Monetary Policy in East Asia (and Elsewhere): Does Targeting Inflation Require 'Inflation Targeting'?

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Hans Genberg
Graduate Institute of International Studies
Hong Kong Institute for Monetary Research

Summary

Most East Asian countries do not have an 'inflation problem'. In fact, data for the last decade shows that inflation rates in many countries in the region have been close to what is now considered appropriate for inflation-targeting emerging market countries. Except in two cases, Australia and New Zealand, this favourable record is not due to monetary policies based on explicit 'inflation targeting', but has been the outcome of a variety of monetary policy strategies. This raises the question as to whether countries in the region should move towards some standardised 'inflation-targeting' regime defined by those industrialised countries that pioneered this approach, or whether there is room for greater variety.

In this paper I argue that inflation targeting should not be defined too narrowly. In particular, the principal objective of a sound monetary policy, namely to provide a credible nominal anchor for the economy, can be achieved with a variety of institutional structures and operational frameworks. It is essential, however, that the objectives of monetary policy be clearly stated and broadly accepted, and that other macroeconomic policies are consistent with the pursuit of price stability. Within these constraints there is room for a number of alternative monetary policy strategies. Which delivers the best outcome in a particular country surely depends on its economic, institutional and geographical situation. Hence countries are well advised to search for policy strategies that are most appropriate for their own economies rather than copying what has worked well in other contexts.