Experience With Inflation Targeting in Emerging Markets

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Outline

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?

- 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

- 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?
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

- 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