

Choice of Inflation Targeting: Some International Evidence

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Inflation targeting has attracted attention to researchers and policy makers since the first attempt in New Zealand in 1990. This paper discusses a country's choice of inflation targeting by examining its driving forces with the dataset of 82 countries. The empirical result shows that countries' decision of adoption of inflation targeting depends highly on their development stage. For high-income or developed countries, the significant motives of monetary authority to choose inflation targeting is the desire to keep or enhance anti-inflation credibility, and inflation targeting could be a natural option under more floats with the absence of nominal exchange rate anchor. On the other hand, low-income or developing countries with the large size of public debts are not likely to choose inflation targeting, so that fiscal fragility would discourage monetary authority to adopt restrictive monetary policy under inflation targeting.

Keywords: inflation targeting; exchange rate arrangements; anti-inflation credibility; fiscal fragility.