Essays on Economic Policy (ESPE in Spanish) - Timing and Duration of Inflation Targeting Regimes

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Central banks in G7 countries shifted to unconventional policy measures in the aftermath of the Financial Crisis, when faced with economic slack, financial instability and fiscal trouble. This shift ended a spell of rules-based time consistent monetary policy that started in the mid-1980s. I argue that substantial economic, political and financial risks put pressures on the continued support for a monetary regime. Central banks may be forced to adopt policies with no option to reset those options later on. I demonstrate with duration models – on a sample of industrialized and emerging economies from 1970 to 2012 – that the policy switch to inflation targeting happened after episodes with high inflation and public debt, reflecting broad support for stability-oriented monetary (and fiscal) policy. More generally, changes in monetary regimes occur after a crisis. High inflation makes central banks pursue active monetary policies, while they forsake those same policies in the wake of fiscal or financial crises.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/timing-and-duration-of-inflation-targeting-regimes