

Key requirements for Flexible Inflation Targeting

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Key requirements for flexible inflation targeting

- CB has **operational independence** to pursue medium-term price stability. Govt determines the target band but allows scope for temporary deviations.
- CB must have **financial independence**. This requires Govt to fully fund its activities from outside the CB
- A **flexible/floating exchange rate**. CB cannot control domestic interest rates and the exchange rate at the same time
- CB **held accountable** for its actions by Govt, by the markets and by the public. CB must communicate clearly its goals and actions, building its reputation and credibility over time

End of presentation