

A New Framework for Monetary Policy in the Post COVID-19 Era

Very Preliminary

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Abstract

This paper aims at providing a basis for discussion on a new framework for monetary in the post Covid-19 era. The macroeconomic environment in the post-COVID-19 era is characterized by continued stagnant growth with low inflation, as well as highly accumulated government debt. Central banks are obliged to stabilize the economy under the effective lower bound (ELB) constraint of nominal interest rates with expanded central bank balance sheet. This naturally makes central banks to employ current unconventional monetary policy tools as conventional ones. Under such a circumstance, central banks need to shift their focuses of their policy objectives from price stability to financial stability, virtually being highly integrated with government debt management policy. That is a case for Japanization as a global standard, in both macroeconomic environment and monetary policy framework. That is also a natural consequence of macroeconomic policy responses to the gigantic asset price and credit bubble, i.e. clean-up mess after the bubble bursting. That is just as Japan's experience of the past two decades as well.

Keywords: Covid-19; Central Bank Policy Objectives; Central Bank Balance Sheet; Unconventional Monetary Policy; Japanization; Government Debt Management Policy

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