

# Inflation targeting: What have We learned?

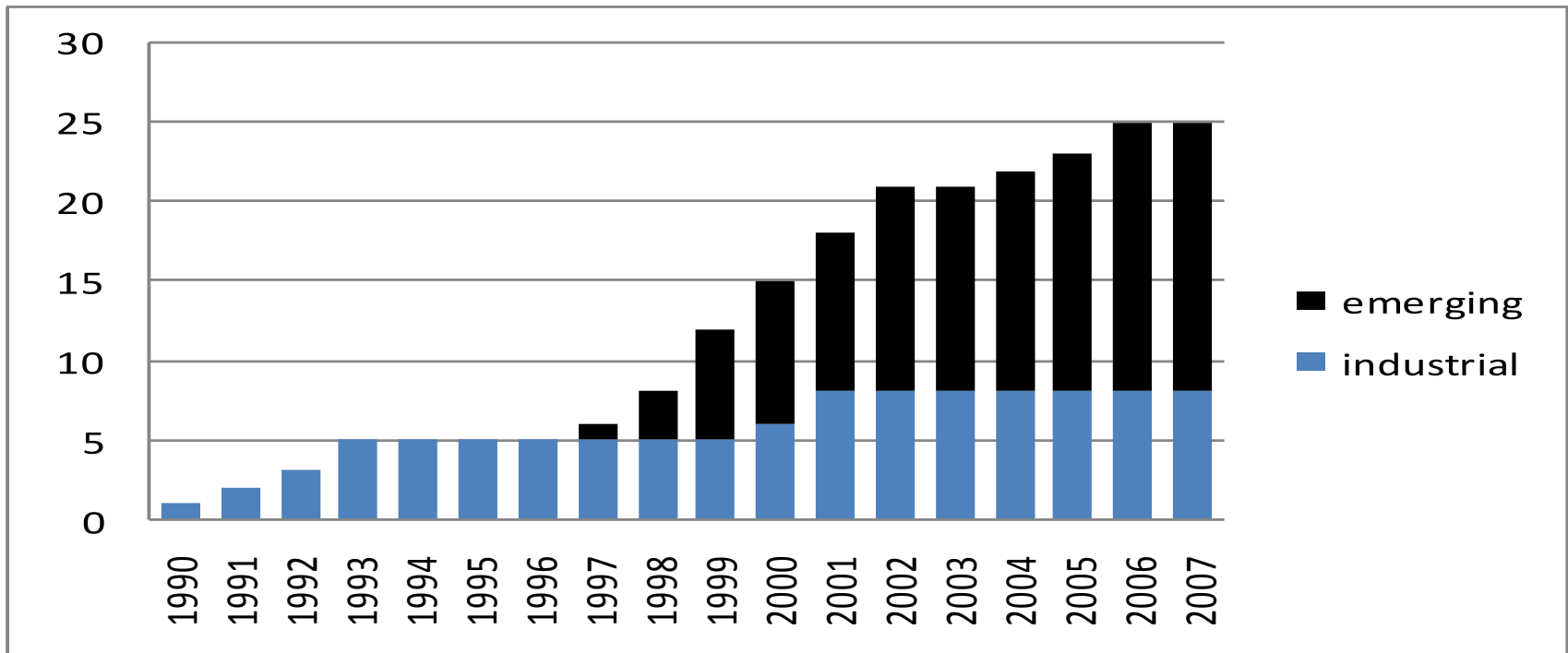
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# Views on IT

- “All the major benefits that an inflation-targeting framework was supposed to deliver have been realized and, in some cases, exceeded.” (Bank of Canada 2006, p. 3)
- “Today, inflation targeting is being put to the test – and it will almost certainly fail.” (J. E. Stiglitz 2008)

# The spread of inflation targeting



- The number of inflation targeting central banks has grown steadily since 1990 (Dates: Batini and Baxton 2007 and Rose 2007) The spread number of inflation targeting central banks has grown steadily since 1990 (Dates: Batini and Baxton 2007 and Rose 2007)

# The effects of IT

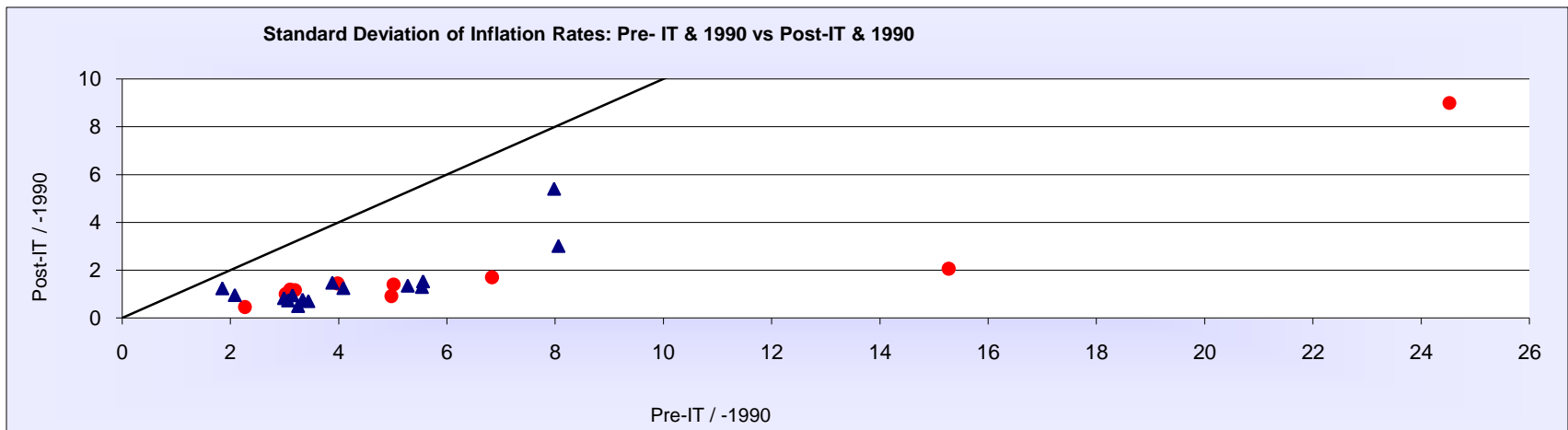
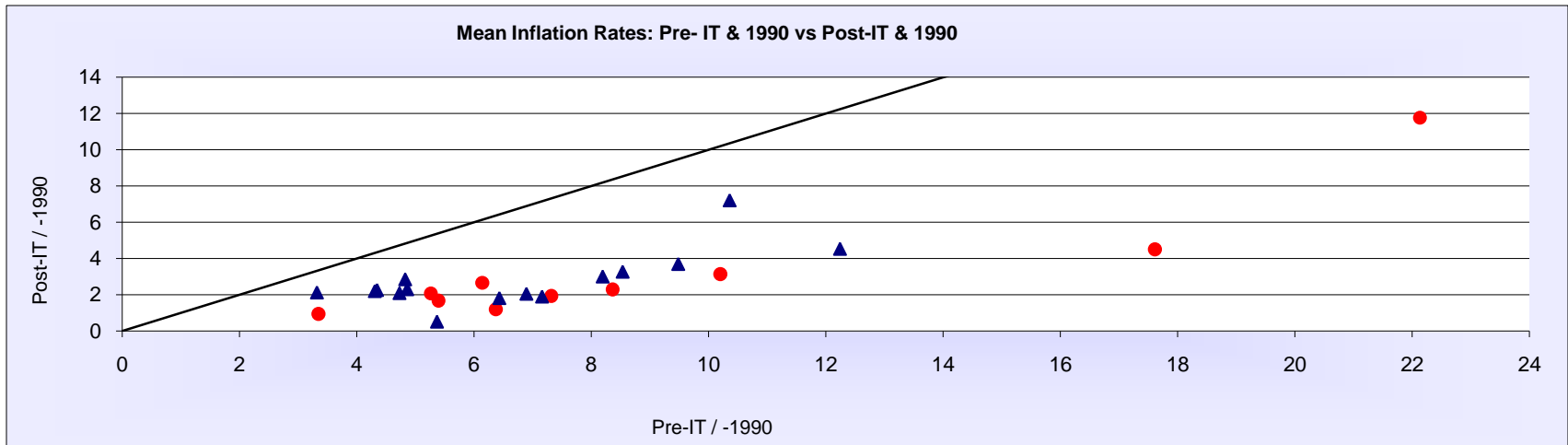
$$\pi_t = \pi_{t|t}^T + \beta \left( \pi_{t+1|t} - \pi_{t+1|t}^T \right) + \kappa x_t + \varepsilon_t$$

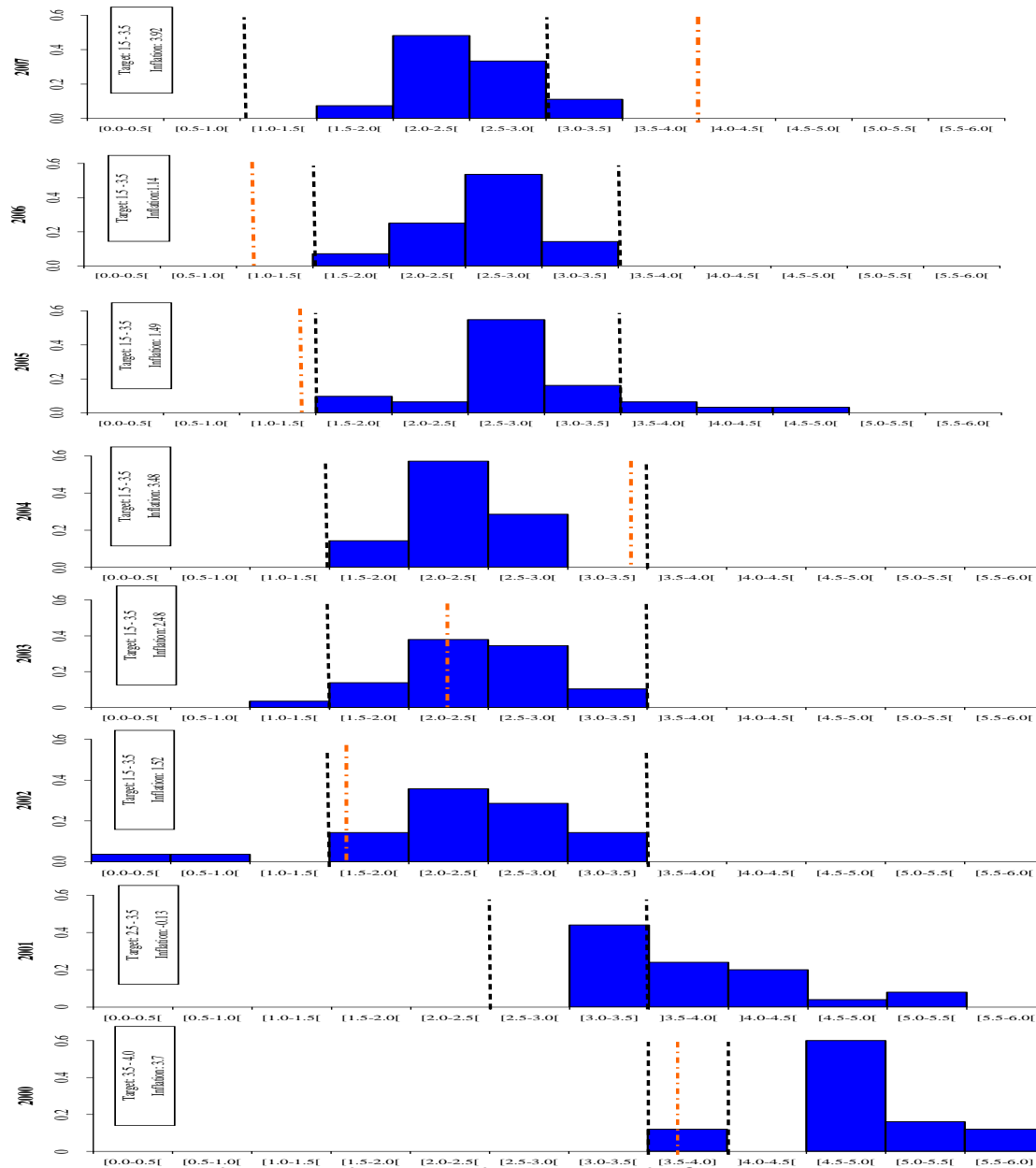
$$\pi_t = \pi_t^T + \beta \left( \pi_{t+1|t} - \pi_{t+1|t}^T \right) + \kappa x_t + v_t$$

$$v_t = \varepsilon_t - \left( \pi_t^T - \pi_{t|t}^T \right)$$

# Inflation: mean and std. dev.

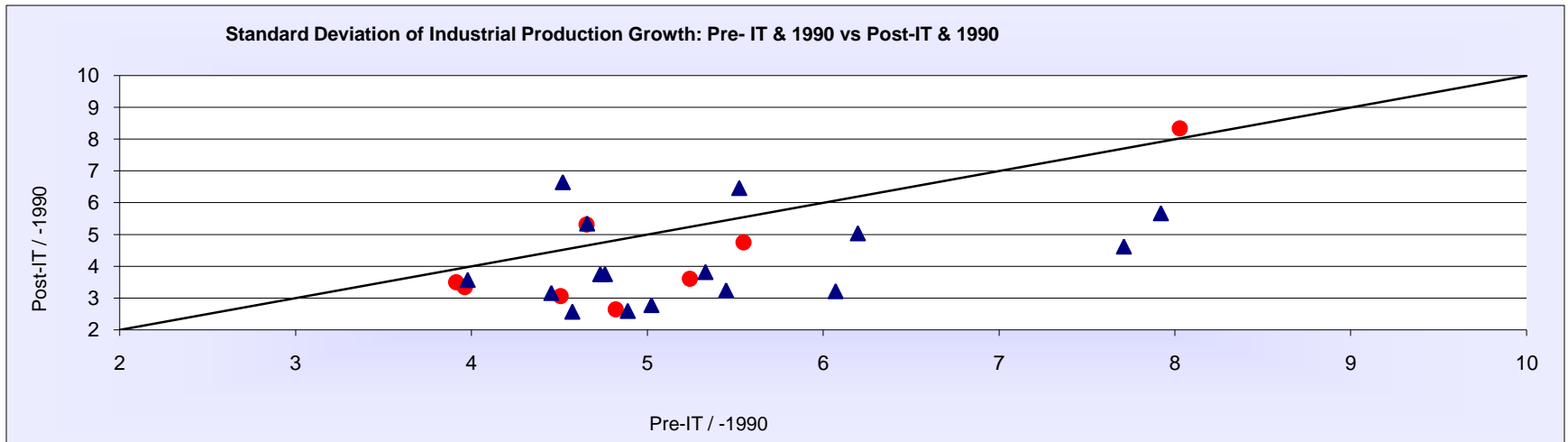
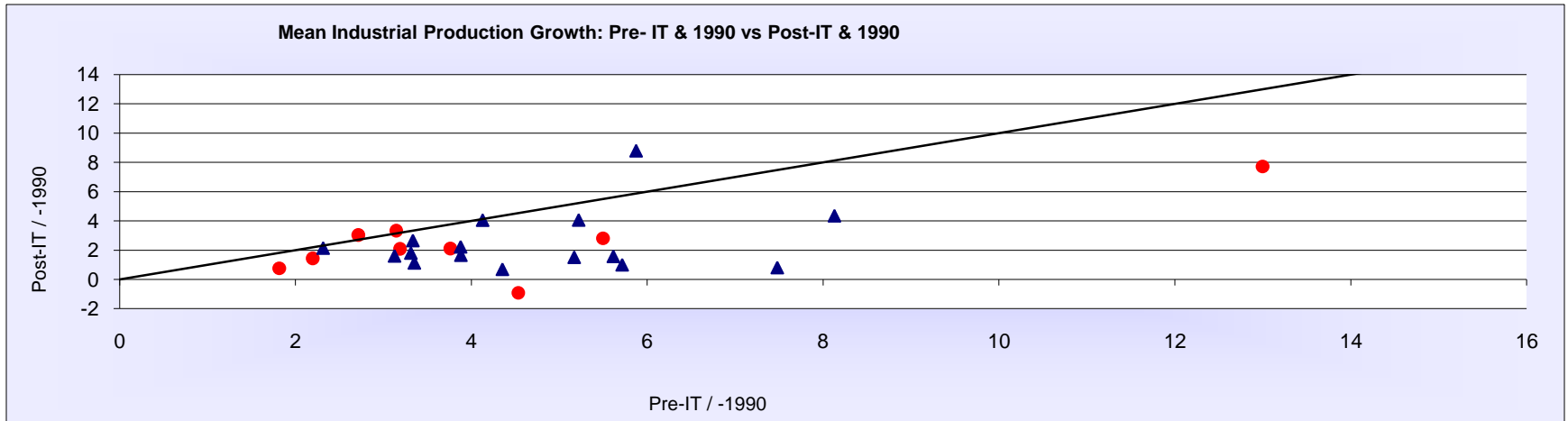
Circles – IT, Triangles – non-IT





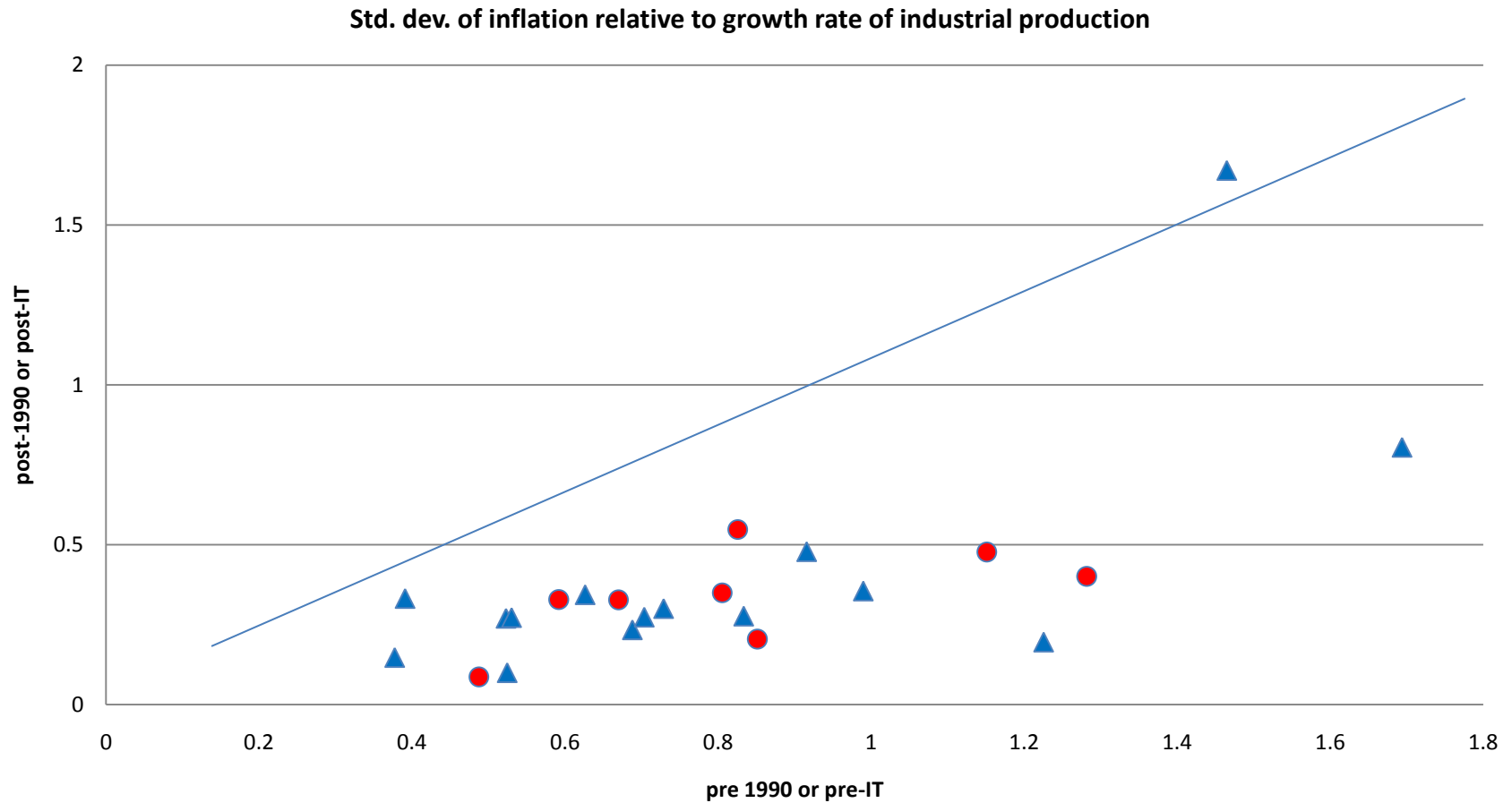
# Industrial production: growth rates and std. dev.

Circles – IT, Triangles – non-IT



# Inflation versus output volatility

Circles: IT, Triangles: non-IT





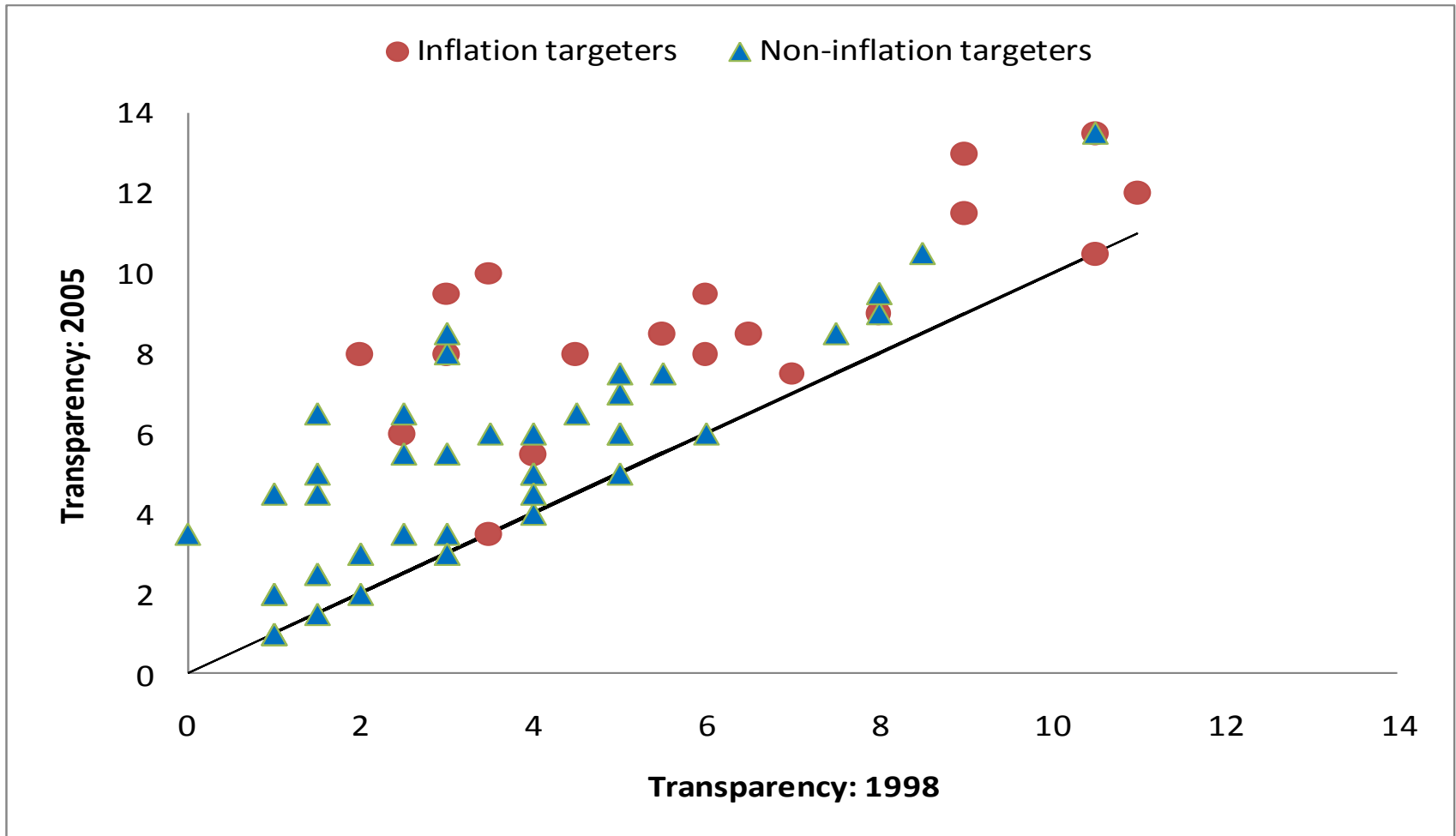
# IT and real growth and volatility

**Table 5b: Treatment effect of CIT on the level and variability of output growth rates**

	Nearest Neighbor	3-Nearest Neighbor	Radius r=0.03	Radius r=0.01	Radius r=0.005	Local Linear Regression	Kernel
<i>Effect on the output growth rates</i>							
ATT	-0.638	-0.405	-0.214	-0.364	-0.340	-0.111	-0.096
Std. Err.	(0.566)	(0.477)	(0.424)	(0.484)	(0.560)	(0.429)	(0.383)
P-value	0.253	0.366	0.599	0.459	0.525	0.796	0.808
<i>Effect on the variability of output growth rates</i>							
ATT	0.206	0.242	0.220	0.262	0.222	0.239	0.239
Std. Err.	(0.231)	(0.199)	(0.176)	(0.211)	(0.252)	(0.188)	(0.168)
P-value	0.35	0.23	0.21	0.22	0.38	0.20	0.12
No. of treated	43	43	42	42	39	42	42
No. of control	35	66	190	145	97	195	195
No. of obs.	78	109	232	187	136	237	237

# Transparency: 2005 versus 1998

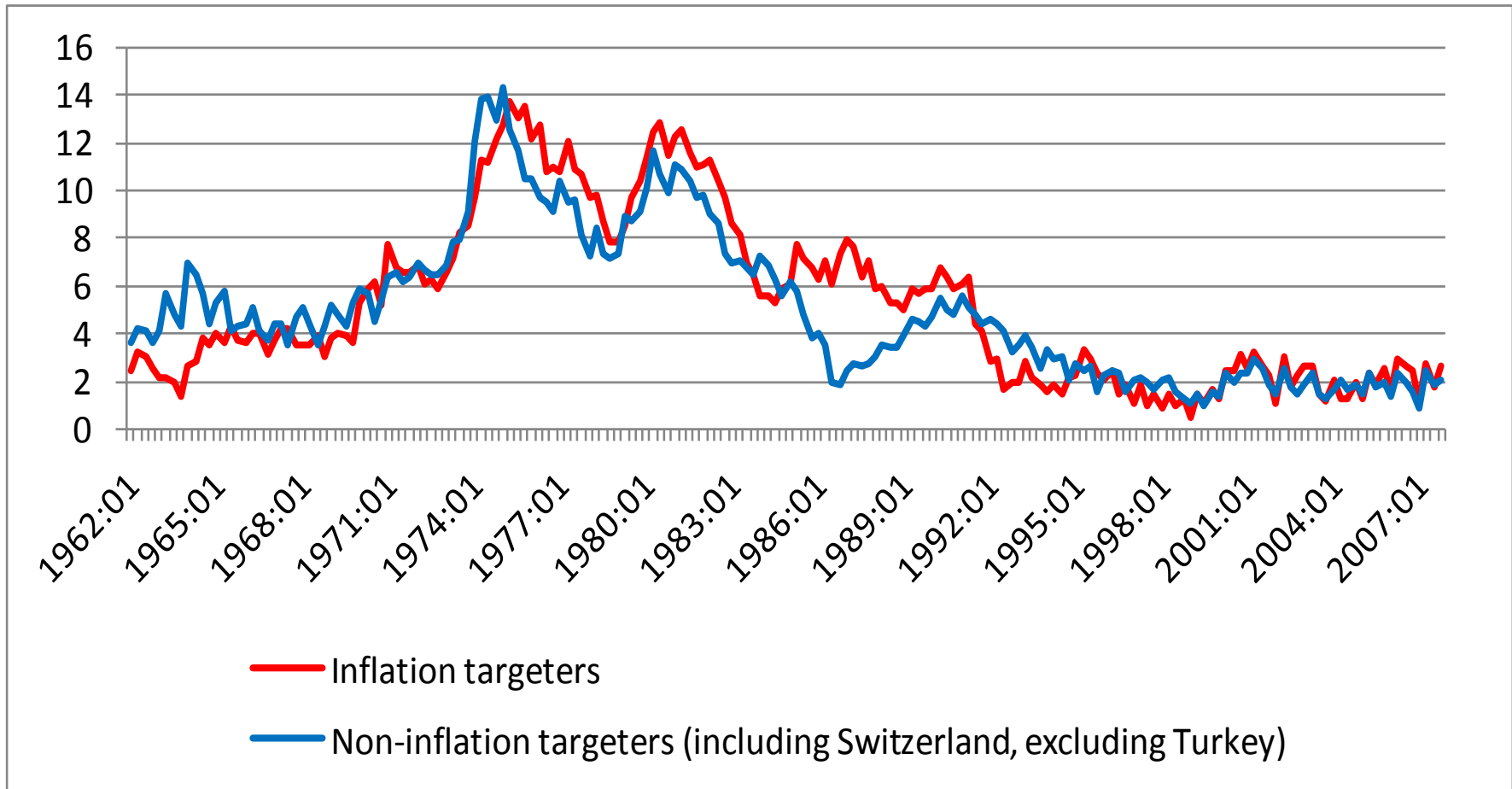
Dincer and Eichengreen (2007)



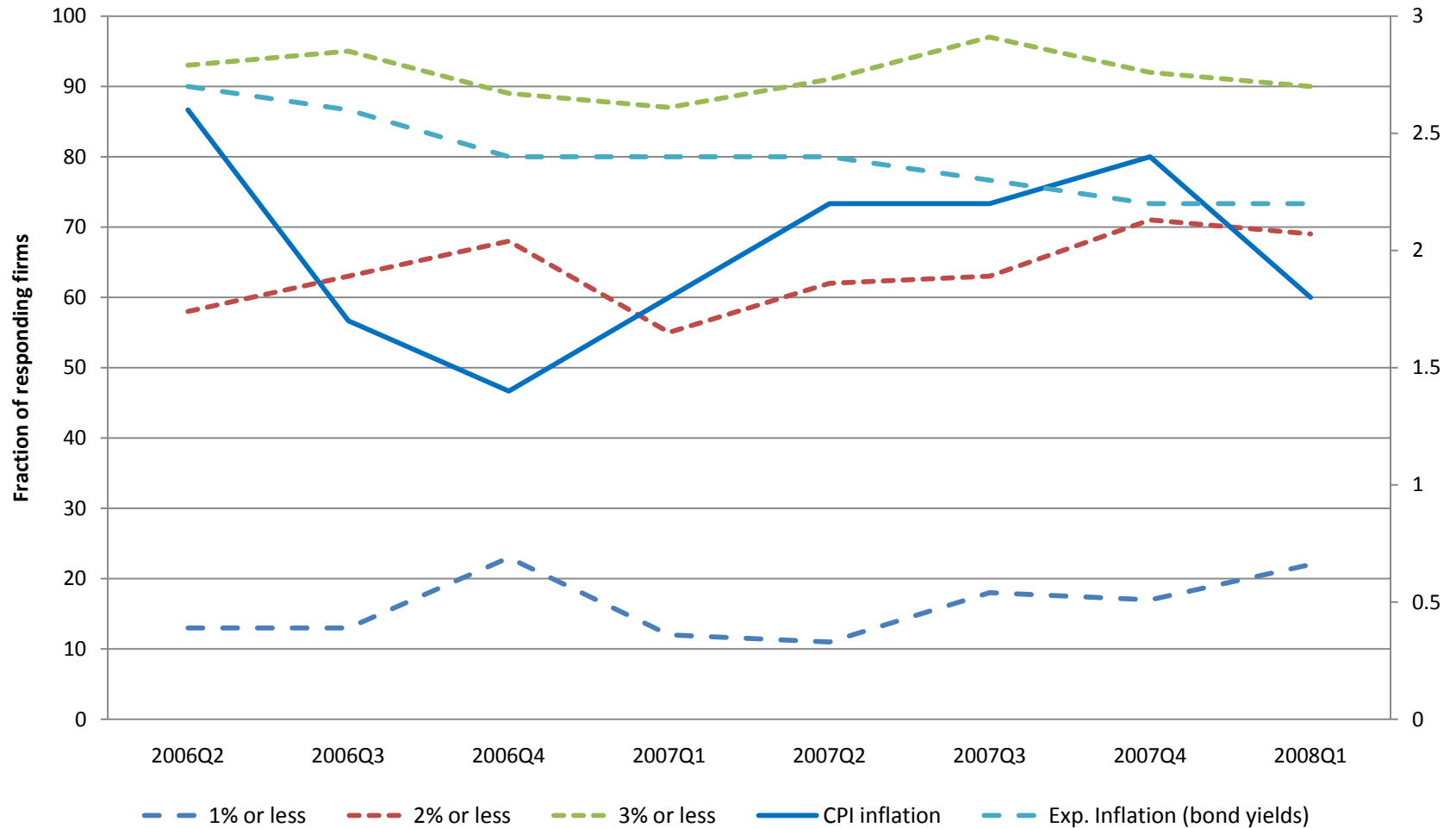
# Current challenges

- “...inflation targeting does not solve many perennial judgment questions facing central banks, particularly with respect to supply disturbances that push inflation in one direction and economic activity in the other.” (Edwin Truman 2003)
- “It is not the task of monetary policy to attempt to influence changes in relative prices;....Global increases in commodity prices undermine the prosperity of Swedish households. Monetary policy cannot do anything about this.” (Riksbank *Monetary Policy Report*, 2008/2)
- “If central banks continue to focus on price stability and keep inflation low and stable, there is every expectation that the current degree of macroeconomic stability will continue.” (John Taylor 2005)

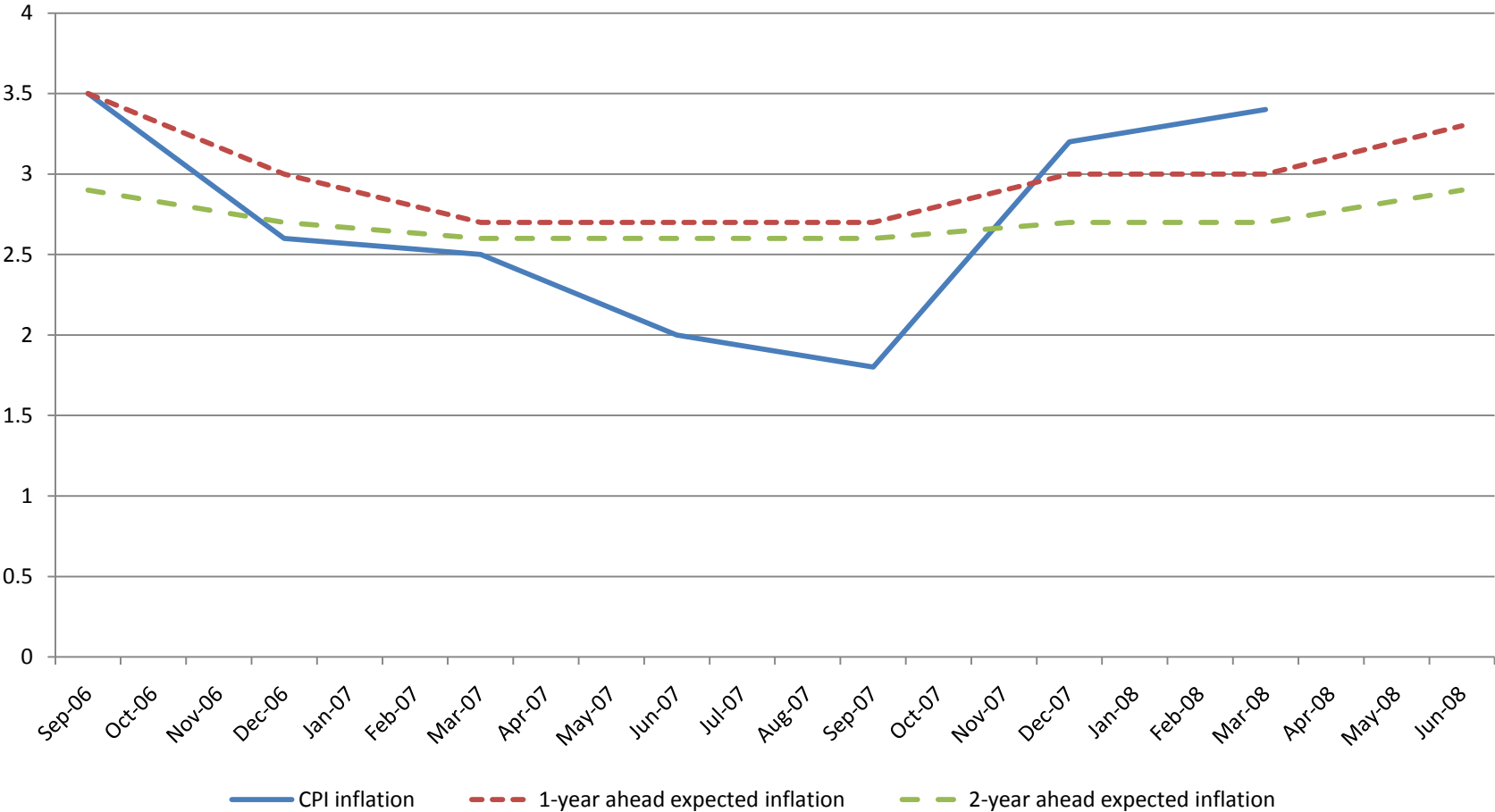
# Inflation experiences: OECD countries



# Inflation and expected inflation in Canada



# Inflation and expected inflation in New Zealand



# Expected inflation – U. S.

U.S. 10-year inflation expectations  
(derived from adjusted TIPS)

