

# Monetary Policy Frameworks in a Global Context

Edited by

Lavan Mahadeva and Gabriel Sterne



London and New York

<i>List of figures</i>	x
<i>List of tables</i>	xv
<i>Contributors and e-mail addresses</i>	xx
<i>Acknowledgements</i>	xxii
<i>Foreword</i>	xxv
EDDIE GEORGE	
<i>General introduction</i>	xxvii
LA VAN MAHADEVA AND GABRIEL STERNE	

## **PART I**

<b>Key issues in the choice of monetary policy framework</b>	<b>1</b>
MAXWELL FRY, DEANNE JULIUS, LAVAN MAHADEVA , SANDRA ROGER AND GABRIEL STERNE	

<b>1 Introduction</b>	<b>3</b>
<i>1.1 Overview</i>	
<i>1.2 Post-war origins</i>	
<i>1.3 What monetary policy can and cannot do</i>	
<i>1.4 Who determines the monetary policy framework?</i>	
<i>1.5 Rules versus discretion</i>	
<i>1.6 Central bank independence</i>	
<b>2 A historical examination of inflation stability under alternative monetary frameworks</b>	<b>18</b>
<i>2.1 Introduction</i>	
<i>2.2 A brief history of inflation diversity</i>	
<i>2.3 The circumstances of inflation, stability</i>	
<i>2.3.i Data and, methodology</i>	
<i>2.3.U Are periods of stable inflation associated with low inflation?</i>	
<i>2.4 Inflation stability and monetary frameworks</i>	
<i>2.5 Conclusions, and interpretation</i>	

3	The use of explicit targets for monetary policy: practical experiences in 93 economies in the 1990s	29
3.1	<i>Introduction</i>	
3.2	<i>A review of the arguments for different explicit targets</i>	
3.3	<i>Explicit targets in the 1990s</i>	
3.4	<i>Flexibility and uncertainty in the implementation of inflation and money growth targets</i>	
3.5	<i>Rules versus discretion revisited</i>	
3.6	<i>An anatomy of policy targets</i>	
3.6.1	<i>Choosing a band width for inflation and money targets</i>	
3.6.ii	<i>Exemptions from explicit inflation and money targets</i>	
3.6.Hi	<i>Time horizons over which targets are to be achieved</i>	
3.6.iv	<i>Combining dimensions of flexibility</i>	
3.7	<i>Summary and conclusions</i>	

I'

4	<b>The devil in the detail of monetary policy frameworks: issues and measures of monetary framework characteristics</b>	57
4.1	<i>Introduction</i>	
4.2	<i>Key objectives of the survey and the survey process</i>	
4.3	<i>Measuring the characteristics of monetary policy frameworks: issues and results</i>	
4.3.1	<i>Issues in measuring monetary policy focus</i>	
4.3.La	<i>Measures of monetary policy focus: questions, issues, and answers</i>	
4.3.ii	<i>Issues in measuring institutional characteristics of monetary policy framework (independence, accountability and, transparency explanations)</i>	
4.3.ii.a	<i>Measuring central bank independence</i>	
4.3.ii.b	<i>Measures of central bank independence</i>	
4.3.iii.a	<i>Issues in interpreting accountability and policy explanations</i>	
4.3.iii.b	<i>Measures of accountability</i>	
4.3.iii.c	<i>Measures of policy explanations</i>	
4.3.iv	<i>Issues and the measurement of the importance of financial stability issues</i>	
4.3.v	<i>Issues and the measurement of analysis conducted, in central banks</i>	
4.3.v.a	<i>Measuring the use of inflation expectations</i>	
4.3.v.b	<i>Measuring the use of models and forecasts</i>	
4.3.vi	<i>Measuring the importance of analysis of money and the banking sector</i>	
4.4	<i>Conclusion</i>	

## The devil in the detail off monetary policy frameworks (2): interpreting measures of framework characteristics

5.7 *Introduction*

5.2 *Methodological issues*

5.3 *Policy focus*

5.3.i *Policy focus and framework labels*

5.3.U. *To what extent do currency arrangements take extreme forms?*

5.3.Hi. *The shape of monetary policy objectives*

5.4 *The relationship between policy objectives and, institutional characteristics of monetary policy frameworks (independence, accountability, and transparency)*

5.4.i *Stylised facts about independence in different types of economies*

5.4.U. *Stylised facts about accountability and policy explanations in different types of economies*

5.4.Hi. *Relationships between institutional characteristics and policy focus*

5.5 *Financial stability issues and other aspects of the monetary policy framework*

5.6 *The relationship between, measures of analysis conducted and, other aspects of the monetary framework*

5.7 *Interpreting the results*

## What does independence mean to central banks? 109

6.1 *Introduction*

6.2 *A direct method of understanding what independence means to central bankers*

6.3 *An indirect approach to explaining central bank perceptions of their independence*

6.4 *Independence and rules versus discretion*

6.5 *Conclusions*

## Redesigning the monetary policy framework: practical considerations 120

7.1 *Introduction*

7.2 *Why do countries redesign their monetary policy frameworks?*

7.3 *When should countries change their monetary policy framework?*

7.4 *Practical considerations in. the choice of a new monetary policy framework*

viii *Contents*

*7.5 Practical consideration in the design of a new monetary  
policy framework*

*7.5.1 Individual or committee?*

*7.5. ii Size of committee*

*7.5. Hi Composition of committee*

*7.5.iv Frequency of meetings*

*7.6 Conclusions*

-8	Conclusions and summary	134
	<i>Appendix 1 Measures of monetary framework characteristics from the Bank of England questionnaire</i>	
	<i>Appendix 2 Monetary frameworks questionnaire</i>	
	<i>Appendix 3 Minutes of the Bank of England's 6th Central Bank Governors' Symposium</i>	
	<i>Appendix 4 Central Bank Governors' symposium participants</i>	
	<i>Bibliography</i>	211
	<b>PART II</b>	
	Monetary policy strategies	217
	Monetary policy objectives in emerging markets in light of the Asian crisis •	219
	ANDREW CROCKETT	
	The role of the Monetary Policy Committee: strategic considerations	226
	CHARLES GOODHART	
	Establishing a reputation for dependability by means of inflation targets	243
	ALEXCUKIERMAN	
	<b>PART III</b>	
	Transmission mechanisms and monetary frameworks	271
	Modelling the transmission mechanism of monetary policy in the Czech Republic	273
	LA VAN MAHADEVA AND KATERJNA SMIDKOVA	
	Setting monetary policy instruments in Uganda	301
	MICHAEL ATINGI-EGO	
	Monetary policy in a dollarised economy: the case of Peru	330
	ZENON QULSPE MISAICO	

The Balassa-Samuelson effect and monetary targets MARION KOHLER	354
PART IV	
Country experiences with different monetary strategies	391
Lessons from the Bundesbank on the occasion of its early retirement ADAM S. POSEN	393
What can inflation expectations and core inflation tell us about monetary policy in Japan? MASAHIROHIGO	421
Inflation and money goals: the recent experience of monetary policy in Mexico I' SAMUEL ALFARO AND MOISES J. SCHWARTZ	441
Inflation targets and stabilisation in Chile OSCAR LANDERRETICHE, FELIPE MORANDE AND KLAUS SCHMIDT-HEBBEL	455
Monetary policy and disinflation in Israel GIL BUFMAN AND LEONARDO LEIDERMAN	484
Inflation targeting in the Czech Republic MIROSLAV HRNCIR AND KATERINA SMIDKOVA	525
PART V	
Specifying and using targets	537
Core inflation as an indicator in monetary policy rules SEAMUS HOGAN	539
Specifying an inflation target: the case of administered prices and other candidates for exclusion UROS CUFER, LA VAN MAHADEVA AND GABRIEL STERNE	557
Exchange rate considerations in a small open economy: a critical look at the MCI as a possible solution DAVID G. MAYES AND MATTI VIREN	585
<i>Index</i>	629