

# Experience With Inflation Targeting in Emerging Markets

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# Outline

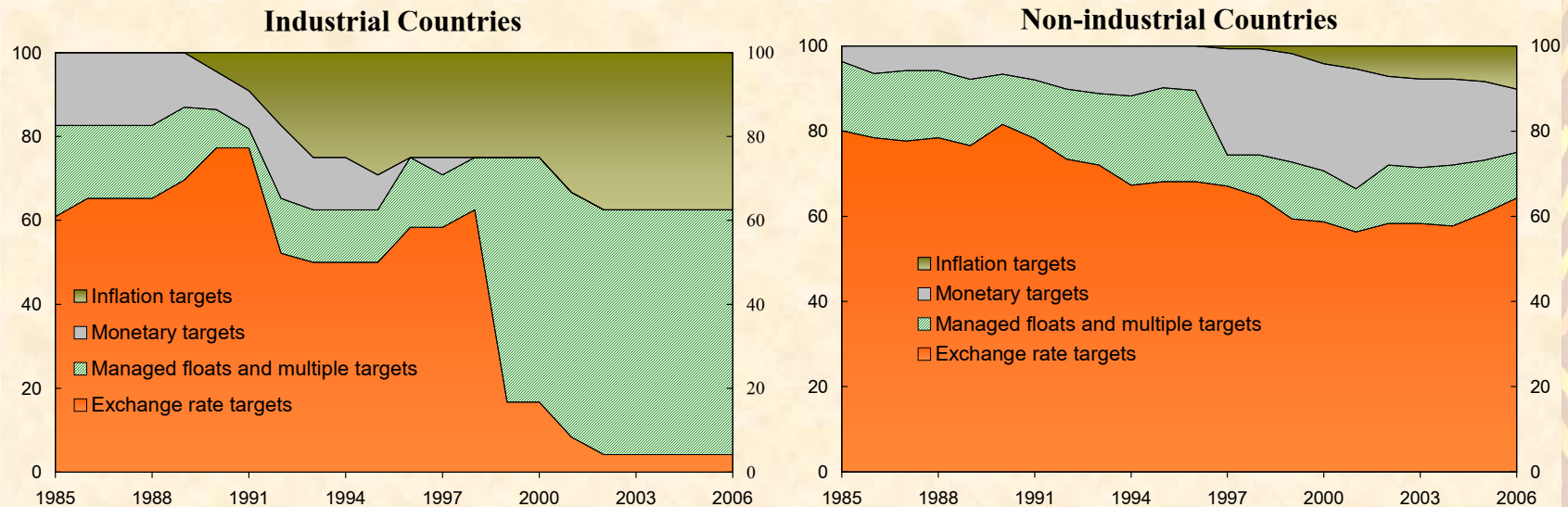
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- Who is adopting inflation targeting?
- How have inflation targeters performed?
- What are the challenges for adopting IT in emerging markets?

# Part I. Who is Adopting Inflation Targeting?



# The Shift Toward Inflation Targeting



- Industrial countries phased out exchange rate pegs and monetary aggregates
- Non-industrial countries with flexible exchange rates have adopted single target regimes

# Why is IT Popular?

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- Global integration has led to more flexible exchange rate regimes
- Agreement on merits of low-inflation
- Financial development has reduced the effectiveness of monetary aggregates
- IT in industrial countries has been a success

# Emerging Markets

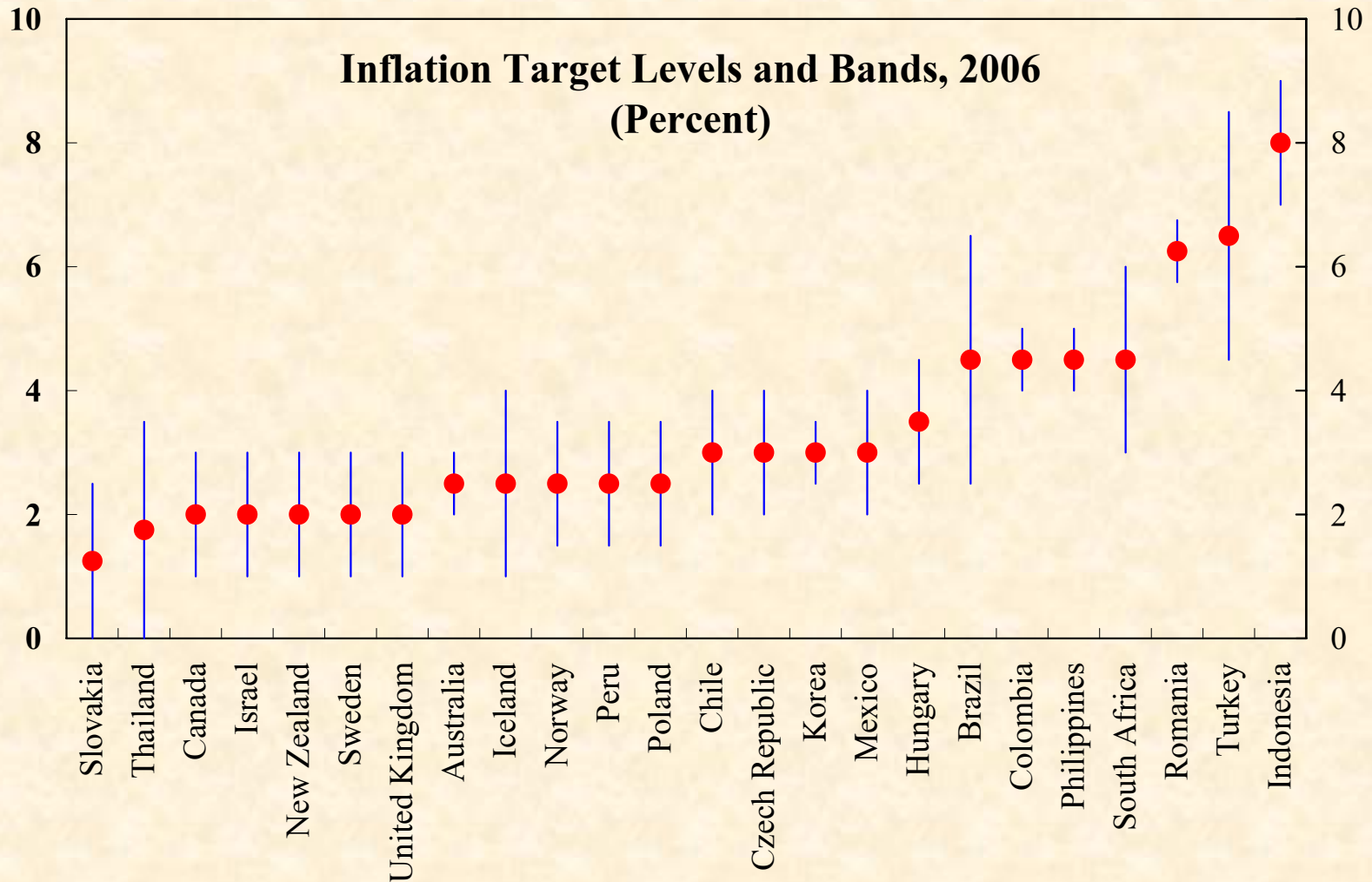
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- Is IT the best monetary policy framework for emerging/developing countries?
- Are the preconditions too demanding?
- Can it be sustained in a less benign environment?

# Part II. How Have Inflation Targeters Performed?

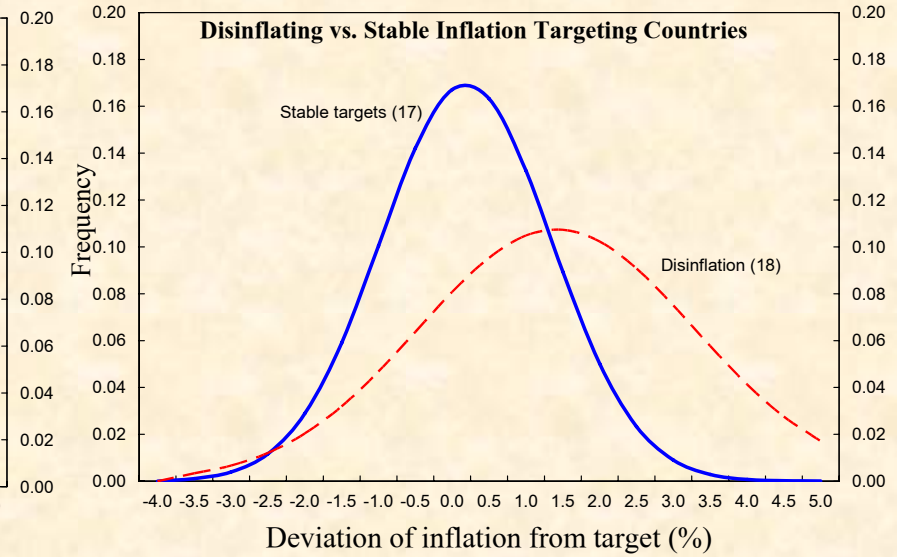
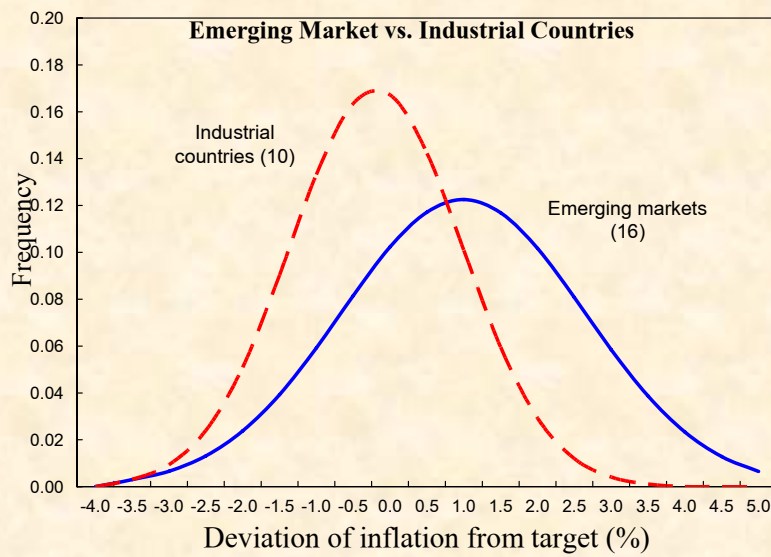


# Target Levels and Bands



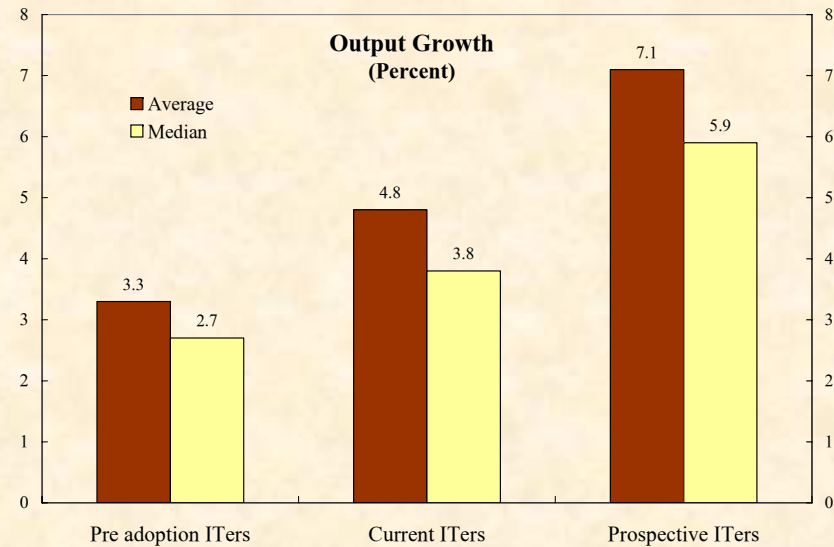
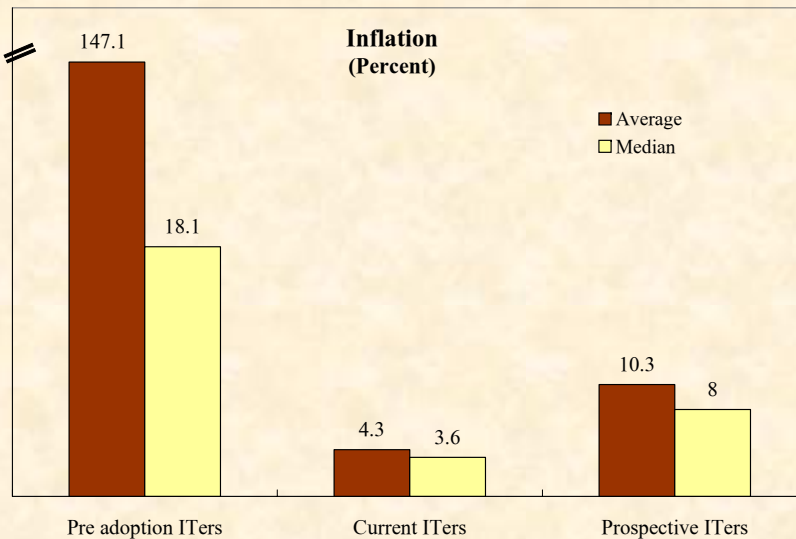


# Performance Against Targets



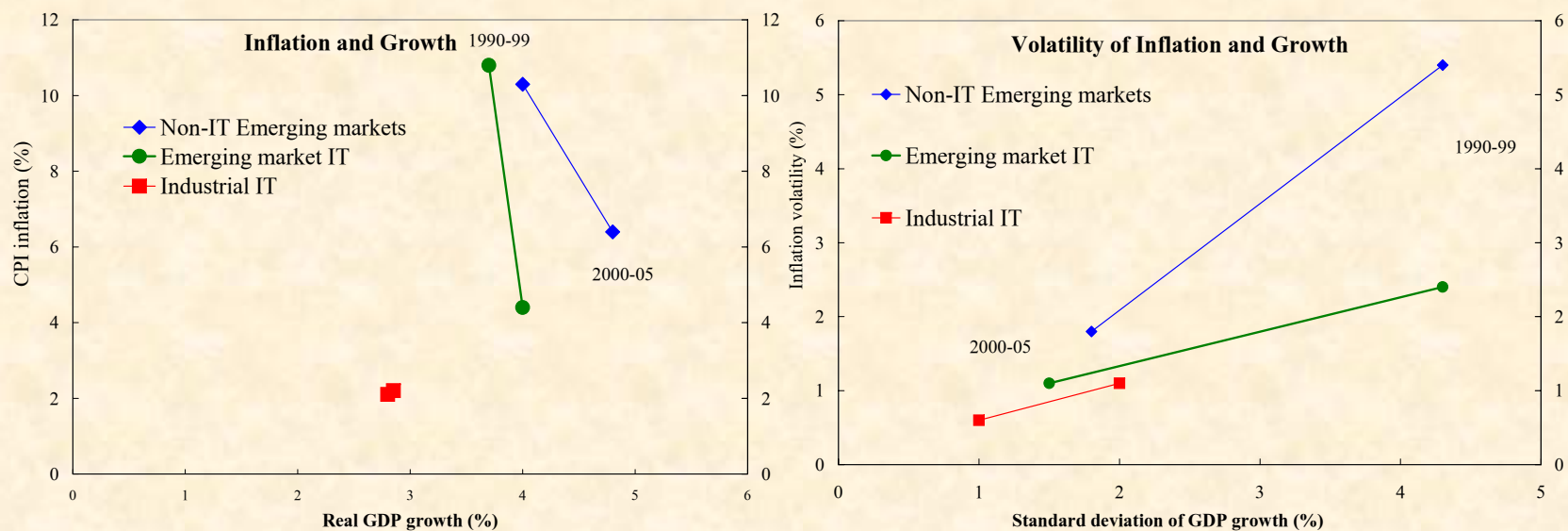
- Industrial economies have generally performed better
- But primarily reflects difference during periods of disinflation

# Macroeconomic Performance



- Inflation has generally declined
- Growth has remained robust

# Macroeconomic Performance: IT vs Non-IT Emerging Markets



- IT group more success at reducing inflation
- Both groups reduced volatility significantly

# Some Caveats

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- Identifying causality – IT versus other factors. Many IT countries had broad reform agendas.
- There have been problems.
  - Exchange rate goals and the inflation target (e.g., Romania, Chile, and Hungary)
  - Disruptive shifts in investor sentiment (e.g., Brazil and Philippines)

# Part III. Challenges for Adopting IT in Emerging Markets



# Mandate and Accountability

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