ELSEVIER European Economic Review 41 (1997) 1111–1146

EUROPEAN ECONOMIC REVIEW

Inflation forecast targeting: Implementing and monitoring inflation targets

Lars E.O. Svensson *

Institute for International Economic Studies, Stockholm University, S-106 91 Stockholm, Sweden
CEPR, London, UK
NBER, Cambridge, MA 02138, USA

Received 15 June 1996; accepted 15 October 1996

Abstract

Inflation targeting is shown to imply inflation *forecast* targeting: the central bank's inflation forecast becomes an explicit intermediate target. Inflation forecast targeting simplifies both implementation and monitoring of monetary policy. The weight on output stabilization determines how quickly the inflation forecast is adjusted towards the inflation target. Money growth or exchange rate targeting is generally inferior than inflation targeting and leads to higher inflation variability. Commitment to 'target rules' may be better than commitment to 'instrument rules'. © 1997 Elsevier Science B.V.

JEL classification: E42; E52; E58

Keywords: Inflation targeting; Forecast targeting; Monitoring monetary policy

1. Introduction

In recent years a number of countries (New Zealand, Canada, U.K., Sweden, Finland, Australia and Spain) have instituted explicit inflation targeting. An

* Tel.: (+46) 8-163070; fax: (+46) 8-164177; e-mail: Lars.Svensson@iies.su.se.

0014-2921/97/$17.00 Copyright © 1997 Elsevier Science B.V. All rights reserved.
PII S0014-2921(96)00055-4

inflation-targeting regime has several characteristics. The crucial one is a quantitative inflation target, typically 2 percent per year. In most cases there is also an explicit tolerance interval around the inflation target, typically ± 1 percentage point. Finally, there is no explicit intermediate target, such as a money growth target or an exchange rate target (except for Spain which, as a participant of ERM, also has an exchange rate target). As argued in Leiderman and Svensson (1995, Introduction) the last characteristic is not crucial; (temporary) intermediate targets are not inconsistent with an inflation target, as long as the inflation target has priority if a conflict arises. [1]

The purpose of this paper is to examine inflation targeting with regard to potential problems with its implementation by the monetary authority and its monitoring by the public and market agents. Inflation targeting has some obvious general advantages, and some potentially serious problems. The general advantages include focusing monetary policy directly on achieving the goal of low and stable inflation. With a specified quantitative target, it provides an ex post measurement of monetary policy performance, namely realized inflation relative to the inflation target. It also provides measurement of the credibility of monetary policy, in the form of measures of inflation expectations relative to the inflation target. Both these measurements simplify the evaluation of monetary policy and thereby the accountability of monetary policy is increased. By increasing accountability, inflation targeting may serve as a potential commitment mechanism, reduce or eliminate any inflation bias (for instance, due to the reasons examined in Barro and Gordon (1983)) and increase the likelihood of achieving and maintaining low and stable inflation, as well as anchoring and stabilizing inflation expectations.

More specifically, as demonstrated in Svensson (1996c), in a framework where discretionary monetary policy leads to an inflation bias (for instance due to an implicit employment target that exceeds the natural rate of employment, as in Barro and Gordon (1983)), a low inflation target may also reduce or even remove the inflation bias. In some cases it may lead to the same equilibria as the linear inflation contracts proposed by Walsh (1995b) and extended by Persson and Tabellini (1993), but be relatively easier to implement. Since a low inflation target need not distort the relative output/inflation variability, 'inflation-target conservative' goals (that is, with a lower inflation target) for the central bank may lead to better equilibria than Rogoff's 'weight conservative' goals for the central bank (that is, with a higher weight on inflation stabilization) Rogoff (1985) .

However, inflation targeting faces some potentially serious problems with

[1] See the papers in Leiderman and Svensson (1995) and Haldane (1995), as well as Ammer and Freeman (1995) and McCallum (1995), for discussion of and details on inflation targeting.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات