Inflation Targeting: Lessons from Four Countries

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Introduction

The key issue facing central banks as we approach the end of the twentieth century is what strategy to pursue in the conduct of monetary policy. One choice of monetary strategy that has become increasingly popular in recent years is inflation targeting, which involves the public announcement of medium-term numerical targets for inflation with a commitment by the monetary authorities to achieve these targets. This study examines the experience in the first three countries that have adopted such an inflation-targeting scheme—New Zealand, Canada, and the United Kingdom—as well as in Germany, which adopted many elements of inflation targeting even earlier. Through close examination of the experience with inflation targeting, both how targeting operates and how these economies have performed since its adoption, we seek to obtain a perspective on what elements of inflation targeting work as a strategy for the conduct of monetary policy.[1]

Before looking in detail at the individual experiences of these countries, we first discuss the rationale for inflation targeting and the design issues that arise in implementing an inflation-targeting strategy. Then, after the case studies of the individual countries, we provide some preliminary evidence on the effectiveness of inflation targeting in these countries and conclude with an assessment of the inflation-targeting experience.

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