

# **Monetary policy in a changing world: commitment, strategy and credibility**

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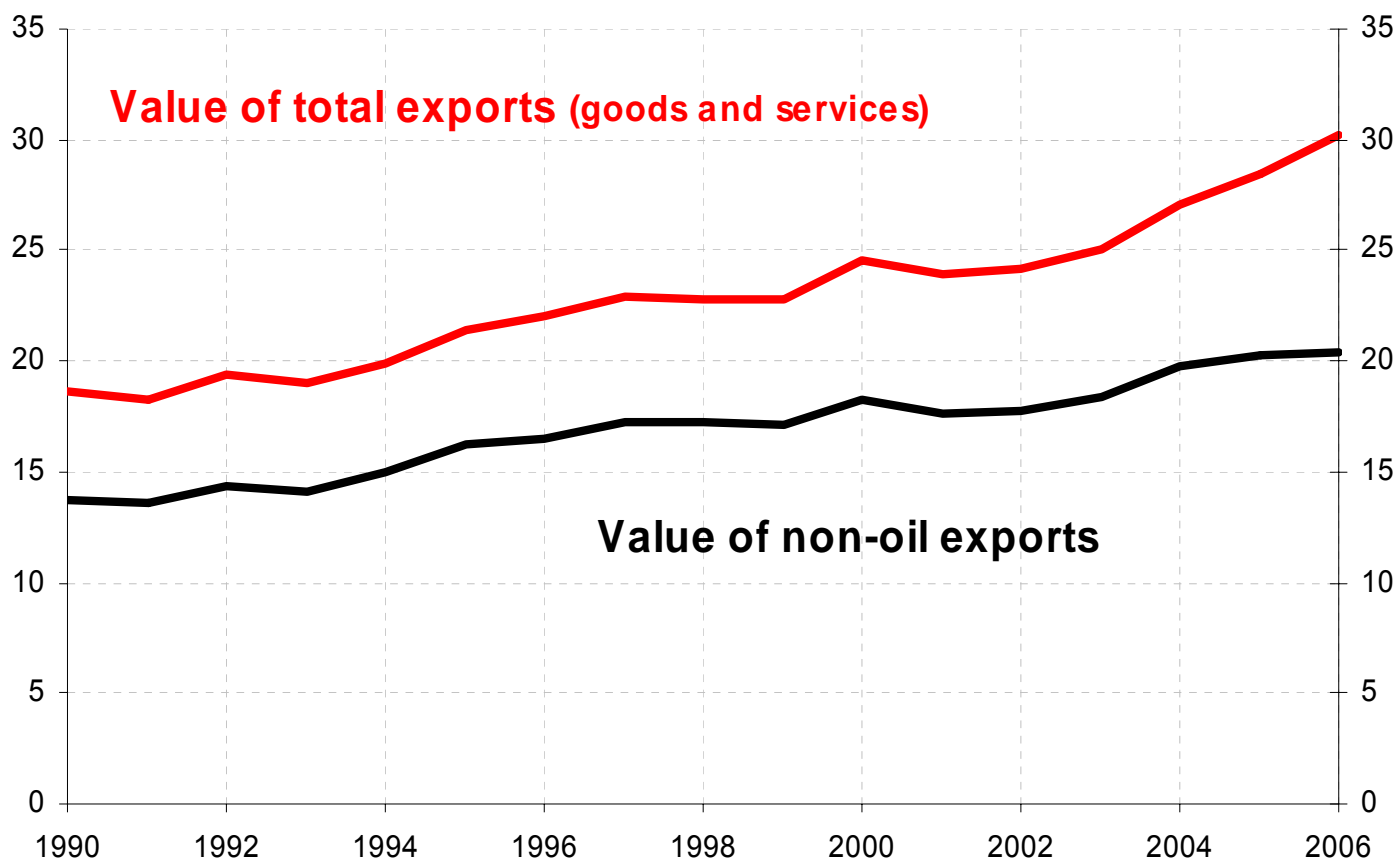
*Washington D.C., 1 December 2006*

# Outline

- 1. Introduction**
- 2. The effects of globalisation**
- 3. The impact of changes in productivity growth**
- 4. The influence of financial innovation**
- 5. Implications for monetary policy**
- 6. Conclusion**

# I The increasing pace of globalisation: Exports relative to GDP

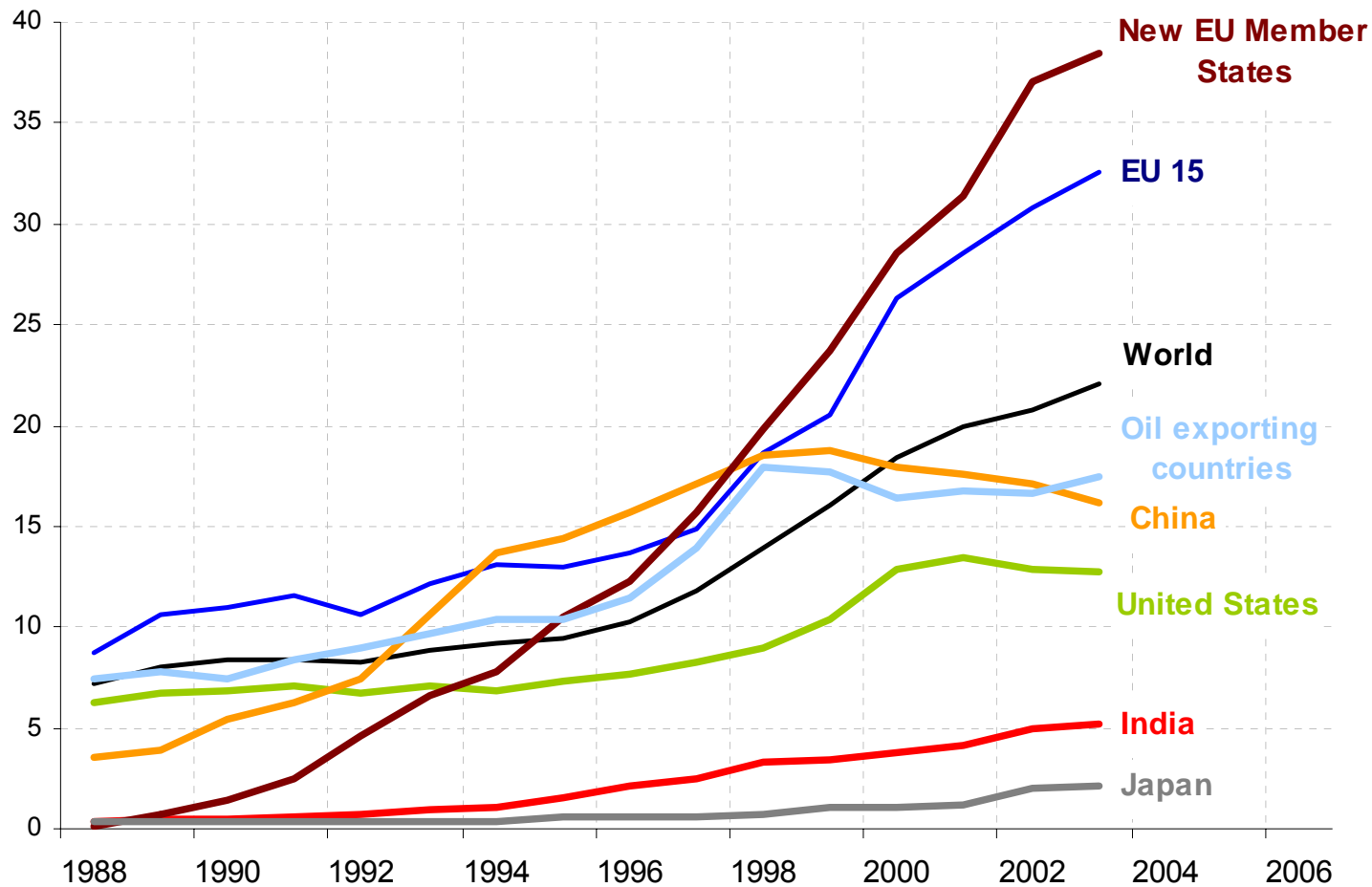
## Global exports of goods and services (percent of world GDP)



Source: IMF, World Economic Outlook (figures beyond 2005 are WEO forecasts)

## 2 The increasing pace of globalisation: Foreign Direct Investment (FDI) relative to GDP

**Inward FDI stocks** (percent of GDP)



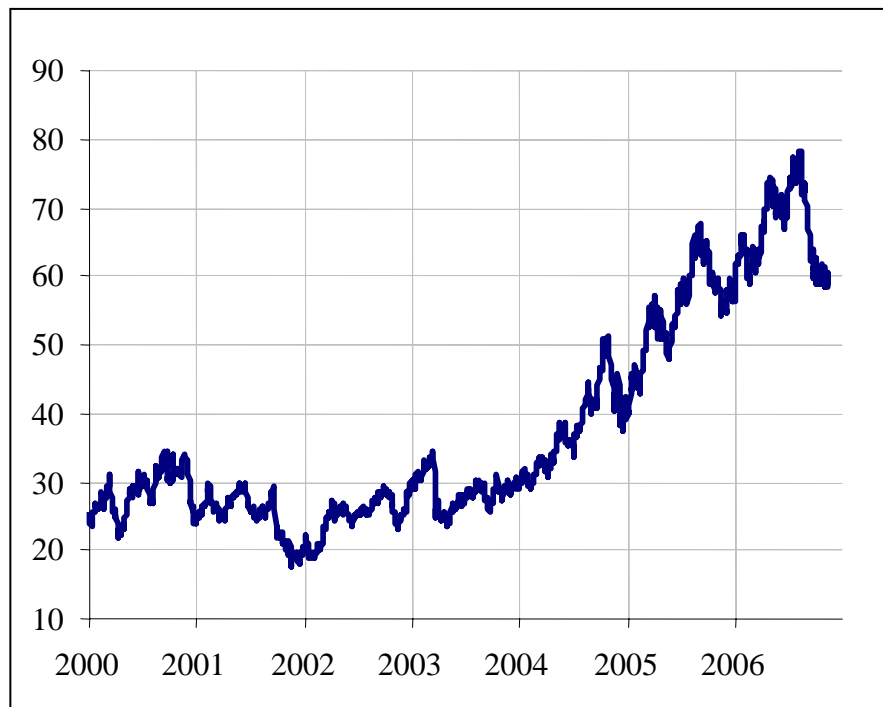
Source: UNCTAD

Note: Last figures relate to 2003

# 3 Recent increases in oil and other commodity prices

## Brent crude oil price

(USD per barrel)



Source: Bloomberg

Note: Last observation refers to 15 November 2006.

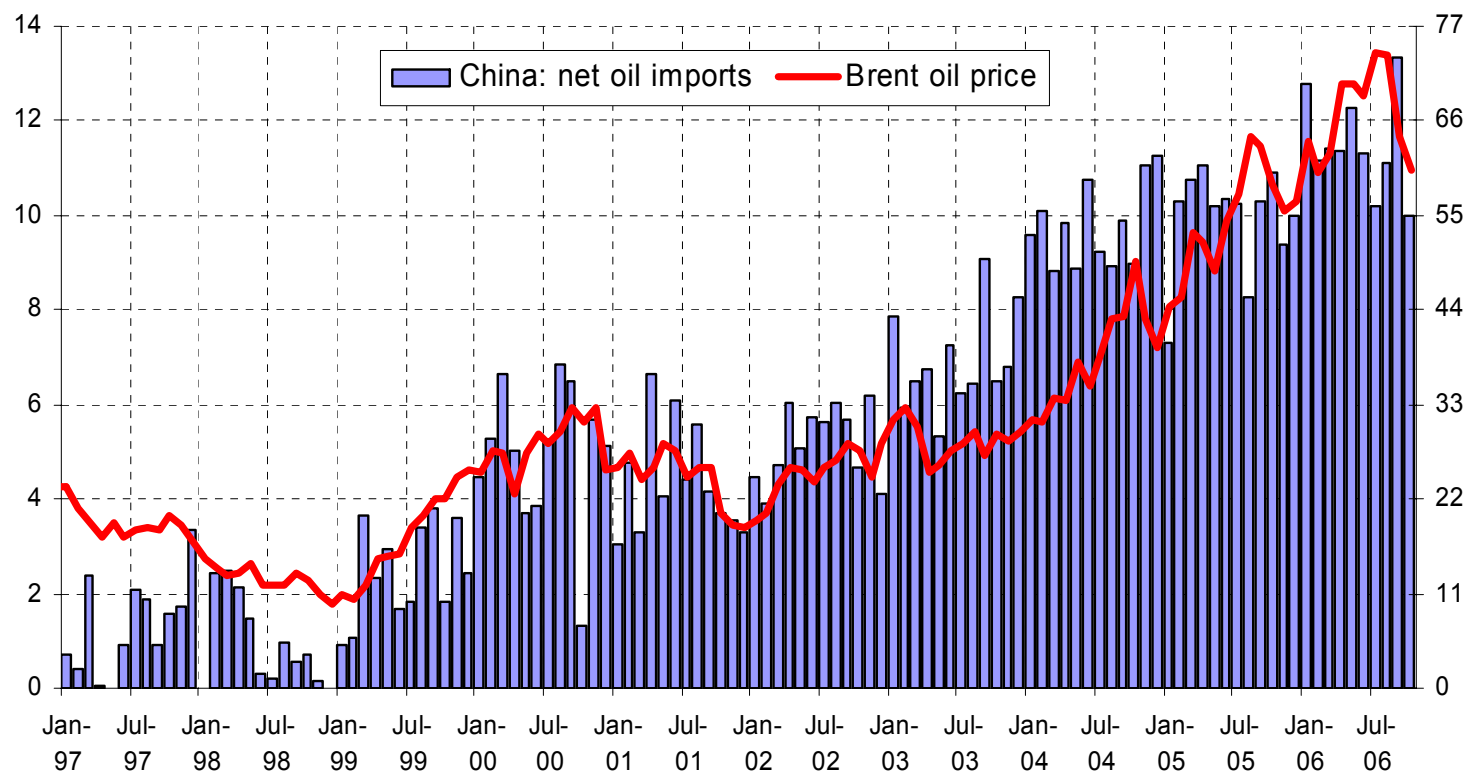
## World market prices of raw materials (excluding oil)

(Index, 2000=100)



Source: Hamburgisches Welt-Wirtschaftliches-Archiv (HWWA)

## 4 China's net oil imports and Brent oil price



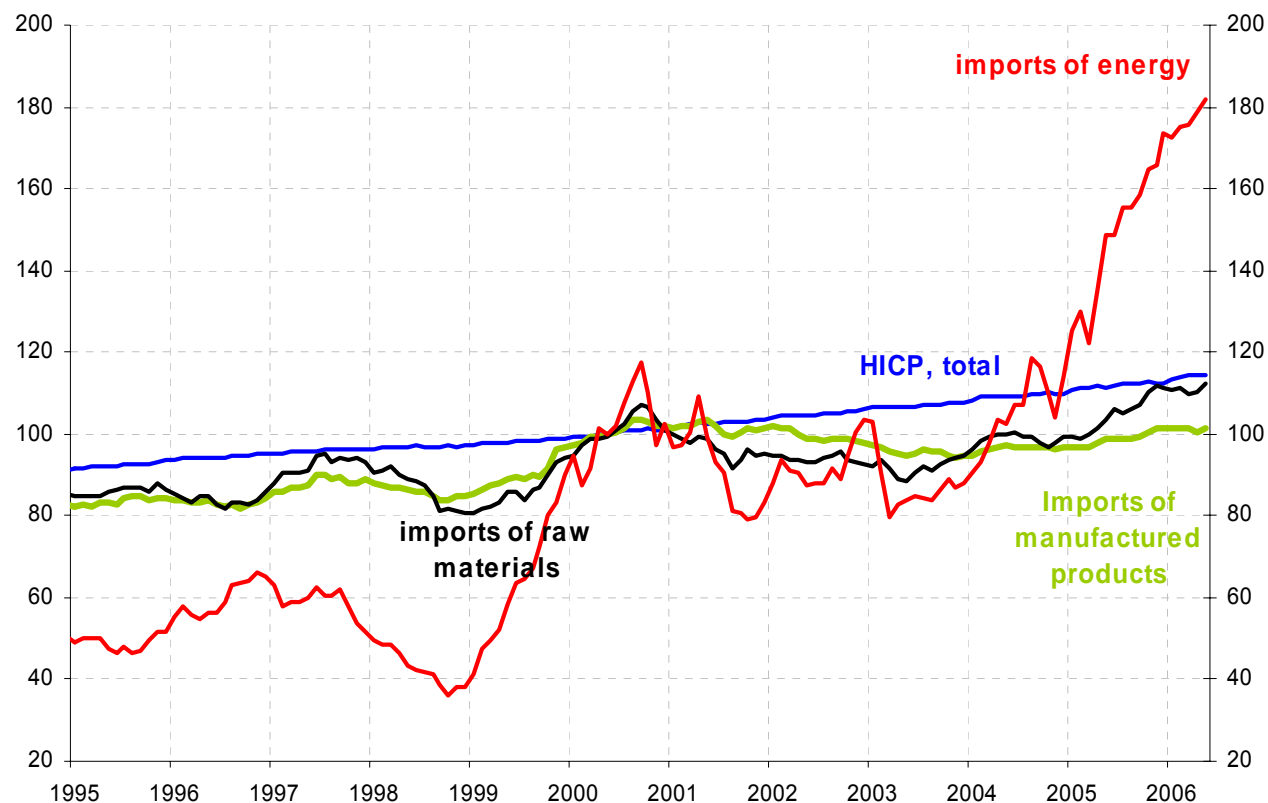
*Note: China's net oil imports: left-hand scale, monthly data, millions of tons. Brent oil price: right-hand scale, US dollars per barrel, monthly averages. Latest observation: October 2006*

*Source: China General Administration of Customs, Bloomberg, ECB calculations.*

# 5 Consumer prices and import prices in the euro area: dynamics and trends

## Euro area import unit value indices

(Indices: 2000=100; monthly data – last observation refers to July 2006)

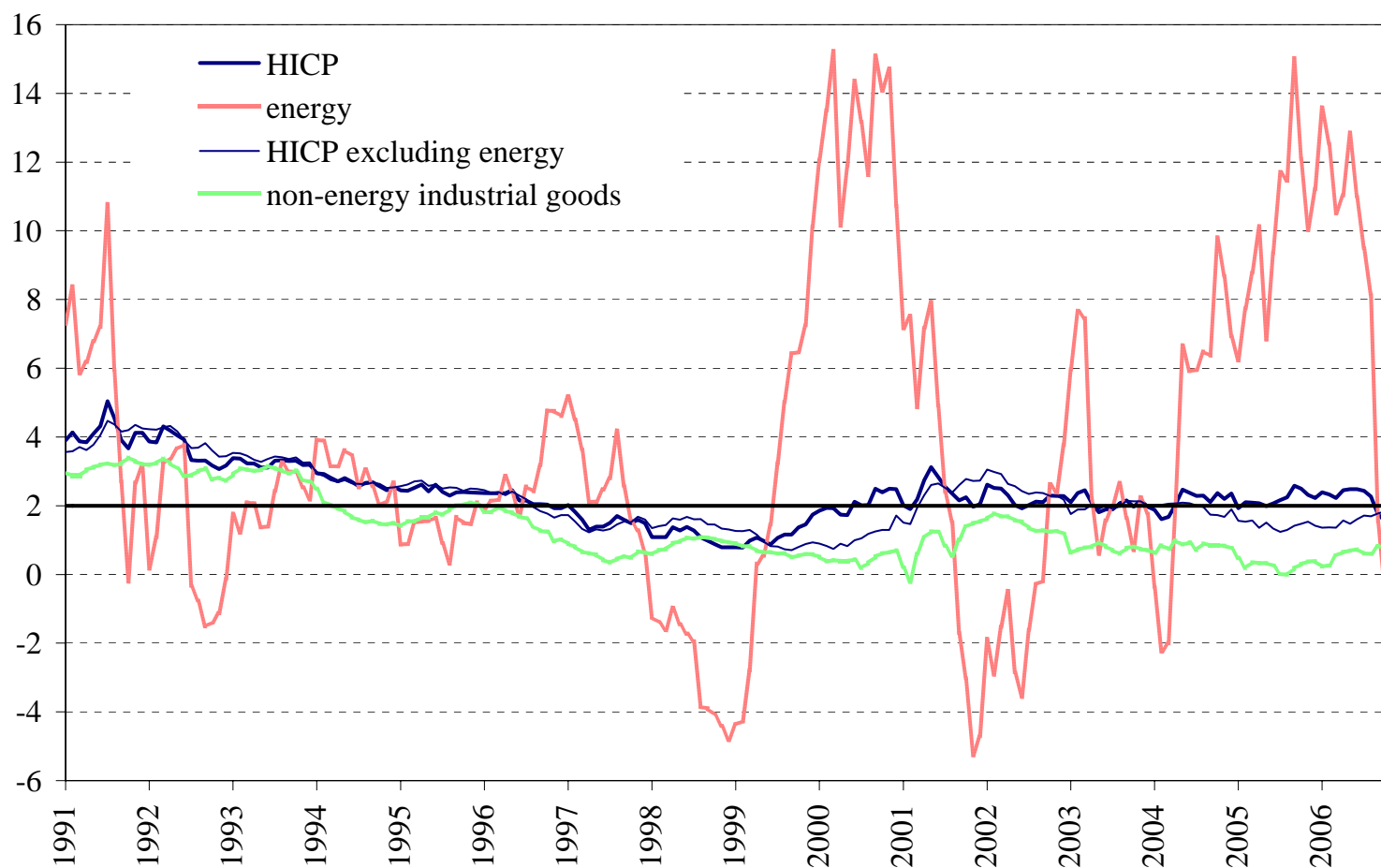


Source: Eurostat, OECD

Note: HICP (Harmonized Index of Consumer Prices). Imports of energy include oil and gas.

# 6 Euro area HICP inflation and components

(annual percentage changes)

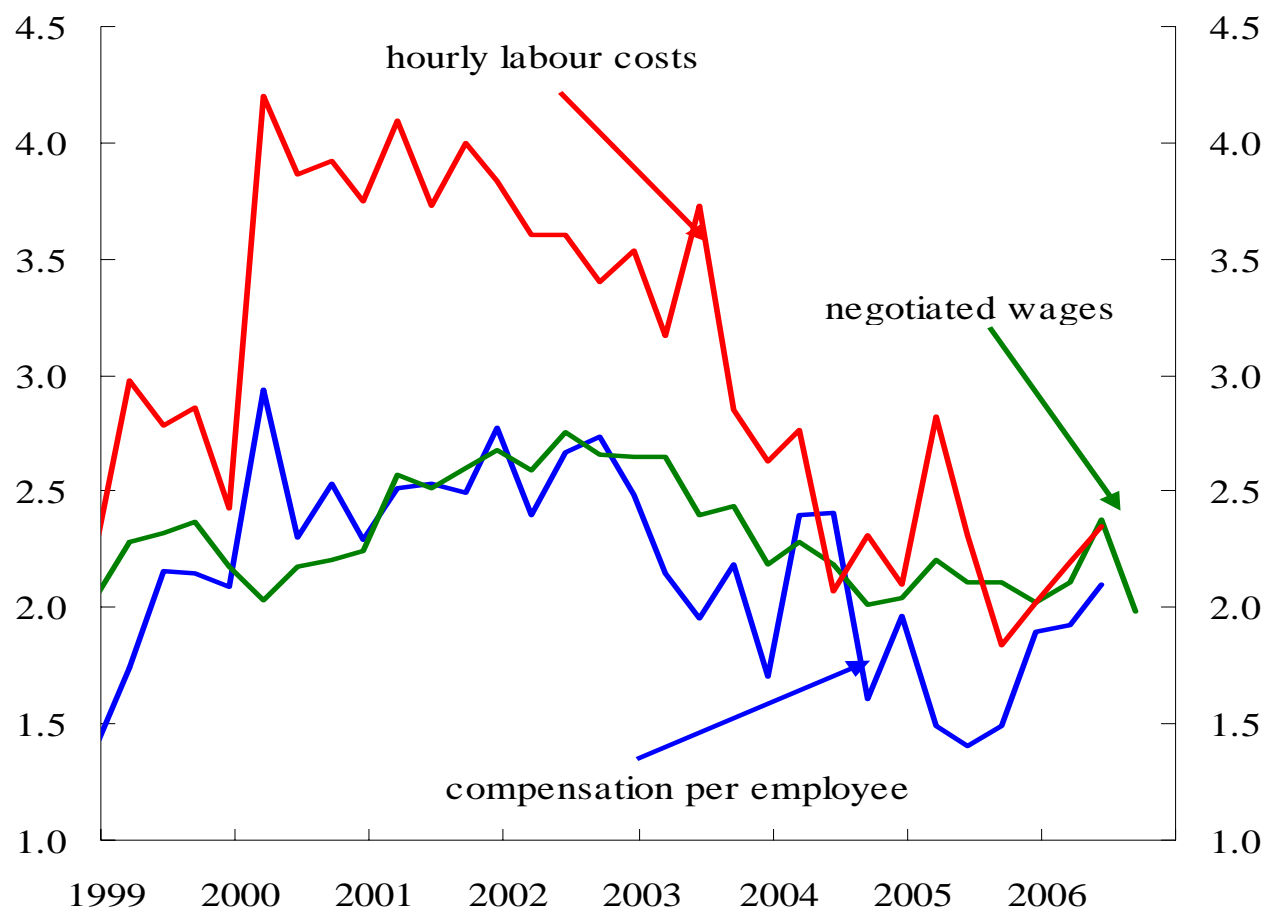


Source: Eurostat

Note: Latest observation October 2006



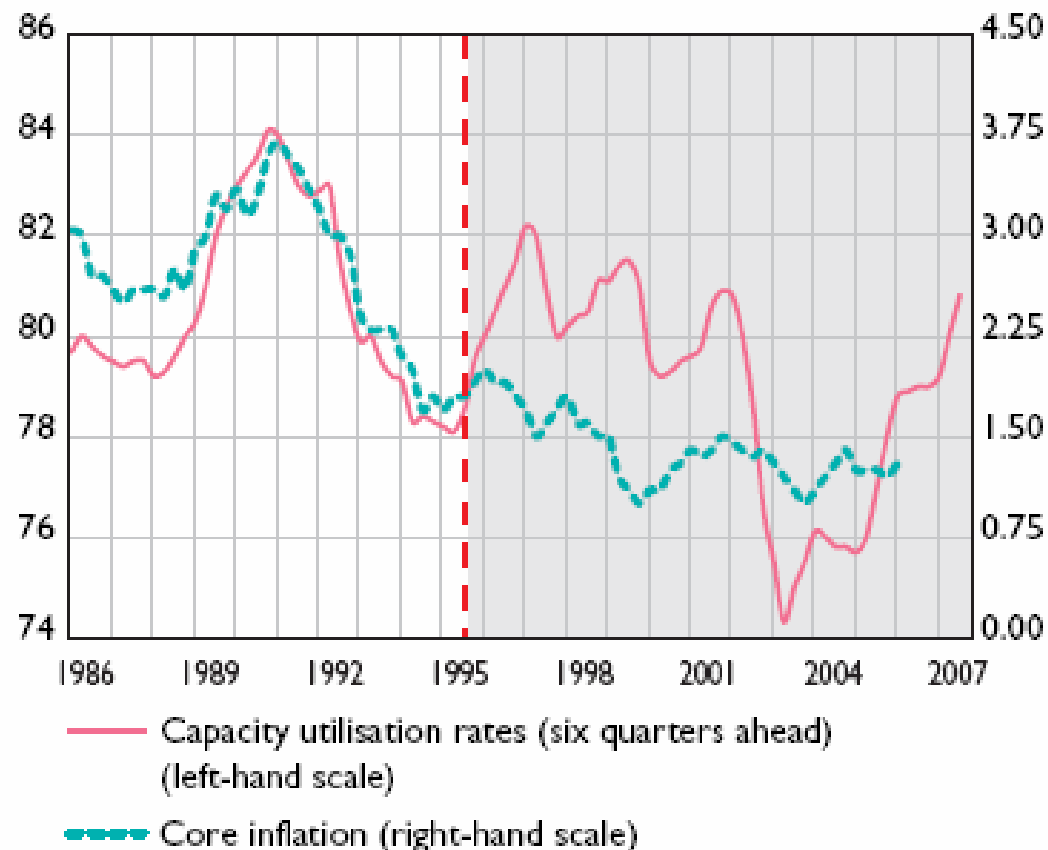
# 7 Euro area labour cost developments



Source: Eurostat, national data and ECB calculations.

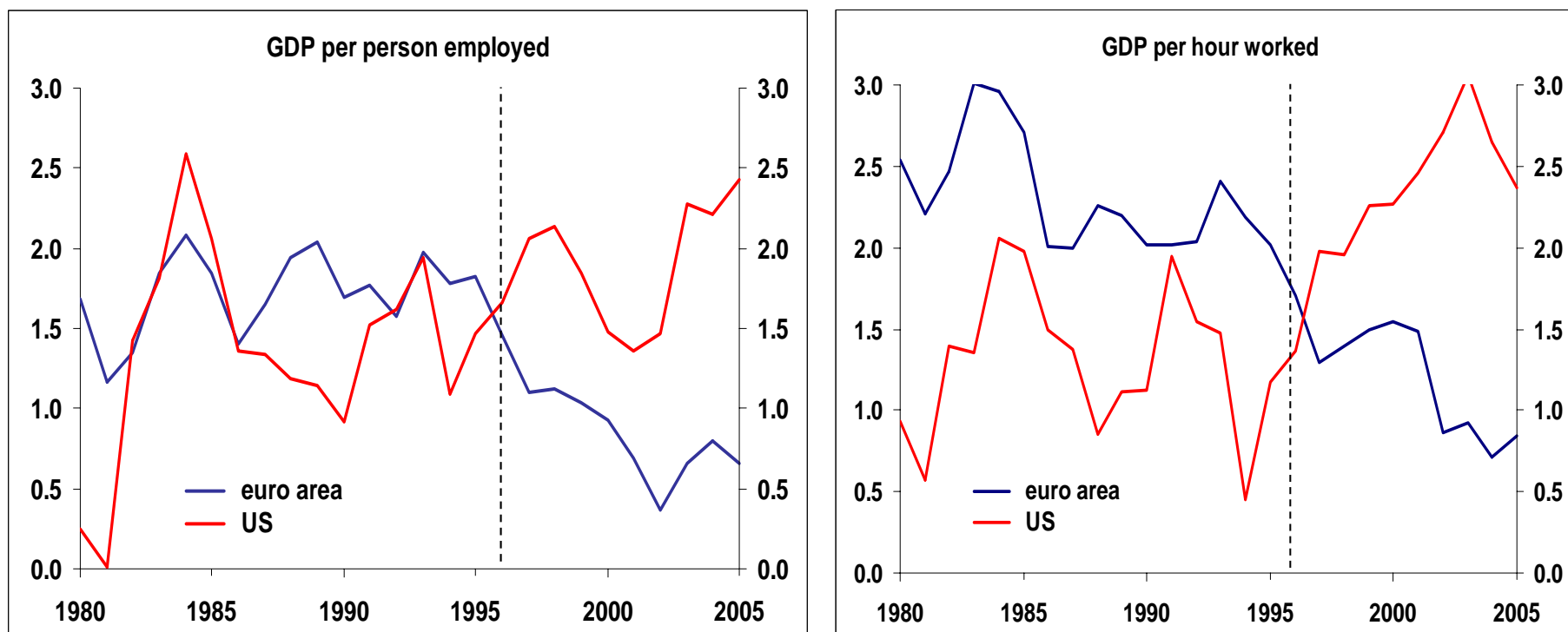
## 8 Capacity utilisation and core inflation in the G 10 economies

(in percent)



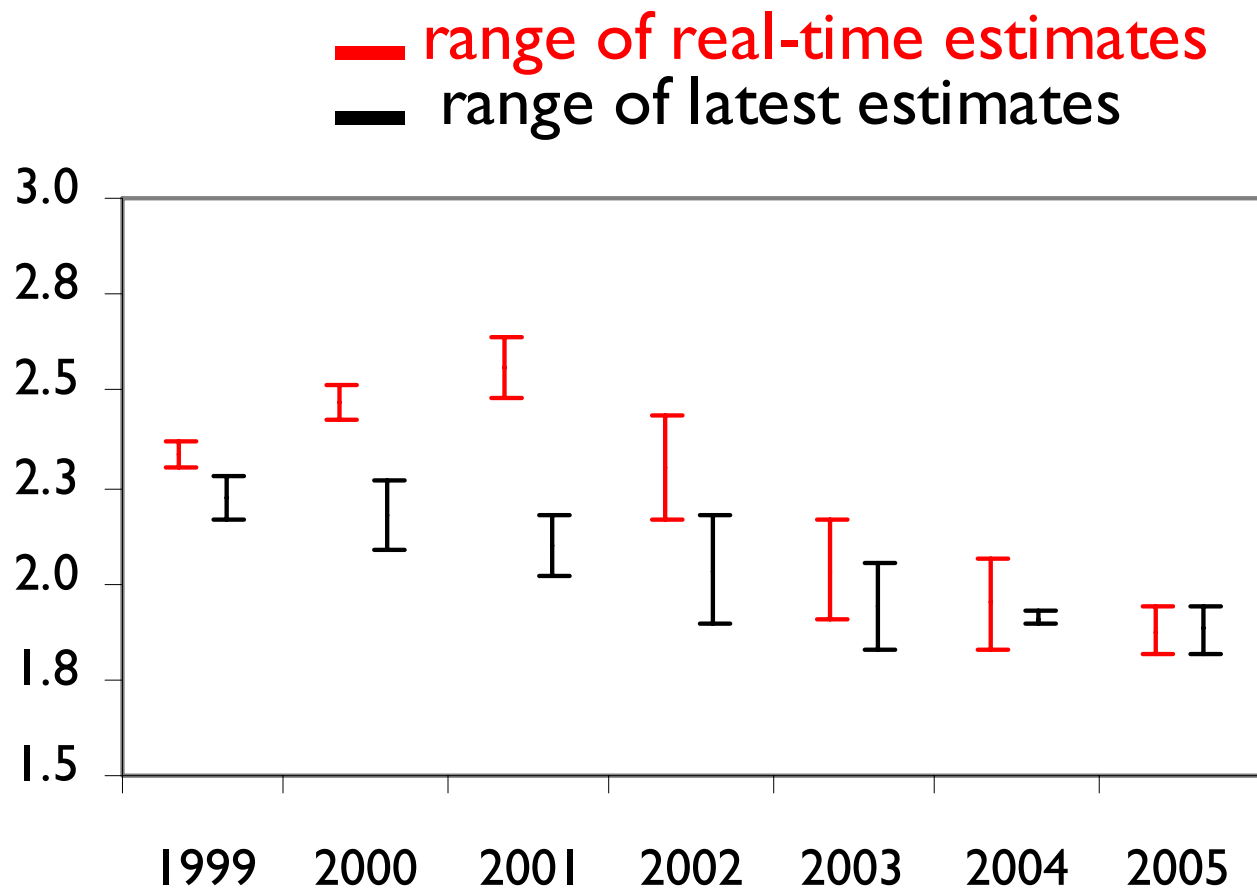
Source: L. Frey and G. Moec, "Are we heading towards a heightening of global inflationary pressures?", Banque de France Bulletin Digest, 153, September 2006.

# 9 Turnaround in labour productivity performance in the euro area and the US since the mid-1990s



Source: European Commission (AMECO database), and Groningen Growth and Development Centre Total Economy Database and ECB calculations. Data shown are three-year centred moving averages.

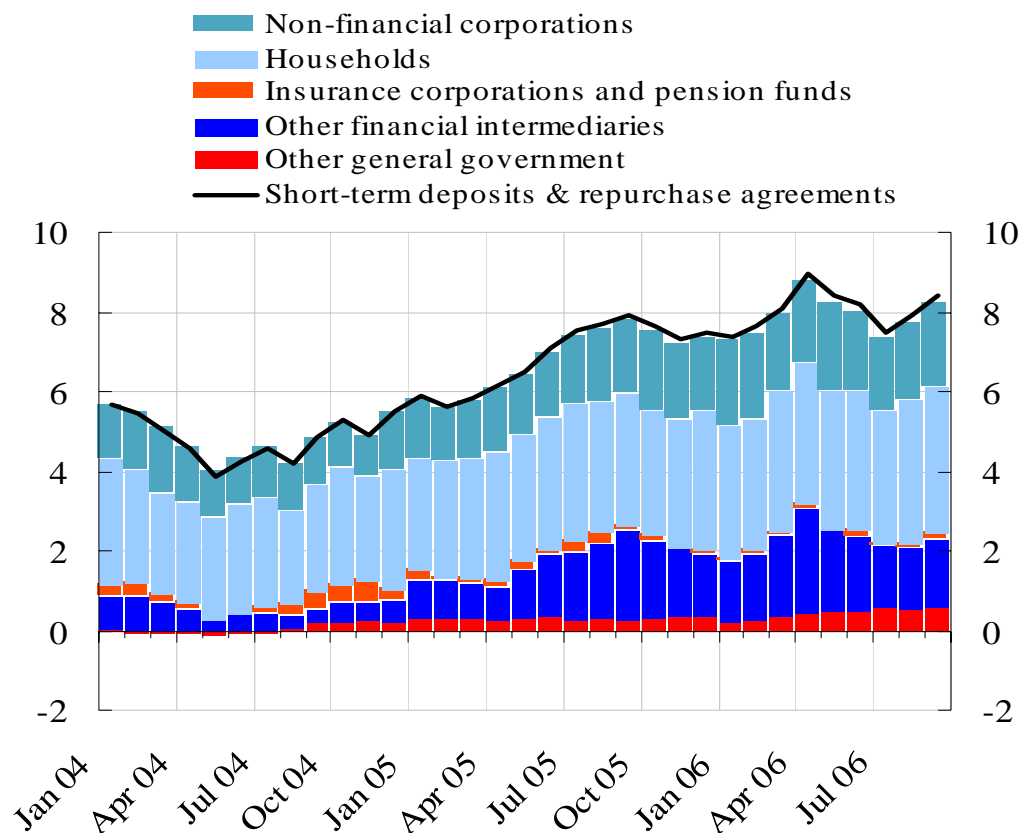
# 10 Revisions to euro area potential output growth estimates from international organisations



Source: IMF, European Commission and OECD

# II The contribution of non-monetary financial intermediaries to M3

## Short-term deposits and repurchase agreements by sector (annual percentage changes and contributions in percentage points)

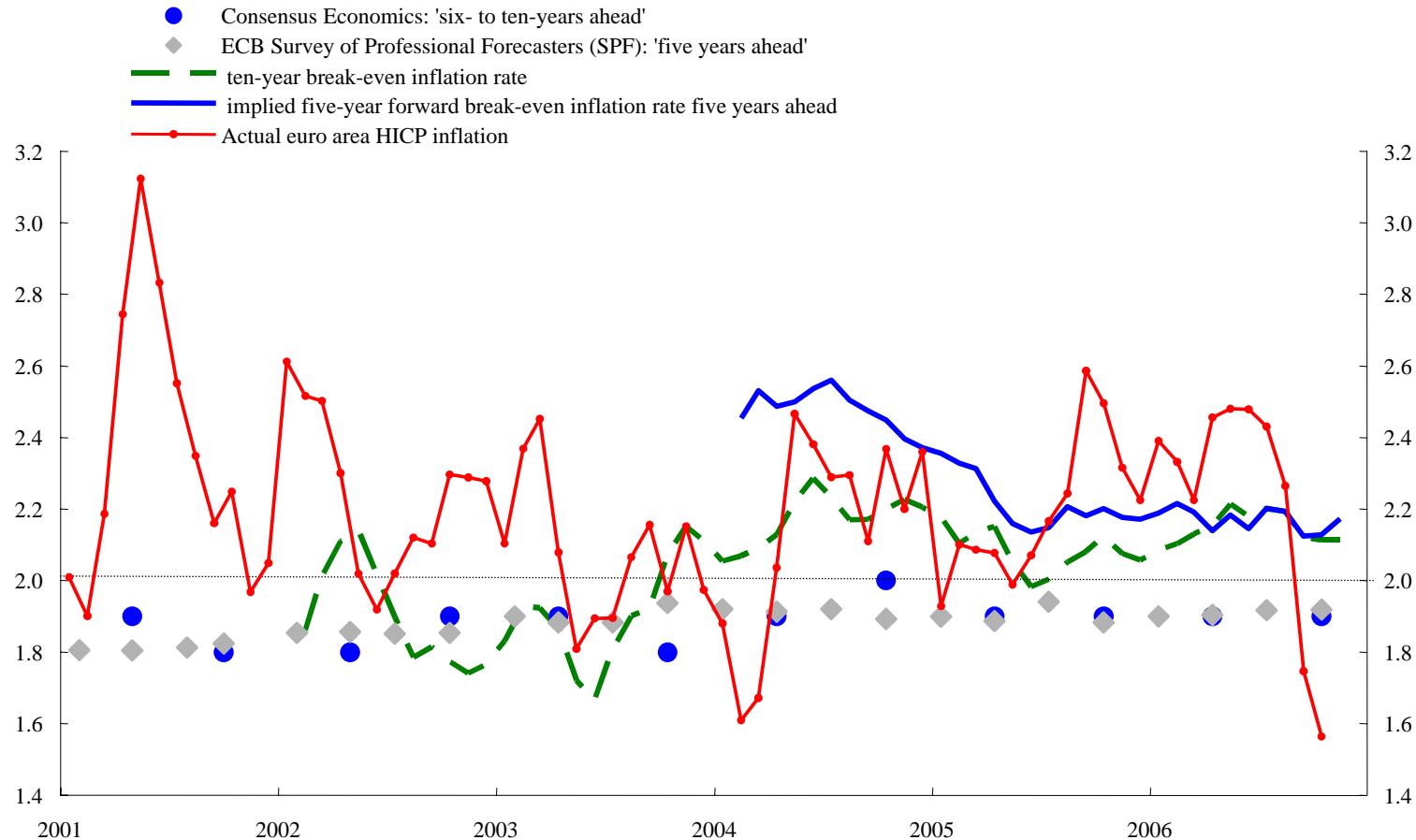


Source: ECB and ECB calculations.

Note: Data on OFI holdings of short-term deposits are only available since January 2003.

# 12 Commitment and credibility: inflation expectations and actual inflation

(average annual percentage changes)

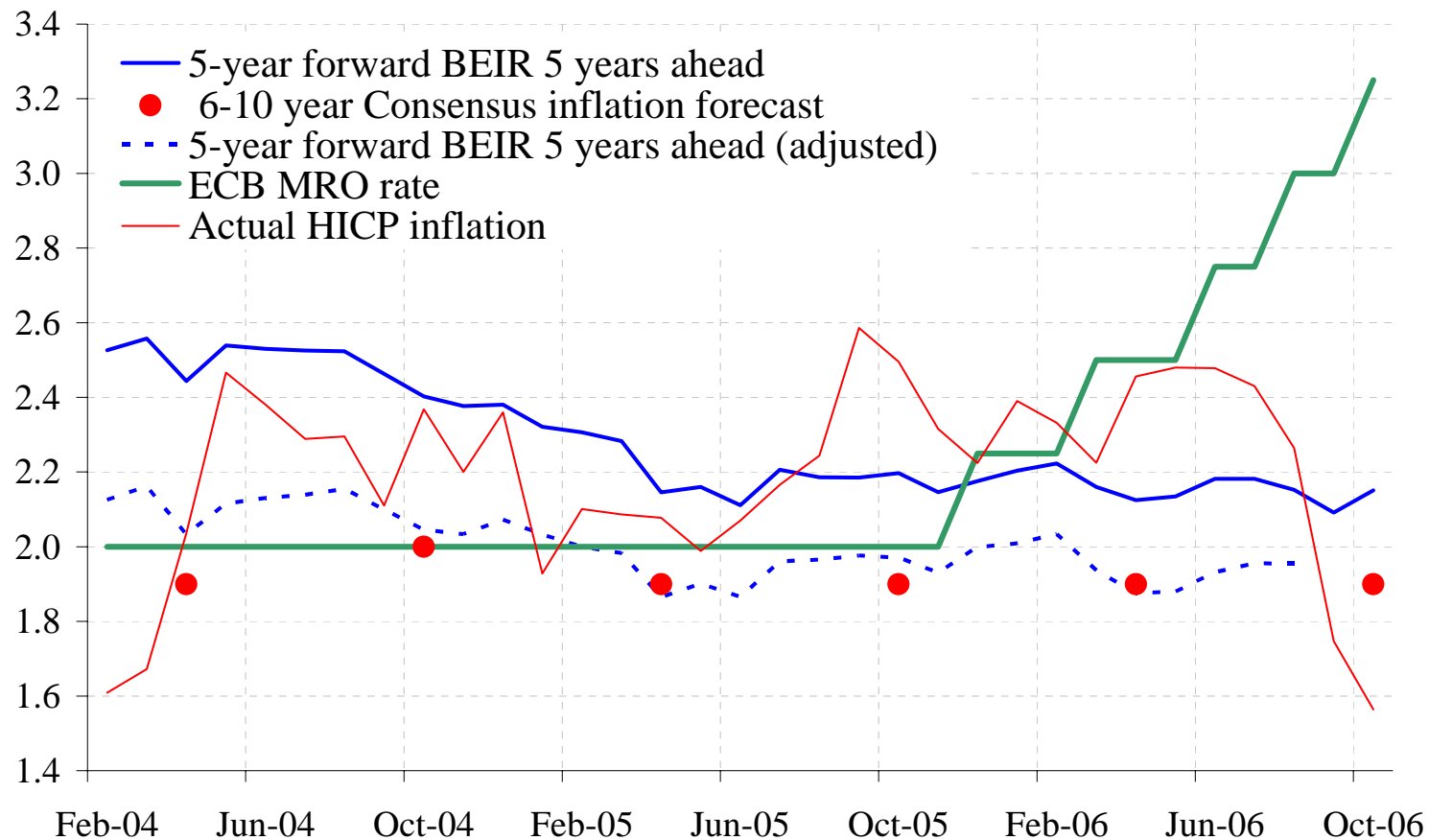


Source: Consensus Economics, ECB, Reuters, Eurostat and ECB calculations.

Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter. Latest Consensus Economics survey refers to 2012-2016. Latest ECB SPF refers to 2011.

# 13 Commitment and credibility: inflation, inflation expectations, policy interest rates

*average annual percentage changes*



Source: Consensus Economics, ECB, Reuters, Eurostat and ECB calculations.

Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter. Latest Consensus Economics survey refers to 2012-2016.