Discussion of
Monetary policy across inflation regimes

Marco Jacopo Lombardi

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The views expressed are solely mine and do not reflect those of the Bank for International Settlements

What are the effects of monetary policy on the economy?

- *Vaste programme*: this (one of) the holy grail of applied macro!
  - Not least as it is not always clear what "monetary policy" one has in mind:
    - The transmission of small deviations from a certain policy rule (the "shocks")…
    - …or rather the role of the entire policy framework in maintaining price stability?
- The paper focuses on the differences in the transmission of monetary policy across three inflation regimes
  - Inflation reacts strongly to monetary policy shocks only in the medium regime
- When dealing with different inflation regimes, shouldn't one focus more on the policy rule?

The econometrics

The Good…

- Much appreciated revival of threshold frameworks
  - Parsimonious, computationally light, *transparent*
- Full Bayesian inference
  - Draws from all parameters…
  - …including on the covariances across regimes

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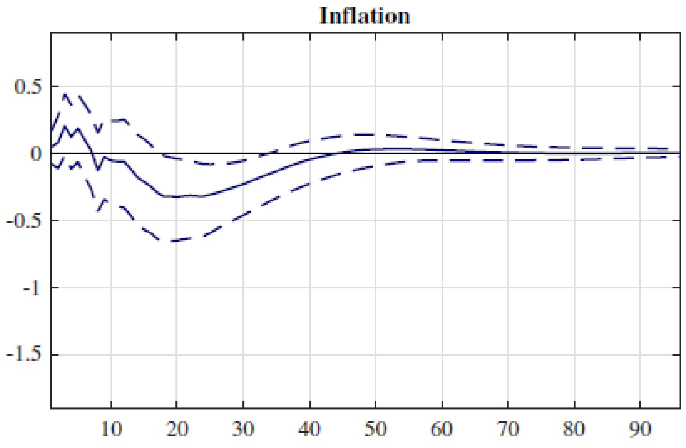
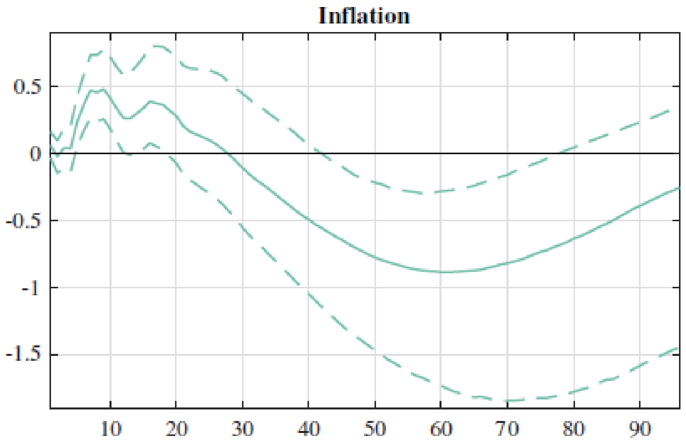
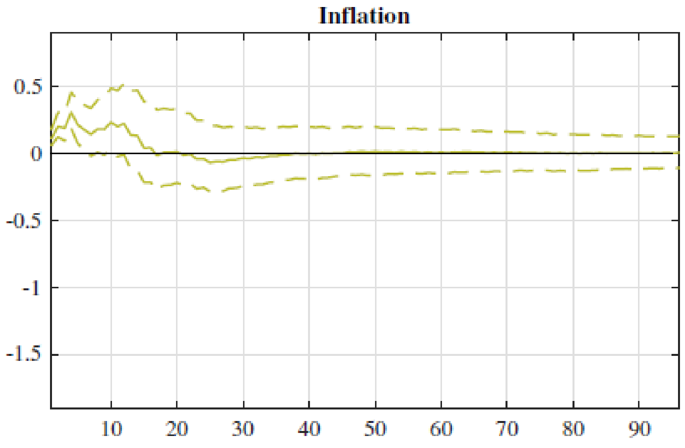
…and the bad

- The sample constraints!
  - Great inflation vs great moderation?
  - Impossible to say something on:
    - Period-specific IRFs from the recent inflation surge
    - The contribution of monetary policy to disinflation
- Yet constraints are due to the identification
  - A more recent sample with different shocks?

Monetary policy across inflation regimes







Taking these results at face value:

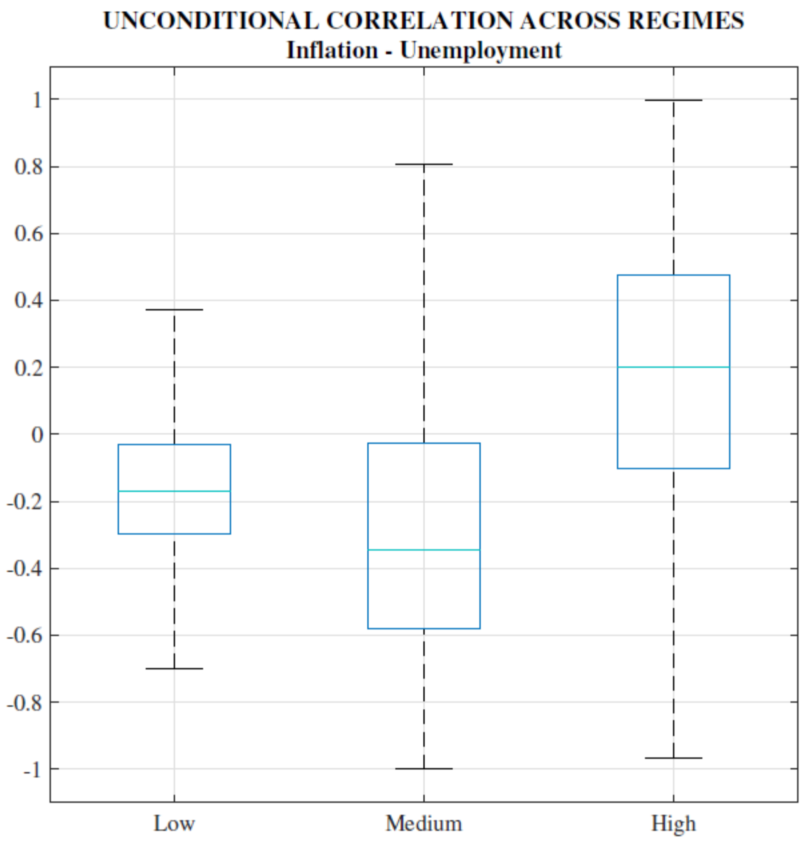
- When inflation is low, fine-tuning inflation is quite difficult and costly
- In the medium regime, monetary policy has good traction
- Once you enter the high inflation regime, you cannot get out of it through monetary policy…
  - …only cross your fingers for “other shocks” that bring you back to the medium regime

But a full Bayesian approach helps shedding light on why that happens!

The Phillips curve across regimes

- In the high inflation regime, the Phillips curve is, if anything, positively sloped
  - That explains why a monetary policy shock (in its strict sense) won't do much

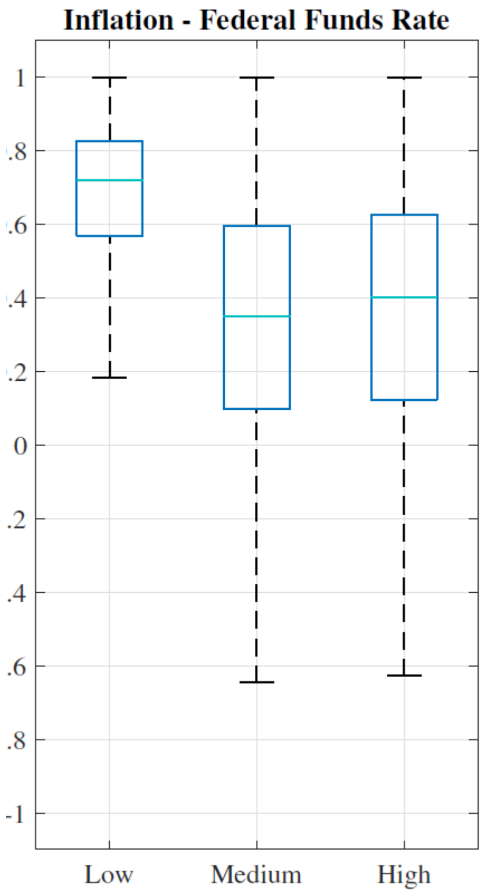
- Yet we know that Paul Volcker led the US out of a high inflation regime through monetary policy…
  - …but that happened through a change in the policy framework, rather than a (sequence of) monetary policy shocks!

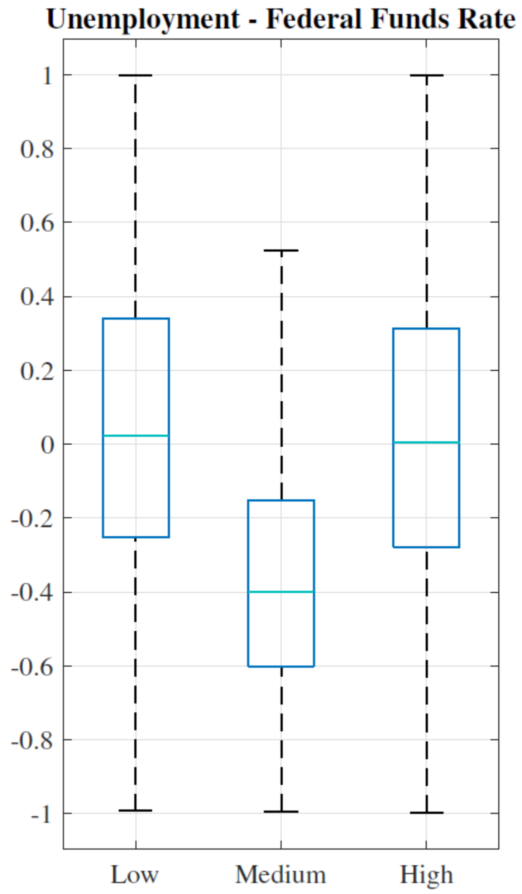


The implicit policy rules

- How does monetary policy systematically reacts to unemployment and inflation across regimes? Is that consistent with price stability?
  - If a policy rule is not consistent, it stands to reason that a monetary policy shock (in its strict sense) won't do much

- Some insights on how policy reacts can be glanced from the contemporaneous correlations
  - Would be insightful to see a correlogram…
  - …and even nicer to back out the implicit policy rule of the VAR system





Wrapping it up

- An excellent methodological contribution on threshold VARs…
  - …illustrating the power of a full Bayesian approach

- Opens the way for additional follow-up work
  - Using the posterior distributions to characterise the different features of the economy across regimes…
  - …including, importantly, the policy rules

- Expanding the VAR to include wages and oil/import prices would shed light on the persistence and the transmission of supply shocks in different regimes
  - When is it safe to look through supply shocks?

Thank you!