

Improvements in Monetary Policy and Implications for Nigeria

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Some of the Dramatic Changes in the Price Stability

- Decline of inflation in many parts of the world,
 - United States
 - United Kingdom
 - Africa.
- And more economic stability.

U.S. Inflation

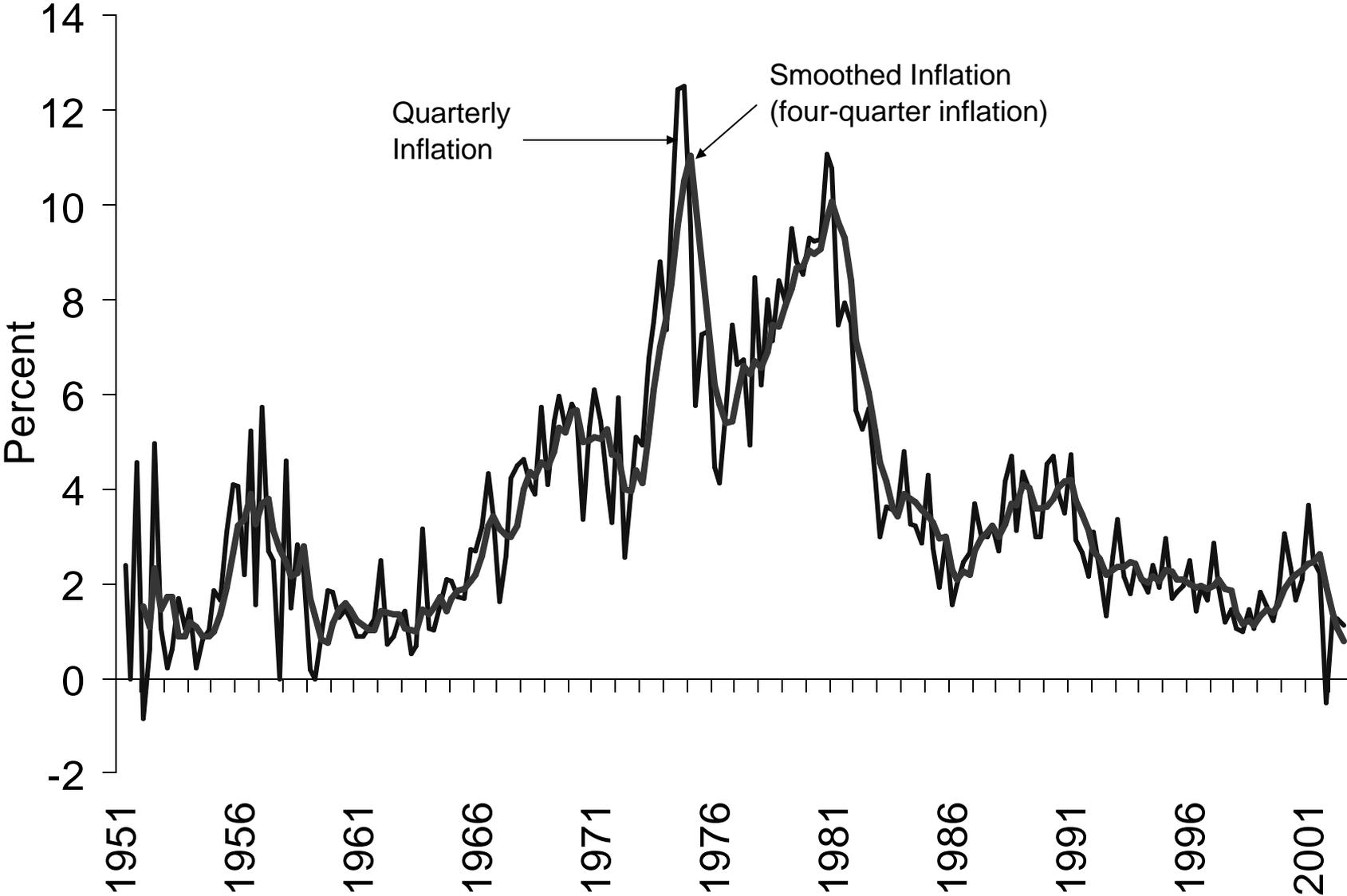


FIGURE 1

U.K. Inflation

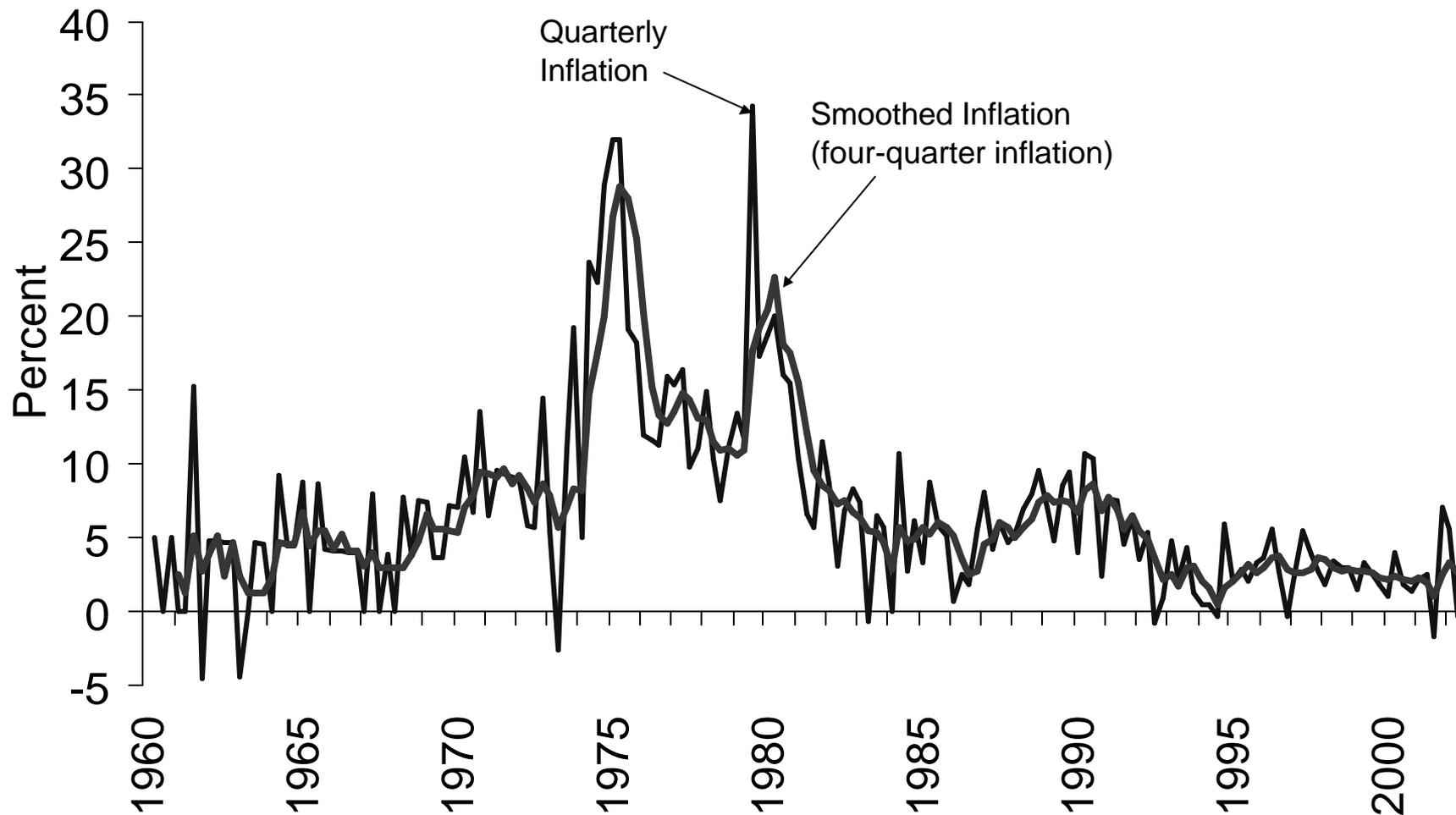


FIGURE 2

Median Inflation

5-Year Periods by Region

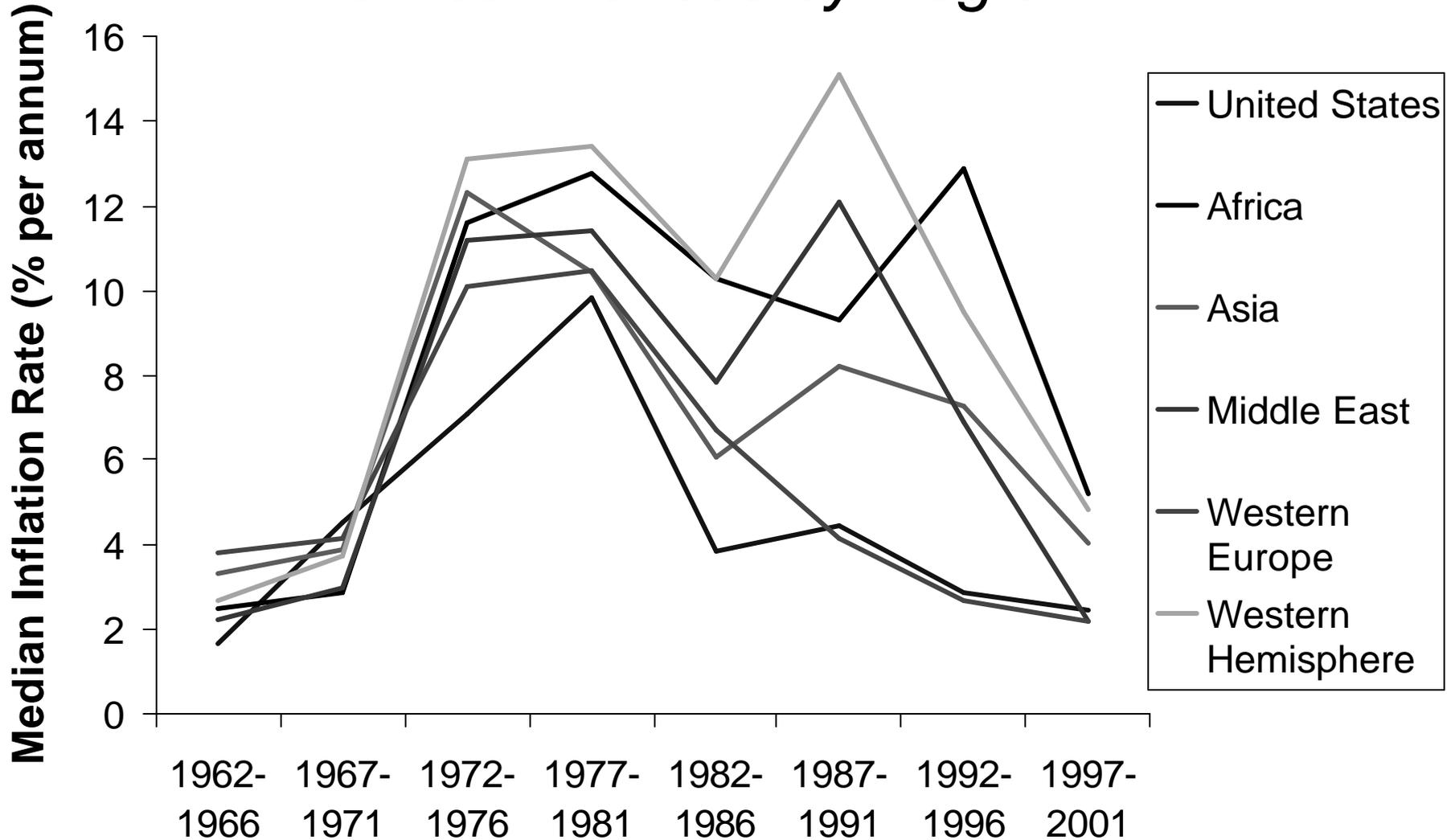


FIGURE 5

Money Growth and Inflation

1971-2001

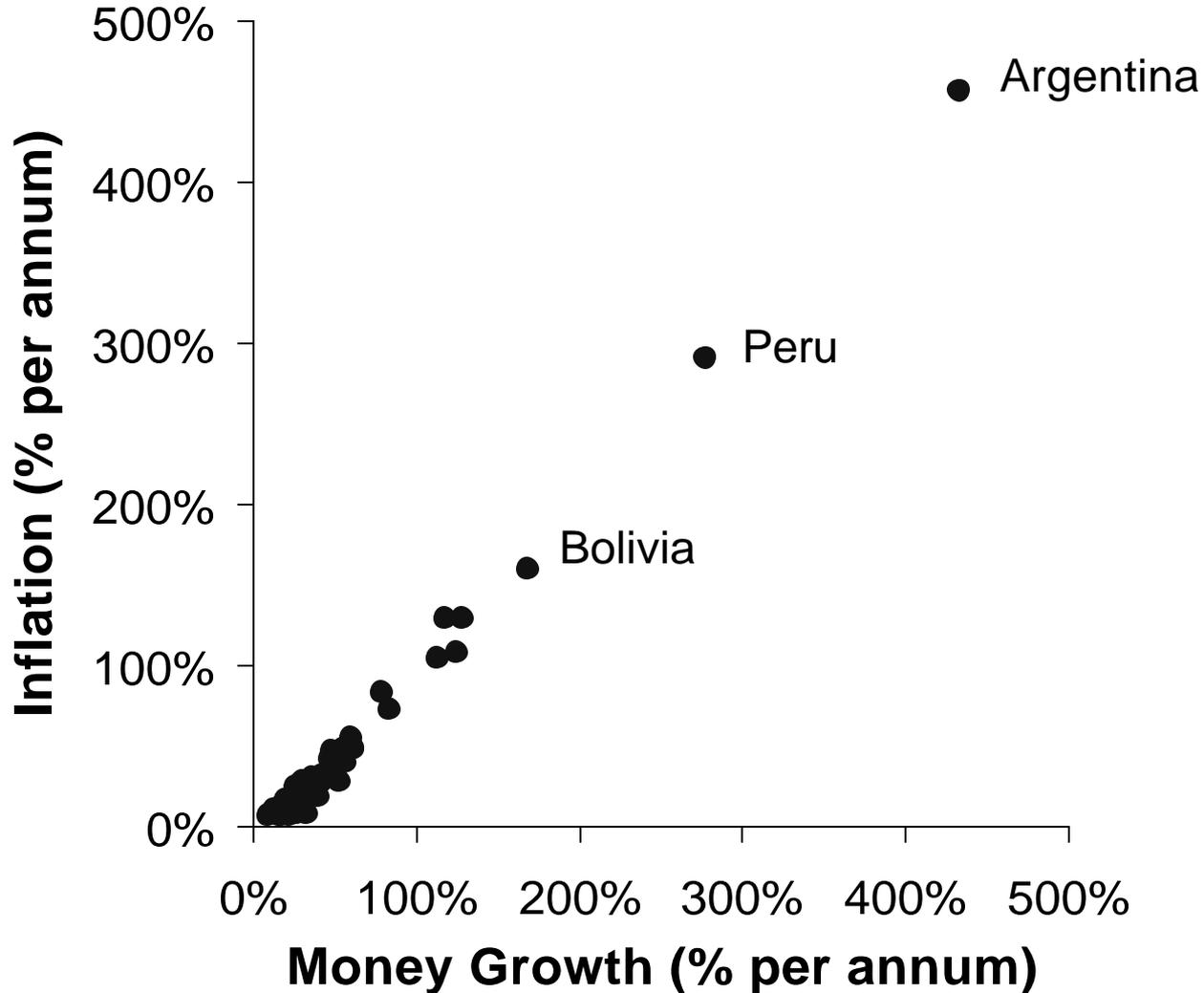


FIGURE 6A

Three changes in monetary policy

- Changes in exchange rate policy
Move away from managed pegs to either Flexible exchange rates, or currency unions, dollarizations
- More focus on the price stability goal
- More recognition of need for a transparent, systematic, approach to changing the instruments of monetary policy (usually interest rate)

Revealed Choice of Exchange Rate Policies Around the World

- **47** countries with flexible exchange rates, inflation goals, and monetary policy instruments (interest rate or monetary base) aimed at the goals
- **50** countries either dollarized, in currency unions, or using currency boards
- **75** with fixed or heavily managed exchange rates
- **7** with multiple exchange rate regimes (way down)

Changes in Monetary Policy Rules

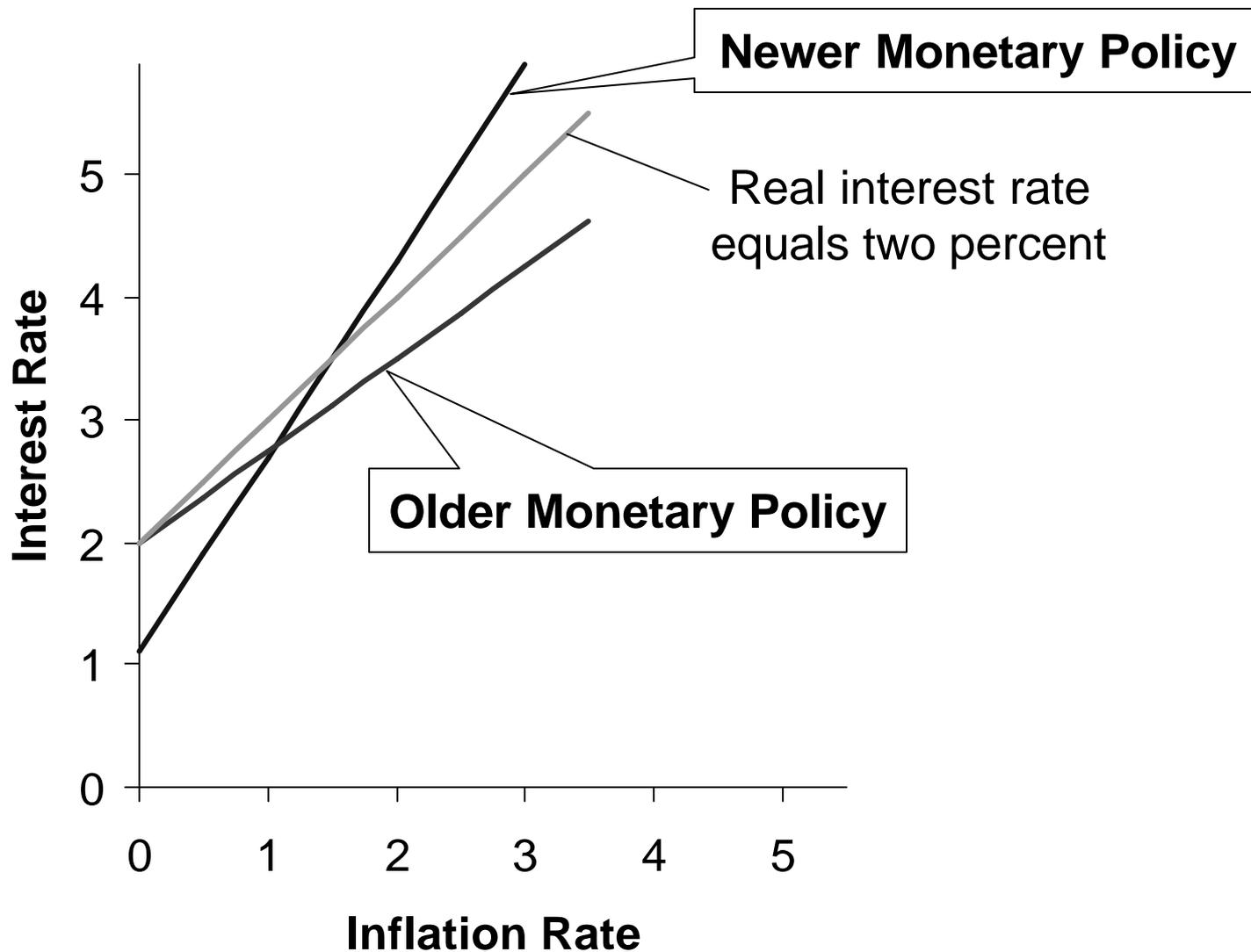


FIGURE 7

U.S. Inflation

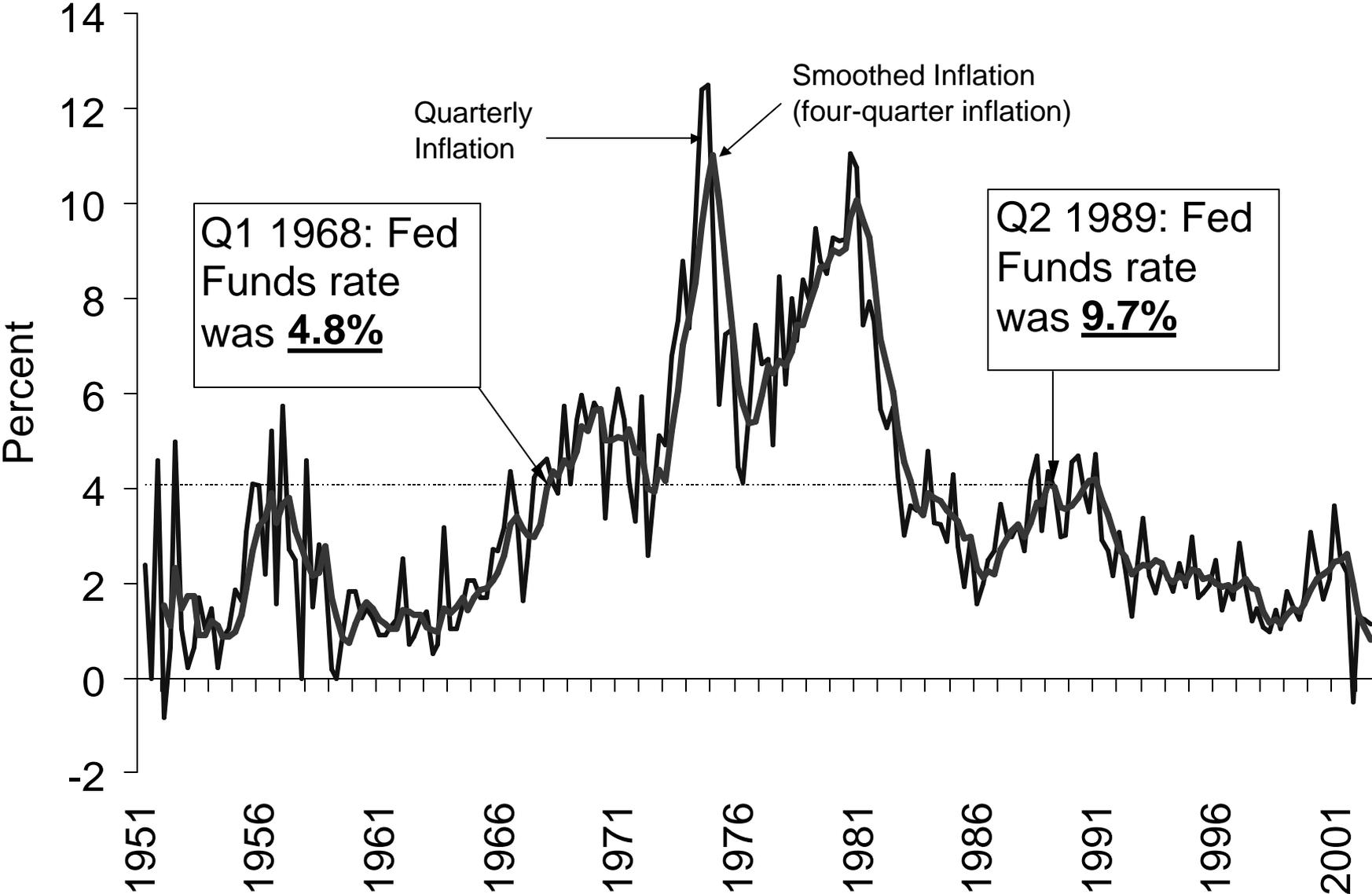


FIGURE 8

U.K. Inflation

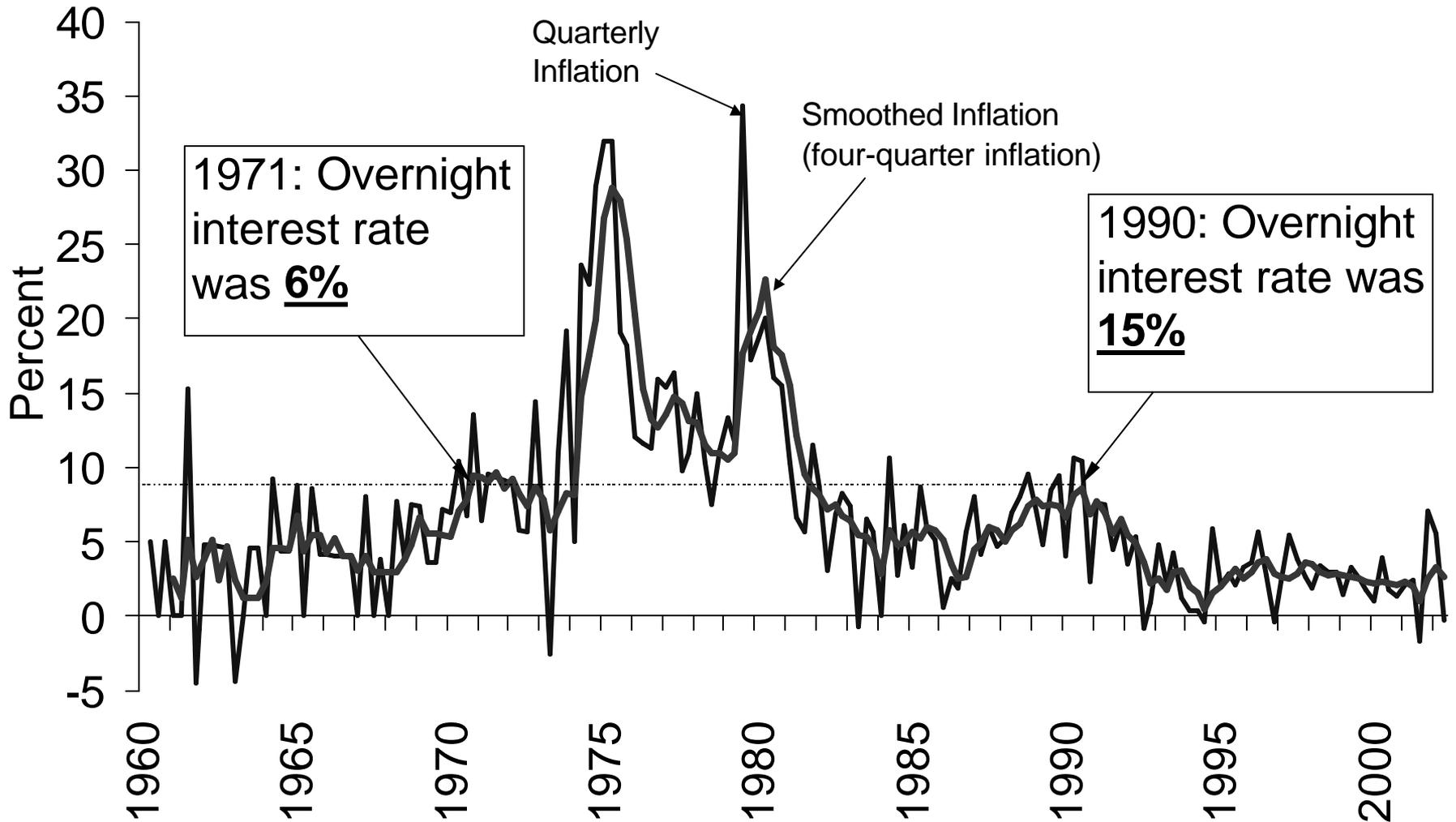


FIGURE 9

The Greater Than One Principle

- Response less than one:
 - Real interest rate declines when inflation increases
 - Instability
- Response greater than one:
 - Real interest rate rises when inflation increases
 - Stability
- Fact:
 - Coefficient less than one during high inflation years

