

# 25 Years of Inflation Targeting: View from Canada

“Transformation of Central Banking”

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# Inflation Targeting Before the Crisis

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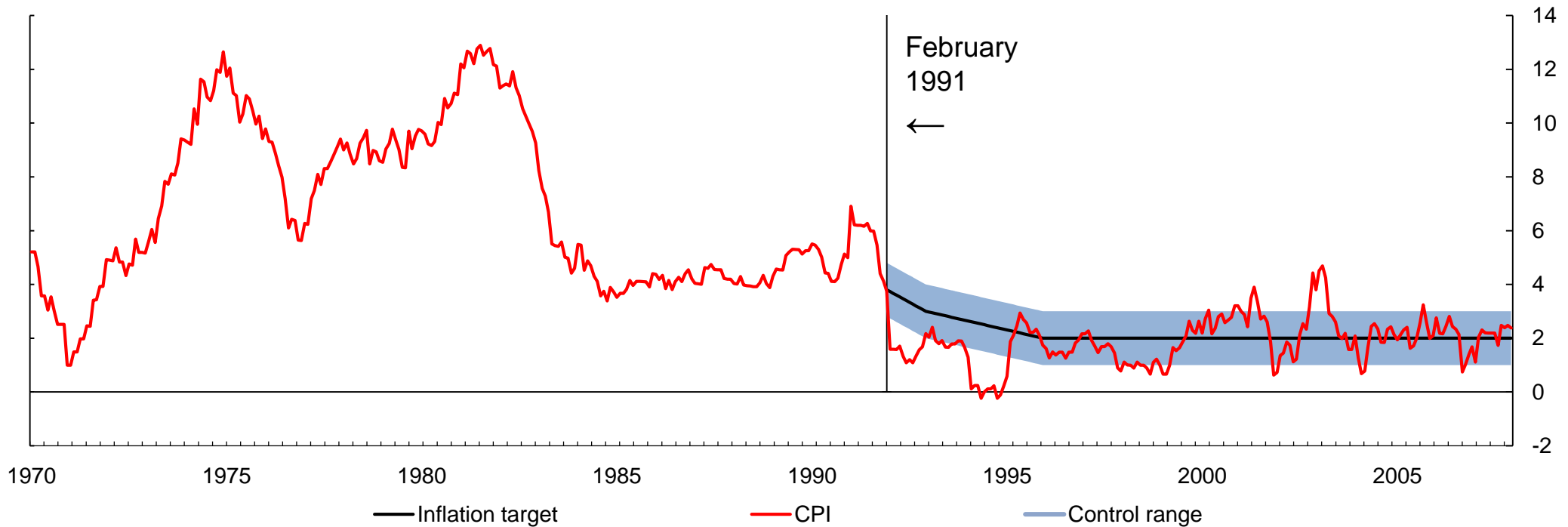
- Canada as an early adopter of inflation targeting
- Superior performance over the 1991-2007 period – better than we expected (see Table )
- Growing popularity across AEs and EMEs
- “The end of monetary history” – Is this as good as it gets?
- Two possible refinements: a lower inflation target, and price-level targeting
- Suspicions that the BoC was already price-level targeting

# Table 1: Canada's economic performance (1970 - 2016)

	Average (%)			Standard Deviation		
	1970M1-1991M1	1991M2-2007M12	2008M1-2016M02	1970M1-1991M1	1991M2-2007M12	2008M1-2016M02
CPI: 12-month increase	6.8	2.1	1.5	3	1.2	0.9
Real GDP growth	2.9	2.8	1.6	3.5	2.1	4.2
Unemployment rate	8.9	8.4	7.3	1.7	1.7	0.7
3-month interest rate	9	5	0.9	3.5	2.5	0.6
10-year interest rate	10.1	6.1	2.6	2.2	1.6	0.8

# Chart 1: Inflation performance has been better than we expected

12-month rate of increase, monthly data



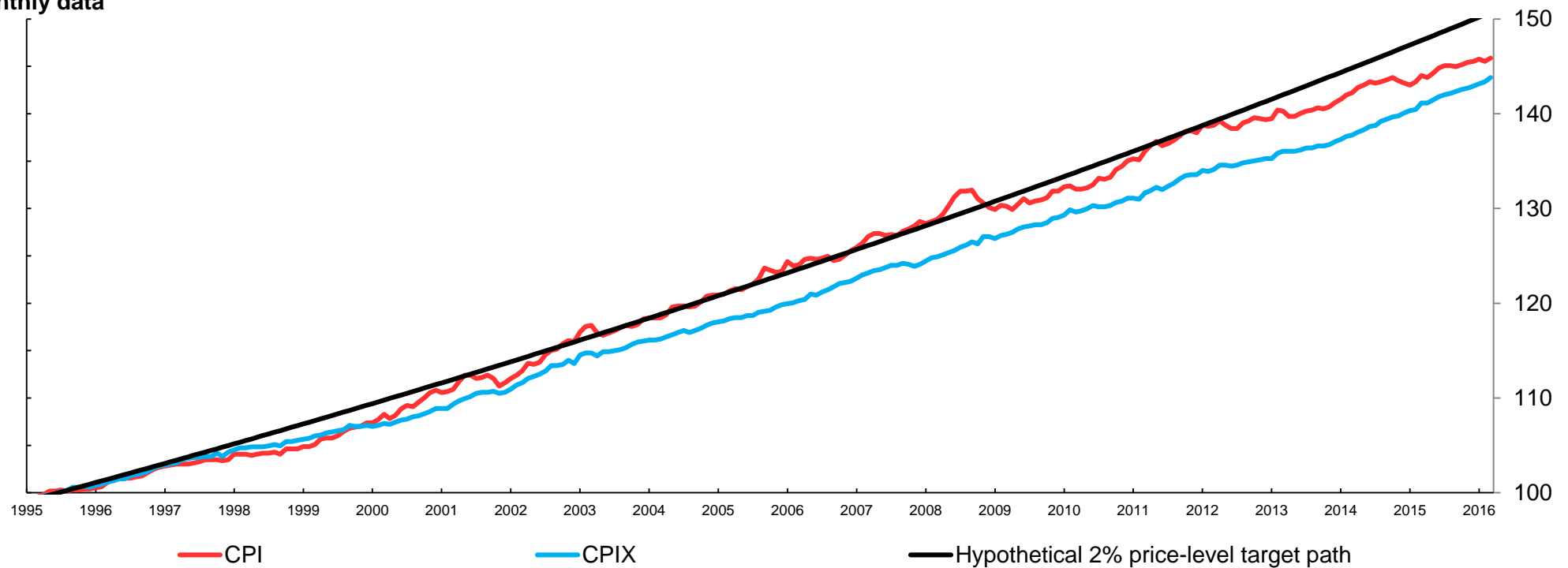
Sources: Statistics Canada and Bank of Canada calculations

Last observation: December 2007

# Chart 2: Suspicions that the Bank of Canada has been price-level targeting

1995=100

Monthly data



Source: Bank of Canada and Statistics Canada

Last observation: March 2016

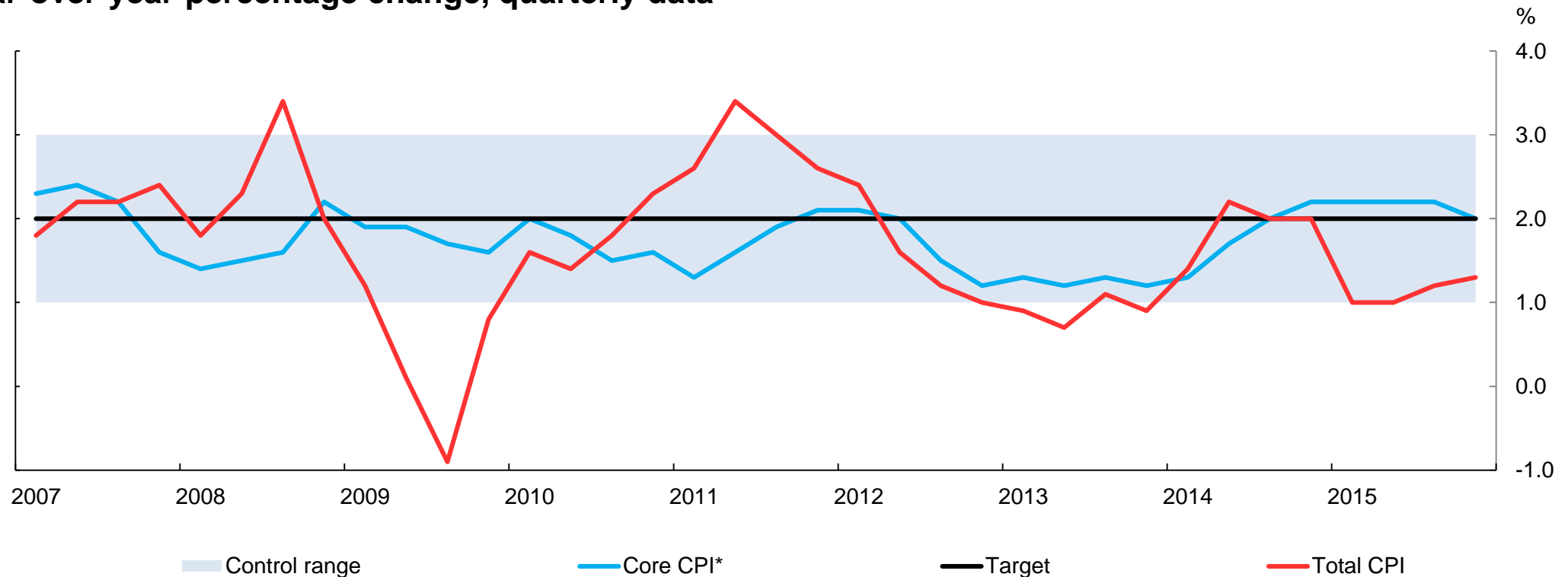
# Inflation Targeting During the Crisis

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- Canada's performance during and after the crisis better than most other countries
- Inverted world – what was good now regarded by many observers as bad
- Fundamental questions about objectives and tools
- Supposed dangers of too much clarity, too much stability, too much certainty ...
- Leaning vs. cleaning revisited
- Staying out of trouble versus getting out of trouble

# Chart 3: CPI inflation has been subdued and generally well-behaved

Year-over-year percentage change, quarterly data

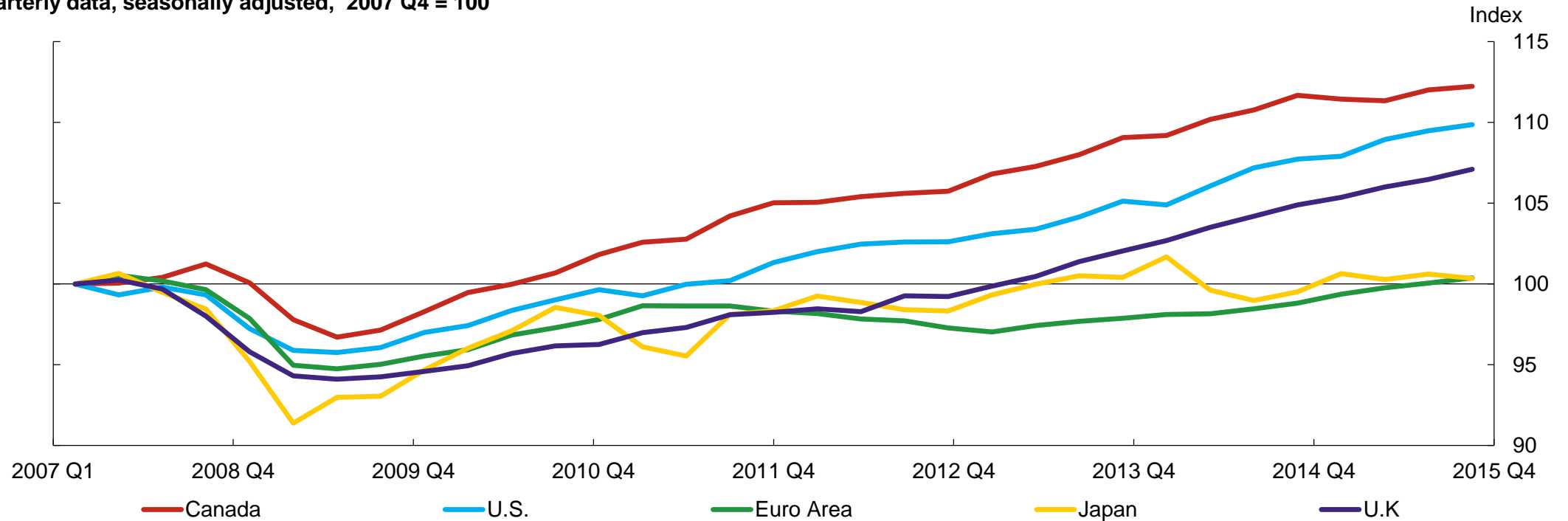


\*CPI excluding eight of the most volatile components and the effect of changes in indirect taxes on the remaining components  
Sources: Statistics Canada and Bank of Canada

# Chart 4: Canada's performance has been better than that of most other advanced economies

## Real GDP Levels

Quarterly data, seasonally adjusted, 2007 Q4 = 100



Sources: Statistics Canada, U.S. Bureau of Economic Analysis, Statistical Office of the European Communities, U.K. Office for National Statistics, Cabinet Office of Japan and Bank of Canada calculations

Last observation: 2015Q4



# Inflation Targeting After the Crisis

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- What if any lessons have we learned?
- 2016 renewal of Canada's inflation targeting agreement
- Intend to focus on 3 main questions:
  - (1) Should the inflation target be raised?
  - (2) Should the Bank of Canada lean?
  - (3) Is there a better measure of core inflation?
- What about the possible advantages of nominal GDP and price level targeting?
- What if any role should a central bank play in financial stability?
- Where do I think we are going? "Plus ça change ..."