

About Inflation Indicators and the Inflation Targeting (Lessons from Georgia)

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ABSTRACT

The paper analysis inflation indicators (agflation, munflation and imflation) and the inflation targeting regime which is widely used as a monetary policy instrument of the central banks in different countries. Agflation and munflation show the dynamics of prices on food as well as medical services and drugs and main utility services. Imflation shows local market prices of those imported products where the exchange rate plays an important role. The study of the experience of the last quarter-century shows that one of the most important shortcomings is that inflation targeting is powerless against imported inflation. The paper shows the incapability of the inflation targeting regime toward imported inflation which is generalized on the base of the cost-push inflation. The research is based on the experience of post-Communist Georgia (where inflation targeting is used) and on its main trading partners. The paper offers complex inflation targeting as a new approach to monetary policy. In this case, imflation as well as inflation are the targeting indicators of monetary policy. The exchange rate should have the function of influence on the actual level of the imflation indicator.

KEYWORDS Inflation; Agflation; Munflation; Imflation; Monetary Policy; Inflation Targeting; Exchange Rate; Hybrid Inflation Targeting; Complex Inflation Targeting

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