

# SOME COMMENTS ON INFLATION TARGETING

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## **Central banks should announce inflation targets.**

The logic:

- A policymaker should have in mind an acceptable range for inflation.
- The range has a midpoint. Should generally aim for inflation near that level.
- Different policymakers should agree on the range and midpoint.
- Policymakers should announce the range and midpoint to the public.

## **Hitting the inflation target should not be the sole goal of policy!**

- Output and unemployment also matter.
- With hysteresis effects, a single mandate for price stability may produce large, permanent losses of output and employment.

An example of excessive focus on hitting an inflation target:

“We have delivered price stability over the first twelve years of the euro--  
impeccably! Impeccably! I would very much like to hear congratulations...”

Jean-Claude Trichet, 2011

In 2011 the unemployment rate in the euro area was over 10%. It was 15% in Ireland, 18% in Greece, and 21% in Spain.

**So, inflation targeting must be flexible.**

**India's regime looks pretty good:**

- The RBI conducts policy “with the primary objective of maintaining price stability while keeping in mind the objective of growth.”
- The target range of 2% - 6% is fairly wide.
- The sanctions on policymakers for missing the range are not extreme (they must write a letter).
- The 4% midpoint seems reasonable (2% is too low).

Inflation targeting is not a miracle cure for economic problems.

The adoption of IT may not have been a major factor in the disinflation over 2014-2015 (Chinoy, Kumar, and Mishra, 2016).

But flexible IT leads to more rational policymaking.

Also, announcing a target helps to anchor inflation expectations.

Evidence for India in Eichengreen, Gupta, and Choudhary (2020).

## **What inflation rate to target?**

- Headline vs. core
- Measuring core: inflation excluding food and energy vs. weighted median inflation (Ball, Chari, and Mishra, 2016).