# Lawrence Schembri: Monetary policy framework issues - toward the 2021 inflation-target renewal

Remarks by Mr Lawrence Schembri, Deputy Governor of the Bank of Canada, at the Bank of Canada workshop "Monetary Policy Framework Issues: Toward the 2021 Inflation-Target Renewal", Ottawa, Ontario, 14 September 2017.

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Good morning everyone, et bonjour à tous.

Bienvenue à la Banque du Canada. Je m'appelle Larry Schembri. Je suis un sous-gouverneur ici à la Banque.

It is a great pleasure for me to open this workshop on issues central to the monetary policy framework and its implementation.

Given the significant challenges central banks have faced in achieving their monetary policy goals since the global financial crisis, this is a propitious moment to step back and re-examine these fundamental issues from a variety of perspectives.

As many of you know, the current monetary policy framework in Canada consists of two components:

- a consumer price index (CPI) inflation target of 2 per cent, the midpoint of a control range of 1 to 3 per cent; and
- a flexible, market-determined exchange rate.

While the second component has been in place for almost 60 of the past 70 years, our inflation-targeting regime was implemented in 1991 and the current specification has existed since 1995.

This framework has served Canada well in the face of significant movements in commodity prices and Canada's terms of trade, as well as other shocks, including the Great Recession. Inflation has averaged just below 2 per cent since we implemented the target, and both output growth and inflation have been much more stable relative to before 1991.

In addition, two important features of our inflation-targeting regime have drawn favourable international recognition:

- first, the price stability policy goal of the regime is founded on a joint agreement between the Bank of Canada and the Government of Canada; and
- second, the agreement is reviewed regularly on a five-year basis.

The joint agreement with a democratically elected government enhances the legitimacy of the price stability objective and thereby boosts its credibility. It also gives the Bank of Canada operational independence to achieve this goal.

The regular five-year review, meanwhile, affords the Bank the opportunity to revisit many important aspects of our monetary policy framework and its implementation.

While the framework has worked well in the past, improvements should always be considered—especially given the changing economic environment, the lessons learned from experience in Canada and elsewhere, and pertinent research findings.

In the past, the Bank has used this opportunity to organize and give visibility to its monetary policy research program, which has examined various dimensions of our monetary framework—well beyond the relatively narrow scope of the joint inflation-control agreement and the goal of price stability.

The regular five-year review also presents the opportunity to engage various stakeholders in this process to provide us with helpful ideas and useful feedback on our work. This workshop is a case in point. It has been organized early in the current five-year review cycle, so we can draw from a wide range of perspectives—from academics, economic journalists and other central bankers and policy makers—well before we begin to develop the key questions for our research program that will culminate in the 2021 renewal and publication of our background document.

In addition to striving to obtain a wide range of perspectives, the workshop has been organized in a fairly open-ended manner to stimulate dialogue on a broad span of issues. And in keeping with our desire to be open and transparent about this process, and to include all Canadians, today's conference is being webcast and we will post running commentary on our social media channels.

We have divided the workshop into four panels:

- one on the role and objectives of monetary policy in Canada;
- two panels on more operational issues, namely the scope and effectiveness of monetary policy tools, and monetary policy communication; and
- a panel on lessons learned from other central banks.

In the past, we have considered several important framework questions, most notably:

- whether to lower or raise the inflation target;
- whether to adopt a price-level path target, instead of an inflation target; and
- what would be the implications for monetary policy of financial stability vulnerabilities and risks.

These issues were considered primarily during the last two review cycles, which ended in 2011 and 2016, respectively.

In recent years, discussions of monetary policy frameworks have focused on the impact of a number of significant economic developments. These include:

- the decline in the equilibrium real interest rate and thus in the "neutral" policy interest rate, which limits the scope for use of countercyclical changes in the policy interest rate;
- the decline in potential output growth—especially in advanced economies—driven by demographic trends and lower labour productivity growth, forces that monetary policy has limited or no ability to counteract; and
- the elevated level of indebtedness of both the private and public sectors, which raises concerns about financial stability, fiscal space and central bank independence.

And, looking ahead, new financial technologies could affect the implementation and transmission of monetary policy.

So, we are most fortunate to have with us today a very distinguished group of speakers to enlighten us with their thinking on these and other challenging issues. Please let me close by thanking them, and all conference participants, especially those who have come some distance to be with us today.

It promises to be a very stimulating workshop, and my colleagues and I are very much looking forward to listening and discussing with you. Bonne journée.