



BANCA D'ITALIA  
EUROSISTEMA

# Monetary policy in a shifting landscape

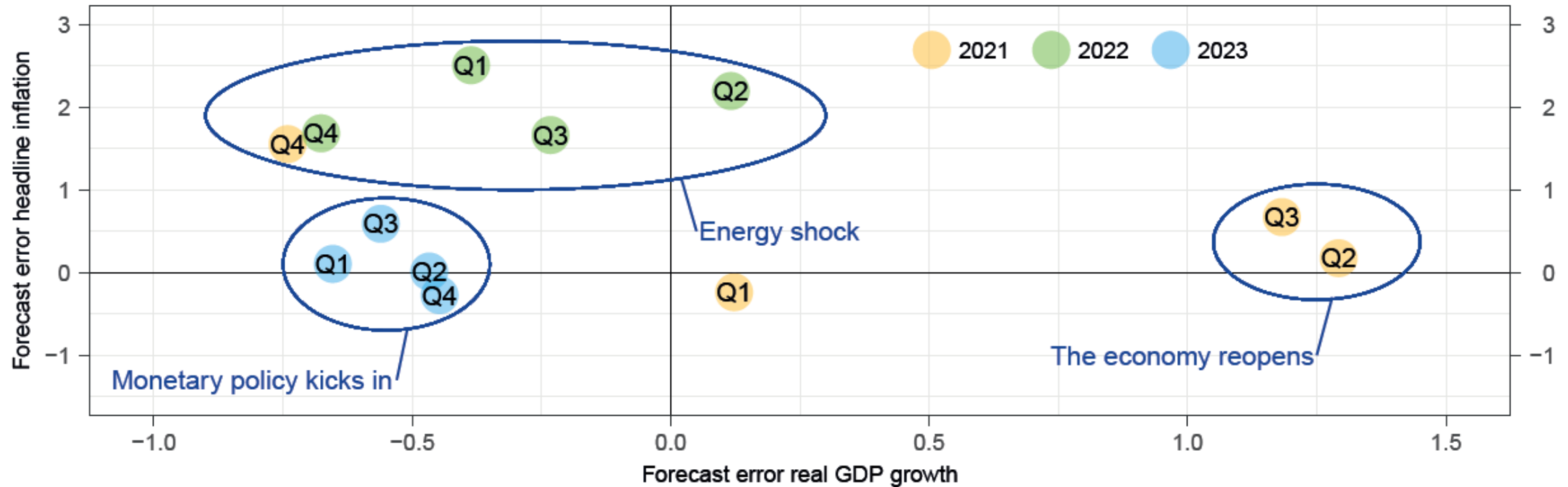
Fabio Panetta  
Governor of the Bank of Italy

**INAUGURAL CONFERENCE OF THE RESEARCH NETWORK  
ON 'CHALLENGES FOR MONETARY POLICY TRANSMISSION IN A CHANGING WORLD' (CHAMP)**

Frankfurt, 25 April 2024

# Supply or demand shocks? Identification in hindsight

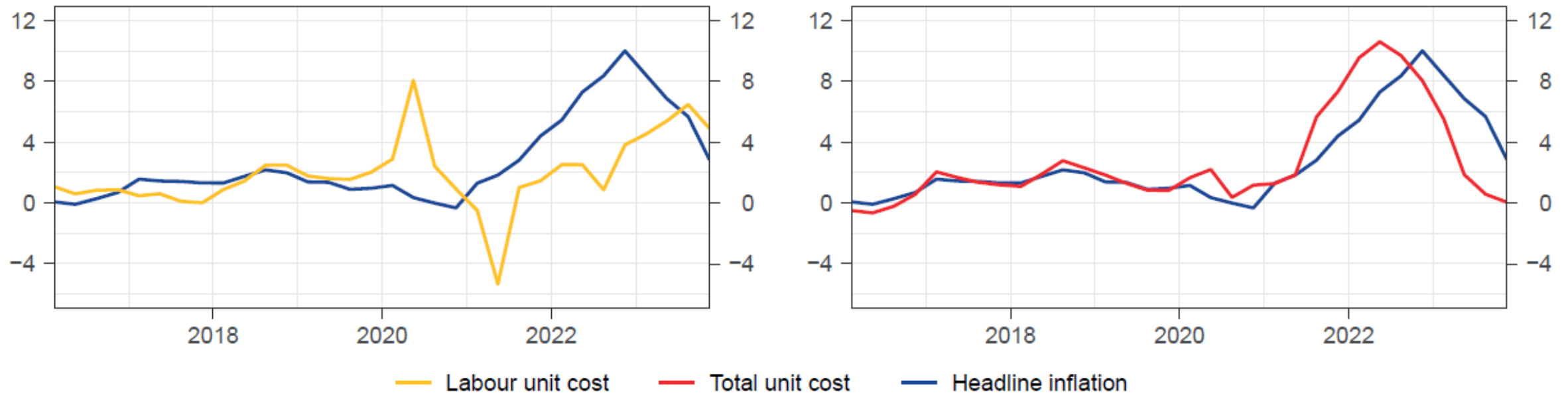
Surprises in quarter-on-quarter real GDP growth and inflation in the euro area  
(quarterly data; percentage points)



- **Positive** CPI and GDP surprises in 2021 Q2-Q3: a demand expansion
- **Positive** CPI and **negative** GDP surprises in 2022: a supply contraction

# Firms' costs before and after the energy shocks

**Total unit cost, labour unit cost and headline inflation in the euro area**  
*(quarterly data; year-on-year percentage changes)*

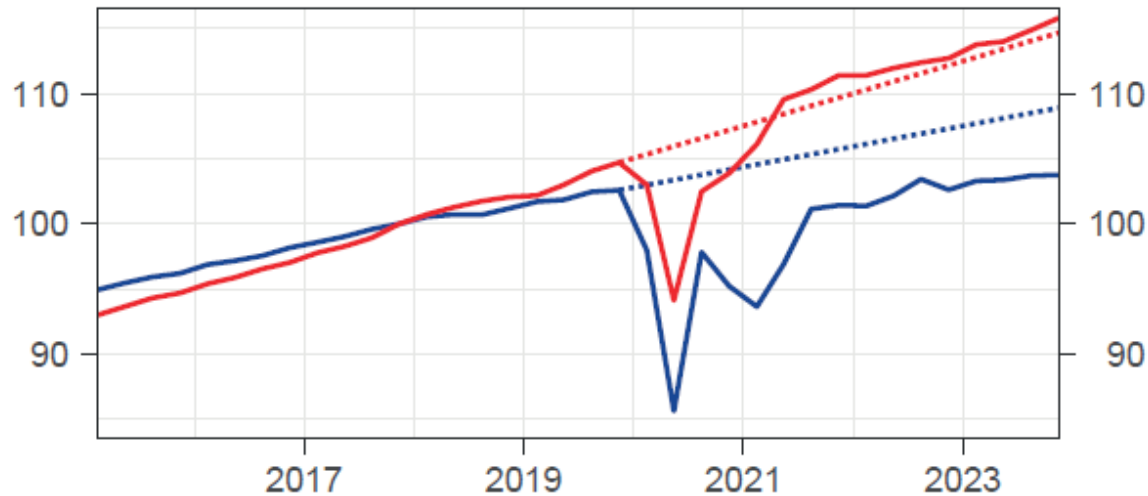


- Growth in firms' total costs (key to their pricing strategies) is back to zero
- Wage growth need not be inflationary if combined with higher productivity and/or lower firm margins

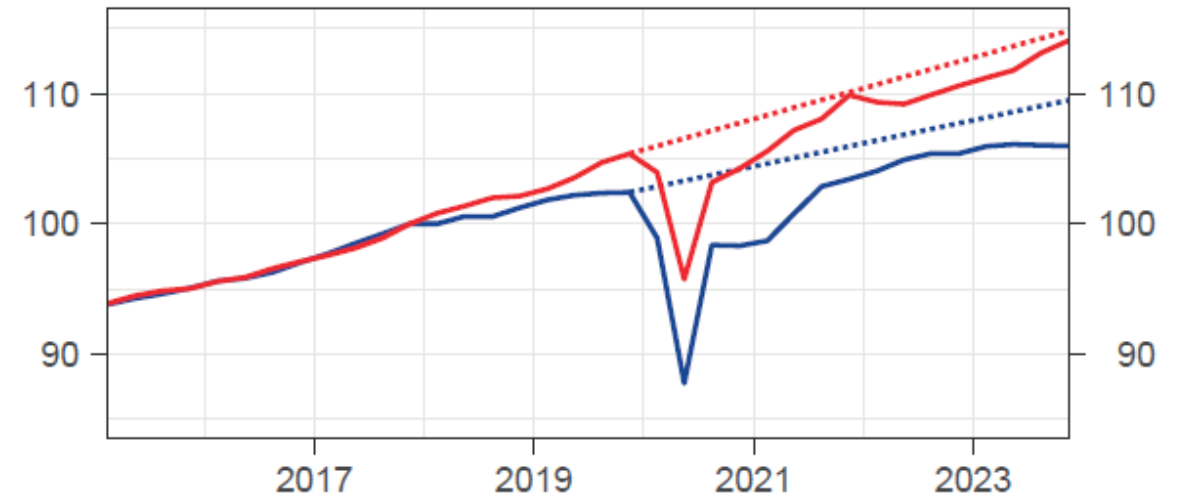
# The widening gap between the euro area and the US

**Total unit cost, labour unit cost and headline inflation in the euro area**  
*(quarterly data; year-on-year percentage changes)*

(a) Real consumption



(b) Real GDP



— Euro area      — United States  
..... Euro area: pre-pandemic trend      ..... United States: pre-pandemic trend

- Growth is still well below the pre-Covid trend in the euro area. Not so in the US.
- Monetary policy did not cause the gap, but should not make it bigger.