

**Welcome Remarks by Mr Edward S. Robinson, Deputy Managing Director
(Economic Policy) & Chief Economist, Monetary Authority of Singapore, and
Member of the ABFER Council at the 11th Asian Monetary Policy Forum**

Friday, 24 May 2024 at Conrad Centennial Singapore

Good morning.

MAS Managing Director Chia Der Jiun,

Prof Sumit Agrawal & Prof Steve Davis,

Central bank colleagues,

Distinguished speakers,

Honoured Guests.

1. It is a great pleasure to welcome you to this 11th edition of the AMPF. The Forum takes place at a time when a hard re-evaluation of several fundamental relationships in macroeconomics is underway.
2. Allow me to set the context by calling upon a key macroeconomic variable - the neutral real interest rate, r^* . According to the secular stagnation hypothesis which gained traction after the Global Financial Crisis, demographic shifts and other factors have reduced trend r^* by depressing investment and increasing saving. But long-run real interest rates have recently risen, and the prognosis for r^* now seems less clear. Some think secular stagnation will persist because the long-run determinants pushing down real rates remain little changed.¹ This year's commissioned paper will however argue that a low-rate world is certainly not assured.
3. Indeed, the recent persistence of inflation in the face of substantial real interest rate increases has been taken by some observers as a sign that r^* has risen post-pandemic. Increased government spending to boost national resilience, manage the demographic transition and tackle climate change has been cited as one factor that could structurally raise fiscal deficits, add to already-high levels of government debt and prop up r^* going forward.²

4. The possibility that r^* could eventually settle at a higher level has complicated the task of navigating the “last mile” of the disinflation process for central banks. Policy interest rates will need to be kept high if r^* has risen, with the attendant risk of entrenching above-target inflation. Conversely, monetary policy could be kept overly-tight if r^* indeed remains low, causing unnecessary strains on unemployment and output. Either scenario highlights the need for central banks to carefully examine the parameters now used in Taylor-type policy feedback rules.
5. Meanwhile, alongside the meandering r^* , the Phillips curve has displayed perplexing shifts. Before the era of low inflation ended abruptly three years ago, it was widely maintained that the Philips curve had flattened in most advanced economies. As several researchers have argued, a flatter Philips curve is consistent with the secular stagnation hypothesis if the aggregate supply curve is nonlinear, and – as seems likely – supply is more elastic when there is slack in the economy.³
6. However, a stronger negative correlation between inflation and unemployment has since re-surfaced. It is unclear if the recent steepening of the Philips curve is an artefact of the temporary dislocations caused by the pandemic or an indication of structural change in supply factors.⁴ In a setting with weak prospects for supply growth, our economies may be operating on the steeper part of the aggregate supply curve more often—especially if growth becomes even more supply-constrained under the influence of secular trends like climate change and geoeconomic fragmentation. This implies higher and more volatile inflation over the cycle, and more uncertainty around policy trade-offs.
7. Finally, uncertainty over the level of r^* , and of related quantities such as term premia, has clear medium-term implications for fiscal policy.⁵ If we think r^* will stay above its pre-pandemic trend, and that trend growth g might be challenged going forward, the difference between real interest rates and growth rates – the $(r-g)$ term – may not be as negative as previously believed. That will reduce the space

available for strong countercyclical fiscal policies and raise the urgency of debt consolidation. At the very least, it suggests that we need to be more aware of fiscal limits than we have been in the recent past.

8. (So here we are.) Fundamental questions and uncertainties about r^* , the Taylor rule, the Philips curve, and the $(r-g)$ term. These issues have been debated extensively in the past few editions of this forum, and I am sure our speakers today will have much more to say about them.
9. And it is an illustrious list of speakers today, beginning with the two morning sessions. We are privileged to have Professor Axel Weber, President of the Center for Financial Studies at Goethe University, and member of the Group of Thirty, to address us on the global developments and outlook. Axel combines a formidable tripartite combination of experiences in academia, central banking and global banking. He is uniquely positioned to offer insights on the global conjuncture, and I am very pleased that he can join us for AMPF this year.
10. Next, Professor Kenneth Rogoff will present this year's Commissioned Paper. As I am sure all of you are aware, Ken is a pre-eminent scholar in international economics and finance, known for his pioneering work on the new open-economy macroeconomics and his landmark study of national debt and default, to mention just two broad areas. He has contributed extensively to international macro-financial policy, through his previous position as Chief Economist at the IMF and elsewhere. Prof Rogoff is unfortunately unable to be with us in Singapore today, but I am pleased that he will be able to be present with us virtually for his Session later.
11. We are also delighted to have two well-known, established researchers in the field, Professors Laura Alfaro and Andrew Rose, as discussants. Andy is Dean of the Business School here at NUS, and has made enduring contributions to the literature on trade and exchange rates. I have benefitted personally from his insights, support and advice through the years. I am also glad that Laura has been able to join us from Harvard. She has enhanced our understanding of open economy issues of relevance to EMEs,

bringing to bear direct policy experiences that complements her deep academic credentials. The session will be chaired by Professor Sumit Agrawal of the NUS & President ABFER. Many of us know him as a most prolific researcher with an amazing capacity and breadth of interest. It has been wonderful working with him on ABFER and AMPF.

12. For now, it is my great privilege to call upon Prof Axel Weber to deliver his remarks on Monetary Policy, Banking and Capital Markets: Global Outlook.

Endnotes:

¹ In the commissioned paper for the 2023 AMPF, Obstfeld (2023) sets out a compelling case for why a sustained increase in real interest rates is unlikely over the coming years. Blanchard (2023) similarly argues that, absent an “unusual investment boom”, the continued relevance of rapid population ageing as a driver of higher global saving and shifts in portfolio demand towards safer assets in a more uncertain world will keep returns on risky assets depressed.

² Benigno *et al.* (2024) provide a comprehensive summary of the factors that could drive an increase in real interest rates.

³ For example, Forbes, Gagnon and Collins (2023) find evidence that inflation is more responsive to domestic slack when output is above potential and less so when it is below potential in a large cross-section of 31 advanced and emerging market economies.

⁴ See, e.g., Ari, Garcia-Macia and Mishra (2023) for an overview of the structural factors that might be causing the Philips curve to steepen in advanced economies. They find that increasing digitalisation and lower trade intensity have been associated with greater sensitivity of inflation to the output gap in 24 advanced economies in Europe.

⁵ Adrian, Vitor and Gourinchas (2024) point out that funding costs for borrowers may increase even if r^* remains low because of increases in term premia reflecting uncertainty about the future paths of inflation, quantitative tightening and concerns about fiscal sustainability.

References

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