

Guillermo Ortiz: Opening remarks for the session on “Implications of globalisation for the conduct of monetary policy”

Speech by Mr Guillermo Ortiz, Governor of the Bank of Mexico, at the International Symposium on “Globalisation, Inflation and Monetary Policy”, organised by the Bank of France, Paris, 7 March 2008.

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- In this last session we will focus on the implications of the different issues raised in the previous discussions for the design and conduct of monetary policy.
 - The main question is: what are, if any, the monetary policy implications of globalization?
 - In particular, we will ask ourselves whether globalization should lead or not to a reassessment of central banks’ price-stability objectives, their economic and monetary analyses or their degree of reaction to diverse variables that become more important in global markets.
- In this context, the main issues that will lead the discussion will precisely be whether globalization has altered the way monetary policy influences inflation and output (the monetary transmission mechanism) and, of most importance, whether we should change the degree to which monetary policy reacts to the output and inflation gaps or, furthermore, whether we need to redefine the set of variables to which it currently responds to.
- Many different arguments questioning whether we need to adjust the way monetary policy is conducted in a globalized world have been set forth. Some relevant questions are:
 - Should monetary policy react directly to exchange rate movements, or should it only focus on inflation and real GDP?
 - Should the recent increases in the prices of diverse international commodities imply a reassessment of monetary policy actions, over and above the response to the effects these events may have on the traditional variables to which monetary policy typically reacts?
 - Does the flattening of the Phillips curve has any implications for the design and conduct of monetary policy?
- Most of these questions are related to the issue of considering whether the more information we include in monetary models, theories and policy rules, the better response we will have to different shocks, or if we should keep such models, theories and, especially, policy reaction functions, simple and limited in terms of the number of variables involved.
- The different ways in which all these queries may be analyzed might trigger an interesting debate among us today. John Taylor’s presentation, along with the discussion it will induce among the discussants, will help us to have a better understanding about some of these issues, as well as guiding on the right direction the research agenda related to the questions that are still in need of an answer.