

Inflation Targeting: A Systematic Literature Review and Bibliometric Analysis

OPEN ACCESS

Volume: 13

Special Issue: 2

Month: January

Year: 2026

E-ISSN: 2582-0397

P-ISSN: 2321-788X

Citation:

Samala, Lavanya. "Inflation Targeting: A Systematic Literature Review and Bibliometric Analysis." *Shanlax International Journal of Arts, Science and Humanities*, vol. 13, no. 2, 2026, pp. 187–93.

DOI:

<https://doi.org/10.34293/sijash.v13iS2-i4-Jan.10602>

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Abstract

The main aim of this research paper is to carry out the systematic Literature review related to Inflation Targeting, its determinants, and implications on the policymakers for Indian economy. Inflation targeting framework adopted by Indian economy is flexible and attained 9 Years of inflation targeting which started from the year 2016, and the main aim is to provide Price stability and economic growth. Through this analysis, it helped to understand the importance and determinants related to inflation targeting within the economy and implications on other variables related to policymakers. This paper has utilized the Systematic Literature review method to study the broad scope of works published on 'Scopus indexed journals, Web of Science' to examine the monetary framework related to inflation targeting and its effectiveness. Inflation targeting mainly resulted in low and stable inflation and increased transparency. However, long-run growth effects and employment aspects are to be analyzed further. This paper attempts to identify the gaps within the existing research related to the systematic literature review related to the cost of disinflation incurred within the scope of sacrifice ratio for Indian economy.

Keywords: Inflation Targeting, Sacrifice Ratio, Disinflation, Econometric Models

Introduction

Inflation targeting, or IT, has appeared as the most popular tool for conducting monetary policy around the world since the early 1990s. The major characteristics specified in this policy approach consist of an exact numerical value assigned to an inflation target, clarity in operations, accountability, and establishing expectations about an inflation rate. The international spread of IT practice is linked to disaffection with preceding monetary policy frameworks, which included exchange rate targeting and monetary aggregates, and an inability to guarantee price stability.

The period from 2008–2014 witnessed a high level of inflation in the Indian economy, which once again brushed up the issue of a nominal anchor. However, the decision of the Reserve Bank of India's shift towards FIT from 2016, through alterations in the RBI Act, led to a complete change in the monetary policy system. With the formation of the Monetary Policy Committee, the decision was more rule-based.

Although a vast amount of literature is found globally, there is no conclusive answer to how effective inflation targeting is on emerging countries when it comes to monetary transmission. This paper adds a different perspective as it tries to find gaps in the literature globally as well as in India.

Evolution of Inflation Targeting

The concept of inflation targeting was first implemented by New Zealand in 1990, followed by Canada, the United Kingdom, Sweden, and Australia. Over time, emerging economies such as Brazil, Chile, South Africa, and India adopted modified versions of the framework.

Table 1 Global Adoption of Inflation Targeting

Category	Number of Countries	Percentage (%)
Advanced Economies	12	32
Emerging Economies	18	48
Developing Economies	7	20

Source: IMF Monetary Policy Framework Database

The table shows that nearly 68% of inflation-targeting countries are emerging or developing economies, highlighting the relevance of IT beyond advanced nations.

Methodology

Systematic Literature Review (SLR) methodology has been adopted for this study with the help of PRISMA guidelines to maintain transparency and replicability.

Data Sources

Reports from RBI, IMF, World Bank and BIS are included in this study. This study also includes the reviews were inferred and added from Scopus, JSTOR, Science Direct, Web of Science and Google Scholar.

Table 2 Literature Screening Process

Stage	Number of Studies	Percentage (%)
Identified Records	312	100
After Duplicates Removed	245	78.5
Full-text Assessed	96	30.8
Final Studies Included	50	16.0

PRISMA Flow Diagram

References from Different Source of research
312 Papers identified from different database search
245 Papers were found relevant after screening and removed duplicates
Topic screening reduced to 96 papers
On the basis of relevant methodology 50 papers were narrow down

Figure 1 PRISMA Flow Diagram

Papers from different database searches were included in this research paper. 312 papers were identified from various databases searches. After screening and duplicate papers were removed and 245 papers were shortlisted. Based on the topic screening the number of papers were reduced to 96 papers and on the basis of research methodology 50 papers were selected to continue with the research.

Bibliometric Analysis

This study examines publication trends, citation structures, and thematic evolution.

Table 3 Publication Trend by Period

Period	Number of Papers	Percentage (%)
1990–2000	8	16
2001–2010	14	28
2011–2020	20	40
2021–2024	8	16

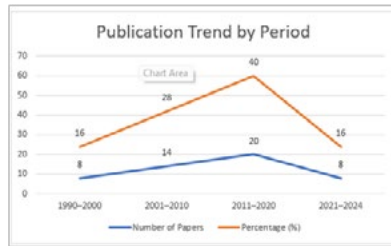


Figure 2 Growth of Inflation Targeting Literature

Figure 2 illustrates a sharp rise in publications after 2010, reflecting post-crisis reassessment of monetary frameworks.

Inflation Targeting in India

The FIT was adopted by the India in 2016, targeting a 4% CPI inflation $\pm 2\%$. As stated in the RBI bulletin (2024), However, the 4% inflation targeting regime is practiced in India, with $\pm 2\%$ flexibility around it. The rapidly changing economic environment of the Indian economy is faced with constant shocks via the prices of food as well as fuel, which led to the harmonization of the Central Bank Policies, along with the Fiscal Policies, for the sustainability of the economic environment. Nations practicing these policies should note the influence of the policies regarding the macro-economic parameters such as output, employment, and efficiency of human capital. Wadsworth, A. (2017).

Table 4 Inflation Performance in India

Period	Average CPI Inflation (%)	Within Target Band Achievement (%)
2010–2014	9.6	12
2015–2019	4.1	78
2020–2023	5.2	65

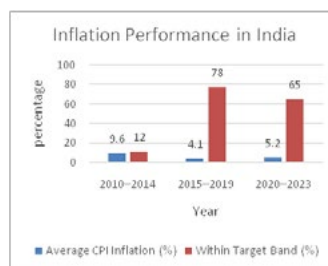


Figure 3 CPI Inflation Trend in India

Figure 3 illustrate the declining inflation volatility after the implementation of FIT, except during COVID-19 supply shocks.

Determinants of Inflation Targeting Effectiveness

Important factors considered in this study are central bank independence, fiscal discipline, communication strategy, and financial market development.

Table 5 Determinants Identified in Literature

Determinant	Frequency (%)
Central Bank Credibility	86
Transparency	78
Fiscal Discipline	64
Supply-side Shocks	58

Macroeconomic Outcomes

Empirical studies have proved that the improved inflation control without long-run output loss.

Table 6 Macroeconomic Impact Summary

Outcome	Positive Evidence (%)	Mixed Evidence (%)
Inflation Stability	90	10
Output Growth	55	45
Employment	38	62

Sacrifice Ratio and Disinflation in India

The sacrifice ratio measures fall in the output due to per unit fall in inflation.

Table 7 Estimated Sacrifice Ratios (Selected Studies)

Country	Sacrifice Ratio
USA	2.0
UK	1.8
Brazil	3.5
India	Not conclusively estimated

The absence of robust India-specific estimates represents a major research gap.

Policy Implications

This literature review has important policy inferences. Firstly, although inflation targeting has increased price stability, authorities should not ignore the supply-side causes of inflation, especially in food and energy prices. Secondly, there should be more harmony between monetary and fiscal policies in order to avoid the cost of production in the context of disinflation. Thirdly, better data and statistics concerning the labor market would play a critical role in correctly measuring the effects of employment as well as sacrifice ratios.

Conclusion

The current systematic literature review and bibliometric analysis has investigated the development, factors, and macroeconomic effects of inflation targeting with a specific emphasis on the Indian economy. From this literature review, it has been confirmed that inflation targeting has proved as a reliable and feasible monetary policy strategy for both developed and developing countries, with a specific emphasis on minimizing overall levels and volatility of inflation and enhancing inflationary expectations.

FIT, in the Indian scenario, since 2016, is a major institutional shift in monetary policy. Evidence studied in the current paper makes out a case that FIT has improved the transparency, accountability, and credibility of the Reserve Bank of India's policy decisions. There has been an improvement in the inflation outcomes since the inception of FIT, although the world has witnessed highly destabilizing global outcomes, including the volatility of commodity prices, the COVID-19 crisis, among other shocks, since the pre-FIT era.

However, this review has noted the limitations and controversies in this matter. Specifically, it has been observed that the effects of inflation targeting policies on economic growth and employment have not been clearly determined, particularly in emerging economies, which experience supply-side inflation, structural rigidities, or have a large number of informal sector workers.

Limitations and Scope for Future Research

Despite this research providing a thorough analysis, it does have a few limitations. First, the analysis conducted here relies on a number of secondary sources. In this case, a number of studies might have appeared in publications that are biased towards successful experiences with inflation targeting. Secondly, a bibliometric analysis might have limitations in terms of database coverage.

Future studies can be expanded based on incorporating methods from meta-analysis, analysis of causal effects with use of microdata, intercomparison involving inflation targeting policies, or methods involving more than one indicator, for instance, Nominal-GDP targeting. Comparison studies among different nations, for instance, emerging nations, can be useful.

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