



The SEACEN Centre

Evolving Monetary Policy Frameworks

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Introductory remarks at the Session 1

**“Rethinking Monetary Policy Objectives and Policy Preferences in
Emerging Market Economies”**

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Evolving objectives



A time of innocence, A time of confidences

(with apologies to Paul Simon)

	Price stability
Short-term interest rate	X



Troubled waters

	Price stability	Financial Stability, Price stability now vs in the future
Short-term interest rate	X	X



Order restored

	Price stability	Financial Stability
Short-term interest rate	X	
Macroprudential tools		X



The Tinbergen Principle to the Rescue?

	Price stability	Financial Stability	Competitiveness
Short-term interest rate	X		
Macroprudential tools		X	
Interventions in the foreign exchange market/Capital flow management tools			X



If it only were that simple....

	Price stability	Financial Stability	Competitiveness
Short-term interest rate	X	X	X
Macroprudential tools	X	X	X
Interventions in the foreign exchange market/Capital flow management tools	X	X	X



Significant achievements using a diversity of strategies



Inflation performance in Asia and the Pacific

Andrew Filardo and Hans Genberg, “Targeting Inflation in Asia and the Pacific: Lessons from the Recent Past”,

In David Cobham, Oyvind Eitrheim, Stefan Gerlach and Jan F. Qvigstand (eds.) Inflation Targeting Twenty Years On: Past Lessons and Future Prospects. Cambridge: Cambridge University Press, 2010.

“The empirical evidence confirms that inflation performance in Asia and the Pacific has been admirable. ... However, it is difficult to document big differences in inflation performance over the past decade between explicit inflation targeters and non-inflation targeters. This is not to say there were no differences, but that the differences appear to be rather subtle.”

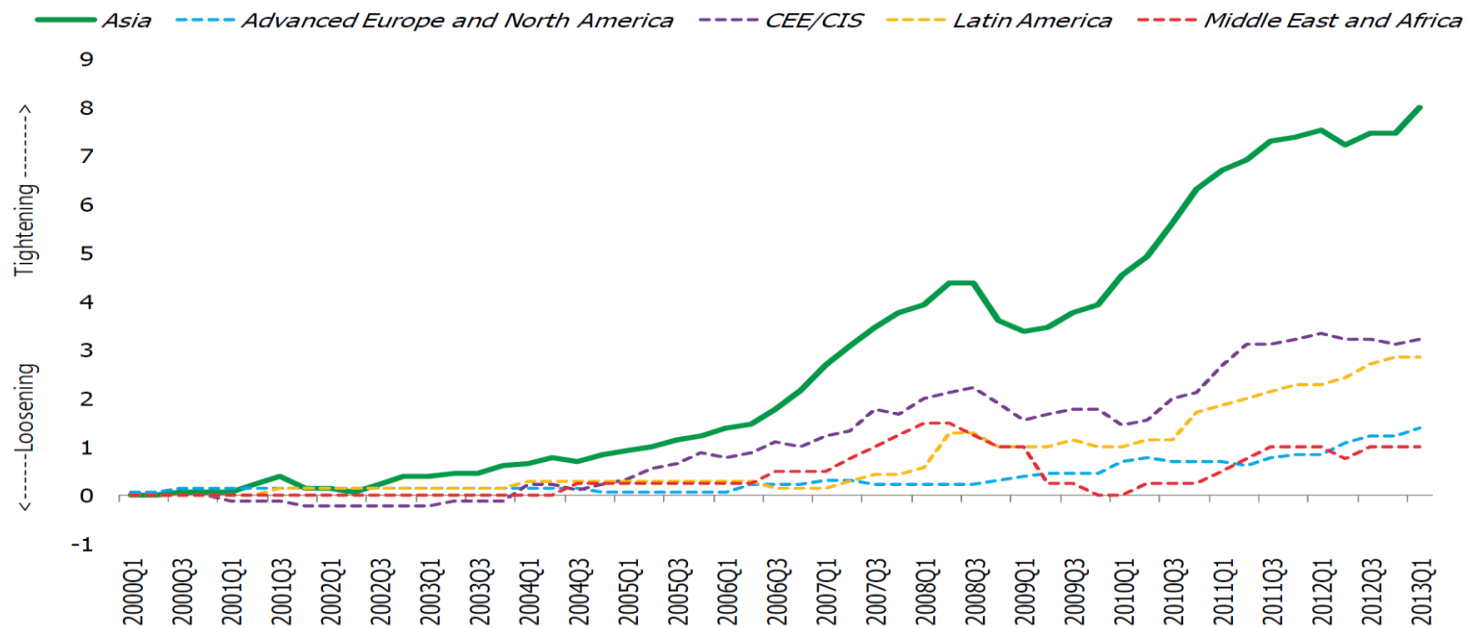


The increasing use of macroprudential policies

Macroprudential policies: cumulative actions by region

Graph

Average per country in each region; 2000:Q1-2013:Q1



Source: Graph 7 from Zhang and Zoli (2014).



Policy challenges



Policy challenges 1

- How to reconcile primary focus on inflation with increasing concern in society about other objectives?
 - Volatility of capital flows/sudden stops
 - Exchange rate misalignments
 - Financial stability and economic growth
- Need as many independent instruments as you have objectives.
 - Impeccable logic in theory but:
 - What if other instruments are not used?
 - There may still be a case for coordination.



Policy challenges 2

- How to design policy frameworks so as to minimize the risk that attention to these additional objectives will undermine the consensus in favour of inflation control.

