

## ESRI Roundtable Remarks – Maurice Obstfeld, December 14, 2022

- Global inflation is one pandemic legacy – the need to re-anchor expectations has created a mega-shock
  - The environment features much higher public and private debts, leading to financial fragility and possible surprises in the monetary transmission mechanism
  - Policymakers face potential conflicts between monetary and fiscal policies – unlike in much of the post-GFC decade – especially in light of the need to support vulnerable populations given high energy and food prices
  - A challenge is to gauge how restrictive monetary policy should be
  - Where are  $r^*$  and  $u^*$  post pandemic?
  - How to assess the current real interest rate,  $R - \pi^e$  versus  $r^*$  when  $\pi^e$  depends on your actions?
  - Beggar-thy-neighbor exchange rate effects create a case for coordination
  - The strong dollar is placing particular strain on emerging and developing economies
  - Central banks need to more than usually attentive to the actions and reactions of their peers
- Blanchard lag conundrum – tradeoff between monetary policy credibility and the risk of an accident and over-step recession
- Unsuspected nonlinearities in financial markets can create tipping points – witness the UK gilt-market experience
- But we should not lose sight of possible tipping points in other realms
  - Health
  - Climate
  - Politics
  - Geopolitics
- From this perspective, the recent agreement of a G20 communique in Bali was an unexpected bright spot for international cooperation – but will have limited impact absent follow-through from the major players on these other issues