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An Assessment of Canada's 2021-22 Inflation Surge

Was Canada's 2021-22 inflation surge really the Bank of Canada's monetary policy failure? This paper argues that the price surge was less a monetary policy failure than the predictable outcome of unprecedented, unfunded fiscal transfers colliding with pandemic-era supply constraints. In those extraordinary circumstances, even the most proactive interest-rate strategy had little chance of averting – and may have actually undermined – the necessary economic recovery.

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An Assessment of Canada's 2021-22 Inflation Surge

by David Andolfatto and Fernando M. Martin

- **We argue that the fiscal policy responses to pandemic-induced disruptions in economic activity were primarily responsible for the 2021-22 inflation surge, and that there was little the Bank of Canada could have done to prevent it from happening.**
- **Our view is based on the following premises. First, fiscal policy plays a critical role in determining both the price level and the long-run rate of inflation. Second, emergency fiscal transfers can be viewed as either funded (backed by future austerity measures) or unfunded. Unfunded fiscal transfers function as "helicopter drops" of money directly to the private sector. Third, at full employment, for a given interest rate structure, injecting nominal wealth leads to a temporary burst of inflation and a permanently higher price level. Fourth, as long as inflation expectations remain anchored, central bank interest rate policy can at most influence the inflation dynamic – not the total amount of inflation ultimately realized.**
- **Normally, a central bank can ignore fiscal policy, or government spending, in pursuing its mandates. However, this can change during major national emergencies – such as unexpected wars or pandemics – when large-scale fiscal expenditures are required. In these events, an unexpected increase in the price level (a short-term increase in the rate of inflation) can lower the cost of capital for financially strained firms. Interest rate policy aimed at curbing inflation in these situations may be counterproductive.**
- **Viewed in this light, criticism that the Bank of Canada was slow to react to inflationary pressures may be off the mark. Given the nature of the crisis and the fiscal response, discouraging the inflation surge would have inhibited economic recovery and worsened the fiscal burden. If anything, the Bank of Canada might be criticized for not clearly communicating the trade-offs, given the likely course of fiscal policy.**

Inflation and Inflation-Targeting in Canada

A low and stable inflation rate environment promotes economic efficiency and fairness. The Bank of Canada seeks to keep inflation low and stable using a monetary policy framework that includes a 2 percent inflation target in a 1 to 3 percent control range. Since inflation targeting was adopted in the early 1990s (with 2 percent being the official target from the end of 1995), the Canadian consumer price index (CPI)

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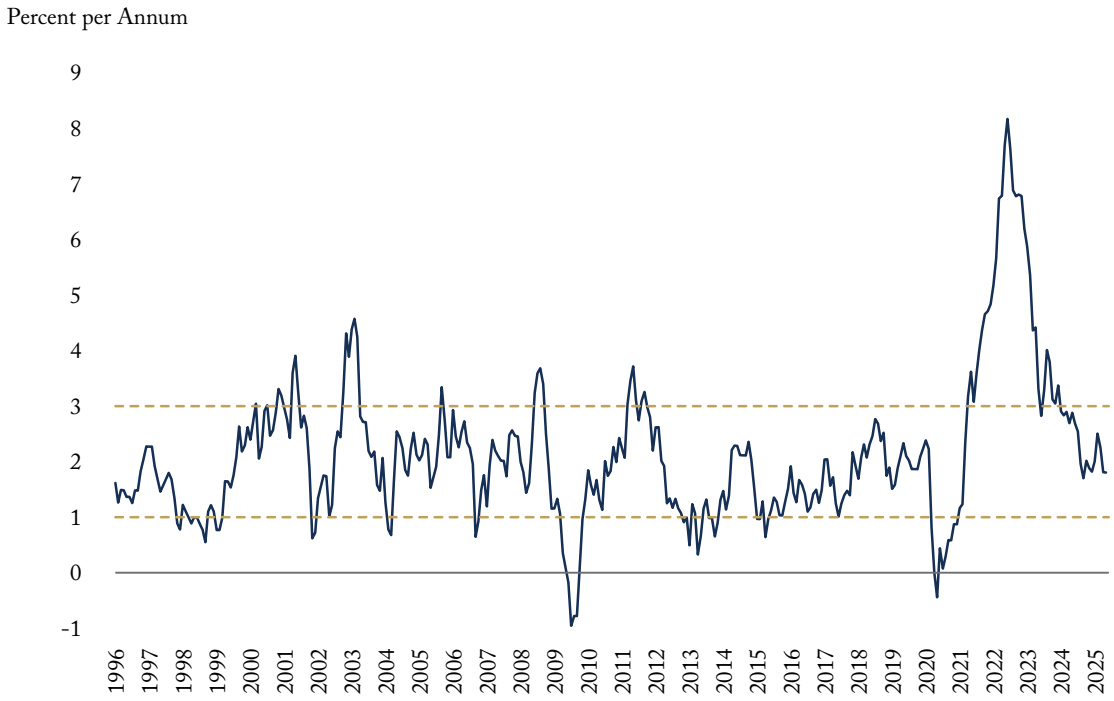
Figure 1a: Inflation Rate and Control Range, Jan. 1996-May 2025



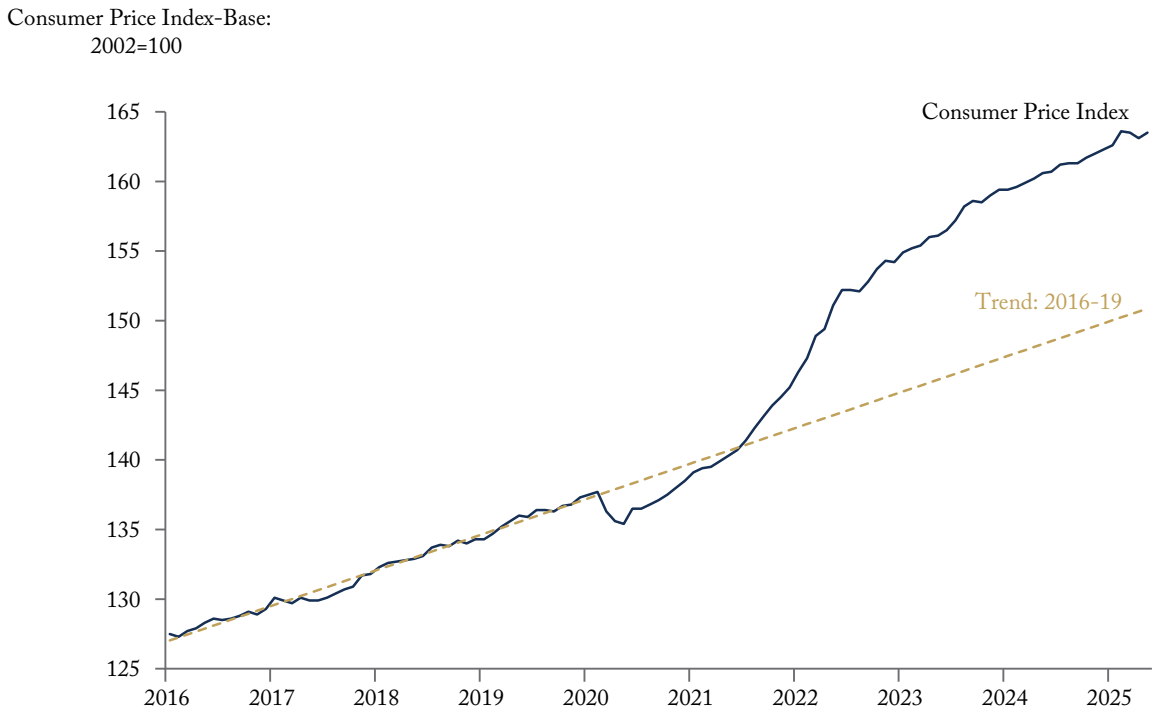
Source: Statistics Canada.

– which measures changes in the cost of a fixed basket of goods and services as experienced by consumers – rate of inflation remained within the control range most of the time. Departures, when they occurred, were relatively modest and brief. At least, this was the case until recently.

While inflation remained subdued in 2020 as the full impact of the COVID-19 pandemic hit Canada, it began to accelerate suddenly in the spring of 2021, breaking through the Bank's control range in April. The acceleration continued more or less steadily until the summer of 2022. After reaching a peak of 8.1 percent in June 2022, CPI inflation subsided rapidly throughout 2023. By 2024, it fell within the control range and today sits near the target rate (see Figure 1a). Despite the "transitory" nature of the inflation surge, there has been a permanent shift upward in the price level path (see Figure 1b), because the inflation-targeting framework allows bygones to be bygones – i.e., above-target inflation is not made up for with below-target inflation.

The episode serves as a reminder of why low and stable inflation is desirable. In particular, the surge in the general level of prices compelled firms and households to start paying attention to issues related to inflation – like cost-of-living adjustments – on top of their regular expenses. Sharp changes in the price level also create widespread angst related to the perceived unfairness of price changes. This is especially the case when contractual terms, including those for wages and salaries, are slow to adjust.

Figure 1b: Price Level, Trend and Actual, Jan. 2016-May 2025



Note: Inflation averaged 1.8 percent during the period from 2016 to 2019.

Sources: Statistics Canada and authors' calculations.

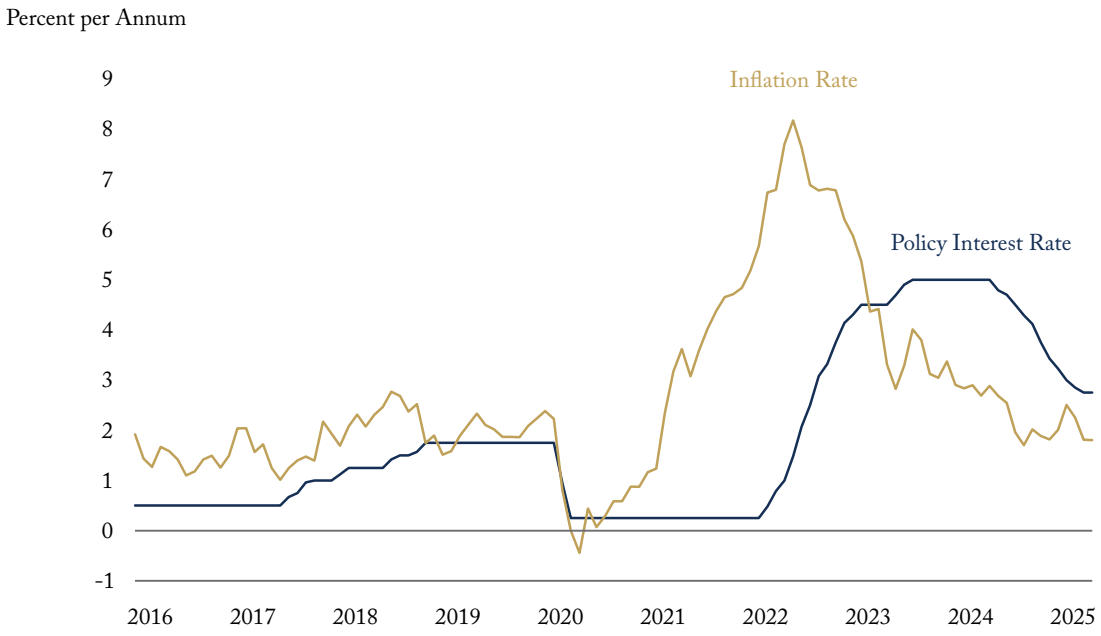
MONETARY POLICY ERROR?

Many people are keen to blame monetary policy for the inflation surge. This seems fair considering the repeated assurances made by Bank of Canada officials that inflation would be kept in check or would soon reverse. Despite these assurances, Bank policymakers appeared slow to react. The Bank of Canada did not increase its policy rate until March 2022, almost a full year after inflation first broke through the 3 percent ceiling (see Figure 2).

According to Kronick and Ambler (2023), most time-tested Taylor rules, which tie the appropriate interest rate to current inflation and the output gap, would have recommended increasing the policy rate sometime between February and July of 2021. Even among Bank staff today, including the Governor, there is acknowledgement that monetary policy "fell behind the curve" (Macklem 2022). For example, a Bank discussion paper notes how central bankers missed the strength of the inflationary forces gathering in the wake of the COVID-19 crisis (Kryvtsov, MacGee, and Uzeda 2023). Implicit in their assessment is the view that, had the Bank of Canada been better able to forecast inflationary pressures, it would have tightened policy more swiftly. Taken a step further, as a result, the 2021-22 inflation surge in Canada might have been avoided.

The possibility that monetary policy erred in its assessment of building inflationary pressure and in its conduct of policy over the COVID-19 episode is, of course, something that needs to be taken seriously. The extraordinary circumstances associated with the COVID-19 crisis, however,

Figure 2: Policy Rate and Inflation – Jan. 2016-May 2025



Sources: Bank of Canada and Statistics Canada.

warrant caution against a rush to judgment. This paper presents an alternative interpretation.

The pandemic unleashed a set of inflationary and deflationary forces. Supply-side disruptions exerted inflationary pressures. Precautionary (and perhaps even forced) saving behaviour exerted deflationary pressures. The fiscal response released an inflationary impulse. These shocks and policy responses express themselves along several macroeconomic dimensions, including employment, interest rates, and prices. The monetary and fiscal policy framework – including *ad hoc* changes in existing policy protocols – is largely responsible for determining the dimensions along which these forces manifest themselves.

We argue below that, *given the nature of the shock and the conduct of fiscal policy*, a greater than normal degree of monetary accommodation may well have been in order, and that there was little the Bank of Canada could have done to curb the ultimate surge in the price level. We discuss this possibility in detail below. But first, we review the nature of the COVID-19 shock and the fiscal response.

The COVID-19 Shock

The COVID-19 shock was an unusual recession-inducing event in that the initial contraction in economic activity was induced by a deliberate attempt to combat the virus. Health policies designed to slow the spread of the contagion, like the closure of non-essential businesses and the imposition of capacity limits to promote physical distancing, operated to curtail supply. Shipping and transportation costs surged globally. Disruptions in the global supply chain led to historic backlogs

and delays. The resulting supply shortages and cost increases were a source of inflationary pressure.[1] At the same time, factors like international travel restrictions, a drop in demand for services from lockdowns, and an increase in precautionary saving were sources of deflationary pressure. The prescription for interest rate policy, in light of these countervailing forces, is not immediately obvious.[2]

One unusual characteristic of the COVID-19 recession relative to historical episodes was an explicit desire on the part of authorities to shut down entire sectors of the economy. The goal at that time was to slow the spread of the contagion so as not to overwhelm the limited capacity of hospital intensive-care units. Given this desire to contract economic activity, the need for broad-based "economic stimulus" in the form of lower interest rates seems questionable. Of course, other forms of monetary policy support were unquestionably needed in those early days, including the provision of necessary liquidity to keep the financial system afloat and support the increased demand for cash.

Nevertheless, even if the pandemic did not result in a large "output gap" (the difference between actual and potential economic output), it almost surely generated a large "insurance gap" (a shortfall in protection against major risks).[3] There is no market for global pandemic insurance. Most Canadians are likely to agree that the government has a role to play in filling this gap and supporting those households and businesses who were put out of work and shut down, respectively, through no fault of their own. The question is how best to accomplish this task.

Canada already had some redistributive mechanisms in place, like Employment Insurance (EI). During the COVID-19 pandemic, however, EI alone was not sufficient for several reasons, including coverage limitations and the need to cover additional financial burdens such as caring for dependents now forced to stay home, increased health costs, and other expenses related to the pandemic. Additional financial support was required to ensure that individuals and families could cope with these challenges. In response to these needs, the Canadian government introduced various emergency support programs, such as the Canada Emergency Response Benefit (CERB) and later the Canada Recovery Benefit (CRB), to provide more accessible and substantial financial aid quickly. Several business support programs were also introduced, the two largest of which included the Canadian Emergency Wage Subsidy (CEWS) and the Canadian Emergency Business Account (CEBA) (see Lin and Hoffarth 2023).

In 2020, 20.7 million Canadians (out of an adult population of 30.3 million) received income from pandemic relief programs (Zhang and Bernard 2022). Altogether, these programs are estimated to have cost $270 billion in 2020 (about 12.5 percent of GDP) and about $360 billion in total to date. Not surprisingly, the size and scope of these programs have been criticized – in some cases, justifiably so, particularly with regard to their duration long after the initial emergency. But by and large, the programs did what they were designed to do, which was to provide insurance to the most economically vulnerable part of the population in an exceptional time of crisis.

This leads us to our central question. Given the nature of the shocks afflicting the Canadian economy during the pandemic, and given the

1 See: Dunn and Leibovici (2023). We also see a spike in the Global Supply Chain Index beginning in the early days of the pandemic. Federal Reserve Bank of New York. 2025. "Global Supply Chain Pressure Index." https://www.newyorkfed.org/research/policy/gscpi#/overview.

2 Here we speak of interest rate policy apart from financial stability concerns. The need for central bank emergency lending facilities was sufficiently evident.

3 A term coined by Gabriel Mihalache.

conduct of fiscal policy, how should the Bank of Canada have permitted these forces to express themselves over the pandemic and post-pandemic period?

Financing an Emergency Spending Program

The economic hardships imposed on Canadians by COVID-19 varied widely across individuals and firms. People working in "hard-to-distance" occupations – such as those in the leisure and hospitality sector – faced serious disruption in their ability to work safely. Many workers in these sectors were essentially asked to stay home as part of the attempt to slow the spread of the virus. That is, individuals were asked to make private sacrifices for the social good. Many office workers, on the other hand, were able to retain employment and income using technology that permitted work-from-home. Some redistribution from the latter group to the former was desirable. The question is how to best finance a fiscal policy-led redistribution of purchasing power from the more fortunate to the less fortunate. Recall, too, that the redistribution policy had to be implemented in the context of a depressed level of economic activity and a highly uncertain recovery dynamic.[4]

In the modern era of "central bank independence," the question of public finance is considered the sole responsibility of the fiscal authority. The two main instruments of public finance are taxes and debt.

The more expeditious – and more often used – form of finance in a crisis is new debt. There is also an economic justification for this course of action. In particular, the classic Barro (1979) tax-smoothing argument – which holds that governments should use debt to spread the cost of temporary spending over time to avoid sharp tax increases – recommends financing a large (and transitory) government spending program in part through debt, in order to smooth tax distortions over time. A potential drawback of debt finance is that unless the increase in supply is met with an equal increase in demand, interest rates are likely to rise.

During the pandemic, central banks around the world – including the Bank of Canada – engaged in some form of quantitative easing whereby the monetary authority purchased government securities, pushing their price up and their interest rate down (and increasing the size of the central bank's balance sheet). This supported the central bank's goals of boosting inflation back to target in those early pandemic days. It is debatable whether the private sector would have purchased all the newly issued government debt without knowing the Bank stood ready to purchase this debt in secondary markets. If not, then quantitative easing, and the ensuing lower interest rates on the government's debt, kept a lid on the latter's interest expense, supporting fiscal policy. If the Bank misjudged how much support was needed, and with the assumption that the government would not raise taxes in the future (an easy promise to make), this could lead to inflation. In other words, the combination of the fiscal and monetary policies we saw in Canada was more likely to be inflationary than direct taxation or newly issued debt supported by the expectation of future taxes.

In general, the "inflation tax" – the loss of purchasing power experienced by holders of money when inflation reduces its real value – is not viewed favourably as a form of government finance. After all, it seems diametrically opposed to the notion of keeping inflation low and stable – a success

4 The uncertainty was in part due to not knowing how the pandemic would unfold – whether, for example, there would be successive waves and whether a vaccine would soon be available. The Russian invasion of Ukraine early in 2022 was also unexpected.

story for central banks over the last few decades.[5] There is, however, a good economic argument for employing it sparingly, and only to finance large expenditures. The basic idea is that a sudden jump in the price-level dilutes the purchasing power of existing nominal debt and serves as a type of capital levy on the owners of debt.[6]

It is interesting to note that the inflation tax is used historically to help finance large (and transitory) emergency spending programs associated with large wars. It is hard to believe this is an accident.[7] Fighting a global pandemic is in some ways like fighting a war. Indeed, Hall and Sargent (2022) describe several similarities between COVID-19 and the two great wars fought in the 20th century. They note the following common elements: (i) negative labour supply shocks;[8] (ii) extensive government restrictions on travel and trade; (iii) surges in federal government expenditures financed primarily through debt; and (iv) large increases in the central bank's balance sheet. Both world wars were associated with spikes in inflation that lasted at least as long as their respective conflicts.[9]

The shocks and policy responses described by Hall and Sargent (2022) above broadly fit the patterns experienced in both the United States and Canada during and after the COVID-19 crisis. That the combination of a disrupted supply and a stimulated demand might manifest itself as inflationary pressure is textbook economic theory. Andolfatto (2020), a co-author of this paper, appealed to just such a theory in the fall of 2020 to issue a warning that "Canadians should prepare themselves for the possibility of a temporary burst of inflation." Significantly, the warning was supplemented with a statement that, "should inflation breach the 3 percent level, this will not necessarily be a sign to tighten monetary or fiscal policy. The higher price level in this case should be understood as the mechanism through which purchasing power is redistributed across individuals over the course of the pandemic."

As it turned out, inflation did break through the 3 percent ceiling of the control range in April 2021. And in August 2021, it broke through 4 percent. As mentioned above, Kronick and Ambler (2023) report that standard Taylor rules would have recommended raising rates aggressively in the first half of 2021. What path would the policy rate have had to take to keep inflation at or near the 3 percent ceiling? What would have been the effect on longer rates, and thus the economy at large, had the Bank of Canada tightened monetary policy earlier?

It is difficult to answer the questions posed above with a high degree of certainty, but it is not implausible to suppose that an aggressive inflation-fighting policy might have entailed interest rates high enough to impede an already slowing pace of economic recovery in 2021 and beyond. Keep in mind that even without any rate hikes, the unemployment rate in March 2021 was still

5 In the context of the Bank of Canada's framework, see: Kronick, Jeremy, Steve Ambler, and Thorsten Koeppl. 2025. "Flexible Inflation Targeting Beats a Dual Mandate: Lessons for Canada's 2026 Framework Renewal." E-Brief 373. Toronto: C.D. Howe Institute. May.

6 This concept has a long tradition in economics. For its application to the theory of optimal taxation, see: Lucas and Stokey (1983) and Chari, Christiano and Kehoe (1991), among many others.

7 Goldin (1980) provides evidence that temporary increases in expenditure during wartime in the United States were financed with a mix of instruments. Martin (2009, 2012) develops a theory that rationalizes the empirical regularities of US wartime financing. This is also discussed at length in Keynes (1940).

8 In wartime, workers are removed from the workforce and assigned to the armed services; in the pandemic, workers were removed from the workforce as an investment in public health.

9 Wage and price controls were imposed from 1942-46, which had the effect of temporarily lowering the inflation rate. Inflation spiked after the controls were lifted.

above 8 percent. Whether Canadians would have preferred the outcomes associated with a more contractionary monetary policy remains an open question.

Moreover, it is not clear how even a monetary policy-induced recession would have accomplished anything other than delaying the inevitable inflation dynamic. That extra $300 billion (plus) in government debt also represents $300 billion in extra private sector net wealth if it is not expected to be taxed back.[10] It is not immediately evident how interest rate policy alone – at least along the lines the public would accept – is supposed to prevent this additional wealth from ultimately expressing itself as a higher price level.

There are, of course, several downsides to employing an inflation tax. First, unlike a consumption or income tax, which can be specified with precision, the rate of inflation associated with this kind of fiscal policy is more unpredictable, both in level and persistence. Second, there is some danger that a spike in the inflation rate un-anchors inflation expectations or otherwise becomes self-fulfilling (say, through the fabled wage-price spiral). Third, an inflation tax is less transparent than a direct taxation – multiple parties will be blamed for the phenomenon.

Returning to Hall and Sargent (2022), they do not discuss the nature of optimal public finance in their paper. They do, however, note with a hint of approval President Truman's desire to finance the Korean War effort as much as possible through taxation instead of debt.[11] It appears the Canadian experience was similar. Taylor (1952) describes how the Canadian federal government sought to adjust its primary budget surplus in the post-World War II era against waxing and waning inflationary pressures. For example, tax rates were increased in 1950 and 1951, then lowered in 1952 as the Korean War inflation – and military spending – subsequently abated.

History reveals that Canadian authorities have been nimble enough to use state-contingent taxes to help fund emergency spending programs. Doing so would almost surely have muted the inflation surge. But whether Canadians would have strongly preferred a temporary increase in legislated taxes over a temporary increase in the inflation tax remains an open question. At the end of the day, someone had to pay for the redistribution. The only questions were who and how.

10 To illustrate our point, consider the initial balance sheet positions of households and banks. Households hold $100 in bank deposits as assets and owe $100 in bank loans as liabilities, giving them a net wealth of $0. Banks, correspondingly, have $100 in loans as assets and $100 in deposits as liabilities.
Now, suppose the government issues a bond which it sells to households for $50. Then we debit household deposits by $50 and credit the government bank account by $50. There is no change in household wealth at this point. However, the government floated the new bond to spend it. Suppose it sends the $50 to households as a transfer payment.
The government then uses the $50 it raised to make a transfer payment to households. This restores household deposits to $100 while they continue to hold the $50 bond. As a result, households now have $100 in deposits and $50 in bonds as assets, with $100 in bank loans as liabilities, resulting in a net wealth of $50. The balance sheet of banks remains unchanged.
Barro's (1974) point is that, yes, there is an increase in private wealth by $50. This is accounting. The question is whether households perceive this tax cut (transfer, in this case) as net wealth. The answer is yes if the government is not expected to tax that money (with accumulated interest) back.

11 Martin (2012) shows that the balanced-budget approach to financing the Korean War is consistent with a tax-smoothing model with limited commitment, as the government was still in the process of paying off debt accumulated during World War II, and hence, debt levels were already high at the onset.

Monetary-Fiscal Policy Coordination

In the present-day monetary-fiscal policy arrangement, the monetary authority is granted operational independence in achieving its mandates. This means using interest rate policy to keep inflation low and stable without explicit regard to the conduct of fiscal policy. The success of this arrangement depends critically on the fiscal authority managing its outstanding stock of debt in a manner that meets the demand for the product without undue selling pressure on its price. That is, operational independence should not be confused with economic independence. After all, monetary and fiscal policy are linked through the government's consolidated budget constraint.

The economic interdependence between monetary and fiscal policy is thrust to the forefront when the fiscal authority is confronted with an emergency, like a war or a pandemic. When an economy is operating at or near full capacity, the pressure of a spending shock must be released through prices – that is, through interest rates or inflation.[12] As explained above, there are sound economic arguments supporting the notion of a temporary inflation to finance at least part of an emergency spending program, even if the economy is operating at or near capacity. As described above, emergency spending is necessary to finance the "insurance gap," even if there is no output gap.

The concern, of course, is whether it is possible to sacrifice price stability *on occasion*, without sacrificing it more generally. The question is how aggressively the policy rate needs to be raised against inflation to ensure inflation remains "anchored." The conventional view, based on the Taylor principle, holds that the policy rate must rise by more than one-for-one with expected inflation in order to keep the real interest rate positive. Implicit in this prescription is the assumption, alluded to above, that fiscal policy stands ready to adjust the primary budget surplus in a manner that bounds the real level of government debt (the dynamics of which are influenced by the debt interest expense).

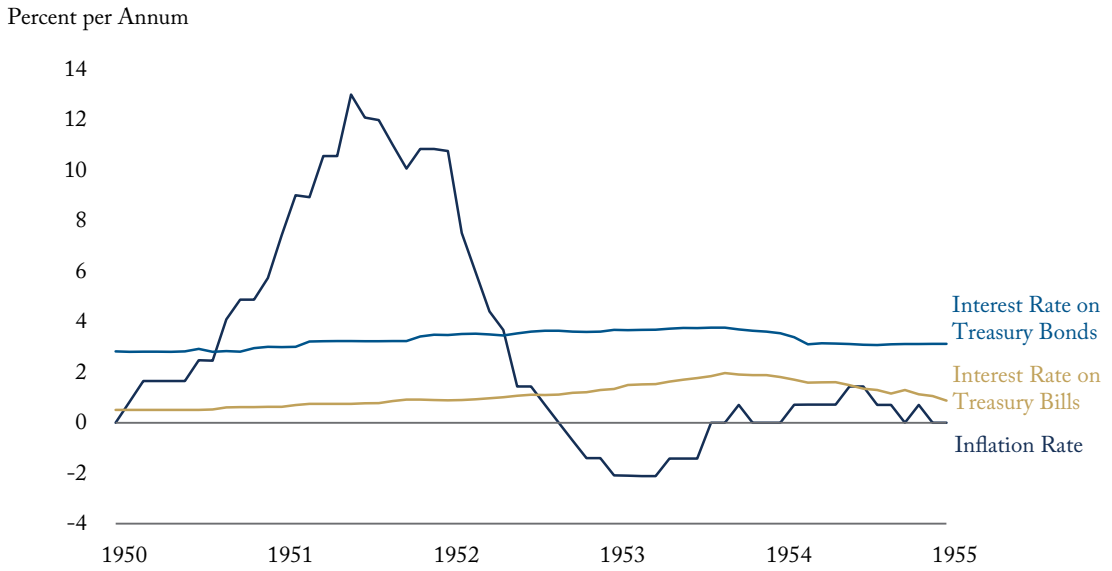
There is little question that a sufficiently aggressive interest rate policy can keep inflation in check. Whether it can do so without causing a recession is another matter. And whether inflation can remain anchored without fiscal support is yet another matter. If fiscal policy determines the long-run inflation rate, then interest rate policy is at best a tool to stabilize inflation around this long-run rate. If this is so, then the sharp increase in the Bank's policy rate beginning in March 2022 may not have been critical in keeping inflation anchored, even if it did contribute to speeding the pace of disinflation.

The statement above may raise a few eyebrows among central bankers. But there are, in fact, historical episodes suggesting that inflationary bursts can dissipate without an aggressive interest rate policy. Consider, again, the burst of inflation that Canada experienced over the Korean War period between 1950 and 1953 (see Figure 3).

Canada entered 1950 at close to full employment and low inflation. When the Korean War broke out, it was viewed as a conflict with an indefinite time horizon. This, in turn, motivated policymakers to finance the war effort through taxes and not debt (Clark 1953). Indeed, it appears that Canada ran budget surpluses during the conflict (Taylor 1952). Monetary policy was also tightened over the period, but hardly in a manner that invoked the Taylor principle. Nevertheless, inflation began to decline rapidly in 1952 after peaking at 13 percent in the summer of 1951.

12 When an economy is operating at less than full capacity, the pressure of a spending shock may be released primarily through employment growth. But once employment reaches capacity, any added stimulus that is not taxed back will manifest itself in higher prices.

Figure 3: Korean War Inflation & Interest Rates



Source: International Monetary Fund and Organisation for Economic Co-operation and Development.

This leads us to an important question. What if the fiscal authority does not manage its primary deficit in a manner consistent with long-run price stability? Such a concern has been raised in the case of Canada. While the very large deficits incurred in 2020-21 are now far smaller, they remain elevated relative to recent historical norms (see Figure 4).

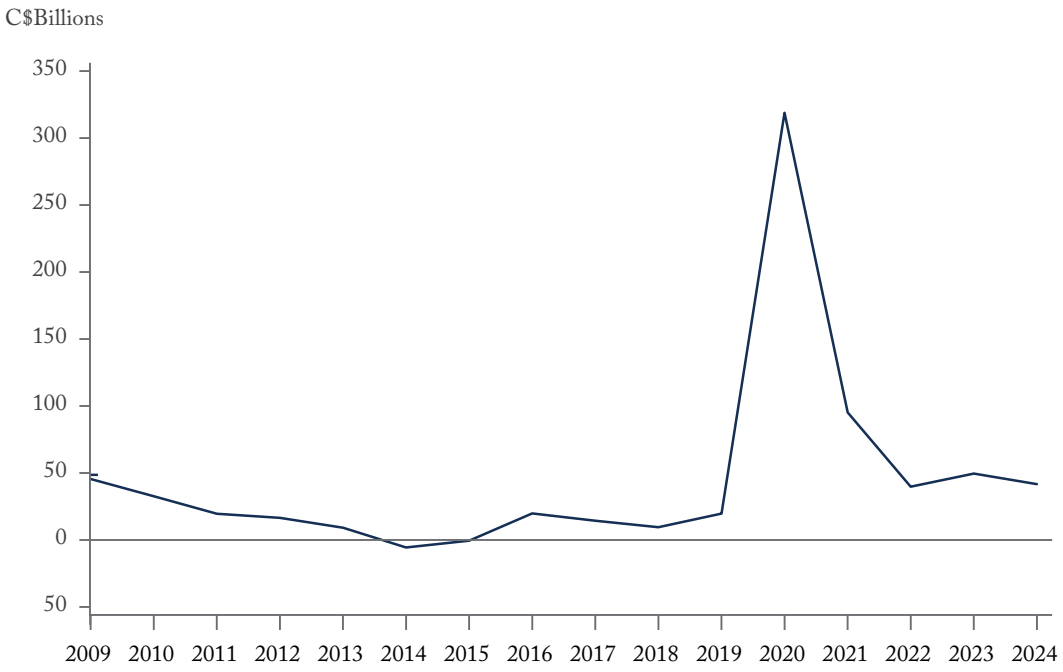
There is a view that while the early emergency spending is easily justified, the spending that followed is not. While this may be true, it is not clear how such an assessment should inform monetary policy. If fiscal policy is anchored, interest rate policy can be used to smooth out inflation dynamics. If fiscal policy is not anchored, then monetary policy will struggle to rein in inflation and – where it can, most notably in the short-run – it may do so at the price of a severe recession. We know that if fiscal policy is not anchored, an aggressive interest rate policy can theoretically and empirically backfire; see Sargent and Wallace (1982) and Loyo (1999) respectively. Increasing the policy rate in a regime of fiscal dominance (i.e., un-anchored fiscal policy) increases the interest expense of the debt, adding to the total deficit, requiring greater bond issuance just to cover the growing interest expense.[13]

Summary and Conclusions

Modern-day central banks tasked with a price stability mandate are not expected to accommodate

13 The more optimistic view is that in practice, aggressive monetary policy causes real rates to rise and exposes the unsustainability of fiscal policy, forcing governments to react.

Figure 4: Federal Government Budget Deficit – 2009-2024



Note: Fiscal year starting in April 1.

Source: Department of Finance and authors' calculations.

fiscal policy in their interest rate and balance sheet policies. This "peacetime" protocol appears to have worked well in Canada and other inflation-targeting regimes. But in a national emergency, and in particular a crisis in which large fiscal outlays are necessary, it may be desirable for monetary policymakers to accept a significant, albeit temporary, departure from their inflation target. After all, government outlays need to be financed one way or another – someone will have to bear the cost. The only question in this regard is who, how, and when. There is little reason, based on either experience or theory, for ruling out the use of a temporary inflation tax in advance, especially when compared to temporary increases in other tax rates or interest rates, which would have imposed costs in other areas.

Setting aside what may be desirable, there is also the question of feasibility. If a large injection of government securities is not expected to be "funded" (i.e., if fiscal policy is temporarily unanchored), it is unclear how interest rate policy alone could sustainably contain inflationary pressures driven by fiscal actions. Raising the policy rate may work in the short run, but it risks increasing the debt burden – both by enlarging the debt (if the economy contracts) and by raising interest costs. Without fiscal support, raising the interest rate only serves to delay an inevitable inflation surge.

To conclude, seen through the lens of optimal public finance, the 2021-22 inflation surge in Canada could be viewed less as a policy mistake and more as an unintentional – though ultimately desirable (given the circumstances) – manner of

financing the transfers that were deemed necessary in the COVID-19 crisis. The monetary policy mistake, in our view, had more to do with a failure to communicate the considerations described above (and in Andolfatto 2020). In any case, and somewhat paradoxically, this experience may have helped reinforce to Canadians the importance of a central bank that targets low and stable inflation. Such a central bank will set us up for another period as successful as the one we had between the moment Canada adopted the inflation-targeting mandate in the early 1990s and the onset of the pandemic.

The COVID-19 crisis will not be the last emergency Canada faces. The question of optimal monetary-fiscal policy coordination in anticipation of the next crisis should be placed on the agenda for the upcoming review of the Bank of Canada's monetary policy framework. As Kronick and Ambler (2023) state: "When the Bank is under pressure to help meet objectives that are outside its official remit, communication about how it is planning to achieve its inflation target is more important than ever. This will mean being clear about the projected path of inflation, intermediate targets such as monetary aggregates, and the Bank's intentions concerning the main aspects of its operational framework." We agree with this point and would add that the expected interplay between monetary and fiscal policy in a crisis needs to be spelled out clearly beforehand, with full Parliamentary support.

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