

Editorial

Monetary Policy and Central Banking: Challenges in the Current Environment

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Central banks across the world have remained in a state of emergency ever since the global financial crisis. Having deployed a range of unconventional policy tools, there are many open questions concerning their ongoing effectiveness and relevance and the recent bout of global inflation constitutes an ideal time to take stock.

This Special Issue assembles an array of papers that consider the challenges facing contemporary central banks, giving attention to retrospective assessment as well as potential ways forward. The contributions utilise a range of advanced econometric methods, including time-series models (such as SVAR and GARCH-M) and estimation techniques (GMM), as well as event studies and historic cases. These approaches all help to provide a thorough and methodologically diverse assessment of central bank performance.

In their paper, Pateiro-Rodriguez, Martin-Bermudez, Barros-Campello and Peteiro-Lopez confirm that between 2008 and 2024, emergency liquidity provisions failed to pass through to broad monetary aggregates within the Eurozone. By incorporating the COVID-19 response into their analysis, they demonstrate the ongoing relevance of emergency measures, and highlight the difficult choices faced by policymakers in how they handle excess liquidity. A key consideration is how open central banks are with the public, and Koukouridis shows that greater central bank transparency has a positive impact on bank profitability and might even constitute a distinct channel for monetary policy efficacy. The release of information about regulatory analysis might constitute an example of this—Floros, Karpouzis and Daskalakis find a historic tendency for markets to positively overreact to announcements about European bank stress tests, but that this typically corrects once the results are published.

Outside of a European context, the Special Issue incorporates policy implications for emerging markets. Cano-Espinosa's contribution considers evidence from Mexico and finds that the adoption of an inflation targeting regime failed to reduce inflation uncertainty. Although policymakers can deliver price stability, their response to external shocks and overall policy credibility might call into question the effectiveness of inflation targets in a volatile global economy. Similarly, Trabelsi shows how global geopolitical risk impacts the effect that an unstable money market rate has on industrial production and inflation in Tunisia. The implication is that central bank conduct and communication need to adjust to worsening investor sentiment, particularly when the domestic economy is weak. Magubane and Nzimande use data from South Africa to show that monetary and macroprudential policy play offsetting roles in their impact on output, the financial cycle, and the price level. This implies that policymakers should give serious consideration to how they feed into each other. Ischak, Maarif, Hermadi and Asikin's paper looks at the relationship between the efficiency and competitiveness of Indonesian banks as a function of the regulatory classification of their core capital. They find evidence of important



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differences, demonstrating the significance of the regulatory authority for the development of the banking sector in rising powers.

The final two papers in this collection cast doubt on the centrality of central banks in facing these sorts of challenges. Castaneda, Damrich and Schwartz establish the conditions under which two freely tradable currencies might circulate in parallel. This provides a fascinating option for countries undergoing hyperinflation or foreign exchange constraints and demonstrates the contemporary relevance of free banking. Likewise, Petratos and Baugus consider the potential for the private issuance of stablecoins to serve as a remedy for monetary instability and a prompt for greater financial inclusion and economic growth.

The last few decades have posed remarkable challenges to central banks, and there are plenty of lessons to learn from how they have fared. Better implementation of inflation targets is an obvious objective, but this assumes an independent central bank and requires effective domestic macroprudential regulation and relatively stable external conditions. It remains to be seen whether better utilisation of different tools, alternative nominal targets, or more fundamental changes to the monetary regime will inform the policy agenda. But methodological dexterity and a global perspective will surely be key inputs into that debate.

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