

Vox EU: Monetary policy in times of uncertainty

Dealing with uncertainty about the state of the economy is one of the main challenges facing monetary policymakers. Bank of Italy economists writing in Vox EU suggest central banks need to adopt a more pragmatic and data-dependent approach



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Dealing with uncertainty about the state of the economy is one of the main challenges facing monetary policymakers, according to three economists from the Bank of Italy, [writing for VoxEU](#).

They argue that in recent years there has been an extensive debate on the value of some of the deep parameters driving the economy, such as the natural rate of interest and the slope of the Phillips curve, estimates of which are quite uncertain. They say that when facing uncertainty on the structural relationship among macroeconomic variables, central banks should adopt a pragmatic and data-dependent approach to adjusting their monetary policy stance.

In the article they discuss the 'Brainard conservatism principle', which calls for a more cautious approach in the face of 'parameter uncertainty'. They discuss whether monetary policy should become more aggressive or more cautious in various circumstances.

Their conclusions form a key quote:

"Our analysis therefore provides theoretical support to the view that a pragmatic, data-driven approach to monetary policy (Praet 2018) should be pursued in a changing economic environment where the central bank is uncertain about the true shape of macroeconomic relationships and the transmission mechanism."

You can read the full article [here](#)