



FRONTIER CENTRAL BANKING ISSUES¹⁷

The IMF has played a role in the renewed debate on a host of central banking issues over the past decade, notably by periodically putting together useful surveys and “think pieces” and organizing forums helpful for highlighting the shifting debate. Important contributions from the Fund include a policy paper assessing the experience with UMP (IMF, 2013b; 2013h), a survey paper (Dell’Ariccia, Rabanal, and Sandri, 2018), SDNs by Blanchard, Dell’Ariccia, and Mauro (2010) and Bayoumi and others (2014), and a book *Advancing the Frontiers of Monetary Policy* by Adrian, Laxton, and Obstfeld (2018). The Rethinking Macroeconomics conferences, along with the Annual Research Conference and the Camdessus Central Banking Lecture have also been useful venues for the Fund to listen to the views of experts and make its own views known.

The IMF has developed views on the main issues as follows:

- ▶ *Monetary policy toolkit*: Should UMP become part of the conventional toolkit of central banks to support economies during future slowdowns and recessions? The Fund’s 2013 policy paper assessed UMP to be generally effective, though it noted that the effectiveness may have diminished over time. The paper did not address issues of whether and how UMP should be used in the future.
- ▶ *Monetary policy framework*: Should the inflation target be raised, possibly keeping the economy away from the effective lower bound and diminishing the need for UMP? Would price level path targeting or nominal GDP targeting provide a more powerful framework for monetary policy than conventional inflation targeting? The IMF has weighed the pros and cons and appears largely to favor the status quo, namely a flexible inflation targeting framework. While recognizing that “other intermediate objectives such as financial and external stability may have to play a greater role than in the past,” the IMF staff has been of the opinion that “in many ways, the monetary policy framework should stay the same” (Bayoumi and others, 2014; Adrian, Laxton, and Obstfeld, 2018).
- ▶ *Governance of central banks*: Some observers feel that central banks undertook operations that crossed into quasi-fiscal territory and were not fully transparent with the public about the risks involved (Tucker, 2018). Should steps be taken to strengthen accountability of central banks and to subject them to greater political oversight? The IMF has expressed its support for central bank independence but not weighed in very extensively on the debate of accountability and oversight of central banks.
- ▶ *Central bank digital currency (CBDC)*: Could CBDC alleviate the constraints placed by the effective lower bound and limits to the effectiveness of UMP? This is a fast-moving issue on which Fund management has been portrayed in the media as encouraging central banks to explore the adoption of CBDC and thus has appeared more forward-leaning than the staff’s guarded 2018 Policy Paper on the pros and cons (IMF, 2018b).

¹⁷ This chapter draws on Everaert and others (2019).

Overall, the Fund has not been at the forefront of new thinking on these issues. Interviews with staff and outside observers suggest that, while the IMF has contributed to the discussions and played a helpful convening and dissemination role, the Fund lacks a core group of top monetary policy experts such as found at major central banks or the BIS to spearhead ground-breaking work. While the Fund would not be expected to have comparable in-depth expertise as a MAE central bank, outside

observers commented that the IMF should be well placed to use its cross-country experience and attention to cross-border issues to help develop best practices and disseminate findings to the membership. It can also provide a counterweight to the risks of groupthink among central bankers, bringing a broader governance perspective. Developing a stronger reputation and capacity as thought leader would also enrich the value added and influence of IMF advice in individual country cases.