BANQUE DE FRANCE
EUROSYSTÈME

« Agility, clarity and humility: the discreet virtues of a monetary policy review»

Op-ed by François Villeroy de Galhau, Governor of the Banque de France, in Les Echos on 8 July 2025

The ECB has just published its monetary policy strategy review.

This is a rare event, which brings all Eurosystem members together once every five years around its President, Christine Lagarde. However, the initial reaction has generally been limited to two comments: disappointment at the lack of self-criticism, which seems somewhat paradoxical given that the ECB has helped to bring inflation down to 2% without triggering a recession – earlier than elsewhere and with lower interest rates. The second comment has been to point out that the ECB will now respond symmetrically to both inflationary and deflationary risks, which is merely stating the obvious...

The language of central bankers can sometimes be overly subtle, which may have masked two major innovations in this 2025 review that went virtually unnoticed. The first is the assertion from the outset that all of the geopolitical, technological and economic shocks and transformations currently in progress will make inflation not necessarily higher but "potentially more volatile". Consequently, monetary policy will now have to be more "agile" (the term is used six times).

What does this "agile monetary policy" mean in practice? In my opinion, three things: first, that we will adopt a pragmatic and data-driven approach, while retaining clarity. We are sometimes criticised for having switched from autopilot in the past – when there was strong forward guidance – to navigating by sight, from meeting to meeting, at present. This is not the case. In the face of uncertainty, we must not say what we are going to do, but how we are going to assess the situation and make a decision. Then we look at a snapshot – the latest figures – as well as the possible outcomes of the unfolding scenario: by publishing two- to three-year forecasts and, where necessary, variants in the form of more specific scenarios. The aim is not to draw mechanical probabilistic conclusions, but to highlight the possible risks. The final ingredient of agility is sometimes being ready to act more quickly. In times of uncertainty, it can be tempting to wait but research by the Banque de France has highlighted a potential “pitfall of cautiousness”: interest rate cycles may therefore become shorter and faster, and ready to change direction in line with the evolving economic situation.

The other innovation concerns clarity with regard to unconventional instruments, including the much-debated asset purchase programme (or QE). The question is not whether they are necessary, as it has clearly been confirmed that they may again be used in the future. But we specify that they will be used in a “proportionate” manner by explaining their primary purpose: making a lasting change in the stance of monetary policy itself, or ensuring its correct transmission in times of temporary financial market turmoil. A few examples come to my mind: when it is about stance, long-term bond purchasing programmes should be favoured, and there are various ways of managing their potential risks for central bank balance sheets. But as regards monetary policy transmission, the ECB has innovated by inventing a range of instruments: Long-Term Refinancing Operations (LTROs) to provide long-term liquidity to banks so that they can lend to the economy; and, since 2022, the Transmission Protection Instrument (TPI), whose mere existence has been effective in preventing unjustified widening of spreads between countries. There is therefore a whole ‘toolkit’ that can be deployed before resorting to negative interest rates: the last resort when faced with deflationary risks up until 2021, and – let's face it – undoubtedly the most poorly understood.

There remains a cardinal virtue that goes hand in hand with agility, namely humility. Central banks obviously are not the only game in town, nor do they know everything. Much depends on other economic, fiscal or structural policies.

Moreover, we are accountable to our fellow citizens; in this sense too, the monetary policy strategy review amounts to more than just a formal reporting exercise – it is a public requirement.