

# Central banks facing pandexit challenges

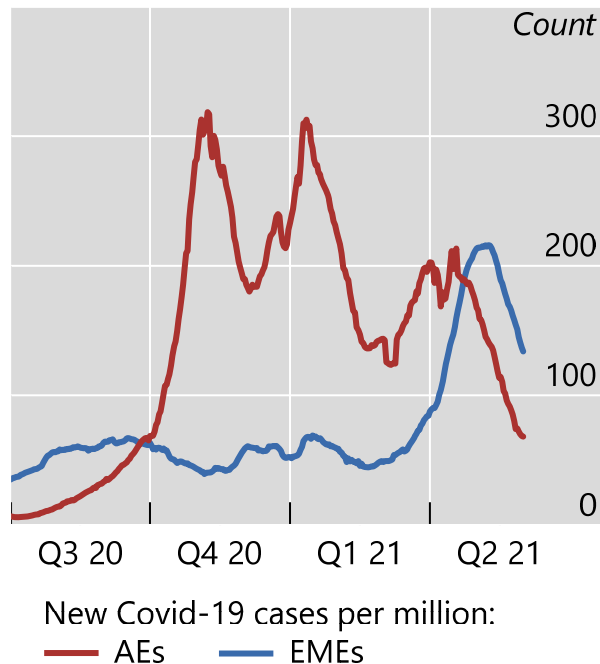
Agustín Carstens  
General Manager

Basel, Switzerland, 29 June 2021

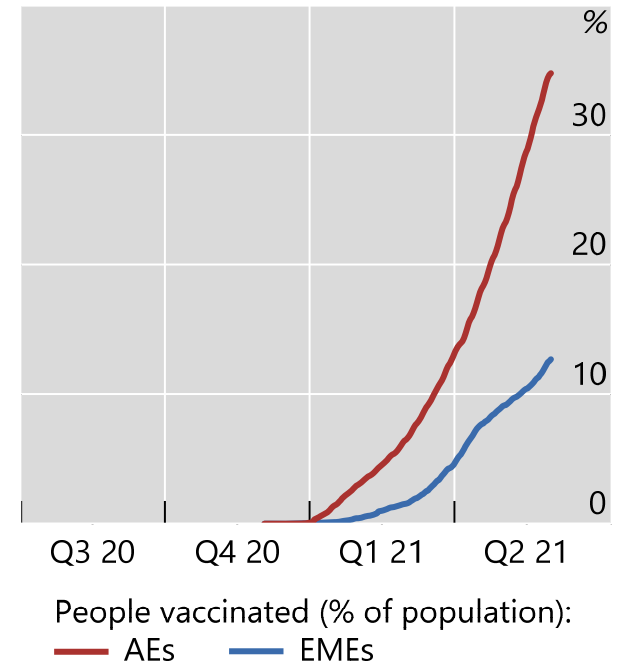
## A year into the pandemic

- After a severe downturn, recovery takes hold as the pandemic abates
- But progress is highly uneven across countries
- Many near- and long-term challenges ahead

After multiple waves, new cases are declining



and vaccination rates accelerating

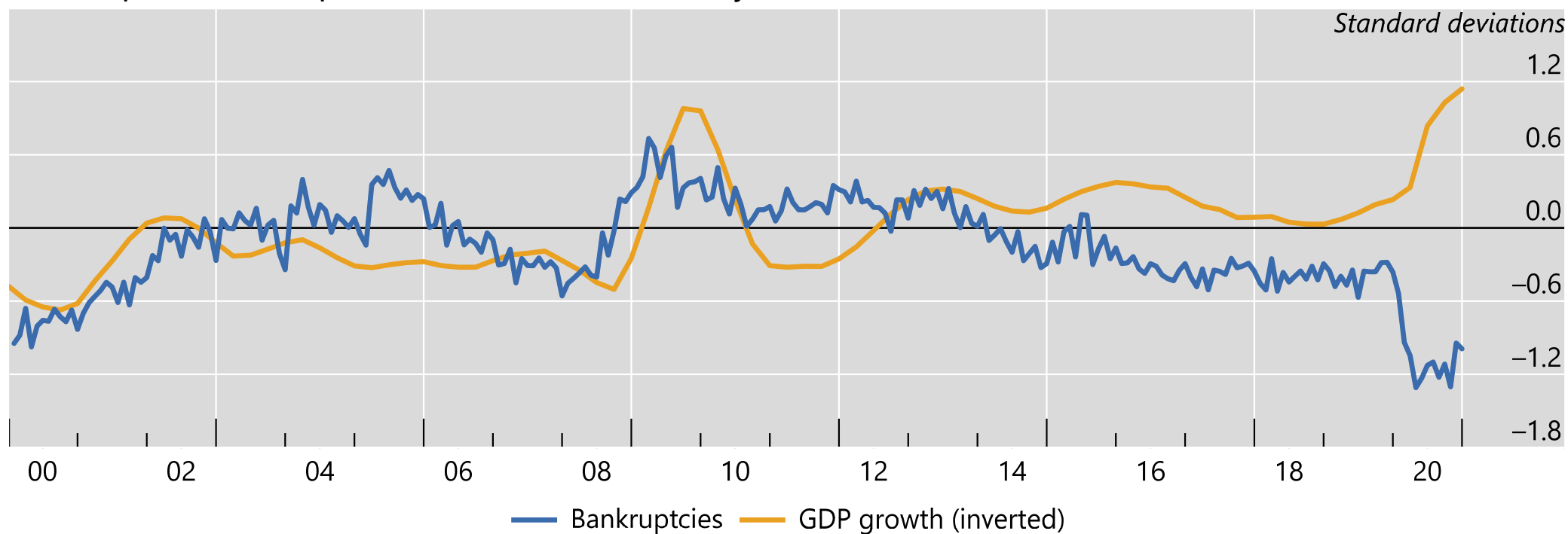


As disaster was  
averted, the  
recovery takes  
hold



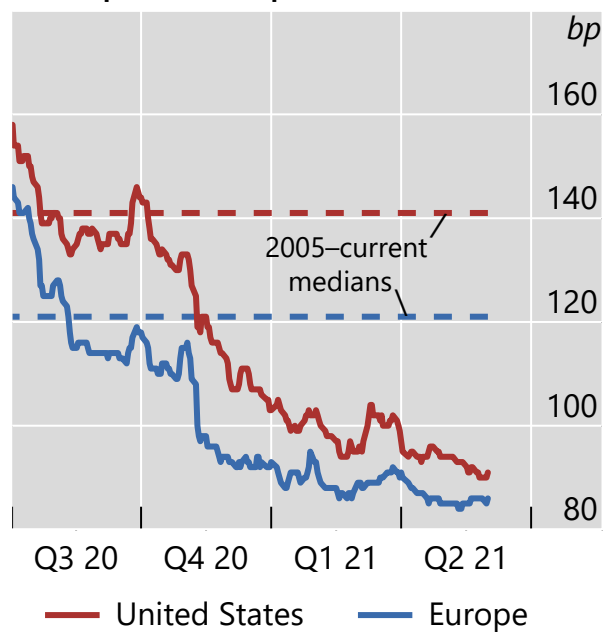
## Fiscal and monetary support boosted household incomes and kept firms afloat

Bankruptcies decoupled from economic activity

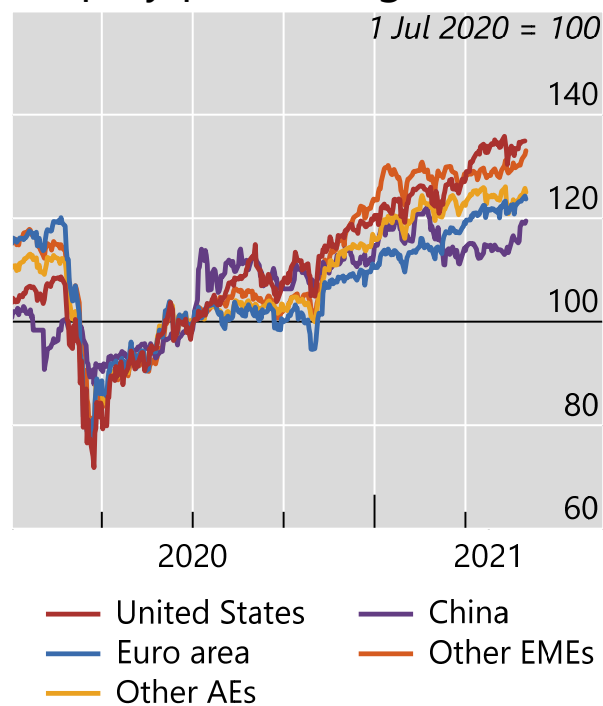


## Financial conditions remained exceptionally accommodative

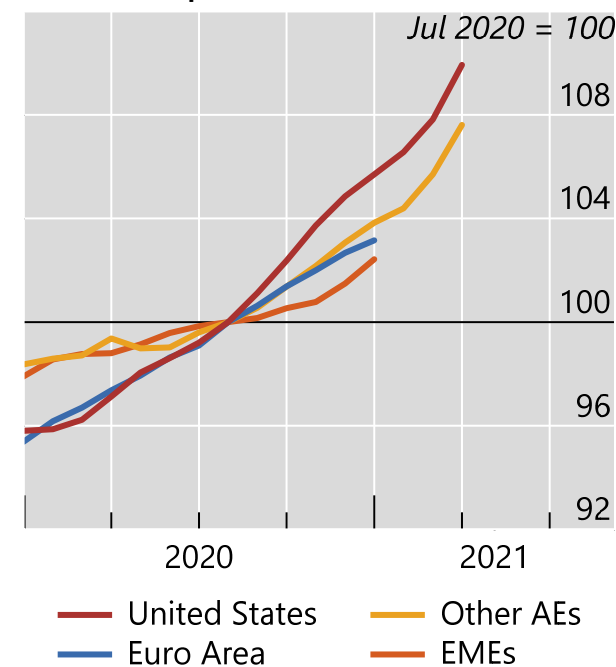
### Corporate spreads declined




### Equity prices surged



### House prices boomed



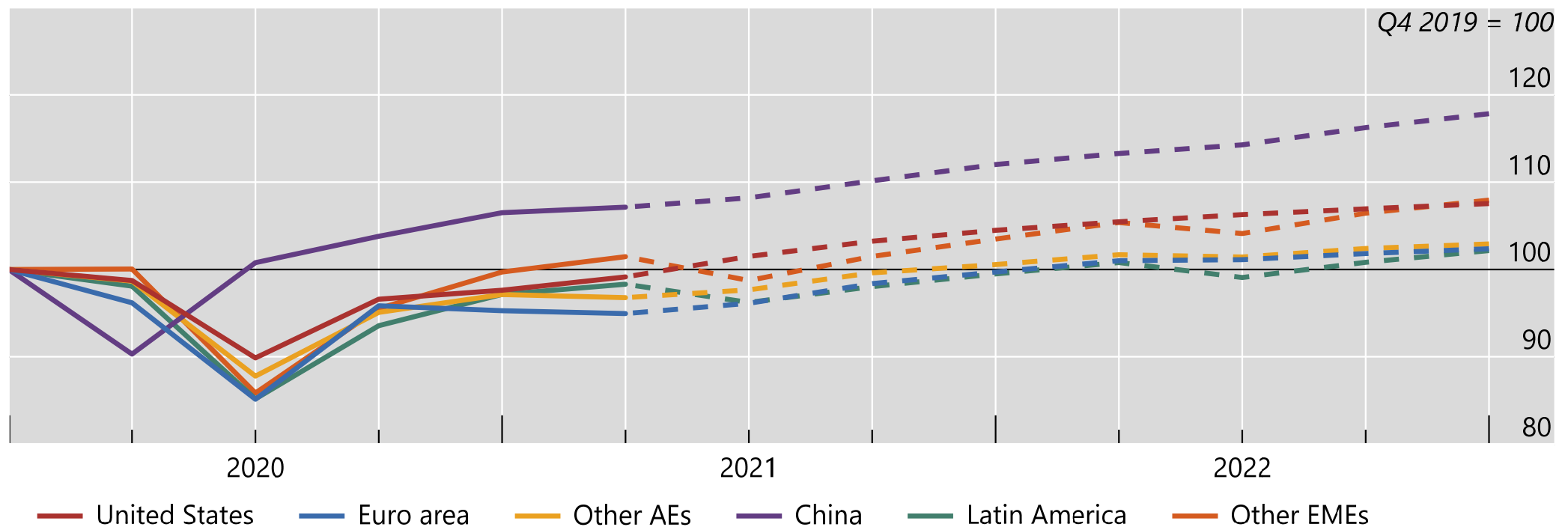




A solid  
outlook, but  
not out of  
the woods

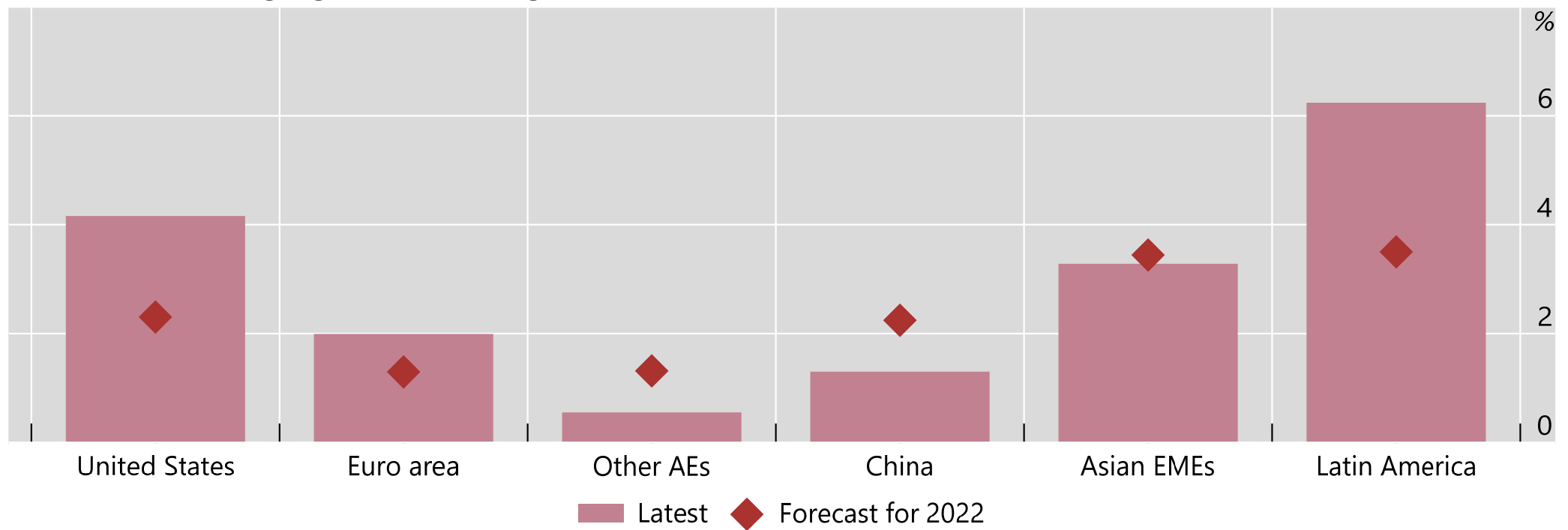
## The central scenario: the recovery remains incomplete and some regions are recovering faster than others

The recovery to strengthen in H2 2021



## The consensus is for a temporary rise in inflation

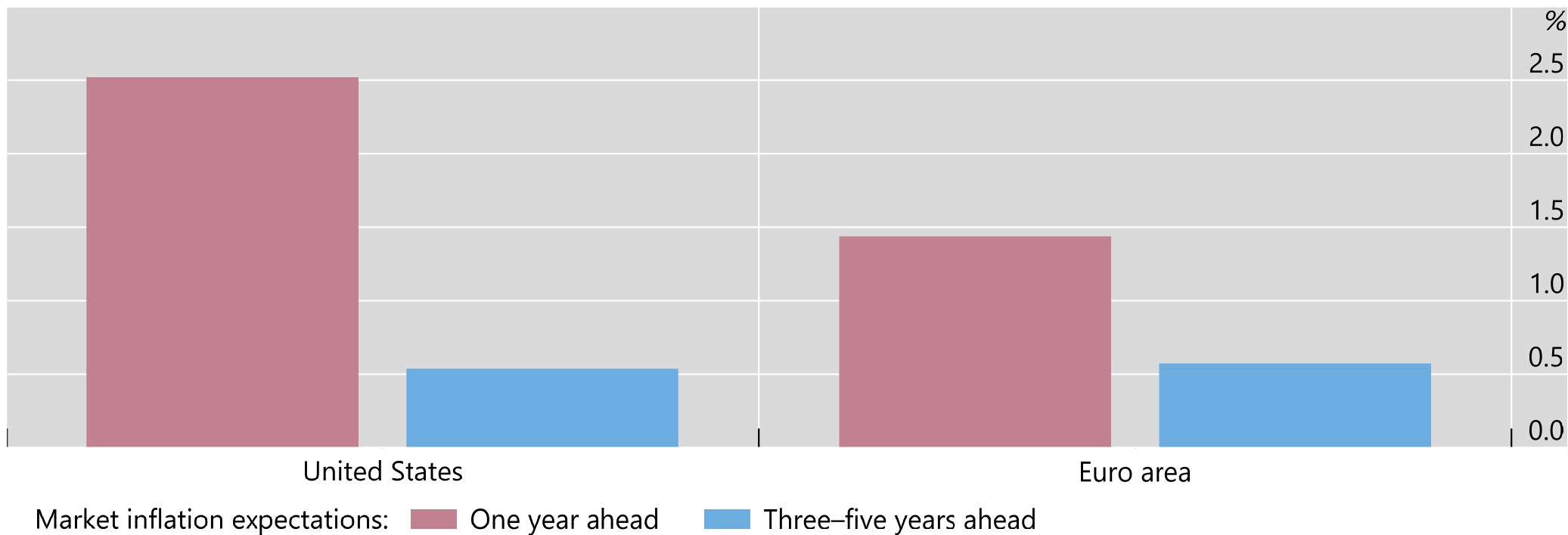
Inflation converging closer to targets in 2022



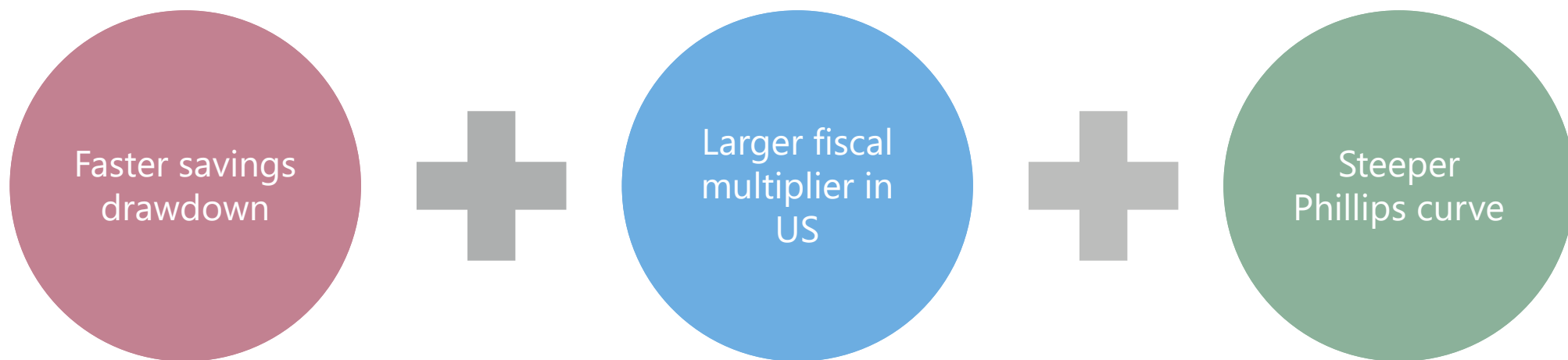


## Short-term inflation expectations have gone up much more than medium-term ones

Change in inflation expectations, today compared with 2020

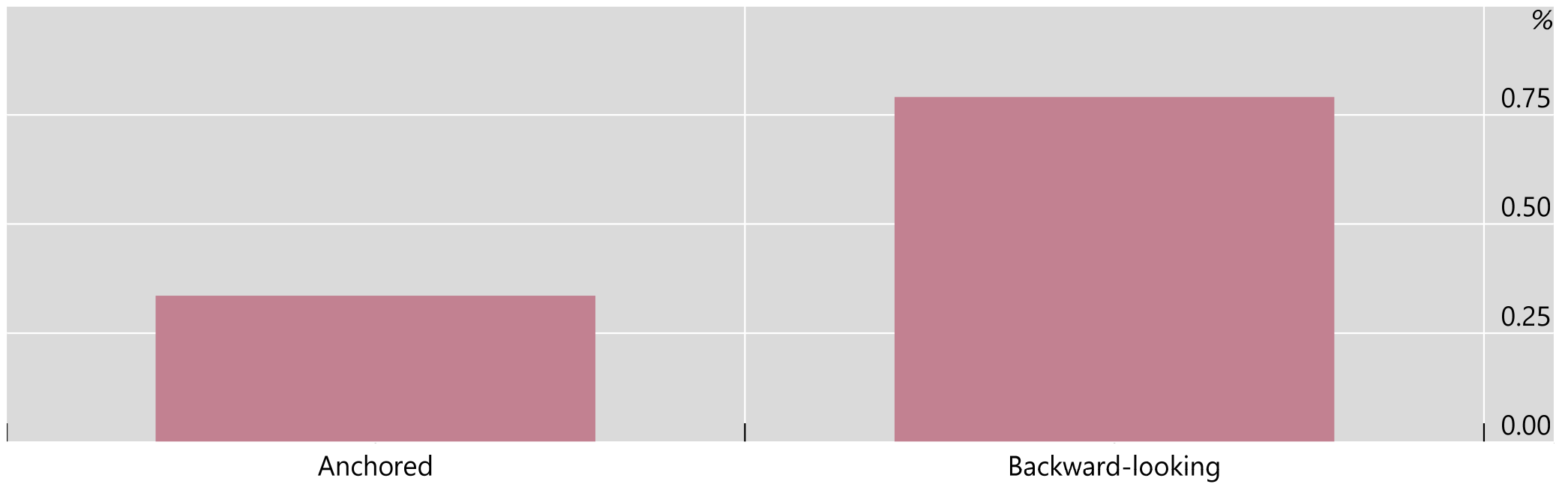


## Scenario 1: Faster savings drawdown, large fiscal stimulus in US and steeper Phillips curve



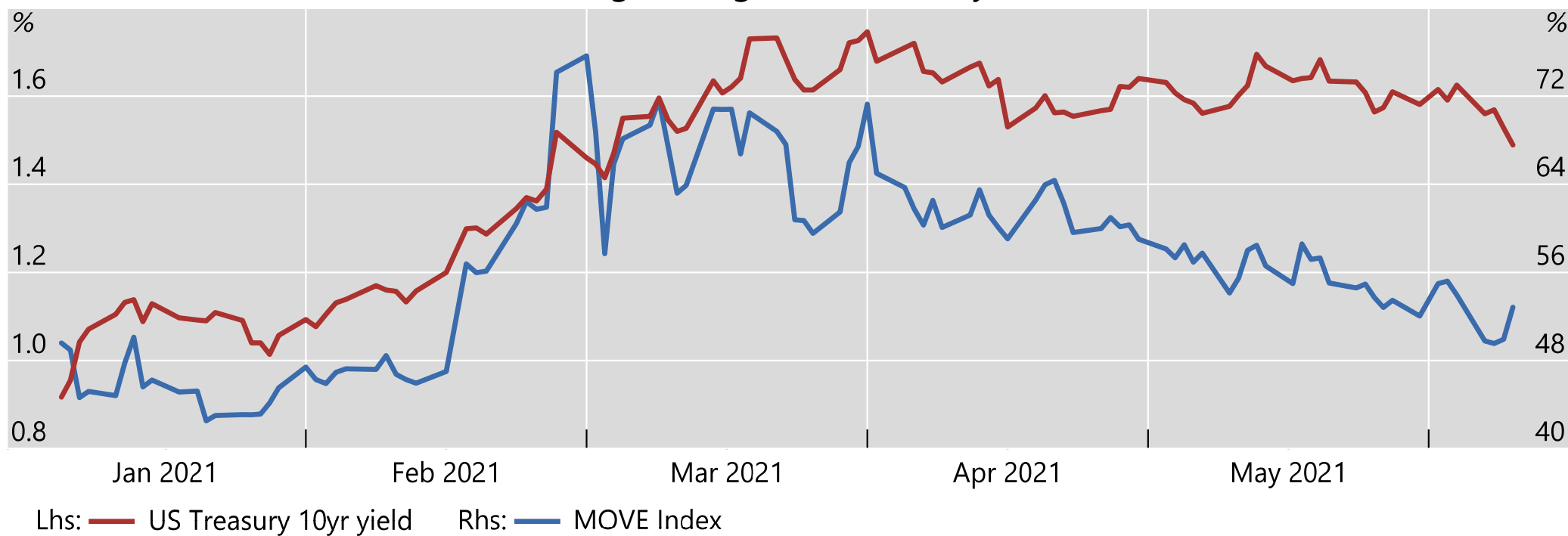
## Inflation could increase more if expectations de-anchor

Long-run inflation response to a 1 percentage point output gap tightening



## Financial markets do not wait, as shown in early 2021

Interest rates in the US increased alongside higher uncertainty



## Scenario 2: The health outlook deteriorates and growth stalls



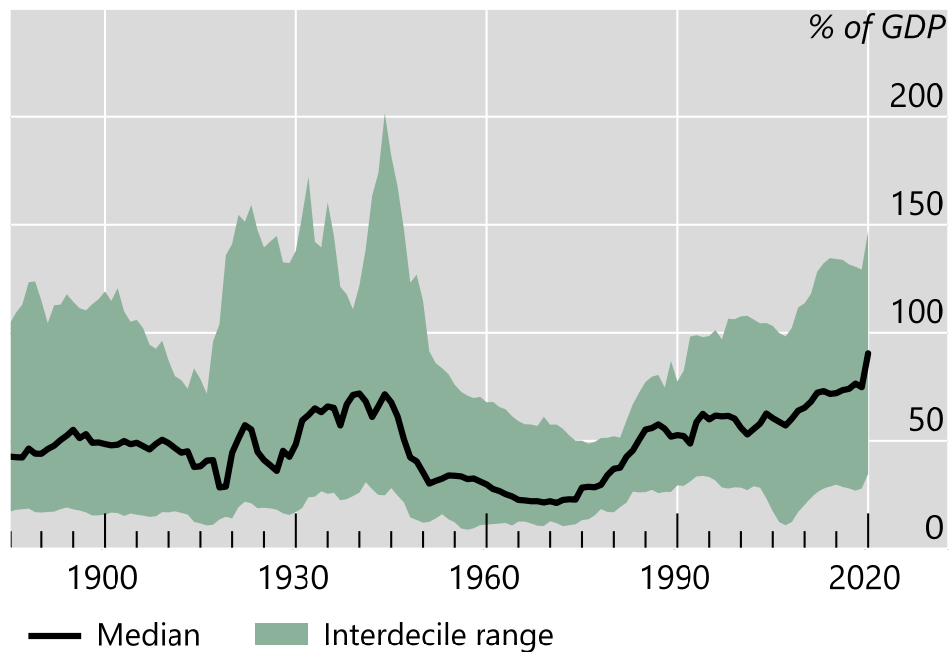
In the near-term,  
macroeconomic  
policy must remain  
flexible



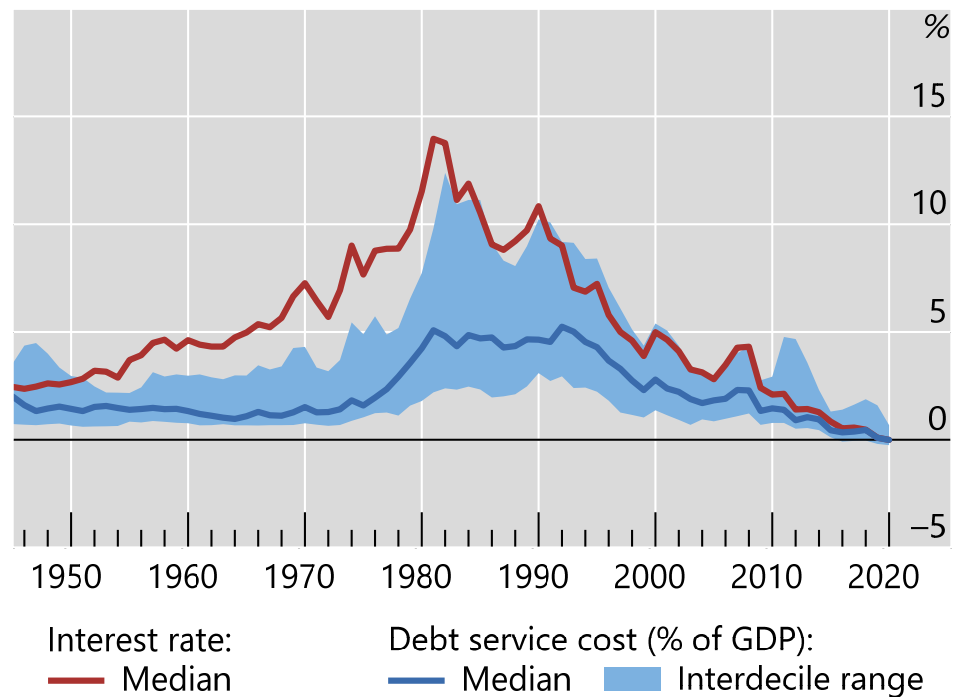


## Normalising monetary and fiscal policy will not be easy

Government debt

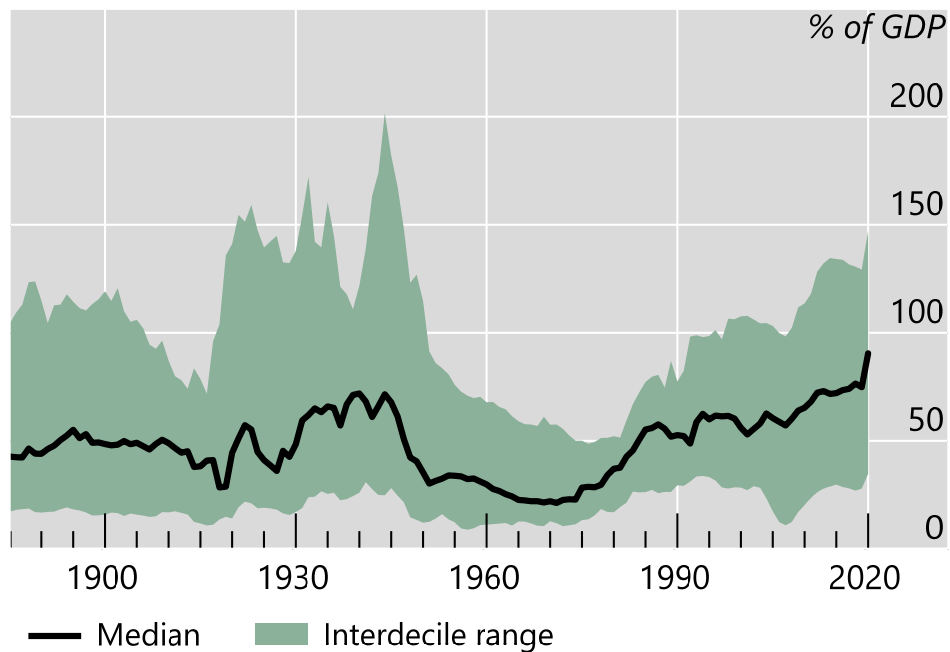


Debt service costs and interest rates

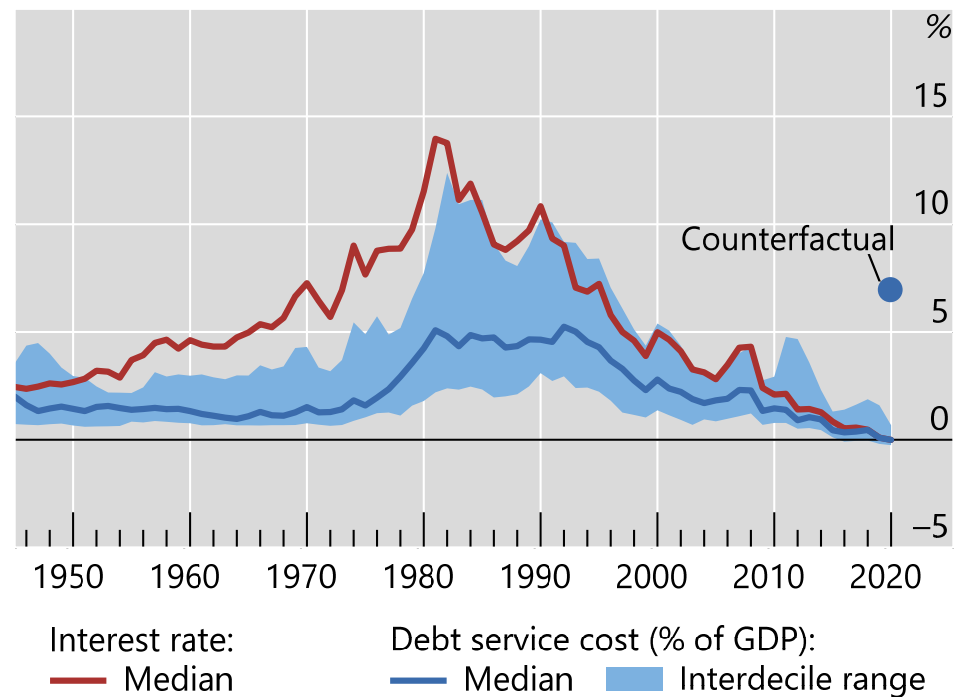


## Normalising monetary and fiscal policy will not be easy

### Government debt



### Debt service costs and interest rates



## Higher growth

- Structural reforms
- Growth-friendly fiscal actions



## Conclusion

Central banks face many near-term and long-term challenges

Equitable growth needs fiscal actions, structural reforms and innovative technology solutions

Global cooperation is more important than ever, for health and other common public goods

