



# Is This as Good as It Gets? The Future of Inflation Targeting

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# Outline

- The first 17 years: Better than we imagined.
- Inflation Targets: What should we aim for?
- Making decisions: Are we too collegial?
- Communications: What more is there to say?





# Performance Has Been Better Than Expected

- Inflation targeting has exceeded our expectations by almost every measure and silenced many early critics.
- Evidence from cross-country comparisons and before-and-after tests is very positive, if not conclusive (Canada versus the United States).





# Canada's Monetary Policy Framework

**Table 1**

**Canada's Economic Performance**

	Standard deviation		
	1975M1 to 1991M1	1991M2 to 2008M4	1995M12 to 2008M4
Real GDP growth <sup>1</sup>	2.9	3.0	3.2
Unemployment rate	8.9 <sup>2</sup>	8.4	7.5
3-month interest rate	10.9	4.7	3.9
10-year interest rate	10.8	6.1	5.2

1. Annualized quarter-over-quarter growth rate for periods: 1975Q1 to 1991Q1; 1991Q2 to 2007Q4; 1995Q4 to 2007Q4.
2. 1976M1 To 1991M1. The sample starts in 1976M1, owing to the introduction of the new labour force survey at that time.





# Comparison of Canadian and U.S. Economic Performance

**Table 2**

	Canada	United States	Canada	United States	Canada	United States
	Average 1980 M1 to 1991 M1		Average 1991 M2 to 2008 M4		Average 1997 M1 to 2008 M4	
CPI - y/y	6.36	5.55	2.07	2.77	2.07	2.62
CPI core - y/y	4.06 <sup>1</sup>	5.97	1.88	2.62	1.78	2.22
Real GDP <sup>2</sup>	2.44	2.80	3.03	3.07	3.32	2.96
3 month interest rate	11.69	9.51	4.69	4.20	3.88	3.91
10 year interest rate	11.42	10.19	6.06	6.00	5.02	5.38

1. 1985 M1 to 1991 M1

2. Q/Q annualized, 1980Q1 to 1991Q1; 1991Q2 to 2007Q4, 1997Q1 to 2007Q4







# Is the Best the Enemy of the Good?

- Inflation targeting as a moving target: Constant improvement on many fronts (our objective, our decision-making process, and our communications).
- Is this as good as it gets? Have we gone too far? Is it time to reverse direction? The recent call for more flexibility.





# What Should We Aim For?

- Original Bank view on the 2 per cent target: A good start but not a great end point.
- Central Banks have been moving in the opposite direction towards greater flexibility and less ambitious targets.
- Some observers suggest that a good idea has already been pushed too far.





## What Should We Aim For?

- The recent movement by central banks away from “hard targets,” and a suggestion that a good idea may have been taken too far.
- The present targeting arrangements, as Carl Walsh notes, are already more flexible than the simple rigid framework that many critics like Joseph Stiglitz assume (bands, variable horizons, and opt-out clauses).







## What Should We Aim For?

- The Bank's research program: The feasibility and desirability of price-level targeting, and/or a lower inflation target. Are we inflation nutters?
- The Bank has set up a special website to share its research on the inflation targeting. The address is [www.inflationtargeting.ca](http://www.inflationtargeting.ca).





## What Should We Aim For?

- Monetary stability vs. financial stability: Re-opening the debate with Bill White and his BIS colleagues.
- The risk of over-burdening monetary policy by adding additional responsibilities: Are there better instruments? Will this complicate the decision-making process and communications?





# Making up our Minds: Are We too Collegial?

- Bank of Canada would seem to have gravitated towards decision-making process that is close Allan Blinder's "best practice."
- Possible improvements: legal disconnects; individual accountability vs. group consensus; technocrats vs. real-world-people; insiders vs. outsiders





# Communications: Is There Anything More to Say?

- Is there a risk of being too transparent?  
How far are we and others from the frontier  
(Alan Blinder and Rick Mishkin)?
- How the Bank of Canada scores on Petra Geraats' five transparency dimensions:  
political, economic, procedural, policy, and  
operational transparency.





# Communications: Is There Anything More to Say?

- Areas where we might do more: Staff projections; conditional future interest rate paths; minutes of policy deliberations.
- Sharing our uncertainty: Developing better means of measuring and communicating risk in the Bank's projections.

