

Tuomas Vältimäki: Preventing monkeys from running monetary policy operational frameworks

Dinner speech by Mr Tuomas Vältimäki, Board Member of the Bank of Finland, at the Bank of Finland & SUERF Conference on Monetary Policy Implementation "Old Wisdoms and New Trends", Helsinki, 11 June 2025.

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Dear friends, dear colleagues,

I start with two pledges. First, this will be my final intervention today, and second, I'll be brief.

Some of you know that we were supposed to hear an excellent dinner speech by Francesco Papadia, my dear friend and co-author. Unfortunately, he couldn't join us today here in Helsinki after all, but I will hint on what his messages to us would have been.

Francesco wanted to provide us with the big picture, by tackling the rise and fall of central bank balance sheet management indicating that the origin and the responsibility of sovereign spreads must be found in Rome, Paris, Helsinki and other Member State capitals rather than in Frankfurt.

In his draft speech, Francesco concluded that managing the central bank's balance sheet has proven to be a useful tool in times of market stress and at the lower bound, though its effectiveness in the latter case was limited, as seen in the prolonged failure to meet the inflation target. To his view, which I do share, this highlights the need for stronger preemptive measures to avoid reaching the lower bound, without raising the inflation target, while recognizing that policy trade-offs become more pronounced at very low rates.

For now, interest rate adjustments suffice, but balance sheet tools should remain available also for future use. When that time comes, we'll benefit from the lessons and data gathered, likely leading to a more cautious and informed application.

Having said this, I don't dare try to replace Francesco, but as we are here tonight at Suomen Pankki's Villa, well-fed, surrounded by some of the sharpest minds in monetary policy implementation and waiting for the dessert, let me share you a story that has absolutely nothing to do with interest rates, liquidity tiers, or central bank balance sheets.

It's a tale about monkeys. Five of them, to be precise.

In a behavioral experiment, five monkeys were placed in a cage. A banana was hung enticingly from the ceiling, just out of reach, but with a ladder leading up to it. Naturally, one monkey climbed the ladder. But the moment he did so, all the monkeys get sprayed

with cold water. Now, this was repeated with another brave monkey, with the same outcome. It didn't take long before they collectively realized that climbing the ladder equals group suffering. So they stop trying.

Then the researchers, those mischievous minds, replaced one monkey with a newcomer. This fresh monkey, unaware of the watery consequences, made it for the banana... and was immediately attacked by the others before he even reached the first step of the ladder. No water was sprayed, the researchers had turned off the system, but naturally the enforcement continued. One by one, each of the original monkeys was replaced, and always the newcomer tried to go for the banana, and faced the consequences by being attacked by all other monkeys and learned the unpleasant lesson. This went on until none of the original water-sprayed monkeys remained.

And yet, none of them went for the banana. Why?

Because, in their silent consensus, they knew that if one of us tries to reach the banana, we will all attack him. But why: Well, that's just how it's always been done.

Now, why am I telling you this at a dinner of a conference on monetary policy implementation?

Because operational frameworks, like monkey ladders, carry the weight of precedent. Once built, they are carefully tended, tweaked, interpreted, and defended. Over time, features introduced in response to specific conditions can petrify into unquestioned norms. Liquidity instruments designed for crisis-fighting may persist long after the crisis has passed. Interest rate corridor widths, collateral eligibility rules, counterparty lists, these can all become ladders no one dares climb, even when the water has long stopped spraying.

Of course, there is wisdom in continuity. We build on experience. We don't reinvent the operational wheel with every policy cycle. But there's a fine line between honoring best practices and blindly preserving them.

That is why gatherings like this, conferences that bring together practitioners, policymakers, and academics, are not just useful; they are essential.

They give us a chance to ask: Why do we do things the way we do? What assumptions underlie our tools? What elements of our framework are there because they work, and which are there simply because they've always been there?

Together, we explore the structure of our monetary policy operating frameworks. Not just to preserve them, but to improve them. We challenge each other, share our experiences, and spot the ladders we've stopped climbing, not because they're dangerous, but because we've forgotten why we ever feared them.

So, as we enjoy this evening, let's toast not only to the smooth functioning of our frameworks, but also to the courage to examine them critically, and to the discussions that keep us from turning into monkeys in tailored suits.

Thank you all for today. Now it's time for our final agenda item, the dessert.

