

Project title: Inflation targeting - Theoretical foundations and experiences for the countries (KT.06.03)

Code: KT.06.03

Duration: 2006 - 2008

Participants: Faculty of Finance and Banking, University of Economics and Business - VNU

Manager: MA. Le Phuong Thao

Purposes:

The project studies the theoretical foundations of inflation targeting framework. Experiences in implementing inflation targeting in several developed countries, emerging market economies as well as transition countries are also studied to draw lessons for countries intending to apply the framework in the future.

Main contents:

The project's report comprises of two chapters:

Chapter 1: Theoretical foundations of inflation targeting

Chapter 2: Countries' experiences in implementing the inflation targeting

Results obtained:

In the first chapter, the project summarizes four intellectual development orientations that lead to the establishment of inflation targeting including (i) roles of monetary policy; (ii) rules versus discretion; (iii) lag of monetary policy; and (iv) costs of inflation. The project also analyzes advantages and disadvantages of several monetary policy strategies, explains the reasons why inflation targeting framework is becoming more and more popular. Design issues in the implementation of inflation targeting are also outlined. Since an increasing number of emerging market and developing economies are considering applying inflation targeting, initial conditions in supporting the framework are studied at the end of the first part.

In the second chapter, the project examines experience in implementing inflation targeting in several countries, including New Zealand, Canada, England, Chile, Czech Republic, and Thailand. Some important lessons are drawn to help countries intending to apply the framework in the future. Empirical evidences about the impacts of inflation targeting are also explored. Finally, the project tries to make initial assessment of the feasibility of applying the inflation targeting in Vietnam and suggests some policy recommendations to reform its monetary policy framework.