Inflation Targeting: 
The New Zealand Experience and Some Lessons

Inflation Targeting Conference
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What is Inflation Targeting?

• What does it aim for?

• How does it work?

• What can it achieve?
How has Inflation Targeting Happened?

• Diffusion of this technology

• Turkey adopts Inflation Targeting
The New Zealand Experience

- New Zealand economic reform programme
- Economic performance
Improved Growth and Inflation Performance
Improved Stability:
Economic Expansions - trough to peak
Reserve Bank of New Zealand Act

• Origins of the reforms
• Objectives of the Act
• Responsibilities of the Reserve Bank
• Accountabilities
Policy Targets Agreement

• Goal of monetary policy

• Section 2: inflation outcomes

• Section 4(b): volatility trade-off
The Reserve Bank and its Audiences

- Transparency of actions
- Communication of monetary policy
- Monitoring of performance
Evolving Inflation Targeting - I

- Learning best practice
Evolving Inflation Targeting - II

- Moving to flexible inflation targeting
Evolving Inflation Targeting - III

- Dealing with asset price inflation
Evolving Inflation Targeting - IV

• Price stabilisation in an open economy
Impact of Inflation Targeting in New Zealand

• Effects on inflation and economic performance

• Some unique New Zealand features
Learning from New Zealand Experience - I

• Inflation targeting is not highly sophisticated

• Monetary policy needs appropriate support

• Policy can only target inflation
Learning from New Zealand Experience - II

• Independence is important but has a price tag

• Inflation targeting needs to evolve within a framework

• Monetary policy and credibility are interwoven
End of presentation