Delivering on central bank mandates in a changing world

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Introduction

Good morning and thank you for inviting me to speak at this conference. It is my first time here in my capacity as General Manager of the Bank for International Settlements (BIS) and it is a great pleasure to be with you today.

We are here today to celebrate the 100th anniversary of the Bank of Mexico – to celebrate a central bank that delivers on its mandate to stabilise the purchasing power of the peso and thereby contributes to the well-being of its people. I would like to take this opportunity to reflect on the preconditions for central banks to deliver on their stability mandates and how central banks can keep doing this in an ever-changing world.

The foundations of central banks' credibility and ability to deliver

Let me start by setting out the foundations that enable central banks to maintain price stability and, in particular, preserve trust in money. These foundations are formed by three key institutional pillars: a clear price stability mandate, independence and accountability.

A clear price stability mandate specifies that monetary policy should protect the value of money. For an increasing number of countries, this has taken the form of inflation targets. Such mandates ensure that central banks prioritise maintaining price stability as a key contribution to economic well-being. They provide clear orientation to the public, anchoring inflation expectations and thereby mitigating the macroeconomic and financial impact of any shock.[1]

Independence allows central banks to take monetary policy decisions based on economic considerations in the long-term public interest, free from short-term political interference. This helps them to act swiftly and credibly in response to risks to price stability.[2] Additionally, it shields central banks from pressures to use monetary policy to finance government budget deficits.

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[1]   When inflation expectations are well anchored, firms, workers, consumers and investors view shocks to inflation as temporary. As they expect inflation to revert to the inflation target, they see less need to adjust their behaviour, contributing to the stability of inflation, the real economy and the financial system. Such stabilising effects have been particularly strong in emerging market economies (Gonçalves and Salles (2008)).

[2]   For an empirical study on the beneficial impact of independence on inflation outcomes, see eg Binder (2018).

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Central banks need institutional, functional, personal and financial independence, all of which must be underpinned by a robust legal framework.[3]

Finally, **accountability** is a key counterpart to independence. It underpins the legitimacy of central bank policies. As public institutions, central banks need to be held accountable to lawmakers and to society, in particular when they enjoy high degrees of independence from governments. Accountability further promotes transparency, which fosters confidence in central banks and enhances policy effectiveness. A key means of accountability is clear communication to explain policy decisions to the public, rationalising the central bank's actions and describing how they help to achieve its mandate.

These three institutional pillars have been key for central banks worldwide to deliver price stability and to build strong inflation-fighting credibility. The experience of the Bank of Mexico is a case in point, as documented by Governor Rodríguez and co-authors in the special BIS volume *Central banking in the Americas: lessons from two decades*.[4] During the 20th century, Mexico – along with many other economies – experienced several episodes of high inflation impairing the well-being of the population. These episodes were in part driven by the belief that systematically expansionary monetary policy could permanently support higher economic growth or that printing money could help to finance persistent fiscal deficits. Adopting an inflation targeting framework in 2001, coupled with operational independence and accountability of monetary policy, was crucial in establishing a credible monetary policy framework and delivering price stability in Mexico.[5]

The credibility earned is clear in the data. Since adopting inflation targeting, the inflation rate in Mexico has fallen significantly, displaying lower volatility and persistence.[6] Inflation has become less sensitive to news, shown for instance in a lower pass-through of exchange rate fluctuations to inflation.[7] At the same time, establishing a credible low-inflation regime has increased the room for manoeuvre for monetary policy to act countercyclically.[8] Mexico's experience has been shared by many countries adopting inflation targeting since the 1990s. Indeed, up to the Covid-19 pandemic, inflation globally remained remarkably low and stable.

The inflation surge of 2021–22, however, posed a major test to monetary policy frameworks and their institutional pillars. Central banks successfully brought inflation back down and restored price stability, demonstrating their resolve to deliver on their mandates. After an initial delay – mostly in advanced economies and not in many emerging market economies (EMEs)[9] – due to a

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[3]   Institutional independence ensures that central banks operate without government interference. Functional independence allows central banks to determine which policy tools to use. Personal independence protects decision-makers from external influence. Financial independence enables central banks to manage their own finances. For more details, see eg Bini Smaghi (2007) and Mersch (2019).

[4]   See Rodríguez et al (2023).

[5]   The Bank of Mexico's independence came somewhat earlier. In 1993, the Congress amended the constitution to grant independence to the Bank of Mexico, setting price stability as its primary mandate. This reform came into effect in 1994; thus, this year marks the 31st anniversary of the central bank's independence.

[6]   See Chiquiar et al (2010).

[7]   See Kochen and Sámano (2016).

[8]   See Rodríguez et al (2023).

[9]   Many EME central banks reacted more quickly to the post-pandemic supply shocks, raising interest rates as soon as inflation started to emerge. For example, the Bank of Mexico started increasing interest rates in June 2021, nine months before the Federal Reserve and 13 months before the ECB.

lack of clarity about the persistence of the shock, central banks reacted with the most globally synchronised cycle of monetary policy tightening in history. This forceful tightening prevented a de-anchoring of inflation expectations and brought inflation back to target at limited output cost.[10] Nevertheless, the inflation surge left economies with a large increase in the cost of living that was not always fully reflected in nominal wages.[11]

The challenges ahead

Ongoing structural shifts in the form of deglobalisation, ageing societies, climate change, technological disruptions and high and rising government debt are likely to raise further challenges for central banks going forward. These shifts have heightened uncertainty surrounding two critical elements for the effective formulation of monetary policy: the balance between supply and demand, which affects the inflation and growth outlooks, and the natural rate of interest, the rate at which monetary policy is neither expansionary nor contractionary (what economists refer to as r-star).[12]

Globalisation is in retreat against the backdrop of rising geopolitical tensions. Trade tariffs have injected uncertainty into the near-term macroeconomic outlook, as they can affect both the supply of goods and services in an economy and demand for them. While tariffs tend to lower global growth, they can create divergence in inflation – raising prices more in countries that impose tariffs, while lowering inflation in their major trading partners.[13] Heightened geopolitical tensions increase the risk of large adverse supply shocks, in particular in commodity markets.[14] At the same time, they depress demand through higher uncertainty. Thus, the overall implication of deglobalisation for supply and demand is quite uncertain and will vary across countries. The implications for the natural rate of interest are also unclear. Lower potential growth in the wake of deglobalisation would tend to depress it, while responsive measures such a reshoring of investment and increased military spending would tend to raise it.

Demographic trends are characterised by ageing populations and slower labour force growth in many economies. The overall implications of this trend for the balance of supply and demand are again uncertain. On the one hand, labour supply is becoming more constrained, which may generate inflationary pressures. On the other hand, slower population growth tends to reduce demand, which may weaken inflationary pressures. The implications of prevailing demographic trends for the natural rate of interest are also unclear. While continued ageing and rising life expectancy would keep saving high, a shrinking working age population reduces saving rates, putting upward pressure on interest rates.[15]

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[10] See Amatyakul et al (2023).

[11] See Hofmann et al (2025).

[12] The natural rate of interest is determined by factors driving the long-run saving-investment balance such as potential growth. Benigno et al (2024) discuss the uncertainty around r-star after the pandemic and the outlook.

[13] See Burgert et al (2025) for a more detailed discussion.

[14] See Avalos et al (2025).

[15] Longer life expectancy raises saving as households need to support a longer retirement. A smaller share of working age people in the population decreases saving, as those in the workforce typically save more than the young and the elderly. See eg Benigno et al (2024).

Climate change is a global force affecting our economies. Rising temperatures and extreme weather events can lower both aggregate and sectoral output and raise food prices.[16] Such shocks could pose particular challenges to EMEs, where food is a relatively large component of consumption baskets and where a substantial share of the population relies on agriculture. In addition, a bumpy transition from "brown" to "green" technologies, for example due to underinvestment in brown technologies, could be a source of adverse energy price shocks until green technologies reach sufficient scale. These hazards entail risk of both demand- and supply-side disruptions,[17] amplifying uncertainty about the nature of shocks central banks will be facing going forward. For the natural rate, climate change may exert downward or upward pressure. The uncertainty it brings with it and the risk of large adverse shocks would tend to increase saving as a precaution. At the same time, the more widespread adoption of climate-friendly technologies or of those that shield against a changing climate, such as air conditioning, would raise investment.

Technological disruption, such as rapid advances in artificial intelligence, will radically change the structure of our economies. These disruptions will affect financial systems as well as productivity, consumption, investment and labour markets. The implications for the balance of supply and demand are also not clear here, thus increasing uncertainty. On the one hand, they will affect aggregate supply by raising productivity, putting downward pressure on prices. On the other hand, they could raise inflationary pressures, especially in the near term by raising demand through higher investment and consumption.[18] Technological disruption driving up productivity and investment in new technology may boost growth and may raise the natural rate of interest. However, the likely significance of the effect is unknown, adding another layer of uncertainty.

Finally, the transition to a fiscal regime characterised by **high and rising public debt** marks another structural shift that poses major challenges to central banks, something the BIS has been warning about for some time.[19] Persistently large fiscal deficits following the pandemic have propelled public debt in many countries to historical peaks. Looking ahead, debt is expected to rise further, not least due to growing fiscal needs linked to population ageing, the green transition and geopolitical tensions. Less favourable differentials between interest rates and growth rates would further exacerbate fiscal trajectories. Higher public sector debt can constrain the room for monetary policy manoeuvre. This could ultimately derail inflation, as the experience of many Latin American countries in the 1980s and 1990s has also taught us. At the same time, unsustainable fiscal trajectories can raise risks to financial stability and increase pressures to consolidate, resulting in downside risks to inflation and growth. Persistent deficits may also imply higher interest rates as they may push up risk premia in government bond yields as well as r-star by reducing aggregate saving. However, the strength of the effect is uncertain, as private saving and investment may also adjust to a changing fiscal regime.[20]

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[16]   See Ehlers et al (2025).

[17]   See Ciccarelli and Marotta (2024) for an empirical assessment.

[18]   BIS (2024b) provides an in-depth analysis of the macroeconomic impact of artificial intelligence.

[19]   See, for instance, BIS (2023, 2024a).

[20]   See Benigno et al (2024) for a more detailed discussion.

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Continuing to deliver

Given these uncertainties, how can central banks continue to deliver on their mandates and serve the public interest? The three institutional pillars of clear mandates, independence and accountability remain crucial to ensuring price stability. However, to sustain their effectiveness, central banks must also adapt to the evolving economic and financial landscape. I would like to highlight three key guiding principles that would help central banks navigate through an increasingly challenging macro-financial landscape: **robustness, flexibility** and **realism**.

Robustness

Monetary policy frameworks need to be **robust** to very different scenarios. The global economic environment is constantly changing, presenting new challenges from unexpected quarters. Uncertainty and dynamic external backdrops to policymaking are not new. The Great Financial Crisis (GFC), the Covid-19 pandemic, the Russian invasion of Ukraine and trade tariffs have been major shocks that have posed starkly different challenges for central banks.

Post-GFC, many central banks were struggling with persistently low inflation. Overcoming the constraints on monetary policy posed by the effective lower bound on interest rates was seen as the main challenge. Framework reviews focused on gaining more room for manoeuvre to fight downturns.[21]

The experience of the post-pandemic inflation surge reminded us that large shocks can radically change the inflation environment. The strong public resentment of higher prices suggests that letting inflation rise significantly and persistently above target risks undermining central banks' credibility and the public's trust in money. Yet the constraints on monetary policy that may be posed by the effective lower bound on interest rates remain relevant. This means that frameworks need to be fit for purpose regardless of whether inflationary or disinflationary pressures prevail.

Flexibility

An environment characterised by high uncertainty also calls for **flexibility** to adapt to the source, size and persistence of shocks. The sustained and sharp response of inflation to supply shocks during the post-pandemic surge teaches us that identifying the source is not enough to determine how to respond to a shock. The appropriate response further depends on economic circumstances.

Central banks must be especially vigilant when large shocks push the economy into regions where non-linearities raise risks of de-anchoring inflation expectations. In such situations, monetary policy may need to pivot quickly and forcefully to stabilise the economy.[22]

In other situations, monetary policy may be better served by a more gradual approach. For example, structural changes in the economy increase uncertainty about the natural rate of interest

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[21]   See eg Bianchi et al (2021) for an empirical evaluation of the effective lower bound's impact on inflation.

[22]   See BIS (2022).

and the transmission of monetary policy. Such circumstances call for gradually adjusting monetary policy to minimise the risk of being overly accommodative or contractionary.[23]

The need to remain flexible also has implications for central banks' policy toolkit. A key element of a flexible framework is the ability to rely on a rich set of monetary policy tools, encompassing not only policy rates but also forward guidance and asset purchases when needed. Flexibility should also be a key consideration in the design of these tools. For example, it is critical for forward guidance to be state-contingent, meaning that it should depend on economic developments. Furthermore, design improvements are needed to help facilitate a more rapid unwinding of asset purchases used for monetary policy purposes, without raising financial stability concerns and causing unintended side effects.

In EMEs, monetary policy frameworks need additional flexibility to manage large swings in global financial conditions. The adoption of inflation targeting frameworks, as opposed to frameworks that prioritise exchange rate stability, was the most important change to this effect. Yet swings in global financial conditions can at times still raise challenges for inflation targeting central banks in EMEs.[24] As a result, many of them combine inflation targeting with foreign exchange intervention and macroprudential policies, as tools that can, when used prudently, help mitigate these challenges. Indeed, the much greater financial and external stability of EMEs in recent decades compared with the past testifies to the effectiveness of their frameworks.[25]

Realism

This brings me to the third and final principle – **realism**. As central banks face a potentially more volatile economic landscape, they need to focus on what they can anticipate and deliver.

The uncertainty confronting central banks is reflected in the limitations of macroeconomic forecasts. Unsurprisingly, the limitations of these navigational aids are particularly large when major shocks hit the economy, such as during the post-pandemic inflation surge. One way to better convey the uncertainty central banks are facing in determining policy is by being fully transparent about the drivers and limitations of these forecasts and providing ex post assessment of forecast errors.[26]

Another way to convey uncertainty is through alternative scenarios and sensitivity analyses. In the Americas, several central banks, including the Bank of Mexico, use scenario analysis to quantify uncertainty and publish quantitative or qualitative scenarios.[27] Scenarios could help the public and market participants better understand the risks and contingencies underlying policy decisions.[28] They add complexity, but they can help to clarify the central bank's reaction function. However, central banks need to carefully assess their costs and benefits, as scenarios of adverse

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[23]   See Brainard (1967).

[24]   See eg Tombini (2025).

[25]   See BIS (2019).

[26]   For instance, the ECB recently analysed the forecast errors of ECB staff projections, pinning down their main underlying factors. See Chahad et al (2022, 2024).

[27]   Based on a recent survey conducted by the Consultative Group on Monetary Policy and the BIS's Americas Office.

[28]   See Hernández de Cos et al (2024) and Hernández de Cos (2025).A

events could spark unintended public and political reactions. Thus, the publication of these scenarios should not be done in a rigid manner, which could dilute the focus on the baseline and make communication more difficult. The key is to communicate more about risk and uncertainty, while admitting the limitations of any individual approach.

More broadly, through their communication, central banks need to be realistic about what they can and cannot achieve. Monetary policy should focus on objectives it is well equipped to achieve or support, such as price stability and financial stability. Expectations that central banks could pursue objectives without having the right tools would ultimately raise reputational risks and undermine credibility and independence.

Concluding remarks

Let me wrap up. A clear price stability mandate, independence and accountability are the anchor, hull and mast of the monetary policy vessel. However, a strong vessel needs more than just its base – it also requires sails, a rudder, a compass and maps. These are the frameworks central banks use to steer monetary policy. To navigate the choppy and unpredictable waters of a more volatile economy, these frameworks need to be equipped to respond to a broader spectrum of scenarios. This means they must be robust to withstand storms, flexible to adjust course when needed and realistic in what they can anticipate in order to sail towards their goals.

In order for central banks to uphold these three principles, they must conduct careful analysis to inform their decision-making. This entails analytical rigour, clearly understanding and identifying the relevant economic mechanisms, and access to high-quality data and highly qualified people who are firmly dedicated to public service.

By maintaining this focus, central banks can adapt to shifting global tides and uncertainties to effectively pursue their mandate.

At the same time, we also need to be mindful of the limitations to what monetary policy can achieve on its own. To deliver economic stability, monetary policy needs to be supported by other policies playing their role.

Fiscal policy needs to ensure that public debt remains sustainable. Not only at the current juncture, but also if adverse economic conditions were to materialise in the future. Sustainable fiscal trajectories are critically important for central banks to be able to continue delivering on their mandates.

Sound structural policies that boost sustainable growth would improve fiscal positions and help to relieve monetary policy from pressures to focus excessively on growth. Higher sustainable growth can be achieved only by lifting the productive potential of the economy. This requires designing and implementing structural reforms to boost innovation and dynamism.

Finally, financial regulation and supervision need to continue to strive for a sound and stable financial system. This is a precondition for macroeconomic stability and for the effective transmission of monetary policy. To achieve this against the backdrop of a rapidly shifting

financial landscape,[29] we need global cooperation, keeping in mind that financial stability is a global public good. By fostering international cooperation among central banks, supervisors and regulators, the BIS and the standard-setting bodies it supports help to ensure that the global financial system remains resilient.

Let me end by recalling the initial successes of inflation targeting and central bank independence. Central banks drew valuable lessons from one another that helped them to improve their frameworks and tame inflation. Today, central banks continue to face many shared challenges. To help deliver on their mandates, the BIS provides a forum for the central banking community to exchange experiences and learn from past episodes. This supports central banks in continuously evaluating and improving their frameworks to maintain price stability in the public interest and for the well-being of all. In my opinion, such a forum is particularly valuable in these uncertain times.

Thank you very much for your attention.

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[29]   See BIS (2025).

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