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PRESS RELEASE

Globalisation and monetary policy

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Globalisation, which has gained strong momentum since the mid-nineties, has brought about some major economic developments. The present article focuses on three possible consequences of globalisation which can be relevant to monetary policy. In addition, the possible monetary policy implications of the three discussed trends are also dealt with.

The low and stable inflation rate in the industrialised countries seems to result rather from the improved conduct of monetary policy, than from advancing globalisation. However, the integration of the emerging economies does give rise to considerable relative price changes. Thus, the relative prices of commodities rose, while the relative prices of labour-intensive goods fell. Compared to previous periods of rising commodity prices, the transmission of higher commodity prices to the further stages of production turns out to remain fairly limited so far, whereas the relative price declines of labour-intensive goods is actually being passed on to sales prices, at least in part. Although these relative price changes are, as a rule, neutral to inflation in the long run, they can still pose a challenge to monetary policy. Against the background of globalisation, it is therefore imperative, more than ever before, that the analysis in view of monetary policy be based on as wide a range of information and indicators as possible, so as to be able to identify the more fundamental risks to price stability, both upward and downward, in due time.

The flattening of the Phillips curve observed in the euro area, whereby inflation has become less sensitive to the domestic business cycle, is found to be a global phenomenon which can be explained both by the improved conduct of monetary policy and by structural changes in the economies of the industrialised countries, including globalisation. A flatter Phillips curve may point to a rise in the short-term costs, in terms of output, for curbing inflation. This finding must however be mitigated, since the flatter Phillips curve is also due to the credibility of monetary policy, and since the inflationary impact of cost-push shocks is being restrained by increased international competition.

Partly as a result of worldwide financial integration, long-term interest rates have become more closely aligned at the international level, while at the same time a looser relationship between the policy rate and the long-term interest rate can be observed. These developments seem to indicate that the traditional interest rate channel has become less effective. This finding must again be qualified, since the disconnection of long-term interest rates is largely attributable to a strong anchoring of inflation expectations. In addition, a proper communication on the economic and monetary analysis made can become an additional instrument for steering long-term interest rates.