

## Jiří Rusnok: The future of monetary policy - what can we see as the dust has settled?

Opening remarks by Mr Jiří Rusnok, Governor of the Czech National Bank, at the High-Level Economic Conference, Prague, 16 June 2019.

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Ladies and gentlemen, dear guests, I wish you a good morning. It is my pleasure to welcome you all to this high-level conference on “The Future of Monetary Policy: What Can We See as the Dust Has Settled?” hosted by the Czech National Bank. This conference is organised as part of this year’s celebrations of the 100th anniversary of the introduction of our national currency – named the koruna – in 1919.

Before I give the floor to the distinguished speakers, let me first make a few remarks that will set the stage for the upcoming event. During the past 100 years, our currency and the overall economic situation of our country has enjoyed times of economic prosperity, but also some more difficult periods. This alternation between good and bad times applies elsewhere. Before the outbreak of the Global Financial Crisis (GFC) in 2008, it seemed that monetary policy had triumphed. Inflation in advanced countries and elsewhere had decreased to low and stable levels. The goal of price stability had been achieved. Central banks were using standard tools with well understood transmission mechanisms. The outbreak of the Great Recession suddenly changed this perspective. The GFC brought significant economic slack and deflationary tendencies to many countries. In response, central banks started using unconventional tools. Since then, monetary policy has therefore been facing new challenges not only in practice, but also when it comes to the need for a deeper understanding of the new situation and transmission mechanisms. Therefore, I am glad that so many distinguished speakers have accepted our invitation and have come to Prague. And will share with us their experience and views on the new challenges for monetary policy.

The conference will feature a policy panel. I am deeply indebted to the high-level representatives of other inflation-targeting central banks whose currency is derived from the name “crown” (koruna in Czech) who have agreed to come to Prague and join me in the panel. I strongly believe that our exchange of views on the monetary policy challenges that inflation-targeting economies have been faced with since the global crisis will be very inspiring.

The conference also includes four thematic sessions. Each session consists of two or three papers by distinguished economists along with a presentation by a commentator who puts the papers into the broader academic or policy context. After the presentations, there will be time for a general discussion.

We will open the conference with a session on interest rates. Since the global financial crisis, the level of equilibrium real interest rates has been widely debated. Knowledge of this equilibrium level is important for assessing the stance of monetary policy. Some economists argue that the level has dropped as a consequence of either the GFC or other long-run trends, such as demographic trends, that are exogenous to monetary policy. If this is the case, the nominal policy rate will not necessarily return to its pre-crisis levels. There are, however, other economists who argue that the observed drop in real rates was mainly of a cyclical nature. If this view is correct, the steps towards neutral monetary policy – steps already undertaken by some central banks in recent years – may easily continue to the pre-crisis levels. I am therefore glad that we have here two papers that may shed some more light on this policy important topic.

The next session will be devoted to the exchange rate. Nobody doubts that exchange rate movements are of utmost importance for open economies. The papers in this session analyse the monetary policy channel of the exchange rate and the possibilities of international policy

coordination. Both are simultaneously fascinating and policy relevant.

Friday, the second day of our conference, will include two sessions. One will be dedicated to bounded rationality in macroeconomics. The rational expectations revolution that started in the late 1960s changed modern macroeconomics in a significant way. The rise of new Keynesian DSGE models some 20 years ago demonstrated that the rational expectations approach can be fruitfully applied even to large-scale models that are of practical use in policy institutions such as central banks and international organisations. Let me remark that the CNB has been successfully using its own DSGE model as its main forecasting and policy analysis tool for more than a decade now. On the other hand, the experience with models based fully on rational expectations sometimes shows that certain aspects or policy implications are at odds with what is considered reasonable. One example is the forward guidance puzzle, i.e. the unrealistically large responses of inflation, long-term rates and output to the announcement of the future path of interest rates. Therefore, we as macroeconomists want to reconsider the assumption of super-rational agents and replace it with something more realistic.

The second session on Friday will be devoted to two papers that may challenge our ideas about the economy and the way we think in terms of our usual models. It is always extremely useful to listen to new concepts and visions and to rethink our current approaches. Discussing thought-provoking and stimulating papers is the only way to avoid rigidity in ideas and opinions. Rigidity that will – sooner or later – lead to wrong attitudes and decisions.

I believe that good policymaking will always benefit from cutting-edge research. I would therefore like to thank the participants of the high-level policy panel, the presenters and commentators in the individual sessions, and all other participants for coming to our event.

Ladies and gentlemen, thank you for your attention. I wish you all an interesting conference, fruitful discussions and an enjoyable stay in Prague.