Øystein Olsen: The role of monetary policy revisited – welcome address

Welcome address by Mr Øystein Olsen, Governor of Norges Bank (Central Bank of Norway), at the Norges Bank conference "The role of monetary policy revisited", Oslo, 26 September 2013.

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It is a great honour and pleasure for me to welcome you all to this Norges Bank conference: *The role of monetary policy revisited.*

In his famous 1967 presidential address before the American Economic Association, Milton Friedman set out to answer three interrelated questions. What should be the role of monetary policy? What can it contribute to achieving the major goals of economic policy? And how should it be conducted to contribute the most?

Five years after the onset of the global financial crisis, these questions are yet again at the forefront of our minds. The crisis and subsequent recession have presented substantial challenges to monetary policy. Central banks have responded with great activism and have resorted to unconventional policies such as quantitative easing and an increasing use of forward guidance. And the crisis has led to a review of monetary policy frameworks. Successful as monetary policy has been in safeguarding low and stable inflation, many argue that it should take risks to financial stability into account. Moreover, a new set of macroprudential policy tools has been proposed to address systemic risks in financial markets directly.

In Norway, inflation targeting was introduced in 2001. Since 2005, we have published a projection of the future path of our key policy rate. This path reflects our view on the role of monetary policy. We consider an interest rate path to be appropriate when it meets three criteria. First, the interest rate should be set with a view to stabilising inflation at our 2.5 percent target. Second, the interest rate path should provide a reasonable balance between the path for inflation and the path for overall capacity utilisation. This implies that inflation targeting is flexible. Notwithstanding new macroprudential tools, we see a need to add a third criterion: The interest rate should be set so that monetary policy leans against a build-up of financial imbalances.

At Norges Bank, we remain firmly committed to our flexible inflation targeting framework. But the global financial crisis has taught us to be both modest and inquisitive. Experience with new macroprudential policy tools is limited, and institutional frameworks are still in the making. Leaning against financial winds remains subject to debate. It is therefore important that we actively seek knowledge. It is our obligation as central bankers to continuously search for the best practice for monetary policy. And we do not have to agree with Friedman's prescriptions to revisit the important questions he posed. We are privileged to have such a distinguished group of central bankers and academics present at this conference to help us with this task.

I am looking forward to learning from what I hope will be both an open-minded and a constructive dialogue about the future of monetary and macroprudential policies.

Thank you.