# Workshop on Monetary Policy and Asset Prices:

# Lessons from the Crisis and New Tools

## *Welcome Address and Introductory Remarks (3 May 2018)*

**Olivier GARNIER, Director General, Economics & International Relations**

Good morning,

It is a great pleasure for me to welcome you at the Banque de France and to open this workshop on "monetary policy and asset prices".

We are very fortunate to have here a group of leading academics and central bankers to discuss the lessons and prospects from the recent experience of unconventional monetary policies (UMPs).

Let me first thank Sarah Mouabbi and Jean-Guillaume Sahuc for having set up this workshop and gathered such a high-level group of experts. I am very glad that this event is held here in Paris at Banque de France. I interpret it as a tribute to the excellence and influence of the research work which is produced by our staff in the area of monetary policy. Indeed, Sarah and Jean-Guillaume, as well as their colleagues, have been at the forefront of research studies that aim at quantifying the effects of unconventional monetary policies. My tribute is all the more sincere that I joined the Bank only last September, and therefore I cannot take credit for the success of this research program!

I would also like to express special thanks to our speakers, and especially to our three distinguished keynote speakers coming from the European Central Bank and the US Federal Reserve System. We have the privilege to have with us the top monetary policy advisors of both institutions. Thanks again to Frank Smets, Thomas Laubach and Glenn Rudebusch for being with us in Paris.

Before giving the floor to Frank, let me share with you a few thoughts on this workshop topic. As former Fed Chairman Ben Bernanke famously quipped a few years ago, "*the problem with QE is that it works in practice, but it does not work in theory*". And this candid remark is at the core of what I coin the "original sin" of unconventional monetary policy. Ten years after the implementation of the first UMP measures, we –central bankers - are still not yet fully comfortable with them, because we are not yet fully able to assess and quantify precisely their effects (including their side-effects), and thus to calculate the right dose to be injected. In other words, we are still like doctors testing with some success experimental treatments on real patients, but who cannot be certain of prescribing the right dose during the right period of time.

The three topics at the agenda of this workshop are good examples of this lingering uncertainty and of the need to further improve our models for assessing and quantifying the effects of UMP.

First topic: "new normal, new tools". There is still a lot of uncertainty about what should be the future "new normal" in terms of monetary policy tools. For instance, what should be the optimal size of central banks' balance sheets in the "new normal"? There is so far no precise answer to this question.

Second topic at the agenda: "the low interest rate environment". Take the example of the modelling of the term structure: there is a very wide range of estimates for the term premium, depending of the model and whether or not the effective lower bound is taken into account. This makes it difficult to use these estimates as an input to policy decisions.

Third and last topic to be addressed tomorrow afternoon: "the macroeconomic effects of unconventional monetary policy tools". We have to acknowledge that we are still far from being able to provide our monetary policy committees with elasticities for UMP tools in the same way as we are used to do for policy interest rate changes.

Let me wish that this workshop will help to erase the "original sin" of unconventional monetary policy!

And now, it is high time for me to introduce our first session "New normal/new tools", which will start with a special keynote speech by Frank Smets, Director General for Economics at the ECB.