



Flexible Inflation Targeting Appropriate Framework for All Seasons, Says Bank of Canada Governor Mark Carney

New York, New York—In a speech today to the U.S. Monetary Policy Forum, Bank of Canada Governor Mark Carney reviewed the advantages of Canada’s flexible inflation-targeting regime. Citing a “complex and continuously evolving world that no one can predict with certainty,” Governor Carney said that flexible inflation targeting “provides a robust framework for all seasons.”

A flexible inflation-targeting regime “allows central banks to deliver what is expected while dealing with the unexpected,” the Governor said. He discussed the monetary policy needs of both crisis and non-crisis economies, and noted that a robust IT framework has the “ability to deal with the very different challenges faced by both.”

Governor Carney acknowledged that the global financial crisis “has shaken the foundations of monetary economics” and that monetary policy frameworks, including inflation targeting, are under intense scrutiny. In his remarks, the Governor considered the main arguments made by opponents of inflation targeting, and provided a detailed rebuttal.

The Governor also discussed the merits and drawbacks of nominal GDP-level targeting, a framework that some have argued could facilitate the deleveraging process in the crisis economies. While NGDP-level targeting “does not, in our view, amount to a complete policy framework,” it may merit consideration as a temporary unconventional monetary policy tool when a central bank’s policy rate is stuck at the zero lower bound, he said. “The exceptional nature of the situation, and the magnitude of the gaps involved, might make such a policy more credible and easier to understand.”

Not only does a flexible IT framework enable the central bank to deal with shocks, it also provides the flexibility to address a build-up of financial vulnerabilities, the Governor said. “A virtue of flexible IT is that if the regime is credible, the inflation target can anchor inflation expectations while leaving room for policy-makers to occasionally use monetary policy for financial stability purposes.”

In concluding, Governor Carney said the Bank of Canada will use the full potential of flexible inflation targeting to deliver price stability and to enhance the economic welfare of Canadians.