

# Monetary Policy Rules in Practice: Some International Evidence\*

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## Abstract

This paper reports estimates of monetary policy reaction functions for two sets of countries: the G3 (Germany, Japan, and the U.S.) and the E3 (UK, France, and Italy). We find that since 1979 each of the G3 central banks has pursued an implicit form of inflation targeting, which may account for the broad success of monetary policy in those countries over this time period. The evidence also suggests that these central banks have been forward looking: they respond to anticipated inflation as opposed to lagged inflation. As for the E3, even prior to the emergence of the "hard ERM," the E3 central banks were heavily influenced by German monetary policy. Further, using the Bundesbank's policy rule as a benchmark, we find that at the time of the EMS collapse, interest rates in each of the E3 countries were much higher than domestic macroeconomic conditions warranted. Taken all together, the results lend support to the view that some form of inflation targeting may be superior to fixing exchange rates, as a means to gain a nominal anchor for monetary policy.

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