

General Discussion: Luncheon Address

Mr. Nagel: So Agustín (Carstens), thank you very much. When I listen to your speech and the picture you use with the pilot and the plane, it came to my mind we need a parachute to overcome what is going on, but let me allude to one aspect of your speech. I think all what you mentioned regarding the supply constraints, all the difficulties we have to address, inflation probably, and one of the major assets we have as a central bank is our independent role, but when I listen to your speech, it looks like that we have to get more into all these political issues. Should central banks of the future be more political institutions?

Mr. Carstens: Well, if you reach that conclusion from my speech, I probably didn't draft it well. No, I think probably what we need is just exactly the opposite. You can only do so much with aggregate demand management, particularly monetary policy. What I tried to explain is that until recently, there were very fortunate conditions, that are hard to replicate or assure, that meant that very aggressive monetary policy delivered growth without inflation. But we have to face the fact that things are changing and the rude awakenings were COVID and the war. I think that it goes in line with what many have said, and Gita (Gopinath) mentioned earlier, that we need to understand supply better. Central banks cannot modify supply by themselves.

Admittedly, some of our work, for example bringing down inflation, will at the end of the day also feed into more supply and a better productivity environment. If we manage to bring down inflation quickly and smoothly, real rates would be lower once things settle down and that would help growth in the long term. So I don't think that there is a conflict. The whole point is we need to stick to our single mandate and not, in quotation marks, "subsidize too much other politicians," by taking actions that probably should call for other types of policies.

Mr. Blair Henry: Thank you, Agustín, for your remarks, which I agree with wholeheartedly. So my question is the following. So for all of its challenges, the African continent actually bucks two of the trends that you mentioned. It is the center of population growth for the next 25-plus years, and recently passed the African Continental Free Trade Agreement. So my question is given the role that BIS plays in terms of, for lack of a better term, putting together the plumbing that really makes the global financial system work, is there an opportunity to bring the African continent closer into the fold of the global payment system in a way that would facilitate some more supply side movement from the most rapidly growing continent in the world?

Mr. Carstens: Well, I definitely think so. As a matter of fact, I think that in payment systems and digital payments, Africa has been at the forefront. From the starting point to where they are, they have made major contributions and we at the BIS are trying to help them out with this digital revolution. I think one aspect that is key is to enhance interconnectivity, to enhance cross border payments, and I think that the work that we're doing in cross border payments is hugely important. So I have a lot of hope that Africa will continue to advance. There are huge benefits to reap. I think trade and financial integration are of the essence but, in a way, the glue that brings things together is payments, and therefore I fully agree that there are huge benefits to capture there.

Mr. Villeroy de Galhau: Thank you very much, Agustín for this outstanding speech. Can I follow on the somewhat political question of my friend Joachim (Nagel)? We are not to become political institutions for sure, but there is a political case which needs to be made

for supply side reforms. If politics is left to itself, it will not happen, and we see it in each of our countries. It's more and more short-term. It's more and more difficult to have complex reforms implemented. So who is going to do the political case? Is it partly us as central bankers? Is it the academics who are numerous in this room and they could play a role? Or if not, who is it? And I'm really worried by that.

Mr. Carstens: It's all of us. This is not a simple task. When I was governor of Banco de México, I used to speak about this all the time and I was not afraid of doing so. I know that the role of the central bank or the politics of central banks in different countries is different. But if we don't talk about it, it will not happen. The fact that political horizons are very short term, it's more like, "How will I win the next election?" And when you implement structural reforms that take decades to pan out, they really are forgotten. Institutions like the IMF and the World Bank are very important. I think that a lot of the work that they do in terms of bringing, evaluating, and making it clear the value of these policies is great. The G20, for example, is also be a very good forum.

I think we need to start changing a little bit our mindset. At some point, we in the central banking community, and even in the fiscal area, which I can speak about because I was also Minister of Finance, we seemed to feel empowered by the fact that we had policy instruments and could act very quickly. But the conditions are not there to do that any longer, especially because some of the tensions that have arisen make policy space more limited. So I think that we need to raise a voice. If not, we will start facing a Phillips curve with more of a slope and that will put us on a very activist policy stance, but activist more in the sense of having to use levers to control inflation more actively. Those are my thoughts on this very relevant issue. I acknowledge the dangers of speaking about things that we cannot do ourselves, but our duties tend to explain where the limits of central bank actions are.

Mr. Dudley: I think it's fair to say that monetary policies reacted rather slowly over the last 6 to 12 months and we see that in the size of the very large increases that we're seeing in terms of interest rates. When you evaluate monetary policy over the last 6 to 12 months,

not just in the U.S. but also around the world, how would you assess the reason for that lateness? Is it bad luck? Is it bad forecast? Is it bad framework? Is it bad implementation of framework? How do we get ourselves in this place?

Mr. Carstens: Well, you're talking to somebody who comes from an emerging market where having this kind of hike in inflation is not so unusual. I think that it was fair to try to read better what was going on. Certainly, the disruptions that were brought by the pandemic were completely unanticipated. We were in completely uncharted territory. To shut down the world economy as we did was completely unprecedented and hard to figure out. Just a few months before inflation start to become more salient, the outcry was to do more and more and more and more.

There was a fear of a great deflation. So yes, with the benefit of hindsight you might say, "Well, they probably could have started one month, or two months, or three months or five months earlier." Now in the bigger picture, I don't think it's so much time to pay. Also, because when you face transitory shocks, even though I think that they can be very dangerous because they can have second-round effects, you need to make sure that you don't push too hard on the other side. Would we feel more comfortable having, today, an inflation of 2 percent, but a recession everywhere?

Monetary policy is very hard. It's tough and they're very tough trade-offs. I think what is important, what has been done so far, and where we are today, and I definitely think that we are on the right track. I think by and large, the central banking community has responded forcefully, agilely, I think that the message is there. Now we need to carry forward. I made the point in my speech to calibrate the aggregate demand responses when supply is changing is not easy. It's something we're not used to.

Mr. Malpass: Thanks very much, Agustín, for a very interesting talk, and you made the point clearly on the fiscal side being very important in this and that politics is often not supportive of restraint. It plays for the short run. There's some of that going on and I'm really worried about it on the monetary side. We see in develop-

ing countries the currency depreciations accelerating and the capital outflows being very rapid. We've seen countries able to exhaust their international reserves in one year, and so you can go from sufficient reserves to too little. And so do you think of that as a monetary policy problem or an international system problem, but it's happening before our eyes? Thanks.

Mr. Carstens: Well, in many countries, there are too many shocks at the same time and I think that's where some assistance, for example, from the IMF and the World Bank would be called for. And I think both institutions are responding forcefully. I think that those countries that have probably a relatively stronger economy and that have more instruments to use, they have responded appropriately. As a matter of fact, I think many emerging market economies reacted in a timely manner. They adjusted monetary policy even before advanced economy started to react. In part, this is precisely because they all know that the exchange rate channel is very important, so if depreciation occurs quickly, you have additional inflationary pressures to deal with and they tend to be very painful. So they reacted quickly. Not that the situation is easy, but so far, I think the main emerging markets have done relatively well. Developing countries, yes, they need more international assistance.

Mr. Rajan: Agustín, just to push on a point that François (Villeroy de Galhau) made, we're seeing a lot of pressure on global supply chains and a lot of it is political and perhaps a lot of it is way before the necessity for action. So we are acting as if the world has already broken up into regional blocks and therefore supply chains can't go through one block if they go through another. Of course corporations are reacting slowly, but they will react more over time. I think is the point that Gita (Gopinath) made. What can we do to prevent the breakup of global supply chains before it is absolutely necessary?

Yes, if there's war, certainly supply chains will have to be rethought, but are there rules of the game, for example, that will allow us to continue maintaining as much of current supply chains for as long as possible? And second to François' point, who takes the lead here? It doesn't seem to me, the big players are at this point talking about cooperating on these dimensions. We're talking about matters like

friend-shoring and near shoring, all of which is a breakup before its time. Should the multilateral organizations play more of a role here talking about potential rules of the game that could protect current trade mechanisms at least as long as possible?

Mr. Carstens: Well, yes, there are some political aspects that are impossible to deal with at least at the reasonable level, not in the skies of world politics. But we hear constantly, in G20 and IMF meetings and so on, as well as from the heads of the WTO and the OECD, not just this year and last year, but for the last five or six years, that there has been a tremendous increase in protectionist activities. And many of them are really not conscious of the impact on the whole global structure. Again, you might have a national win, but it's an international defeat.

I think it's important that the benefits of globalization can continue to flow. We need real effort to streamline globalization, and there are other areas where, for example, in terms of digitization and technological development, and we see it at all levels. The technology is out there and we're still here. There is a gap of decades between the regulation and the framework to main a technology and innovation to work appropriately. Even in payments, even in currencies. So we need to work more in those respects. I think that there are many areas where we can work. It's just a matter of putting our minds to it. Thank you.