

# Central Bank Watch 2024/2025: - Monetary Policy Normalisation Ahead -

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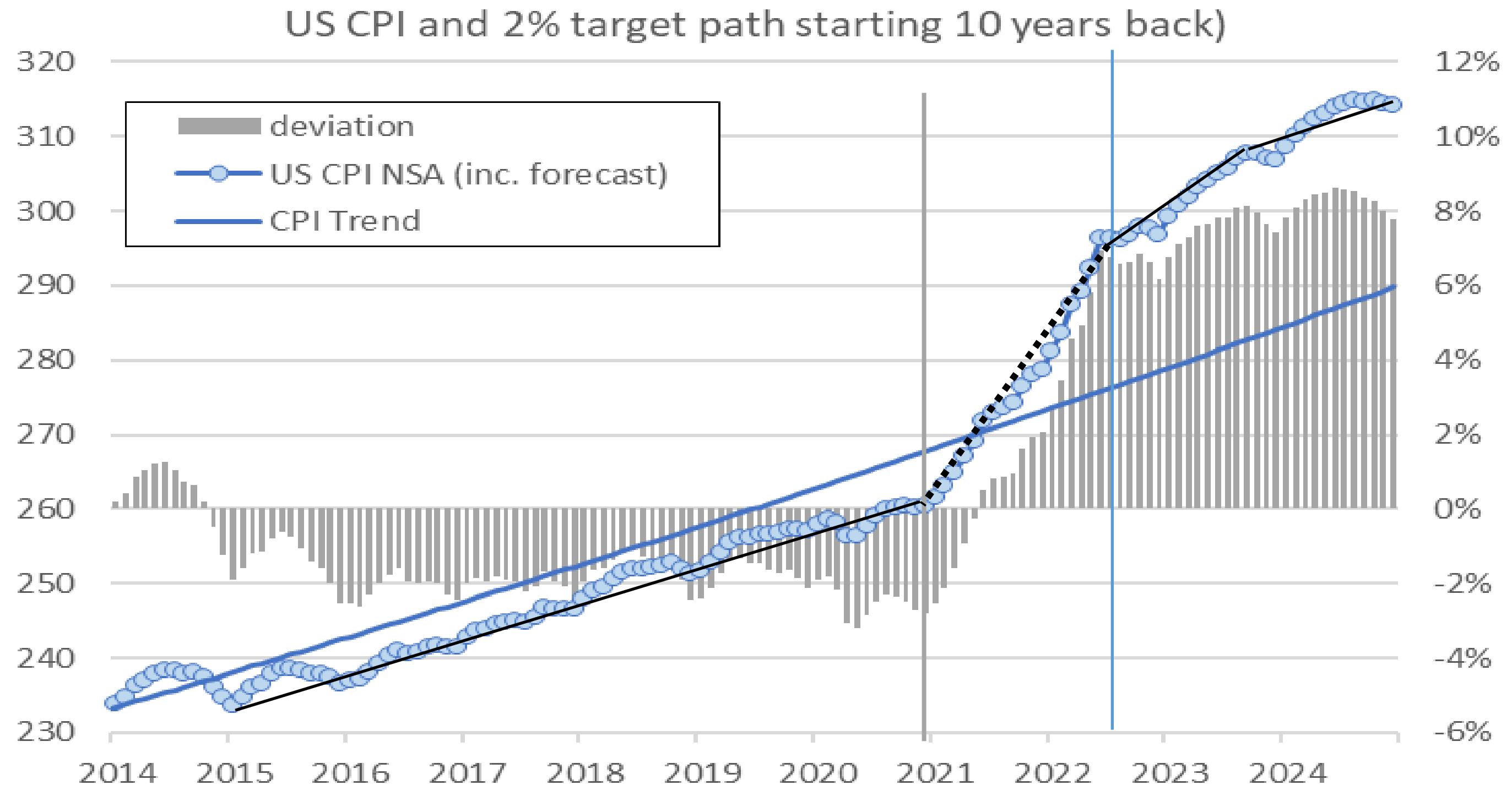
Monday, 14. October 2024, Hoover Institution Conference

# MONETARY POLICY

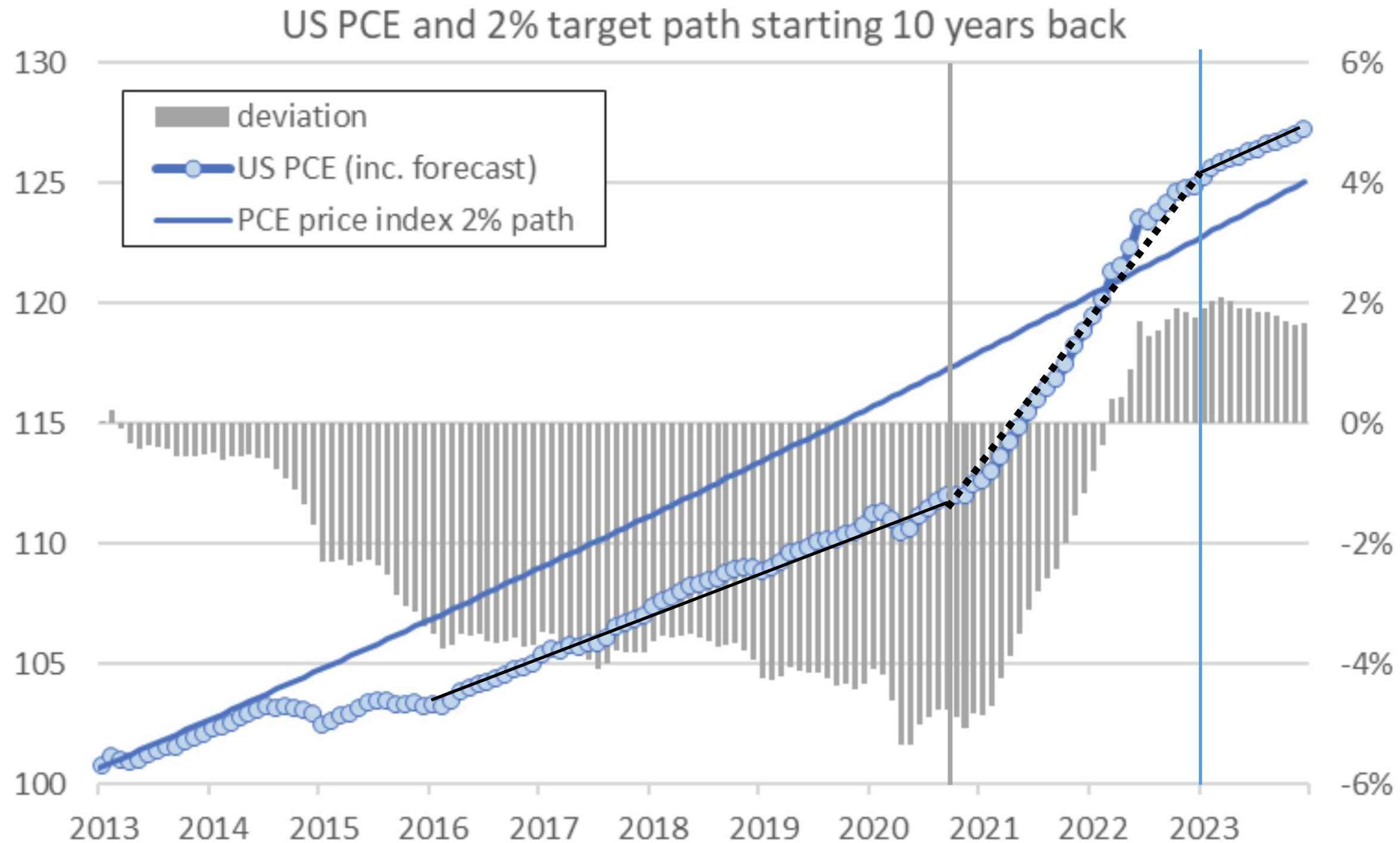
## How It All Went Wrong...

Central Banks did a Bad Job in Keeping Inflation Under Control

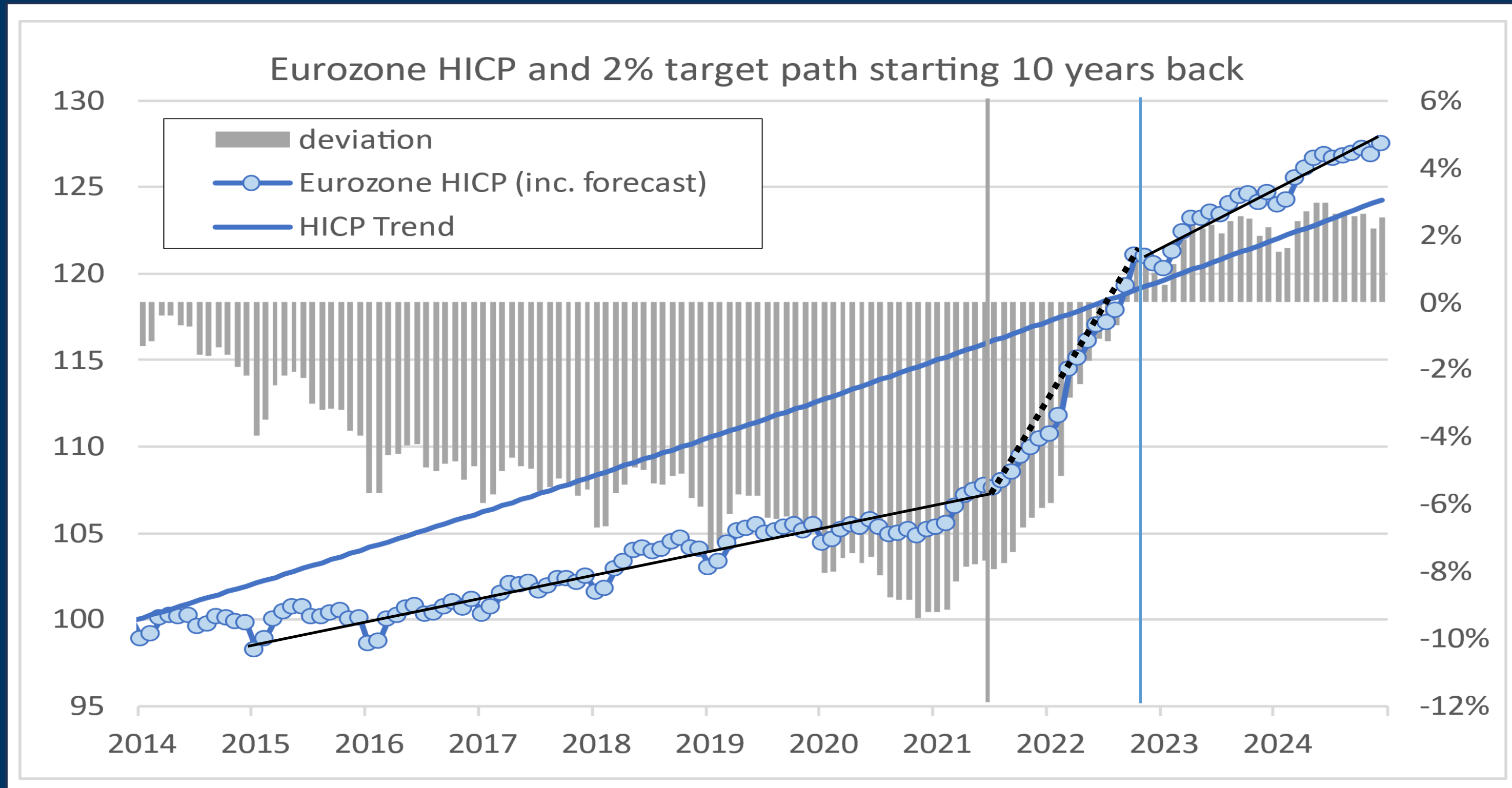
# Inflation and Monetary Policy – The Judgement Error of the FED



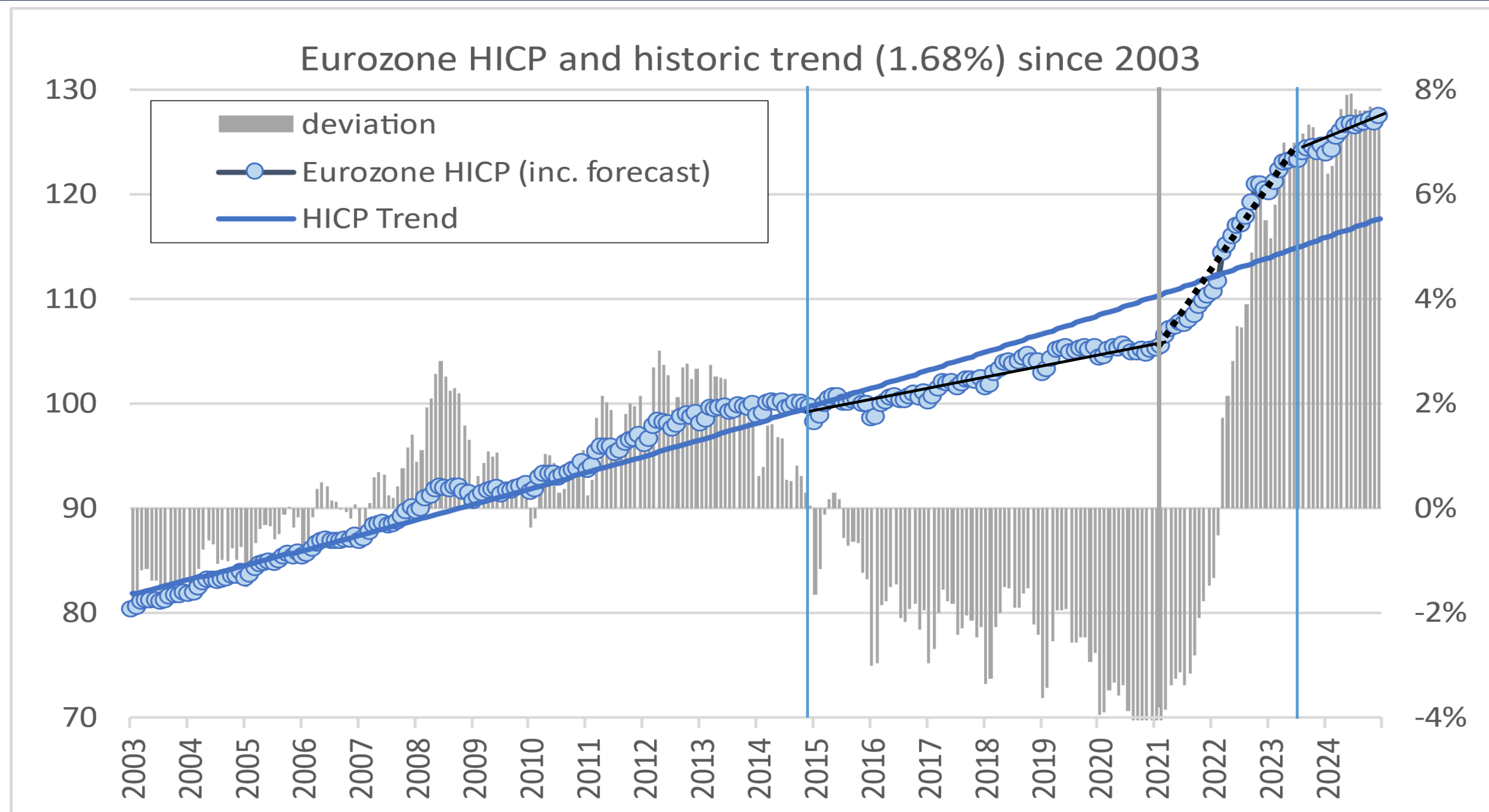
# Inflation and Monetary Policy – The Judgement Error of the FED



# Inflation and Monetary Policy – The Judgement Error of the ECB



# Inflation and Monetary Policy – The Judgement Error of the ECB



# MONETARY POLICY

## How They Put It Right Again...

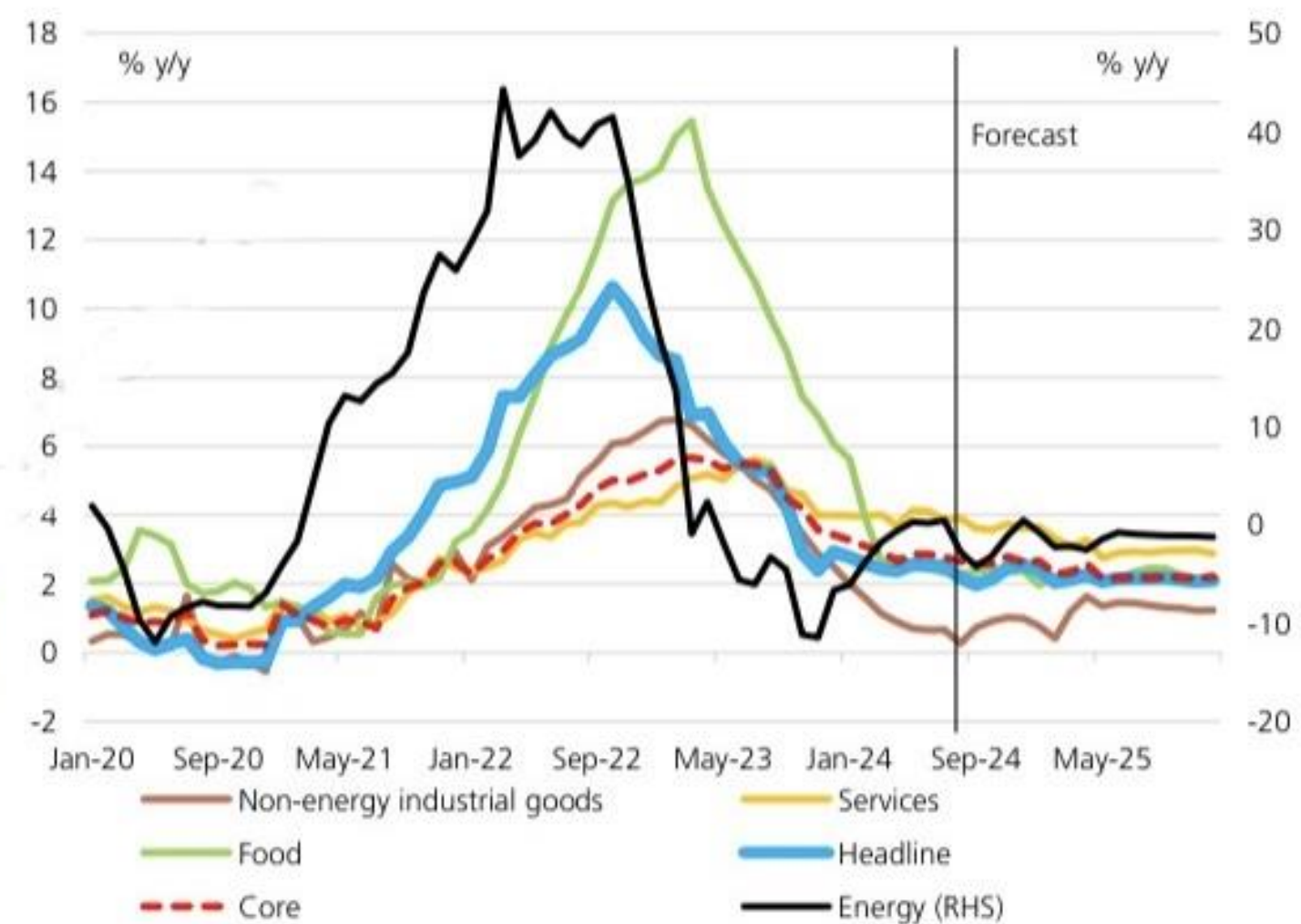
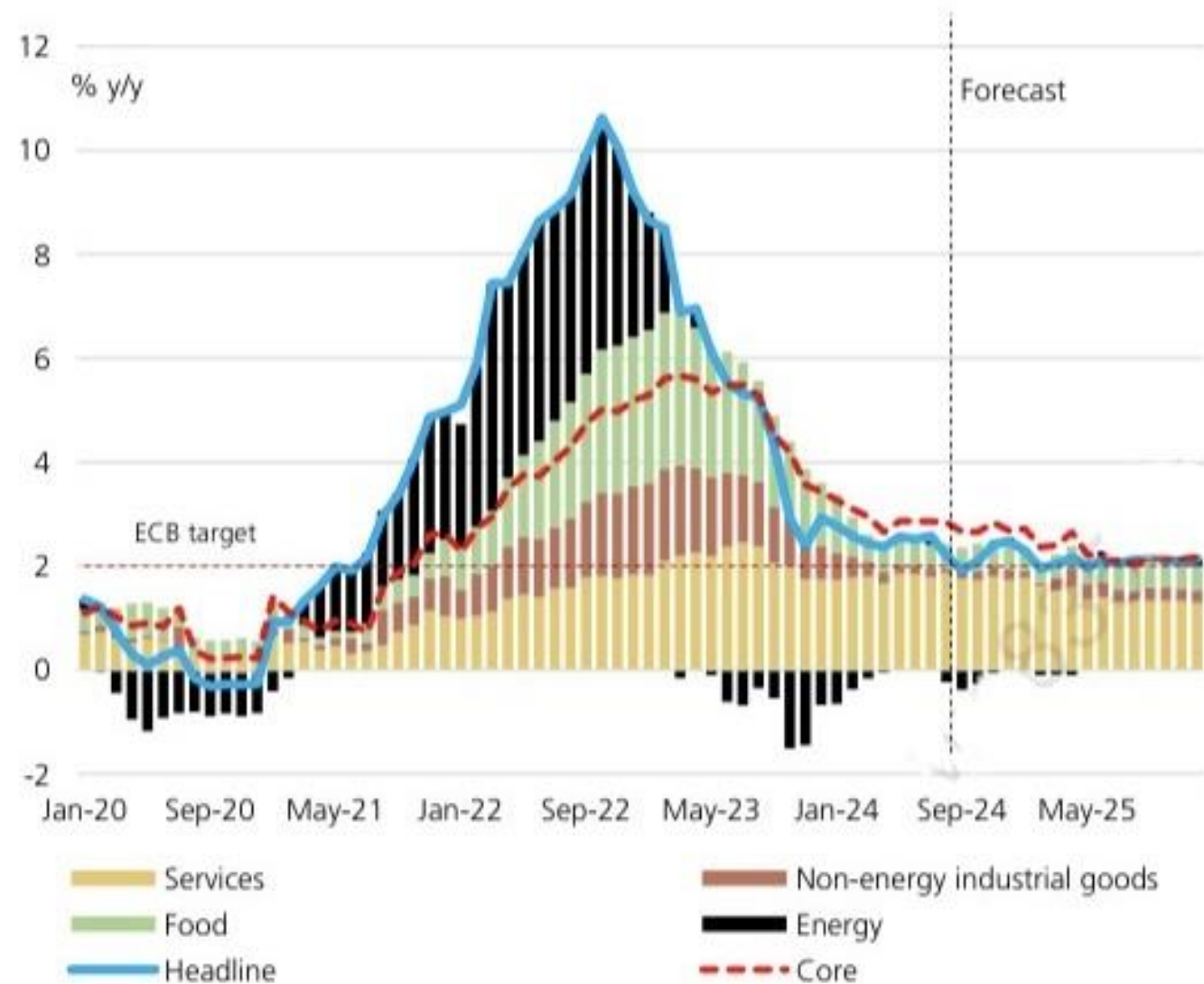
Central Banks did a Great Job in Re-gaining Inflation Control



# A Fast, Steep and Globally Synchronized Cost-of-Living Crisis

- It will Continue to Impact the Economy even if Inflation Returns to 2% -

- **Headline inflation:** 8.4% in 2022, 5.4% in '23, 2.4% in '24F, 2.1% in '25F, 2% in '26F
- **Core inflation:** 3.9% in 2022, 4.9% in '23, 2.8% in '24F, 2.3% in 25F, 1.9% in '26F





# MONETARY POLICY

## How They Put It Right Again...

How Central Banks Re-gained Inflation Control

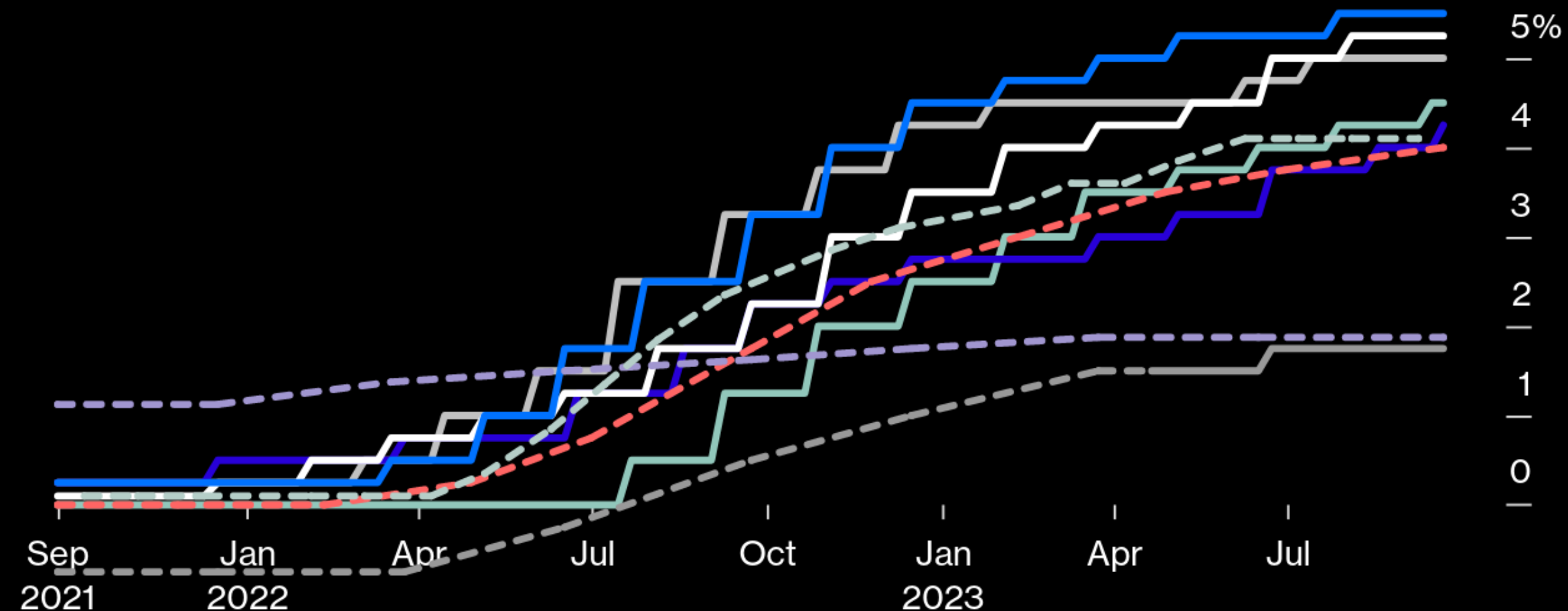
# The Fastest, Steepest and Globally Most Synchronized Rate Hike Cycle

- This Will Have a Pronounced Impact on the Economy -

## End of a Two-Year Climb?

Developed world central banks are retreating from hiking policy rates

US / UK / Switzerland / Sweden / Norway / Canada / Taiwan / EZ  
Australia



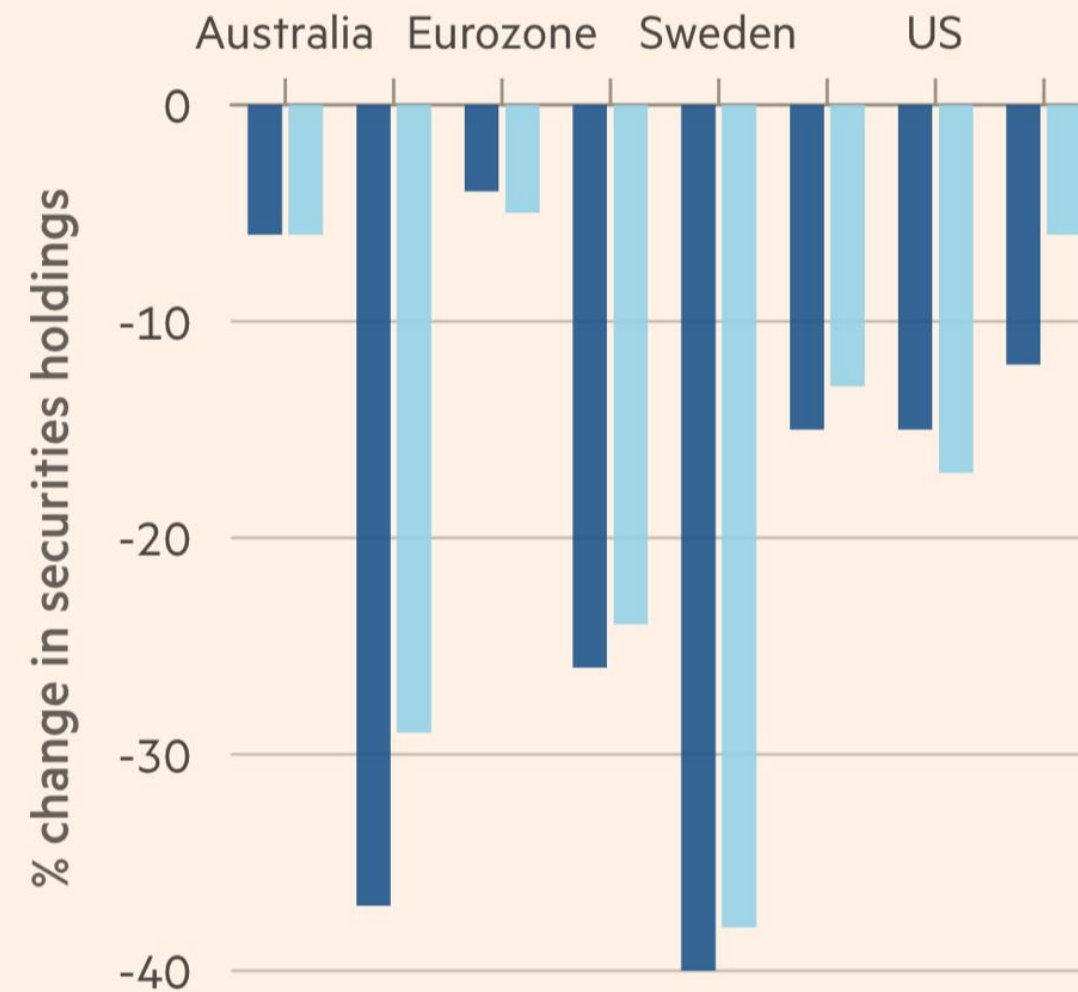
Source: Bloomberg

Bloomberg Opinion

# Balance Sheet Projections for major central banks – Headwinds Ahead

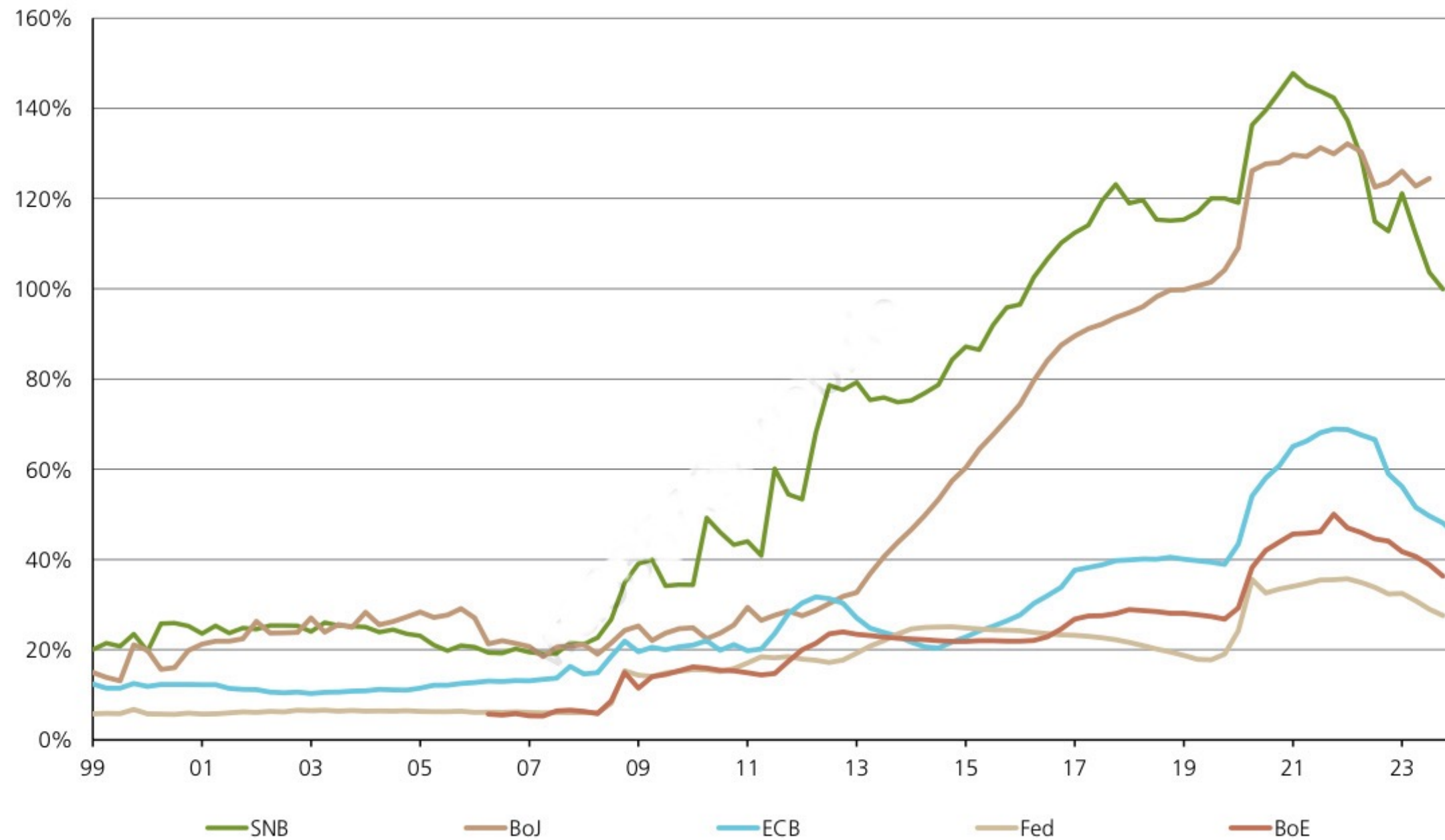
% change in central bank bond holdings from peak through 2023

■ Aggregate bond holdings  
■ Government bond holdings



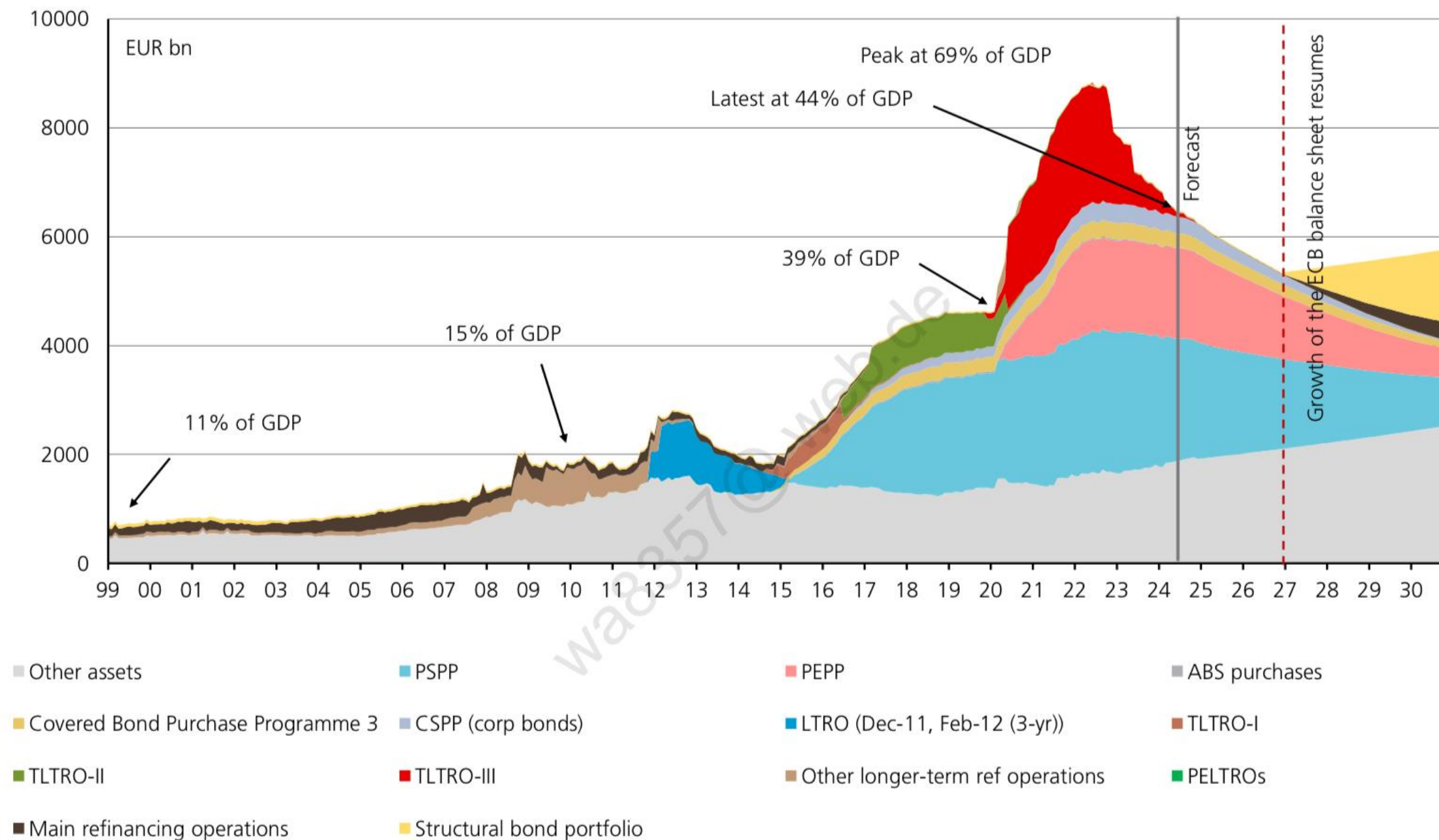
# Central Bank Balance Sheets – From Tailwinds to Headwinds

## Central bank balance sheets



# Balance Sheet Projections for the ECB – Headwinds Ahead

## Eurosystem balance sheet





# The Economic Effects of Rate Hikes and Balance Sheet Reductions

## - This Will Have a Pronounced Impact on the Economy -

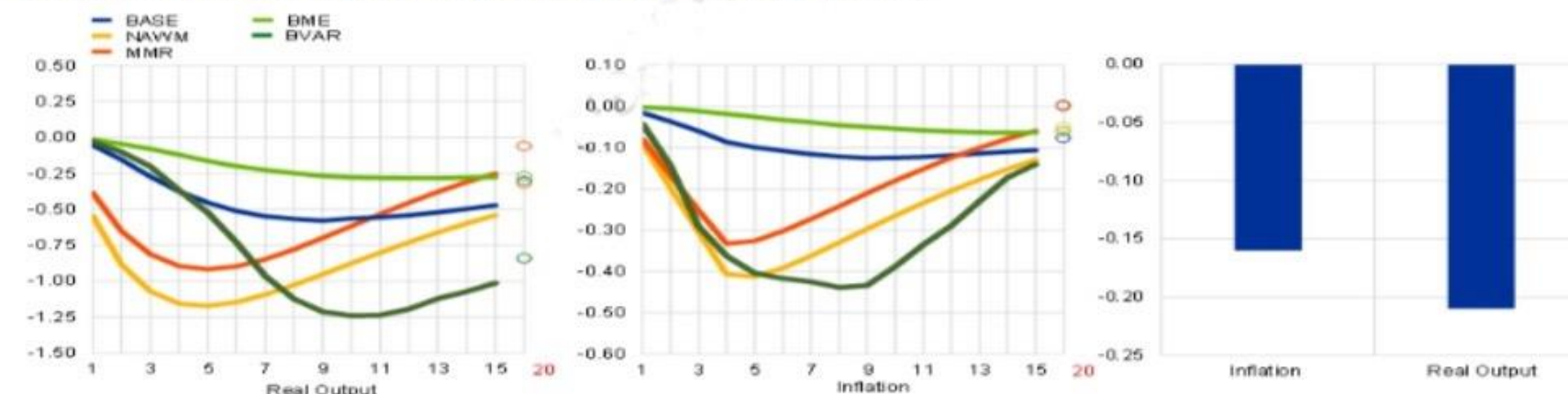
### ECB research on monetary policy transmission

- **Interest rates: Effect of a 1pp interest rate hike:**
  - -0.3pp impact on average inflation
  - -1pp impact on output gap
- **ECB balance sheet: €500bn reduction over 12 quarters:**
  - -0.15pp impact on average inflation
  - -0.2pp impact on output

#### Chart 2

Macroeconomic impact of a 100 basis points monetary policy shock (left and middle panel), 12-quarter cumulative impact of a standardised €500 billion balance sheet reduction (right panel)

(deviation of output in per cent; year-on-year percentage points)



Sources: ECB staff calculations.

# MONETARY POLICY

## What to Expect for 2024/2025



# Lower, Less Restrictive Interest Rates in the US Are Coming

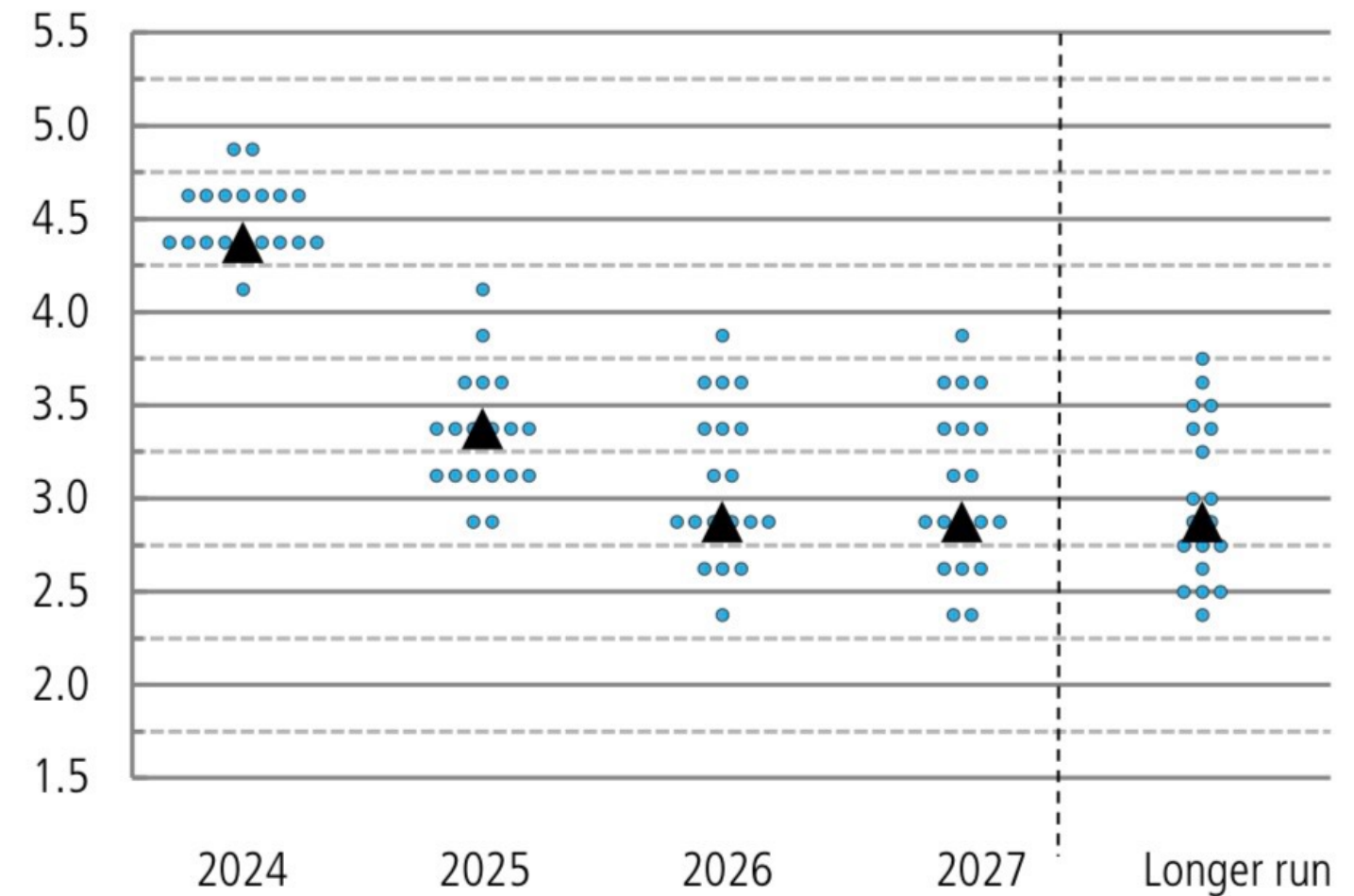
- Inflation Outlook as Improved, Labour Market Outlook Cooled, Economic Outlook Unchanged -

Figure 4 Summary of Economic Projections

Variable:	2024	2025	2026	2027	LR
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

Figure 5 Dot plot

FOMC participants' assessments of appropriate monetary policy, Percent  
September '24 SEP



# Lower, Less Restrictive Interest Rates in the Eurozone Are Less Obvious

- Inflation Outlook as Deteriorated, Economic Outlook Deteriorated Too -

**Eurosystem staff macroeconomic projections, June 2024**

	Sep-24			Jun-24		
	2024	2025	2026	2024	2025	2026
Real GDP growth	0.8↓	1.3↓	1.5↓	0.9	1.4	1.6
HICP	2.5	2.2	1.9	2.5	2.2	1.9
HICP ex food and energy	2.9↑	2.3↑	2.0	2.8	2.2	2.0

Source: [Eurosystem staff macroeconomic projections for the euro area, June 2024](#)

End of Presentation