“Monetary Policy in a New European Reality”
Conference under the Three Seas Initiative (3SI)

The Honorary Patronage of the President of the Republic of Poland Andrzej Duda

hosted by Narodowy Bank Polski

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Concept note

The outbreak of the COVID-19 pandemic in early 2020 was an unexpected global event the consequences of which affected both public health and the economy. The world went into deep lockdown in spring 2020, only to begin a gradual recovery a few months later, while still struggling with the second and third waves of the pandemic. International travel almost stopped, contact-intensive services were severely limited, and global supply chains were temporarily disrupted. Overall, in 2020 global GDP dropped by 3.4%.[1]

These turbulent circumstances posed serious policy challenges. To limit the extent of potential adverse economic impacts of lockdown measures and stringent sanitary restrictions, governments devised generous fiscal support programmes to assist affected firms and workers. The key goal of these support measures was to avoid lasting hysteresis effects which could have otherwise followed from the temporary disruptions caused by the pandemic. Such large fiscal stimulus programmes required new forms of financing. Central banks stepped up to the challenge and provided the necessary liquidity, in particular by lowering interest rates and engaging in non-standard monetary policy measures such as large-scale asset purchases. In 2021, after the impact of the pandemic on the economy had largely subsided and the first signs of global inflationary pressure had begun to emerge, central banks started withdrawing monetary accommodation.

Even though it was reinforced by the emergence of new, more contagious virus mutations, the pandemic was eventually stifled by the wide-ranging vaccination programmes, rolled out in 2021, and the universally enforced sanitary measures. However, the lingering consequences of the pandemic continue to exhibit sizeable public health and economic impacts, posing important challenges for monetary policy.

On top of that, in February 2022, when the world was waiting for the pandemic to finally go away, we were once again shocked – this time by the Russian military aggression against Ukraine. The outbreak of this war has brought death and suffering to the

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[1] Source: World Bank. 2022. *Global Economic Prospects, January 2022.* Washington, DC, p. 4.

Ukrainian people, and caused sizeable impacts on the world economy, linked among others to the ensuing massive refugee crisis and disruption in supply chains. Furthermore, in an attempt to cripple Russia's ability to finance the war, an unprecedented set of economic sanctions has been deployed by the European Union, UK, USA, and others. This, in turn, has brought uncertainty with regard to securing the supply of energy and mineral resources which were hitherto imported from Russia.
All in all, following the Russian invasion of Ukraine, macroeconomic uncertainty is further elevated and inflationary pressures are further heightened. Moreover, changes in the monetary policy transmission mechanism, shifts in the underlying natural interest rate, increased exchange rate volatility and weakened globalization could be named among the many factors making the mission of central banks more difficult than ever – especially since the goal of maintaining price stability is also challenged by the dynamically changing commodity prices and the pressing need to reduce carbon emissions.

These effects are felt particularly strongly in 3SI countries, many of which are geographically adjacent and economically linked to both Ukraine and Russia. This new reality poses additional problems for monetary policy, which ought to be discussed.

Outline of the conference programme

- Conference opening: Prof. **Adam Glapiński**, Governor, NBP

- Keynote speech: **Kenji Okamura**, Deputy Managing Director, International Monetary Fund
- Special guest: **Kyrylo Shevchenko**, Governor, National Bank of Ukraine

- Panel I: **Monetary policy during the COVID crisis: review of central banks' experiences**

Panel I will provide a platform for sharing unique experiences and perspectives on pursuing monetary policy during the COVID-19 crisis among the central banks of countries belonging to the 3SI. Which policies introduced in 2020 and 2021 turned out particularly effective, and what lessons from the crisis can be learnt for the future?

- **Marta Kightley,** First Deputy Governor, Narodowy Bank Polski (moderator)
- **Mārtiņš Kazāks**, Governor, Latvijas Banka
- **Barnabás Virág,** Deputy Governor, Magyar Nemzeti Bank
- Governor's Representative, Bulgarian National Bank*

- Panel II: **Evolution of structural underpinnings of monetary policy**

Panel II will foster discussions on the evolving underpinnings of monetary policy. Countries belonging to the 3SI have a number of similarities and differences that could be leveraged to provide an interesting spectrum of views on questions such as how central banks should react to global supply shocks, balancing the risks for inflation and economic growth from rising commodity prices and from the possible de-anchoring of inflation expectations. The conference will also provide a forum for discussing the possible changes in potential output growth in the 3SI region after the pandemic. Specifically, the pandemic may have accelerated some of the long-term technological trends, such as the gradual digitalization and automation of production. It may have also affected the pace of nominal and real convergence, specifically because following the logic of the Balassa-Samuelson effect, disruptions in the supply of globally tradeable goods may have altered the relative pricing of locally produced non-tradeable goods and services.

- **Gediminas Šimkus**, Chairman of the Board, Lietuvos bankas (moderator)
- **Gottfried Haber**, Vice Governor, Oesterreichische Nationalbank
- **Michal Horváth**, Director of Economic and Monetary Analysis Department, Národná banka Slovenska
- **Martin Wagner**, Adviser to the Governor, Banka Slovenije

- Panel III: **Monetary policy challenges and perspectives in light of the implications of the war in Ukraine**

Panel III will seek answers to questions regarding the future facing central banks from the 3SI region. The region is strongly exposed to the repercussions of the war due to its geographical proximity and economic linkages with Ukraine and Russia. The panel will provide a platform for sharing unique perspectives on the key channels through which the Russian invasion of Ukraine is, and will be, affecting monetary policy in the region. The war, the refugee crisis, and disruptions in international trade and financial flows are major challenges for sustaining macroeconomic stability and limiting inflation. Which other challenges may emerge in the coming quarters? Will global inflationary pressures subdue or persist? How to communicate monetary policy decisions to keep inflation expectations aligned with the target? How long, if at all, will it take the world economy to return to the pre-Covid and pre-war normal? What lessons have we learnt in the past two and a half years that can guide us into post-pandemic and post-war reality?

- **Boris Vujčić**, Governor, Croatian National Bank (moderator)

- **Leonardo Badea**, Deputy Governor, National Bank of Romania
- **Vojtech Benda**, Executive Board Member, Česká národní banka
- **Ülo Kaasik,** Deputy Governor, Eesti Pank
- **Piotr Szpunar,** Director, Narodowy Bank Polski