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An Assessment over Alternative Monetary Policy Strategies

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Abstract: In monetary policy literature, opinions contended against activist politics applications and inflation cost had caused changes in aims of monetary politics priority order in last years, in many developed and developing countries, cost stability is started to accepted as the first aim of the monetary policy. This development excited the alternative monetary policy strategies to come order. Monetary related aims, foreign currency rate aims and inflation aims are the major monetary strategies. Country applications declaredly showed that all pointed strategies could not have been successful of equal standing for reaching the cost stability aim. The achievement of monetary strategies is depended to their reliability.

Key words: Monetary policy, exchange rate targeting strategy, monetary targeting strategy, inflation targeting strategy, activist politics applications

INTRODUCTION

Principal intention of the economy politics is to eliminate lameness in economical life at this point monetary policy applications have a very important place thus almost all developing and developed economy, economy politics is one of the major subject, encouraging monetary policy effects on real and financial sector, public opinion and academic areas excess in number of Theoretical and empirical studies is the indicator of this reality.

In monetary economies, financial stability is attempted to accommodate with monetary policy public and private appliances. in circumstances economics take place, monetary policy appliances alone applied or with the other financial political appliances. Executers of politics preferences with appliances speciality determine which financial politics application has the first priority. İn significance monetary policy appliances have different characteristics than other financial politics appliances. This appliances have the speciality of applicability and convertibility in a very short time parallel to economic circumstances. İn the other hand economic actors show no response about this politics applications.

However, in point of monetary politics applications, national revenue and effects on general level of the prices literature has no agreement. First criticisms about this point was done by monetarist economists. With leading of Friedman, monetarist economists challenged monetary politic applications with proposing the monetary policy application create an inflationist effect with the reasons cannot effect the reel part of the economy, time wastes in long term and the monetary policy effects takes long time.

Whether the reasons proposed for the activist monetary policy or the costs created by inflation caused alternative monetary strategy speculations.

The target of this working, betray which alternative monetary strategy is more successful (safe) with helping of guide was benefited by the working which was useful for monetary policy literature.

CRITICISMS FOR ACTIVIST MONETARY POLITIC AND COSTS OF INFLATION

There are three argument against active monetary policy:

- Monetary policy' effects on economy takes a long and variable time.
- The ratio between unemployment and inflation doesn't have a long term trade-off relation.
- Time inconsistency (Mishkin, 1997).

Moving with this reasons, economists suggested to abandoned the activist monetary policy and appointed the ruled politic. Examining the proposing about the active monetary policy application will be useful.

Uncertainty of the monetary policy's effect: The first serious criticize for activist politics was made by Friedman. According to Friedman and the other monetarist economics, effects of the macro economic politics are undefined. For example, effects of monetary policy on economy takes long and uncertain time (Mishkin, 1997).

All economic units have myopic perspective about economy politics effects. This situation excites some kind of economic lameness. For example, when politics moves with a short-term perspective, they can apply the increasing monetary policy applications to diminish the unemployment trouble. Only this kind of politic excites inflationist affections in long-term.

Invalidness of Phillips curve in long-term: Comment of Paul Samuelson and Robert Solow for Philips analyse broadcasted at 1960 has been a basic for the activist monetary policy application.

According to Friedman, companies and employments takes reel variable as criteria while they evaluate their situations. So regulations for fees and costs is adapted with expected changes on cost level. With another explanation, when the inflation ratio increase, Philips curve increase too. It proves that no trade-off between unemployment and inflation happens at end of the 1960's.

Time inconsistency problem of monetary policy: Svensson (1999) first showed that the discretion solution to model in which the central bank targets a path for the price level is equivalent to the commitment solution in a similar model in which the central bank targets the inflation rate.

Time inconsistency problem is occurred from the opinion towards expectations about monetary policy that is determined either costs or charges that is effective on monetary policy. Due to this, expectation of private sector at the phase of construction of monetary policy accepted as data in case of private sector expectations accepted constant, politicians may think that they can reach the targets such as exalted revenues level and nominal unemployment rate with the capacious monetary policy. On the other hand employees and companies fundamentally take the expectation about finance politics during creating of salary and cost decisions. For example capacious monetary policy cause the inflationist applications revised up so cost and salaries increases (Mishkin and Posen, 1997).

Time inconsistency problem is the situation that the cost increases after, central banks in the aim of revenues level increase makes capacious monetary policy applications. Due to Time inconsistency problem models either employees or employments have no chance to mistaken (Mishkin and Posen, 1997).

Inflation costs: Qualities occurred from inflation must be added summarized evidences above:

In inflationist environment investments in financial sector reached higher size, is one of the significant factor that increases the additional transaction qualities. In terms that unstability increases, individuals try to evaluate chances that increase profit level instead of capacious real economic activities that inflation become chronicle, funds taken from real investments, might be transferred to speculative areas (Mishkin and Posen, 1997). Nondeveloped and developing economies, affected dominantly from high inflation's likely costs.

With the necessity of increasing, uncertainty related with inflation's price level, forced up making a decision of a healthy production. Especially, uncertainties about relative costs totally damage the treatment of price mechanism. On the other hand, at inflationist circumstances, investments that are not affected from price increases have become alluring, short term contracts are preferred instead of long-term contracts.

The exact cost of inflation occurs from the interaction between tax system and inflation tax system indexed to the inflation, is a rarely observed application. Increases in inflation, impeded the investments to reach the optimal level with the increasing capital's quality extensively. On the other hand, high level assessment, originated from inflation, estranges the efficiency allocation of capital in sectored base. Due to Fisher's calculation, about 10% level inflation, has a damage on tax system and that causes social quality, rate of social quality to GDP is 2-3% (Mishkin and Posen, 1997).

The most concrete reflection of all qualities, tried to declave about inflation, is the observed regression of inflational sources' abundant utilization. No effectively and unabundant transfer of production continuum, has negative effects on financial growth. Thus, many econometrics study symptoms in this subject, confirms this claim. However, there is no definite opinion unity between studies compares different countries data with a long term perspective, there is a general conclusion about increase in inflation rate 1%, causes regression in variable levels between 0.1 and 0.5% (Mishkin and Posen, 1997). R. Barno, in his empirical study including hundred countries 30 years (1960-90) data, achieved important indications, about inflation qualities. Due to this indications, increases in inflation rate, have negative effects on investments and financial growth. For example, yearly average explosion of 10% in inflation decreases one person reel GDP between 0.2 and 0.3% rates (Barro, 1999).

Difficulties on financing long term investments in inflationist environment, is basic reason, affecting financial growth negatively. Because, short credits are preferred in lending operation in inflationist environment. Although, in long-term lending operations, the exhaustion of landed funds, demanded with high risk premiums is tried to be handicapped this situation, is the rational behavior for lenders, but it causes long-term investments, affecting economical performance in positive way encounter with financial difficulties.

ALTERNATE MONETARY POLICIES STRATEGY

Whether opinion against activist finance policy or qualities occurred from inflation, accelerated enforcement of supplying cost stability and prepared the background for monetary strategies to become topic. Here is the information about only three of this strategies:

- Exchange rate targeting strategy
- Monetary targeting strategy
- Inflation targeting strategy

The basic aim of this strategies is the increasing monetary policy credits for the aim of handicapping inflation expectations. In this direction, as the interval aim, variables like exchange rate, monetary magnitude and inflation rate may be chosen. Any strategy applicated, the points to pay attention to are these:

Preferred target variable, is both a structure suitable for controlling and should not be in conflict with wanted to be reached.

What kind of politics is validated in application related with target wanted to reached is clearly announced to the public opinion. The success chance of strategy that have the support of public opinion is more higher. This means, credibility phenomenon is at front side.

Credibility concept is used for stability of targets that central banks announced and giving no compensation for explaining the public opinion's trust degree (Perrier and Amano, 2000). Economies that are in chronic inflation environment in many years, the credibility of applicated politics and politicians is lower. So in these economies, politics makers must be more expedient. Because, during financial politics application, at the need of interference, it is more difficult to convince financial units.

At chronic inflationist countries, stability politics intended for providing for cost stability can not be applicated, skillfulness, capitulated the crisis before as said politics application phase completed. This phase repeated in dense intervals, inflation quality is increases one more every time.

Exchange rate targeting strategy: Exchange rate variable uses as the nominal page, is the subject, international currency, is connected to a stabile foreign currency. Preferred foreign currency means, country currencies group that have stabile cost structure or a only one country currency. At this point, it must be mentioned importantly, that posing the exchange rate in a fixed situation is not an obligation. When country experiences investigated, both adjustable and fixed rates are visible.

Exchange rate targeting, is the monetary strategy connecting a country's international currency value to a powerful country's currency in the aim of decreasing inflation and controlling inflationist expectations.

Countries, trying to apply this strategy, often in chose of powerful country, prefer their grandest partner at offshore trade (Quispe-Agnoli, 2001). Strategies withstanding to exchange rate peg can be applicated as hard exchange rate peg or soft exchange-rate peg (Mishkin and Savastano, 2001). Soft exchange rate peg is conveying the adjustable rate polity. In soft exchange peg, national currency value is dedicated to a powerful currency, sometimes, can be left waving in a fillet.

Hard exchange rate peg strategy has two kind of applications: monetary corps and full dollarisation. In monetary corps system monetary literal actualize in consideration of 100% exchange. Authorities have an authority of monetary literal in hand in countries applying monetary corps system, repose to a legal arrangement. Monetary base superiority is determined from peg country politics and capital flow in countries applying this system.

In this system it is impossible that monetary authority to use initiative at monetary policy to buy or sell anything conved as national monetary type, to administrate open market transactions and to lending national banks or government.

Transactions in exchange market's monetary effects sterilization possibility disappear consequently. National currency substitutes with foreign currency in full dolarisation application. In other evidence, at a country converting the full dolarisation application, national monetary's fully elimination is come to order. Contrats in national currency started to convey in us dollars with the dolarisation continuum (Mishkin and Savastano, 2001; Dueker and Fischer, 2001; Kenen, 2000).

Advantages: Changes in monetary supply, is come to order to providing the direction of stability of national currency with the exchange rate peg. For example when national value increases extremely, if monetary expansion is in reverse situation, monetary contraction obligation occurs. Otherwise, it is needed to specify that finance politics applications are have to be used in same direction, too.

Disadvantages: In case of exchange rate preferred as nominal peg financial politics applications are not canalized to reverse direction. The problem of national currency coming into extreme values can be come to order when institutional and constitutional arrangements is not applicated at right time. National currency's extreme values have positive effects on import. On the other hand if causes the export to shrinkage this process means that external trade vacancies, expansion.

On the other hand, individuals recognizing national monetary coming into extreme values, go into an expectation of devaluation. High-rated devaluation drags the economy in an important crisis environment.

At countries applying short-term and high interest public borrowing politics, firstly banks and high-income groups, pay into their portfolios important part to government bills and treasure bands for acquiring positive reel interest yields. Even banks transferred their funds from lending as foreign currency from external to public borrowing bonds. Devaluation application in this environment, causes collapsing the banking sector.

Monetary targeting strategy: Monetary supply variable, is directed by competent monetary authorities in a short time. Especially, in a situation of monetary and capital markets having enough developing level, monetary supply total quantity by monetary policy tools, can be posed into a compatible level with financial conjuncture. At this meaning, from middle of 1970's many developed countries applied monetary targeting strategy. Bundesbank was the first central bank for this application at the end of year 1974. Developments causes monetary targeting strategy to come order is possibly collected at 3 points (Schmid, 1999).

At the beginning of 1970's, inflation rate started to begin increasing tendency in many developed countries and it forced central banks to apply new and original strategies.

Monetary targeting was become more important as a necessary peg with the collapsing Bretton Woods system and growing out of estimation pf stabile rate regime.

Conjectures that are propounding by monetary approaches, finding comprehensively acceptance, increases popularity of monetary targeting applications.

Advantages: The most important advantage of monetary targeting in comparison to exchange rate targeting is providing an independent inflation target choice to monetary authority than other countries. At the same time monetary targeting strategy does not abrogate application with observing the monetary policy waving at outcome level and possible external shocks. Otherwise, monetary targeting, like similar to exchange rate targeting, is the strategy that easily followed by public opinion. In countries applying this strategy, financial units that pursue monetary superiority clarified by monetary authorities for two or three week periods can guess inflation progress. Because comparison pf monetary superiority's actual and targeting level, have serious clues about monetary policy tendency and monetary authority's intention (Mishkin and Savastano, 2001).

Announcing the monetary targeting strategy will help central bank to be far from politic pressures. In a situation of announcing how a monetary magnitude increases, a necessity borns for political governments to apply the source of central bank.

Disadvantages: There are two basic inconveniences for using monetary quantity as an interim target (Miller *et al*., 1993).

There are some potential difficulties on measuring of monetary as we know in recent years financial tools increase continuum because of developments in financial area. But, economist does not surely know which financial tool they use for measuring of monetary.

There are two ideas at this point. The first one advise the monetary changing with assimilating transaction approach. The second one advise the liquidate rapprochement. This rapprochement focuses on value hiding function of monetary. Uncertainty of measuring monetary causes serious hardiness for choosing targets. Which rapprochement will use for measuring of monetary is specified with central bank's aims. Only, it is impossible to find a quality and continuum way for this situation every time. For example, sometimes we prefer M1, sometimes we prefer M2 and sometimes we prefer other alternative monetary magnitudes to be consistent for variables like reel incomes and price level.

A strategy, chooses the monetary offer variable as a interim target, can apply with an effective way if the monetary request is stabile and suggestible. But while we apply the monetary targeting strategy, we can see some changes on reel income and total request level because of instability of reel monetary balance. This situation can specify with Fig. 1 panel of the figures shows effects of reel monetary request's changes. The shape of public's spending shapes with their hobbies and chooses causes MD1 and MD2 movements like we see. If central bank insist the monetary quantity at their targeting level (M^*), balanced interest rates waves between i_{r1}-i_{r2}. this happening causes that LM odd changes on line LM_1-LM_2.

Inflation targeting strategy: Inflation target policy means a numeral inflation aim of Central Bank's monetary policy

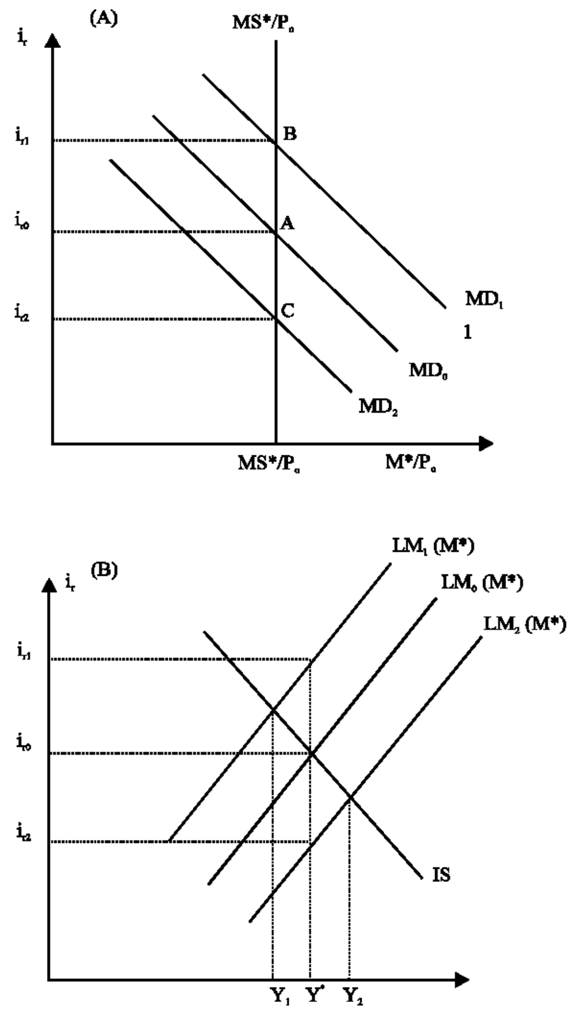

Fig.1: Disadvantages of monetary targeting

for an acceptable term or predicated to inflation band (Mishkin and Posen, 1997). Inflation target is a monetary politic approach which usually apply on countries with low inflation and targets to link the monetary politic to a compatible with inflation aim for future and a soft rule. At the beginning of 1990's this kind of politics which is applied on some countries, whose inflation is higher than the other developed countries, like New Zeland, Canada, England, Sweden, Australia, Finland and Spain, applied with different level for Israel, Czech Republic, Poland, Mexico, Colombia, Brazil, South Africa, Chile and finally Thailand through the finishing of 90's.

This strategy and monetary authorities announce a numeral inflation target clearly to media for a known time segment. The said numeral aim is set as a known band or a known point. In some application, announced point aim applies with toleration band (Bernanke and Mishkin, 1997).

Economists do not have ideal unity about establishing the optimal inflation rate. The basic problem for this situation is that the inflation ratio is zero or higher than zero. In literature, in last few years.

The main reasons of inflation are unachievement at alternative strategy and improvements on the economy theory.

Monetary authorities have searched ways to supply an alternative nominal peg in monetary politic when foreign currency and monetary aim strategy aim has failed at many economy (Rudebusch and Svensson, 1998).

After in 1990 New Zeland and Chile, in 1991 Canada and in 1992 England start to apply inflation targeting strategy, whether public opinion or academic environmental interests on this matter improved and coming order to this strategy is assimilated by developed countries as well as the countries which are developing. Since February 2000 the number of countries which starts to apply inflation targeting strategy have increased to 13. The countries which was said are Australia, Brasil, Canada, Chile, Czech Republic, Finland, Israel, New Zeland, Poland, South Africa, Spain, Sweden and England. In the last few years, Hungary and Switzerland have started apply inflation targeting strategy (Neumann and Von Hagen, 2002).

While inflation targeting strategy increase the transparency level of monetary politic, it makes monetary policy constitutives more responsible. Honestly inflation targeting strategy shows a transparence form. With this strategy, some definite and easy understandable monetary policy target is explained to public opinion. For example, Central Bank announce to public opinion that consumer prices index will be between 1 and 3% in 3 years. Whereat while economic units plan activities, they cast aimed inflation numbers as a clear variable (Kahn and Parrish, 1998).

Responsibility of monetary policy constitutives increase with increasing of transparence. So, when the situation that the targets which has been announced to public opinion is deflected, politic constitutive has the ability of punishing and examining. But we have to define immediately that there are some reason to inhibit the aimed numbers. For example, the unexpected price rises on the patrol prices decreases the chances to intervene the temporary rise obliquity at the inflation rate of politics. But this situation is temporary. Out of this if the aims cannot achieve because of the wrong control of monetary policy, government can blame the Central Bank. Rarely, monetary policy constitutives may be sacked or some kind of new arrangements for Central Bank may be created (Kahn and Parrish, 1998).

Inflation targeting is helpful if it reduces the conflicts between fiscal policy and monetary policy. Inflation targeting is helpful when monetary policy has strong spillover effects on the policy objectives of the fiscal policy. The gains from inflation targeting are directly related to the characteristics of the shocks hitting the economy (Hughes Hallett and Viegi, 2002).

The country experiences suggest that well regulated financial institutions, sound fiscal system and absence of other nominal anchors are the prerequisites for adoption of inflation targeting strategy (Duman, 2002).

Explanations about inflation aim can collect with the followings.

First terms of inflation targeting strategy: Required terms of countries that assimilate the inflation targeting strategy can be summarized with the followings.

The Situation of indecency being of central bank:

The countries, which wants to apply inflation targeting strategy, should not abstain the application which increases independency of the Central Bank. In this situation, price stability must be brought the first aim of central bank. Thus, countries which saw the importance of the price stability provide a large authorcy space to their central banks with providing a price stability purpose.

Recent days, interferences is resumed for passing inflation targeting strategy in turkey too. For this situation the last preparation was done for T.C Central Bank is the law numerated by 4651 and comed into force at 5 May 2001. You can look the first part underlined as Central Bank for detailed information.

The situation of no fiscal altitude: It is hard to apply the inflation targeting strategy on countries whose fiscal altitude is high. Because fiscal altitude is a serious obstacle for monetary policy executive. As a basic term of inflation targeting strategy, fiscal altitude level must be decrease and whereat the borrowings of public side from whether central bank or bank sector must be at low level. On the other hand, public income is provided by consistent and safe sources instead seniorage revenue. In this sense on the side of a large based tax politic, being of a national financial market with adequate depth is a important obligation. Because national financial market with adequate depth can absorb both public and private sector borrowing instruments. Unadequate depth of financial market and discontinuation of public borrowing stock bounds the monetary politic seriously (Masson *et al*., 1998).

High public borrowing stock, inflation tax and seniorage income are important problems of developing economy. Especially, it is easy to see this problems in the countries whose political instabilities are high.

The first term of central bank get difficulty in the countries whose borrowings are high. This countries try to increase their seniorage incomes because of the difficulties on financing the budget vacancies with additional borrowing. Gain budget with seniorage is mostly seen in the countries that have politic instability and have trouble for politic polarization. Cukierman *et al*. (1989) have reached a result about this working with their research of 79 countries' variables.

Support of financial system: Powerful and consistent markets, which is accepted as protection tool against financial crises, provide concentration to central bank on inflation targeting and consistent politics. Whereat powerful financial markets helps inflationist expectations to be çıpa for inflation target with increasing the stability of central bank (Carare *et al*., 2002).

The most important speciality of the developed financial markets is that this markets have adequate depth and also they have a liquid structure. Depth and liquid markets commit an insurance factor for dynamisms on asset costs and also they transfer the information which explains the market expectation for future to central bank. Otherwise, we have to explain that this kind of markets has power to absorb shocks. An addition for these, developed markets provide facility for executive of monetary and foreign currency operations.

Namely, in the aim of monetary policy, applicated effectively, the necessity of realizing, wide monetary transactions without damaging current market costs may be in told. In this kind of situations, central bank can make some adjustments on their own balance sheet and the foreign currency of the country and also they can bring in credit to financial corporations as necessity of last borrowing authority role. We have to define importantly that the developed financial markets, increases monetary politic effectiveness, necessitate the dolarisation level to not be high. Because the high level dolarisation bounds the effect of monetary politic (Carare *et al*., 2002).

The situation of the targeting variable is inflation: In theory it is possible to targeting the foreign currency and inflation together even countries that assimilate the inflation targeting have to abstain from targeting the nominal variables like dues and foreign currency. But we have define immediately that when a battle happens between the targets that has been told, inflation targeting must prefer (Masson *et al*., 1998).

Institutional obligations	Rationals
Monetary authorities have tool independency	Central bank need free movement for achieving the inflation target that is specified before.
Monetary authority can use at least one effective monetary policy freely	Central bank has to have at least one basic monetary policy tool for instruct the markets about monetary policy like they want and especially effecting the tendency of inflationist expectation.
Ability to giving account	The responsibility of central bank for achieving targets of announced price stability to public opinion being clear is an important necessity for corporation's trustworthy.
Vacancy	Central bank has to communicate with government, markets and public opinion for often times on condition that it has to be a quite understandable way. With this application the transparency level of corporation increases.
Passing to waving currency system	Exchange system which does not limit effects of national monetary policy for specifying the monetary conditions at economy provides monetary authority to behave flexible for achieving the inflation target.
Collective responsibility	A numeral inflation rate, was decided, is announced as a collective target with joining of central bank and government. Because one sided responsibility may damage the trustworthy.
According between monetary and finance policy	Financial policy must be designed as not contend with monetary policy. Because it is hard to achieve disharmony between monetary and financial policy.
Providing the support of public opinion	It is understood by public opinion that applying monetary policy is the best choice for financial economic conditions.
Strengthening the financial system	Financial markets must be liquid and sophistic on the condition that it does not increase the fears about price stability target and provides addition for occurring moderate inflationist expectations.
Economic obligations	Rationals
Choosing a suitable price index	Inflation target is specified with a specific index. The said index has to be understandable for everyone and explain developments on buying power of money.
Choosing a vacancy and time for inflation target	Inflation targeting have to be trustworthy and at the same time Inflation Target it provides flexiablety for political application. But we have to specify importantly, it is announced as the midpoint of target band.
Providing enough information about mechanism	Politic makers have to be instructed for effect speed and power of politic tools on macro economic transfer variables.
Making preparation for inflation guesses	Inflation targeting is a monetary strategy that first guarantee the inflationist expectations is hoed in inflation target band. Whereat, the central banks in countries that apply this strategy have to be in a future politic and effect the guests and inflation projections even if it is partly.
Providing to be on time for Participants to enough economic information	The signals about the decision period of central bank is Market important for financial markets rapprochements. Whereat it realize with providing the economic information and acceptable measure fails

Even if inflation terms of inflation targeting strategy is examined under the headlines above, when we make an assessment with taking the country experience main, they can classify like the above (Siklos *et al*., 2002).

The central banks that have adopted inflation targeting realized that there was a pressing need to achieve credibility. This has led them naturally to think about such things as accountability, transparency and communications and they are all committed to these in varying degrees. The central bank is supposed to be accountable and it does this by being transparent about it actions and intentions. In addition, the central banks have obtained commitments from their national governments on both the policy objectives as well as what policy can and cannot do (Svensson, 1998).

Advantages: There are some kind of advantages about controlling the inflation by inflation targeting strategy. We can put the advantages together with following points:

With applying the inflation targeting strategy, account principle, is a konsensus which increases the chances of politic success, works. With this strategy, the promise of providing the price stability is announced clearly (Mishkin, 1997). Whereat, in duration of strategy's application responsibility fact comes first. With another explanation, responsible must behave more careful because of the promises that given to the public.

Account principle, created by inflation targeting strategy, may prevent the application of monetary politic application, is comed to order by politic worries, also it provide to avoid time inconsistency problem. Moreover, it creates a politic atmosphere which accept the term that the central bank have to control the inflation.

With applying the transparency and responsibility publicies, the stability of politic constitutives arise. The facility of stability provides the expectations of public clear and definite. If consumers and companies believes that the central bank is in a undertaking about providing the price stability, they will accept lower nominal price risings (Mishkin, 1997). On the other hand, inflation ratios will travel low levels so risk premium ratio, is reflected to some kind of prices assets in economy, decreases because of inflation arising. It is easy to take and apply some long deferred order in this atmosphere. In this way, an important advantage is provided for preventing narrowing effects which is created by anti-inflationist politics in economy (Kahn and Parrish, 1998).

Inflation targeting strategy gives capacity to transparency and responsibility publicities. Countries, apply this strategy, try to make the politics clear for public on condition that publish the inflation reports in known time periods (Swenson, 1998).

Inflation targeting strategy has a clear understandable being against public. It is always in a connection with central bank, government and other related units. On the other hand, the report that includes data about contention with inflation performance in specific time periods (Mishkin, 2000).

The increased credibility of the inflation target has resulted in both a lower average inflation level and a lower inflation variability (Berg, 1993).

Disadvantages: There are some kind of criticisms about inflation targeting strategy. It is possible to collect the said disadvantages in the following points.

Monetary authorities, can easily interfere to foreign currencies and monetary magnitudes. But it is hard to see the same ease on controlling inflation. As known, seeing inflationist effects of monetary politic application is possible after a long time lag period. Whereat, it is impossible to give immediate and definite information to individuals and markets about monetary politic orientation with only inflation targeting. For example, respond against providing monetary politician spite of a targeting low ratio inflation may blaze unwanted results (Mishkin, 1997).

Inflation targeting strategy may fail for providing financial discipline. Success of this strategy happens with a strong financial constitution and consistent financial system. With another explanation, sustain ability of public vacancy and a strong financial system are first conditions of inflation targeting. In economies, have high level financial vacancy, sustain ability of inflation targeting regime is impossible. Because when they apply devaluation or monetisation because of large public vacancies, high inflation is an unavoidable result for them. On the other hand, some wavings may be seen on inflation ratio of emerging economies which have weak financial system (Mishkin and Posan, 1997).

High level or partial dolarization fact may cause serious potential problems about inflation targeting strategy. In emerging economies dollar is used for a important part of economical activities. It is possible to see this situation at companies, publics and bank statements. On the other hand, borrowings in emerging economies is extensively expressed by dollar. Inflation targeting strategy necessitate the flexible foreign currency application. Big and sudden rises on currencies increase borrowings expressed by dollar. This situation triggers a potential financial crisis (Mishkin and Posan, 1997).

CONCLUSIONS

In recent years, economists who want to avoid from cost, is exposed by price inconsistency problem. This strategies are foreign currency targeting, monetary targeting strategy and inflation targeting strategy.

The main purpose of this strategies is that increase the credibility of monetary politic to brake inflation expectations. In this meaning, foreign currency, monetary magnitude and inflation ratio is chosen as interim target. Countries, have chronic inflation, is captured by crisis atmosphere before application time of politics that have been told because of their lack of applying the consistency politics for providing the price consistency. Duration that repeated often times increases the inflation costs every time when it happens.

If using of foreign currency variable as nominal page is in situation, national money connect to a consistency foreign currency. With the foreign monetary unit that is chosen, a basket that created by countries' money which have a consistency price constitution or only one countries' money is intended. For this we have to specify importantly, bringing the foreign currency to a constant status is not a necessity. When country experiences are examined, it is possible to see either adjustable or constant currency targeting.

Money offer variable can be oriented by competent monetary authorities. Especially, in the situation of adequate developing level and the asset of capital markets, the sum of money offer can be brought to a compatible level by monetary politic tools. İn this meaning, from the middle of 1970's monetary targeting strategy is came to order in many developed countries. Bundesbank has the first step about this situation at 1974.

Announcing a middle-dated numeral inflation that is promised by monetary authorities to achieve, is defined as inflation targeting strategy. With this strategy, monetary authorities clearly announce a inflation targeting for a determined period of time. The numeral target can be determined as a point or a space. In some kind of application, point target, is announced, is applied with tolerance space.

Inflation targeting strategy increases the transparency level of monetary policy and also it increases the responsibility of monetary politic constitutives. Inflation targeting strategy really shows a transparency constitution. For example, Central Bank announce to public opinion that consumer prices index will be between 1 and 3% in 3 years. Whereat while economic units plan activities, they cast aimed inflation numbers as a clear variable.

Independency of monetary authorities, politics based on rule, transparency, ability to giving account and financial discipline are the initiative conditions for a trustworthy monetary politic. The signs that proves the success of initiative conditions are used for creating the comparatione guide. It is used for testing the access of country experiences about alternative strategies.

In conclusion, inflation targeting strategy became the most popular strategy because of unachievements with the exchange targeting strategy and monetary targeting strategy. Many country still apply this strategy with success.

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