بسم الله الرحمن الرحيم

هذالفزارى تورم

مهر 1393
Outline

• Inflation Targeting (IT) in the World

• What is IT?

• Pre-conditions

• Some examples
Introduction

• After decades of blood, sweat, and tears (i.e., moderate, high and hyper inflation) and a revolution (the rational-expectations revolution in macroeconomics), the consensus among macroeconomists and policy makers is:
  (1) monetary policy is the cause of inflation in the long run, and
  (2) low and stable inflation is a necessary (but not sufficient!) condition for macroeconomic stability, growth, and people’s welfare
The Great Moderation
Evolution of monetary regimes
Number of inflation targeters, 1990-2014
ITer’s Inflation: Americas (%)
Iter’s Inflation: High Income Asia-Pac
ITer’s Inflation: Middle Income Asia-Africa
Do ITers have lower inflation?

<table>
<thead>
<tr>
<th></th>
<th>CG1 (NITers and pre-ITers)</th>
<th>CG2 (NITers)</th>
<th>CG3 (pre-ITers)</th>
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<tbody>
<tr>
<td>All ITers (OLS)</td>
<td>-1.9%</td>
<td>zero</td>
<td>-5.0%</td>
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<td>All ITers (IV)</td>
<td>-4.8%</td>
<td>zero</td>
<td>-5.0%</td>
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<tr>
<td>Industrial (IV)</td>
<td>zero</td>
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<td>Emerging (IV)</td>
<td>-7.5%</td>
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<td>-6.4%</td>
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<td>Stationary (IV)</td>
<td>-2.1%</td>
<td>zero</td>
<td>zero</td>
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<tr>
<td>Converging (IV)</td>
<td>-8.0%</td>
<td>zero</td>
<td>-8.2%</td>
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</table>

Note: CG is country-control group; zero is statistically zero.
Inflation Deviations from Targets
Absolute deviation from Targets (%)
Targets change over time

Index goes from 0 to 1 (not changed once to changed every period), conditional on positive or negative change.
Central Bank Transparency

• Transparency: Extent to which a CB practices information disclosure
• Measuring Central Bank Transparency (overall index runs from 0 to 15)
  • Political transparency (policy objectives)
  • Economic transparency (data, model and forecasts)
  • Procedural transparency (release of minutes and votes)
  • Policy transparency (announcement and explanation of decisions)
  • Operational transparency (implementation of decisions)
Transparency index

Graph showing the transparency index from 1998 to 2006 for different monetary policy targets: All, Exchange rate targeting, Monetary targeting, Inflation targeting, and Other. The index increases over time for all categories.
Transparency and Inflation

Geraats, P (2008)
Transparency and GDP per capital
Monetary policy decisions in ITers

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<td><strong>Short-Run</strong></td>
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<tr>
<td>Δ Inflation_{t-3,t-1}</td>
<td>0.016***</td>
<td>0.015***</td>
<td>0.010***</td>
<td>0.007***</td>
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<tr>
<td></td>
<td>(0.004)</td>
<td>(0.002)</td>
<td>(0.004)</td>
<td>(0.003)</td>
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<tr>
<td>Δ Unemployment_{t-4,t-2}</td>
<td>-0.211***</td>
<td>-0.125***</td>
<td>-0.189***</td>
<td>-0.106**</td>
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<td>(0.055)</td>
<td>(0.026)</td>
<td>(0.064)</td>
<td>(0.054)</td>
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<td>Δ Inflation Forec_{t,t+11}</td>
<td>0.084***</td>
<td>0.032***</td>
<td>0.179***</td>
<td>0.171***</td>
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<tr>
<td></td>
<td>(0.016)</td>
<td>(0.008)</td>
<td>(0.041)</td>
<td>(0.042)</td>
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<tr>
<td>Δ GDP Growth Forec_{t,t+11}</td>
<td>-0.046***</td>
<td>-0.006</td>
<td>0.025</td>
<td>0.078***</td>
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<td>(0.017)</td>
<td>(0.007)</td>
<td>(0.042)</td>
<td>(0.030)</td>
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<td><strong>Long-Run</strong></td>
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<tr>
<td>γ</td>
<td>-0.081***</td>
<td>-0.026***</td>
<td>-0.077***</td>
<td>-0.090***</td>
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<td>(0.006)</td>
<td>(0.004)</td>
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<tr>
<td>Inflation_{t-4,t-2}</td>
<td>0.127***</td>
<td>0.504***</td>
<td>0.079***</td>
<td>0.068***</td>
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<tr>
<td></td>
<td>(0.044)</td>
<td>(0.102)</td>
<td>(0.016)</td>
<td>(0.014)</td>
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<tr>
<td>Unemployment_{t-5,t-3}</td>
<td>-0.068</td>
<td>-0.480***</td>
<td>-0.152***</td>
<td>-0.074*</td>
</tr>
<tr>
<td></td>
<td>(0.094)</td>
<td>(0.166)</td>
<td>(0.057)</td>
<td>(0.044)</td>
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<tr>
<td>Inflation Forec_{t-1,t+10}</td>
<td>0.944***</td>
<td>0.653***</td>
<td>0.881***</td>
<td>0.841***</td>
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<td>(0.123)</td>
<td>(0.252)</td>
<td>(0.081)</td>
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<tr>
<td>GDP Growth Forec_{t-1,t+10}</td>
<td>0.392**</td>
<td>0.452*</td>
<td>0.178***</td>
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<td>(0.167)</td>
<td>(0.272)</td>
<td>(0.068)</td>
<td>(0.065)</td>
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<td>Observations</td>
<td>4,179</td>
<td>3,062</td>
<td>4,179</td>
<td>3,062</td>
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<tr>
<td>Number of Countries</td>
<td>28</td>
<td>28</td>
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</table>

Standard errors in parentheses.
*** p < 0.01, ** p < 0.05, * p < 0.1
Summaries(1)

• IT has been adopted by a relatively small but growing group of countries during the past 25 years
• IT country heterogeneity is very large, including from small to very large countries, which are at very different levels of development
• Adoption of IT has occurred at very different points in time and satisfying different initial conditions
• While most ICs started adopting stationary targets, most EEs started IT with variable annual targets, converging to stationary targets after some years
• ITers also differ in their success of targeting inflation: inflation deviations tend to be larger in EEs. EEs exhibit positive bias while ICs show negative bias in deviations
Summaries(2)

- Econometric evidence shows that inflation deviations from targets in IT countries are significantly reduced (but by small amounts) by central bank formal independence and higher government debt ratings.
- Evidence shows that monetary policy efficiency has increased by large leaps and very significant after IT adoption, but efficiency in stationary ITers still lagged (until 2005 – this may have changed since the crisis) behind efficiency in control group of successful non-ITers.
- CB transparency is higher in IT countries and has increased even more under IT than under other monetary regimes.
- CB transparency is negatively correlated with inflation and with development.
Inflation Targeting
Classification of monetary regimes (by the IMF): by targets or anchors

• Exchange rate target
• Monetary target
• Inflation target
• Other

• (Gerald Bouey) “We didn't abandon monetary targets, they abandoned us”
Flaws of Monetary growth targets

• It works only if monetary aggregates have a highly predictable relationship with nominal income (i.e., if monetary demand is stable)

• Astley and Haldane (1997): none of the monetary aggregates in the 1990s offered sufficiently robust warning signals to justify focusing only on money

• Tallman and Chandra (1996): monetary aggregates contained no significant information for explaining subsequent fluctuations in output growth or inflation

• Most important: money demand was found to be highly unstable – hence the links between monetary targets and ultimate goals of policy (inflation, activity) are weak. Policy is hard to explain to the public

• Hence monetary aggregates are abandoned
Flaws of Exchange-rate targets

• Under ER targeting, there is no independent exercise of monetary policy
• The latter is particularly costly when country faces idiosyncratic shocks (Mundell 1963)
• Fixed exchange-rate regimes are subject to speculative attacks and runs on reserves (Krugman 1982)
• Sharp discrete currency depreciation as a result of currency crisis raises likelihood of full-scale banking and/or debt crisis, leading to deep recession
• Hence exchange-rate targets are abandoned, often after a full-blown financial crisis and recession
Potential advantages of IT

1. Does not require stable relationship between money and inflation
2. Does not require exchange-rate stability
3. Provides nominal anchor for change in inflation: the target is the ultimate goal of monetary policy
4. Is easily understood
5. Informs and anchors inflation expectations
6. Avoids time inconsistency
7. Leads to predictable rule-based policy
8. Provides medium-term policy objective, but allowing for short-term flexibility
IT

• “IT entails *much more* than a public announcement of numerical targets for inflation for the year ahead”

• Inflation targeting is a framework rather than a rigid set of rules for monetary policy
Key components of an IT regime

1. Price stability is explicitly and publicly stated as the main goal of monetary policy
2. A public announcement of a quantitative target for inflation is made
3. Conduct of monetary policy is based on a wide set of information, including inflation forecasts
4. High level of transparency
5. High degree of public accountability of policy decisions and their results
Key for successful monetary (and fiscal) policy: structured hierarchy

• Successful structured hierarchy is based on:
(1) Institutions: permanent frameworks based on laws or administrative regulation
(2) Policy regimes: general frameworks for policy conduct
(3) Procedures (functions) that define policy (as opposed to discretion)
(4) Policies: use of policy instruments to attain policy objectives
  • Examples: monetary policy, fiscal policy
Which inflation measure?

- Underlying or core inflation measure (excludes from CPI: highly volatile prices, government-controlled prices, interest-related expenditure)

- Aggregate CPI

- Today all countries’ IT measure is CPI
Which level?

• Welfare optimality requires inflation to be less than 4-5%

• True inflation is overestimated by official CPI inflation by around 1% per year

• In the absence of a precise definition of price stability, central banks have focused on reducing inflation to a level where people do not worry about it

• In practice, inflation target levels (point targets of mid-pin of range targets) are set at 1-2% in industrial countries and at 2-4% in emerging economies
Point or Range Targets?

• Point target is precise and provides a clear signal of the CB’s objective to markets. Could raise credibility if closely met but weakens credibility if average inflation deviation from point target is high.

• Target range is more likely to be met. However, it reflects higher CB tolerance to inflation deviations from target range mid-point, at a possible cost of credibility. Range could reflect discontinuity (at the limits of the range) in CB’s aversion to inflation deviations.
Length of the target horizon?

- IT is really inflation-forecast targeting
- Length of the target horizon depends on
  - Length of transmission lags of monetary policy
  - CB tolerance to inflation deviations
- In 19 countries with inflation targets of 3% or less, the target horizon is the “medium term”, extending from 1.5 years to up to 4 years into the future
Communication issues

• “Inflation targeting is a framework for making and communicating decisions” King (2005)

• Communications (transparency) and accountability are key to the success of IT, reflected in stable market inflation expectations close to inflation target levels

• Communication strategy depends on decision making structure (decision making body, size and composition of committee, frequency of decision making ...)

• Communication devices:
  • Monetary policy meetings: press conference, press release, minutes
  • Inflation report, models, analysis, forecasts
Inflation forecast Fanchart by the BoC, early 2008
Accountability mechanism

• Accountability to the public, the markets, and the body politic (parliament) is the counter-part to CB independence

• Mechanisms:
  • Open letters to Minister of Finance or Parliament
  • Parliamentary hearings
IT cons (or disadvantages)

• Monetary authorities can neither directly nor easily control inflation
• Monetary lags imply that variable time periods must pass before people and markets can evaluate the success of monetary policy in attaining its inflation target
• Preeminent focus on inflation under IT implies weaker CB commitment to other policy objectives – foremost output stabilization, then financial stabilization
• “Excessive” or dominant weight on inflation objective could weaken political support by the government, parliament or public opinion to the IT framework and, in the extreme, could undermine CB independence
Preconditions
Categories

• Institutional independence
• A well developed-technical infrastructure
• Economic structure
• Healthy financial system
Institutional independence

• Central bank is independent if it has the ability to control and change monetary policy whenever it is required to attain its policy objective, without being affected by political pressure

• Central bank should have full legal autonomy and be free from fiscal and political pressures that cause conflicts with the inflation objective

• Levels:
  • Legal independence
  • Goal independence
  • Operational independence
Institutional independence

- The three latter broad dimensions are translated to 7 indices
  - Absence of fiscal obligation
  - Operational independence
  - Inflation focused-mandate
  - Governor’s job security
  - Favorable fiscal balance
  - Low public debt
  - Central bank independence
Institutional independence

<table>
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<tr>
<th>Item</th>
<th>Targeters</th>
<th>Nontargeters</th>
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<td>Pre-adoption</td>
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<td>Institutional independence</td>
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<td>Fiscal obligation</td>
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<td>Operational independence</td>
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<td>Central bank legal mandate</td>
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<td>Governor's job security</td>
<td>0.85</td>
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<td>Fiscal balance as percentage of GDP</td>
<td>0.48</td>
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<td>Public debt as percentage of GDP</td>
<td>0.47</td>
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<td>Central bank independence</td>
<td>0.26</td>
<td>0.64</td>
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</table>

Batini, N, Laxton, D (2007)
Institutional independence: results

• ITers (and non-ITers) started IT (other regimes) at moderate levels of institutional independence, improving independence after adopting of their regimes
• Generally ITers exhibit higher levels and larger improvements than non-ITers
• Fiscal conditions are generally stronger in emerging than in industrial economies
Technical Structure

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<th>Targeters</th>
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<td>Current</td>
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<td>Data availability</td>
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<td>Systematic forecast process</td>
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<td>1.00</td>
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<td>Models capable of conditional forecasts</td>
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<td>0.28</td>
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Economic Structure

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<td>Economic structure</td>
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<td>Exchange rate pass-through</td>
<td>0.36</td>
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<td>Sensitivity to commodity prices</td>
<td>0.23</td>
<td>0.44</td>
<td>0.31</td>
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<td>Extent of dollarization</td>
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<td>0.42</td>
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<td>Trade openness</td>
<td>0.69</td>
<td>0.75</td>
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Healthy financial system

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<td>Financial system health</td>
<td>0.41</td>
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<td>Bank regulatory capital to risk-weighted assets</td>
<td>0.75</td>
<td>1.00</td>
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<td>Stock market capitalization to GDP</td>
<td>0.16</td>
<td>0.21</td>
<td>0.28</td>
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<tr>
<td>Private bond market capitalization to GDP</td>
<td>0.10</td>
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<td>Stock market turnover ratio</td>
<td>0.29</td>
<td>0.22</td>
<td>0.28</td>
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<tr>
<td>Currency mismatch</td>
<td>0.92</td>
<td>0.96</td>
<td>1.00</td>
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<tr>
<td>Maturity of bonds</td>
<td>0.23</td>
<td>0.43</td>
<td>0.46</td>
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</table>

Are pre-conditions met?

• As shown by the previous evidence, generally not
Emerging Markets

Phippines | Israel | Czech Republic | Peru | Hungary | Korea | Brazil | Chile | Thailand | Poland | Colombia | South Africa | Mexico

Ideal conditions

Technical infrastructure | Financial system health | Institutional independence | Economic structure
Summary

• Inflation targeting is a framework that requires many conditions to be met
• Conditions are not necessarily pre-conditions ...
• But they tend to be satisfied more fully – i.e., they tend to be build up over time – some years after IT adoption
• This conclusion is also borne by econometric evidence on the main statistical determinants that explain why countries have IT in place, in comparison to countries with other monetary regimes
Examples
New Zealand

• Mother of IT
• 25 years of experience: IT adopted in 1989, started in 1990
• NZ’s Great Inflation: since 1967, NZ experienced two decades of high inflation
• Like the U.S. and several other industrial countries, NZ
• attempted in the 1970s to control inflation through wage and price controls – and failed, too
• Soon after the 1984 election, the Reserve Bank of New Zealand (RBNZ) was directed to focus monetary policy solely on containing inflation
• Inflation targeting (target based on (CPI) was anchored in the Reserve Bank Act of 1989
New Zealand: macro background

- IT was part of other key structural reforms
- Large-scale financial liberalization (1984-1985)
- Fiscal policy acts in the late 1980’s that required significant fiscal adjustment
- Free floating exchange-rate system since the 1980s
  - Public announcement of (exceptional) ER interventions, specifying 4 conditions
  - World’s cleanest floater, with just 2 exchange-rate interventions in 30 years
New Zealand Inflation (1975-1990)
New Zealand Inflation (1990-2006)
Targets and Inflation (1990-2006)

- Target 0% - 2%
- Short policy horizon
- Policy emphasis on exchange rate rather than interest rates
- Flexible IT
- Target 0% - 3%
- Policy emphasis shifting from exchange rate to interest rate
- Target 1% - 3%
- On average over medium term
- Avoid unnecessary volatility in output, exchange rate, interest rate

Spencer (2006)
Targets and Inflation (2006-2014)

- GDP growth accelerates, domestic inflationary pressures are expected to increase.
- Annual inflation is expected to settle close to the mid-point of the Bank’s target band.

RBNZ (2013)
Growth (1975-2006)
Inflation and forecasts
Sweden

• 1970s-1980s: moderate and highly volatile inflation
• 1991-93: Sweden experienced the most severe recession since the 1930s, which brought inflation down to around 2%
• November 1992: after a heroic defense, the fixed exchange rate regime (Krona to DM, within ERM) collapsed
• January 1993: the Riksbank adopted a new monetary regime based on a floating exchange rate and an inflation target
• Inflation target was set at 2%, with a tolerance of ±1 percentage points
Inflation

Riskdagg Committee on Finance (2012)
Inflation Expectations
Chile

International Financial Statistics and Banco Central de Chile
Inflation
Inflation Expectation
Chile: Background

• Long history of high and variable inflation
• 1989 Constitutional Law for an independent Central Bank with mandate of price and financial stability, strong governance, strong absence of fiscal dominance
• Strong fiscal adjustment in 1970s-1980s, fiscal rule and sovereign wealth funds adopted in 2001
• Large-scale domestic financial liberalization in the 1970s, 1981 pension reform, 1986 banking law (after huge financial crisis), and 199 elimination of controls on capital flows contributed to development of deep and sound financial and capital markets
IT evolution

• Second ITer: partial IT adopted in 1990, started in 1991
• Two phases of IT
• Phase I: partial IT, 1991-2000:
  • Two nominal anchors: annual inflation targets during convergence to stationary IT and sliding ER band
  • Annual inflation targets (bands and point targets) announced in September of preceding year
  • IT used as device to converge to low inflation, to influence inflation expectations and price setting, starting at high inflation in 1990 (25%)
  • Many IT preconditions not satisfied: absence of models, forecasting process, formal monetary policy decisions process; poor transparency and accountability
  • Frequent conflicts between inflation and ER, solved in favor of IT
  • Adoption of ER float in 1999
IT Evolution

- Phase II: full-fledged stationary IT, since 2001
  - Inflation is key monetary policy objective
  - Putting in place most requisites of full IT, since 1999
  - 2007: slight change in target deviation tolerance and commitment to two-year policy horizon
  - Clean ER float in normal times (most of times); preannounced large-scale ER interventions with significant transparency
Chile’s experience

• Chile’s IT experience has been very successful
• Particularly surprising: attaining annual targets during convergence phase, when inflation was brought down from 20% to 3%
• And average annual inflation has also been 3% during stationary IT, identical to target
• Lessons:
  • High sensitivity of short-term inflation to food-price, oil price, ER, and demand shocks (2007-2010!)
  • Yet inflation expectations are strongly anchored to target inflation
  • Sometimes the CB is late in reacting (2006-2009)
  • Lacking: full transparency in models, forecasts, analysis
Brazil

Banco Central do Brasil (2013)
Turkey
Inflation in Turkey

(I): Pre-liberalization import substitution

(II): Trade and capital account liberalization

(III): Efforts to maintain fiscal sustainability and real exchange rate targeting

(IV): Exchange rate based stabilization program

(V): Implicit inflation targeting

(VI): Full-fledged inflation targeting

(VII): Incorporating financial stability into inflation targeting
Turkish Economy before the Adoption of IT

• Exchange-rate based stabilization programme ended with the deepest economic crisis in Turkish history in February 2001.

- Need for an alternative monetary policy regime: Inflation Targeting
  - increasing number of countries successfully adopting IT since its inception in 1990’s
  - new monetary policy strategy that has not been tried before in Turkey
  - based on a flexible exchange rate regime
Implicit Inflation Targeting

• Adopting full-fledged inflation-targeting in post-crisis conditions would have undermined the credibility of the regime from the start.

• Gradual adoption of inflation targeting: ‘ Implicit’ Inflation Targeting until
  - Necessary conditions for inflation targeting are met
  - Constraints on monetary policy are relaxed
Initial Conditions at the Adoption of IT

• Post 2001 crisis
• Major restructuring of the banking system (Bank bailouts by the government)
• Very high inflation (annual inflation rate >68%)
• Fiscal dominance
• High dollarization
• High risk premium
• Stand-by agreement with the IMF
Initial Conditions: Very High Inflation

Annual CPI Inflation. Source: TURKSTAT
Banking Sector Reform

- Recapitalization of the state banks that were overtaken by the government during the 2001 financial crisis
- State banks’ operational losses terminated
- Gradual strengthening of the banking system
- Establishment of the Banking Regulatory and Supervisory Agency (BRSA)
Gradual Switch to Inflation Targeting-1

- Central bank independence in 2001
- Steps towards maintaining fiscal discipline and eliminating fiscal dominance
- Restoring confidence in the financial system (lowering dollarization)
- Supporting financial deepening
Gradual Switch to Inflation Targeting-2

- Building central bank credibility: accountability and transparency

- Better management of inflation expectations
  - increase in the forward-looking component of inflation expectations of the private and public sector

- Strengthening the technical capacity of the central bank
  - better understanding of the monetary transmission mechanism

- Building and maintaining a forecasting and policy analysis system
New Central Bank Law (2001)

- Price stability as the primary objective
- Instrument independence
- Inflation targets set jointly with the government
- Political independence
- Monetary Policy Committee (MPC)
- No direct lending to the public sector
- Strengthened framework for accountability
IMPLIED INFLATION TARGETING (2002-2005)
Implicit Inflation Targeting

- Final Objective: achieving and maintaining price stability’
- Main policy instrument: short-term interest rates
- Policy rates are set in view of:
  - medium-term inflation outlook and
  - inflation expectations.
- Increased emphasis on improvements in fiscal policy and economic fundamentals.
- Signalling by the central bank as initial conditions improve.
Implicit Inflation Targeting: Operational Framework

- Point inflation target announced a year ahead
- Additional nominal anchor (IMF conditionality): targets for monetary base
- Short-term interest rate are set by the governor of the CBRT.
- Dates of policy rate decisions are not announced beforehand
- Duties of the MPC not clear-cut (advisory role for MPC)
- Main tools for communication
  - Quarterly “Monetary Policy Report”
  - Monthly press releases about inflation outlook
Performance under Implicit Inflation Targeting: Disinflation and Growth

- Rapid fall in inflation alongside strong growth performance between 2002-2005.

Source: TURKSTAT.
*WPI is replaced by PPI in 2005.
Implicit Inflation Targeting:
Inflation Target and Expectations

Source: TURKSTAT and CBRT.
*CBRT Expectations Survey, 12 months-ahead inflation expectations.
Elements that facilitated disinflation

- Significant fall in economic activity after the crisis
- Fall in inflation on a global scale
- Continued rise in productivity
- Incomes policy roughly in line with targeted inflation
- Relatively stable exchange rates
- Fiscal discipline
- Structural reforms in banking, public finance (social security reform), competition and privatization
Floating Exchange Rate Regime

- Adoption to floating exchange rate regime as a precondition for inflation targeting.

- Exchange rate is determined according to demand and supply conditions in the market.

- Central bank operates in the market for FX via:
  - Auctions
  - Direct interventions
Decline in Exchange Rate Pass-through

Source: Kara and Öğünç (2008)
Improving Technical Capacity

- Projects directed at understanding monetary transmission mechanism and inflation dynamics
- Investing in human capital
- Developing Forecasting and Policy Analysis System (FPAS)
Extending the Information Set of the Central Bank

- Regular surveys conducted by the CBRT:
  - Consumer Tendency Survey
  - Survey of Expectations (started in 2006)
  - Business Tendency Survey
  - Bank Loans Tendency Survey (started in 2005)
  - Investment Survey (started later in 2009)
ADOPTION OF FULL-FLEDGED INFLATION TARGETING IN 2006
Final Arrangements before the Adoption of Full-fledged IT

In 2005:

- MPC started to meet at predetermined and preannounced dates to decide about interest rates
  - Clear communication of MPC decisions:
  - Quick release of the reasoning behind MPC decisions and signals about future monetary policy decisions after MPC meetings
- Reorganization within the CBRT, clear assignment of duties regarding monetary policy
Full-fledged IT: Operational Framework

- **Point target**
  - Annual consumer price inflation (end-year)
  - Set jointly with the government

- **Three-year target path**

- **Accountability**
  - Uncertainty band: ± 2 points around the target
  - Open letter to the government
  - Semi-annual briefing by the CBRT Governor at the Parliament

- **Transparency**
  - Monetary policy decisions taken at pre-announced dates
  - Immediate release of decisions and the underlying reasons
  - Signalling regarding future monetary policy stance
  - Sharing medium-term forecasts of inflation
Decision-Making Process: Monetary Policy Committee

- Sole responsibility in monetary policy decisions

- 7 Members:
  - Governor
  - 4 Deputy Governors
  - 1 Board Member
  - 1 External Member (academic)

- Monthly meetings on pre-announced dates
Decision-Making Process

MPC Meetings (Monthly)

Pre MPC Meeting

- Presentations on recent economic developments and outlook by:
  - Research and Monetary Policy,
  - Banking,
  - Markets and
  - International Affairs department representatives
- Briefing by Treasury representative

MPC Meeting

- Interest rate decision announced at 14.30
- On the same day a short explanation of the decision and underlying economic conditions is published
- The summary of the MPC meeting containing detailed assessments of the MPC is published within five working days.

Forecasting and Policy Analysis (Quarterly and Monthly)

- Medium term perspective in policy decisions
- Forecasts revised quarterly to be published in the Inflation Report
- Forecast round starts with the announcement of latest GDP data
- Ends with the publication of the Inflation Report within a month’s time
Main Tools for Communication

- Press releases on MPC decisions and the summary of MPC meetings (MPC announcements)
- Inflation Report
- Financial Stability Report
- Other press releases regarding monetary policy and exchange rate policy
- Presentations to Council of Ministers and Planning and Budget Commission at the Turkish Parliament
- Monthly Report on Inflation Developments
- Meetings with Market Economists and Analysts
- Presentations by CBRT representatives
- Working papers, booklets, policy notes, conferences
Thanks