

INFLATION TARGETING

LECTURE BY PROF. KLAUS SCHMIDT-HEBBEL

Under the patronage of the Governor of the NBS, Prof. Klaus Schmidt-Hebbel, Research Department Director of the Chilean Central Bank gave a lecture on inflation targeting at the National Bank of Slovakia on October 11, 2006. The main theme of the presentation was his newest research work (with co-author Frederic Myshkin) entitled "Does Inflation Targeting Make a Difference?".

The lecture was presented not only for employees of the National Bank of Slovakia, but also for commercial bank analysts, ministry employees and the academic community.

According to Schmidt-Hebbel's research work, inflation targeting is instrumental in achieving lower inflation in the long-term perspective and countries applying inflation targeting are more resilient against shocks stemming from oil price and exchange rate changes. At the same time, inflation targeting reinforces monetary policy independence by improving the application efficiency of monetary policy tools. Where a country has achieved targeted inflation



levels and inflation rates are already at very low levels, certain contributions of inflation targeting are even more pronounced. Despite very positive results achieved by countries applying inflation targeting, the research failed to provide unambiguous evidence of a better monetary policy performance in these countries in comparison with other examined countries (economically developed countries with a long history of low inflation). On the other hand, the introduction of monetary targeting has helped other examined countries to advance towards the group of developed countries with low inflation.

Thus the introduction of inflation targeting, comprising the creation of a strong nominal monetary policy anchor and related transparency and legibility of central bank decisions, has unambiguously proved to be positive in the case of developing and converging countries (emerging markets).

The National Bank of Slovakia adopted the inflation targeting regime in December 2004.

Ing. Peter Ševčovic
Photo: Pavel Kochan

Prof. Klaus Schmidt-Hebbel (1955) from Chile (kschmidt@bcentral.cl) is the author of eight books and many articles published in academic and economics journals. His main research area covers macroeconomics (savings, growth, fiscal policy), social insurance (pension schemes and



their reforms), monetary policy (inflation), international finance (capital flows) and development policies (structural reforms, stability programmes). He is an advisor to several international organisations, governments (31), central banks, pension institutions and foundations.