Mish404.tex

Can Inflation Targeting Work in Emerging Market Countries? Frederic S. Mishkin

Comments by
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- The right author
- Good common sense

- Definition of inflation targeting
  - Numerical inflation target, taken seriously
  - IT in practice flexible inflation
- What is special about EMCs?
  - Weak institutions
  - Currency substitution and liability dollarization
  - Vulnerability to sudden stops
- Developing strong institutions
  - Fiscal and financial
  - Monetary
- Two case studies
  - Chile
  - Brazil

- Dealing with exchange-rate fluctuations
  - Foreign-currency liabilities, domestic-currency assets (except exporters)
  - High pass-through
  - Fear of floating
- Clarify role of exchange rate
  - Exchange rate important in transmission mechanism (uncontroversial)
$$L_t = (\pi_t - \pi^*)^2 + \lambda(y_t - \bar{y}_t)^2$$
  - Exchange rate target variable (controversial)
$$L_t = (\pi_t - \pi^*)^2 + \lambda(y_t - \bar{y}_t)^2 + \lambda_s(s_t - s^*)^2$$
$$L_t = (\pi_t - \pi^*)^2 + \lambda(y_t - \bar{y}_t)^2 + \lambda_s(s_t - s_{t-1})^2$$
$$L_t = (\pi_t - \pi^*)^2 + \lambda(y_t - \bar{y}_t)^2 + \lambda_q(q_t - \bar{q}_t)^2$$

- IMF and inflation targeting in EMCs
  - Traditional IMF conditionality outdated
  - New approach needed
    - Continuous review of MP institutions and policy
    - Cf. MP reviews of NZ, Norway

- Inflation targeting can work in EMCs
  - More preconditions better
  - All not necessary