A Paradigm Shift in Monetary Policy: Critical Re-evaluation of Inflation Targeting Mechanisms

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Abstract. This article critically examines the established framework of inflation targeting within contemporary monetary policy, emphasizing its limitations in addressing macroeconomic volatility in the post-pandemic landscape. Through a mixed-methods approach, including quantitative analysis of economic indicators and qualitative assessments from leading economists, we provide a robust critique of the prevailing paradigms that have shaped monetary policy in recent decades. Our findings reveal significant discrepancies between theoretical expectations and real-world outcomes, prompting a need for a fundamental shift in how central banks approach inflation targeting. We propose alternative frameworks that prioritize economic stability and adaptive responses to evolving market conditions, ultimately suggesting a reconfiguration of policy tools to enhance resilience against future economic shocks.

Keywords: Monetary Policy, Inflation Targeting, Macroeconomic Volatility, Central Banks, Economic Stability, Policy Frameworks

Introduction

The global economy is undergoing an unprecedented transformation, grappling with the repercussions of multiple crises, including the COVID-19 pandemic and the subsequent geopolitical tensions. Central banks worldwide, particularly those in advanced economies, have primarily relied on inflation targeting as a cornerstone of their monetary policy frameworks. However, this approach has faced increasing scrutiny as inflation rates have surged, often driven by supply chain disruptions and changing consumer behaviors. As we enter the period of 2024-2026, the relevance of reassessing inflation targeting mechanisms becomes paramount. This paper aims to explore the limitations inherent in traditional inflation targeting frameworks, which often fail to account for the complexities of modern economic environments. We begin by defining inflation targeting and its historical context, followed by a critical evaluation of its effectiveness in achieving desired economic outcomes. Next, we will present a mixed-methods analysis, combining empirical data with expert insights to highlight the disconnect between policy objectives and actual economic performance. The findings underscore the need for a paradigm shift that embraces more flexible, context-sensitive approaches to monetary policy, enabling central banks to navigate the intricacies of today's economic landscape. In conclusion, we will propose actionable alternatives to inflation targeting that prioritize broader economic stability and resilience.

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