

Monetary policy and the crisis

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- Inflation targeting – explicit target and framework for communication and follow up. Perceived to target – not enough.
1. *Did inflation targets play a role in setting the stage for the current crisis?*
- No, in a literal sense. But Monetary Policy did. Effects of restrictive policy in small economies would have been limited. For large economies the issue is the costs involved.
 - “Leaning against the wind” reasonable, but would not have avoided the crisis. Need for better regulation and systemic focus. Lack of understanding an issue, but political interests played a major role.



Monetary policy and the crisis, cont'd.

2. *Does inflation targeting need to be modified as a consequence of the crisis?*

- How to deal with asset prices etc. not a new issue. Some central banks have explicitly favoured “leaning against the wind” and have also done it. Flexible inflation targeting.
- Requires - to be practical - analysis of systemic threats. The Riksbank did this in Financial Stability Reports since 1997. Not enough with general principles or simple indexes.
- The difficult issue: *When* to act? Decisions should be communicated clearly.

