

Comments

This paper is an attempt to analyze an important question, i.e. “should Pakistan adopt Inflation Targeting (IT) as part of its monetary policy?” The paper concluded that the current time period is probably a good time for policy-makers in Pakistan to consider inflation targeting as a monetary policy strategy. The study mainly supported this conclusion with two arguments, first the successful experience of many inflation targeting countries in achieving desired results and second that presently Pakistan is better placed to adopt IT vis-à-vis the emerging market IT countries at the time of their adoption of this regime.

However, the superiority of IT on other monetary policy regimes is yet to be agreed upon both in theoretical and empirical economic literature. While the paper cited few studies that have supported the IT regimes, it has not mentioned the studies that have argued otherwise. For example; Ball and Sheridan (2003), in cross-country study concluded that: “Economic performance varies greatly across individual countries, both inflation targeters and non-targeters. But, on average, there is no evidence that inflation targeting improves performance as measured by the behavior of inflation, output, or interest rates. They further explained. “If we examine inflation targeting countries alone, we see that their performance improved, on average, between the period before targeting and the targeting period. For example, inflation fell and became more stable, and output growth also stabilized. However, countries that did not adopt inflation targeting also experienced improvement around the same times as targeters. This finding suggests that better performance may result from something other than targeting.”

Similarly, another common argument against the superiority of IT is the small history of IT regime which started since the early 1990s and a majority of developing countries joined in the late 1990s. More importantly the period also coincides with the general declining trend in inflation globally. It is, therefore, hard to draw any conclusive evidence for the superiority of inflation targeting on other monetary policy regimes as a tool of reducing inflation.

Coming to the Pakistan case, the paper appreciated the improvement in macro-economic stability in Pakistan during past few years. However, this raises a question that why should Pakistan shift to a new regime, particularly when the current policies are generating the desired results, as this is mentioned in the paper that improvement in the macro-stability was an outcome of recent macro-economic policies. Is the continuity of macro-stability not possible in continuing with current policies or does IT offer a better prospect for the country i.e. more

suitable for Pakistan? Answering these questions, at first place, are vital to support the conclusions in the study.

The paper may help in initiating an important debate on desirability and possibility issues of adopting IT in Pakistan. Moreover, important issues highlighted in the paper provide basis for further research.

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Reference

Ball, L. and N. Sheridan (2003). *Does Inflation Targeting Matter?* IMF Working Paper No. 03/129. Washington, D.C.: IMF.