ohlsson (2017), Davtyan (2017).

[20] See, for instance, Deutsche Bundesbank (2016).

[21] https://www.washingtonpost.com/business/economy/divided-house-passes-major-bank-deregulation-bill-sends-to-trump/2018/05/22/6f3bb562-5dd2-11e8-a4a4-c070ef53f315_story.html?utm_term=.cbbca5adabde

[22] BIS (2018) devotes the entire chapter IV to a wide and deep survey of macro-prudential policies, their relationship with monetary policies and their impact of global stability. Special attention is devoted to unsatisfactory domestic and international governance of these policies as "The multiple purposes of the instruments, the scope for strong political pressure and the mismatch between the mandate and tools put an onus on adequate governance arrangements": p.70. On international coordination of macro-prudential policies "the case is perhaps easiest to make in preventing cross-border arbitrage, ie 'leakages'. The Basel agreement on reciprocity in the implementation of the Basel III CCyB is one such example", p. 76.

5 Towards coordinated monetary policies

Both short- and long-term challenges that confront monetary policies require a more intense global cooperation. The latter can help to manage normalisation and start solving the conceptual, strategic and institutional problems that, in the longer run, hinder trust in the effectiveness of monetary policy tools.

First and foremost, cooperation can be helpful to overcoming problems that render the "normalisation" of monetary policy a difficult operation that can put financial stability at risk. The difficulty and risks of normalisation tend to postpone its completion, unnecessarily prolonging the extra-expansionary stance of monetary policies and the use of unorthodox monetary tools. In spite of the still controversial start by the US Fed, the global effort to normalize monetary policies suffers from a "first-mover problem" which only cooperation can remedy. The ubiquitous political bias for easing aggregate demand policies made the 2008-9 G20-guided coordinated monetary expansion simpler to obtain than the opposite move we need today. The marked asynchrony of the current efforts of normalisation[23] is also a proof of their difficulty.

Normalisation can be shaped and timed differently in the various countries and monetary regions, according to the different features of the past unorthodox expansion, to the specific aspects of the regional financial systems and to the macroeconomic situations. But the effectiveness of its strategy as well as its technicalities can benefit from coordination and, possibly, from mutual help. Gradual asset sales by the Fed, for instance, that aimed at shrinking its balance sheet, can be easier if the other major central banks, and the markets as well, are sufficiently informed about US strategy and perhaps even ready to provide help. This example stresses the fact that, while uncoordinated normalisation is often considered potentially damaging for EMEs, the lack of coordination renders normalisation a much more difficult challenge also for advanced economies.

Different central banks' bylaws should not be an insurmountable obstacle to agreeing on a coordinated feature of normalisation. To square with national mandates, the "coordinated strategies" will turn out to be a "least common denominator" of national views on what should be done in a coordinated fashion to cope with the deep cobweb of interdependences that link national monetary systems. Any specific aspect will have to be decided at a national level. However, the common denominator will be crucial and help the markets to be more stable.

The most important potential benefit of monetary policy coordination is its impact on markets' expectations and reactions. Markets should know that the complex process is governed in a cooperative manner. This prevents them from panicking and discourages destabilising speculation based on expected strategic hostilities among central banks and on their alleged differences in timing and scope. A clear but unilateral communication of a major country's change in its monetary strategy is insufficient to avoid undesired consequences for the international monetary order. Consider the recent case of the US normalisation process. From time to time the clarity of the Fed's announcements have been considered insufficient by analysts and markets. However, the weakest aspects of the operation is the lack of information

[23] As noted by BIS (2018: 25). The Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Markets Committee.

on how other central banks have received the US decision and the consequent fear that strategic conflicts can trigger costly uncertainty and instability in interest rates differentials and exchange rate behaviour. A well communicated, sufficiently transparent coordination can allow monetary policy changes, even if they are unilateral, i.e. if they are centred on the needs of a single central bank, to take place with smaller divergences and volatilities of interest and exchange rates, smoother capital flows and less impact on stock prices. The timely provision of well-considered information is one of the main remedies to market imperfections. Markets should, therefore, be informed in an official manner about the main agreements reached by the coordination process.

In fact, some coordination (together with the exchange of crucial information) has always taken place among the major central banks: they have also special occasions to do so, like their regular bimonthly meetings in Basle. The BIS hosts the Global Economy Meeting (GEM), the Economic Consultative Committee and the All Governors' Meeting. GEM provides guidance for important Basle-based central bank committees.[24] In addition, the Central Bank Governance Group and the Irving Fisher Committee on Central Bank Statistics, with a broader membership than GEM, meet and work at the BIS.[25] Parts of the material produced by these groups and of the proceedings of these meetings are made available in various forms by the participants. However, none of the BIS or IMF meetings aims at explicit and formal coordination of monetary policy decisions. Importantly, no meeting is committed to communicating coordinated strategies to the markets.

In spite of the political and institutional difficulties of explicit coordination of monetary policies, we propose to profit from the current urgent normalisation issue to make a special effort. Central bankers should regularly and officially discuss and agree on some basic features of their monetary policy strategies, communicate their decisions to the markets and commit to following the agreed upon points. To the extent that coordinated decisions internalise the complex interdependencies of national central banks' measures and their respective domestic consequences, the joint deliberations do not conflict with national mandates. Moreover, internationally coordinated decisions are already the norm in micro and macro prudential regulations that are increasingly connected with monetary policies: there is therefore no reason to exclude the explicit coordination of the latter to pursue financial stability.[26] Obviously, the set of coordinated decisions will be smaller than the set of all the measures taken by individual central banks, which will maintain their basic autonomy. Note that, in theory, such a process of coordinated deliberations, by involving reciprocal official, communicated commitments among monetary authorities of different countries, would act as a powerful "commitment technology", a device to increase the credibility of each of them by the general public, market operators and

---

[24] The Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Markets Committee.

[25] https://www.bis.org/about/bimonthly_meetings.htm

[26] BIS (2015: 99) has a particularly sharp and spiky paragraph: "Many reject a global perspective in the realm of monetary policy. Accordingly, domestic mandates ask major reserve-issuing central banks to set policy for a smaller economic domain than that occupied by their currencies. This interpretation of domestic mandates contrasts sharply with successful international cooperation in the realm of financial regulation and supervision. There, *national mandates have not precluded extensive international cooperation and the development of global rules*" (italics ours).

governments as well, also by strengthening the defenses of central bank independence from political pressures springing from national fiscal policies. The improvement in credibility, by interacting with market expectations, would also directly benefit the domestic impact of their policies.

The benefits of jointly communicated deliberations on the normalisation process are easy to understand. Only a sufficiently transparent coordination can convince the markets that each normaliser has a compatible plan to move, with the tools and speed appropriate for that country but not harmful for other countries' plans. Already several years ago, in his contribution on the matter (Taylor 2013). John B. Taylor showed how the benefits of international coordination increase when monetary policies do not follow a set of established rules. While with rule-based policies the benefits of preventing international spillovers with international coordination can be shown to be rather contained, deviations from rules-based policy at several central banks create incentives for other central banks to deviate from such policies. In other words, spillovers become very large and damaging so that the benefits of international coordination are much larger and worth pursuing. As rules cannot easily govern the complex *tâtonnement* which is now required for going back to normal liquidity, normal central banks' balance sheets, normal interest rates, both policy effectiveness and financial stability would greatly benefit from coordinated monetary announcements, increasing the trust of the markets in a consistent strategy to reach a rule-based new normal.

Coordination positively affects the behaviour of major financial markets connecting the advanced countries that coordinate their policies. However, its stabilising impact involves the emerging economies as well, their exchange rates and cross border capital flows. Interest rate spillovers into EMEs become expected and gradual, easier to manage by central banks with interventions and timely currency swaps to which EMEs access can be expanded and stabilised. Quite obviously, the benefits of coordination for emerging economies are higher the deeper the involvement of EMEs monetary authorities in the coordinating arrangements. While the main strategies cannot but be adopted by the major central banks, the voice of EMEs authorities should play a role and their information set should be such as to allow them to maximise their benefits in terms of stability.

Destabilising spillovers of reserve countries' monetary policies into EMEs, to be sure, such as those that in 2013–14 caused a postponement of normalisation in the US,[27] have long been recognised as a possible, though debatable, justification for international coordination and/or mitigating arrangements like currency swap facilities.[28] Note, however, that today's challenge of normalisation calls for coordination among advanced countries also to avoid instability risks in the same reserve countries.

The term "normalisation" describes the gradual exit from the extraordinary stance of monetary policies that was adopted to deal with the major crises of the last 8–10 years. However, normalisation must be extended to the instruments used by monetary authorities, which for some time have been rather non-standard: while some innovations can become permanent parts of a reinstated orthodoxy (like some elements of forward guidance), the plan is

[27] See, for instance, Eichengreen and Gupta (2013).

[28] See, for instance, Mohan and Kapur (2014).

to substantially normalise the central banks' set of tools. The basic strategy to move towards the normalisation of instruments should, at least in part, be included in the coordination process and in the communication of its conclusions. The latter would serve as a coordinated road map for coming monetary policy decisions. The various central banks would be able to act differently, but in a way jointly agreed upon and communicated, fully in accord with the recent stronger reliance on forward guidance.

The organisation of the coordination procedure can thus become a multilateral cooperative research effort to devise the future developments of monetary policy techniques in an increasingly interconnected monetary world where idiosyncratic decisions of individual countries, if taken without the understanding and agreement of the other main monetary actors, are bound to become increasingly destabilising or ineffective. The coordinated multilateral procedure should prevent cheating and be organised in such a way to avoid third-party effects such as those studied by Rogoff (1985), where coordination among a subgroup of countries worsens global welfare. The multilateral coordination should also search for an agreed common model of monetary policy strategy and transmission: as shown by Frankel and Rockett (1988) coordinating on the basis of incorrect models can worsen the global outcomes. The problem of using the correct model proves that there is an important link between the short term aim of coordinating the normalisation of current policies and the longer term challenge to coordinate the efforts to cope with wider theoretical and institutional issues that are troubling today's monetary policies.

This effort can result in a permanent multilateral forum for monetary coordination, with special attention to carefully communicating its deliberations to the markets. Communication, to be sure, "might even be viewed as a macro-prudential tool in its own right" BIS (2018: 70).[29] The perspective of such a forum can bridge the short-run need to cope with normalisation and the requirement to face the above mentioned longer term challenges to monetary policies. The latter calls for a combined theoretical and practical planned action to update theories and institutions, possibly also including some aspects of central banks' bylaws that are now biasing monetary strategies towards an emphasis on national interest that does not square with the increasingly intense global financial links. It is also essential to cope with the increasingly evident links between pure monetary policy themes and issues in financial regulation. Coordinated international efforts should be devoted to stimulating an adequate scholarly research attention to the long-term issues.

The short-term management of normalisation can serve as an opportunity to start a wider and permanent endeavour to use global cooperation for renovating the conceptual and institutional framework of monetary policy strategies and techniques. This action plan should be publicly announced and should provide for the appropriate communication of its works and conclusions. It should start as soon as possible, at least among the major monetary centres of the world, even if its results must wait the "long-term" to become evident. Long-term challenges, as argued above, put at risk the credibility and effectiveness of monetary policies, spreading doubts and scepticisms that can severely weaken financial stability and growth. The urgency of normalisation efforts should also be an excuse and a justification to try an ambitious path towards the clarification and solution of more structural issues. Along the latter path, the

[29] See also Committee on the Global Financial System (2016).

contribution of scientific and technical research is obviously essential and should be exploited with appropriate arrangements involving the main international research networks that connect academic thinking with policy-making.

6 A concrete proposal

A multilateral initiative is therefore needed to convene and host the meetings where official coordination takes place, both on the short-term front of normalisation and along the longer term action plan facing the more general and fundamental challenges. The initiative could be formally considered by the G20 under the umbrella of the Mutual Assessment Process (MAP) established within the G20 at the 2009 Pittsburgh Summit to tackle the problem of key imbalances via cooperation and coordination (IMF 2018).[30] We propose the Bank for International Settlements as the appropriate venue, as well as providing the secretariat of the "Global Monetary Policy Coordination Meetings" (GMPCM).[31] The BIS seems a more neutral and less politicised place than the IMF. Moreover, Basle, as the host and the secretariat of the BCBS, and of the bimonthly central bankers' meetings and various central bank committees, is also better suited to emphasise and facilitate the connections between monetary and regulatory issues and to organise in a more flexible manner, with variable geometry, the meetings where major central banks are joined by EMEs monetary authorities.

However, for obvious reasons, the IMF is very much connected with the BIS and its central bankers' meetings and must be involved in this process. We therefore propose to start with two official meetings each year:

- a "spring session" of the GMPCM, hosted and organised by the BIS, with the help of the IMF, where the main aspects of yearly monetary policy strategies are coordinated behind closed doors and then suitably communicated;
- an "autumn session" taking place on the occasion of the annual meeting of the IMF, as a separate event convened by the BIS secretariat of the GMPCM in conjunction with IMF representatives and in accord with the IMFC, where the implementation of the spring strategic lines of action is checked, supplementary themes are proposed and discussed and

[30] Through MAP, G20 countries were supposed to identify shared objectives for the global economy, as well as the policies needed (not only monetary policies, for sure) and the progress made to reach them. The IMF – with other institutions such as the World Bank and the OECD – provided technical advice on imbalances, policies and their collective impact on request of the G20. Peer pressure was considered as the mechanism to make it work and correct deviations. But after a successful start when the crisis was a strong threat to everybody, its influence rapidly faded as national interests first diverged, and then prevailed, as usual.

[31] The Monetary Meetings might be thought as a partial replacement (or a component) of the much more encompassing MAP initiative, which also had the purpose to examine the spillover effects of national policies on other countries and world growth. While very specifically devoted to monetary policy issues and also aiming at urgent and highly technical central banks' decisions, the GMPCM can be thought of as belonging to an established G20-centred tradition of much wider efforts of macroeconomic global coordination. The latter includes the Global Coordination Council (see United Nations, 2009 and Ocampo and Stiglitz, 2011) and, in monetary matters, the various efforts to reform the international monetary system, like the Palais-Royal Initiative (2011).

the first plans for next year's works are drafted. An adequately documented communiqué is then issued on the results of the autumn session.

Both sessions of the GMPCM initiative should have their core meeting where only central bankers are involved, thus preserving their crucial "independence". The initiative should not be interpreted as a weakening of their autonomy – the opposite is true – nor as an occasion to better hold them accountable to elected politicians. The core communiqué should also be authored exclusively by central bankers.

International coordination, as noted above, will try to find and communicate agreements on general strategic lines of action and will not eliminate the accountability of central bankers to national political authorities from which they derive their mandate. In fact the specific decisions will take place at the national level even if they will strive to be respectful of the "least common denominator" agreed upon during the GMPCM. Once more, the denominator is not in contrast with national interest, pursued by internalising the network of international interdependences, through which each country affects other countries' conditions and, in its turn, is affected by them.

Note that coordinating monetary policy strategies also involves the careful consideration of the shocks with which non-monetary policies can impact the outcome of monetary policies. Two major examples are the consequences of poorly designed, ill-timed fiscal policies and of protectionist trade wars. These shocks might require a huge coordination and rapid turnaround efforts of monetary policies down the road to avoid long-term negative outcomes, as well as the aggressiveness of excessively delayed monetary counteractions. GMPCM might serve to prepare authorities well in advance on how to deal with this type of issues. This function of the meetings seems particularly useful during the complex and delicate normalisation period.

Wider side-meetings and workshops could be part of the GMPCM and take place, particularly during the autumn session, with finance ministers, regulators, think tanks and academics, with variable geometry, to generate institutional cooperation on the issues that have been referred to above as the "long-term challenges" of monetary policies, as well as to integrate and bridge the decisions and the needs of monetary authorities with the design of other policies. Appropriate communications should also be organised and scheduled in such a way as to spread substantive and rigorous information about the works of the side-meetings. The careful planning of the sessions is therefore a crucial task of the hosting/convening institutions.

Perhaps the most urgent "long term" issue that goes beyond the problem of normalisation and may be deeply and officially discussed in the side-meetings is the place of financial stability in the mandate of central banks and the role of central banks in the governance of macro-prudential policies.[32] The joint use of monetary and macro-prudential tools could be considered in order to manage normalisation and then tackled as a crucial longer-term theme to be discussed with the cooperation of academics and the contribution of government representatives. The T20 and the G20 may emphasise the subject in their future agendas.

[32] See the review article by Agénor and Pereira da Silva (2018).

References

Agénor P.-R., Pereira da Silva L.A. (2018). Financial spillovers, spillbacks, and the scope for international macroprudential policy coordination, BIS Papers no. 97, April. https://www.bis.org/publ/bppdf/bispap97.pdf

BIS (Bank for International Settlements) (2015). *Annual economic report*, Basle, June.

BIS (Bank for International Settlements) (2018). *Annual economic report*, Basle, June

Bernanke B.S. (2013). Monetary policy and the global economy, speech at the LSE, March 25, London. https://www.federalreserve.gov/newsevents/speech/bernanke20130325a.htm

Blanchard O., Dell'Ariccia G., Mauro P. (2010). *Rethinking macroeconomic policy*, IMF Staff Position Note, February 12. https://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf

Bulligan G., Delle Monache D. (2018). *Financial Market Effects of ECB Unconventional Monetary Policy Announcements*, Bank of Italy, Occasional Papers, no. 424, February. http://www.bancaditalia.it/pubblicazioni/qef/2018-0424/QEF_424_18.pdf?language_id=1

Claeys G., Demertzis, M. (2017). *How should the ECB normalize its monetary policy*, Bruegel, Policy Contribution no.31, November.

Cœuré B. (2014). Policy coordination in a multipolar world, 5th annual Cusco conference, Central Reserve Bank of Peru and Reinventing Bretton Woods Committee, Cusco, July 22. https://www.ecb.europa.eu/press/key/date/2014/html/sp140722.en.html

Committee on the Global Financial System (2016). *Objective setting and communication of macroprudential policies*, CGFS Papers, no. 57. https://www.bis.org/publ/cgfs57.htm

Davtyan K. (2017). *The distributive effects of conventional and unconventional monetary policies*, IREA and AQR, Universitat de Barcelona, Working Paper 2016/06. http://www.ub.edu/irea/working_papers/2016/201606.pdf

Deutsche Bundesbank (2016). *Distributional effects of monetary policy*, Monthly Report, September. https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report_Articles/2016/2016_09_effects.pdf? blob=publicationFile

Draghi M. (2016). The international dimension of monetary policy, ECB Forum on Central Banking, Sintra, June 28. https://www.ecb.europa.eu/press/key/date/2016/html/sp160628.en.html

Eichengreen B., Gupta P. (2013). *Tapering talk: The impact of expectations of reduced Federal Reserve security purchases on emerging markets*, Vox, CEPR Policy Portal, December 19. https://voxeu.org/article/fed-tapering-and-emerging-markets

Frankel, J., Rockett, K. (1988). International macroeconomic policy coordination when policymakers do not agree on the model, *American Economic Review*, 78(3): 318-340. https://www.jstor.org/stable/1809136

Goodhart C., Lastra R. (2018). Potential threats to central bank independence, Vox, CEPR Policy Portal, March 11. https://voxeu.org/article/potential-threats-central-bank-independence

Hamada, K (1976). A strategic analysis of monetary interdependence, *Journal of Political Economy*, 84(4, part 1): 677-700. https://www.jstor.org/stable/1831327

IMF (2016). *Global financial stability report: potent policies for a successful normalization*, April. https://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/Potent-Policies-for-a-Successful-Normalization#

IMF (2016a). Spillovers from China: financial channels, Spillover Notes, no. 5, Spillover Task Force, September.

IMF (2018). The G20 mutual assessment process (MAP), March 8. https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/48/G20-Mutual-Assessment-Process-MAP

IMF (2018a). Global financial stability report: a decade after the global financial crisis: are we safer? October. https://www.imf.org/en/Publications/GFSR/Issues/2018/09/25/Global-Financial-Stability-Report-October-2018

Kapoor S. (2018). Ten years after Lehman: four big risks, Bloomberg Opinion, July 3. https://www.bloomberg.com/view/articles/2018-07-03/lehman-collapse-10-years-later-four-major-risks

McKinsey Global Institute (2018), Visualizing global debt, June. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/visualizing-global-debt

Miller R. (2017). Fed's officials admit they have lost some credibility on inflation, Bloomberg, September 14. https://www.bloomberg.com/news/articles/2017-09-14/fed-officials-admit-they-ve-lost-some-credibility-on-inflation

Mohan R., Kapur M. (2014). Monetary policy coordination and the role of central banks, IMF WP/14/70, April. https://www.imf.org/external/pubs/ft/wp/2014/wp1470.pdf

Obstfeld M., Rogoff K. (2002). Global implications of self-oriented national monetary rules, *Quarterly Journal of Economics*, 117(2): 503-535. https://doi.org/10.1162/003355302753650319

Ocampo J.A, Stiglizt J.E. (2011). From the G-20 to a global economic coordination council, 2011, *Journal of Globalization and Development*, 2(2): Article 9. https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/2012_G20_Glob_Econ_Coord.pdf

Ohlsson H. (2017). The distributional effects of monetary policy, speech at the Swedish Trade Union Confederation, April 7, Stockholm, https://www.bis.org/review/r170418f.pdf

Oudiz G., Sachs J. (1984). Macroeconomic policy coordination among the industrial economies, *Brookings Papers on Economic Activity*, (1): 1-64. https://www.brookings.edu/bpea-articles/macroeconomic-policy-coordination-among-the-industrial-economies/

Palais-Royal Initiative (2011). Reform of the international monetary system: a cooperative approach for the twenty first century, February 8. http://global- currencies.org/smi/gb/telechar/news/Rapport_Camdessus-integral.pdf

Powell J.H. (2013). Advanced economy monetary policy and emerging market economies, speech at the Federal Reserve Bank of San Francisco, November 4. https://www.federalreserve.gov/newsevents/speech/powell20131104a.htm

Powell J.H. (2017). Prospects for emerging market economies in a normalizing global economy, speech at the Institute of International Finance, October 12, Washington. https://www.federalreserve.gov/newsevents/speech/powell20171012a.htm

Rajan R. (2014). *Competitive monetary easing - is it yesterday once more?*, Brookings Institution, April 10, Washington, https://www.bis.org/review/r140414b.htm

Reuters Staff (2016). Some ECB measures blur lines between monetary and fiscal policy: Weidmann, *Business News*, May 17. https://www.reuters.com/article/us-ecb-policy-weidmann-idUSKCN0Y809A

Rogoff K. (1985). Can international monetary policy coordination be counter-productive?, *Journal of International Economics*, 18(May): 199-217. https://www.sciencedirect.com/science/article/pii/0022199685900522

Shiller R.J. (2018). *Silent Inflation*, Project Syndicate, November 23. https://www.project-syndicate.org/commentary/silent-inflation-can-lead-to-bad-economic-decisions-by-robert-j--shiller-2018-11

Siaba Serrate J. (2014). *The threats of transition, and the need to speed up the building of a robust market infrastructure*, Argentine Council for Foreign Relations. https://www.lowyinstitute.org/sites/default/files/serrate_the_threats_of_transition.pdf

Summers L.H. (2017). Five reasons why the Fed may be making a mistake, *The Washington Post Wonkblog*, 14 June, https://www.washingtonpost.com/news/wonk/wp/2017/06/14/larry-summers-5- reasons-why-the-fed-may-be-making-a-mistake/?utm_term=.cbe7dcc39310

Summers L.H. (2018). Rethinking the Fed's 2% inflation target, The Brookings Institutions, June, https://www.brookings.edu/wp-content/uploads/2018/06/ES_20180607_Hutchins-FedInflationTarget.pdf

Taylor J.B. (2013). International monetary policy coordination: past, present and future, BIS Working Papers no. 437. December, https://www.bis.org/publ/work437.pdf

Taylor J.B. (2018). The Fed's inflation target and policy rules, *Economics One*, January 2018. https://economicsone.com/2018/01/09/the-feds-inflation-target-and-policy-rules/

Tanzi A. (2018). Global debt at record level, *Bloomberg Businessweek*, April 10. https://www.bloomberg.com/news/articles/2018-04-10/global-debt-at-record-level

Think Tank 20 (2013). The G20 and central banks in the new world of unconventional monetary policies. August. https://www.brookings.edu/wp-content/uploads/2016/06/TT20-central-banks- monetary-policy-2.pdf

United Nations (2009). *Report of the Commission of Experts of the President of the United Nations General Assembly on reforms of the international monetary and financial system*, New York. September 21. www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

Wessel D. (2015). What's behind the Fed's credibility gap on interest rates?, Brookings Op-ed, February 6. https://www.brookings.edu/opinions/whats-behind-the-federal-reserves-credibility-gap-on-interest- rates/