

**Bank of England**

# Monetary Policy: Lessons from the Pandemic

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## Exceptional Circumstances

- V-shaped Pandemic/Support
- War and Terms of Trade
- Data fog/data dependence

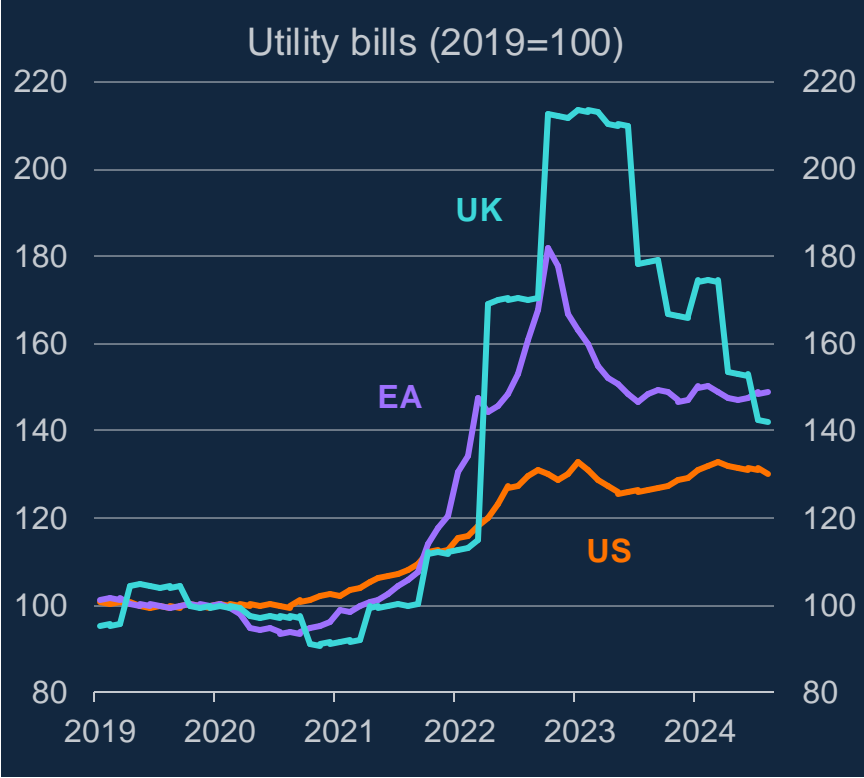


# A succession of exceptional circumstances

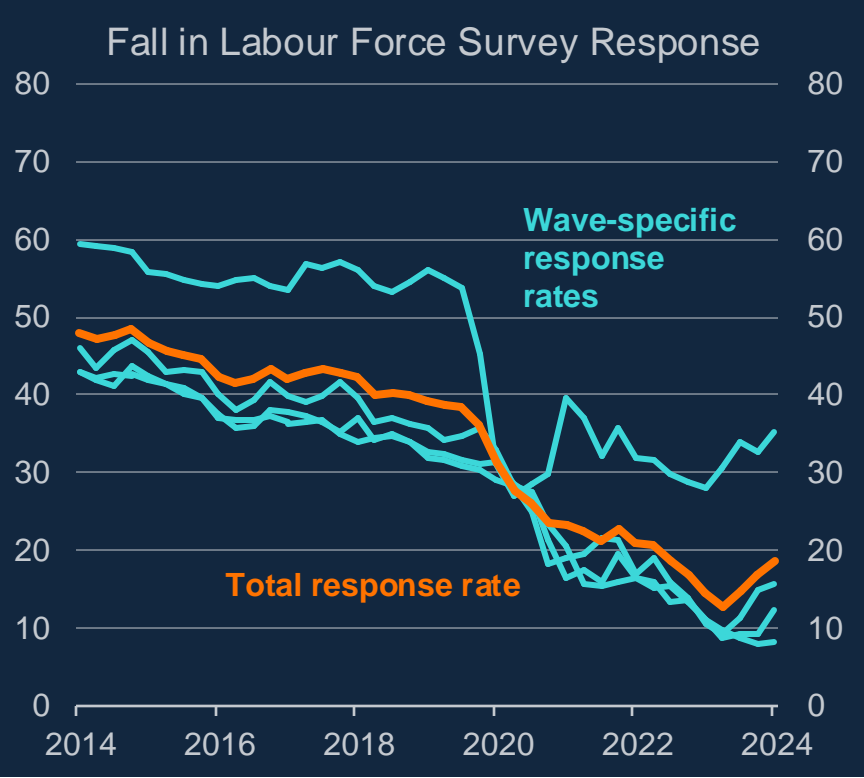
### Covid-19 pandemic



### Energy price shock



### Data fog



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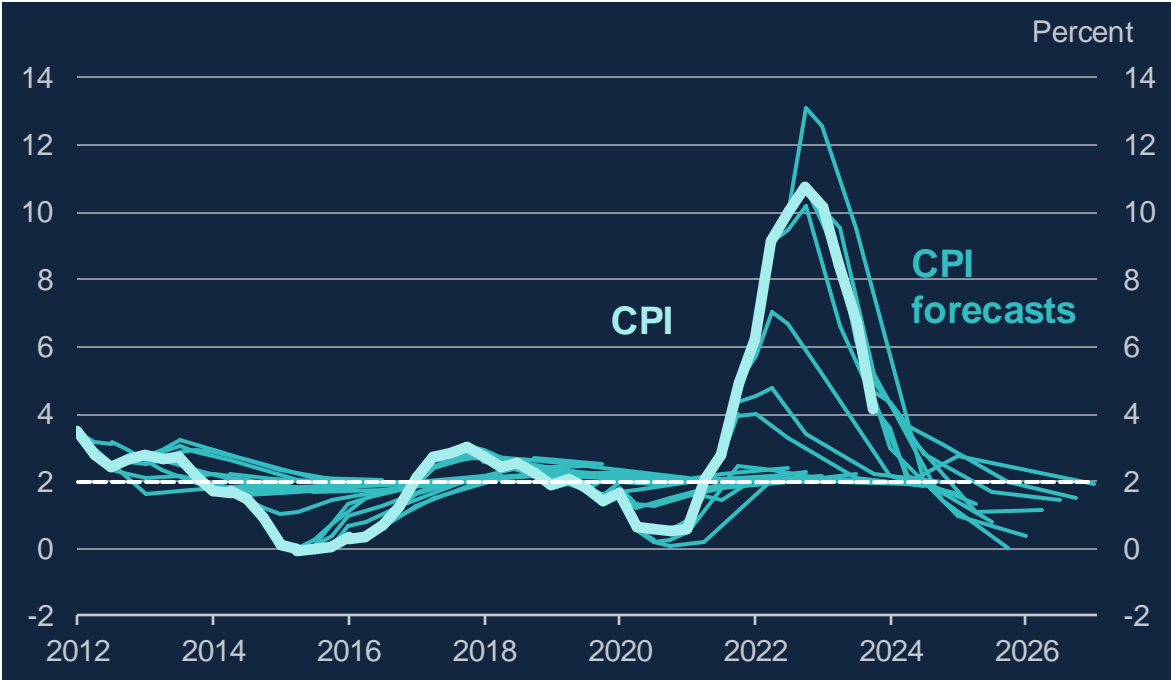
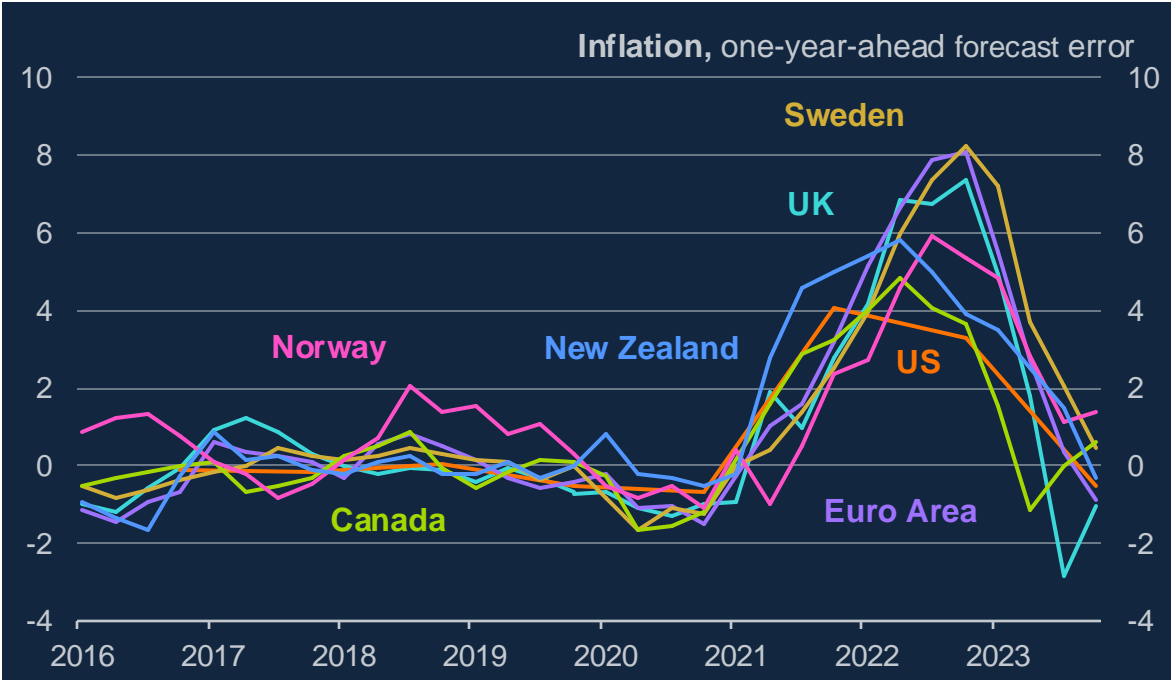
## Analytical Toolkit

- **Fool's Gold:** refinements to a model-based forecast
- **Real Gold:** better data and research design to reduce uncertainty



# Reliance on theoretical and statistical model-based forecasts

- Forecast errors across central banks were relatively similar during this inflationary episode despite different models and tools.
- While the shocks could not have been anticipated, the forecast errors of the models were persistent and systematic.



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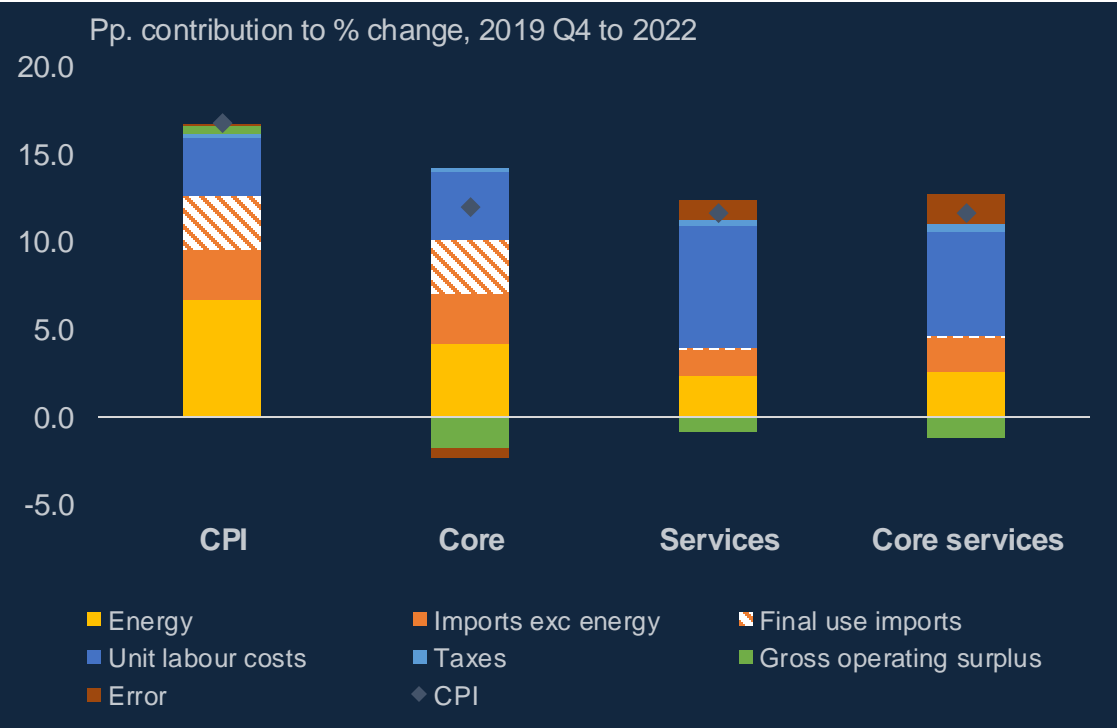
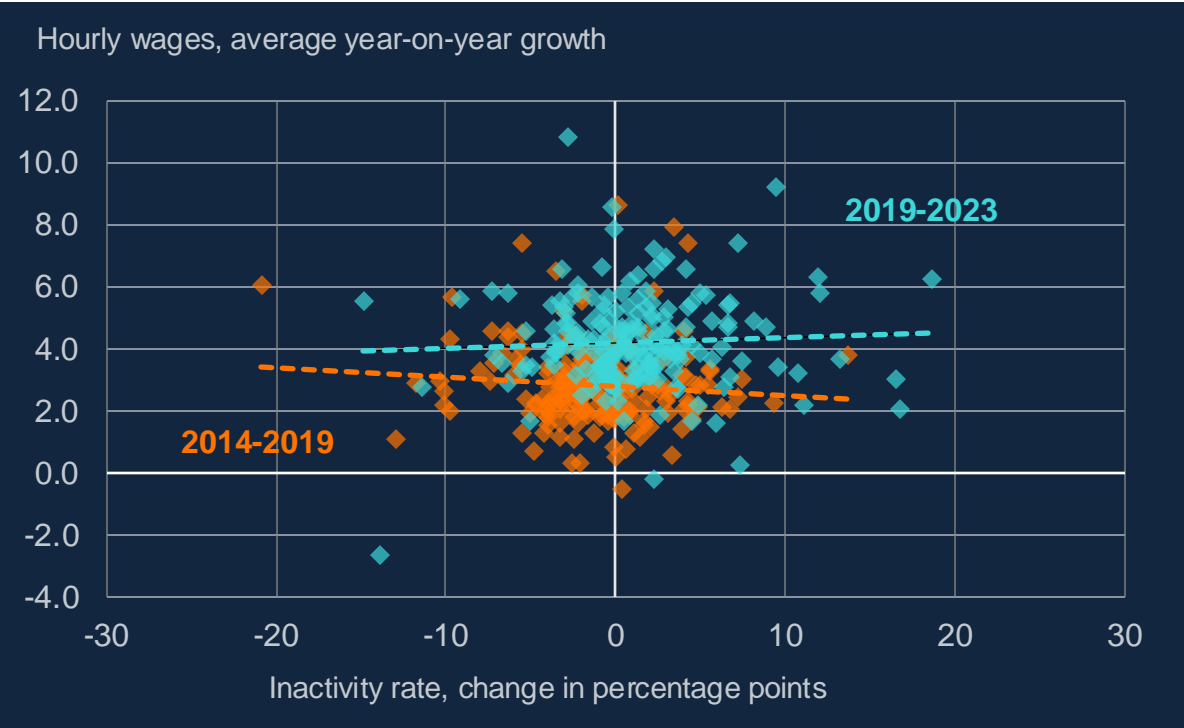
## Analytical Toolkit

- **Fool's Gold:** forecast refinements during large shocks
- **Real Gold:** better data and research design to reduce uncertainty



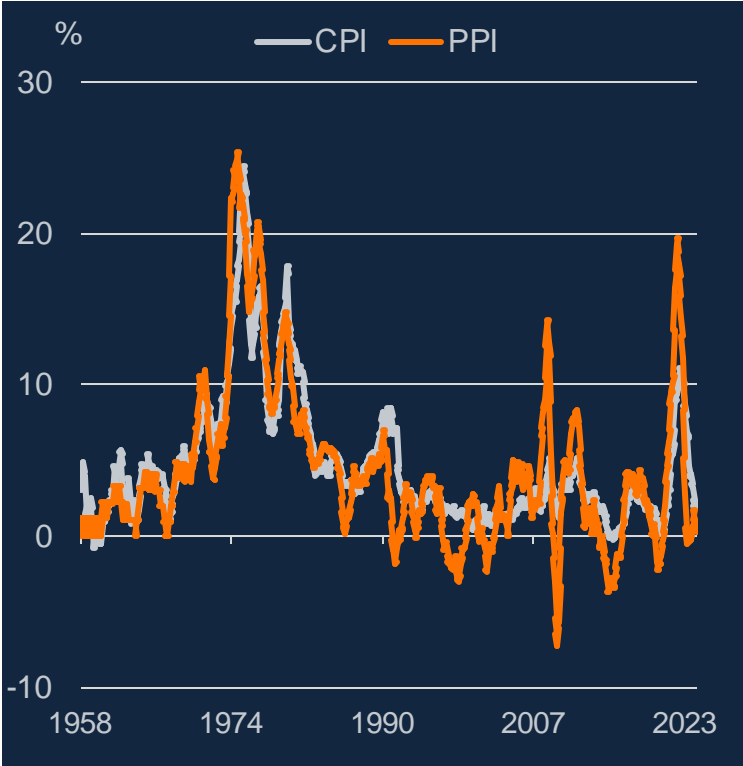
# Research design to understand mechanisms

- Granular wage and inactivity data from local labour markets in the UK offers little evidence of positive correlation, suggesting rising inactivity was not a key driver of wage inflation during the current episode.
- Fragmentation of production and rise of supply chains make standard metrics, such as core and services inflation, less informative for assessing imported inflation.

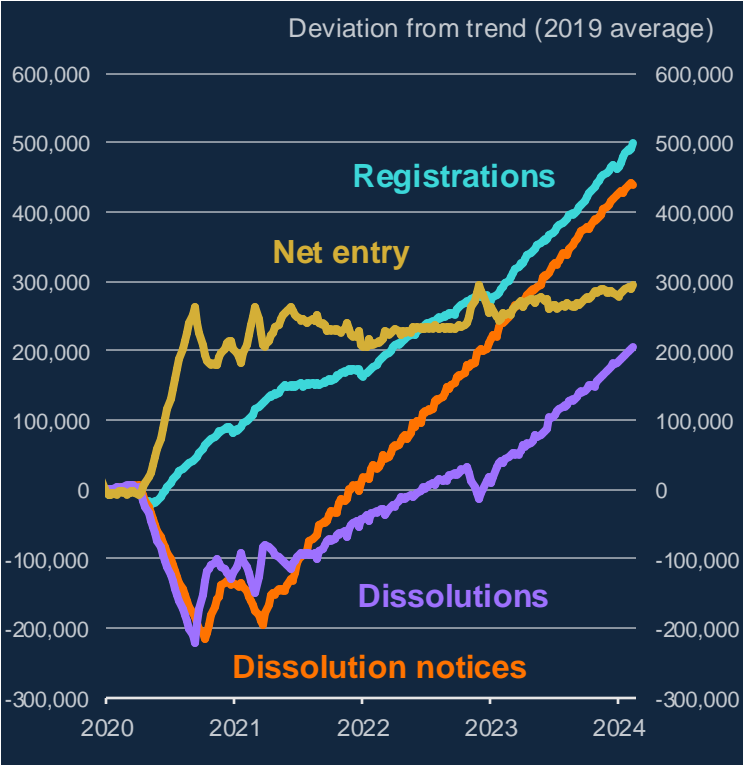


# Making use of forward-looking data to reduce uncertainty

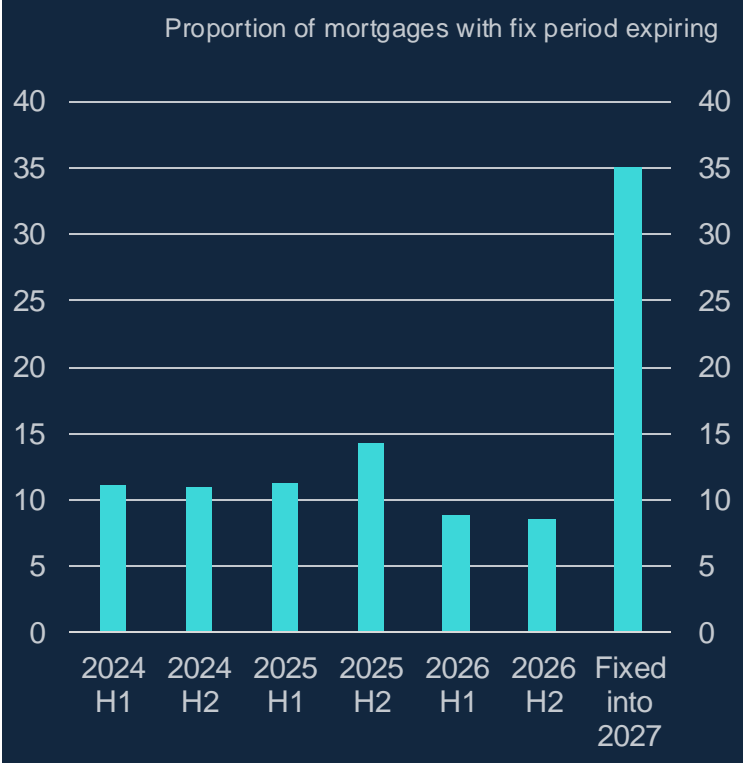
## Supply Chains



## Firms



## Mortgages





# Conclusions



## International Shocks

The global economy has been hit by a succession of large external shocks. Going forward, the lessons from these shocks may matter more than before due to geopolitics and climate change.



## Toolkit

While experimenting with different risks in a forecasting apparatus may be helpful for thinking through the uncertainties, they are secondary to actual information on how the economy is evolving.



## Evidence

Data innovations and better research design to interpret the data become crucial to obtain forward-looking insights to discipline policy.

