

INFLATION TARGETING: THE CONCEPT, GENERAL CONDITIONS FOR APPLYING THE MONETARY POLICY REGIME. SUCCESSFUL IMPLEMENTATION EXPERIENCE IN NORWAY

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The article is devoted to the peculiarities of the mechanism of application of the inflation targeting regime - a monetary policy regime that is increasingly popular both in industrially developed and developing countries. The prerequisites for the emergence, the history of development and the main advantages of inflation targeting, the economic conditions for the application of this mechanism of monetary policy are considered. The analysis of the main achievements of Norway in the implementation of inflation targeting is carried out.

Key words: monetary policy; inflation; inflation targeting; financial management; Norway.

When conducting monetary policy, the countries of the world apply three main modes of influence and regulation: exchange rate targeting (when the central bank links the value of the national currency to the exchange rate of a country with the lowest level of inflation, the intermediate benchmark of monetary policy is a certain level or change in the exchange rate), monetary targeting (an increase in the money supply) and inflation targeting (when the main task of the central bank is to maintain consistently low prices in the economy).

Inflation targeting is a relatively new monetary policy regime that is being implemented by both industrial and developing countries. Experts determine that for the first time inflation targeting was applied by the central bank of New Zealand in 1990. Over the past 2 decades, the number of countries that have reoriented themselves to such an impact regime has increased significantly: Canada (1991), the United Kingdom (1992), Sweden, Finland and Australia (1993); the Czech Republic became the first country with a transition economy, Brazil became the first of the developing countries, Poland and Hungary used monetary targeting elements. In the second half of the 2000s the idea of inflation targeting was taken up by the monetary authorities of Indonesia, Romania, Turkey, Serbia, Ghana and Paraguay.

Inflation targeting is defined as a monetary policy regime according to which the main task of the central bank is to maintain consistently low prices in the economy. In practice it means that when the economy is threatened by

high inflation, central banks tend to start raising interest rates. Conversely, a decline in inflation is a signal for monetary policy easing and reduction in rates.

The author of the idea of inflation targeting is considered to be the Swedish economist Knut Wicksell. In the late 1890s he first voiced the idea that the main goal of central bank policy should be stable prices. For the 19th century the concept seemed quite revolutionary: at that time it was believed that the priority of regulators should be a stable exchange rate linked to the price of gold. Wicksell believed that the Central Bank should primarily control inflation through interest rates: raise the rate if prices rise, lower the rate if prices fall.

How does inflation targeting work? The central bank forecasts the dynamics of price growth and compares it with the targets that are desirable to achieve. At the same time, price stability does not mean zero inflation, we are talking about the presence of a predictably low rate of price growth, which fluctuates in a fairly narrow corridor. The difference between the forecast and the target indicates how much the regulator should adjust its monetary policy. As a result, a planned target for inflation is set. In the future all the actions of the monetary authorities to regulate interest rates are aimed at achieving this indicator.

The practical experience of countries that have used inflation benchmarks has allowed us to formulate the general conditions that are minimally necessary for the use of this monetary policy regime. First of all, inflation targeting is possible only where ensuring low inflation is not only formally, but also in fact the fundamental goal of monetary policy. The monetary authorities of the country should be clearly aware that inflation causes irreparable damage to the economy, that monetary and fiscal expansion cannot stimulate the development of the real sector of the economy, and that the monetization of the budget deficit creates direct prerequisites for an increase in the rate of price growth in the economy, disrupts the stability of the financial sector and undermines long-term economic growth.

Norway's experience in implementing an inflation targeting regime is interesting, as this country is an open economy and it depends on the global commodity market. The success of the new model was laid down in two important documents - in the new version of the law on the Central bank of 2001 and in the Public Finance Act of 2001. The Ministry of Finance was able to convince the public of the feasibility of government loans, which led to a budget surplus and an increasing current account of the balance of payments (from 16.6% of GDP to 17.7% of GDP for the year). All this eliminated prerequisites for the emergence of excessive emissions aimed at financing the budget provided macroeconomic stability and had a significant impact on the

stabilization of inflation expectations. Price stability was achieved without increasing the variation in output volumes. This indicator of the Norwegian economy has higher values than in the euro area and, especially, in large economies, for example, in the United States. This was due to the fact that the Norwegian economy is characterized by a low degree of diversification and is highly dependent on foreign trade, namely, on raw materials.

The Central Bank of Norway says that the rate of economic growth in the long term depends on the attracted labor force and labor productivity. These factors can be influenced by migration policy measures, social policy measures aimed at stimulating employment, indigenous people, improving the quality of education, increasing capital investment and improving scientific and technological progress. It can be noted that Norway has clearly worked fruitfully in these areas – during the years of inflation targeting (2001-2010), the economic growth rate increased from 2.0% to 2.7%.

In order to reduce inflationary pressures, the Bank of Norway steadily increased the refinancing rate from 2004 to 2008, while in other highly developed countries, rates were at a really low level (in the euro area the average rate was 3.5%, in Norway - 6%). Since the introduction of the inflation targeting regime, the inflation rate in Norway, as expressed by the consumer price index, has been on average 0.75% lower than in the euro area, which indicates the actual effectiveness of the inflation targeting regime.

The research allows us to make the following conclusions:

- Inflation targeting - the government monetary policy regime - can be generally characterized as a monetary policy regime based on the use of inflation forecast as an intermediate target (nominal anchor).
- The Central Bank forecasts the upcoming inflation dynamics and, on the basis of this forecast, sets a quantitative inflation target for the planned period, without undertaking any obligations to achieve any other targets.
- The main advantage of inflation targeting is that for the implementation of monetary policy, the one-sided nature of intermediate targets (in terms of the exchange rate or money supply aggregates) is replaced by the synthesis of a number of macroeconomic indicators.
- Norway's experience in implementing an inflation targeting regime is interesting, as price stability was achieved without increasing the variation in output volumes. Norway was able to convince the public of the feasibility of government loans, which led to a budget surplus and an increasing current account of the balance of payments. Since the introduction of the inflation targeting regime, the inflation rate in Norway, as expressed by the consumer price index, has been on average 0.75% lower than in the euro area, which indicates the actual effectiveness of the inflation targeting regime.

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