



HOW TO

NOTES

How to Design and Review Inflation Targets in Emerging Market and Developing Economies

Thomas J. Carter, Gunes Kamber, and Julia Otten

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Editor's Note (3/31/26):

Figures 4, 5, and 6 have been updated to reflect a correction to the changes in India's inflation target specification.

Abbreviations

AE	advanced economy
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
Banxico	Banco de México (Bank of Mexico)
Banrep	Banco de la República de Colombia (Bank of the Republic of Colombia)
BCB	Banco Central do Brasil (Central Bank of Brazil)
BCC	Banco Central de Chile (Central Bank of Chile)
BOC	Bank of Canada
BOE	Bank of England
BOR	Bank of Russia
BOT	Bank of Thailand
BS	Balassa–Samuelson
CBA	Central Bank of Armenia
CNB	Czech National Bank
DNWR	downward nominal wage rigidity
ECB	European Central Bank
ELB	effective lower bound
EMDE	emerging market or developing economy
IT	inflation targeting
IT-AE	inflation-targeting advanced economy
IT-EMDE	inflation-targeting emerging market or developing economy
NBP	National Bank of Poland
NBS	National Bank of Serbia
NBU	National Bank of Ukraine
NER	nominal exchange rate
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
RER	real exchange rate
SOE	small open economy

How to Design and Review Inflation Targets in Emerging Market and Developing Economies

Thomas J. Carter, Gunes Kamber, and Julia Otten¹

A strong commitment to price stability as the primary objective of monetary policy, operationalized through a clearly defined inflation target, is the cornerstone of all successful inflation-targeting regimes. When setting targets in the context of emerging market and developing economies (EMDEs), policymakers face a range of specific challenges relative to their counterparts in advanced economies, often including a more volatile economic environment and weaker institutional background. This How-To Note provides conceptual and practical guidance on how these and other key factors shape the appropriate design of inflation targets in EMDEs, covering not only the target level, but also the specific inflation measure to be targeted, the relevant time horizon for meeting the target, and the width and interpretation of any associated bands. The note also covers (1) key considerations involved in reviewing and potentially adjusting the specification of the target, emphasizing careful management of the heightened risks to credibility that these processes tend to entail for EMDEs, and (2) specific issues associated with disinflation programs.

¹ This note was prepared by Thomas J. Carter, Gunes Kamber, and Julia Otten, under the guidance of Christopher Erceg and David Hofman. The authors thank Joanna Niedźwiedzińska for kindly sharing an updated version of the database in [Niedźwiedzińska \(2018\)](#). They also thank Sumaiyah Mirza for excellent research assistance.

Introduction

Although initially conceived by central banks in advanced economies (AEs), inflation targeting (IT) has built up a significant track record in emerging market and developing economies (EMDEs). Central banks in more than 30 EMDEs currently identify as inflation targeters. At central banks in the wave of “early-adopting” EMDEs from around the turn of the century, policymakers can now draw on more than two decades of experience using IT to navigate a wide range of domestic and international shocks.

Supported by other improvements in their macroeconomic policy frameworks, the shift to IT has helped many EMDEs achieve steadier growth and lower, more stable inflation. Many studies have now linked various EMDEs’ decisions to adopt IT to improvements in a range of macroeconomic outcomes, either relative to pre-adoption levels or relative to the contemporary experience of non-IT peers.¹ For example, IT frameworks have helped many EMDEs better manage shocks associated with the global financial crisis and its aftermath, along with various episodes of heightened volatility in global commodity prices.² As emphasized by [Gopinath \(2023\)](#), IT was also an important contributor to the resilience that many EMDEs demonstrated in response to the post-COVID-19 surge in global inflation and the associated sharp tightening in global financial conditions. Contrasted with the crises and macrofinancial stresses that many of these same countries experienced in earlier decades, this resilience speaks to the durability of IT as a viable monetary policy framework for many EMDEs. This success partly reflects the fact that inflation-targeting emerging market and developing economies (IT-EMDEs) have—similar to their AE peers—typically implemented IT with material degrees of flexibility, emphasizing the stabilization of inflation over the medium term (“inflation-forecast targeting”) while managing shorter-term trade-offs between price stability and secondary objectives such as financial stability and stabilization of the real economy.³

A key element in all successful IT regimes is a firm commitment to price stability as the primary objective of monetary policy, operationalized through a clear specification of the inflation target. This specification includes the following:

- Level of the target.
- Measure of inflation to be targeted—for example, headline versus core.
- Target horizon—that is, the horizon over which policymakers aim to close deviations from the target.
- Use, width, and intended interpretation of any associated bands—for example, should the target be specified as a “naked” point target, as a point target with a surrounding band of some form, or as a “target zone” without a particular point target?

A clear specification of each of these different dimensions of the inflation target is a critical component in the overall foundations of monetary policy strategy, helping to structure the central bank’s internal deliberation processes and the forecasting and analytical work that feeds into them. At the same time, ensuring that the public understands all dimensions of the inflation target, along with the rationales behind their specification, is key to keeping expectations well anchored while promoting transparency and accountability and establishing a strong basis for effective external communications.

While common principles apply to inflation targeters in both AEs and EMDEs, the latter face specific challenges that need to be accounted for. Although EMDE central banks are a highly heterogeneous group, they generally operate in more volatile economic environments relative to their AE peers, and often do so against significantly more challenging institutional backgrounds.⁴ For example, inflation tends to be more volatile in EMDEs—reflecting a higher prevalence of food and energy components in EMDE consumption baskets and structural features that tend to amplify and prolong the inflationary impacts of various shocks (for example, higher rates of indexation and exchange rate pass-through [[IMF 2023a](#)] and weaker anchoring of inflation expectations). Many EMDEs also face outsized vulnerabilities to supply shocks and shifting capital flows,⁵ and often have structural features that make it more likely for shocks to lead to trade-offs between price stability and other policy objectives.⁶ The rapid structural changes that occur as part

of the process of “catching up” to AE income levels can also be a source of shocks for EMDEs. At the same time, central banks in IT-EMDEs often face greater challenges in building and maintaining credibility, relative to peers in inflation-targeting advanced economies (IT-AEs)—typically including weaker protections around central bank independence and more limited “track records” operating under IT. Taken together, these considerations play important roles in shaping the trade-offs among credibility, flexibility, and ambition that IT-EMDEs must confront when deciding on the different dimensions of their inflation targets.

This note provides conceptual and practical guidance on the specification of EMDE inflation targets, recognizing these distinctive challenges. In so doing, the note draws on several sources, including the practical experiences of EMDE central banks, the experiences of AE central banks (where relevant), and the experiences of IMF staff advising national authorities on various aspects of EMDE monetary policy, whether in program, surveillance, or technical assistance contexts. Where possible, this note also draws on the academic literature; however, it is important to recognize that the literature on the specification of EMDE inflation targets has not reached the levels of depth and breadth that characterize the extensive parallel literature on AE targets. The analysis covers all dimensions of the target discussed previously in this section, with key messages as follows:

- *The inflation target should be set at a level that strikes a reasonable balance between country-specific estimates of the costs and benefits of trend inflation.* This often favors modestly higher inflation targets for EMDEs, relative to AEs, especially in cases where higher inflation may play a useful role in “greasing the wheels” of price and wage adjustment or in absorbing pressures on the real exchange rate (RER).
- *Targeting a measure of headline inflation, rather than core inflation, is preferable.* This is because the former is better understood by the general public and more representative of their “lived” experiences with inflation, in addition to often being more closely tied to inflation expectations and indexation practices.
- *The target horizon should be medium term, flexible, and considered as the main source of flexibility in the overall IT framework.* However, recognizing that it may be difficult for IT-EMDEs to treat their horizons as flexibly as their AE peers, it should be supplemented with clear guidance on the target horizon for which policymakers normally aim, along with a high bar for temporarily considering longer horizons in response to exceptional shocks and trade-offs.
- *When a flexible, medium-term target horizon is in place, the rationale for using bands as an additional source of flexibility is limited, though they can be useful as communication devices if policymakers prevent them from being interpreted as “zones of indifference.”* For IT-EMDEs, this generally calls for avoiding target zones in favor of point targets that are either left naked or specified with bands presented as an illustration of the “normal” level of inflation volatility under the IT regime.

The note also covers issues associated with reviewing and potentially updating the specification of EMDE inflation targets. Here, there is a need to strike a balance in terms of limiting the risk that overly frequent or opportunistic changes could undermine the credibility of monetary policy while still allowing the policy framework to evolve when needed to keep it fit for purpose. Achieving this balance can be especially challenging for IT-EMDEs: on the one hand, the faster rates of structural change observed in many EMDEs could create grounds for more frequent reviews, relative to their AE peers; on the other hand, the institutional weaknesses noted previously in this section suggest that reviews may entail greater risks to credibility in EMDE contexts. Best practices in balancing these considerations include the following:

- *To avoid the appearance of opportunistic or politically motivated target changes, target reviews should be infrequent and announced well in advance.* They should also be supported by strong analytical inputs and clear, accessible communication regarding the economic rationales for all decisions reached.
- *Expectations about the potential outcomes of target reviews should be carefully and proactively managed.* This includes stressing to markets and the wider public that they should not presume that reviews will necessarily lead to major changes.

- *Any target adjustments should meet a high bar given the associated credibility risks—especially when considering shifts toward “less ambitious” targets (that is, higher target levels, wider bands, or longer or more flexible horizons).* Among other elements, this calls for (1) a careful assessment of whether the economic factors motivating target changes are structural or cyclical in nature, and (2) a thorough exploration of other potential remedies, including refinements to the central bank’s policy stance, reaction function, and communication strategy.

Although this note focuses on the specification of the inflation target and associated review processes, this is not meant to minimize other key elements in IT-EMDEs’ policy frameworks. The institutional, operational, and technical elements that should be in place to support an effective IT regime are extensively discussed elsewhere (for example, [IMF, 2015](#); [Adrian, Laxton, and Obstfeld, 2018](#)). These include (1) clear primacy of the central bank’s price stability objective, (2) a high degree of operational independence, (3) strong “buy-in” from the government and other key stakeholders, (4) a firm commitment to exchange rate flexibility, (5) a functional transmission mechanism supported by a high degree of operational control over short-term market rates, (6) investments in the processes and technical capacity needed to make sound policy decisions on a forward-looking basis, and (7) an effective framework for publicly communicating those decisions. Although the note does not delve into these elements, many of its recommendations are aimed at exploiting synergies between these broader aspects of the IT framework and the specification of the inflation target. For example, one reason why it is important to ensure that the target is appropriately specified in view of the economy’s particular features and challenges is that this should make it easier to build and maintain a “public consensus” around the IT regime; a well-designed review process can also play a valuable role in strengthening that consensus and securing buy-in from a range of key stakeholders. Moreover, as a clear specification of the inflation target helps to promote public understanding of the central bank’s reaction function and objectives, it should also help to strengthen monetary transmission while laying the ground for a clear and effective communication framework.

The guidance laid out in this note is intended for EMDEs that are either operating under IT or are considering a transition to IT. In this sense, the note presupposes that policymakers have already identified IT as the most appropriate monetary policy framework for their economy. In “transition cases” where an IT regime is not currently in place, the current level and volatility of inflation are also assumed to be such that policymakers are reasonably confident that concerted efforts should allow them to stabilize inflation in a single-digit range over the medium term. For the purposes of this note, the typical transition case would therefore be one where inflation is currently running in single digits or low double digits, and policymakers are interested in adopting IT as a way of stabilizing it in low or mid-single digits.⁷ By contrast, transition cases that start from initial conditions involving entrenched levels of significantly higher inflation may require a dedicated disinflation effort through other means before a credible transition to IT could be considered.

Setting the Inflation Target

Level of the Inflation Target

IT-EMDEs often target levels of inflation somewhat higher than their AE counterparts, though the difference is small for more “mature” IT-EMDEs. Of the 35 IT-EMDEs considered in Table 1, which was constructed from the 2023 IMF *Annual Report on Exchange Arrangements and Exchange Restrictions* ([IMF 2024](#)), 32 have point targets in the 2.5–6 percent interval or bands centered within the same interval. However, if one restricts attention to mature IT-EMDEs with 20 or more years of experience, then all but two have either point targets in the 2–4 percent interval or bands centered within the same interval. For comparison, the most common practices among IT-AEs involve either 2 percent point targets or bands centered around 2 percent (Table 2). As will be explained later in this note, the differences between IT-EMDEs and their AE peers largely stem from structural factors that can make modestly higher targets appropriate in certain EMDE contexts.

In AEs, assessments regarding the appropriate level of the inflation target typically focus on quantifying and balancing the costs and benefits of trend inflation. For example, the 2020–21 framework review at the European Central Bank (ECB) included workstreams focused on quantifying the usefulness of positive trend inflation as a buffer against frictions such as downward nominal rigidity and the effective lower bound (ELB) on nominal interest rates, ultimately arguing that a 2 percent target should strike a reasonable balance between these considerations and a range of welfare costs that are likely to rise with the rate of trend inflation ([Consolo and others 2021](#); [ECB workstream on inflation measurement 2021](#); and [ECB workstream on the price stability objective 2021](#)). The Bank of Canada (BOC) took a broadly comparable approach when considering the level of its own inflation target as part of its 2011 and 2016 framework reviews (BOC [2011](#), [2016](#)).

Although it may be more challenging than in AEs, EMDEs should use a similar approach to find an appropriate target level, balancing country-specific estimates of the costs and benefits of trend inflation. A key challenge is that the literature on many of the relevant cost and benefit channels has focused disproportionately on AEs, though it often provides reasons to expect that the strength and relevance of certain channels could vary materially across economies with different structures and levels of development (as will be detailed in the following subsections). As a result, estimates of the level of trend inflation around which costs and benefits should balance are likely to be subject to greater uncertainty in EMDE contexts⁸ and may require more work accounting for country-specific considerations, relative to AEs. In many EMDEs, policymakers also face the additional practical challenge of having limited experience operating at low trend inflation, limiting the data available to support a thorough analysis. Especially in view of these challenges, the goal should not be to identify an “optimal” target level that precisely balances all of the costs and benefits of trend inflation, but rather to find a target level that should deliver a reasonable balance across the cost and benefit channels that are likely to matter most for a given IT-EMDE.

Various methods can be used to inform such assessments, supported by expert judgment. The AE framework reviews that were discussed earlier collectively exemplify a range of empirical and model-based strategies that can be used to quantify different costs and benefits of trend inflation. Significant progress can also be made through literature reviews, by reflecting on the economy’s historical performance operating at different rates of trend inflation, or by drawing lessons from experiences in economies with comparable features. Although levels of comprehensiveness and technical sophistication vary, recent framework reviews at the Bank of Jamaica, Bank of Russia (BOR), Central Bank of Armenia (CBA), National Bank of Kazakhstan, and Reserve Bank of India (RBI) all contain recent examples of EMDE-focused exercises along these lines (see, respectively, [Bank of Jamaica 2024](#); [BOR 2023a](#); [Avetisyan, Igityan, and Papikyan 2024](#); [National Bank of Kazakhstan 2023](#); and [RBI 2021](#)). At the same time, exercises of this sort should not be viewed as purely “mechanical” in nature, especially in light of the uncertainties and data limitations emphasized earlier. A significant degree of judgment is invariably involved and should complement technical inputs in reaching a balanced decision on an appropriate target level.

Table 1. Inflation Targets in Emerging Market and Developing Economies

Country	IT Start Date ¹	Level and/or Band	Target Measure	Horizon
Albania	2015	3%	Headline	Medium term
Armenia	2006	3%, ± 1 ppt	Headline	Medium term (3 years)
Brazil	1999	3%, ± 1.5 ppts	Headline	Medium term, flexible
Chile	1999	3%	Headline	Medium term (2 years)
Colombia	1999	3%, ± 1 ppt	Headline	Medium term
Costa Rica	2018	3%, ± 1 ppt	Headline	Medium term (24 months)
Dominican Republic	2012	4%, ± 1 ppt	Headline	Medium term (18–24 months)
Georgia	2009	3%	Headline	Medium term
Ghana	2007	8%, ± 2 ppt	Headline	Medium term
Guatemala	2005	4%, ± 1 ppt	Headline	Medium term
Hungary	2001	3%, ± 1 ppt	Headline	Medium term
India	2016	4%, ± 2 ppts	Headline	Medium term
Indonesia	2005	2.5%, ± 1 ppt	Headline	Calendar years 2025 through 2027
Jamaica	2021	4–6%	Headline	Fiscal years 2024/25 through 2026/27
Kazakhstan	2015	“Close to” 5%	Headline	Medium term
Kenya		5%, ± 2.5 ppt	Headline	Fiscal year 2025/26
Mauritius	2023	3.5%, ± 1.5 ppts	Headline	Medium term
Mexico	2001	3%, ± 1 ppt	Headline	Medium term
Moldova	2010	5%, ± 1.5 ppts	Headline	Medium term
Mongolia	2013	5%, ± 2 ppts	Headline	Medium term
Paraguay	2011	3.5%, ± 2 ppts	Headline	Medium term (18–24 months)
Peru	2002	1–3%	Headline	Medium term
Philippines	2002	3%, ± 1 ppt	Headline	Calendar years 2025 through 2028
Poland	1998	2.5%, ± 1 ppt	Headline	Medium term, flexible
Romania	2005	2.5%, ± 1 ppt	Headline	Medium term
Russia	2015	“Close to” 4%	Headline	Medium term, flexible
Serbia	2009	3%, ± 1.5 ppts	Headline	Medium term
South Africa	2000	3%, ± 1 ppt	Headline	Medium term (1–2 years)
Sri Lanka	2023	5%, ± 2 ppts	Headline	Medium term
Thailand	2000	1–3%	Headline	Medium term
Türkiye	2006	5%, ± 2 ppts	Headline	Medium term
Uganda	2011	5%	Core	Medium term (2–3 years)
Ukraine ²	2015	5%	Headline	Medium term (3 years)
Uruguay	2005	4.5%, ± 1.5 ppts	Headline	Medium term (2 years)
Uzbekistan	2020	5%	Headline	Medium term

Sources: Central banks’ websites and monetary policy reports; IMF *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER) (IMF 2024); and other selected sources (see the following notes).

Notes: The table covers all EMDEs that self-identified as inflation targeters for the purposes of the 2023 IMF AREAER (IMF 2024), along with Ukraine (which identified as an inflation targeter in earlier AREAER editions). EMDE status is based on the groupings used in IMF (2025b). Apart from the AREAER, the sources used for individual countries are as follows: Albania: Bank of Albania (2018, 2025), IMF (2015b); Armenia: Central Bank of Armenia (2025a, 2025b, 2025c); Brazil: Banco Central do Brasil (2025a, 2025b, 2025c), Haddad (2024); Chile: Banco Central de Chile (2025a); Colombia: Banco de la República de Colombia (2025a), Villar (2023); Costa Rica: Banco Central de Costa Rica (2025); Dominican Republic: Banco Central de la República Dominicana (2025); Georgia: National Bank of Georgia (2021, 2025a); Ghana: Bank of Ghana (2025); Guatemala: Banco de Guatemala (2025); Hungary: Magyar Nemzeti Bank (2025a); India: Reserve Bank of India (2025a); Indonesia: Bank Indonesia (2025a), Mulyani Indrawati (2024); Jamaica: Byles (2024), Clarke (2024); Kazakhstan: National Bank of Kazakhstan (2023, 2025); Kenya: Mbadi Ng’ongo (2025); Mauritius: Bank of Mauritius (2025); Mexico: Banco de México (2025); Moldova: National Bank of Moldova (2025a); Mongolia: Bank of Mongolia (2025a); Paraguay: Banco Central del Paraguay (2025); Peru: Banco Central de Reserva del Perú (2025a, 2025b); Philippines: Bangko Sentral ng Pilipinas (2025a); Poland: National Bank of Poland (2003, 2024); Romania: National Bank of Romania (2025a, 2025b); Russia: Bank of Russia (2024); Serbia: National Bank of Serbia (2025a); South Africa: South African Reserve Bank (2025); Sri Lanka: Central Bank of Sri Lanka (2025a); Thailand: Bank of Thailand (2024); Türkiye: Central Bank of the Republic of Türkiye (2024); Uganda: Bank of Uganda (2025a); Ukraine: National Bank of Ukraine (2025a, 2025b); Uruguay: Banco Central del Uruguay (2025a); Uzbekistan: Central Bank of Uzbekistan (2025a). EMDE = emerging market or developing economy; ppt = percentage point.

¹ Start dates are not available for all countries and partly reflect differences in the milestones that central banks use to date their inflation-targeting regimes.

² Entries in this row refer to Ukraine’s current monetary policy framework and differ from the framework in place prior to February 2022, which was oriented around a target of 5 percent ± 1 ppt, along with a target horizon of 9 to 18 months (see National Bank of Ukraine [2025a] for details).

Table 2. Inflation Targets in Advanced Economies

Country or region	Start Date ¹	Level and/or Band	Target Measure	Horizon
Australia	1993	2–3%	Headline	Medium term, flexible
Canada	1991	2%, ± 1 ppt	Headline	Medium term, flexible (Typically 6–8 quarters)
Czech Republic	1998	2%, ± 1 ppt	Headline	Medium term, flexible (Typically 12–18 months)
Euro area	1998 ²	2%	Headline	Medium term, flexible
Iceland	2001	2.5%	Headline	Medium term, flexible
Israel	1997	1–3%	Headline	Medium term (2 years)
Japan	2013	2%	Headline	“At the earliest possible time”
Korea	1998	2%	Headline	Medium term, flexible
New Zealand	1990	1–3%, “with a focus on” 2%	Headline	Medium term, flexible
Norway	2001	“Close to” 2%	Headline	Medium term, flexible
Sweden	1993	2%	Headline ³	Medium term, flexible
United Kingdom	1992	2%	Headline	Medium term, flexible
United States	2012 ⁴	2%	Headline	Medium term, flexible

Sources: Central banks’ websites and monetary policy reports; [IMF \(2024\)](#); and other selected sources (see the following notes).

Notes: The table lists inflation targets for all AEs that self-identified as inflation targeters in [IMF \(2024\)](#), along with the US and the euro area. AE status is based on the groupings used in [IMF \(2025b\)](#) and includes AEs that were considered EMDEs at the time of adopting inflation targeting. Apart from [IMF \(2024\)](#), the sources used for individual jurisdictions are as follows: Australia: [Cockerell \(1999\)](#), Reserve Bank of Australia ([2025a](#), [2025b](#)); Canada: Bank of Canada ([2021](#), [2025a](#)); Czech Republic: Czech National Bank ([2007](#), [2025a](#), [2025b](#), [2025c](#)); euro area: European Central Bank ([2025a](#), [2025b](#)); Iceland: Central Bank of Iceland ([2022](#), [2025a](#)); Israel: [Bank of Israel \(2025\)](#), [Yaron \(2022\)](#); Japan: Bank of Japan ([2024](#), [2025a](#)); Korea: Bank of Korea ([2017](#), [2025a](#), [2025b](#)); New Zealand: Reserve Bank of New Zealand ([2024](#), [2025a](#)), [Willis \(2023\)](#); Norway: [Eitrheim and Qvigstad \(2020\)](#), [Norges Bank \(2025\)](#); Sweden: Sveriges Riksbank ([2025a](#), [2025b](#), [2025c](#)); United Kingdom: [King \(2007\)](#), [Reeves \(2024\)](#); United States: Federal Reserve System ([2025a](#), [2025b](#)). AE = advanced economy; EMDE = emerging market or developing economy; ppt = percentage point.

¹ Start dates partly reflect differences in the milestones that central banks use to date their inflation-targeting frameworks.

² For the euro area, the given start date is based on the formal establishment of the European Central Bank.

³ The Swedish inflation target is specified in terms of an index that excludes the impact of interest rate changes on households’ mortgages but otherwise covers the same basket as the headline consumer price index.

⁴ For the US, the start date given is based on the release of the Federal Reserve’s first *Statement on Longer-Run Goals and Monetary Policy Strategy*.

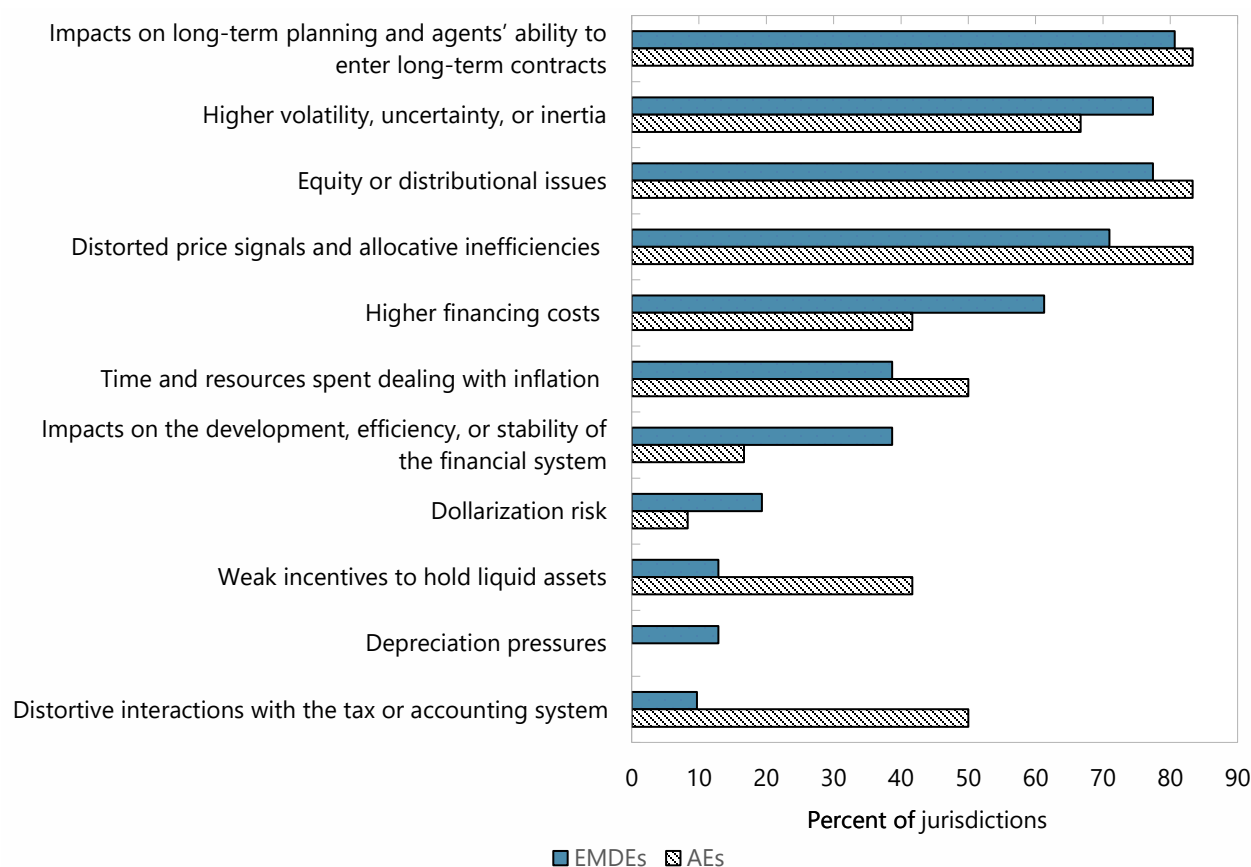
Cost Channels to Consider

Policymakers in jurisdictions with inflation targets point to a range of cost channels in justifying the levels of their targets. The most commonly cited channels are summarized in Figure 1, which was constructed based on a review of central banks’ websites and other public documents in which policymakers in AEs and EMDEs have offered insights into the factors that were considered when determining the levels of their targets. To be clear, an exercise along these lines cannot be comprehensive in the sense of covering all potentially relevant channels and communications; it also involves some judgment in the precise way that different categories are defined and populated and will miss cost channels that policymakers recognize in internal deliberations but have chosen not to emphasize publicly. Nonetheless, Figure 1 can help identify key channels that policymakers in multiple jurisdictions have emphasized, along with qualitative differences in the degree of emphasis that some channels receive in AE versus EMDE contexts.

Several of the relevant cost channels relate to negative impacts of high inflation on productivity, efficiency, and growth.⁹ For example, higher rates of trend inflation can “muddle” relative price signals in the presence of nominal rigidities, potentially leading to a less efficient allocation of resources. Negative impacts on growth and productivity can also arise from time and resources that agents are forced to redirect toward the tasks of avoiding or dealing with the effects of high inflation, or from the way that investment or borrowing decisions could be distorted by interactions between high inflation and nominal rigidities in the tax or accounting systems (an issue that, notably, is emphasized more strongly by policymakers in AEs than in EMDEs). Weaker incentives to hold liquid assets in high-inflation environments can also have negative implications for the functioning of the financial system and the ease with which

buyers and sellers can transact in certain markets, especially in economies where cash is more prevalent or central bank reserves are unremunerated.

Figure 1. Costs of Trend Inflation Noted by Policymakers in Emerging Market and Developing Economies and Advanced Economies



Sources: Central banks' websites; IMF (2024, 2025b); and other selected sources (see the following notes).

Notes: The figure is based on the same groupings of emerging market and developing economies and advanced economies in Tables 1 and 2, although relevant sources are not available for all jurisdictions. For emerging market and developing economies, coverage and sources are as follows: Albania: [Bank of Albania \(2015\)](#); Armenia: [Avetisyan, Igityan, and Papikyan \(2024\)](#), Central Bank of Armenia (2025b, 2025d, 2025e); Brazil: Banco Central do Brasil (2025b, 2025d); Chile: Banco Central de Chile (2020, 2025a); Colombia: [Banco de la República de Colombia \(2025b\)](#); Costa Rica: [Banco Central de Costa Rica \(2020\)](#); Georgia: National Bank of Georgia (2021, 2025b); Hungary: [Magyar Nemzeti Bank \(2025b\)](#); India: [Rajan \(2016\)](#), [Reserve Bank of India \(2021\)](#); Indonesia: [Bank Indonesia \(2025b\)](#); Jamaica: Bank of Jamaica (2021a, 2021b, 2024); Kazakhstan: National Bank of Kazakhstan (2023, 2025); Kenya: [Central Bank of Kenya \(2025\)](#); Mexico: [Banco de México \(2025\)](#); Moldova: National Bank of Moldova (2025a, 2025b); Mongolia: [Bank of Mongolia \(2025b\)](#); Paraguay: Banco Central del Paraguay (2013, 2024); Peru: Banco Central de Reserva del Perú (2025c, 2025d); Philippines: [Bangko Sentral ng Pilipinas \(2020\)](#); Romania: [National Bank of Romania \(2025c\)](#); Russia: Bank of Russia (2024, 2025a), [Meshcheryakov, Sukhomlinov, and Glazova \(2023\)](#); Serbia: National Bank of Serbia (2006, 2018); South Africa: [Gordhan \(2010\)](#); Sri Lanka: [Central Bank of Sri Lanka \(2025b\)](#); Thailand: [Bank of Thailand \(2024\)](#); Türkiye: [Central Bank of the Republic of Türkiye \(2025a\)](#); Uganda: Bank of Uganda (2025b, 2025c); Ukraine: National Bank of Ukraine (2025b, 2025c); Uruguay: [Banco Central del Uruguay \(2025b\)](#); Uzbekistan: Central Bank of Uzbekistan (2023, 2025b). For advanced economies, coverage and sources are as follows: Australia: [Reserve Bank of Australia \(2025a\)](#); Canada: Bank of Canada (2001a, 2011); Czech Republic: [Czech National Bank \(2025a\)](#); euro area: European Central Bank (2025c, 2025d); Iceland: [Central Bank of Iceland \(2025b\)](#); Israel: [Bank of Israel \(2025\)](#), [Friedman and Ribon \(2024\)](#); Japan: Bank of Japan (2024, 2025a); New Zealand: [Lockyer \(2022\)](#), [Reserve Bank of New Zealand \(2023\)](#); Norway: [Norges Bank \(2025\)](#); Sweden: [Sveriges Riksbank \(2025a\)](#); United Kingdom: [Bank of England \(2025a\)](#); United States: Federal Reserve System (2012, 2025c, 2025d).

Higher rates of trend inflation can also lead to higher volatility and uncertainty, undermining agents' ability to make long-term financial decisions. Some evidence suggests that inflation tends to be more volatile when it is high ([Kiley 2007](#)), partly reflecting changes in private sector behavior that can occur as inflation rises and becomes more salient. For example, price and wage setters may opt to rely more heavily on various (explicit or implicit) forms of indexation

in high-inflation environments, setting the scene for stronger second-round effects after shocks.¹⁰ To the extent that these effects then compel a more forceful reaction from monetary policy, they may also contribute to greater volatility in the overall business cycle. At the same time, some literature suggests that inflation expectations may be more difficult to anchor at higher rates of trend inflation ([Kiley 2007](#); [Coibion and Gorodnichenko 2011](#); [Ascari and Sbordone 2014](#); [Branch and Evans 2017](#)), and that this risk may be more acute in EMDEs to the extent that memories of previous high-inflation episodes are “fresher” in many EMDEs ([Gennaioli and others 2024](#); [Salle, Gorodnichenko, and Coibion 2023](#)). Moreover, all of these volatility-boosting channels can lead to even more “muddling” of the relative price signals emphasized earlier, in addition to making it more challenging for firms and households to engage in long-term planning and contracting.

Other key cost channels relate to the impacts of high inflation on borrowing costs and the development of the domestic financial system. For example, the aforementioned links between the level and volatility of inflation suggest that higher rates of trend inflation can lead to risk premiums that increase (real and nominal) borrowing costs for firms, households, and governments. This could make it difficult to sustain efficient levels of investment, government spending, and capital inflow—in addition to potentially impeding the development of local-currency markets or undermining access to international financing. High and volatile inflation can also lead to dollarization in some cases¹¹ or to frictions that could undermine the development and efficiency of the domestic financial system ([Boyd, Levine, and Smith 2001](#); [Khan, Senhadji, and Smith 2006](#)). As shown in Figure 1, many of these cost channels receive disproportionate attention from policymakers in EMDEs, relative to AEs.

Higher trend inflation can also have adverse effects on the distributions of wealth and income. For example, higher rates of trend inflation can exacerbate inequality to the extent that the costs of inflation often fall disproportionately on poorer households ([Kaplan and Schulhofer-Wohl 2017](#)). These impacts could reflect a lack of access to financial instruments that wealthier households can use to insulate themselves from the effects of high inflation, and this may be especially relevant in economies with weaker safety nets or in which larger portions of the population have trouble accessing banks and capital markets. The positive relationship between the level and volatility of inflation also suggests that economies with higher rates of trend inflation may be more vulnerable to arbitrary, inflation-induced shifts in the distributions of real wealth and income.

Finally, a cost channel noted by policymakers in several IT-EMDEs concerns the impact of high inflation on the nominal exchange rate (NER). If inflation consistently exceeds that of major trading partners, it is likely to be associated with sustained downward pressures on the NER, potentially setting the scene for a material degree of trend nominal depreciation. Although this effect applies to both AEs and EMDEs, the results reported in Figure 1 suggest that it may be more of a concern for policymakers in the latter group, potentially reflecting structural features that could make this channel more relevant in certain EMDEs. For example, a high rate of trend nominal depreciation could have material financial stability implications in the presence of large, unhedged foreign currency debts. In jurisdictions with a history of operating under an exchange rate anchor, such depreciations could also make it difficult to shift agents’ attention toward the inflation target or could prompt firms in exporting, importing, or trade-exposed sectors to index their prices to the exchange rate. In highly open EMDEs, this can make a trade-weighted estimate of trading partners’ inflation useful as a benchmark in analyzing the potential costs of high inflation. However, it is also important to recognize that the trend rate of change in the RER will generally be determined by factors beyond the central bank’s control (as will be explained in some detail in the following subsection).

Benefit Channels to Consider

The cost channels noted earlier must be weighed against a range of benefit channels through which higher rates of trend inflation may help to mitigate specific risks, pressures, and frictions. In this respect, Figure 2 provides an overview of the benefit channels that policymakers in AEs and EMDEs commonly identify as important factors in determining the levels of their inflation targets. Like Figure 1, this table was constructed based on a review of central

banks' websites and other public communications regarding the rationales behind the levels of their respective inflation targets. As such, Figure 2 is subject to the same caveats emphasized earlier in terms of its comprehensiveness and necessary reliance on a degree of judgment.

Some of the relevant channels relate to the possibility that higher trend inflation could provide a buffer against the ELB or against sustained deflations. However, while lower ELB risk is commonly emphasized as a key benefit channel in AE contexts, its significance for EMDEs is less clear to the extent that EMDEs' higher real neutral rates already offer a significant buffer against ELB episodes.¹² A full assessment of the relevance of these channels for a given EMDE should also account for other factors that play roles in determining the likelihood and potential impact of ELB episodes or episodes of sustained deflation, including the distribution of shocks to which the economy is subject and the availability, effectiveness, and potential side effects of unconventional monetary policy tools (or nonmonetary substitutes therefor).

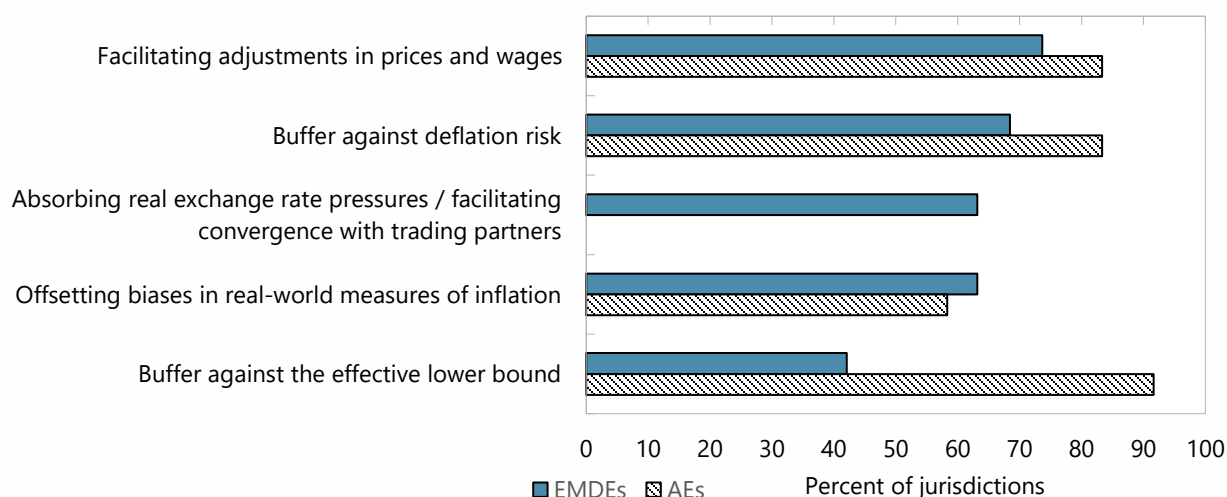
At the same time, a benefit channel that may be of special relevance for some EMDEs is that higher trend inflation may help to facilitate necessary adjustments in prices or wages. In academic and policy discussions, this channel is most commonly associated with downward nominal wage rigidity (DNWR), emphasizing workers' tendency to resist nominal wage cuts and the possibility that this could constrain wage-setting decisions in low-inflation environments. However, there is also some literature supporting forms of downward nominal *price* rigidity, and some IT-EMDEs cite both DNWR and downward nominal price rigidity as factors that were considered in assessing the appropriate levels of their targets.¹³ Whatever the precise form of the relevant rigidities, these considerations effectively associate higher rates of trend inflation with higher degrees of nominal flexibility, which may be especially valuable for some EMDEs to the extent that they have to adapt to more volatile economic environments than is the case for AEs ([Benigno and Ricci 2011](#)). These points may also have special relevance for EMDEs undergoing significant structural changes, as these changes often require large adjustments in relative prices and wages to support the reallocation of resources across sectors.¹⁴ Moreover, although the empirical literature on downward nominal rigidities in EMDEs is less extensive than the parallel literature focusing on AEs, there is some support for material degrees of DNWR in some EMDEs, especially ones in which (formal) labor markets are more heavily regulated ([Schmitt-Grohé and Uribe 2016](#); [Gambetti and Messina 2018](#); [Ahn, Choi, and Rivadeneyra 2024](#); [Matschke 2024](#)).

Although subject to caveats, a third benefit channel emphasized in many IT-EMDEs is that higher trend inflation can help to absorb pressures associated with sustained real appreciations. This channel is most closely associated with the Balassa–Samuelson (BS) effect, which is most relevant for highly open, fast-growing EMDEs, predicting that they should experience real appreciations as their income levels converge to those of AE trading partners. As detailed in Box 1, this effect is driven by differential productivity growth in tradables sectors—leading to a situation where aiming for low trend inflation would require *even lower* inflation in tradables sectors, coupled with nominal appreciation pressures as foreign exchange markets work to keep the foreign currency price of tradables aligned with trading partners. In economies subject to strong BS effects, these considerations make it important to assess potential implications for tradables sectors and the trend evolution of the NER when considering how the economy might perform at different rates of trend inflation. For example, if tradables sectors are subject to significant degrees of downward nominal rigidity, then the reasoning laid out earlier could open grounds for targeting a rate of inflation somewhat higher than trading partners—effectively allowing a larger share of the underlying RER pressures to be absorbed by domestic prices, rather than the NER. These and other related issues are further discussed in Box 1, though it is important that their relevance ultimately be assessed on a country-specific basis, as empirical support for the BS mechanism varies across countries and contexts.

Finally, on a more practical note, higher rates of trend inflation can help to compensate for statistical biases in real-world measures of inflation. This is because real-world measures of inflation are often overstated because of challenges accounting for new products, improvements in quality, and substitution effects. As a result, even if a trend rate of zero were appropriate for “true” inflation, the implied rate of measured inflation would still be positive.

Although the literature has not documented systematic differences across EMDEs and AEs in terms of the magnitude of such biases, it is sometimes argued that these biases should be more pronounced in economies experiencing dramatic structural transformations that expose households to a large number of quality improvements and new products.¹⁵

Figure 2. Benefits of Trend Inflation Noted by Policymakers in Emerging Market and Developing Economies and Advanced Economies



Sources: Central banks' websites; IMF (2024, 2025b); and other selected sources (see the following notes).

Notes: The figure is based on the same groupings of emerging market and developing economies and advanced economies as in Tables 1 and 2, though relevant sources are not available for all jurisdictions. For emerging market and developing economies, coverage and sources are as follows: Albania: [Bank of Albania \(2015\)](#); Armenia: [Avetisyan, Igityan, and Papikyan \(2024\)](#), Central Bank of Armenia (2025a, 2025e); Brazil: [Banco Central do Brasil \(2025d\)](#); Chile: Banco Central de Chile (2020, 2025a); Georgia: National Bank of Georgia (2021, 2025b); Hungary: [Magyar Nemzeti Bank \(2025b\)](#); India: Reserve Bank of India (2014, 2021); Jamaica: Bank of Jamaica (2021b, 2024); Kazakhstan: [National Bank of Kazakhstan \(2023\)](#); Kenya: [Central Bank of Kenya \(2025\)](#); Mexico: [Banco de México \(2002\)](#); Moldova: National Bank of Moldova (2025a, 2025b); Mongolia: [Bank of Mongolia \(2025b\)](#); Paraguay: [Banco Central del Paraguay \(2013\)](#); Romania: National Bank of Romania (2025b, 2025c); Russia: Bank of Russia (2023a, 2025a), [Meshcheryakov, Sukhomlinov, and Glazova \(2023\)](#); Serbia: [National Bank of Serbia \(2025a\)](#); Türkiye: Central Bank of the Republic of Türkiye (2025a, 2025b); Ukraine: [National Bank of Ukraine \(2025b\)](#). For advanced economies, coverage and sources are as follows: Australia: [Reserve Bank of Australia \(2025a\)](#); Canada: Bank of Canada (2001a, 2011); Czech Republic: [Czech National Bank \(2025a\)](#); euro area: European Central Bank (2025c, 2025d); Iceland: [Central Bank of Iceland \(2025b\)](#); Israel: [Bank of Israel \(2025\)](#), [Friedman and Ribon \(2024\)](#); Japan: Bank of Japan (2024, 2025a); New Zealand: [Lockyer \(2022\)](#), [Reserve Bank of New Zealand \(2023\)](#); Norway: [Norges Bank \(2025\)](#); Sweden: [Sveriges Riksbank \(2025a\)](#); United Kingdom: [Bank of England \(2025a\)](#); United States: Federal Reserve System (2012, 2025c, 2025d).

Balancing Costs and Benefits

The considerations laid out in the preceding subsections point to several areas where the significance of key channels is likely to vary, both between AEs and EMDEs, and among EMDEs with different characteristics. For example, regarding benefit channels, the usefulness of higher trend inflation as a buffer against ELB risk generally warrants less attention when assessing the appropriate level of the inflation target in EMDE contexts, relative to AEs. On the other hand, RER considerations can warrant more attention for some EMDEs, especially fast-growing, open EMDEs where a strong case for BS effects can be made, and where policymakers have an interest in limiting the role that the NER could play in absorbing these effects. The potential usefulness of higher trend inflation as a way of facilitating necessary adjustments in prices and wages may also have special significance for some EMDEs, especially ones undergoing large structural changes or with more rigid labor markets. For cost channels, it is less clear-cut which of these should matter more for EMDEs versus AEs, with the important exceptions that concerns around potential impacts on borrowing costs, dollarization, financial development, and the NER can often take on greater significance in EMDEs.

For many EMDEs, cost and benefit channels are likely to balance in ways that favor modestly higher inflation targets, relative to AE peers. As explained earlier, targets moderately higher than those of IT-AEs are relatively common among IT-EMDEs and have effectively emerged as a common “revealed preference” among most IT-EMDEs. Based on the foregoing discussion, such targets can also often be warranted in view of EMDE-specific structural features that could make somewhat higher trend inflation especially valuable as a way of accommodating pressures on the RER or “greasing the wheels” of price and wage adjustment. However, the target level needed to reasonably balance costs and benefits must ultimately be assessed on a country-specific basis.

Box 1. Sustained Real Exchange Rate Appreciation through the Balassa–Samuelson Effect and Other Channels: Implications for Inflation Targets in Emerging Market and Developing Economies

The Balassa–Samuelson (BS) effect is a commonly cited source of upward pressure on real exchange rates (RERs) in open emerging market and developing economies (EMDEs). It can be illustrated using a simple model with tradables and nontradables sectors. Let $P_{T,t}$ and $P_{N,t}$, respectively, denote prices in the former and latter sectors and assume that overall prices are given as follows:

$$P_t = P_{N,t}^\gamma P_{T,t}^{1-\gamma} \quad (1)$$

for some share parameter $\gamma \in (0,1)$. Assuming that labor is the only input in production and that both sectors hire in a common, competitive labor market, the nominal wage should settle as follows:

$$W_t = A_{N,t}P_{N,t} = A_{T,t}P_{T,t}, \quad (2)$$

where $A_{S,t}$ denotes the productivity level in sector $S \in \{N, T\}$. The real price of the tradable good is thus given as follows:

$$\frac{P_{T,t}}{P_t} = \left(\frac{A_{T,t}}{A_{N,t}} \right)^{-\gamma} \quad (3)$$

So, if the law of one price holds for tradables, then the RER against an AE with an analogous economic structure is given as follows:

$$Q_t = \left(\frac{A_{T,t}}{A_{N,t}} / \frac{A_{T,t}^*}{A_{N,t}^*} \right)^\gamma, \quad (4)$$

where stars mark foreign variables, while Q_t is the RER in units of the foreign consumption bundle per unit of the domestic bundle.¹ This last equation is key, as convergence between EMDEs and AEs tends to involve higher productivity growth in the former relative to the latter, driven mainly by gains in EMDE tradables sectors (which are disproportionately exposed to foreign competition and spillovers). With $A_{T,t}/A_{N,t}$ thus rising quickly relative to $A_{T,t}^*/A_{N,t}^*$, equation (4) predicts that the RER should experience sustained upward pressures over the course of the convergence process. Intuitively, this is because the RER must appreciate for the law of one price to continue holding despite the EMDE’s becoming relatively more proficient at producing tradables over time.

As inflation and the nominal exchange rate (NER) can both help to absorb such pressures, the impacts of different inflation targets depend partly on the “adjustment burdens” that they place on the NER. To see this, note that the RER must satisfy the following:

$$\frac{\Delta Q_t}{Q_{t-1}} \approx \frac{\Delta E_t}{E_{t-1}} + \frac{\Delta P_t}{P_{t-1}} - \frac{\Delta P_t^*}{P_{t-1}^*}, \quad (5)$$

where E_t denotes the NER in units of foreign currency per unit of domestic currency, while Δ s denote changes relative to the previous period. As a result, a sustained real appreciation driven by the BS effect must be met by some combination of higher trend nominal appreciation or higher trend inflation relative to trading partners. In principle, policymakers could opt to rely exclusively on the former or latter margins, or on some combination of the two.

In assessing a potential BS-based rationale for a relatively high inflation target, these points make it critical to explain why this would be preferable to a lower target and faster rate of trend nominal appreciation. Put differently, links between the BS effect and the inflation target should not be assessed under the presumption that the goal would necessarily be to avoid a trend in the NER, instead recognizing that policymakers must select from a menu of potential choices on the trend rates of growth in the NER and domestic price level.² In assessing the trade-offs that this selection entails, it may be useful to explore several issues that relate closely to ones already touched on when discussing NER issues in the main text—including the way that trend nominal appreciation might interact with nominal rigidities in exporting, importing, or trade-exposed sectors, along with the possibility that it might encourage indexation to the exchange rate within these sectors. There may also be implications for financial stability or financial market development, especially if a high rate of trend nominal appreciation led to perceptions that the currency is a “one-way bet.” As touched on in the main text, equation (3) also has the key corollary that the local-currency price of tradables should grow at a

Box 1. Sustained Real Exchange Rate Appreciation through the Balassa–Samuelson Effect and Other Channels: Implications for Inflation Targets in Emerging Market and Developing Economies (concluded)

slower pace than the overall price level—suggesting that the combination of rapid trend nominal appreciation and a low inflation target could lead to a situation where downward nominal rigidities start binding in tradables sectors.³

Another key consideration is that empirical support for the BS effect can vary across countries and contexts. Although a full review of the empirical literature on the presence and quantitative strength of BS effects in EMDE contexts lies outside the scope of this note, a sense of the extent to which findings vary across samples and empirical strategies can be gleaned by comparing the supportive results in [Habermeier and Mesquita \(1999\)](#), [Halpern and Wyplosz \(2001\)](#), [Choudhri and Khan \(2005\)](#), [Mihaljek and Klau \(2008\)](#), and [Mano and others \(2019\)](#) against the more qualified findings in [Ito, Isard and Symansky \(1997\)](#), [Chinn \(2000\)](#), [Égert \(2002\)](#), [Mihaljek and Klau \(2003\)](#), and [De Broeck and Sløk \(2006\)](#), as well as the nonsupportive results in [Peltonen and Sager \(2009\)](#) and [Wang, Xue, and Du \(2016\)](#). This suggests that it is important to carefully assess the relevance of the BS effect on a country-specific basis, recognizing frictions that could cause different steps in the overall BS mechanism to break down in particular EMDEs. For example, structural factors could hinder the flow of labor between sectors or stall the convergence process relative to AEs. It is also possible that the law of one price might not hold in the tradables sector, depending on how open the economy is, along with the precise nature of the tradable goods in which it specializes.

Some of the foregoing policy considerations can also apply in situations where sustained upward pressures on the RER arise from other sources, such as persistent shifts in fiscal policy. For example, Norway’s 2001 decision to set its first inflation target at a relatively high value of 2.5 percent was partly based on an assessment that the krone would experience a sustained real appreciation as a result of a new fiscal spending rule under which oil revenues accumulated in a sovereign wealth fund would be gradually phased back into the economy. A later 2018 decision to shift down to a 2 percent target more in line with trading partners was then partly rationalized on the grounds that “[t]he period of phasing in oil revenues is now largely behind us” ([Norges Bank 2018](#)).

¹ For simplicity, the share parameter γ is assumed to be invariant across the two economies.

² Whatever choice is made from this menu, the implied rate of trend nominal appreciation should not be viewed as a separate policy target, avoiding any presumption that monetary policymakers would necessarily react if ex post exchange rate outcomes evolve differently from their initial expectations.

³ Another way to see this is by noting that equations (3) and (4) together imply the following:

$$\frac{\Delta Q_t}{Q_{t-1}} \approx \frac{\Delta P_{T,t}^*}{P_{T,t-1}^*} - \frac{\Delta P_{T,t}}{P_{T,t-1}} + \left(\frac{\Delta P_t}{P_{t-1}} - \frac{\Delta P_t^*}{P_{t-1}^*} \right),$$

so an inflation targeter subject to significant BS effects would have to accept a rate of trend inflation in tradables prices materially lower than that of its trading partners if its goal were to target an overall rate of inflation in line with those partners—an issue complicated by the fact that rates of trend inflation in tradables prices are relatively low in many large economies.

Other Dimensions of the Inflation Target

Targeted Measure of Inflation

A large majority of IT central banks specify their targets in terms of headline inflation. At the beginning of their IT journeys, some central banks experimented with targets defined in terms of core measures or measures that excluded certain regulated or administered prices (for example, Bank of Korea, Bank of Thailand [BOT], Czech National Bank [CNB], National Bank of Serbia [NBS]).¹⁶ However, over time, headline measures have prevailed at most IT central banks; among those listed in Tables 1 and 2, only the Bank of Uganda currently targets a nonheadline measure. While not targeting them, most central banks in AEs and EMDEs use core measures as additional indicators to gauge underlying inflation pressures and inform policy decisions.¹⁷

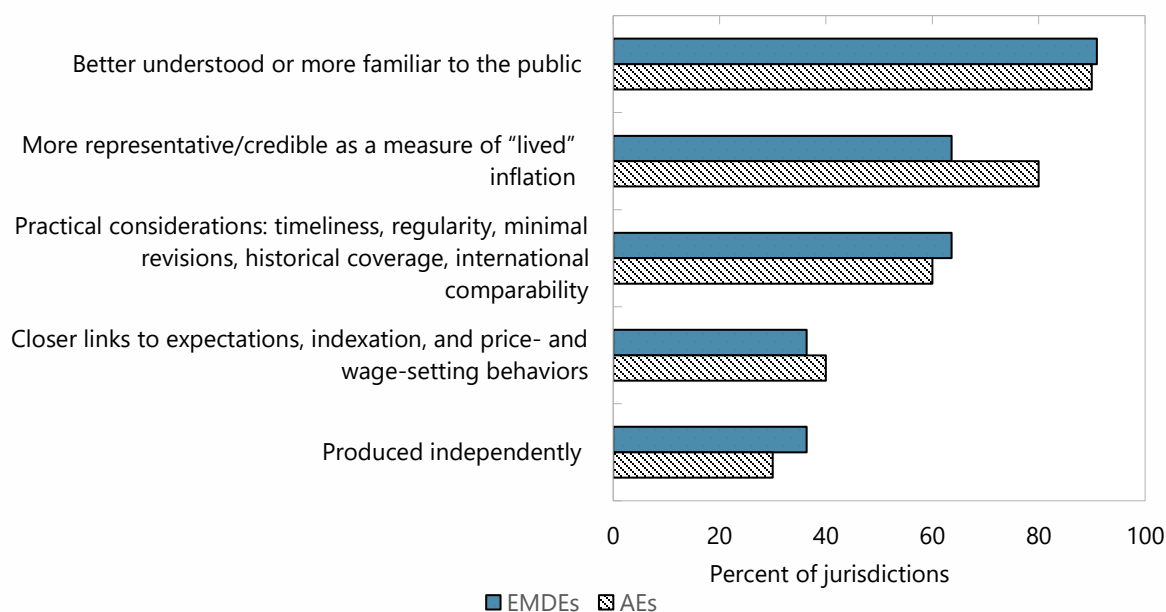
A range of important benefits help to explain the emergence of headline-based targets as a common best practice among both AEs and EMDEs. Although nonheadline measures, such as core inflation, are often more responsive to monetary policy and can sometimes serve as better indicators of medium-term price pressures, IT central banks highlight a variety of strong countervailing considerations in explaining why they have opted for targets specified in

terms of headline inflation. Some commonly cited factors are summarized in Figure 3, which was constructed in the same way as Figures 1 and 2. Key considerations noted by IT central banks include the following:

- Headline inflation tends to be better understood by the public and is more representative of households’ “lived” experiences with inflation. These considerations can be especially important for EMDEs, where nonheadline components such as food, energy, and administered prices often account for large shares of household consumption and can experience persistent shifts in their relative prices, so that a nonheadline target could be difficult to communicate or could raise doubts about the relevance of the central bank’s goals.
- Several IT central banks also emphasize their assessments that headline inflation is more tightly linked with expectations and indexation practices. Both of these play key roles in wage- and price-setting behaviors and may warrant special attention in EMDEs, where indexation is often more common and inflation expectations less firmly anchored ([Moessner and Takáts 2020](#)).
- Other notable considerations include the practical benefits that headline measures often offer in terms of their timeliness, low level of revisions, and cross-country comparability, along with the possibility that a headline measure computed by an independent statistical agency could be viewed as more credible than a core measure constructed by the central bank itself.

All that said, core measures can still be valuable as communication tools, especially in the face of volatile headline inflation, as they may help in explaining temporary deviations from target. The combination of a headline target,

Figure 3. Benefits of Headline-Based Targets Noted by Policymakers in Emerging Market and Developing Economies and Advanced Economies



Sources: Central banks’ websites; IMF ([2024](#), [2025b](#)); and other selected sources (see the following notes).

Notes: The figure is based on the same groupings as in Tables 1 and 2, although relevant sources are not available for all jurisdictions. For emerging market and developing economies, coverage and sources are as follows: Armenia: [Central Bank of Armenia \(2025c\)](#); Brazil: [Banco Central do Brasil \(2025e\)](#); Chile: [Banco Central de Chile \(2020\)](#); India: Reserve Bank of India ([2014](#), [2021](#)); Mexico: [Banco de México \(2002\)](#); Moldova: [National Bank of Moldova \(2025a\)](#); Paraguay: [Banco Central del Paraguay \(2013\)](#); Philippines: [Bangko Sentral ng Pilipinas \(2020\)](#); Poland: [National Bank of Poland \(2003\)](#); Romania: National Bank of Romania ([2025a](#), [2025c](#)); Russia: Bank of Russia ([2023a](#), [2025b](#)). For advanced economies, coverage and sources are as follows: Australia: [Reserve Bank of Australia \(2025a\)](#); Canada: Bank of Canada ([2001b](#), [2006](#), [2025b](#)); Czech Republic: [Czech National Bank \(2025a\)](#); euro area: [European Central Bank \(2025e\)](#), [European Central Bank workstream on inflation measurement \(2021\)](#); Japan: [Bank of Japan \(2025b\)](#); Korea: [Bank of Korea \(2017\)](#); New Zealand: [Reserve Bank of New Zealand \(2023\)](#); Norway: [Norges Bank \(2024\)](#); Sweden: [Sveriges Riksbank \(2016\)](#); United Kingdom: [HM Treasury \(2013\)](#).

supported by an “operational dashboard” of core measures, also represents a natural way to account for the likelihood that the usefulness of different core measures will vary over time,¹⁸ as will the appropriate weights to be placed on core versus headline indicators during policy deliberations.¹⁹

There is some room for the exact specification of headline inflation to reflect country-specific characteristics and considerations. Central banks target different specifications of headline inflation. For example, IT central banks have yet to reach a consensus on best practices for whether and how costs of housing should be accounted for: in most countries, mortgage payments or imputed rents for owner-occupied residences are included, but in some others, they are not.²⁰ A few EMDE central banks target an index based only on a particular geographic region, typically a metropolitan area, though in these cases it is important to recognize that inflation differences compared to rural areas can be large.²¹ The choice of which headline measure to target is not trivial, because different measures can indicate different inflation developments, which could, at times, lead to different monetary policy actions. Although these considerations leave some flexibility for individual specifications of headline price indices to reflect country-specific considerations and statistical constraints, it is important to avoid exercising this flexibility in ways that could materially undermine the important benefits emphasized in the previous paragraph.

Target Horizon

It is neither possible nor desirable to keep inflation precisely at target at every point in time. Shocks can derail inflation in the short term and will inevitably result in temporary deviations from the target. When judging the appropriate policy response to a given shock, central banks also face uncertainty regarding the timing and strength with which their tools are likely to affect inflation, along with short-term trade-offs that may call for a slower return to target, rather than getting back as quickly as possible. For example, it is often appropriate for central banks to “look through” temporary supply shocks in cases where policymakers assess a low risk that this could lead to de-anchoring in inflation expectations.

Most IT-AEs rely on flexible, medium-term target horizons as the main source of flexibility in their monetary policy frameworks. As shown in Table 2, most IT-AEs target medium-term horizons, either (1) leaving the precise horizon unquantified or (2) providing numeric guidance placing the typical horizon around two years (that is, policymakers typically calibrate the policy stance with an eye to keeping their two-year inflation forecast at target). However, most IT-AEs’ framework documents also establish an expectation that the specific horizon for which policymakers will aim at a given juncture should be judged flexibly in view of the particular shocks, risks, and trade-offs with which the economy is confronted. For example, a recent remit letter for the Bank of England (BOE) stresses that large shocks may entail “trade-offs between the speed with which [... one] aims to bring inflation back to the target and the consideration that should be placed on the variability of output”, instructing that policymakers should in this case “set out [...] the horizon over which [...] it is appropriate to return inflation to the target” (Reeves, 2024).²² When clearly communicated and embedded in a credible IT framework, a flexible, medium-term approach along these lines enables policymakers to manage short-term trade-offs while still promoting the anchoring function of the inflation target and emphasizing the central bank’s commitment to achieving the target over the medium term.

Among IT-EMDEs, the specification of the target horizon is more varied. As shown in Table 1, most IT-EMDEs also target medium-term horizons, though with greater heterogeneity relative to AEs in terms of the degree of flexibility with which policymakers can adjust the horizon for which they aim at a given juncture. On the one hand, institutions such as Banco Central do Brasil (BCB), BOR, and National Bank of Poland (NBP) all describe their frameworks in ways that envision flexible approaches broadly comparable to the BOE example noted earlier (BOR 2024, p. 8; NBP 2024, p. 4; BCB 2025a, p. 52). On the other hand, Banco Central de Chile (BCC) exemplifies a somewhat more constrained approach, emphasizing a goal that “*at all times and independently of the current level of inflation*, the projected inflation at a two-year horizon is at 3 percent” (BCC 2020, italics added); similarly “fixed” characterizations of the target horizon are also in place elsewhere (for example, Costa Rica, Dominican Republic, Paraguay, Ukraine), with

many of the relevant horizons also set around two years.²³ At the same time, a third, relatively small category of EMDE central banks comprises institutions whose inflation targets are attached to specific fiscal or calendar years and are thus not stated in terms of a time horizon for closing deviations from target (for example, Bank Indonesia, Bank of Jamaica, and Central Bank of Kenya).²⁴

Very short target horizons of one year or less should be avoided. The basic problem with very short target horizons is that they are likely to fall within the “transmission horizon” over which monetary policy is expected to exert its peak impact on inflation.²⁵ As a result, very short target horizons tend to put monetary policymakers in situations where they must choose between either (1) looking through sources of short-term inflationary pressure at the cost of missing the target and risking any associated losses to credibility or (2) responding to short-term inflationary pressures with enough force to compensate for lags in monetary transmission, thus setting the scene for large output losses and a potentially destabilizing cycle beyond the target horizon. These concerns are especially pronounced for some EMDEs to the extent that they often face large supply shocks that simultaneously raise inflation and reduce output—potentially creating a situation where a central bank with a very short target horizon could have to pivot quickly from a tight stance in the initial stages of the shock to a loose stance during later periods when the shock’s initial effects are falling out of the targeted measure of inflation.

At the same time, it is important to recognize some factors that may make it difficult for IT-EMDEs to treat their horizons as flexibly as AE peers. In AEs, central banks have exercised considerable flexibility in adjusting the horizon over which inflation is brought back to target since the global financial crisis, including in response to shocks that temporarily push inflation above target while simultaneously weakening real activity. For many IT-EMDEs, by contrast, the weaker institutional contexts in which many central banks operate place limits on their ability to tolerate prolonged deviations from target—heightening the risk that such deviations could be perceived in ways that undermine the credibility of monetary policy, relative to the situation in AEs. For IT-EMDEs facing these sorts of institutional headwinds, exercising too much flexibility around an unquantified medium-term target horizon could also make it difficult to establish sufficient levels of accountability and legitimacy while potentially running some risk of allowing inflation expectations to de-anchor.

For most IT-EMDEs, these considerations are best balanced by combining a flexible, medium-term horizon with clear guidance on its role and application. Concretely, this could involve clearly communicating that (1) policymakers normally focus on a target horizon of around two years and will thus normally aim for a policy stance consistent with keeping their inflation forecast at target over that horizon, but (2) policymakers may also reserve an option to temporarily target somewhat longer horizons in response to large shocks that present especially challenging trade-offs, intending to limit their use of this option with a high degree of discipline. An approach along these lines should allow policymakers to avoid the pitfalls of very short target horizons while still balancing the relevant credibility, accountability, and flexibility considerations in a way that recognizes the distinctive challenges that many IT-EMDEs face. The appropriate “bar” for temporarily considering longer target horizons would have to be assessed in view of country-specific factors, especially including the central bank’s current level of credibility.

Use, Width, and Interpretation of Bands

Although less common among IT-AEs, many IT-EMDEs specify their targets with bands of various forms. As shown in Tables 1 and 2, the US, Japan, and euro area all specify their targets as naked point targets, as do several smaller AEs with inflation targets. By contrast, a large majority of IT-EMDEs and a handful of small open AEs incorporate bands into their target specifications, with many of the relevant EMDEs favoring moderately wider bands than their AE counterparts. In cases where bands are specified, they generally fall under one of the following two configurations:²⁶

- *Combining a point target with a symmetric band.* This is the most common configuration among IT jurisdictions with bands, although the precise interpretation of the band and its relationship with the target horizon can vary considerably across countries. For example, some central banks (for example, NBS)²⁷ appear to characterize their

bands as an additional source of flexibility on top of the flexibilities afforded by a medium-term target horizon. By contrast, other central banks (for example, Banco de México [Banxico] and Banco de la República de Colombia [Banrep])²⁸ use their bands primarily as communication devices meant to illustrate the normal level of inflation volatility that the public should expect as policymakers navigate shocks, trade-offs, and transmission lags in the context of a policy framework oriented around a medium-term target horizon.

- *Specifying the target itself as a band—a configuration sometimes referred to as a “target zone”.* This is a relatively rare configuration that has become less common over time.²⁹ In the academic literature, it is sometimes conceptualized as implying that policymakers view all values within the zone as “equally desirable” ([Orphanides and Wieland 2000](#)), potentially leading to a situation where the public may feel less confident in their understanding of the central bank’s reaction function and the medium-term inflation outcomes that they should expect. However, in practice, central banks with target zones often take proactive steps to avoid such “purist” interpretations of their targets, instead emphasizing a preference to see outcomes in the middle part of the band over the medium term. For example, in Thailand, where the target is specified as a 1–3 percent range, policymakers nonetheless stress that they are interested in “ensuring that medium term inflation expectations are well-anchored around the midpoint of the target range” ([BOT 2024](#)). The agreement laying out the 2–3 percent range targeted by the Reserve Bank of Australia (RBA) similarly clarifies that “[t]he Monetary Policy Board sets monetary policy such that inflation is expected to return to the midpoint of the target” ([RBA 2025b](#)).

In either case—with or without an explicit point target—bands can sometimes also be used as triggers for accountability mechanisms. For example, the central banks of Brazil, India, Jamaica, Thailand, and the Philippines all operate under “open letter” systems under which monetary policymakers must publicly explain the reasons for any sufficiently prolonged detours outside their respective bands, along with the corrective actions that have been undertaken or planned in response.³⁰

Although IT-EMDEs should avoid target zones, there is no best practice in choosing between point targets with or without bands, nor on the appropriate bandwidth to be selected. As experience with target zones suggests that central banks must still place strong emphasis on the band midpoint as their medium-term objective, the marginal benefits of “promoting” the midpoint to an explicit point target—and thus offering a stronger anchor for expectations—are likely to outweigh costs in most such cases, especially if a flexible, medium-term horizon is already in place. As a result, the most important band-related decisions facing IT central banks typically involve choosing between point targets with or without bands and deciding on an appropriate bandwidth in the former case. In making these decisions, a range of considerations should be carefully assessed on a country-specific basis, recognizing that the literature is inconclusive on a single “optimal” configuration that applies to all central banks.³¹ For example, a point target that is either left naked or combined with a relatively narrow band could potentially be more useful as a focal point for inflation expectations, but it might also lead to unrealistic expectations about how well policymakers can stabilize inflation over the business cycle. Because realized inflation outcomes will generally differ from the point target even if monetary policy is consistently well calibrated, a naked point target or narrow band could also make it difficult for policymakers to demonstrate accountability and build credibility over time. Viewed through these lenses, the greater prevalence of bands among IT-EMDEs is likely reflective of EMDE policymakers (1) finding bands more useful as a way of managing public expectations in the more volatile economic environments that typify many IT-EMDEs³² and/or (2) attaching greater value to bands’ potential usefulness in promoting accountability and credibility, which may be especially important in the weaker institutional contexts in which many IT-EMDE central banks operate. Moreover, although point (1) could create grounds for considering bands modestly wider than those typically implemented by IT-AEs, this needs to be balanced against the risk that significantly wider bands could be interpreted as a sign that the central bank is unable or unwilling to follow through on its point target.

Combined with a flexible medium-term target horizon, bands can be useful devices for managing expectations about likely fluctuations in inflation, but they need to be carefully communicated. In the case of a naked point target, the main communication challenge will be to make the most of its potential usefulness as a focal point while still

managing public expectations around the central bank’s ability to fine tune inflation outcomes. On the other hand, for configurations involving bands, the key communication challenge will be to prevent the band from being interpreted as a “zone of indifference”—strongly emphasizing that policymakers intend to steer realized and expected inflation toward the midpoint over the medium term, and proactively discouraging any perceptions that policymakers would be willing to contemplate any other point in the band as a viable medium-term goal. As this naturally limits the extent to which the band can be treated as a separate source of flexibility beyond the latitudes already afforded by a flexible, medium-term target horizon, it generally calls for communication strategies that present the band mainly as a device for establishing realistic expectations about the normal level of inflation volatility to expect under the IT regime. The same considerations also make it important to be consistent in communicating the target horizon in terms of the time over which policymakers aim to reach the band’s midpoint, rather than its edges or other points in the band.³³

Reviewing the Specification of the Target

Periodic reviews help to ensure that IT frameworks remain fit for purpose over time, but they also entail risks to credibility and expectation anchoring that need to be carefully managed. In both AE and EMDE contexts, IT frameworks have demonstrated significant robustness and adaptability in the face of changing macroeconomic environments and shocks. Although part of this adaptability has stemmed from periodic adjustments in the specification of countries' inflation targets, the overall success of an IT framework also depends critically on the central bank's ability to guide and anchor the public's inflation expectations. As the latter elements require that the public perceive high degrees of stability and predictability around the central bank's objectives and policy strategy, it is critical that any changes to the target specification be subject to a high bar and carried out in the context of rigorous, appropriately timed review processes. Changes to the target specification should not be used as a substitute for warranted macroeconomic policy adjustments.

The Review Process

IT frameworks vary in terms of how responsibilities for setting the inflation target are distributed across stakeholders. At least three governance models can be distinguished in this respect:³⁴

- A “bank-led” model under which the target is set directly by a decision-making body of the central bank (for example, Chile, euro area, Poland, the US).
- A “government-led” model under which the target is set in a remit that the government provides to the central bank, though often in a context where the central bank is given an opportunity to provide public advice (for example, Jamaica, New Zealand, the UK).
- A “joint decision-making” model under which the central bank and government share responsibility for setting the inflation target (for example, Brazil, Canada, the Philippines, Thailand).

For the purposes of this note, a given jurisdiction's choice across these different governance models will be taken as given, partly because it reflects legal considerations that fall outside of the note's scope. However, the choice of governance model invariably plays an important role in shaping the review process and the risks around it. The main trade-off is that higher levels of government involvement may entail a greater risk of politicization and short-term thinking, though they can also help to promote legitimacy, accountability, ownership, and a stronger sense that the ultimate responsibility for price stability is shared between the government and the central bank.

Relative to AEs, IT-EMDEs face a greater risk that changes in the specification of their targets could be interpreted in ways that undermine the central bank's credibility. This is a consequence of the more challenging institutional environments in which many IT-EMDE central banks operate—including weaker protections around central bank independence and potential elements of fiscal dominance. Although more of an obvious challenge in IT-EMDEs where government officials have a formal role in the specification of the inflation target, this is likely to be an issue even under bank-led governance models to the extent that the relevant decision-makers may still be more vulnerable to outside influences, relative to the situation in AEs, or liable to internalize de facto limits on their independence. Absent a meaningful degree of transparency into how decisions are being made, all these considerations can lead to an outsized risk that changes in EMDE inflation targets may be perceived as the product of political pressures.

Preset, medium-term review schedules can help manage this risk and have become increasingly common. For example, preset schedules under which monetary policy framework reviews occur at roughly five-year intervals are becoming increasingly common among AE central banks (for example, BOC, ECB, RBA, Reserve Bank of New Zealand [RBNZ], Swedish Riksbank, and the United States Federal Reserve),³⁵ with reviews often including the specification of the inflation target within their terms of reference.³⁶ Five-year review cycles have also been adopted by some IT-EMDE central banks (for example, BOR and RBI),³⁷ though review timelines among IT-EMDEs as a group are generally more varied and sometimes less clearly prespecified. For example, some IT-EMDEs avoid preset schedules in favor of systems

where reviews are conducted on an ad-hoc basis (for example, Brazil). In other IT-EMDEs (for example, Georgia, Kenya, Thailand), there are legal requirements that the inflation target be approved on an annual basis by the legislature or government, with some discretion and variation in terms of which of these annual approvals should be viewed as windows for seriously considering target changes.

Target reviews should be infrequent and announced well in advance to prevent the appearance of opportunistic or politically motivated target changes. All else equal, the faster pace of structural change in EMDEs, compared to AEs, could support a case for more frequent reviews in some IT-EMDEs. However, as emphasized previously, this needs to be weighed against the greater risks to credibility that reviews tend to entail for IT-EMDEs. It is also important to recognize that EMDEs typically have less well-anchored inflation expectations, which further bolsters the case for less frequent reviews so as to avoid compromising the inflation target's usefulness as a nominal anchor; for example, in an extreme situation where the target is perceived as significantly vulnerable to annual revisions, it would be very difficult to establish a meaningful anchor around which a successful IT framework could be sustainably implemented. Although the precise balance of these different considerations will naturally vary across countries, a high bar should be applied in any case where policymakers perceive a potential rationale for conducting reviews significantly more often than the "AE benchmark" of roughly every five years. At the same time, a high degree of predictability around the timing of reviews should be achieved by either (1) following the examples given earlier in committing to a fixed review cycle or (2) leaving the current target specification in place on an "open-ended" basis while clearly communicating that any future reviews will be announced well in advance.³⁸ In either case, timing conventions should also be set to minimize alignment with both the domestic political cycle and the calendar governing the appointment (or reappointment) of central bank leaders.

Reviews should be supported by strong analytical inputs—on both the target and broader policy framework—along with clear, proactive communication on the economic rationales for all decisions. For example, recent policy framework reviews at the BOC, ECB, and United States Federal Reserve were all supported by public, staff-led research programs, culminating in a series of background documents that helped policymakers to explain the economic reasoning behind their framework choices ([BOC 2021b](#); [ECB 2025f](#); [Federal Reserve System 2025h](#)). Another potential review model is offered by Australia and Sweden, where much of the relevant analysis is provided by outside experts, such as academics or former senior leaders of foreign central banks ([Goodfriend and King 2015](#); [Flug and Honohan 2022](#); [De Brouwer, Fry-McKibbin, and Wilkins 2023](#)). Regardless of whether they come from the central bank, outside experts, or other qualified sources, strong analytical inputs are key to successful, credible reviews—both in the sense that they are likely to lead to better decisions and in the sense that they can, if supported by appropriate communications, help to assure the public that decisions have been reached on a sound economic basis. In these respects, it is also important to note that decisions about the specification of the inflation target are often intimately linked with other elements of the overall monetary policy framework, such as the central bank's policy toolkit, approach to communications, and strategies for managing risks and trade-offs. As a result, it can often be advantageous to embed a review of the target specification within a broader review of the policy framework and its recent performance. For these reasons, it is critical that reviews be planned with enough time and resources to develop the necessary breadth and depth of analytical inputs,³⁹ in addition to being supported by effective, accessible communications strategies.

Reviews should also be informed by outreach to the central bank's main stakeholders. The credibility and durability of an inflation target both depend critically on maintaining a meaningful degree of "public consensus" around its specification. In this respect, public consultations, such as those conducted by the BOC, ECB, and Federal Reserve as part of recent framework reviews, can help to build trust, promote inclusion, and prepare the public for potential changes ([BOC 2025c](#); [ECB 2025g](#); [Federal Reserve System 2025i](#)). Ideally, the review process would also be structured in ways that secure a meaningful degree of "buy-in" from the government, as clear signals of its endorsement can help to cement the public's confidence in the inflation target while increasing the likelihood that the government will recognize and take account of the ways that its own policies affect price stability. However, the appropriate level of

government input should be carefully assessed on a country-specific basis, recognizing that this will partly depend on governance details and will also depend on the risk that higher levels of government input could lead to (perceptions of) political capture.

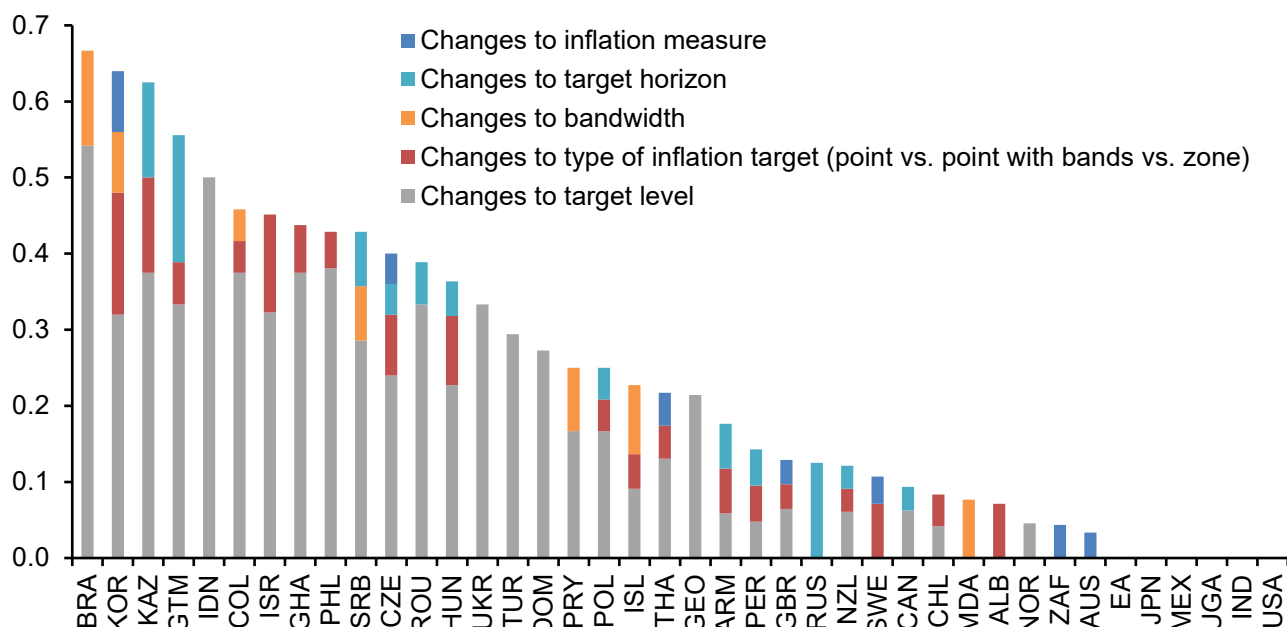
Outside of review rounds, policymakers should be mindful of potential synergies between the review process and “day-to-day” communications and accountability mechanisms. For example, many central banks allocate the first page(s) of their monetary policy reports to fixed preambles summarizing the key features of the policy framework, including the specification of the inflation target.⁴⁰ This helps to keep the public aware of these details between review rounds, which can also be achieved by posting this information in a prominent place on the central bank website and ensuring that central bank leaders regularly take time to explain the target and its significance in speeches and other public appearances. At the same time, although reviews themselves often provide opportunities to evaluate and reflect on the recent performance of the policy framework, it is also important that policymakers regularly demonstrate accountability outside of review rounds. Whether through parliamentary testimony, an open letter system, or other similar mechanisms, this should allow the central bank to build trust and credibility in ways that can help to shield the review process from political interference over the longer term.

Reviews should not be carried out with the presumption that they will necessarily lead to major target changes, and this should be clearly communicated to the public. Reviews that do not culminate in major target changes should still be viewed as valuable exercises to the extent that they provide opportunities for accountability, refinement, and outreach—as well as clear communication of the economic rationales underlying the current target specification. At the same time, avoiding a presumption of major changes should help to manage expectations and preserve the usefulness of the current target specification as a meaningful nominal anchor. Noting some of the examples given earlier, this can be especially challenging in jurisdictions where legal requirements stipulate that the inflation target be approved by the legislature or government on an annual basis—a situation that requires clear, proactive communication that policymakers intend to treat only a small subset of these approvals as meaningful windows for target changes that will be supported by comprehensive reviews.

When Might Target Changes Be Warranted?

Historically, most changes to the way that inflation targets are formulated have been made by EMDE central banks, predominantly concerning the target level. Figure 4 shows the number of changes to the target formulation by the type of change up to mid-2023, per year of IT, for a large sample of countries. By this metric, Brazil has changed the specification of its target most often relative to the duration of its IT framework, followed by Korea and Kazakhstan. In general, IT-EMDE central banks have made more changes to the way their targets are formulated than their AE counterparts. Most changes have been made to the target level, followed by changes to the type of target (that is, point target with band versus point target without band versus target zone), the target horizon, bandwidth, and the targeted measure of inflation.⁴¹ Most countries that have made numerous changes to their targets are EMDEs that transitioned to IT to disinflate and implemented multiple target decreases in the context of disinflationary programs that were deployed upon adoption of IT.⁴² This helps to explain why most changes to countries’ target levels have involved decreases in the target level (Figure 5). On the other hand, most countries that have raised their targets were IT-EMDEs that did so on an explicitly temporary basis in response to high realized inflation in the early years of IT regimes that gave policymakers relatively little scope for flexibility. For example, Brazil had some experiences along these lines in the early 2000s, making significant upward revisions to calendar-year targets for 2003 and 2004 in response to currency depreciation, rising inflation expectations, and political uncertainty. To date, no country has permanently raised its inflation target on the grounds that structural economic shifts justified a higher medium-term objective. However, there are some cases where policymakers have argued that a previous target had been inappropriately low and had to be raised—see, for example, the experience of the RBNZ shifting from a 0–2 to 0–3 percent target band in the early 1990s.

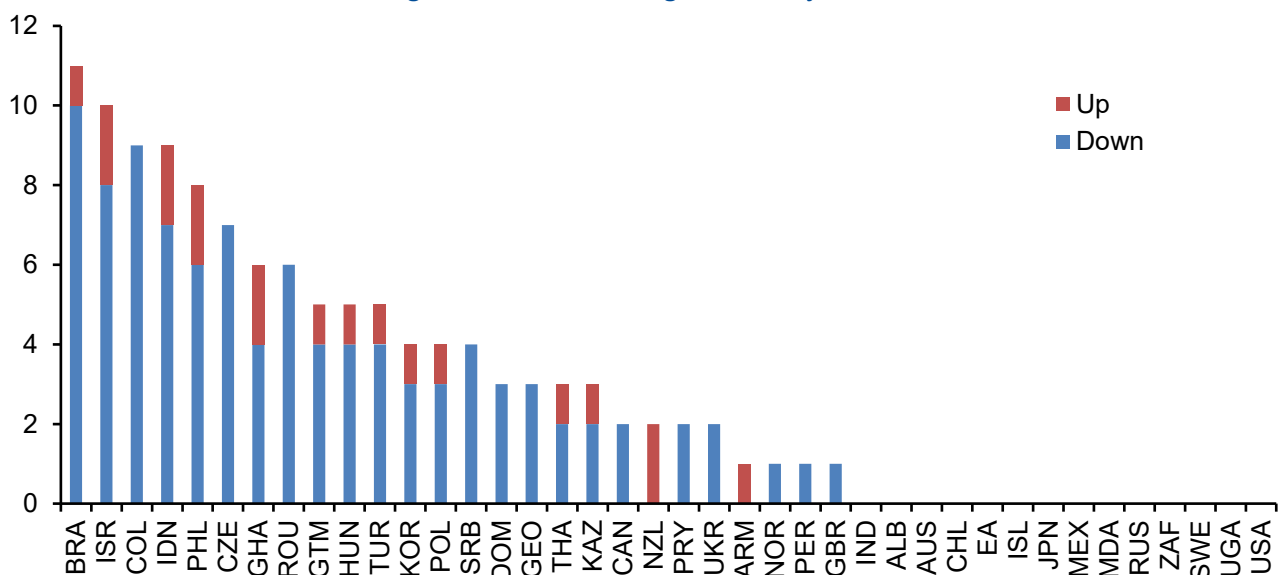
Figure 4. Changes to Different Dimensions of Countries' Inflation Targets, per Year of IT



Source: Updated version of the database in [Niedźwiedzińska \(2018\)](#).

Notes: The database covers changes in inflation-target specifications since the start of each IT regime and includes all central banks classified as inflation targeters or quasi-inflation targeters based on the classification of [Niedźwiedzińska \(2018\)](#), applied to [IMF \(2023c\)](#) data. Costa Rica and Uzbekistan are excluded because they transitioned to IT only recently and are not yet covered in the database. Changes to the horizon are limited to whether the horizon is defined as end-year or continuous. In the figure, all changes are recorded separately, even when multiple changes were introduced simultaneously. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Figure 5. Number of Target-Level Adjustments



Source: Updated version of the database in [Niedźwiedzińska \(2018\)](#).

Notes: The database covers changes in inflation-target specifications since the start of each IT regime and includes all central banks classified as inflation targeters or quasi-inflation targeters based on the classification of [Niedźwiedzińska \(2018\)](#), applied to [IMF \(2023c\)](#) data. Costa Rica and Uzbekistan are excluded because they transitioned to IT only recently and are not yet covered in the database. For the Czech Republic, the target band was gradually lowered from 3–5 percent in early 2002 to 2–4 percent by the end of 2005 (the target for 2001 was 4 percent). Data labels in the figure use International Organization for Standardization (ISO) country codes.

The frequency of target changes is negatively associated with a measure of central bank credibility. Combining the data on target changes described earlier with an “expectation anchoring” index from [Bems and others \(2021\)](#), the results in Figure 6 suggest that IT regimes that have experienced frequent changes in how the target is formulated typically have less well-anchored inflation expectations. To the extent that this pattern reflects the communication challenges and credibility costs that are likely to arise in countries with histories of overly frequent changes,⁴³ it points to a clear need for careful consideration of whether costs are likely to outweigh the potential benefits of a given target change.

Over time, structural changes or a maturing policy framework could create grounds for a lower target, narrower band, or more flexible horizon, but any such changes should be carefully considered. For example, if the original case for a relatively high inflation target was rooted in an expectation that the RER would experience sustained pressures stemming from the BS effect, then these should naturally abate as the economy converges toward AE income levels. Arguments for higher inflation as a way of “greasing the wheels” of price and wage adjustment could also lose their relevance over time if the convergence process is associated with a slowing pace of structural transformation. At the same time, a case for a narrower band or more flexible horizon could emerge as inflation expectations become better anchored and the central bank builds up credibility and experience operating under an IT framework. Although these general “directions of travel” should not be taken for granted, they are broadly consistent with the way that several IT-EMDEs’ target specifications have evolved over time. For example, authorities in the Philippines cited the “expected higher capacity of the economy for growth under a low inflation environment” as a reason for lowering their target from 4 percent to 3 percent in 2015 ([Bangko Sentral ng Pilipinas 2014](#)), while a 2007 decision by Peruvian authorities to lower their target from 2.5 percent to 2 percent was partly rationalized on the grounds that the central bank had built up sufficient credibility over its first five years under IT ([Banco Central de Reserva del Perú 2025d](#)).⁴⁴ As will be detailed later in this subsection, the key risk to be managed in these cases is the danger that the target changes actually prove to be overly ambitious and must eventually be unwound—making it critical to first develop a strong case that the underlying changes in the economy are truly structural in nature.

Upward revisions to the inflation target should meet a very high bar. Upward adjustments entail a host of credibility risks and are especially likely to be perceived as a sign of weakening commitment to price stability in IT-EMDEs where institutional weaknesses are more pronounced or in contexts where realized inflation has recently been running on the high side. For these reasons, it is critical that policymakers apply a high bar when contemplating potential upward revisions to their inflation targets, seeking clear evidence of long-term benefits that decisively outweigh the associated risks and reputational costs. Broadly similar considerations apply to other potential shifts in the direction of a “less ambitious” target specification—such as wider bands or longer or more flexible horizons—especially if these dimensions of the target have already been specified in line with the principles laid out in the preceding section.

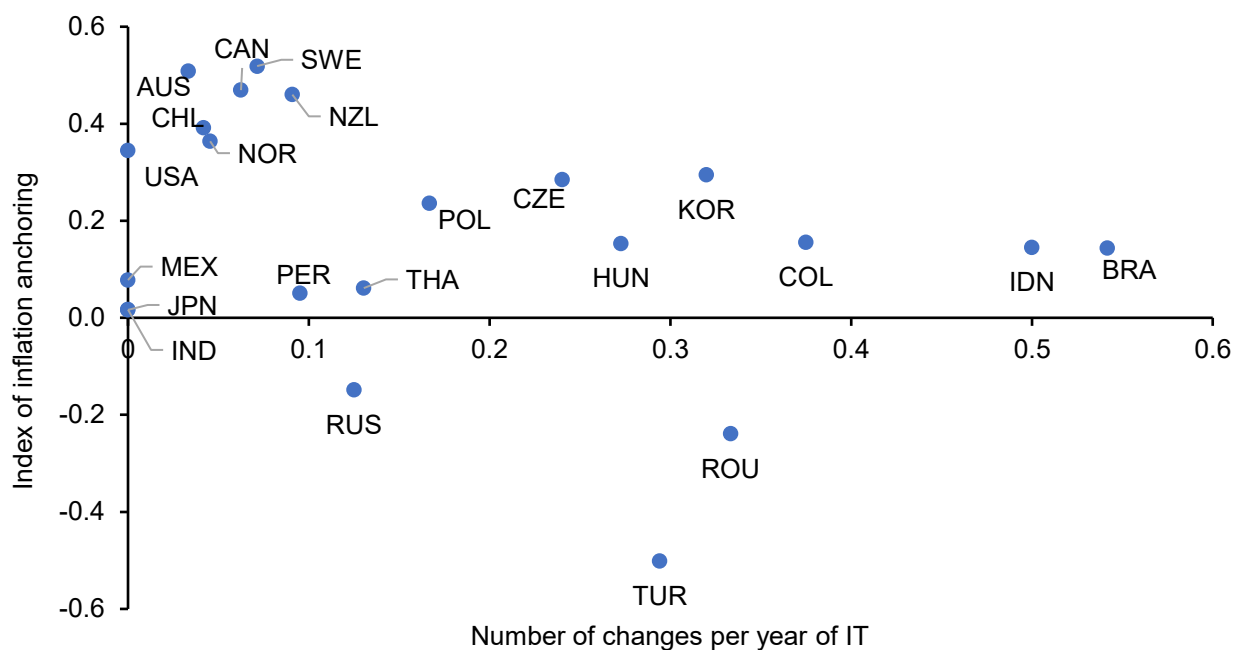
In exploring the case for a potential target change, it is important to carefully weigh the change against a range of other potential policy options. As a starting point, this would involve the following:

- Carefully assessing the appropriateness of the policy stance and the central bank’s broader reaction function in the context of the current inflation target.
- Taking stock of all the flexibilities that the current target specification affords the central bank, and whether policymakers are adequately taking advantage of them.
- Gauging the public’s understanding of the current target specification, and where there may be scope to improve it through clearer or more proactive communication.

An analysis along these lines should help to identify cases where the most appropriate policy response would simply involve refinements to the policy stance or reaction function, or steps that could be taken to clarify and make more effective use of the current target specification—for example, by promoting a better understanding of the central bank’s flexible target horizon and making appropriate use of the option to temporarily extend it,⁴⁵ or by strengthening communications to better anchor expectations around the midpoint of a target band. On the other hand, for cases

where policymakers still perceive a compelling rationale for target changes, it would be important to fully consider the different *kinds* of target changes that could be implemented and their appropriateness in view of the particular challenges that the central bank faces. For example, in an IT-EMDE where the target horizon is relatively short and challenges dealing with inflationary shocks have sparked interest in raising the target, an alternative that would likely entail lower risks to credibility would be to shift toward a more medium-term, flexible horizon at the next time the target comes up for review. If the IT-EMDE has been operating with a naked point target or a relatively narrow band, then the possibility of introducing a (modestly wider) band could also warrant consideration as a potential remedy, though such changes would have to be accompanied by clear guidance emphasizing the band midpoint as the central bank's medium-term objective.

Figure 6. Frequency of Target Changes versus Degree of Inflation Expectation Anchoring



Sources: Updated version of the database in [Niedźwiedzińska \(2018\)](#); [Bems and others \(2021\)](#).

Notes: The overall number of changes covers all categories considered in Figure 4. One change count may reflect multiple changes introduced on a single occasion. The anchoring index is a 2003–20 average based on [Bems and others \(2021\)](#). The chart only covers all countries that are included in both databases. Data labels in the figure use International Organization for Standardization (ISO) country codes.

When assessing the case for a potential target change, it is also important to carefully analyze the nature and likely persistence of the underlying economic “motivators.” For example, changes in the inflation target should not be used to avoid warranted macroeconomic adjustments and are unlikely to represent an appropriate remedy for problems rooted in unsustainable fiscal or foreign exchange policies; in fact, they could exacerbate such problems if they lead to a loss of credibility for the central bank. At the same time, a key component in analyzing any situation where policymakers view changes in the economy as a potential rationale for a new target is to first reach a clear view on whether those changes are structural or cyclical in nature. This is because anchoring considerations call for any target adjustment to be implemented under the strong presumption that the new target will remain in place for some time. As a result, adjusting the target in the absence of strong evidence that the relevant economic changes are structural is likely to set the scene for policy mistakes and a reputationally costly reversal at some later date. In cases where the relevant economic changes are judged to be cyclical, the appropriate response will generally be to leave the target unchanged, make certain that the policy stance is appropriately calibrated to achieve it over a reasonable timeframe, and strengthen communications to ensure that the public understands policymakers’ plans and commitment to price stability.

Special Considerations Regarding Disinflation Programs

Many IT-EMDEs—and some IT-AEs—have used various combinations of short- and (possibly) medium-term targets to engineer disinflations in the early years of their IT regimes. As Table 3 details, this often involves one of two approaches:

- The first option is to announce a declining path of short-term targets that starts at a relatively attainable level and then gradually falls to a preannounced medium-term target around which policymakers intend to settle on a more permanent basis. For example, when adopting IT in 2015, the National Bank of Ukraine (NBU) announced a series of annual targets that envisaged a gradual fall from 12 percent in 2016 to 5 percent in “2019 and after” ([NBU 2015](#)).
- A second common approach is to announce a set of decreasing short-term targets only for the near future, without taking a stance on the medium-term target. For instance, when they first adopted IT in 1999, policymakers in Brazil announced yearly targets for only the first three years of the IT regime, without specifying any longer-term objective ([BCB 2025f](#)).

In both cases, the lowering of the target level can be paired with some narrowing of any associated bands. For example, when starting the disinflation process described earlier, NBU announced that it would begin with a tolerance band of ± 3 percentage points, gradually narrowing to ± 1 percentage point by 2019.

Although choosing to incorporate an explicit medium-term target entails some trade-offs, benefits are likely to outweigh costs for disinflations that start in single or low double digits. On the one hand, pre-announcing a medium-term target in advance would provide a strong focal point for longer-term expectations and could also help to lay early foundations for the public’s understanding of the medium-term orientation with which the IT regime would ideally operate in steady state. However, these benefits come at the cost that announcement in advance could involve deciding on the medium-term target at a time when policymakers have limited information with which to judge the most appropriate target to aim for—especially if policymakers are considering targets in a range in which the economy has little or no (recent) experience operating. Although still challenging, such uncertainties should be manageable for the kinds of moderate disinflations on which this note focuses—disinflations that start from levels of inflation in a single- or low double-digit range—leading to a situation where the anchoring and communication benefits of a clear medium-term target are likely to dominate.

At the same time, a series of short-term targets can pose challenges of their own in terms of how they should be designed and communicated to best support a disinflation program. On the one hand, such targets can help to guide expectations over the course of the disinflation process and could give the central bank a way to start building some credibility at an early stage. However, it is important to recognize the significant uncertainties surrounding the disinflation process—both in the sense that the process could be derailed by exogenous shocks, and in the sense that its own endogenous dynamics will generally be difficult to predict as inflation expectations and price- and wage-setting behaviors all adapt over time. In situations where the disinflation process runs slower than expected and policymakers have heavily emphasized their short-term targets in public communications, this can lead to “early misses” that could have significant negative repercussions for credibility. For example, in the early stages of their IT regimes, the central banks of Brazil and Colombia both experienced reputational setbacks as a consequence of upper band breaches, some of which led to increases in their short-term targets ([Bordo and Siklos 2019](#); [BCB 2025f](#)). On the other hand, in cases where the disinflation process advances more quickly than expected, an overly strict focus on short-term targets could prevent policymakers from consolidating those gains or lead to confusion regarding the central bank’s objectives and the reaction function that it would follow in a situation where inflation is running below the nearest short-term target, but still above the level for which policymakers are aiming in the longer term.

Table 3. Examples of Disinflationary Strategies Pursued under IT Frameworks

Country	Notes
Brazil	When Brazil adopted IT in 1999, policymakers announced a disinflationary target path for the next three years: 8 percent for 1999, 6 percent for 2000, and 4 percent for 2001. A medium-term target was not immediately announced.
Canada	When Canada adopted IT in 1991, policymakers announced a disinflationary target path from 3 percent (± 1 ppt) for the end of 1992 to 2 percent (± 1 ppt) by the end of 1995, with the aim of engineering further reductions “until price stability is achieved” (though a precise numeric definition of price stability was not provided on the grounds that an appropriate definition would become clearer over time). In the end, inflation fell significantly faster than expected, and the 2 percent target has remained in place (BOC 1991 ; Carter, Mendes, and Schembri 2018).
Colombia	After adopting IT in 1999, Colombian policymakers set targets yearly on a decreasing path, with a target of 10 percent for 2000, 8 percent for 2001, and 6 percent for 2002. A medium-term target was not immediately announced.
Czech Republic	When adopting IT in 1998, Czech policymakers announced a gradual disinflationary path, starting at 5.5–6.5 percent in 1998, to achieving a long-term target of 2 percent (± 1 ppt) by 2005.
Dominican Republic	Upon formally adopting an IT framework in early 2012, policymakers set targets of 5.5 percent (± 1 ppt) for 2012 and 4 percent by 2015 (IMF 2013).
Georgia	With the formal adoption of IT in 2009, Georgian policymakers announced an inflation target of 9 percent for 2009. A medium-term target was not immediately announced.
Ghana	When Ghana adopted IT in 2007, policymakers announced a disinflationary path to a medium-term target of 5 percent (± 1 ppt) by the end of a three-year period (Alichi and others 2008).
Hungary	Hungary adopted IT in 2001, with targets set for the end of 2001 (7 percent) and the end of 2002 (4.5 percent). A medium-term target was not immediately announced.
Indonesia	Upon adopting IT in 2005, Indonesian policymakers set a target of 6 percent (± 1 ppt) in 2005, 5.5 percent (± 1 ppt) in 2006, and 5 percent (± 1 ppt) in 2007, with an explicit longer-term target of 3 percent (Habermeier 2007).
Israel	Beginning in 1992, Israeli policymakers set targets yearly on a decreasing path. In 2000, the government announced a downward path to a continuous medium-term target of 1–3 percent, to be reached in 2003.
Paraguay	When Paraguay adopted IT in 2011, policymakers specified a target of 5 percent (± 2.5 ppts) for the foreseeable future. Although they did not specify an explicit disinflationary path, they mentioned an intent to lower the target over the medium term.
Poland	When Poland adopted IT in the late 1990s, policymakers announced a disinflationary target of 4 percent by 2003 and specified a path to achieve that target. The path was, however, changed subsequently.
Romania	When Romania adopted IT in 2005, policymakers announced a disinflationary path through to 2008, with a target of 3.8 percent (± 1 ppt). A longer-term target was not immediately announced.
Serbia	With the transition to full-fledged IT in 2009, Serbian policymakers defined a downward path in terms of decreasing headline inflation targets, starting at 6–10 percent for end of 2009, to hit 2–4 percent inflation in the medium term.
Ukraine	With the adoption of IT in 2015, policymakers specified a disinflationary target path, starting at 12 percent (± 3 ppts) for the end of 2016, to reach a medium-term objective of 5 percent (± 1 ppt) for the end of 2019 and beyond.

Sources: Central banks’ websites, [IMF \(2024\)](#), and other sources used in Tables 1 and 2, unless otherwise indicated.

Notes: The table covers countries that explicitly employed disinflationary strategies after transitioning to (full-fledged) IT; countries that employed such strategies before adopting IT are not covered. Apart from Ukraine, which transitioned to IT amid a substantial surge in inflation, all countries in the table transitioned at a time when inflation was running in a single- or low double-digit range, thus qualifying as “moderate disinflations” in the sense used in the main text. IT = inflation targeting; ppt = percentage point.

Together, these points suggest that the most balanced disinflation strategy for many IT-EMDEs is to combine a clear medium-term target with an “indicative glide path” for short-term outcomes. Under this approach, the glide path would not be presented as a sequence of targets, but rather as a guide to how the disinflation process is likely to evolve, supported by clear communications that emphasize the medium-term target as policymakers’ main objective while clarifying the way that they would react to significant deviations from the glide path. Crucially, this reaction function could be communicated in an explicitly asymmetric way—stressing policymakers’ intention to respond aggressively to cases where inflation veers above the glide path, while tolerating cases where inflation falls below the glide path but remains consistent with the central bank’s medium-term objective. If appropriately combined and communicated, these elements should help to provide a strong focal point for longer-term expectations while avoiding potential credibility risks over the short term and establishing realistic expectations about the uncertainties that the disinflation process could entail (and how policymakers plan to deal with them). Once the disinflation process has been successfully completed, the central bank should reinforce that the prevailing target should be thought of as a long-term anchor, ideally supported by a system of infrequent, preannounced reviews in line with the principles laid out earlier (including an avoidance of any presumption that reviews would necessarily lead to changes).

Endnotes

- ¹ See [IMF \(2025a\)](#), along with [Abo-Zaid and Tuzemen \(2012\)](#), [Batini and Laxton \(2007\)](#), [Broto \(2011\)](#), [Capistrán and Ramos-Francia \(2010\)](#), [Coulibaly and Kempf \(2010\)](#), [de Mendonça and de Guimarães e Souza \(2012\)](#), [Duncan, Martínez-García, and Toledo \(2022\)](#), [Gerlach and Tillmann \(2012\)](#), [Gonçalves and Salles \(2008\)](#), [Kose and others \(2019\)](#), [Lin and Ye \(2009\)](#), [López-Villavicencio and Mignon \(2017\)](#), and [Roger \(2009\)](#).
- ² See again [Duncan, Martínez-García, and Toledo \(2022\)](#) and [Roger \(2009\)](#), as well as [Alvarez and de Gregorio \(2014\)](#), [López-Villavicencio and Pourroy \(2022\)](#), and [Tombini and others \(2023\)](#).
- ³ This note takes the central bank’s secondary objectives as given, assuming that they are consistently communicated in a way that establishes clear primacy of the price stability objective.
- ⁴ Developing economies are a subgroup of EMDEs in which some of these frictions are often especially pronounced. They may also face additional challenges such as unreliable economic data (see, for example, [Mishra, Montiel, and Spilimbergo \[2010\]](#)).
- ⁵ See [Pagliari and Hannan \(2017\)](#) on capital flows and [Ha, Kose, and Ohnsorge \(2019\)](#) on supply shocks.
- ⁶ For example, shocks that put downward pressure on the exchange rate often lead to upward pressure on both prices and output in small open AEs, but a combination of upward pressure on prices and downward pressure on output for emerging markets. As detailed by [Chen and others \(2023\)](#), this can reflect a combination of (1) structural factors that weaken expenditure-switching channels (such as higher prevalence of dominant currency pricing practices noted by [Gopinath and others \[2020\]](#)) and (2) foreign currency–denominated debts that give rise to strong balance sheet channels. The resulting trade-offs are complicated by the higher rates of exchange rate pass-through noted in the main text.
- ⁷ Put differently, this note takes as given whatever steps policymakers may have previously taken to achieve a “starting point” in a single- or low double-digit range, without presuming that this necessarily occurred in the context of a(n announced) transition to IT.
- ⁸ This is not meant to suggest that this is a fully settled question in AE contexts. Even in AEs, where the optimal rate of inflation has been extensively studied for decades, the literature has yet to produce compelling evidence that significantly different outcomes would have obtained had AEs converged on 2.5 or 3 percent targets, rather than a 2 percent norm that partly arose from historical contingencies. See [Irwin \(2014\)](#) for details.
- ⁹ The cost channels discussed in this paragraph are “textbook” channels around which substantial literatures have developed. For overviews that include key references, see [Amano, Carter, and Coletti \(2009\)](#), [Schmitt-Grohé and Uribe \(2010\)](#), and [Lockyer \(2022\)](#).
- ¹⁰ See [Borio and others \(2024\)](#) on these and other qualitative changes in price- and wage-setting behaviors that can occur in high-inflation environments, which have also been a key theme of postpandemic framework reviews recently conducted at the ECB ([ECB workstream on changing economic and inflation environment, 2025](#)) and Federal Reserve ([Chung and others 2025](#); [Hajdini and others 2025](#)).
- ¹¹ For detailed explorations of the links between (the level and volatility of) inflation and various forms of dollarization, see, among others, [Calvo and Végh \(1992\)](#), [Guidotti and Rodriguez \(1992\)](#), [Sahay and Végh \(1995\)](#), [Savastano \(1996\)](#), [Uribe \(1997\)](#), Ize and Yeyati (2003, 2005), [Jeanne \(2003\)](#), [Rennhack and Nozaki \(2006\)](#), [Kokenyne, Ley, and Veyrune \(2010\)](#), and [Mwase and Kumah \(2015\)](#).
- ¹² See [IMF \(2023b\)](#) for estimates on the neutral rates of a range of AEs and EMDEs.
- ¹³ See, for example, page 70 in [Banco de México \(Banxico\) \(2002\)](#) or page 24 in [Banco Central de Chile \(BCC\) \(2020\)](#), along with [Bonam and Hobijn \(2024\)](#). Although they generally receive less attention than downward nominal rigidities, some additional mechanisms have been noted elsewhere as potentially linking higher rates of trend

inflation with greater flexibility in price and/or wage adjustments. For example, it is sometimes argued that higher rates of trend inflation can help to alleviate *symmetric* nominal rigidities in addition to downward ones, namely by incentivizing firms to update nominal prices more frequently so as to avoid erosion in real prices. However, to the extent that this behavior is motivated by a desire to “keep up” with the general price level, it is not clear whether it is better conceptualized as a(n implicit or explicit) form of indexation, rather than a true instance of firms opting to fully re-optimize their prices at higher frequency. Moreover, although the empirical link between trend inflation and the frequency of price adjustment is strong when comparing very high- and low-inflation environments, the quantitative significance of this mechanism is less clear for trend inflation rates in the low-to-mid-single-digit range that typifies most IT-EMDEs’ inflation targets (see, for example, [Alvarez and others, 2019](#)). At the same time, a parallel strand of the literature emphasizes links between nominal rigidities and secular trends in relative prices. For example, [Adam and Weber \(2023\)](#) document a systematic tendency for many goods’ relative prices to fall over their lifecycles, arguing that nominal rigidities make it more efficient to accommodate this relative price trend through a moderately positive rate of trend inflation, rather than periodic nominal price adjustments over the lifecycle of a given good.

¹⁴ See [Bonam and Hobiijn \(2024\)](#), [Chodorow-Reich and Wieland \(2020\)](#), and [Guerrieri and others \(2021\)](#) for models illustrating how downward nominal rigidities of various forms can impede these adjustment processes. The argument that a higher inflation target can help to relax downward nominal rigidities and may thus improve the economy’s response to certain shocks and structural pressures is related to, but conceptually distinct from, the common argument that it can be useful for policymakers to respond to certain shocks by tolerating temporary periods of above-target inflation as a way of accelerating necessary adjustments in relative prices ([Ferrante, Graves and Iacoviello, 2023](#); [Fornaro and Romei, 2023](#); Guerrieri and others [2021, 2023](#)). Even if they were starting from a higher target, policymakers would likely still find it necessary to respond to some shocks by occasionally tolerating periods along the lines just described.

¹⁵ For example, in 2007, authorities at the Czech National Bank (CNB) rationalized a decision to lower their inflation target partly by arguing that “the gradual stabilization of the structure of consumption and [...] completion of the main ‘transformation’ changes in the quality of consumer goods [...] implied that] the extent of statistical overestimation in the measurement of inflation can [...] be expected to decrease gradually” ([CNB 2007](#)). See also [Škreb \(1998\)](#).

¹⁶ For details on the experience at the NBS, see [Fabris \(2015\)](#).

¹⁷ For AE examples, see [BOC \(2025b\)](#) and [Federal Reserve System \(2025e\)](#). For EMDE examples, see [BCC \(2019\)](#) and [Bank of Albania \(2025\)](#).

¹⁸ For example, see [Mendes \(2025\)](#) for a discussion of how the usefulness of different core inflation measures evolved in Canada during and after the COVID-19 pandemic.

¹⁹ Beyond standard measures of core inflation, another category of nonheadline measures that sometimes receives attention in the literature involves price indices that overweight sectors with stickier prices, which often emerge as optimal targets in New Keynesian models. In earlier theoretical literature on open-economy New Keynesian models, it was also sometimes argued that central banks should only target “domestic” inflation in small open economies (SOEs), as it was commonly assumed that immediate and complete exchange rate pass-through would lead to a situation where the exchange rate only had temporary effects on inflation ([Clarida, Gali, and Gertler, 2001](#)). However, both these lines of reasoning have notable drawbacks. For example, the “price dispersion” channels on which New Keynesian models commonly focus are only one of many channels through which inflation and welfare could be linked, as explained in the previous section focusing on the level of the inflation target. At the same time, more recent empirical research has shown that the exchange rate can often have significantly longer-lasting effects on inflation in SOEs, weakening the case for focusing only on domestic inflation (see [Brocklesby 2022](#) and the references therein). More broadly, it is important to note that the models supporting targets specified in terms of these alternative nonheadline measures typically assume that the private sector has rational expectations, fully

understanding the structure of the economy and the behavior of a central bank that they perceive as fully credible. As a result, there tends to be no meaningful role for central bank communications in these models, making it difficult for them to capture the points emphasized in the main text in terms of headline targets being easier to communicate and understand or potentially admitting closer links with inflation expectations. That said, none of the foregoing points preclude situations where central banks with headline targets could sometimes still find it useful to rely on these alternative nonheadline measures as operational guides.

- ²⁰ For example, the central banks of England and Korea exclude owner-occupied housing from their targeted indices; the central banks of Japan and Norway include its rental equivalents; and the central banks of Iceland, Sweden, and Canada include user costs ([Brocklesby 2022](#)). For descriptions of these different approaches, see [Statistical Office of the European Communities and others \(2013\)](#). Recently, there have been some arguments against including housing costs in the targeted measure of inflation ([Bianchi, McKay and Mehrotra 2024](#)), but to date there is no consensus in this area.
- ²¹ For example, the Central Bank of Sri Lanka targets the Colombo consumer price index, whereas monetary policymakers in Peru target the consumer price index for Metropolitan Lima.
- ²² For additional examples from other jurisdictions in Table 2, see [BOC \(2021b, pp. 16-17\)](#), [ECB \(2025b\)](#), [Norges Bank \(2025\)](#), and [Sveriges Riksbank \(2025c, p. 3\)](#).
- ²³ See, respectively, [Banco Central de Costa Rica \(2025, p. 2\)](#), [Banco Central de la República Dominicana \(2025, p. 5\)](#), [Banco Central del Paraguay \(2025, pp. 3-4\)](#), and [National Bank of Ukraine \(NBU\) \(2025a\)](#). In cases where a “fixed” characterization is attached to a three-year target horizon, it is not clear whether this on average provides a meaningfully higher or lower level of flexibility relative to the BOE, BCB, BOR, and NBP examples noted earlier, as aiming to close deviations from target within a three-year window already gives monetary policymakers a large degree of flexibility to navigate trade-offs with secondary objectives.
- ²⁴ Although once relatively common among IT-EMDEs, “year-based” approaches along these lines have become less prevalent over time, partly reflecting the significant challenges that they entail from both policymaking and communication perspectives. For example, monetary transmission lags typically imply that decisions on the current policy stance should have some impact on inflation outcomes in multiple years, making it unclear which year policymakers should prioritize in their decision-making. From a communication perspective, attaching the inflation target to specific years can also lead to perceptions that it might vary year to year, potentially undermining its usefulness as an anchor for inflation expectations.
- ²⁵ In other words, the transmission horizon and target horizon should be viewed as distinct concepts, with best practices calling for the latter to be equal to or longer than the former. In addition to clearly making this distinction, effective communication about the target horizon should also distinguish it from other related “horizon concepts,” such as the horizon to the next review of the specification of the inflation target, the (typically 12-month) horizon over which the targeted measure of inflation is computed, and the horizon considered in the central bank’s published projections.
- ²⁶ A third possibility is to avoid specifying a band in precise quantitative terms. For example, before adopting its current symmetric 2 percent target in 2021, the ECB had operated with a target of “below, but close to 2 percent” ([ECB workstream on the price stability objective, 2021](#)). Because of the ambiguities that they entail, “qualitative” specifications along these lines can lead to communication challenges while making it more difficult to anchor expectations. For example, [Baumann, Kamps and Kremer \(2022\)](#) provide evidence suggesting that the ECB’s shift to a simpler, symmetric target specification has helped to strengthen anchoring of long-term inflation expectations in the euro area.
- ²⁷ For example, the NBS describes its band as follows: “[t]he target tolerance band [...] indicates the acceptable room for inflation movements, taking into account that many temporary small-scale shocks can cause short-term volatility of inflation rate, without requiring a monetary policy response. *It also reflects the commitment of the NBS*

to stabilise economic activity as it creates room for monetary policy flexibility without jeopardising its credibility” ([NBS 2025b](#), italics added).

- ²⁸ For example, Banxico emphasizes that its band “does not constitute a margin of indifference or tolerance, but rather seeks to represent the uncertainty that naturally surrounds the timely achievement of the objective [...] in light of [...] multiple and diverse shocks” ([Banxico 2025](#), translated from the original Spanish). Banrep similarly explains that its band “does not represent a monetary policy target, but rather reflects the fact that inflation can fluctuate around the target and will not always be equal to 3.0 percent” ([Banrep 2025](#)).
- ²⁹ For example, the South African Reserve Bank recently shifted from a 3–6 percent target zone to a 3 percent point target, accompanied by a band of ± 1 percentage point. For details, see [Kganyago \(2025\)](#) and [National Treasury of the Republic of South Africa \(2025\)](#).
- ³⁰ For details, see, respectively, [BCB \(2025a\)](#), [RBI \(2025b\)](#), [Bank of Jamaica \(2025\)](#), [BOT \(2024\)](#), and [Bangko Sentral ng Pilipinas \(2025b\)](#). At the same time, practices differ somewhat in terms of whether IT central banks with open letter systems communicate the parameters of those systems as part of the specification of their inflation targets. For example, the BOE and Central Bank of Iceland both have open letter systems but normally communicate their targets as naked point targets (see, for example, [BOE 2025b](#) and [Central Bank of Iceland 2025c](#)).
- ³¹ For example, [Ehrmann \(2021\)](#) explores the effects of different configurations on the anchoring of short- and medium-term inflation expectations. In an empirical study covering 20 countries, he finds that configurations involving bands generally perform better than the other types, although no one target type consistently outperforms all others across all metrics. However, in a similar study focusing on longer-term expectations and a sample of 29 countries, [Grosse-Steffen \(2021\)](#) finds that point targets, with or without bands, are most successful in anchoring expectations. The two authors explain the different outcomes by differences in country and year coverage and their focus on shorter- versus longer-term expectations.
- ³² For a model formalizing this point in the context of a stylized SOE, see [Erceg \(2002\)](#). The same considerations also help to explain why most of the IT-AEs that make use of bands are less diversified SOEs with outsized exposures to global commodity shocks (Australia, Canada, and New Zealand).
- ³³ Beyond bands, “escape clauses” — i.e., pre-specified lists of shocks that the central bank is “allowed” to look through—have historically been used by some IT central banks as an additional source of flexibility and remain in place at a handful of institutions (see, for example, [BOC \[1991, pp.14–15; 1993\]](#), [CNB \[2025b\]](#), [National Bank of Romania \[2025a\]](#), and [Reserve Bank of New Zealand \[RBNZ\] \[2025b, pp. 2–14\]](#)). However, escape clauses have become less common over time, both because the decision to look through a shock invariably depends on context specificities, and because it is generally better to communicate such decisions “from first principles,” rather than appealing mechanically to a list. With a flexible, medium-term horizon, potentially complemented with a band used primarily as a communication device, the marginal benefits of adding escape clauses are likely to be small and decisively dominated by the risks that they would entail in terms of their potential impacts on the credibility and clarity of the target and overall policy and communications strategies.
- ³⁴ For details on the various examples given, see [IMF \(2024\)](#).
- ³⁵ See, respectively, [BOC \(2021a\)](#), [ECB \(2025b\)](#), [RBA \(2025b\)](#), [RBNZ \(2025c\)](#), [Sveriges Riksbank \(2025d\)](#), and [Federal Reserve System \(2025b\)](#).
- ³⁶ For AE framework reviews that have included significant coverage of the specification of the inflation target, see [BOC \(2011, 2016\)](#), [ECB workstream on the price stability objective \(2021\)](#), and [RBNZ \(2023\)](#). By contrast, the Federal Reserve’s 2 percent inflation target was explicitly taken as given for the purposes of its last two framework reviews (Federal Reserve System [2025f](#), [2025g](#)).
- ³⁷ See [BOR \(2023b\)](#) and [RBI \(2025b\)](#), respectively.

³⁸ Brazil offers an example along the lines of the latter approach, having recently shifted from a system of calendar-year targets to an open-ended target, accompanied by a commitment that any future target changes will be announced at least 36 months in advance ([BCB 2025c](#)).

³⁹ From a practical perspective, this provides another reason to avoid very short review cycles. That said, these considerations do not imply that it is necessary to dive deeply into every dimension of the inflation target (or broader policy framework) for the purposes of every review round. For example, the BOC has long operated under a system where a small number of key topics are identified at an early stage of the review cycle, giving staff multiyear windows to explore these topics at length (see [Carter, Mendes and Schembri \[2018\]](#) for details and examples). Especially for IT-EMDEs with limited resources to allocate to the review process, an approach along these lines could be helpful in strategically specifying terms of reference that would allow individual reviews to achieve meaningful depth, while a significant degree of breadth could still be achieved over time by varying topics appropriately across successive reviews.

⁴⁰ For examples from a mix of AEs and EMDEs, see [BCB \(2025, p. 3\)](#), [BCC \(2025b, p. 2\)](#), [CBA \(2025c, p. 9\)](#), [CNB \(2025c, p. 4\)](#), [NBU \(2025d, p. 2\)](#), and [Sveriges Riksbank \(2025c, p. 3\)](#).

⁴¹ These calculations are based on an updated version of the database in [Niedźwiedzińska \(2018\)](#). For the purposes of these calculations, changes to the target horizon only comprise shifts between end-year targets and ones specified on a continuous basis. However, the calculations do not cover shifts within these two categories.

⁴² Note that there are also countries that had successfully wound down disinflationary programs before formally transitioning to IT and are thus not accounted for in these calculations. For example, beginning in 1990, Chile “relied on a series of annual targets to guide the inflation rate lower” before formally adopting inflation targeting in 1999 ([Schaechter, Stone, and Zelmer 2000](#)).

⁴³ Of course, the negative relationship between the frequency of changes to the inflation target and the degree of anchoring may not be fully causal in the sense that more frequent changes lead to less well-anchored expectations in all cases. Countries with less well-anchored expectations could also be tempted to change the target more often.

⁴⁴ In explaining its recent transition down to a 3 percent target, the CBA has similarly explained that the decision partly reflected “the neutralization of several important factors that had supported setting the inflation target at 4 percent (in the context of various economic shocks in the early 2000s),” along with the fact that “the central bank’s framework and strategy for price stability and monetary policy have also undergone fundamental changes” ([Avetisyan, Igityan, and Papikyan 2024](#)).

⁴⁵ See [BOC \(2011\)](#) and [HM Treasury \(2013\)](#) for examples of policy framework reviews that did not result in changes to the specification of the inflation target but still led to useful clarifications and refinements regarding the central bank’s flexible target horizon and how and when policymakers would expect to make use of it.

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