

Financial Markets and the Effectiveness of an IT Framework: Some Key Issues

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Effectiveness of an IT framework

- The Bernanke-Laubach-Mishkin-Posen (1999) definition of inflation targeting
- Effectiveness of an IT framework requires:
 - Clear objectives: e.g. inflation of 0-3%
 - Responsibility: Governor or MPC?
 - Delegation
 - Accountability
 - Transparency
 - What's new? Ex-post vs ex-ante evaluation?

Financial Markets and IT: Asset Prices

- Financial markets: for buying and selling financial securities at low transaction costs and at prices that reflect efficient flow of information (EMH)
- Hence, asset values matter; but asset prices & bubbles: Shiller/Greenspan ‘irrational exuberance’?
- For example, in the case of the CBN: consider?
 - stock market
 - bond market
 - foreign exchange or currency market
 - money market
 - Mortgage market
 - derivative market
 - other markets: e.g. commodity market, insurance market, ..

Financial Markets and IT: what are the issues?

- How rapidly and precisely is monetary policy (IT) transmitted to the financial markets?
- An IT regime requires MP decisions to be quickly transmitted (efficiency) to financial markets, and at the same time allow expectations of future policy to affect the yield curve accordingly.

Financial Markets and IT: what are the issues?

- How far out along the yield curve should be targeted?
- How do we minimise financial market distortions and excessive transaction costs that result from adoption of an IT?
- How then should the CBN support the move to IT?

Financial Markets and IT: what are the issues?

- Can an IT operating framework hold back financial markets?
- On the contrary: As financial markets in Nigeria develop and become more liquid and sophisticated, the CBN has the opportunity to update its MP operating framework and move to a more market-based system, such as IT
- Such a move is essential if the development of financial markets is not to be stifled

Financial Markets and IT: the dangers?

- However, caution: market-based operating frameworks are not a viable option for countries with underdeveloped financial markets
- Is this the case for Nigeria?
- What approaches are effective in order to minimise the costs and adverse effects on financial markets?

Conclusion: some answers and more questions

- Is an IT framework the way to go for the CBN?
- But the 5 key concerns for organisational effectiveness must be met (see slide 2)
- In addition, the efficiency of price discovery in the financial markets is important i.e. stage of development of Nigeria's main financial markets
- What is the route map to IT by the CBN?