



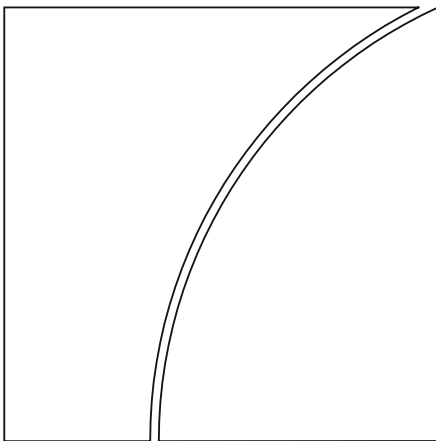
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Central banks and macro-financial stability in a fragmented global economy

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Foreword

The 25th BIS Annual Conference took place in Basel, Switzerland on 26 June 2026. The event brought together a distinguished group of central bank Governors, leading academics and former public officials to exchange views on the theme “Central banks and macro-financial stability in a fragmented global economy”. Three papers presented at the conference are released as BIS Working Papers, nos 1384, 1385 and 1386, while the fourth paper will be released as BIS Working Paper no 1387 at a later date.

BIS Paper no 176 contains remarks from the panel discussion on “Monetary policy in a fragmented global economy”.

Programme, 26 June 2026

09:00–09:05 Welcome

Frank Smets, Bank for International Settlements

09:05–10:20 Session 1: Monetary policy and inflation

Chair Ayman M Al-Sayari, Saudi Central Bank

Speaker Ricardo Reis, London School of Economics

Paper Inflation after the Iran war

Discussants Francesco Bianchi, Johns Hopkins University

Sarah M Lein, University of Basel

10:20–10:45 Coffee break, first floor foyer

10:45–12:00 Session 2: Global risks and markets

Chair Santiago Bausili, Central Bank of Argentina

Speaker Wenxin Du, Harvard Business School

Paper Competing rails for cross-border payments: banks, fintechs, and stablecoins

Discussants Tobias Adrian, International Monetary Fund

Motohiro Yogo, Princeton University

12:00–13:30 Buffet lunch

13:30–14:45 Session 3: Digital innovation and the monetary system

Chair Eli M Remolona Jr, Bangko Sentral ng Pilipinas

Speaker Antoinette Schoar, MIT Sloan School of Management

Paper Digital innovation and the monetary system: evidence from Cardano staking pools

Discussants Franklin Allen, Imperial College London

Elena Carletti, Bocconi University

14:45–15:00 Coffee break

15:00–16:15 Session 4: International competition and the economy

Chair Tiff Macklem, Bank of Canada

Speaker Matteo Maggiori, Stanford University

Paper Geoeconomic pressure

Discussants Randall S Kroszner, The University of Chicago Booth School of Business

Carolyn Pflueger, University of Chicago, Harris School of Public Policy

16:15–16:30 Coffee break

16:30–17:45 Session 5: Monetary policy in a fragmented global economy

Moderator Pablo Hernández de Cos, Bank for International Settlements

Panellists Anna Breman, Reserve Bank of New Zealand

Fatih Karahan, Central Bank of the Republic of Türkiye

Tiff Macklem, Bank of Canada

Ida Wolden Bache, Central Bank of Norway

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Policy panel on “Monetary policy in a fragmented global economy”

Remarks by Anna Breman

Anna Breman, Governor, Reserve Bank of New Zealand

Thank you for the opportunity to join this panel for the BIS’s 25th Annual Conference. It is a pleasure to be here with colleagues and academics at such a challenging time for monetary policy.

The BIS Annual Economic Report highlights a key challenge for monetary policy in a fragmented global economy – keeping inflation expectations anchored. In such an environment, effective communication between central banks and the public will become increasingly important. Misinformation is becoming easier to produce and spread, potentially distorting beliefs, weakening monetary policy transmission and exacerbating adverse shocks.

We know inflation expectations will matter for how this current shock following conflict in the Middle East will transmit. Higher near-term inflation risks causing persistence in inflation if inflation expectations become unanchored. Importantly, it is not just the expectations of professional forecasters and financial market participants that matter. Research by Ricardo Reis and others from the Covid-19 period highlights the importance of household and business expectations.¹ These influence consumption, saving, wage bargaining and price-setting.

I therefore want to focus on whether communication with the public can help anchor inflation expectations and limit second-round effects from supply shocks, such as the current oil shock.

Communication is not a substitute for tighter policy when inflationary pressure requires it. But if it can help anchor inflation expectations, then it may reduce the amount of tightening needed and lower the output and employment costs of disinflation.

Central bank communication with the public

Let me give you some background as to why I am focusing on central bank communication with the public.

I am a firm believer in central bank communication with the public. It is fundamental to democratic accountability. That is why one of my priorities as

¹ Reis (2023) highlights the importance of considering the signals from a range of inflation expectations measures, including household and business inflation expectations. See also Reis (2022) and Hajdini et al (2025).

Governor has been to strengthen trust and understanding by improving communication with the public.

We need it. New Zealand was the first to introduce an inflation target, in 1989. Yet when we recently asked New Zealanders what the Reserve Bank is responsible for, fewer than 25% mentioned “inflation” or “interest rates”.² And when given options, only 30% could identify our inflation target range.³

To strengthen public understanding and trust, we have:

- moved to media conferences at every monetary policy meeting.
- broadened our outreach through regional visits, business visits and more frequent media engagement.
- changed the Monetary Policy Committee’s charter to increase the transparency of members’ individual views.

But more communication is not always better. The goal is effective communication, grounded in research. So, the question is: what do we actually know about the effect of communication on inflation expectations?

There is good news, bad news and a clear need for more research.

Communication helps anchor expectations but is not a quick fix

1. Indirect evidence

The good news is that communication can build trust and understanding, which can reduce the cost of returning inflation to target after a supply shock.⁴ People with greater trust in the central bank tend to have expectations closer to target and they remain anchored in response to transitory shocks.⁵

Similarly, research at the Reserve Bank of New Zealand shows that households with a more accurate view of current inflation tend to form more accurate expectations for future inflation.⁶ This is consistent with international literature showing that household and business expectations of future inflation are strongly shaped by their perceptions of recent inflation.⁷

² This is based on unpublished results of a survey of New Zealanders in 2026. When respondents were later prompted with options, just over half reported that the Reserve Bank’s role is to “control inflation” or “control interest rates”.

³ This is based on an earlier survey of New Zealanders in 2022. See Reserve Bank of New Zealand (2022).

⁴ Hayo and Neumeier (2021) find that trust in the Reserve Bank of New Zealand tends to be higher among respondents with better knowledge of the Reserve Bank. Mellina and Schmidt (2018) find similar results for the ECB, based on a survey conducted in Germany.

⁵ See eg Christelis et al (2020), Rumler and Valderrama (2020) and Stanisławska and Paloviita (2021). De Fiore et al (2025) demonstrate a similar link between inflation expectations and knowledge about the central bank. See also Ehrmann (2026) for a broader discussion of the literature on trust.

⁶ See Coleman, forthcoming.

⁷ See for example Arioli et al (2017), Candia et al (2023), D’Acunto et al (2024), and De Fiore et al (2025).

Hence, the evidence supports an indirect link: communication with the public can help anchor expectations by strengthening trust and understanding.

2. Direct evidence

The bad news is that evidence of a direct link from communication to inflation expectations is mixed. Blinder et al (2024) survey the relevant literature and conclude that public communication builds trust, but its effect on expectations is less clear.⁸

The effectiveness of communication hinges on two conditions: that households and firms are exposed to central bank communication, and that they trust the institution sufficiently to act on its guidance. We know that the public rarely consumes central bank communication directly. People rely on intermediaries, including news media and social media.⁹ And the nature and extent of media reporting can affect how economic news translates into real-world outcomes.¹⁰

A recent award-winning working paper by Lamersdorf (2026) shows why this matters. Using German district-level data, she finds that firms in high-populism districts hold elevated inflation expectations and revise them less in response to monetary policy surprises. Most strikingly, their credit demand response is similarly attenuated, indicating a significant weakening of the credit channel. The two main mechanisms for this result are eroded institutional trust and a distorted information environment.

For us as policymakers, this points to three practical challenges: reaching our audiences, tailoring our communication and managing distortion of our messages before they reach the public.

Priorities for future research

This leads to three research priorities.

First, how do we best reach the public, and what makes communication effective in practice?

Second, how do we improve the quality of communication, including through social media, for audiences beyond financial markets?^{11, 12}

⁸ See Blinder et al (2024).

⁹ For example, a 2021 ECB survey highlights the important roles of traditional media, such as television, printed press, news websites and radio – but also of word of mouth and social media (Gardt et al (2022)). Similarly, when the Reserve Bank of New Zealand surveyed the public in 2022, 80% of respondents reported getting their information on the state of the economy from the media.

¹⁰ For example, Yotzov et al (2024) find that a one standard deviation increase in “media chatter” surrounding an inflation data release is associated with about a 0.4 percentage point higher impact on firms’ own price expectations for a 1 percentage point change in CPI.

¹¹ For examples of research into central banks’ use of social media for communication, see Ehrmann and Wabitsch (2022), Jung and Mongelli (2025) and Simpartl (2026).

¹² Existing research includes Ehrmann et al (2023), whose work suggests that providing background explanation on the central bank objective and its relevance in the economic context at the time can help improve perceived credibility of central banks’ inflation objectives.

Third, how should central banks respond to artificial intelligence (AI)-generated misinformation and disinformation including deepfakes and unreliable search summaries?

Several Governors have already experienced being used in deepfake videos that are scams and that undermine central bank credibility. In addition, AI-generated summaries are appearing in a growing share of searches. How do we ensure AI provides accurate information, rather than hallucinations or information from unreliable sources?

Research could investigate how central banks should adapt their communication to avoid the associated risks of misinformation that come with increased use of AI.

Conclusion

Let me conclude. Trust is earned by doing our job: delivering low and stable inflation. But communication with the public can strengthen trust and understanding and help people form more accurate inflation expectations.

In a fragmented world, as misinformation becomes easier to produce and spread, central banks will increasingly need to be guardians of accurate information on inflation and monetary policy. Otherwise, they face the risk that distorted beliefs weaken policy transmission and exacerbate adverse shocks.

I would welcome research on these questions. I strongly encourage the BIS's work on AI, and I hope it will include the challenges we face related to misinformation and communication. Thank you.

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Remarks by Fatih Karahan

Fatih Karahan, Governor, Central Bank of the Republic of Türkiye

It is a pleasure to join this distinguished panel and to contribute to today's discussion.

I would like to focus on a challenge that I believe is becoming increasingly central to monetary policymaking: how central banks communicate in a world that has become less predictable and increasingly fragmented. I will draw on recent research conducted at the Central Bank of the Republic of Türkiye, but let me begin with the broader global backdrop, because understanding how the international environment has changed helps explain why effective communication has become more important than ever.

Why communication matters more in a fragmented world

We hear a great deal about fragmentation today. It's useful to compare the current environment with what we had to put things into context.

For almost two decades prior to the Covid-19 pandemic, monetary policy benefited from a rather favorable global environment. Globalisation, trade integration and the steady expansion of productive capacity acted as important deflationary forces. In many advanced economies, goods inflation was close to zero or even negative for much of the decade before the pandemic.

This meant that central banks often operated with helpful tailwinds. Supply expanded, trade costs generally declined, and many relative-price shocks dissipated without becoming persistent inflation.

That environment can no longer be taken for granted.

Global trade is no longer expanding at the pace we became accustomed to. FDI has become less dynamic. Supply chains are being reorganised, and geopolitical considerations increasingly influence production and investment decisions.

Integration has certainly not disappeared, but it no longer provides the same consistent support for price stability.

The important implication, however, is not necessarily that inflation will simply be higher. Rather, inflation becomes a more complicated process.

Trade frictions raise costs. At the same time, excess production capacity may be redirected to new markets and lower prices there. Supply chains become more resilient, but often at a higher cost. Changes in competitiveness can alter relative prices in ways that are difficult to predict. And with a less elastic supply, demand shocks can be more inflationary than before.

In other words, fragmentation creates more relative price shocks coming from different directions.

For central banks, the real challenge is therefore one of signal extraction. When we observe prices moving, we have to determine whether those movements reflect temporary supply adjustments, changes in trade patterns or shifts in demand.

Now, that task has always existed. But in a fragmented world, it is considerably more difficult. And when the signal is noisier, expectations management becomes more valuable.

Well anchored expectations help reduce the likelihood that one-off relative price movements become embedded in wages, prices and longer-term inflation dynamics. This point has been made numerous times in the first session of today. First and foremost, we should care about firms and households, and about how they actually perceive the economy around them.

It's a good thing that in such an environment households and firms pay attention to news about the economy. This is consistent with the rational inattention literature. Now things are moving, so households and firms pay attention.

But there is another challenge. Households and firms do not process every piece of information equally. They pay attention selectively. They are surrounded by news, social media, market commentary and the prices they encounter every day. Central banks therefore have to compete with many other sources of information for attention.

This is where communication becomes increasingly important. The role of communication is evolving, it is no longer simply about transparency. It is about ensuring that a central bank's signal is understood, trusted and distinguished from the many competing signals that firms and households receive every day.

Expectations are part of monetary transmission

The natural question then is: how can we make our communication more effective? This is a question that deserves more research, and over the past few years, researchers at the Central Bank of the Republic of Türkiye have studied exactly this question. We don't have definitive answers, but we have some pieces that offer clues.

Let me briefly highlight findings from our research.

The first is that expectations matter because they influence behaviour. When firms revise their inflation expectations, they do not merely change their forecasts. They adjust pricing decisions, financing choices, investment plans and other real economic decisions. Expectations are therefore not simply forecasts – they are part of the transmission mechanism itself. This is the finding of the first paper, and I won't spend much time on this today.

The second finding is that communication works, but the way information is delivered matters. The same message can have different effects depending on how it is communicated.

And finally, direct engagement also matters. Meeting firms face to face, answering questions and discussing policy directly can improve expectation formation beyond what standard communication channels achieve.

Let me briefly illustrate the last two points.

Effect of communication format

Let me start with our first experiment. The idea is very simple. We took the exact policy message from our November 2025 Inflation Report, that our forecasts for end-

2026 indicate inflation will decline to the 13–19% range, and randomly assigned firms to receive it through different communication formats. Some firms received no information. Others received the message as plain text. Others saw the same text accompanied by a photograph of me. Others watched a short video of me delivering exactly the same message in that press briefing. And finally, another group received both the video and the accompanying text.

The message is the same. Only the format changes across groups. This allows us to isolate the effect of the communication medium itself.

Video-based communication produces the largest improvement in expectations.

The results are quite striking. Across several dimensions – including inflation expectations, exchange rate expectations and confidence in the central bank – video communication consistently outperforms text alone.

This is because the message is more likely to attract attention, to be processed and ultimately to influence expectations.

I think this finding has broader relevance. In today's information environment, central banks are no longer communicating in isolation. Our policy messages compete with financial news, social media, political developments and the prices people observe every day. If attention has become the scarce resource, then the effectiveness of communication depends not only on *what* we say, but increasingly on *how* we say it.

Does face-to-face communication matter?

Our second study examines another dimension of communication. Rather than changing the format, we changed the degree of personal engagement.

During 2025, we organised province-level meetings across Türkiye, where senior officials, including myself, met directly with local businesses. I gave a presentation, but that was not the essence of these meetings. They were conversations. Firms asked questions and discussed financing conditions, sector-specific developments and the economic outlook. The objective was not simply to provide information – it was to create an understanding.

The results here are consistent with the first experiment, and just as instructive.

Face-to-face engagement produces meaningful decline in inflation expectations

Inflation expectations declined more in provinces where these meetings took place than in comparable provinces that were not visited. Firms that participated in these face-to-face meetings revised their inflation expectations down by roughly 1 percentage point for consumer prices, and by 1.2 percentage points for producer prices, relative to firms without this direct contact.

What I find particularly interesting is that the underlying policy framework was exactly the same everywhere. The difference was that communication became more direct, more interactive and ultimately more salient. This reinforces an important lesson: communication is not simply about making information available. It is about

making sure information is actually received, understood and incorporated into economic decisions.

What have we learned?

Let me conclude with four broader lessons.

First, fragmentation makes inflation signals noisier. The challenge for central banks is increasingly one of distinguishing temporary relative price movements from more persistent inflationary pressures.

Second, as the signal becomes noisier, expectations become a more important part of monetary transmission. They influence not only inflation forecasts, but also pricing decisions, wage-setting, financing choices and investment.

Third, communication affects expectations because it shapes how firms and households interpret economic developments. But effective communication is no longer only about transparency – it must also be credible, salient and accessible.

Finally, I believe there may be a broader implication for central banking. In a world where economic agents are exposed to many competing signals, successful communication is the one that captures attention, builds understanding and helps distinguish signal from noise. Ultimately, that is what reinforces the credibility of the monetary policy framework.

Thank you.

Remarks by Tiff Macklem

Tiff Macklem, Bank of Canada

I am very pleased to join this distinguished panel and to share some reflections from a Canadian perspective.

I'll begin by reinforcing the theme of today: we are in a more fragmented world. It's a more shock-prone world. And many of these shocks are affecting supply as well as demand.

The structural tailwinds of peace, globalisation and favourable demographics have turned into headwinds. Elevated sovereign debt, slower economic growth and lagging productivity have made our economies more vulnerable. These vulnerabilities are being compounded by intensifying geopolitical risks and more frequent climate events. The shift to protectionism in the United States has rearranged cross-border supply chains and reduced economic efficiency. And new technologies – especially artificial intelligence (AI) – are accelerating investment, disrupting some industries and shifting trade flows.

Monetary policy can't undo the economic impacts of fragmentation and structural change. And it shouldn't try to. Monetary policy can't offset the hit to efficiency from higher tariffs or accelerate the promise of AI. We can't reduce the

uncertainty created by the policies of other countries. Shocks and structural change are beyond our control.

What can we do? I see two big buckets. The first is what we each need to do within our central banks. The second is what we need to do together.

Adapting monetary policy to a more shock-prone world

In each of our central banks, we can work to improve our understanding of the implications of structural change for supply and demand and inflation in our economies. And we can adapt our analysis, our decision-making and our communication to confront elevated uncertainty. I know many central banks are already doing this.

In Canada, our monetary policy framework is renewed every five years through a joint agreement of the Bank of Canada and the Canadian government. The next renewal is due by the end of this year, and we have been consulting with academics, market participants, civil society groups and the public. While we don't intend to change our 2% inflation target, we are using this opportunity to take a fresh look at how we conduct monetary policy in a more fragmented world with more supply shocks and heightened uncertainty.

For most of the 25 years ahead of the Covid-19 pandemic, supply shocks tended to be short-lived and we could largely look through them. But what we learned from the pandemic is that when supply shocks are large and persistent, and especially when the economy is already overheated, we need to respond.

The clear implication is that in a world with more frequent and bigger supply shocks, we need a richer monetary policy playbook. When do we look through supply shocks and when do we respond? And when we do respond, how forcefully?

At the Bank of Canada, we have been working to sharpen our tools in three areas to deepen our analysis of the supply side and better manage uncertainty.

First, models and scenarios. We are finalising a new next-generation monetary policy model that will help us better understand how supply shocks propagate through the economy – from connected supply chains through to firms' pricing decisions. And we are doing more scenario analysis to better understand the range of possible outcomes.

Second, intelligence. As much as we can, we need to know what is happening before it shows up in the aggregate data. That means meeting regularly with businesses, households and community organisations, and using timely indicators – like payments, card transactions and cross-border traffic – to see how shocks are affecting households and businesses in real time.

Third, communication. We've heard a lot about this from my colleagues, and I echo their views. Particularly when uncertainty is high, we need to be humble about our forecasts. But we still need to explain our decisions. People need to understand how we are thinking about the economy. That means being clear about what we know, what we don't know, how we are reading the evidence and what it means for the outlook and for monetary policy.

The reality is that in a world with more supply shocks, we face more hard choices – we can't stabilise inflation and output at the same time. And when we are faced with more uncertainty, the likelihood of our getting things wrong is higher. We can mitigate those risks through richer playbooks, drawing on a wider information set and a diversity of views, and being transparent and accountable in everything we do.

What we can't do is let increased volatility and uncertainty sow doubts about our commitment to price stability. We need to be clear about our objective, clear about our commitment and clear about our actions and our capacity to deliver on our mandates.

By sharing our analysis, our intelligence and our experience with our fellow central banks, we can all learn from each other and move faster with more confidence.

Working together

That leads to a second part of the response: what we need to do together. Yes, we need to share our analysis and insights. But there is more than that.

In our tightly coupled international monetary and financial system, financial stability, safe and efficient payments, and sustainable capital flows demand a collective approach. Fortunately, we have tools for this too.

We have convening power. The BIS is a leading example. Our gatherings here, and conferences such as this one, are often the starting point for the conversations that need to take place. And important discussions are taking place at other forums – the FSB, IMF, OECD, G7 and G20, and in other groups around the world.

We also have our voices. We can use our roles and our profiles to highlight key forces shaping our economies, explain what's driving them and suggest ways to address them. Global problems require global solutions. We cannot solve them separately – we all have a role to play.

In that spirit, let me briefly highlight some important messages I've been delivering on global imbalances, economic growth and financial stability. Persistent global imbalances are once again creating trade tensions and fuelling financial stability risks.

As excess imbalances have been building, the way capital moves across borders has also been changing. The financial system is not just bigger. It's faster, more complex and increasingly dominated by new non-bank players that are less regulated, less transparent and less tested under stress.

Resolving global imbalances will require the largest jurisdictions to turn aspiration into action: China needs to consume more, the United States save more and Europe invest more.

But there are also things we can all do to pave the way for a smoother and more durable adjustment. I suggest three.

First, openness. Even as the United States pulls back from open trade, others can deepen trade and investment ties. Open markets help capital flow to productive uses, support growth and ease adjustment. Protectionism may appear to offer short-term relief, but it fragments markets and hurts everyone.

Second, investability. A more balanced system needs more places for global savings to go: more safe assets, and secure payments in all our currencies. It needs stronger conditions for firms to scale in all our economies. That requires policies that remove barriers to growth – including in Canada.

And finally, transparency. Markets can't price what they can't see. The private sector generally does a good job of managing the individual risks they can see, but systemic risks can build beyond any one firm's view. Better data, stress tests and closer cooperation among the IMF, FSB and BIS would help identify risks earlier, especially in non-bank finance, foreign exchange and cross-border capital flows.

These are things we can only do together.

Conclusion

In our day-to-day work, we need to focus on what we can control: adapting our frameworks to deliver price stability, sharpening our tools, improving our economic intelligence and strengthening our communication.

At the same time, we can't lose sight of our ability as central banks – as Governors – to shape the world we live in.

As stewards of the international monetary system, we need to use our convening power and our voices to resist fragmentation and push for international solutions. International cooperation is more difficult in today's world. But it is more necessary than ever given the problems we face.

It starts here at the BIS, and it is amplified through all our international engagement. These groups have proven their worth in solving problems in the past – we need to use them to solve the problems of today.

And we need to recognise that sometimes we may not all agree. But that shouldn't hold everyone back. There is a lot we can do among us to deepen our trade, improve our payment systems and strengthen our financial systems.

Day to day, the world is given to us and we need to respond. But we also have a role in shaping the system to the benefit of all our citizens. I think we can do both at the same time.

Remarks by Ida Wolden Bache

Ida Wolden Bache, Central Bank of Norway

Let me begin by thanking the BIS for the invitation to participate in this panel. I am very pleased to be here and to take part in this discussion.

I will make three main points.

- First, as many others have noted, geoeconomic fragmentation and other structural changes could mean that we will see larger and more frequent shocks going forward. In such an environment, monetary policy needs to

respond decisively to shocks to prevent persistent deviations from target and keep inflation expectations well anchored.

- Second, while the importance of well anchored inflation expectations is widely recognised, we still need to understand them better – how expectations are formed, how they influence behaviour and when they should worry us.
- Third, even if shocks become larger and more frequent, their macroeconomic impact may change over time. For example, the effect of energy shocks on activity appears to have declined in many economies. This underscores the importance of a more granular understanding of how different supply shocks – such as energy shocks – transmit through the economy.

Let me turn to my first point. Shocks may arise from geopolitical tensions, trade restrictions or disruptions in energy markets. But other forces are also at work. Climate change, the transition to a low-carbon economy and artificial intelligence may all reshape economies in the years ahead – yet the speed and scale of these changes remain highly uncertain.

Greater macroeconomic volatility does not in itself call for a different monetary policy reaction function. But while simple policy rules are often linear, the costs of deviations from our objectives are not. Larger shocks may therefore require a stronger policy response than such rules would suggest.

Similarly, in a situation where inflation has been above target for some time, further increases may warrant a more forceful policy response than when inflation is close to target.

However, if higher inflation reflects an adverse supply shock, the central bank must balance the need to bring inflation back to target against the risk of unnecessarily weakening activity and employment. The trade-off becomes even more challenging if unemployment is already high – or has been high for some time.

Another complication is that shocks are rarely neatly separable. They often reflect a combination of supply and demand forces. Even with hindsight, the relative roles of these forces in the post-pandemic inflation episode remain contested. Moreover, with shocks likely to become more frequent, distinguishing between the different shocks affecting the economy is unlikely to become any easier. The key task, however, remains to ensure that inflation expectations are well anchored.

That brings me to the role of inflation expectations, and to my second point: we need to understand inflation expectations better. People in this room have helped us make real progress, but further work is needed. We need to improve our understanding of how expectations are formed, how strongly they affect price and wage-setting, which movements we should pay attention to – and which ones we may safely look through – and, ultimately, whose expectations matter most. In small open economies, understanding how exchange rate movements shape inflation expectations is especially important.

In Norway, we only have survey-based direct measures of inflation expectations, and currently the signals are somewhat mixed. The surveys suggest that economists and employee and employer organisations expect inflation to be close to pre-

pandemic levels in the long term, while expectations among households and business leaders remain elevated.

Turning to my third point, in recent months much of central banks' attention has focused on the conflict in the Middle East, and in particular on the implications of the closure of the Strait of Hormuz for energy markets and the global economy.

In many economies, disruptions to global oil supply push inflation higher while weighing on activity. However, the magnitude and transmission of these effects differ across countries and may change over time.

Recent empirical work by staff at the Central Bank of Norway finds that energy price shocks tend to raise inflation and weigh on activity in advanced economies, but that the negative effect on GDP has diminished over time.¹³ This probably reflects lower energy intensity, shifts in the energy mix and, in some cases, greater energy self-sufficiency.

Norway is different. The analysis finds no significant impact on mainland activity from higher oil prices. As in other countries, higher energy prices raise costs for households and firms in the short term, while weaker demand abroad can hurt non-oil exporters.

But higher oil prices can also spur petroleum investment, supporting activity in the oil services industry – an important part of the mainland economy – and pushing up wage growth. In addition, oil companies' revenues will rise, but a large share accrues to the government through the special petroleum tax regime. Under the fiscal rule, most of these revenues are saved. For Norway, higher oil prices therefore resemble less a pure adverse supply shock and more a combination of an adverse supply shock and a positive demand shock.

Past experience is an imperfect guide to the future. In economies with substantial energy production, where higher energy prices can support activity and incomes, the case for tightening policy to guard against second-round effects on inflation may be stronger than in major energy-importing economies. This perspective has also informed our recent policy deliberations in Norway.

In May, the Monetary Policy and Financial Stability Committee raised the policy rate from 4.00% to 4.25%, and we have indicated that it will likely be necessary to raise the policy rate further at one of the forthcoming meetings. In the current situation, where inflation has been above target for a prolonged period, we are particularly vigilant when we see signs of rising inflation pressures.

Let me conclude. A more volatile world does not alter the core task of monetary policy: to maintain confidence in the inflation target. But it does make that task more demanding. It requires decisive action when needed, a deeper understanding of expectations and close attention to how the macroeconomic effects of shocks evolve over time.

¹³ The analysis is described in a [box](#) in *Monetary Policy Report 2/2026*.