

WELCOMING REMARKS AND INTRODUCTION TO SESSION 1: MONETARY POLICY

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On behalf of the Banco de España, I would like to warmly welcome you to the city of Madrid and this international conference, marking 150 years of history of this Institution since it adopted its current name in 1856. I am honoured to have the opportunity to address so many eminent representatives of the political, central banking, financial and academic spheres.

The conference has adopted a timely and relevant theme: the role of central banks in the 21st century. The recent and current confluence of several forces of unprecedented strength and scope is clearly changing the landscape in which we, central bankers, are called to perform our tasks. Technological progress and increasing intensity and complexity in trade and financial relationships between economic agents and countries throughout the world, while surely beneficial for our societies at large, are shaping a global scenario that poses new challenges for business and policymakers alike. Much of the success of central banks' policies in the coming years will hinge on their ability to deal with the risks of a more globalised and complex world.

There is no doubt, I believe, that our knowledge of the design and conduct of sound monetary policies has improved greatly in the last two decades or so. We first learned that the best output a central bank can deliver on this front is a low and stable inflation rate. We then progressively gained insight into how to make that idea work by building

up our present institutional and instrumental frameworks. The overall outcome of this learning process has been largely positive: in many countries, inflation over the past decade has been persistently lower than in the preceding decades, while output growth has been more stable.

But there must be no room for complacency. While there is ample consensus on the general aim of price stability, and on certain features of the desirable institutional and operational framework, many other important issues remain open to debate. And that, I feel, reflects on our incomplete knowledge and experience. Enhancing our understanding of the evolving nature of the monetary policy transmission mechanisms, the optimal degree of gradualism and the desirable features of central bank communication strategies, to name but a few, must rank high among our priorities.

Furthermore, we must acknowledge that the risks to this macroeconomic prosperity I have mentioned have increased, at the current juncture, by the emergence of a number of financial imbalances or, more precisely, by the general perception that the path taken by several macro-financial variables over recent years may add vulnerabilities to our economies in the face of adverse shocks.

The right policy responses to the current and foreseeable vulnerabilities will ultimately call for a mix of rigorous economic analysis and judgement. I am pleased to see that the participants at this conference meet the highest standards in both academic and policymaking expertise.

Thank you all for attending this meeting. I am convinced that for the next day and a half we will be able to enjoy insightful views and lively debate on a number of relevant issues.

I would like now to turn to the first session of the programme, in which Alan Blinder, from Princeton University, will present his reflections on a wide array of important issues concerning central banking practice. Professor Blinder certainly possesses the two attributes I have just mentioned; besides his impressive academic career, he has served as Vice Chairman of the Board of Governors of the Federal Reserve. His excellent opening paper will bring us to the core of some current debates on how to best conduct monetary policy, highlighting those areas with most potential for improvement. Alan Blinder's presentation will be followed by a discussion in which we will hear the viewpoints of our distinguished panelists on this suggestive and thought-provoking piece of work.

It is my pleasure to introduce my colleague Vítor Constâncio, Governor of the Banco de Portugal, who, besides a long academic career, has considerable experience working with financial institutions and the Portuguese government; Lucas Papademos, Vice-President of the ECB, formerly Governor of the Bank of Greece and, in his previous life, an active academic contributor to the economics profession with a long list of publications on economic cycles and growth, monetary transmission mechanisms, financial systems and the economics of EMU; and last but not least, Raghuram Rajan, who is currently Economic Counsellor and Director of the IMF's Research Department, a faculty member, on leave, of the University of Chicago Graduate Business School, and one of the world's leading economists in the field of financial institutional design and economic development.