Svein Gjedrem: Globalisation and monetary policy

Welcome address by Mr Svein Gjedrem, Governor of Norges Bank (Central Bank of Norway), at the Norges Bank Conference on Monetary Policy "Jarle Bergo Colloquium: Globalisation and Monetary Policy", Oslo, 7 March 2008.

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It is a great pleasure to welcome you all to Norges Bank's conference on monetary policy. The bi-annual conference on evaluation and assessment of monetary policy is a tradition at Norges Bank. This year the conference is being held in honour of my dear friend and colleague, Jarle Bergo, who is approaching the end of his twelve-year term as Deputy Governor of Norges Bank. He is now resigning office to take the position of Alternate Executive Director of the Nordic-Baltic Constituency at the IMF.

Jarle Bergo started his career as an economist in Norges Bank in the late sixties. Over the years he has made crucial contributions both to the work of the Bank and to its organisation. I am sure that I speak for all of us who have had the pleasure of working closely with him when I say that he has also made a vital contribution to the atmosphere in the Bank through his pleasant manner and good humour.

We have titled this conference "Jarle Bergo colloquium: Globalisation and Monetary Policy". Both globalisation and monetary policy are themes wide enough to fill up numerous conferences by themselves, and only a few questions will be addressed here today.

During Jarle Bergo's 40-year long professional career, views on monetary policy have changed. The general economic environment has also changed dramatically. The global economy has become increasingly integrated. When I speak of the term globalisation, I refer to the growing interdependence of national economies as reflected in greater and freer flows of goods, services, capital and labour across national borders. The number of countries taking part in the global exchange of goods and capital has soared. China, India, Russia and many other emerging markets have opened their borders and embraced capitalist reforms. The globalisation process has accelerated over the last two decades through increased trade liberalisation, political changes, technological advances, and a sharp reduction in transaction costs. This new, globalised world economy presents us with new possibilities, but also with challenges.

We are very proud to be hosting this conference and we are especially glad that we have been fortunate enough to attract such a distinguished group of speakers.

We are honoured to have President **Axel A. Weber** of the Deutsche Bundesbank here as our first speaker of the day. He will be taking a closer look at globalisation, monetary policy and the euro. In terms of age, the euro is still in its youth, in terms of global economic importance a mature adult. Since the euro was introduced almost ten years ago, it has gained importance as a global reserve currency.

Globalisation changes the environment in which we live. Increased trade and economic integration are bringing opportunities for raising living standards to ever larger groups. But growth has a price. This is particularly reflected in increased emissions of greenhouse gases as a result of increased human activity.

It is still uncertain how serious the impact of gas emissions will be. But once the impact comes into full evidence, it may be too late to take corrective action. There is also the risk that the concentration of greenhouse gases in the atmosphere reaches such a high level that it exceeds critical values that cannot be reversed.

We are very pleased to have Dr **John Llewellyn**, Senior Economic Policy Advisor at Lehman Brothers, here today to enlighten us on how globalisation affects the environment. Changes in our environment affect the way we are able to interact: it is important to combine knowledge about nature with knowledge about the functioning of the economy.

The last decade or so, we have witnessed increased financial integration and competition across national borders. This is a positive development. Deeper and more mature markets tend to be better equipped to deal with uncertainty and distress. But increased financial integration also raises the potential for more widespread contagion if something goes wrong, as witnessed by the current financial turmoil. Professor **Philip Lane**, Director of the Institute for International Integration studies at Trinity College Dublin, is one of the foremost experts on financial globalisation, and we are very much looking forward to hearing what he has to say on this subject.

The entrance of new, large emerging economies into the world trading system has strongly influenced economic developments. For some years now, the short-run trade-off between inflation and economic growth has been extraordinarily favourable. Inflation has been low and economic growth high. We have been hit by massive and long-lasting positive supply shocks thanks to globalisation. To accommodate a higher growth potential and to maintain the nominal anchor, central banks worldwide for a long period held short-term interest rates well below what can be regarded as a normal level.

History has shown us that low and stable inflation is the best contribution monetary policy can make to growth and macroeconomic stability. A new, globalised world does not change this paradigm. Today, monetary policy aimed at price stability is the norm, and in most countries monetary policy has been delegated to independent central banks. **Frederic Mishkin** from the Board of Governors of the Federal Reserve System will be joining us this afternoon to speak on advances in monetary policy.

We are privileged to have such a prominent group of speakers here today. I am also happy to see that our conference has attracted such a large number of participants from various institutions both in Norway and abroad.

This conference is Norges Bank's gift to Jarle Bergo, as a thank you for all his contributions to the Bank over the past four decades. I hope that both Jarle and the rest of you will enjoy it.

I now give the floor to Director Jannecke Ebbesen, who will chair the morning session.

Thank you.