The Macroeconomics Effects of Inflation Targeting

Andrew T. Levin, Fabio M. Natalucci, and Jeremy M. Piger
Effects of inflation targeting (IT) on expected inflation and inflation trends in industrialized economies and emerging market economies (EMEs)
Industrialized countries

- IT countries: Australia, Canada, New Zealand, Sweden, United Kingdom

- Non-IT countries: Japan, United States, “Euro average” (France, Germany, Italy, the Netherlands)
Industrialized countries

- Inflation expectations don’t fluctuate more
- Some non-IT countries exhibit lower volatilities
- Total Consumer Price Index (CPI) and core CPI (total CPI less food and energy prices) measured inflation
- IT VS non-IT inflation shocks
- Shocks more persistent in non-IT
Industrialized countries

- Low real GDP growth volatility in IT countries

- Output growth not damaged in IT countries
Emerging Market Economies

- IT adopted because of financial instability
- IT successful
- Inflation reduced in Chile, Israel, Korea, ….
- Inflation decreased from double to single digits
Emerging Market Economies

- IT higher than industrialized countries
- Should establish higher inflation targets
- Long-term expected inflation not affected
- Short-term expected inflation declining
Strengths/Weaknesses

- Distinguished between industrialized countries and emerging market economies
- No explanation for adopting/not adopting IT
- No explanation for similarities/differences in IT and non-IT countries