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## *Financial Crisis Highlights Role of Central Bank, Room for Improvement: C.D. Howe Institute*

Toronto, Jan. 20, 2009 – The financial crisis underscores the role of monetary policy in ensuring the economic prosperity of Canadians, and highlights areas for improvement, according to a study released today by the C.D. Howe Institute. In *What is the Ideal Monetary Policy Regime? Improving the Bank of Canada's Inflation-targeting Program*, author Michael Parkin says that while much is right with the Bank of Canada's inflation-targeting regime, improvements should be considered in the lead-up to the 2011 renewal of the program.

To move toward a better policy program, says Parkin, the Bank should address several areas, including:

- Price-level targeting: Target the level of the consumer price index, rather than the inflation rate, ensure that it rises by 2 percent a year, and commit to lowering this rate of increase over the coming decade, until true price-level stability is achieved. The big difference with current policy is that price-targeting would require the Bank to "undo" past deviations from the target, rather than letting bygones be bygones.
- Financial stability monitoring: Closely monitor financial stress indexes, asset prices, and the price of risk. When financial instability is present or likely, the Bank should modify interest rate policy to head off incipient crises, and explain the concern and the reason for action.

Professor Parkin says the improvements he describes will help move Canadian monetary policy closer to the goals of stabilizing the value of money and minimizing the volatility of output.

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The C.D. Howe Institute is Canada's leading independent, nonpartisan, nonprofit economic policy research institution. Its individual and corporate members are drawn from business, universities and the professions.

The study is available at [www.cdhowe.org](http://www.cdhowe.org).

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*What is the Ideal Monetary Policy Regime? Improving the Bank of Canada's Inflation-targeting Program*, C.D. Howe Institute Commentary No. 279, by Michael Parkin (January 2009). 25 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-778-X.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at [www.cdhowe.org](http://www.cdhowe.org).