



PARAGUAY

Inflation Targeting Regime:

Challenges during the transition

Carlos G. Fernández Valdovinos
Central Bank of Paraguay

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A long road before implementation

Since 1995, with the adoption of the new CB Charter Law, the main instrument was the control of monetary aggregates, especially M0 (bills and coins)

In 2003, an IMF Stand-by agreement was signed. This step was crucial to build stronger macro-foundations.

Since 2004, the CBP started to outline strategies in order to adopt an Inflation Target regime in the future.

TA from peers (Mexico, Chile, Peru, Brazil, Colombia and the UK) and the IMF prepared the ground for full implementation.

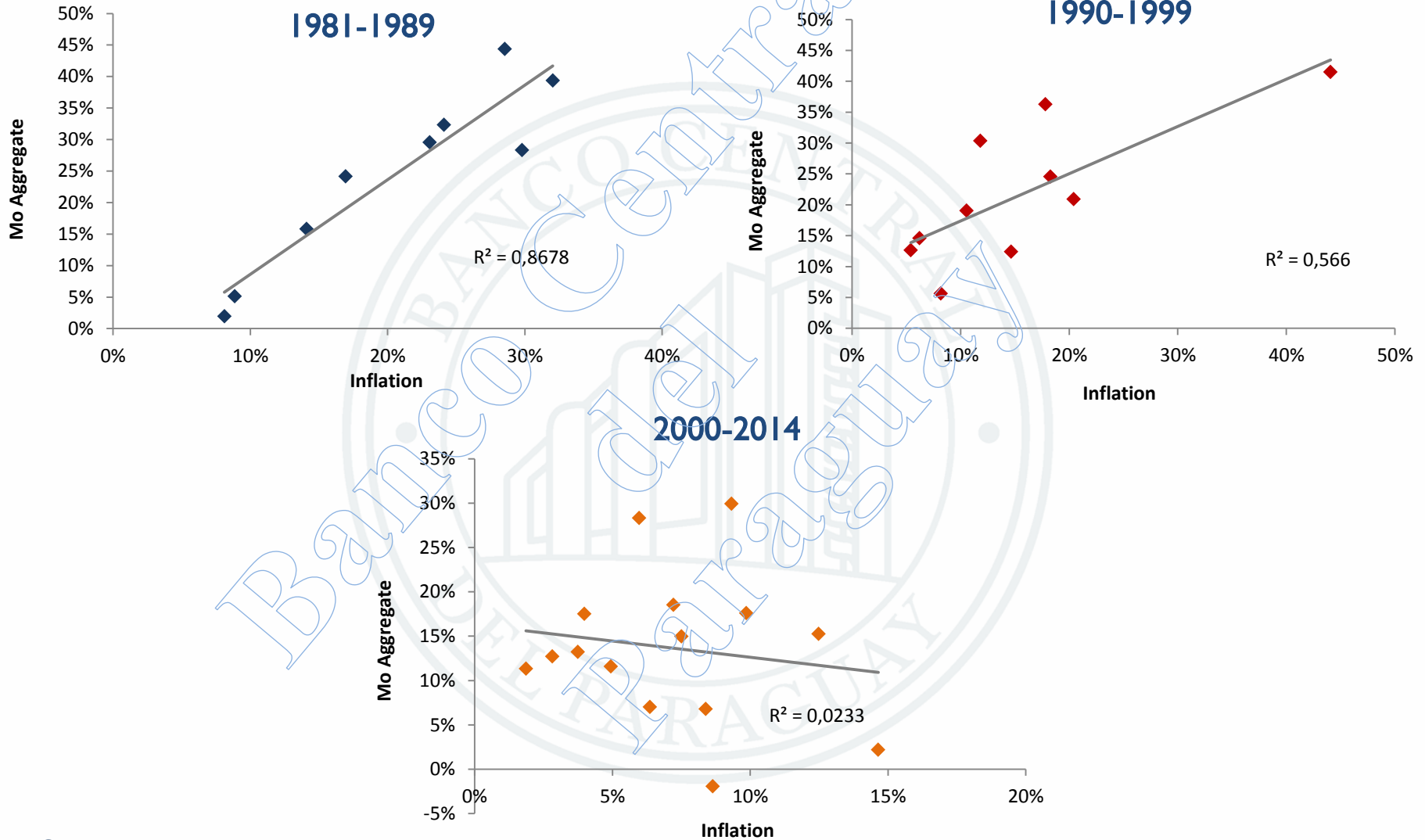
Several factors (better macroeconomic framework, financial deepening, technological advances) weakened the relation between M0 and inflation

Still, during interim years, the control of monetary aggregates continue to served as an intermediate goal.

Finally, on May 18 2011, the CBP Board of Directors formally announced the implementation of an IT regimen.

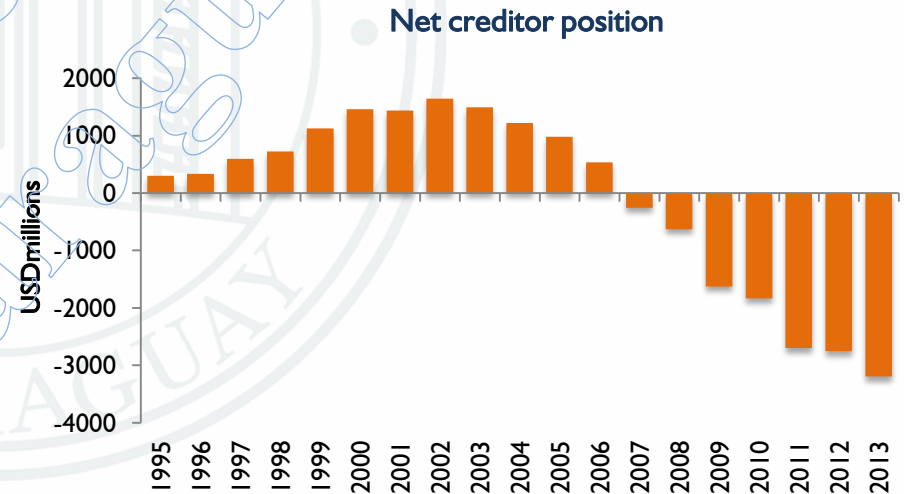
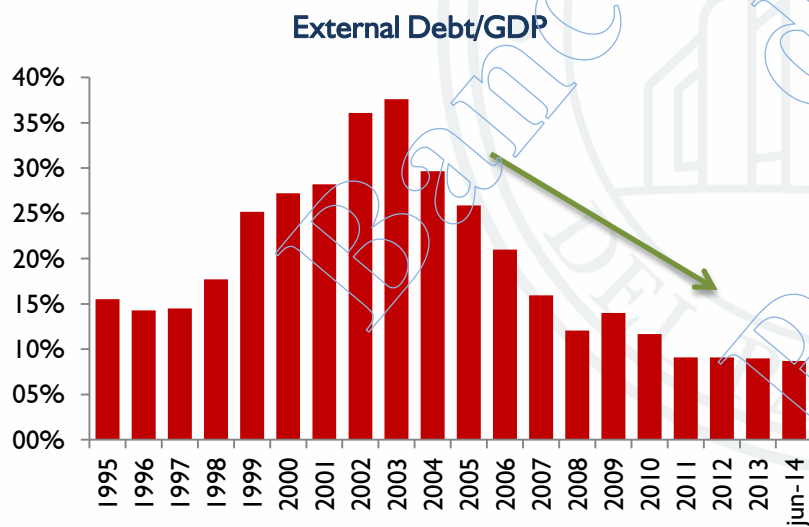
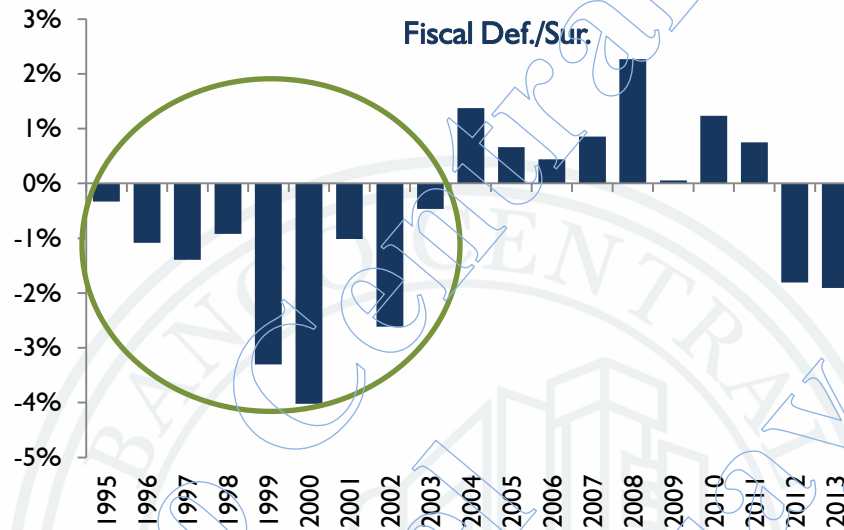


Why inflation targeting?



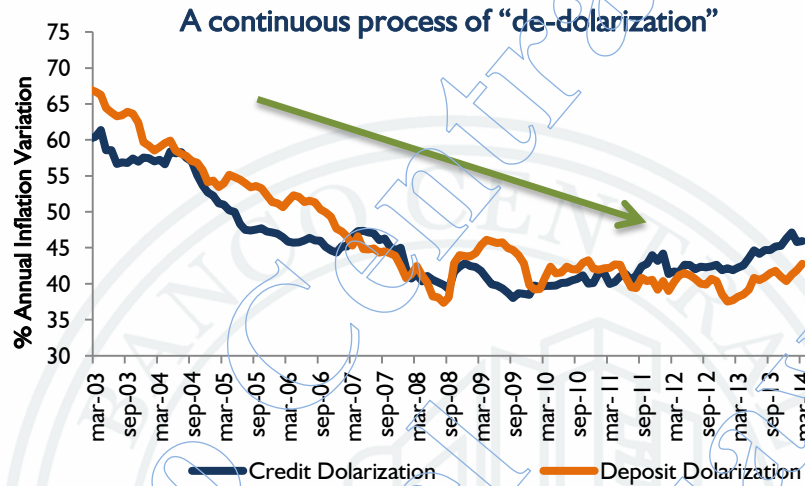


Adjusting fiscal imbalances

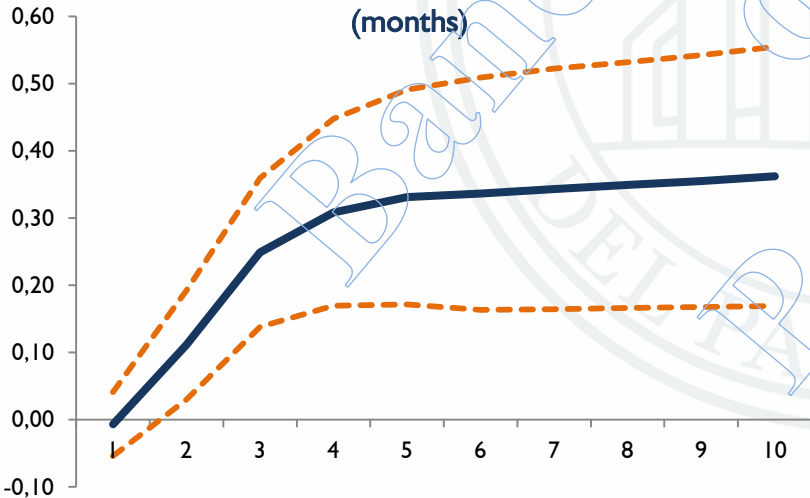




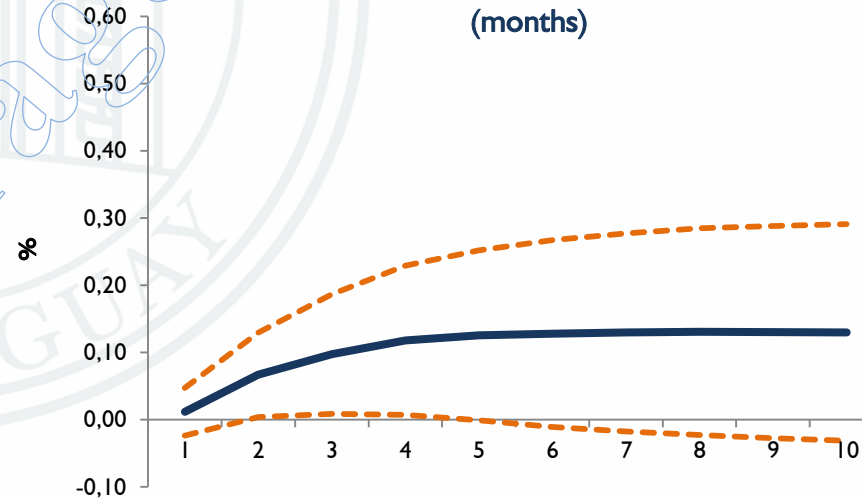
Reducing dollarization levels



Pass-through 1994-2003 (months)



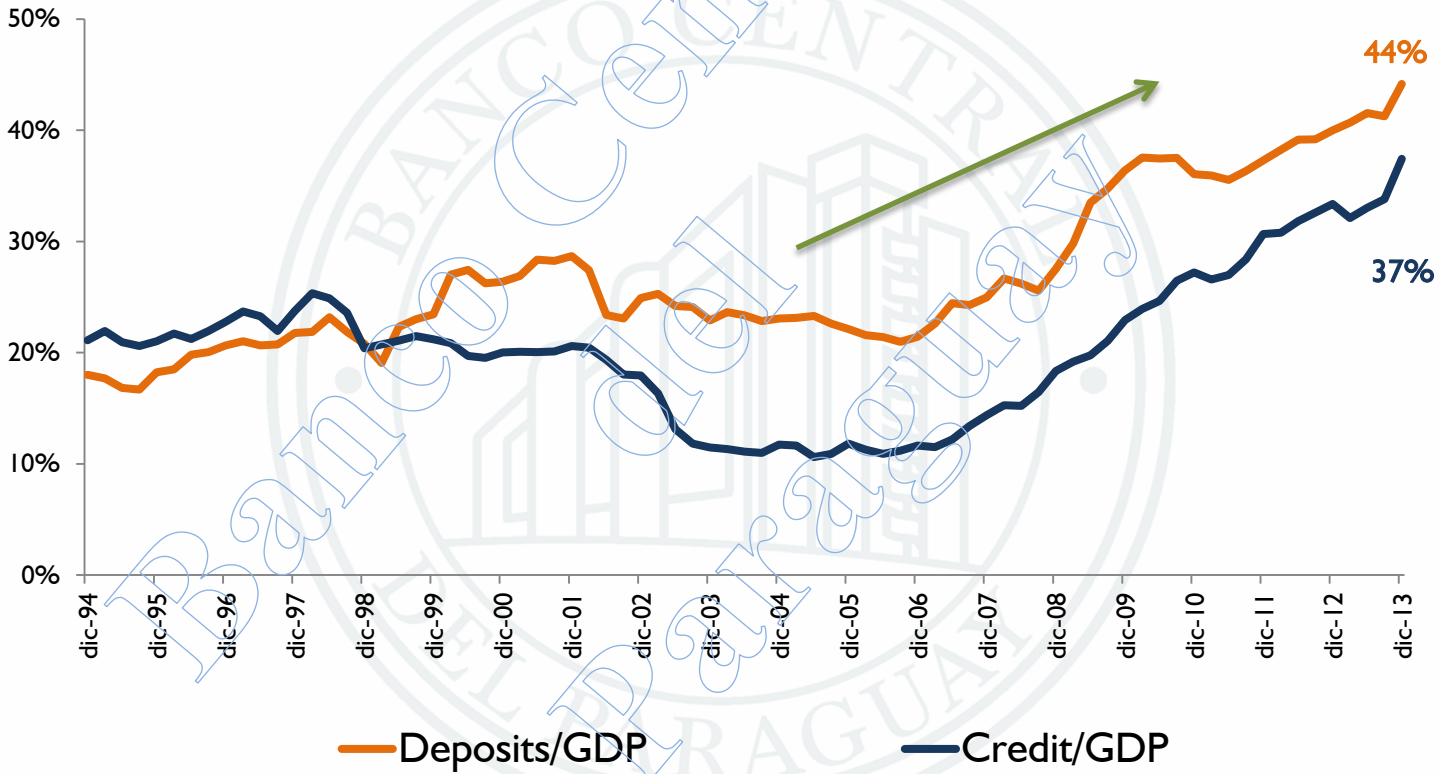
Pass-through 2004-2014 (months)





Increasing financial deepening

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Improving MP effectiveness

Capitalization

- Strengthen the CBP balance sheet.
- CBP independence.

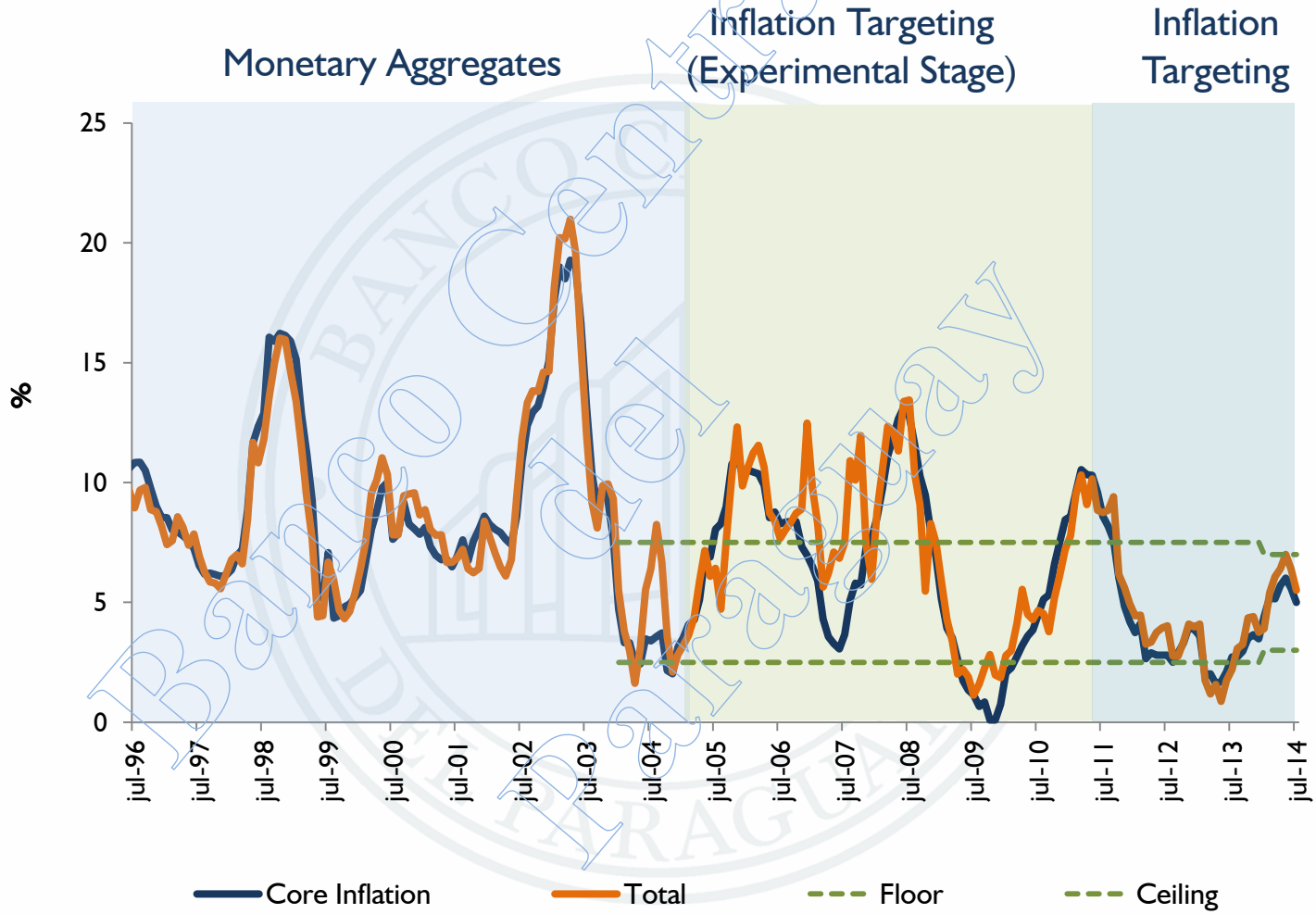
Communication

- Raising public awareness.
- Credibility.
- Expectations.



A successful story of IT implementation

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Summary

- Paraguay had been laying the ground for the implementation of an IT regime for almost a decade.
- Strong macroeconomic foundations and crucial structural reforms were key elements for the implementation of the new system in May 2011.
- Results have been encouraging since then: inflation level and volatility have been significantly reduced and expectations have been anchored.
- The CBP continues to strengthen the regime: improving communication, enhancing forecast models. T.A. from IMF and regional peers continue to be fundamental.
- In sum, Paraguay is an example that IT can be very successful in a small, open, emerging economy.



THANK YOU!

