The Relationship between Price Stability and Output Growth within the Inflation Policy Framework

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ABSTRACT

Price stability is widely recognized as a fundamental objective of macroeconomic policy because stable and predictable inflation supports investment, consumption, and long-term economic planning. Many central banks adopt inflation targeting frameworks to maintain low and stable inflation while promoting sustainable economic growth. However, the relationship between inflation control and output growth remains a subject of debate in economic literature because empirical evidence suggests that the relationship is nonlinear and context dependent. This study aims to analyze the relationship between price stability and output growth within the framework of inflation targeting policy. This research employs a qualitative descriptive approach using a systematic literature review of scholarly publications related to inflation targeting, price stability, and economic growth. Data were collected from peer-reviewed academic journals and macroeconomic studies and analyzed using thematic analysis and conceptual synthesis to identify patterns and mechanisms linking inflation control with output dynamics. The results show that price stability contributes to macroeconomic stability by reducing uncertainty and encouraging investment and production activities. However, the impact of inflation on output growth varies depending on inflation levels and policy responses. Moderate inflation may have neutral or slightly positive effects on economic activity, while high and volatile inflation tends to reduce long-term growth. Additionally, overly restrictive monetary policies aimed at controlling inflation may temporarily suppress economic output. In conclusion, the relationship between price stability and output growth is nonlinear, indicating the need for flexible and coordinated macroeconomic policies that balance inflation control with sustainable economic growth.
Keywords: Inflation targeting, Macroeconomic stability, Monetary policy, Price stability, Output growth

INTRODUCTION

The relationship between price stability and economic growth has long been a central issue in macroeconomic policy debates. In modern monetary frameworks, maintaining stable prices is widely regarded as a fundamental condition for sustainable economic development. Price stability, generally defined as a low, stable, and predictable inflation rate, creates a favorable economic environment that enables households, firms, and financial institutions to make informed decisions regarding consumption, investment, production, and savings. When inflation remains stable, economic agents can better anticipate future price levels, thereby reducing uncertainty in long-term planning and improving the efficiency of resource allocation. In contrast, volatile inflation can distort market signals, weaken purchasing power, and increase the uncertainty surrounding economic decisions, ultimately reducing the efficiency of financial markets and slowing economic growth. Therefore, maintaining price stability is widely considered a prerequisite for achieving long-term macroeconomic stability and sustainable output growth in both developed and developing economies (Hetmańczuk, 2021).

In many economies, price stability has become the primary objective of monetary policy because inflation fluctuations often generate macroeconomic instability. High and unpredictable inflation levels tend to create distortions in price signals that guide investment and production decisions, resulting in inefficient allocation of resources across sectors of the economy. Furthermore, inflation volatility may discourage savings and reduce the real value of financial assets, thereby weakening financial intermediation and limiting capital accumulation. In developing economies, where financial markets and institutional frameworks may still be evolving, inflation instability can generate even more severe consequences, including reduced investment flows, declining productivity, and increased vulnerability to economic crises. Several empirical studies demonstrate that unstable inflation is closely associated with lower long-term economic growth and heightened macroeconomic vulnerability, particularly in emerging and developing economies (Anagaw, 2023).

The impact of inflation instability is also closely related to the interaction between monetary and fiscal policies. Achieving price stability requires a careful coordination between these policy instruments in order to maintain macroeconomic balance without undermining economic growth. Monetary authorities typically rely on policy interest rates and control of the money supply to manage inflationary pressures, while fiscal policy influences aggregate demand through government spending and taxation policies. When these policies are not well coordinated, attempts to stabilize inflation may inadvertently create output fluctuations or external imbalances. Therefore, policymakers must adopt a balanced policy approach that simultaneously promotes price stability and supports sustainable output growth. This policy coordination is particularly important in developing economies, where fiscal imbalances, external shocks, and structural economic challenges can complicate the implementation of effective monetary policies (Nasrullah et al., 2023).

In response to these challenges, many central banks around the world have adopted inflation targeting as a primary framework for monetary policy. Inflation targeting is a policy strategy in which the central bank sets an explicit numerical target for inflation and uses monetary policy instruments to achieve that target within a specified time horizon. The objective of this framework is to anchor inflation expectations among economic agents while enhancing the credibility and transparency of monetary policy. Under this approach, central banks typically announce inflation targets ranging between two and three percent annually, which is widely considered consistent with price stability in modern economies. The adoption of inflation targeting has become increasingly common since the 1990s, with many countries implementing this framework to improve macroeconomic stability and strengthen the effectiveness of monetary policy (Chukwu et al., 2023).

A key characteristic of inflation targeting is the emphasis on transparency and communication between the central bank and the public. By clearly announcing inflation targets and regularly communicating policy decisions, central banks aim to shape public expectations regarding future inflation. When inflation expectations remain well anchored, economic agents are less likely to adjust prices and wages aggressively in response to temporary inflation shocks, thereby reducing inflation volatility. In addition, transparent communication enhances the credibility of monetary policy, allowing central banks to influence market expectations more effectively. As a result, inflation targeting not only functions as a technical policy framework but also as an institutional mechanism that strengthens the relationship between monetary authorities and the broader economy (Utami et al., 2025).

Over time, however, the rigid implementation of inflation targeting has evolved into a more flexible approach known as flexible inflation targeting. Unlike strict inflation targeting, which focuses exclusively on achieving a specific inflation rate, flexible inflation targeting allows central banks to consider other macroeconomic objectives such as output stabilization and financial stability. This approach recognizes that monetary policy decisions inevitably involve trade-offs between controlling inflation and supporting economic growth. In practice, central banks implementing flexible inflation targeting may temporarily tolerate deviations from inflation targets if strict policy tightening would significantly harm economic output or financial stability. This flexible approach reflects the growing recognition that maintaining macroeconomic stability requires balancing multiple policy objectives rather than focusing exclusively on inflation control (Mardoyan & Sargsyan, 2025).

Empirical evidence from several countries illustrates both the effectiveness and limitations of inflation targeting frameworks. In Indonesia, for example, the adoption of the Inflation Targeting Framework (ITF) has contributed to a significant reduction in inflation volatility and improved the credibility of monetary policy. Nevertheless, some studies suggest that strict inflation control may generate short-term trade-offs with economic growth and employment levels. When monetary authorities raise interest rates aggressively to reduce inflationary pressures, borrowing costs increase for households and firms, which can temporarily slow economic activity. These findings indicate that while inflation targeting can improve macroeconomic stability, its implementation must be carefully calibrated to avoid excessive contractionary effects on the real economy (Saputra, 2024).

Similar experiences can be observed in other countries that have implemented inflation targeting regimes. In Tunisia, research suggests that forward-looking monetary policy rules combined with interest rate smoothing can reduce welfare losses associated with inflation volatility while maintaining output stability. In India, the adoption of flexible inflation targeting has strengthened the transmission of monetary policy through interest rate and credit channels. However, some studies also indicate that this framework may weaken the direct influence of monetary policy on output growth because policy decisions are primarily focused on achieving inflation targets. These findings demonstrate that while inflation targeting can improve price stability, its impact on output growth depends on the structure of the economy, the effectiveness of monetary policy transmission mechanisms, and the institutional capacity of policymakers (Raghuvanshi & Ahmad, 2024).

Despite the widespread adoption of inflation targeting policies, the relationship between inflation control and output growth remains a subject of considerable academic debate. Many empirical studies suggest that the relationship between inflation and economic growth is not linear but instead depends on the level of inflation and the structural characteristics of the economy. For example, research conducted in several post-Soviet economies shows that higher inflation levels tend to reduce long-term economic growth. In these countries, a one percent increase in inflation is associated with a decrease in long-term economic growth of approximately 0.195 percent. These findings support the argument that maintaining low and stable inflation is essential for sustaining long-term economic development (Kerimov et al., 2023).

However, other studies suggest that moderate levels of inflation may not necessarily harm economic growth and may even have neutral or slightly positive effects in certain contexts. Research conducted in Pakistan indicates that inflation below a threshold of approximately 7.5 percent does not significantly reduce economic growth and may even stimulate production in the short term by encouraging investment and

consumption. Beyond this threshold, however, inflation becomes detrimental to economic growth because it increases economic uncertainty and reduces investment incentives. These findings highlight the existence of a nonlinear relationship between inflation and output growth, suggesting that moderate inflation may be tolerable while excessive inflation can undermine economic performance (Khan et al., 2025).

Evidence from Nigeria further illustrates the complex relationship between inflation and economic growth. In the long run, inflation appears to have a negative effect on economic growth, reflecting the detrimental impact of persistent inflation on investment and productivity. However, short-term demand shocks that temporarily increase inflation may also stimulate output growth by increasing aggregate demand. This dynamic suggests that the relationship between inflation and output growth depends not only on the level of inflation but also on the sources of inflationary pressures and the time horizon of analysis (Ifeacho et al., 2025).

Research conducted in European economies also reveals mixed findings regarding the relationship between inflation and economic growth. Some studies indicate that within moderate inflation ranges observed in the European Union, inflation levels do not significantly reduce economic growth. Instead, aggressive monetary tightening implemented to control inflation may have stronger negative effects on economic output. These findings suggest that while price stability is important for long-term economic stability, overly restrictive monetary policies can reduce economic growth by limiting credit availability and suppressing aggregate demand (Pappas & Boukas, 2025).

Another important dimension in this debate concerns the role of inflation uncertainty. In addition to the average level of inflation, fluctuations in inflation expectations can also influence economic growth by affecting investment decisions and financial market stability. High inflation uncertainty increases the risk associated with long-term investments because firms cannot accurately predict future price levels and production costs. As a result, businesses may postpone or reduce investment activities, which ultimately slows economic growth. However, the impact of inflation uncertainty on economic performance may vary depending on the type of uncertainty involved. Nominal uncertainty generally tends to reduce economic growth, while real uncertainty may have mixed effects depending on economic conditions and policy responses (Chowdhury, 2023).

Although previous studies have extensively examined the relationship between inflation and economic growth, several research gaps remain. First, many studies focus primarily on the direct relationship between inflation levels and economic growth without sufficiently examining how inflation targeting frameworks influence this relationship through monetary policy transmission mechanisms. Second, existing research often analyzes inflation and growth relationships in isolation, without considering the role of policy coordination between monetary and fiscal authorities. Third, empirical findings vary significantly across countries, suggesting that institutional factors and policy frameworks may influence the effectiveness of inflation targeting policies. These limitations indicate the need for further research that examines the interaction between price stability, inflation targeting frameworks, and output growth in a more integrated analytical framework.

The novelty of this study lies in its attempt to analyze the relationship between price stability and output growth within the context of inflation targeting policy frameworks by integrating macroeconomic theory with empirical evidence from various economic contexts. Unlike previous studies that focus primarily on inflation levels or economic growth independently, this research emphasizes how inflation targeting policies shape the interaction between inflation control and economic output dynamics.

By examining this relationship within a broader macroeconomic policy framework, the study aims to provide a more comprehensive understanding of how monetary policy strategies influence economic stability and growth outcomes.

Based on this background, the objective of this study is to analyze the relationship between price stability and output growth within the framework of inflation targeting policies, with particular attention to how inflation control mechanisms influence economic growth dynamics in contemporary macroeconomic policy environments.

METHODS

This study employs a qualitative research approach with a descriptive–analytical design to examine the relationship between price stability and output growth within the framework of inflation targeting policy. The qualitative approach is considered appropriate because the research seeks to analyze macroeconomic policy dynamics and theoretical relationships between inflation control and economic growth based on existing empirical and conceptual studies. Data collection in this research is conducted through a systematic literature review, which involves gathering secondary data from scholarly publications discussing inflation targeting, price stability, and macroeconomic growth. The sources of data consist of peer-reviewed journal articles, policy reports, and macroeconomic studies published in reputable academic journals. These publications are obtained from international academic databases such as Google Scholar, Scopus-indexed journals, and other credible sources in the fields of macroeconomics and monetary policy. The literature selection process involves identifying relevant publications, screening them based on relevance to the research topic, and classifying them into thematic categories such as the role of price stability in macroeconomic policy, the implementation of inflation targeting frameworks, and empirical evidence regarding the relationship between inflation and output growth in various economic contexts.

The data analysis in this research applies qualitative thematic analysis combined with a conceptual synthesis approach. Initially, the collected literature is examined through a process of coding and categorization in order to identify key themes related to inflation control, monetary policy frameworks, and economic growth dynamics. Each selected study is analyzed to extract theoretical arguments, empirical findings, and policy implications that explain how price stability and inflation targeting influence output growth. The next stage involves conducting a comparative analysis across studies to identify patterns, similarities, and differences in research findings from various countries and economic contexts. Through this process, the study develops a conceptual understanding of the nonlinear relationship between inflation and economic growth and evaluates how inflation targeting policies shape macroeconomic outcomes. Finally, the findings from the thematic analysis are synthesized to construct an integrated analytical framework that explains the interaction between price stability, inflation targeting mechanisms, and output growth within contemporary macroeconomic policy environments.
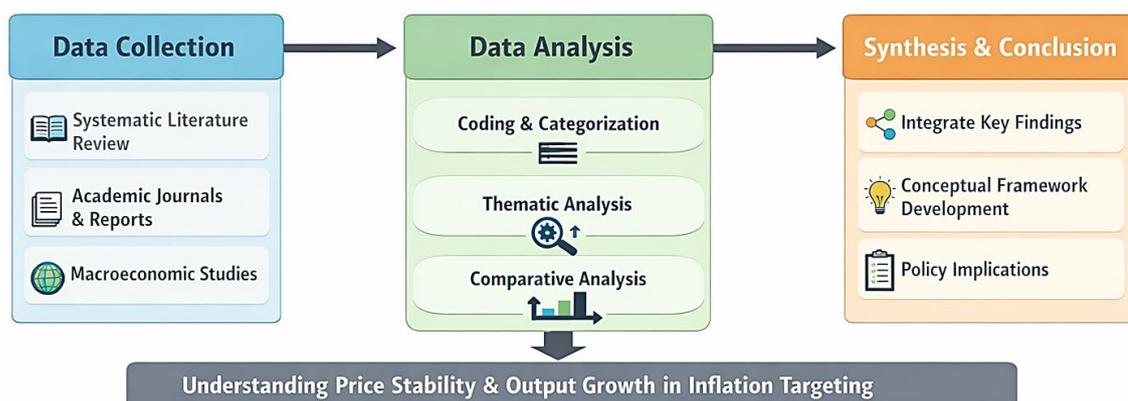
Figure 1. Diagram Conceptual Research

RESULTS AND DISCUSSION

The analysis of the relationship between price stability and output growth within the framework of inflation targeting policy shows that maintaining stable inflation plays an important role in supporting macroeconomic stability and sustainable economic growth. Inflation targeting policies aim to anchor inflation expectations while maintaining economic performance by balancing monetary tightening and economic expansion. Empirical findings from several countries indicate that the impact of inflation on output growth is not always linear, as moderate inflation levels may still support economic activity, while excessive inflation tends to harm economic performance. The following table summarizes the relationship between inflation levels, monetary policy responses, and their implications for output growth within the inflation targeting framework.

Table 1. Relationship between Price Stability, Inflation Levels, and Output Growth

Inflation Condition	Monetary Policy Response	Impact on Output Growth	Economic Interpretation
Low and stable inflation (around target range)	Moderate interest rate policy and stable money supply	Positive or stable output growth	Predictable prices encourage investment, production, and consumption
Moderate inflation (below threshold level)	Flexible inflation targeting and gradual policy adjustment	Neutral or slightly positive growth	Moderate inflation may stimulate economic activity and demand
High and volatile inflation	Aggressive monetary tightening through higher interest rates	Negative impact on output growth	High inflation creates uncertainty and reduces investment incentives
Inflation shocks in the short term	Temporary policy adjustment and liquidity management	Short-term output fluctuations	Demand shocks may temporarily increase output before stabilization

Excessively strict inflation control	Strong contractionary monetary policy	Slower economic growth	Tight monetary policy may reduce credit availability and suppress demand

The findings presented in Table 1 demonstrate that the relationship between price stability and output growth is complex and context dependent. When inflation remains low and stable within the target range set by central banks, economic actors can make more predictable investment and consumption decisions, which supports stable output growth. Moderate inflation levels may also contribute positively to economic activity by stimulating demand and encouraging production. However, when inflation becomes high and volatile, economic uncertainty increases, which discourages investment and reduces productivity, ultimately slowing economic growth. In addition, overly aggressive monetary tightening implemented to control inflation may also suppress economic activity by increasing borrowing costs and limiting access to credit. These results indicate that effective inflation targeting policies must balance the objective of maintaining price stability with the need to sustain economic growth, highlighting the importance of flexible and well-coordinated macroeconomic policy frameworks.

Discussion

The findings of this study highlight that the relationship between price stability and output growth within the framework of inflation targeting policies is complex and inherently nonlinear. The results presented in the previous section indicate that while maintaining low and stable inflation is essential for macroeconomic stability, the effects of inflation control on output growth depend on the level of inflation, the structure of the economy, and the policy strategies implemented by monetary authorities. Price stability has long been considered a central pillar of modern macroeconomic management because stable inflation reduces uncertainty in economic decision-making. When inflation remains predictable, firms and households can make more informed decisions regarding investment, production, consumption, and savings. This predictability allows financial markets to function more efficiently and supports long-term economic planning. Consequently, stable prices are widely regarded as a prerequisite for sustainable economic growth and efficient allocation of resources within an economy (Hetmańczuk, 2021).

In macroeconomic theory, price stability contributes to economic growth by reducing the uncertainty associated with inflation volatility. When inflation is unpredictable, businesses face difficulties in estimating production costs and future demand, which discourages long-term investment and innovation. Similarly, households may reduce savings or shift financial assets in response to inflation uncertainty, thereby weakening financial market stability. Empirical studies show that economies experiencing unstable inflation often face slower economic growth because economic agents cannot accurately anticipate future price levels and returns on investment. Stable inflation environments, in contrast, encourage productive investment and long-term economic planning, thereby supporting higher levels of economic productivity and output expansion (Duhlicher, 2021).

The importance of maintaining price stability becomes even more pronounced in developing economies, where institutional capacity and financial systems may be less resilient to macroeconomic shocks. In such contexts, inflation volatility can quickly translate into broader economic instability, affecting exchange rates, investment flows, and fiscal sustainability. Research conducted in several developing countries indicates

that persistent inflation instability often leads to distortions in economic decision-making and reduces the overall growth potential of the economy. Moreover, inflation volatility increases the risk of financial crises by weakening investor confidence and creating uncertainty in capital markets. These findings suggest that maintaining stable inflation is particularly important for developing economies seeking to achieve sustainable economic development and macroeconomic resilience (Anagaw, 2023).

In addition to inflation levels, the effectiveness of macroeconomic policy coordination plays a crucial role in determining the relationship between price stability and economic growth. Monetary and fiscal policies must operate in a coordinated manner to maintain both price stability and output growth without generating macroeconomic imbalances. Monetary authorities typically use interest rate adjustments and money supply management to control inflation, while fiscal authorities influence aggregate demand through government expenditure and taxation policies. When these policy instruments are poorly coordinated, efforts to control inflation may unintentionally suppress economic growth or generate external imbalances. Therefore, the effectiveness of inflation control policies depends not only on the monetary policy framework but also on the broader macroeconomic policy environment in which these policies are implemented (Nasrullah et al., 2023).

Within this context, inflation targeting has emerged as one of the most widely adopted monetary policy frameworks aimed at maintaining price stability while supporting macroeconomic stability. Inflation targeting involves setting a clear numerical target for inflation and adjusting monetary policy instruments to ensure that inflation remains within the target range. By establishing explicit inflation targets, central banks seek to anchor inflation expectations among households and businesses, thereby reducing inflation volatility and enhancing the credibility of monetary policy. In most economies adopting inflation targeting frameworks, the target inflation rate typically ranges between two and three percent annually, which is considered consistent with maintaining stable purchasing power and sustainable economic growth (Chukwu et al., 2023).

A key advantage of inflation targeting lies in its emphasis on transparency and communication between monetary authorities and the public. Central banks implementing inflation targeting regularly communicate their policy objectives, inflation forecasts, and policy decisions to shape public expectations regarding future inflation. When inflation expectations remain well anchored, economic agents are less likely to respond aggressively to temporary price shocks, thereby reducing inflation volatility and stabilizing the macroeconomic environment. This transparency also enhances the credibility of monetary policy, allowing central banks to influence market expectations more effectively and maintain macroeconomic stability (Utami et al., 2025).

However, the practical implementation of inflation targeting has evolved over time toward a more flexible approach known as flexible inflation targeting. Unlike strict inflation targeting, which focuses exclusively on achieving a predetermined inflation rate, flexible inflation targeting allows central banks to consider additional macroeconomic objectives such as output stability and financial system resilience. This approach recognizes that monetary policy decisions inevitably involve trade-offs between inflation control and economic growth. In certain circumstances, central banks may tolerate temporary deviations from inflation targets if strict policy tightening would significantly harm economic activity or employment levels. Flexible inflation targeting therefore represents a pragmatic policy approach that seeks to balance price stability with broader macroeconomic objectives (Mardoyan & Sargsyan, 2025).

Empirical evidence from various countries illustrates both the benefits and limitations of inflation targeting frameworks. In Indonesia, the adoption of the Inflation Targeting Framework (ITF) has contributed to a significant reduction in inflation volatility and improved the credibility of monetary policy. However, research also indicates that strict inflation control may create short-term trade-offs with economic growth and employment. When monetary authorities increase interest rates to reduce inflationary pressures, borrowing costs for businesses and households rise, which can temporarily slow investment and consumption activities. As a result, while inflation targeting can enhance macroeconomic stability, policymakers must carefully calibrate monetary policy actions to avoid excessive contractionary effects on the real economy (Saputra, 2024).

Similar policy dynamics have been observed in other countries that have adopted inflation targeting regimes. In Tunisia, for example, research suggests that forward-looking monetary policy rules combined with interest rate smoothing can reduce welfare losses associated with inflation volatility while maintaining relatively stable output growth. By gradually adjusting interest rates in response to inflationary pressures, central banks can minimize disruptions to economic activity while maintaining price stability. These findings indicate that the design of monetary policy rules and the effectiveness of interest rate transmission mechanisms are crucial factors determining the success of inflation targeting frameworks (Turki & Gabsi, 2025).

In India, the adoption of flexible inflation targeting has strengthened the transmission of monetary policy through interest rate and credit channels. However, empirical evidence also suggests that the increased focus on inflation control may reduce the direct influence of monetary policy on output growth. This occurs because policy decisions are primarily guided by inflation targets rather than broader macroeconomic indicators such as employment or industrial production. Consequently, while inflation targeting frameworks may enhance macroeconomic stability, they may also limit the flexibility of monetary policy in responding to short-term economic fluctuations (Raghuvanshi & Ahmad, 2024).

Despite the widespread adoption of inflation targeting policies, the relationship between inflation control and economic growth remains a subject of considerable debate in economic literature. Several empirical studies suggest that the relationship between inflation and economic growth is nonlinear and depends on the level of inflation and the structural characteristics of the economy. Research conducted in post-Soviet economies demonstrates that high inflation levels tend to reduce long-term economic growth. In these countries, a one percent increase in inflation has been associated with a reduction in long-term economic growth of approximately 0.195 percent. These findings support the argument that maintaining low and stable inflation is essential for sustaining long-term economic development (Kerimov et al., 2023).

However, other studies indicate that moderate levels of inflation may not necessarily harm economic growth and may even support economic expansion under certain conditions. Research conducted in Pakistan suggests that inflation below a threshold of approximately 7.5 percent does not significantly reduce economic growth and may even stimulate production by encouraging consumption and investment. Once inflation exceeds this threshold, however, the negative effects of inflation on economic growth become more pronounced. These findings highlight the importance of identifying inflation thresholds beyond which inflation becomes detrimental to economic performance (Khan et al., 2025).

Evidence from Nigeria further illustrates the complexity of the relationship between inflation and economic growth. In the long run, inflation appears to have a

negative impact on economic growth due to its adverse effects on investment and productivity. However, short-term demand shocks that temporarily increase inflation may also stimulate economic activity by increasing aggregate demand. This dynamic suggests that the relationship between inflation and output growth depends not only on the level of inflation but also on the underlying sources of inflationary pressures and the time horizon of analysis (Ifeacho et al., 2025).

Studies conducted in European economies also provide mixed evidence regarding the impact of inflation on economic growth. Some research suggests that within moderate inflation ranges observed in European Union countries, inflation levels do not significantly reduce economic growth. Instead, aggressive monetary tightening implemented to control inflation may have stronger negative effects on economic output. These findings indicate that while price stability remains an important policy objective, excessively restrictive monetary policies may unintentionally suppress economic growth by reducing credit availability and limiting investment activities (Pappas & Boukas, 2025).

Another important dimension in the relationship between inflation and economic growth concerns inflation uncertainty. In addition to the average level of inflation, fluctuations in inflation expectations can significantly influence economic performance. High inflation uncertainty increases the risk associated with long-term investments because businesses cannot accurately predict future production costs or price levels. As a result, firms may delay or reduce investment decisions, which ultimately slows economic growth. Research also suggests that nominal uncertainty generally has a negative impact on economic growth, while real uncertainty may produce mixed outcomes depending on macroeconomic conditions and policy responses (Chowdhury, 2023).

These findings collectively indicate that the relationship between price stability and output growth cannot be understood through a simple linear framework. Instead, the relationship depends on multiple factors including inflation levels, inflation volatility, institutional capacity, and policy coordination between monetary and fiscal authorities. A singular focus on inflation control may achieve price stability but could also create short-term trade-offs with employment and economic growth. Consequently, many economists advocate for more flexible and coordinated macroeconomic policy frameworks that integrate monetary, fiscal, and macroprudential policies to achieve balanced economic outcomes. Such policy frameworks recognize that maintaining price stability is essential for long-term economic stability but must be implemented in a manner that supports sustainable output growth and financial system resilience (Magubane & Nzimande, 2024).

Overall, the results of this study confirm that price stability and inflation targeting policies remain fundamental components of macroeconomic management. However, the relationship between inflation control and output growth is nonlinear and context dependent. While low and stable inflation supports long-term economic growth by reducing uncertainty and improving investment conditions, overly restrictive monetary policies aimed at controlling inflation may suppress economic activity in the short term. Therefore, policymakers must adopt flexible and coordinated macroeconomic policy frameworks that balance the objectives of price stability and economic growth to achieve sustainable macroeconomic stability.

CONCLUSIONS

The findings of this study conclude that price stability plays a fundamental role in supporting macroeconomic stability and sustainable output growth within the

framework of inflation targeting policies. However, the relationship between inflation control and output growth is nonlinear and highly dependent on the level of inflation, economic structure, and policy implementation. Maintaining low and stable inflation reduces economic uncertainty, encourages investment, and improves the efficiency of resource allocation, thereby supporting long-term economic growth. At the same time, empirical evidence indicates that moderate inflation levels may not necessarily hinder economic activity, while excessively high or volatile inflation can significantly weaken growth prospects. Furthermore, overly aggressive monetary tightening aimed at controlling inflation may temporarily suppress economic output by increasing borrowing costs and reducing aggregate demand. Therefore, the effectiveness of inflation targeting policies depends on the ability of policymakers to implement flexible and well-coordinated macroeconomic strategies that balance the objective of price stability with the need to sustain economic growth.

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