|  |  |  |  |
| --- | --- | --- | --- |
|  **בנק ישראל**דוברות והסברה כלכלית | \\portals\DavWWWRoot\sites\boi\about\Mitug\DocList\Logo Bank of Israel 2 color\Logo Bank of Israel 2 color.jpg  |

|  |
| --- |
| ‏ירושלים, ג' באב תשפ"א12 ביולי 2021 |

 |

הודעה לעיתונות:

**נאום הפתיחה של נגיד בנק ישראל בכנס בנושא "אינפלציה: דינמיקה, ציפיות ויעדים" שנערך ע"י בנק ישראל בשיתוף ה-CEPR**

נגיד בנק ישראל, הפרופ' אמיר ירון, נשא דברי פתיחה בכנס הבינלאומי "אינפלציה: דינמיקה, ציפיות ויעדים", שנערך ע"י בנק ישראל בשיתוף ה-CEPR, ומתקיים (באופן וירטואלי) היום ומחר. בכנס משתתפים 5 נגידי בנקים מרכזיים, ושלל חוקרים מובילים מהאקדמיה, נציגי בנקים מרכזיים ומוסדות מדיניות נוספים. המחקרים שמוצגים בכנס עוסקים בין השאר בנושאים הקשורים לאינפלציה והתפתחות המחירים, ההשפעה של המדיניות המוניטרית והיבטים שונים של משטר יעד האינפלציה - באופן כללי ובראי המשבר. פרופ' אמיר ירון, נגיד בנק ישראל פתח את הכנס. ג'ון וויליאמס, נשיא הבנק הפדרלי של ניו יורק יהיה הנואם המרכזי של הכנס, וישא דברים ביום שני (היום) אחר הצהריים. בכנס יתקיים גם מושב מיוחד בהנחיית הנגיד פרופ' ירון בהשתתפות נגידי הבנקים המרכזיים של שווייץ, שבדיה וצ'כיה.

מצ"ב הנאום המלא באנגלית:

It is a great pleasure to open this conference, sponsored jointly by the Bank of Israel, and the CEPR entitled "**Inflation: Dynamics, Expectations, and Targeting”**

Dealing with inflation is a central focus of our responsibility as central bankers. Israel has known many significant changes in the inflation environment in past decades—from a country that suffered from hyperinflation of hundreds of percent, through the economic stabilization program that succeeded in gradually lowering inflation, to price stability and even the negative inflation of recent years that was similar to that in many other advanced economies.

Israel was among the first countries, just after New Zealand, Australia, and some others, to adopt inflation targeting as a way of managing monetary policy.

This framework served Israel well in the 1990s and the early 2000s, as the economy converged to price stability, and since then over about two decades of relatively stable growth and prosperity.

In recent years, perhaps as a kind of a winner’s curse, while the older among us were used to mainly thinking about ways to control inflation so that it wouldn’t rise too much, inflation has mostly been a challenge from below—for being below the target.

At the same time, there were significant changes both in Israel and abroad during those years, which forced economists to think again about whether adjustments were necessary to the inflation targeting regime, so that it would be useful in the coming decades as well.

In recent years, as we all know, there has been a noticeable downward trend in the natural interest rate, which makes managing monetary policy more challenging due to the proximity to the zero-lower-bound.

Even though we have again noted that monetary policy is more than just setting the interest rate, and that central banks have many tools to support the economy during a crisis, there is no doubt that had we entered the COVID-19 crisis with higher inflation and interest rate environments, our work would have been simpler.

We also know that the correlation in the development of prices in various countries has grown stronger in recent years, with globalization and the expansion of production chains.

Alongside this, the link between domestic activity and inflation appears weaker – meaning the Phillips Curve has flattened, so that large changes in activity are reflected in only minor changes in inflation.

As a result, it is unclear whether domestic monetary policy’s ability to influence the inflation environment remains as it was, or to what extent it is dependent on the policy adopted in other countries, particularly the larger economies.

From another perspective, the development of e-commerce and technological capabilities are a kind of prolonged supply shock that is constantly pushing prices downward. It is also changing the dynamics of price updates by creating the possibility to more rapidly adjust prices to demand, and even to set a personally adjusted price that differs from one customer to another.

Beyond all that, the large health crisis that we could not have foreseen was also reflected, in the short term, in changes in the links between activity and prices.It is still too early to tell the extent to which more significant structural changes have taken placeand will they remain with us into the future and affect activity, prices, and the necessary policy.

Changes in the use of technology (as we are witnessing in this conference) in production and consumption, changes in household tastes, and changes in the labor market will apparently all have an impact on the development of inflation, and on price dynamics and the links between activity and policy and prices.

In Israel and in other countries, there is another factor that is constantly pushing price levels downward – public discourse about the cost of living and policy measures intended to lower it.

These government policies that lead to "one-off" reduction in cost of living are conceptually distinct from an ongoing inflationary or deflationary process. Moreover, in recent years, and even more so in view of the COVID-19 pandemic that kept most of us at home for long periods, online purchasing expanded greatly, and a large part of private consumption, at least of goods, moved to the Internet.

It is reasonable to assume that these habits will remain into the future, and will create competitive pressure on domestic manufacturers, which will tend to push prices downward. While this is a *process* of “one-off” price adjustments that will increase consumers’ purchasing power, it is also reflected in measured inflation relative to the inflation target according to which the central bank operates.

With all these effects, in real time, it is not easy to distinguish between one-off price adjustments and an inflationary process.

In Israel, we occasionally see how a slight increase in inflation, even to the lower bound of the target range, reignites public discourse about the cost of living and the policymakers’ desire to lower consumer prices.

I can reveal that this issue—the need to distinguish between adjusting price levels downward and the pace of inflation—was and remains an issue that arises in the Monetary Committee’s discussions and guides us in our policy decisions.

Among the Monetary Committee members, a debate has arisen more than once over whether we should strive for the target set by the government—inflation between 1 and 3 percent—in view of the fact that the government had set this target at the beginning of the 2000s when the memory of the 1980s was still fresh and no one could imagine that we would find ourselves with inflation of less than 1 percent for a number of years.

Moreover, for a large part of the time when inflation was below the target, the economy showed the strongest growth and lowest unemployment in decades, and the case for an accommodative monetary policy became less clear, particularly in view of the financial risks that an accommodative policy over time could create.

As part of the Bank of Israel’s strategic plan, we decided that there is a need, after almost 30 years of the inflation target regime and 20 years since it was set at the current range, to reexamine various aspects of the inflation target regime.

This process is currently taking place at other central banks as well, some of which even do this every few years as a matter of course. I don’t deny the possibility that this process could lead us to the conclusion that the current regime is correct, or that only slight changes to it are necessary.

But the economic changes that have taken place in recent years, some of which I just mentioned, are emphasizing more and more the importance of holding an in-depth and wide-ranging discussions, together with researchers and other central banks, on these issues that are at the very heart of the central banks’ work, both in Israel and around the world.

This conference, which was organized in conjunction with the CEPR, is part of this learning process.

This conference's program for the next two days contains very promising papers by authors from both the academic world and central banks, examining the theoretical, empirical and policy aspects of inflation.

Our distinguished keynote speaker, Mr. John Williams, the President and chief executive officer of the Federal Reserve Bank of New York will share with us today his experience and thoughts concerning inflation and policy.

Tomorrow, closing the program, we will hear from the governors of the Czech, Swedish, and Swiss central banks about the issues they see as central to monetary policy and the inflation targeting regime today and in the future.

I am confident, that this conference, which unfortunately, is held virtually, will extend our knowledge and understanding of some of these important questions, thus helping us, as central bankers to better conduct policy and contribute to the welfare of us all.

Before we begin, I would like to thank everyone who took part in organizing this conference. In particular, I would like to thank the CEPR for its cooperation, and I would personally like to thank Wouter den Haan and Refet Gurkaynak, who were part of the professional committee, together with Itamar Caspi and Sigal Ribon of the Bank of Israel.

I would also like to thank the entire staff that took care of all logistical and other issues to make this conference possible – Ronit Cohen, Sigal Tzur.. Communication Deparment, IT Department and the production team. …

I wish everyone a successful and interesting conference, and I hand the stage over to Refet Gurkaynak of Bilkent University, who will lead the conference’s first session.