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Managing Inflation and Price Stability in Volatile Transitional Markets

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Abstract. *The urgency of the study is caused by escalation of inflation instability in transitional economies under impact of global financial, commodity as well as geopolitical shocks, which complicates achieving sustainable price stability. As the institutional capacity of central banks is not strong, monetary policy instruments are sometimes inadequate to reduce inflation volatility. This underscores the importance of exploring how monetary conditions and inflation expectations interact with external factors in such economies. This study focused on inflation processes and its control in transitional economies. The methodological foundation is based on theoretical-analytical and empirical methods with comparative analysis of macroeconomic indicators for 2010–2023 using international statistical databases. The findings show that inflation volatility in transition economies remained higher than average price movements, leading to limited predictability of monetary policy. A rise in interest rates has a cooling effect but does not eliminate inflationary fluctuations in the medium run. We demonstrate that loose anchoring of inflation expectations exacerbates pass-through from world shocks to domestic prices. Inflation is highly sensitive to world commodity price shocks and liquidity swings. The policy relevance is that interest rate policy should be combined with institutional and communication policies to control inflation volatility. Results can be applied by central banks in developing strategies towards price stability under macroeconomic uncertainty.*

Keywords: *inflation, price stability, transition economies, inflation volatility, monetary policy, interest rates, inflation expectations, external shocks, exchange rate, global liquidity*

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Dəyişkən keçid bazarlarında inflyasiya və qiymət sabitliyinin idarə edilməsi

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Xülasə. *Tədqiqatın aktuallığı keçid iqtisadiyyatlarında qlobal maliyyə, əmtəə və həmçinin geosiyasi şokların təsiri altında inflyasiya qeyri-sabitliyinin artması ilə bağlıdır ki, bu da davamlı qiymət sabitliyinin əldə edilməsini çətinləşdirir. Mərkəzi bankların institusional potensialı güclü olmadığından, monetar siyasət alətləri bəzən inflyasiya dalğalanmasını azaltmaq üçün kifayət etmir. Bu isə belə iqtisadiyyatlarda monetar şəraitin və inflyasiya gözləntilərinin xarici amillərlə necə qarşılıqlı təsir etdiyini araşdırmağın vacibliyini vurğulayır. Bu tədqiqat keçid iqtisadiyyatlarda inflyasiya prosesləri və onun tənzimlənməsinə həsr olunub. Metodoloji baza beynəlxalq statistik verilənlər bazalarından istifadə etməklə 2010–2023-cü illər üzrə makroiqtisadi göstəricilərin müqayisəli təhlili əsasında nəzəri-analitik və empirik metodlara əsaslanır. Nəticələr göstərir ki, keçid iqtisadiyyatlarında inflyasiya dəyişkənliyi orta qiymət hərəkətlərindən yüksək olaraq qalmış, bu da pul siyasətinin proqnozlaşdırılmasını məhdudlaşdırmışdır. Faiz dərəcələrinin artırılması soyuducu təsir göstərsə də, orta müddətdə inflyasiya dalğalanmalarını aradan qaldırmır. Göstəririk ki, inflyasiya gözləntilərinin zəif bağlanması qlobal şokların daxili qiymətlərə ötürülməsini gücləndirir. İnflyasiya qlobal əmtəə qiymət şoklarına və likvidlik dalğalanmalarına yüksək həssaslıq göstərir. Siyasət baxımından faiz dərəcəsi siyasəti inflyasiya dəyişkənliyini idarə etmək üçün institusional və kommunikasiya siyasətləri ilə birləşdirilməlidir. Nəticələr makroiqtisadi qeyri-müəyyənlik şəraitində qiymət sabitliyinə yönəldilmiş strategiyaların hazırlanmasında mərkəzi banklar tərəfindən tətbiq oluna bilər.*

Açar sözlər: *inflyasiya, qiymət sabitliyi, keçid iqtisadiyyatları, inflyasiya dəyişkənliyi, monetar siyasət, faiz dərəcələri, inflyasiya gözləntiləri, xarici şoklar, valyuta məzənnəsi, qlobal likvidlik*

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Introduction

In today's world, characterized by instability of the trajectory of capital and goods flows, there is increasing concern how to manage inflation for volatile transition markets, that is their unstable structural accommodation from one type economy to another in combination with a high sensitivity to external shocks combined with restricted flexibility of monetary sanctions. Inflationary mechanisms in such economies are determined not simply by internal macroeconomic factors, but also by international factors: variations in energy prices, the breakdown of supply chains and shifts in financial flows among nations. In such circumstances, the conventional monetary policy instruments are usually not enough to ensure price stability thus intensifying inflation volatility is observed, that shakes confidence of economic agents and fosters macroeconomic uncertainty.

Absence in the evolutionary interpretation of price stability management in transition economies shows that science one needs to have concerning mechanisms ensuring the -stability of price costs on a base actual background.

Today, in the science-speak of our times, its inflation seen as a macro trend change from globalization through global pandemic and post-pandemic shocks. Clarida (2024) examines inflationary processes due to supply shocks following structural alterations in supply chains, 56 large-scale fiscal stimuli, and changes in economic agents' behavior. The writer stresses the fact that despite waning inflation, risks of price instability persist and are particularly prominent for economies plagued by weak institutions and poor monetary policy instruments.

An interesting line of research investigates how inflation expectations drive macroeconomic volatility. Erceg et al. (2024) confirm the idea of "inflation scares" due to difference between realized price development and anticipation of economic agents. The paper stresses that such features may dramatically impair the efficacy of monetary policy, especially in transition countries where confidence in central banks builds up slowly and can be very easily affected by external shocks. The literature has focused specially on testing the credibility of inflation targeting as an instrument of achieving price stability. Guo and Lim (2024) investigate whether such a regime can reduce the volatility of inflation in an economy under different macroeconomic environments. Berry and Williams argue that the positive impact of inflation targeting is confined by institutional development level, fiscal discipline, and economic policy coordination in transitional economies, which challenges its universality.

The details of inflationary processes in economies in transition are discussed more thoroughly in Hernández et al. (2024). The study shows that inflationary pressures from abroad transmitted through supply chains play an outsize role in economies that rely heavily on imports. The findings emphasized the ineffectiveness of conventional instruments of monetary policy under similar circumstances and call for flexible policies in coping with inflation. The institutional dimension of the monetary policy in emerging markets is discussed in Kwizera (2024). The author studies central banks' reaction functions and shows that they often behave asymmetrically, relying on external financial conditions. This suggests that inherent structural constraints may exist in the inflation-stabilizing potency of such economies based exclusively on conventional monetary channels.

The paper by Ghosh and Ajit (2025) introduces a self-questioning reflection on monetary inflation targeting among emerging markets). The authors challenge the universality of this regime, by arguing that its efficiency is undermined in a context of high macroeconomic volatility. The paper underscores that without strong institutional support and structural reforms, inflation targeting is likely to exacerbate macroeconomic risks as well as price volatility. The impact of inflation, and the volatility of the latter, on growth is examined by Pappas and Boukas (2025). The authors contend that price instability depresses growth rates in both the short and long run, particularly in countries with underdeveloped financial markets. This illustrates the pragmatic value of managing inflation and rationalizes the search for good policies in transitional and unstable environments.

Despite a large literature on inflationary processes and monetary policy, several key issues remain unsolved in respect of the credibility of price stability in volatile transition markets. The majority of empirical works are based on developed economies or already regard inflation targeting as a universally applicable policy instrument without considering the structural and institutional limitations of transition societies. There has been little work on mechanisms through which inflation expectations, external shocks and monetary policy response interact in an environment of enhanced volatility, as well as the process to adapt standard monetary regimes to the specifics of such markets. Absence of universal methodological approach to estimation of the effectiveness of instruments of

inflation management in transitional economy frameworks makes more investigations aimed at bridging these scientific gaps.

The objective of the research was to apprehend the specifics of inflation and price stability management in a volatile transition market with reference to the interaction between among monetary tools, inflation expectations as well as external shocks under conditions when institutional capacity is limited. For this purpose, it concentrated on determining determinants of inflation volatility and evaluating the effectiveness of application of a range of monetary regimes as well as discerning the conditions under which conventional treatment strategies for price stability becomes ineffective.

It is also important to explore how the volatility of exchange rates is transmitted into domestic prices. Anderl and Caporale (2022) show that the currency pass-through effect is nonlinear and crucially influenced by the inflation expectations of economic agents. Rather these heterogenous and smooth transitioning results are to be expected in the highly uncertain macroeconomic environment characterized by periods of very volatile transactions markets that we have experienced. The worldwide character of inflationary developments is observed internationally through the examination of channels for importing price shocks. Auer et al. (2019) show how inflation may spread quickly between countries in the context of production and trade links, further destabilizing national markets. That shows the narrow tools of domestic liquidity policy in a highly integrated economy.

The necessity of coordinating macroeconomic policies is another important ingredient in maintaining price stability. Bianchi and Melosi (2019) show that lack of coordination between fiscal and monetary policy induces higher inflation volatility, erode trust in the central bank. Such findings seem important for the transition economies in which institutional interface still seems fragmented. The issues of internal balance have received much interest in the literature. Bils et al. (2021) study the contribution of observed inflation fluctuations to real resource misallocation imbalances or statistical measurement bias. Their findings indicate the difficulties of revealing inflation signals, which also make it difficult to design efficient price stabilization policies.

Greater economic openness may also be viewed as a cause of macroeconomic instability. Calderón and Kubota (2018) provide evidence that greater economic openness corresponds with higher volatility of the real exchange rate. This in turn raises further risks for the stability of prices in countries with undeveloped financial markets. The institutional quality of monetary authorities affects macroeconomic stability. Eichler and Littke (2018) show that the degree of transparency of a central bank heavily influences the volatility of currencies and inflation. Lack of dialogue and low predictability in monetary policies worsens the instability faced by most transition economies.

The role of trust in the monetary policy is closely connected to inflation expectations formation. Ferreira de Mendonça (2018) – focusing on a range of countries with emerging markets, finds low institutional trust to diminish the effectiveness of anti-inflation measures. This validates the necessity of considering the non-monetary factors in the monetary policy strategy in controlling inflation. The effects of supply shocks to long-term inflation dynamics is considered in the spirit of Fornaro and Wolf (2023). The authors contend that such shocks leave permanent “scars” on the economy, altering the path of inflation and potential growth. This makes the reliance on conventional monetary rules less appropriate in a more volatile environment.

The central bank's independence is an important factor in price stability. Garriga and Rodriguez (2023) empirically verify that in developing countries, the more autonomous the monetary authorities are, the lower is inflation volatility. At the same time, the authors stress that even formal independence is not a sufficient condition for policy effectiveness if it is not accompanied by an adequate institutional environment. Some research draws attention to power and communication dimensions of economic policy. Gilpin (2019) highlights the symbolic economy of power and the language of

authority which mediate the representation of policy choices. This is an interdisciplinary study, but about a concept that is also crucial in the context of trustworthiness of institutions when it comes to macroeconomic policy.

The more traditional angle of scrutinizing inflationary dynamics is still the examination of the currency pass-through. Ha et al. (2020) reveal that exposure of exchange rate shocks to prices varies substantially across countries and the inflation regime. This is crucial for economies in transition, where currency shocks are typically a major contributor to instability of inflation. Review Methodological methods for evaluating the effectiveness of monetary policy are discussed in Jordà et al. (2020). The authors apply quasi-experimental techniques to evaluate the effects of monetary policy on macroeconomic aggregates. The findings highlight the importance of relying on more flexible analytical methods to analyze inflation processes in complex and uncertain economic environments.

The objective of the study was to discover the specifics of inflation control and price targeting in turbulent transforming economies through examination of how monetary tools, expectations and external shocks interact in an environment where institutions are less developed among such economies. This goal was reached based on the understanding of the specific nature of monetary policy in increased macroeconomic uncertainty and unstable markets expectations. Reduced efficacy of conventional mechanisms for smoothing prices in transition economies was special focus when systemic barriers that constrain the degree of control over these necessary changes were identified.

As part of this objective, we examined what was responsible for the inflation volatility and tested how well various monetary regimes were adjusted to managing external shocks as well as internal disturbances. It was essential to disentangle the role of inflation expectations as a “channel” for transmission of macroeconomic instability and an “ingredient” which influences confidence in monetary authorities. The joint solution of these problems allowed formulating a theoretical basis for a special study of the efficiency of inflation regulation in economies with transitional and unstable development.

Materials and Methods

The article is based on the methodological principle and research methodology of the combination of theoretical, analytical methods and practical experience, and is based on a comparison analysis of certain macroeconomic indicators inherent in unstable transition economies for 2010–2023. The period considered includes the stages of post-crisis recovery from the global financial crisis, stabilization in terms of macroeconomic policy and periods with increased instability due to pandemic and geopolitical shocks, which allows a comprehensive analysis of inflationary processes’ evolution under different conditions (International Monetary Fund, 2024a; World Bank, 2024).

The theoretical basis for the study is constructed on modern provisions of monetary economics, namely the theory of inflation expectations, methods to analyze volatility of inflation and institutional approaches to monetary policy. The mechanical model is based on the theoretical premises of inflation targeting, pass-through exchange rates, and models of external price shocks transmission in open economic systems along with the official classifications of currency and monetary regimes and institutional features of monetary policy (International Monetary Fund, 2023a; Bank for International Settlements, 2023). The theoretical framework is enhanced by an institutional dimension which investigates the degree of central banks' independence, the extent of transparency in monetary actions and types economic agents' trust in monetary policy instruments both under growing uncertainty regarding financial markets (International Monetary Fund, 2023b).

The study rests on the empirical basis, which is comprised by the secondary statistical information taken from trusted international and national official statistics providers. International statistical information was obtained from the international databases released by International Monetary Fund (International Monetary Fund, 2024a; International Monetary Fund, 2024b), World Bank (World Bank, 2024) and Bank for International Settlements (2024), and national macro indicators were borrowed from the central banks reports of the selected transition countries. The analysis assumes the existence of consumer price inflation (CPI), volatility of CPI-inflation, exchange rate movements, key reference rates and inflation expectations between 2010 and 2023, which creates methodological comparability and analytical compatibility (Organisation for Economic Co-operation and Development, 2024).

To attain this goal, a systematic and logical analysis method was employed that allowed to generalize the prevailing theoretical aspects of inflation control policy considering the structural limitations for their implementation in transitional economy. Other studies employed a comparative method to analyse the dynamics of inflation-indicators and to assess the realisation of different monetary regimes during this period, considering central-regime as well as financial-institutional conditions of economies (International Monetary Fund, 2023a; Bank for International Settlements, 2023). In an abstract-logical way, generalized results were derived about the preconditions for in-effectiveness of conventionally applied price-stabilizing means.

The measurement of inflation volatility was measured in terms including the spread, standard statistical measure of consumer price growth variation over some period as calculated from aggregated international statistical series (International Monetary Fund, 2024a; World Bank, 2024). The research of interconnectedness between inflation, inflation expectations and external macroeconomic shocks was performed by an aggregated analytical generalization of macroeconomic rates with respect to the global commodity and financial influences.

Results

Inflation dynamics and inflation volatility in volatile transitional markets

During 2010–2023, inflation dynamics in volatile transition markets was rather uneven and more volatile pointing to a structural vulnerability of these countries from external and internal disturbances. Pooled statistical series based on International Monetary Fund, World Bank and Bank for International Settlements data reveal several relatively distinct phases of inflation dynamics defined by corresponding levels and fluctuations in growth rates of consumer prices (International Monetary Fund, 2024a; World Bank, 2024; Bank for International Settlements, 2024).

Following the crisis phase which ensued after the global financial crisis (2010–2013) the average annual inflation rate upon the sample of transition economies was kept on a relatively low level, and indicators for inflation volatility were subject to merely slight fluctuations. Annual inflation rates experienced a mild esteem during this period, signaling the short-term return of price stability and the partial re-establishment of macroeconomic equilibrium following crises' shocks.

During the period 2014–2019, which may be defined as a period of relative macroeconomic stabilization, average inflation rates were kept in check and their volatility appeared to grow over time. This was evident in the increase of spread between minimum and maximum inflation levels as well as increase in standard deviation. These changes are a consequence of the build-up over time of underlying internal structural imbalances and changes in the relative importance of external factors, notably exchange rate variations and global financial conditions, in determining inflation developments (Bank for International Settlements, 2023).

The strongest increase in both the mean inflation and its volatility occurred in 2020–2023. Pandemic shocks, ruptures of global supply chains and geopolitical tensions resulted in a sharp acceleration in consumer price growth in the majority of transition economies. In this phase the standard deviation of inflation was at his maximum values across the whole time span considered, showing there was great price instability, and little effectiveness on smoothing traditional monetary shocks channels (International Monetary Fund, 2023b; World Bank, 2022). Table 1 presents the quantitative features of inflation dynamics and volatility during the main periods of the study.

Table 1
Aggregate indicators of inflation and inflation volatility in volatile transitional markets in 2010–2023

Period	Average annual inflation rate, %	Minimum, %	Maximum, %	Standard deviation (SD)	Coefficient of variation (CV), %
2010–2013	6.1	2.	11.3	2.9	47.5
2014–2019	5.4	1.8	13.7	3.6	66.7
2020–2023	9.8	3.1	22.5	6.4	65.3

Source: Summarized based on IMF Data: International Financial Statistics, World Development Indicators, BIS Statistics Explorer (International Monetary Fund, 2024a; World Bank, 2024; Bank for International Settlements, 2024).

The evidence demonstrates that pro-cyclical volatile transitive markets not only have larger average inflation during crisis episodes, but that they suffer from an extraordinary increase in its volatility, which takes place both on the side of standard deviation and coefficient of variation. The acceleration of the growth rate of inflation variability compared to that of average inflation in 2020–2023 testifies for the higher uncertainty about price dynamics and asymmetry in reaction to global adverse shocks being at play in transition economies. The empirical evidence allows further consideration of the link between inflation volatility, institutional features of monetary policy and the effectiveness of central banks in achieving price stability under high macroeconomic uncertainty.

Monetary conditions, interest rates, and their relationship to price stability

From 2010 to 2023 there occurred transformation in monetary parameters in the most volatile transition economies that was apparent from changes of basic rates, resource cost, and aggregated financial condition. In aggregate, the use of interest rate policy in these economies has been largely reactive, focused on cooling the inflationary cycle that follows external and internal shocks rather than preventing them (International Monetary Fund, 2024a; Bank for International Settlements, 2024).

Tight monetary conditions prevailed in most transition economies from 2010 to 2013 following the crisis. Average key rates were also high by the standards of advanced economies, due to the necessity to curb inflation expectations and compensate for increased risks of macroeconomic volatility. Average rates were in a transition rate regime sample above 8 or 9 per cent, while the standard deviation of discount rates became moderate and implies reasonably predictable monetary policy and institutionalized operational parameters. At the same time, even in these circumstances, inflation volatility was not totally offset suggesting that the interest rate channel of transmission was weak when structural imbalances are present.

In the period of macroeconomic stabilization in 2014–2019, monetary conditions continuously eased. The key monetary rates decreased in general; the cost of credit resources fell, and domestic demand was stimulated. But on whole, it is evident that the decline in yields was not met with an equivalent fall in inflation volatility. In several transition countries the dispersion of inflation rates was limited to 3–4 per cent points even when interest rates were stable or weakly falling. This is evidence of inflation remains non-financial factors especially exchange rate fluctuations and structural supply-side imbalances affect interest rate instruments achieving negative impact (Bank for International Settlements, 2023).

The window of 2020–23 does central the relationship between monetary conditions and price stability. To cushion against the immediate pandemic impacts, many central banks in transition economies have been compelled to significantly loosen monetary conditions by cutting policy rates to boost economic activity. Nominal interest rates where on average today between 2 and 4 percentage points lower than before the crisis occurred. But the rapid acceleration of inflation in 2021–2022 caused monetary policy to change its spots, and this took form as a rapid (and often asymmetric) rise lifting rates.

Aggregate measures indicate that in 2022–2023, on average key rates in transition economies were above 10 per cent and the standard deviation of key rates rose substantially indicating greater spread and diversity of monetary reaction. Meanwhile, and even with tighter monetary conditions, inflation volatility still had been high. This lends support to the argument that monetary policy in the wake of global commodity and financial shocks operated stabilizing rather than restraining in so far as it prevented a further run-away increase of inflation, but did not achieve an immediate restoration of price stability (International Monetary Fund, 2023b; World Bank, 2022). The quantitative features of monetary conditions and their connection with price stability in the principal periods within the scope of our analysis are reported in Table 2.

Table 2
Aggregate indicators of key interest rates and inflation volatility in volatile transitional markets in 2010–2023

Period	Average key rate, %	Minimum, %	Maximum, %	SD of key rate	SD of inflation
2010–2013	9.2	4.	16.	3.1	2.9
2014–2019	7.1	3.2	14.5	2.6	3.6
2020–2023	11.4	1.9	22.7	5.2	6.4

Source: Compiled from IMF Data: International Financial Statistics, BIS Statistics Explorer, World Development Indicators (International Monetary Fund, 2024a; Bank for International Settlements, 2024; World Bank, 2024).

The findings demonstrate that heightened interest average levels in periods of crisis reflect a simultaneous partial attenuation in inflation volatility. Widespread between the maximum and minimum values of interest rates and inflation in 2020–2023 confirm that the transmission of monetary policy through the interest rate channel is assumed to be unstable in transitional economies and to a large extent depends on external terms of credit availability, level of dollarization, trust to

central banks. The empirical findings also reveal a non-symmetric relationship between monetary conditions and inflation. Interest rate policy is asymmetric: the central bank does not gain as much in reducing inflation volatility by easing interest rates when growth indicators indicate a recession, as it loses in generating financial instability and increased macroeconomic volatility to bring down inflation due to an excessive anti-inflationary monetary policy bias. It validates the usefulness of interest rates as the single instrument to secure price stability by pointing out some limitations regarding their power and explained an empirical background towards a further discussion on institutions, structures and inflation management.

Inflation expectations and the impact of external macroeconomic shocks

Between 2010 and 2023, inflation expectations in volatile transition economies are the principal determinant of realized price dynamics and the effectiveness of monetary policy. The analysis of aggregated data from the Organisation for Economic Co-operation and Development, the International Monetary Fund and the Bank for International Settlements suggest that inflation expectations in these economies tend to present heightened (or higher) responsiveness or sensitivity to foreign macroeconomic shocks, instability rents of growth processes and weak anchoring of long-term targets (Organisation for Economic Co-operation and Development, 2024; International Monetary Fund, 2023b).

In the post-crisis period of 2010–2013, however, the average medium-term expectations for inflation in transition economies fell behind those for actual inflation. Aggregated estimates put the average expected level of inflation over a one-year horizon to be approximately 6–7 per cent, with the standard deviation at 2–3 percentage points. This shows some downward anchoring of expectations compared to before the global financial crisis, but its dispersion was still much higher than in advanced economies, indicating patently low trust in monetary authorities and ineffective communication of central bank policy.

From 2014 through 2019, inflation expectations ceased to decline and partly stabilized but remained inadequately anchored. The mean of expected inflation was reduced to 4–5%, but the coefficient of variation of expectations increased, reflecting not only that economic agents were becoming more uncertain about the environment, but also that they are reacting differently to these changes. These expectations were fundamentally influenced during this time by events in the external sector, which led global energy price and global financial conditions -specifically international interest rates and capital movements- to be the key factors defining those expectations (World Bank, 2022; Bank for International Settlements, 2023).

The most significant movements in inflation expectations occurred during 2020–2023, when they were influenced by pandemic and geopolitical shocks. For instance, the OECD reports that in a sample of transition economies the average value of the inflation expectations over one-year horizon increased to 8–10% and their standard deviation exceeded 5 percentage points. This implies a larger spread of the opinions on future prices expressed by the economic actors and a higher uncertainty with regard to future price developments (Organisation for Economic Co-operation and Development, 2024).

Inflation expectations weighed by external macro-shocks were mostly spread via commodity market, exchange rate and global financial liquidity dimensions. Supply chain disruptions, coupled with soaring global energy prices during 2021–2022, resulted in a synchronized surge of inflation expectations throughout almost all transition economies irrespective of their national monetary regimes. The uptick in commodity price indeed went hand in glove with an almost equivalent increase in consumer confidence about future inflation which marks the overwhelming influence of international price stimuli on the formation of expectations (World Bank, 2022).

The foreign exchange channel operated as a distinct conduit of external shocks. In the presence of rising global financial volatility, 'depreciation expectations' were more powerful than actual price-adjustment; to such an extent that the negative psychological effect induced by devaluation made firms increase prices even though at this point not a single lira or dollar had been devalued. Between 2020 and 2023 the standard deviation of expected inflation increased faster than that for actual inflation, suggesting a potential leading response of expectations to external financial disturbances (International Monetary Fund, 2023a; International Monetary Fund, 2024b). Table 3 provides quantitative characteristics of the dynamics of inflation expectations and external shocks in the main phases of the period under consideration.

Table 3
Aggregate indicators of inflation expectations and external macroeconomic shocks in volatile transitional markets in 2010–2023

Period	Average inflation expectations, %	Minimum, %	Maximum, %	SD of expectations	Commodity price index (average)
2010–2013	6.5	3	11	2.	98
2014–2019	4.7	2.1	9.6	3.1	95
2020–2023	9.1	4.0	18.7	5.6	132

Source: Summarized based on data from OECD Inflation Expectations, IMF World Economic Outlook Database, World Bank Commodity Markets Outlook (Organisation for Economic Co-operation and Development, 2024; International Monetary Fund, 2024b; World Bank, 2022).

The results indicate that for transition economies with relatively poor stability characteristics, price expectations not merely result from actual inflations, but develop a distinct independent channel of increasing macroeconomic instability. During times of external shocks, their variance grows more than the growth rate on the actual prices, which makes central bank work towards stabilization of inflation even more difficult. The high standard deviations of 2020–2023 expectations indicate that inflation forecasts are poorly anchored and internal self-perpetuating processes of inflation will become more widespread.

The empirical evidence indicates such that external macroeconomic shock effects price stability of emerging market economies mainly via the channel of inflation expectations. This is an empirical foundation for a more elaborate explanation of the role of communications policy, confidence in institutions and coordination of monetary and fiscal decisions which gives rise to long-run price stability.

Discussion

The empirical evidence on the dominance of currency role in determining volatility of inflation in transition economies is also in line with Junttila and Korhonen (2012) who pointed that a scale CPT crucially depends on whether a country inflates or disinflates. When undesired exchange rate fluctuations occur, in the face of unanchored inflation expectations, these shocks have a more widespread and asymmetric effect on domestic prices thus warranting a higher variability in inflation when adverse external shocks materialize. If interest rates don’t matter in transition economies, institutions of monetary policy do.

The stylized impact of foreign commodity and energy shocks on the inflation dynamics and its volatility is overall in line with Lu et al. (2024) who can remove energy shocks when considering

single inflation episodes with larger length times. While the study by Lu et al. (2024) who focus on the UK, a comparison of results suggests that disturbances of equivalent size tend to be more destabilizing for transition economies. This is probably due to the higher import-dependency and less elastic home markets.

The finding on the instability of inflation expectation in transition economies is supported by the results for Matsuoka et al. (2019), who emphasize the role of expectations for the propagation of macroeconomic shocks. That uncertainty in inflation expectations is higher during times of crisis is also consistent with the conclusion at weak anchoring of expectations in non-institutionally trusted countries. This goes some way to justify the suggestion that credibility of monetary policy is at least in part based on successful communication.

It is noticed from the results that the differential effects of energy shock and currency shocks on inflation are present, as supported by Mirza et al. (2023), on the interactions of inflation targeting and currency pass-through with upward energy price. Foreign price shocks continue to be a major driver of inflation dynamics even in countries where an official inflation targeting regime has been put in place. This illustrates the risks of introducing an inflation-targeting framework while ignoring structural features of the economy.

The restraints on the effectiveness of monetary policy to stabilize prices which we uncover may be rationalized in a macroeconomic trilemma perspective as put forward by Obstfeld et al. (2005). The menu trade-offs would be even starker for the transition economies, as they became more exposed to external shocks.

The findings also align with those of Stojanovikj and Petrevski (2021) that examined the macroeconomic consequences of inflation targeting in emerging markets. On the one hand, an average inflation rate tends to be suppressed during periods of relative tranquility. In the other hand, both experiences reflect the low short run volatility in inflation and so reveals that this regime is dominated by external shocks as well as institutional factors.

It is suggested that the notion of managing inflation and price stability in turbulent transition economies is a multi-dimensional phenomenon in which management of interest rate policy, inflations expectations and external macroeconomic shocks interact with each other along complex lines - directing policy along an asymmetric direction. Given the constraints of monetary devices under these conditions, there is a need to improve institutions that apply to stabilization mechanisms and the studying of structural characteristics of economies when designing anti-inflationary policies.

Conclusions

The analysis shows that the control of inflation in volatile period markets is the result of a combination of domestic macroeconomic disequilibria and external shocks, that ultimately would drive to significant distortions on price stability. The results are in line with the initial research expectations, and they confirm as inflation volatility behaves differently from the average rate of inflation in these economies where the natural policy instrument indicator showed a faster increase to tame inflation volatility relative to that of traditional monetary instruments. It is said that interest rate policy stabilizes mainly the further propagation of inflation waves but not a quick restoration to tranquil, low-price movements. Expectations of inflation are central in this mechanism, and poorly-anchored expectations magnify the effect of external commodity and financial shocks.

The originality of the research is that it does not use econometric models but aggregate international statistics to make a complete quantitative generalization of inflation, the dynamics of inflation, inflation volatility, monetary conditions and formation of expectations. The practical importance of

the results achieved consists in the fact that it economically justifies the necessity to support interest rate policy by institutional and communication measures directed at boosting trust in monetary institutions and diminishing expectation uncertainty. A drawback of the study is that it employs cross-country aggregate measures, which fails to take into consideration the specific national economies' features and their institutional environment peculiarities. Additional studies need to be conducted with respect to the impacts of institutional quality, exchange rate regimes, and the coordination of monetary and fiscal policy toward building long-run price stability in transition economies.

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