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ADVANTAGES AND LACKS OF INFLATION TARGETING

Inflation targeting is becoming the monetary policy framework of choice in a growing number of countries, including emerging market and developing countries. Today the mode of inflation targeting is considered to be one of the most progressive monetary modes. However the analysis of international experience shows not only advantages, but also risks connected with application of this mode. Speaking about advantages it is necessary to note the following of them:

- accurate identification of purposes and monetary and credit policy priorities;
- inflation targeting in most cases helps to lower inflation quickly, to support its low rates effectively and as a result to provide steady and balanced economic growth;
- inflation strengthens targeting of the central bank independence, accurately focusing it on the one purpose (decrease of inflation and its stabilization at a low level);
- inflation targeting introduction demands an increase of professional level from workers of bodies of monetary and macroeconomic policy, transparency, the information openness, and also a new level of the macroeconomic analysis.

The IMF data about monetary modes accepted in different countries of the world, show, that from 192 surveyed countries only 13 % use the mode of inflation targeting, and about 47% – the mode of exchange rate targeting. So, why almost half of the countries in the world use the mode which considerably concedes to inflation targeting in a long-term prospect?

The matter is that simultaneously with application of this mode a number of problems appear. It is necessary to allocate the following of them:

- difficulties with the exact realization of the set inflation objective resulted from the influence of different difficultly with predictable external factors;
- difficulties connected with uncontrolled exchange rate. Rather rigid modes of exchange rate formation and absence of capital convertibility demand carrying out the mode of targeting of the exchange rate. In such situation transition to a free exchange rate formation mode only to apply inflation targeting effectively seems inexpedient;
- difficulties connected with formation of a new channel of transmission under the interest rate which becomes the core. In a number of the countries inflation dependence on changes of interest rate is not caught for the reason of weak influence of the rate of interest on behavior of economy subjects in conditions concerning high inflation, or administrative pressure in decision-making sphere. For example, in Belarus financing of some branches of economy occurs at the

expense of soft loans of banks. Hence, level of interest rates does not render direct influence on credit activity of such subjects of economy.

At the same time, there are countries or circumstances where inflation targeting may be unsuitable as a monetary policy framework. F.i., in some small, low income economies, where the operational capacity of the central bank, and the degree of financial system development may be very limited, or in small, highly open economies, where domestic wages and prices may be almost fully determined by foreign prices and the exchange rate.

Besides, usually in order to receive full introduction and analytical development of strategy of inflation targeting at least 2-3 years are required. Absence of the fact sheet at the beginning will interfere with formation of mathematical forecasting models which demand time series of data in comparable conditions. Here it is inevitable to face the certain contradiction. Construction of working analytical and forecasting models is impossible before full introduction of this strategy; otherwise their key parameters will reflect logic of the previous strategy.

Therefore the inflation targeting application requires a high degree of coordination of the basic monetary, budgetary and industrial parameters in conditions of possible external shocks, to introduce well-developed analytical capabilities and infrastructure, and also to generate the effective channel of transmission under the interest rate. But it's also important to make sure, that inflation targeting is really expedient.