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Inflation targeting policy between theory and practice

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Abstract

Inflation is considered a serious dilemma that affects economic activity as a whole. Many monetary policy makers have convinced that price stability should be the primary goal of monetary policy. Therefore, this study aims to shed light on inflation targeting policy as a new strategy for managing monetary policy. The number of countries that have adopted this policy has noticeably increased, which calls for the necessity to search for the reasons behind this, in addition to benefiting from the experiences of the countries that used them. The study found that most developing countries do not have the necessary conditions to implement the policy of targeting inflation and need to provide the appropriate climate and conditions to apply. This policy will ensure its success and benefit from it in addressing the problem of inflation.

Keywords: Inflation targeting policy, theory and practice, monetary policy

Introduction

Inflation is one of the most common economic problems that all countries of the world suffer from in their various economic and political systems, due to its negative repercussions on the country's economic and social structures. This phenomenon is almost characterized by regularity and recurrence in its occurrence. Therefore, this phenomenon has gained great importance and has become one of the most important economic phenomena that It is subjected to research and analysis, as its causes are linked to various factors that lead to a change in the value of the currency and an increase in the prices of goods and services. Therefore, we find that macroeconomic policies work to control the general level of prices by designing specific economic policies that reduce inflation rates. As a result of the inability of the fiscal and monetary policies to curb inflation, inflation targeting policy came as a model for managing monetary policy to control inflation and contribute to providing an economic environment characterized by non-inflationary growth rates, reducing unemployment and improving the standard of living. The inflation targeting policy is one of the most widespread policies. At the present time, to manage monetary policy, as New Zealand was the first country to adopt a policy of targeting inflation at the beginning of the nineties. Many developed and developing countries joined it in using it to confront the phenomenon of inflation that afflicted the economies of many countries.

While inflation targeting appears to represent a flexible and mediating framework for monetary policy, there is now a broad consensus on the necessity to fulfill a set of economic, institutional and technical preconditions before it can successfully adopt an inflation targeting system. Moreover, the path towards inflation targeting requires the availability of a set of Institutional, economic and technical requirements, the most important of which are related to the degree of independence of the central bank, the absence of financial dominance, the flexibility of the exchange rate, the availability of developed financial markets, in addition to a good understanding of the mechanisms of monetary transfer and the development of a reliable system for forecasting inflation.

Thus, this study sheds light on the policy of targeting inflation as a strategy for managing monetary policy and the extent of its ability to compensate for the failure of all economic policies that were developed by the monetary authorities in various countries of the world to confront the inflation dilemma by dividing this paper into three main topics, where the first topic relates to the phenomenon. Understanding inflation, types and economic impacts. The second topic deals with the policy of targeting inflation, while the third topic deals with empirical studies to demonstrate the success of the inflation targeting policy in achieving its goals.

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Problem statement

The problem of the study is crystallized in focusing on a serious phenomenon and a real dilemma that has burdened the economies of many countries and impeded the process of development in many of them and depleted their resources, which negatively affected their productive structures and their effects were not limited to the economic aspects, but also had an impact on social aspects as a result of the high rates of inflation to dangerous levels, especially in recent years. Therefore, it was necessary to search for a new method or method that could address the problem of inflation and reduce it. Recently, one of the new treatments for this phenomenon has emerged, represented in the policy of targeting inflation. Therefore, the study problem can be formulated in the following question: How effective is the policy of targeting Inflation as a Monetary Policy Management Strategy to Curb Inflation?

Objectives of the Study

The main objective of this study is to determine the role of the inflation targeting policy in addressing the phenomenon of inflation by reaching a set of sub-objectives, the most important of which are: -

1. Understanding the concept of inflation, its types and its economic implications.
2. Define the concept of the inflation targeting policy and the requirements for its implementation.
3. Shedding light on the experiences of different countries and the extent of their success in implementing the policy of targeting inflation.

Importance of the Studying

The importance of the study is evidenced by the fact that it sheds light on the policy of targeting inflation as a new strategy used by many countries to manage monetary policy to reduce the problem of inflation, which has become a real dilemma that impedes the objectives of the macroeconomic policy for most of the world's economies, especially since the number of countries that have adopted this policy has increased dramatically, which Emphasizes that it can have an important role in treating inflation and limiting its rise to large levels that greatly affect the lives of individuals, and therefore this topic is considered important and deserves to be researched and analyzed.

Hypothesis of the Study

- The inflation targeting policy leads to the stability of the general price level

Methodology

This study relies on the descriptive and analytical approach by presenting the opinions and ideas presented by economists regarding the subject of the study, drawn from books, periodicals and data issued by governmental and international agencies.

The First Research: Inflation, its Concept and its Types

Inflation is not a modern phenomenon and its occurrence is not limited to one economy without another. All countries, whether developed or developing, suffer from this phenomenon, which has many concepts, causes and types. Therefore, its economic effects are an obstacle to

implementing any economic policy and a reason for the failure of economic development in developing countries and through this topic will be focusing on the concept of inflation, its causes and economic effects.

The first requirement: the concept of inflation

The definitions of inflation differ according to its different causes, as it is a dynamic multidimensional phenomenon that may result from an increase in the amount of money in circulation without being matched by a commodity supply, so the general level of prices rises, or from an increase in total spending that is not accompanied by an increase in production or may be due to higher production costs.

Economists have defined inflation as the continuous increase in the prices of goods and services when the total demand for them is greater than the total supply, meaning an additional increase in demand that is not accompanied by an increase in the production of goods and services, and the result is an increase in prices, and this leads to an imbalance between supply and demand. Inflation is also due to an imbalance between the creation of cash balances and the expansion in the economy.

If the expansion of the money supply occurs at a faster rate than the economy, this results in higher levels of inflation, as inflation is always and never linked to the occurrence of developments in a number of economic variables such as available supply, actual demand and the quantity of money Offered to circulation and interest rates in addition to the level of operation in the production system.

Among the most prominent definitions that distinguished this term is that it is the "continuous and tangible rise in the general level of prices in a country" (Khaled Al-Wazni, Ahmad Al-Rifai, 2003, p. 249). It was also defined as "a continuous and continuous decline in the real value of the currency unit" (Anas, Walid Al-Bakri, 2002, p. 149).

It can be said that inflation is a monetary phenomenon represented in the general rise in the price level expressed in money, as a result of issuing an amount of money that exceeds the real need of the economy or an increase in aggregate demand or a decrease in the overall supply. The main result of this phenomenon is a decrease in the purchasing power of money and its inability to perform its basic functions. Money becomes a measure of values and a store of wealth, and despite the interest of economists in the phenomenon of inflation, an accurate concept of inflation has not been defined, and therefore there is a group of cases from which the phenomenon of inflation arises, which are as follows: -

1. Excessive rise in the general price level.
2. Increase in cash incomes.
3. High costs.
4. Excessive creation of cash balances.

The Second Requirement: Types of Inflation

Inflation has many types that are divided according to several criteria into many types that differ according to the economic conditions causing each type and are linked to a set of economic variables. The most important types of inflation are the following: -

1- Inflation related to state control of prices: despite the presence of inflationary pressures in the economy, it is sometimes noticed that prices do not rise as a result of the state's imposition of control over the prices of goods and

services to achieve economic goals to protect consumers or support producers. This type has two main forms as follows:

- a) Exposed inflation: this type is characterized by an apparent rise in prices, wages and other expenditures whose movement is flexible and is reflected in a general increase in monetary incomes, and is represented by the continuous rise in prices without any obstacles to that.
- b) Latent or suppressed inflation: This type is represented by a marked increase in monetary incomes without finding an outlet for spending, thanks to the state's intervention in controlling prices so as to prevent prices from rising through the use of policies that limit total spending and prevent price increases (Abdullah, 1999, p. 186).

2- Inflation related to productive sectors: this type is based on the sector witnessing a rise in prices, namely:

- a) Consumer or commodity inflation: It is the inflation that occurs in the field of consumer goods, as it gives producers of consumer goods an opportunity to achieve temporary and large profits.
- b) B. Capital inflation is inflation that occurs on the capital goods side and affects investment levels.

3- In terms of the severity of inflation: depending on this criterion, the following types can be distinguished:

- a) Hyperinflation: It is the one in which prices rise very dramatically and the speed of circulation of money increases and stops working in it as a store of values. If this continues, it leads to the collapse of the monetary system and collapses with it the value of the monetary unit (Ali, 2004, p. 449).
- b) Creeping inflation: It is the result of higher wages at a higher rate than the increase in production, a gradual and slow inflation, and prices rise at small rates, so it takes a long period of time to appear.
- c) Fluctuating inflation: It is the one in which prices rise at large rates for a certain period, then government and monetary authorities intervene to curb this rise, and then prices return to rise again and at great rates again.

4- Inflation related to economic relations: According to this criterion, inflation is divided into two types, where the first is related to the external dealings of the state, while the second type is related to the local economy.

- a) Imported inflation: which occurs as a result of international economic relations, where part of the inflation that is inside the exporting country is imported through imports, and this is reflected in the prices of imported goods (Muhammad, 2013, p. 255).
- b) B. Domestic inflation: which results from structural imbalances in local economic jobs, as it leads to an increase in demand and production is unable to respond to this increase or the amount of money exceeds the actual need of the economy.

5- Inflation according to the degree of employment in the economy: It includes the following types: -

- a) Unreal inflation: It occurs when the increase in prices is a result of an increase in actual demand and at the same time production increases because the economy

contains idle energies, and economic conditions enable an increase in production and therefore inflation in this case is not harmful because it encourages increased investment and employment.

- b) Real inflation: It occurs in the situation in which no increase in demand leads to an increase in production, but rather an increase in demand is offset by an increase in prices (Muhammad, 2013, p. 255).

The Third Requirement: the Economic Effects of Inflation

Inflation has economic and social effects that go beyond its monetary characteristic and the fact that this phenomenon impedes the path of development in the economies of the world countries, so it is difficult to limit its effects, and the following are the most important of these effects:

1. The decrease in the real growth rate of the economy despite the nominal increase in the volume of investment, because the increase in the cost of investment as a result of high prices may push investors to refrain from large investments and to move towards marginal investments with low cost and high profitability such as speculation and other non-productive activities and the resulting Obstacles to the economic development process.
2. Inflation results in weakening individuals 'confidence in the currency and weakening the incentive to save. If the value of money tends to continuously deteriorate, money begins to lose its function as a store of value. Here, the commodity preference increases over the monetary preference, the individual's tendency to spend money on consumption increases and their tendency to save decreases (Muhammad, 2013) 256).
3. It harms the owners of fixed incomes while benefiting from the earners arising from the profits and also leads to the redistribution of incomes and the transfer of purchasing power on the part of those with low incomes as well as those with high incomes, which leads to disruption of social relations between these classes (Ghazlan, 2012, p. 322).
4. Distortion of economic and monetary relations with the outside world as a result of the depreciation of the national currency towards foreign currencies, which is one of the negative consequences of inflation, through which it leaves its bad imprints on the balance of payments and in return, the increase in the rate of dependence on foreign debts and the deepening of dependency relations to others.
5. Inflation results in the capital being directed to the branches of economic activity that are not beneficial to development, where commodities whose prices are higher and directed to those with high incomes are produced.

The Second Topic is the Policy of Targeting Inflation

Inflation is considered a serious problem that affects economic activity as a whole. Many (Adrian, 2005, p. 6-7) convictions have emerged among monetary policy makers that price stability should be the primary goal of monetary policy. As it has been shown since the end of the eighties that the effect in indirect inflation (by controlling intermediate variables such as interest rates, the exchange

rate and monetary aggregates), it was not effective in achieving that goal, which led to the adoption of a modern method for managing monetary policy based on a direct approach to reduce inflation, whether by some developed countries or this method was known as the inflation targeting policy.

In general, the policy of targeting inflation is based on the commitment of the monetary authorities to achieve a targeted rate of inflation within a specific period of time, provided that full independence is given to banks in developing and implementing the policies and procedures necessary to achieve the stated goal and with full commitment to transparency in setting policies and in their applications as well as in their future directions in order to enhance the credibility of central banks and establishes market confidence. This method appeared in the early 1990s, specifically in New Zealand in 1990.

The First Requirement is the Concept of Inflation Targeting Policy

There is no specific definition of inflation targeting policy yet, and there is still controversy and ambiguity in choosing how to define inflation targeting, how to classify countries, which of them can be considered a target for inflation, and how long can countries take to implement the targeting policy. There have been many definitions for this term, the most important of which are the following: -

Hassan Ibrahim Al-Ayouti, (2005) claimed that inflation targeting means declaring both the government and the central bank that the monetary policy goal is to achieve a targeted inflation rate within a specific time frame, such as setting 3% per year during two consecutive years.

EserTutar, (2002) ^[12] as a monetary policy system characterized by the general declaration of the official objective of areas or a digital quantitative target for the rate of inflation for one or more period of time with the apparent recognition that the reduction and stability of inflation is the primary objective of monetary policy.

Ismail, (2004) ^[1] considered that inflation targeting is one of the modern concepts for developing the style of central banks' management of monetary policy by clearly focusing on the rate of inflation. Inflation targeting is determined by the monetary authorities' announcement of a specific numerical target or a specific range for the extent of inflation in the short term and achieving stability in the long term is the primary goal of monetary policy.

From the foregoing, inflation targeting can be defined as the adoption of a direct approach to combating inflation, as this policy consists in an explicit declaration by the monetary authorities that the goal of monetary policy is to achieve a specific level of the inflation rate within a specific period of time, and this is consistent with giving central banks complete independence in setting and implementing policies. And the necessary measures to achieve the stated goal while adhering to transparency and credibility in order to succeed in achieving the set goals.

The second Requirement: The motives for implementing the policy of targeting inflation

The number of countries adopting the policy of inflation targeting has increased remarkably in all countries of the world, and therefore it is necessary to address the reasons

behind the application of this policy, as many specialists attributed the growth and spread of the application of the inflation targeting policy to the following reasons:

1. The high rates of inflation during the eighties of the last century, which affected the rates of economic growth and the reduction of economic resources, and this necessitated reducing and controlling inflation (Raja, 2005, p. 5) ^[7].
2. The contradiction between the objectives: where the contradiction between the monetary policy objectives creates a state of uncertainty among the public and market customers about which of them has priority in investigation. Consequently, this leads to a lack of confidence in the ability of the Central Bank to achieve its objectives, especially with regard to reducing the rate of inflation and controlling it through difficult times that need to build confidence among market clients (Muhammad, 2013, 259).
3. The increase in the contribution of integration in financial markets and global trade in pushing changes in monetary policy systems, in addition to the great transformation represented in adopting the flexible exchange system instead of fixed. Inflation targeting keeps pace with these critical changes.
4. There has been global agreement on the danger of high inflation rates, as it has a negative impact on growth and fair income distribution. By adopting a policy of targeting inflation, this risk is expected to reduce, and to achieve good results for inflation and raising the state's economic performance. In this respect, the experience of targeting inflation in industrialized and emerging countries was considered successful, credible and flexible, as it led to achieving low inflation rates (EserTutar, 2002 p 2-4) ^[12].
5. The reliance on monetary aggregates as intermediate targets resulted in problems in light of the expansion of financial innovations, in addition to disagreement about the complex most indicative of inflation. Some studies conducted on monetary policies followed in a number of developing countries have found that these countries are usually divided between targeting the money supply, the exchange rate, or inflation, and then many of them abandoned targeting the exchange rate due to the currency crises, so the general trend became a combination of targeting the money supply and inflation (Muhammad, 2013, p. 260).
6. The instability of the relationship between monetary aggregates and inflation, which created a monetary policy problem targeting the monetary pools, which resulted in its devaluation and abandonment in favor of the policy of targeting inflation, and the instability of this relationship does not produce satisfactory results for achieving low inflation.

The third requirement: requirements for implementing the inflation targeting policy

The ability of the monetary authority is crystallized through the effectiveness of monetary policy in reducing inflation and influencing economic activity to achieve the goal of price stability, and thus the success of the monetary policy is achieved through the ability of the monetary authority to control the rate or the target range of inflation as a basic goal of monetary policy in the long run, and therefore there

is a group Among the conditions that must be met to ensure the success of the inflation targeting policy. (Hoda, 2007, p 6).

The first Condition: the independence of the central bank
The theoretical argument explaining the negative relationship between central bank independence and inflation is based on the accepted rule that achieving price stability requires restrictions on monetary expansion. Since policymakers often tend to use monetary policy to achieve it, quick but temporary goals such as financing the budget deficit and rising employment or lower interest rates to reduce government financing costs are likely to lead to increases in inflation expectations and in actual inflation that persists after That the desired effects of monetary expansion disappeared (Safaa, 2012, pp. 31-33). Giving central banks sufficient autonomy allows the monetary authorities to focus on the goal of price stability, even at the expense of other goals that may appear more attractive in the short term. The basic features of an independent central bank can be summarized under five headings as follows:

1. A well-defined primary goal that takes priority over all other goals
2. Political independence to design monetary policy
3. Economic independence to implement monetary policy.
4. Financial independence.
5. Clearly defined accountability procedures

Accountability can be seen as a natural matter of central bank independence. The existence of mechanisms to ensure public accountability increases the credibility and effectiveness of monetary policy. Moreover, it provides a channel for the central bank to explain and justify its policy decisions. In addition, the design of the board should ensure that the decision-making process is protected from any political influences. (Ibrahim, 2008, p 109-111)

In short, good governance appears to be essential for any central bank to achieve its goals. This means that central banks should have clearly defined and prioritized goals, give sufficient authority and independence to achieve their goals and functions, and be accountable in order to increase the credibility and effectiveness of monetary policy.

The Second Condition: controlling public finances

A strong financial position is necessary in order to enter the inflation targeting regime. A large budget deficit and large government debt could lead to uncontrolled inflation and abandonment of inflation targeting policy. Indeed, fiscal policy can affect monetary policy and inflation in various ways (Muhammad, 2013, pp. 260-261). Moving is necessary to combat inflationary pressures, because an increase in interest rates raises the cost of servicing the debt and the level of debt. Debt also increases the likelihood of default and state premiums, which leads to capital outflows and lower exchange rates. Again, if the debt is largely denominated in foreign currency, then the depreciation of the local currency against the denominated foreign currency leads to a further increase in the value of the debt. Moreover, the depreciation of the local currency also drives up prices through "imported inflation". The end result is higher inflation expectations and, ultimately, inflation itself. Aggregate demand is another way in which fiscal policy can

affect inflation. For example, tax cuts not only reduce government revenues, but also increase real household wealth and enhance aggregate demand and price levels (Hoda, 2007, p6-7). The multiplicity of channels through which fiscal policy affects monetary policy emphasizes the importance of limiting. From the fiscal deficit to a level that can be financed through the operation of the capital market, especially in economies where there is limited access to financial markets to finance the government deficit. In countries with structural financial imbalances, major financial reforms are needed that increase the transparency of budget rules and government budgets, restore balance to the government budget and reduce public debt and the possibility of default, a condition for adopting inflation targeting.

The Third Condition: a sound financial system and an understanding of the transfer mechanisms

The central bank, when implementing its monetary policy, needs to assess the impact of its decisions, as well as the time required before it affects the economy. This is particularly important in adopting an inflation targeting system, which is a forward-looking monetary policy. More precisely, it is important to have a good knowledge of how changes in the central bank's policy rate are transmitted through the economy, affecting aggregate demand, inflation expectations and consumer prices.

The channels through which decisions about the official interest rate affect economic activity and inflation are known as the "transmission mechanisms" of monetary policy. Adopting inflation targeting requires a proper definition and understanding of these mechanisms and how they operate in the economy. For example, the authorities need to know to what extent interest rate movements are transmitted from the central bank to the borrowing and lending rates of banks, and whether the economy's response to changes in official exchange rates is the same. Monetary policy can only be effective when policymakers understand transmission channels properly and operate effectively. In addition, monetary policy credibility is crucial to managing inflation expectations (Muhammad, 2013, pp. 260-261).

The Fourth Condition: infrastructure and advanced technology:

One of the most important conditions that must be met to ensure the success of the inflation targeting policy is the need to have a high-tech infrastructure and technology that contributes to determining the future rate of inflation accurately, as the technical development guarantees the fulfillment of expectations accurately and efficiently, and this requires the ability to collect data and know how to use data Optimization as well as the ability to define conditional prediction models (Hoda, 2007, p7).

The Third research: Empirical Studies and the Success of the Inflation Targeting Policy

Inflation targeting can be described as an option by the monetary authorities to target the inflation rate in the short and medium term, which gives a clear indication that hitting the inflation target has precedence over all other monetary policy objectives such as the exchange rate, economic growth or the level of employment. Some of the initial steps

include setting clear quantitative targets for inflation for several future periods, as well as developing a model or methodology for forecasting inflation that uses a number of indicators that include information on future inflation. To achieve this, monetary authorities must have the technical and institutional capacity to model and forecast domestic inflation and have an informed view of the relative effectiveness of the various monetary policy tools available to them. The following are some studies that dealt with inflation targeting policy:

EserTutar (2002) ^[12] focused on the availability of the necessary conditions for implementing the inflation targeting policy using the self-regression model. The study concluded that Turkey is characterized by the independence of the central bank and Turkey has succeeded in implementing the necessary legal and financial reforms to ensure the independence of the central bank, and the monetary authority has a single goal. It is price stability. In addition, the exchange rate has become more flexible since the year 2000, since after the exchange rate float, it adopted a policy of targeting inflation. Raja, Bandar, (2005) ^[7] reviewed the experiences of a group of developing countries and the extent of their success in using the policy of targeting inflation. The study indicates that the policy of inflation targeting is characterized by several advantages, including the ability of monetary policy to maintain price stability in the long run, and that inflation targeting is an important criterion for measuring the effectiveness of monetary policy compared to other targets, but there are some criticisms, including that there are no adequate guarantees that enable the central bank. He was able to successfully use his estimate by setting appropriate monetary policies that respond to the curbing of inflation resulting from a flaw in the process of forecasting the rate of change enormous.

Belazouz, (2008) ^[8] explored with the policy of targeting inflation and its effectiveness in achieving economic stability in Algeria during the period 1990-2003, and the study concluded that the necessary conditions for implementing the policy of targeting inflation in Algeria during that period are not available, but this can be adopted. The policy is to stabilize prices in the long run, as a basic goal of monetary policy, and to give greater independence to the Bank of Algeria, in addition to a set of favorable conditions to achieve this.

Kamal, (2008) ^[6] focused on the idea of targeting inflation in Morocco, as the study showed that its application at least during that stage, It depends on the extent of the consensus of the countries that adopted it as a framework for their monetary policy regarding its effectiveness and credibility, especially in light of an international climate marked by economic recession and a sharp drop in interest rates. It can also be said that Morocco is not yet sufficiently qualified to adopt a monetary policy based on inflation targeting, because Morocco has not yet fulfilled all the conditions that must be met in advance before implementing any monetary policy based on inflation targeting.

The independence of the central bank as an institutional condition remains insufficient without completing other conditions of a technical nature, such as developing the necessary application models, given the role that forecasts play in targeting inflation. The implementation of inflation

targeting must be accompanied by a flexible exchange rate regime as well as stability of the financial system with the possibility of effective coordination between monetary and fiscal policies.

Shawky, (2014) ^[9] reviewed the Brazilian, Chilean and Turkish experience and the extent of its success in adopting the policy of targeting inflation and the extent of this policy's ability to confront the phenomenon of inflation. The study reached the success of this policy in Brazil, especially after the adoption of the flexible exchange system, and this is due to the great improvement achieved in the field of increasing the transparency of the Central Bank and its ability to serve the ultimate goal with high efficiency, the financial policy has also been strengthened in line with the requirements of the new system.

As for Chile, the results of the policy of targeting inflation in Chile are very successful due to the absence of the budget deficit, the strict application of laws, instructions, and the system of financial supervision in place, in addition to the endless commitment and seriousness of the central bank in achieving the target inflation rates or not deviating from the areas permitted for change in its borders.

With regard to Turkey, the Turkish Central Bank was able to design many models to know the status of the Turkish economy and help predict future prospects, and worked to increase transparency and instill confidence among dealers in the markets and provide the appropriate atmosphere for stability, and the extensive experience gained by the central bank due to the many crises that afflicted the country ; It helped in the proper implementation of the inflation targeting policy and in managing the exchange rate in parallel.

(Amina, 2015) ^[4] Where the study focused on the relationship between the growth of the gross domestic product, the rate of re-deduction in Algeria, the consumer price index in Algeria, the development of the monetary mass, the nominal exchange rate during the period 1970-2012. The study found that there is little response in the consumer price index to any sudden shocks in the rate of re-deduction and the exchange rate, and that any sudden change in the exchange rate leads to a negative change in the consumer price index. As for the rate of re-deduction, there is a reciprocal relationship during the first periods. Just. In the end, the monetary mass, whose influence was clear, which ranges between high and low, i.e. in a state of fluctuation.

In developing countries, financial systems are often characterized by state dominance over financial activity, especially the banking sector, which leads to deficiencies in managing banking operations and the absence of competition in the market. Therefore, strengthening the soundness of the financial system may require closing distressed financial institutions and adopting sound supervisory practices, as financial weakness can undermine any attempts to control inflation. If the banking system is weak, and the markets recognize this weakness, then there is a risk that capital flows out of the country will be reversed (sudden halt) that could cause a sharp decline in the exchange rate, leading to high pressures on the rate of inflation.

Results

- The inflation targeting policy is represented in an explicit declaration by the monetary authorities that the goal of the monetary policy is to achieve a specific level of the inflation rate within a specific period of time. In achieving the set goals.
- To ensure the effectiveness of the new framework in managing monetary policy (inflation targeting), preliminary preconditions as well as general conditions must be met by which we can determine the extent of commitment to implementing inflation targeting or not.
- The study and evaluation of the inflation targeting policy shows that developed countries were more capable of implementing this policy and more likely to achieve success, such as New Zealand, and emerging markets came second, while the least developed countries faced greater difficulties in implementing this strategy.
- The inflation targeting policy requires that the central bank have advanced technical mechanisms to forecast inflation rates. Therefore, this calls for establishing a data bank that contains variables data that enable it to monitor the inflation rate in the long run. He should also have information on these variables if he wants to follow a policy of targeting inflation in the future. He should also issue periodic reports and data on economic and monetary variables that have an impact on the rate of inflation.
- Most of the developing countries do not fulfill the necessary conditions to implement the policy of targeting inflation and need to provide the appropriate climate and conditions for the implementation of this policy to benefit from it in addressing the problem of inflation.

Recommendations

- In order to embody the process of proper implementation of the inflation policy, all the institutional and economic requirements must be met, especially the provision of a number of indirect tools for managing monetary policy and increasing its credibility and transparency.
- Giving greater independence to the monetary authority and the party that will be responsible for announcing policies for targeting inflation in order to ensure the right of its questions about the goals it set.
- It is urgent to stay away from inflationary financing due to the great risks it poses to the economy, especially in light of the stagnation of the productive apparatus, which is a major cause of deepening inflation.

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