Demand Imbalances, Global Inflation and Monetary Policy Coordination

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the **IMF**, its Executive Board, or **IMF** Management.

General Comments

- Great paper. Very timely. Highly recommended
- Provides unifying framework to think about MP coordination under different economic conditions, structures, and shocks
- Would benefit from exploring potential role for other policy levers (fiscal)
- Could be extended to consider further channels of transmission (energy, commodities, finance…)
- Could discuss governance challenges and "guess" magnitude of effects

Sectoral shocks break divine coincidence

- Act similarly to cost-push shocks (Guerrieri et al. 2021)
- Nominal wage rigidities imply that to facilitate reallocation need to allow for inflation above target
- Implication: In equilibrium, output gap and inflation gap will have opposite signs. If they had the same sign CB could improve welfare by moving R
- Corollary: for shocks that do not break divine coincidence no benefits from coordination

Economy's Position and Structure Matter for MP Coordination

	$\alpha_T > \alpha_N$	$\alpha_T < \alpha_N$
Output gap>0, π<target	Over-tightening	Under-tightening
Output gap<0, π>target	Under-tightening	Over-tightening

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- Fornero/Romei
- Costs from higher inflation stay at home.
- Benefits from greater tradeable production spillover abroad

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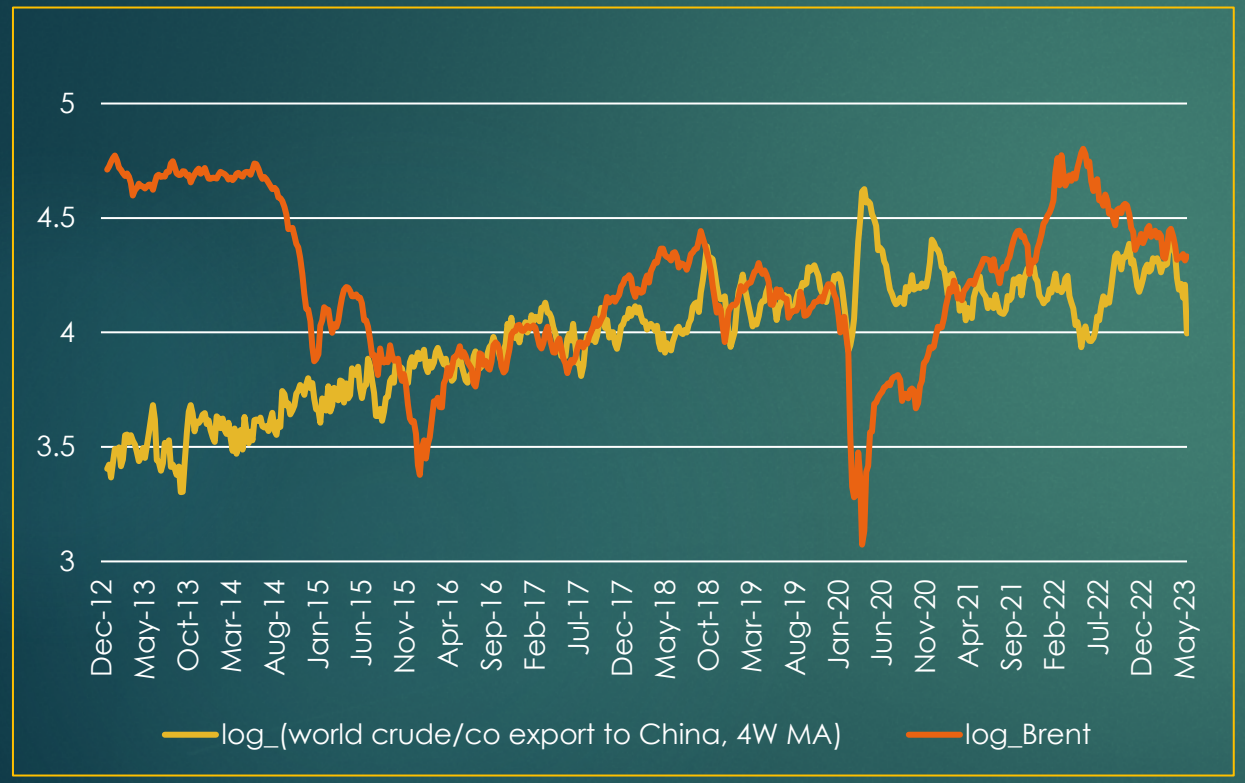
- Move output to lower labor intensity sector through less appreciated currency and CA surplus
- In equilibrium R too low globally

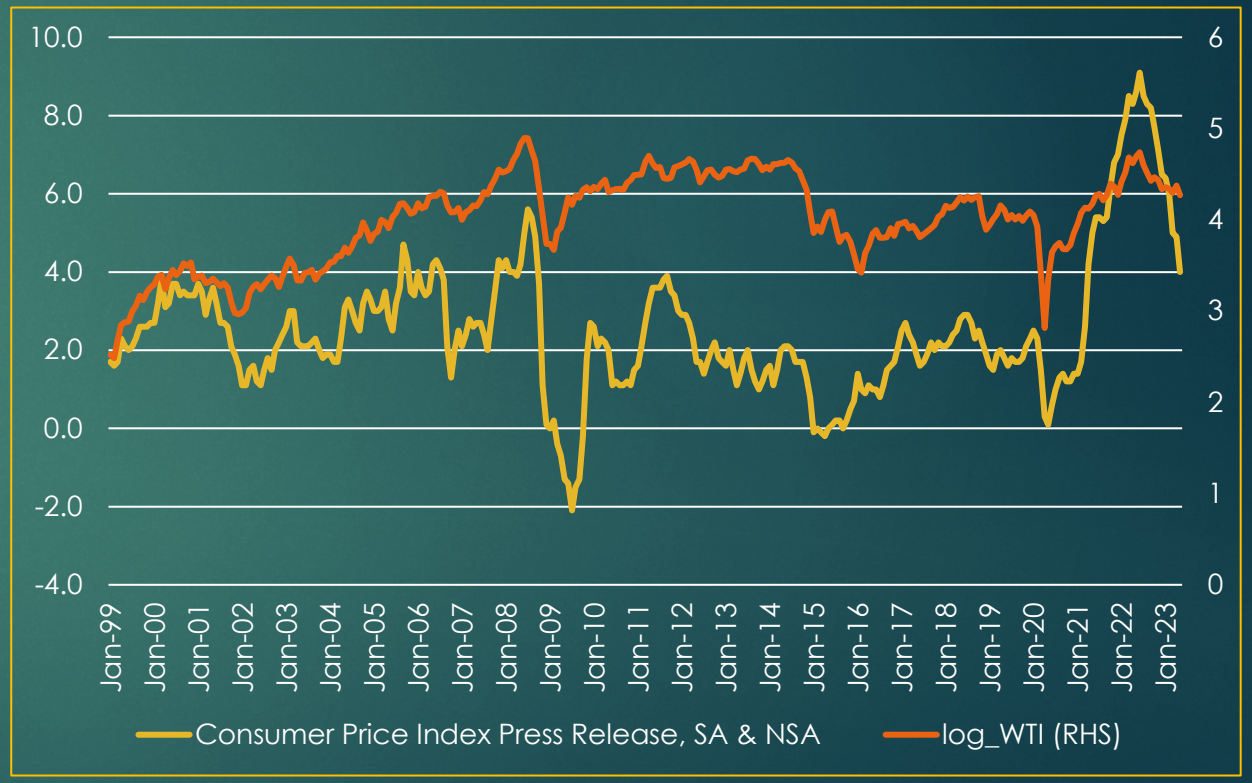
Other Transmission Channels: Energy, commodities, banks…?

- What if production function included additional rigidly supplied inputs (energy, raw materials)?
  - Different sectoral energy intensities: T > N ?
  - Reverse bias?
  - Relative magnitude of effects?

- Financial stability channel: Higher rates hurt banks causing a contraction of lending at home and abroad, increase in premia
  - May act as another cost-push shock
  - Different sectoral "finance intensities"?

China, Oil, and Inflation





Magnitudes, governance, additional levers?

- How large are losses from lack of MP coordination?
  - What metrics would we look at to assess them?
  - What portion of inflation today is due to a sectoral shock? (Bernanke/Blanchard 2023)
- Are there additional domestic macro levers (fiscal) that can substitute for lack of MP coordination?
  - Was fiscal support for non-tradables counterproductive?
- Governance challenges
  - Bargaining game to split surplus
  - Timing issues
  - Cheating (non-interest rate measures)

Conclusions

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