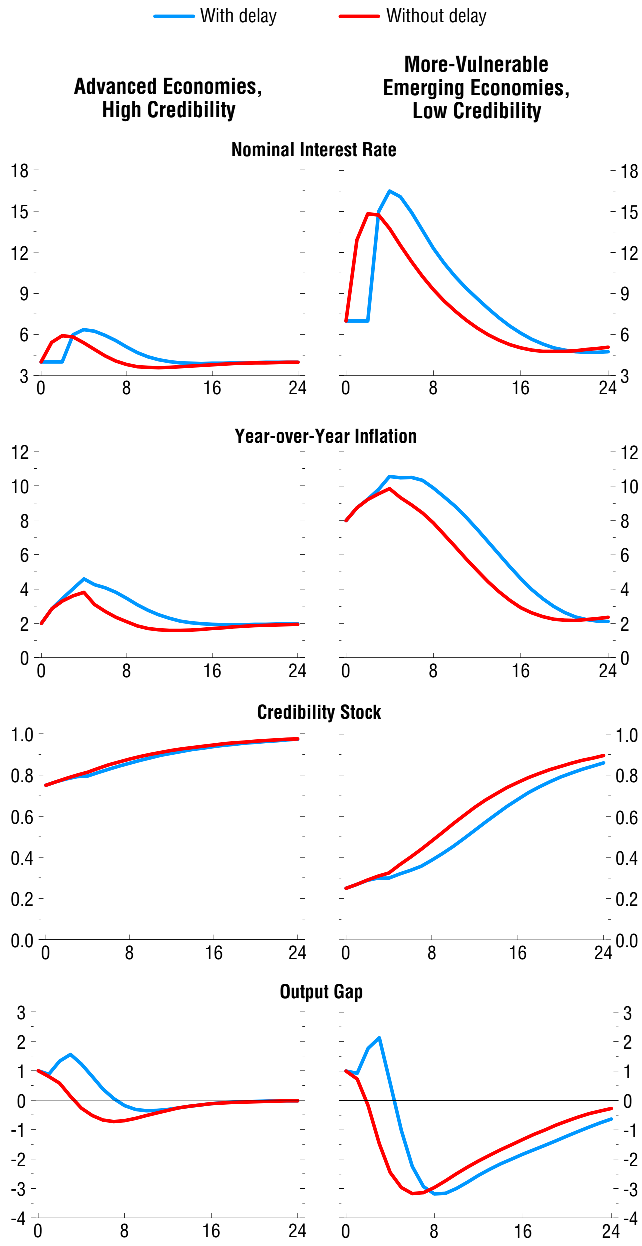
Figure 3.16. Potential Costs of Delaying Interest Rate Hikes[1]

(Percent; quarters on the x-axis)

Delaying the monetary policy response to adverse supply shocks implies that interest rates have to rise more in the end to bring inflation back to target, with possible disruptions to credibility building.



Source: IMF staff calculations.

[1]The experiments are based on supply shocks equivalent to a 1 percentage point change in annual average inflation for one year.