

Evolving Economic and Financial Landscape Implications for Monetary Policy*

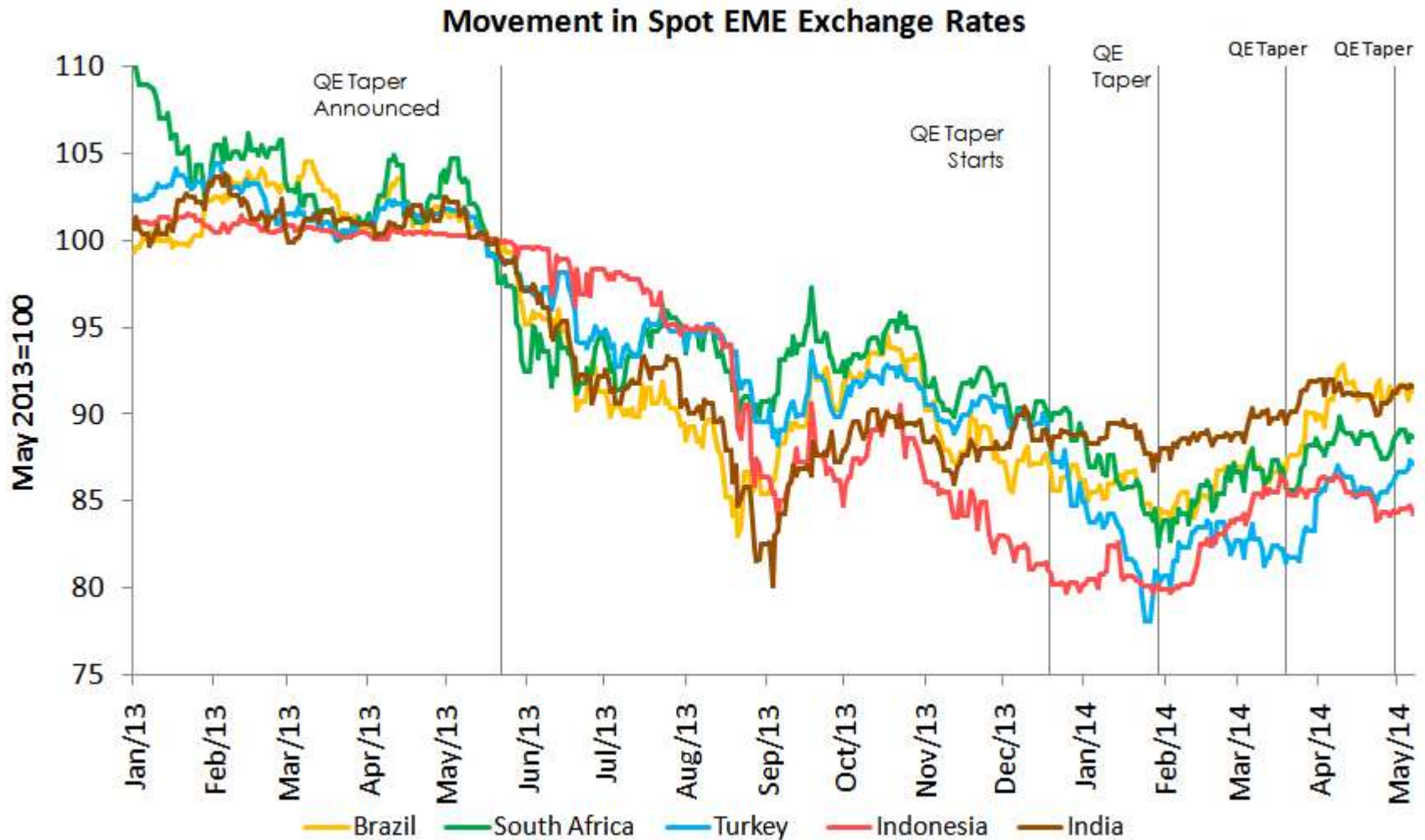
“The Future Direction of Monetary Policy Frameworks and
Strategies in Emerging Market Economies”

Michael Debabrata Patra

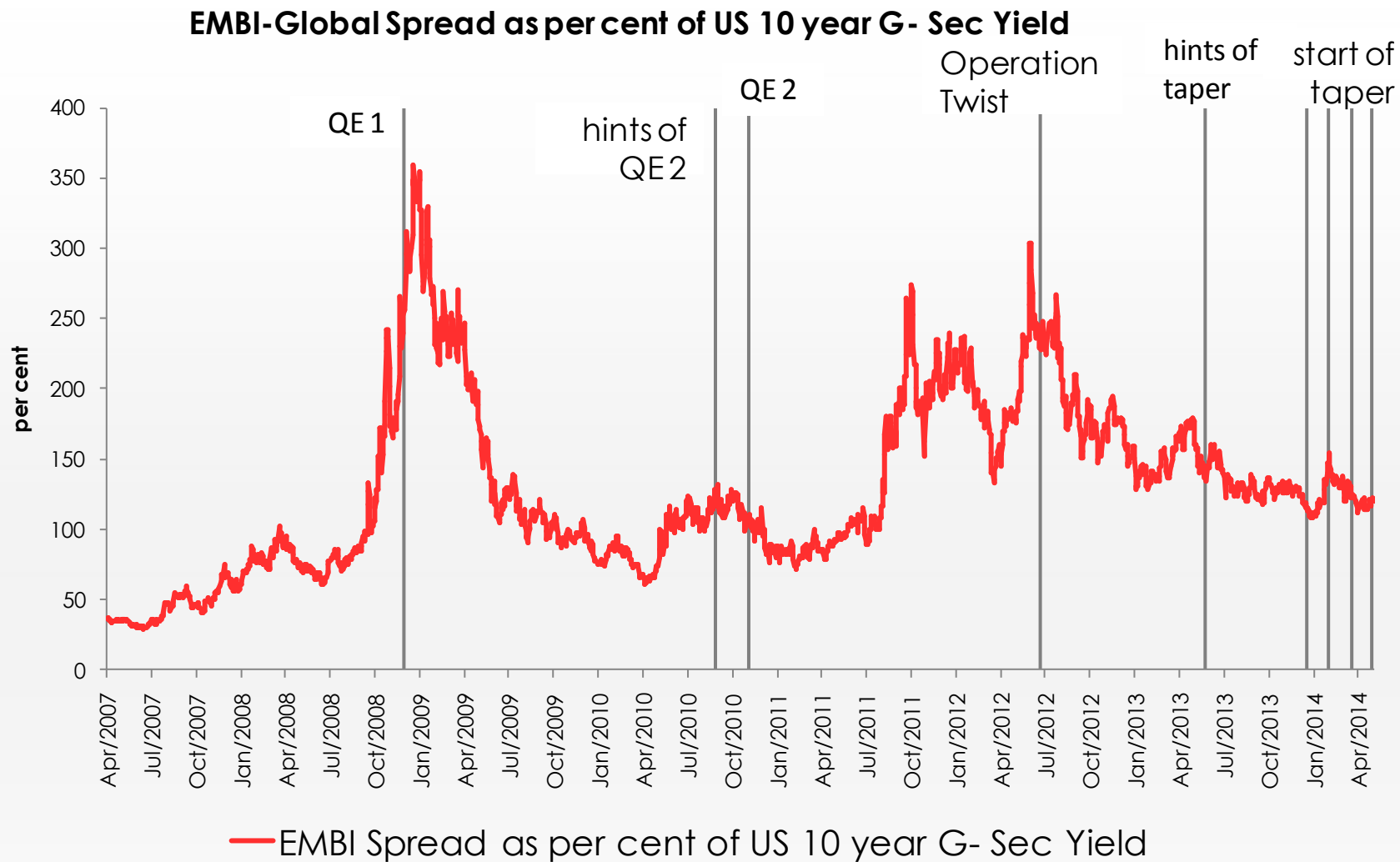
Bank Negara Malaysia

May 21, 2014

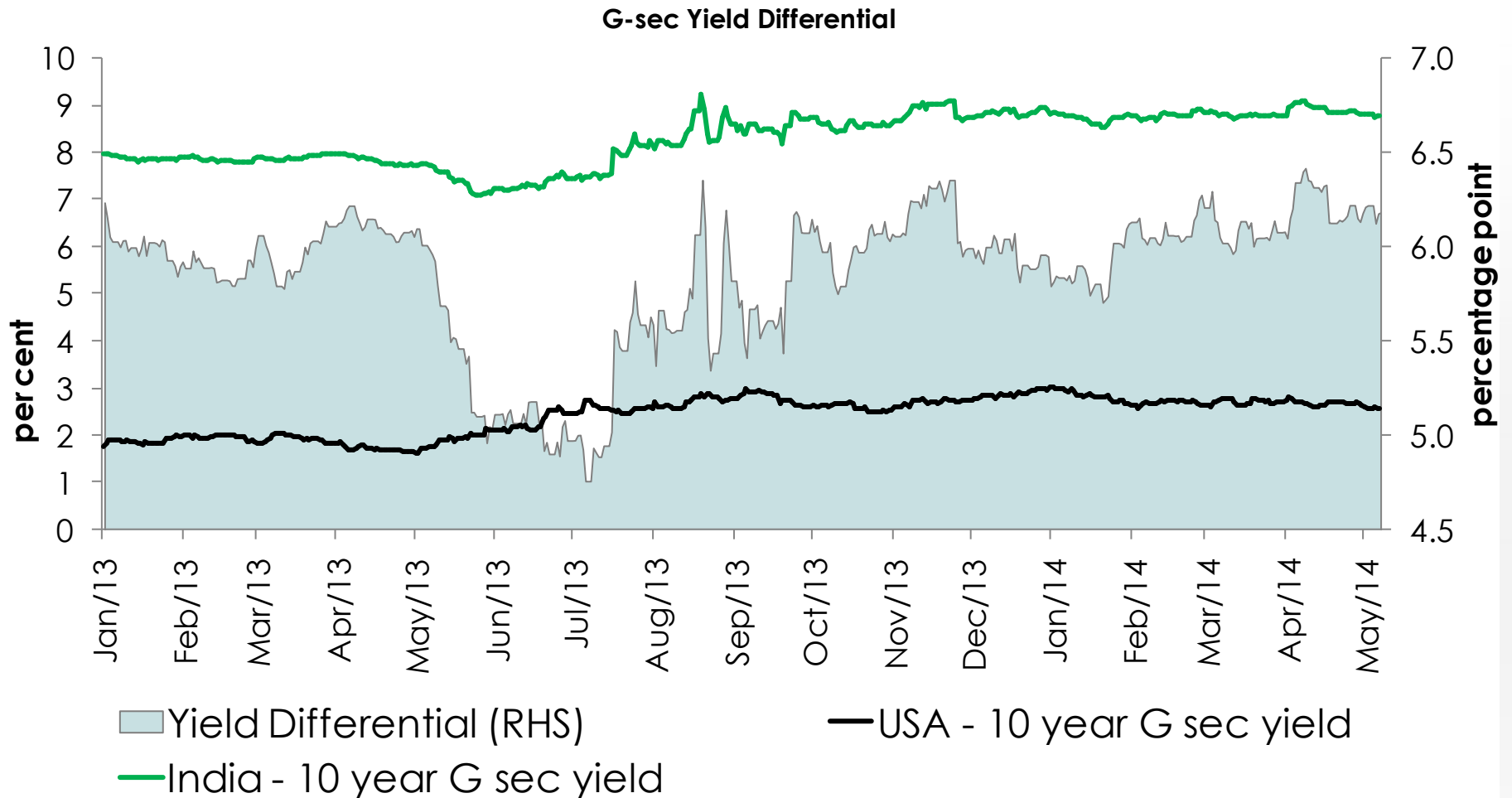
Exchange rate movements defining monetary policy settings



Long term yields – EMEs and US

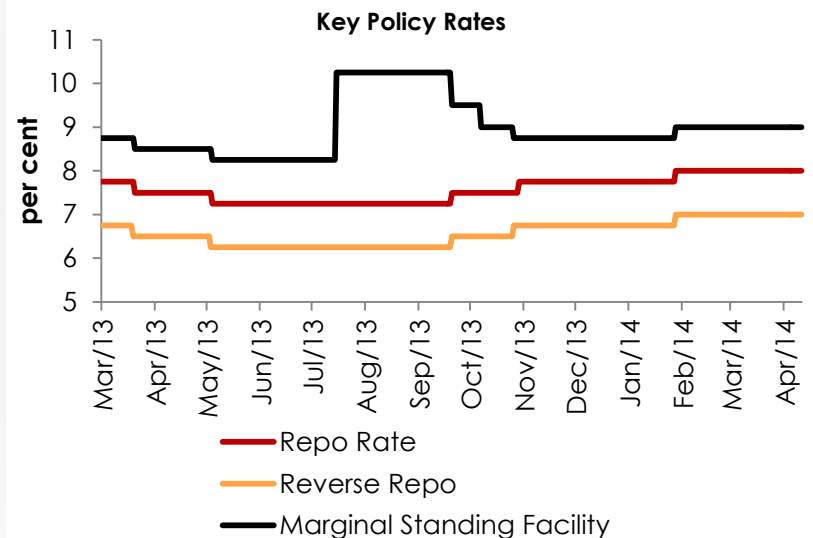
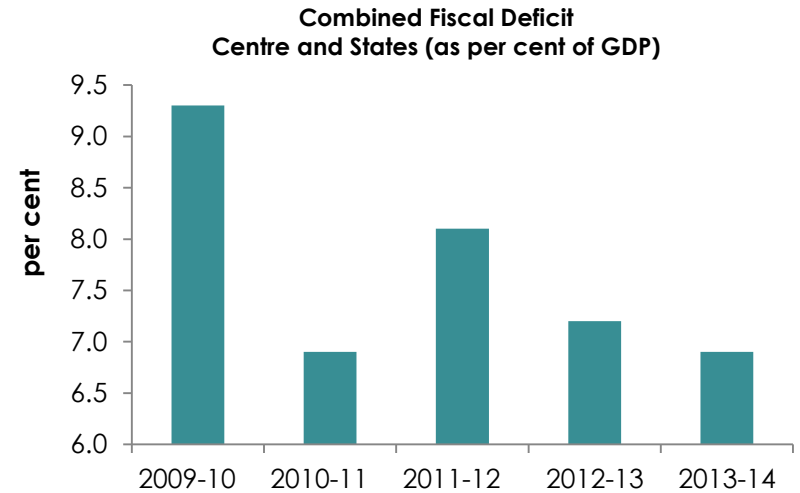


Yield spreads – India and US

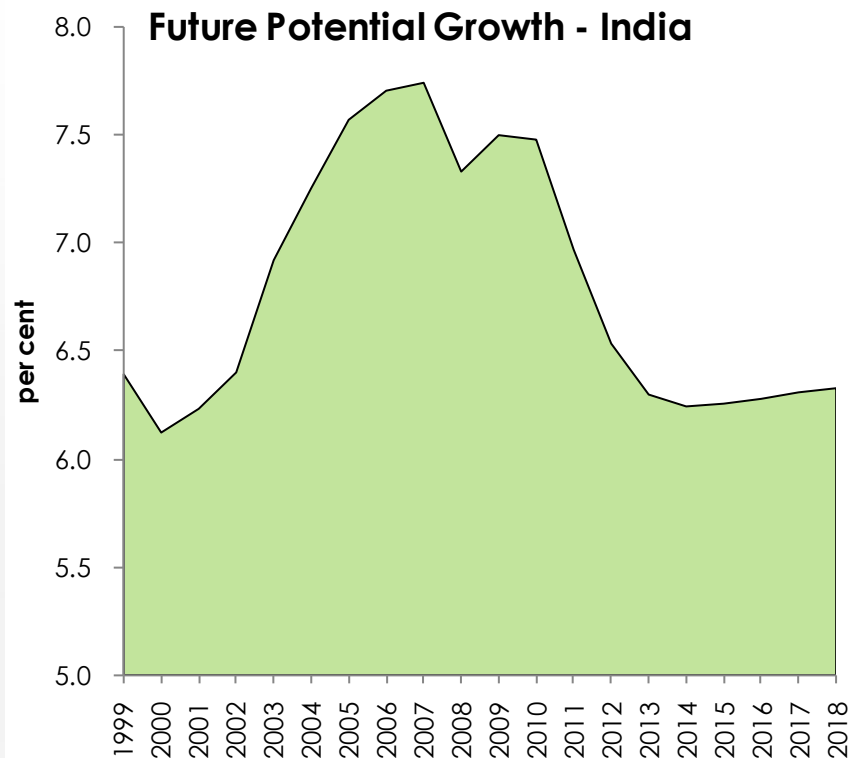
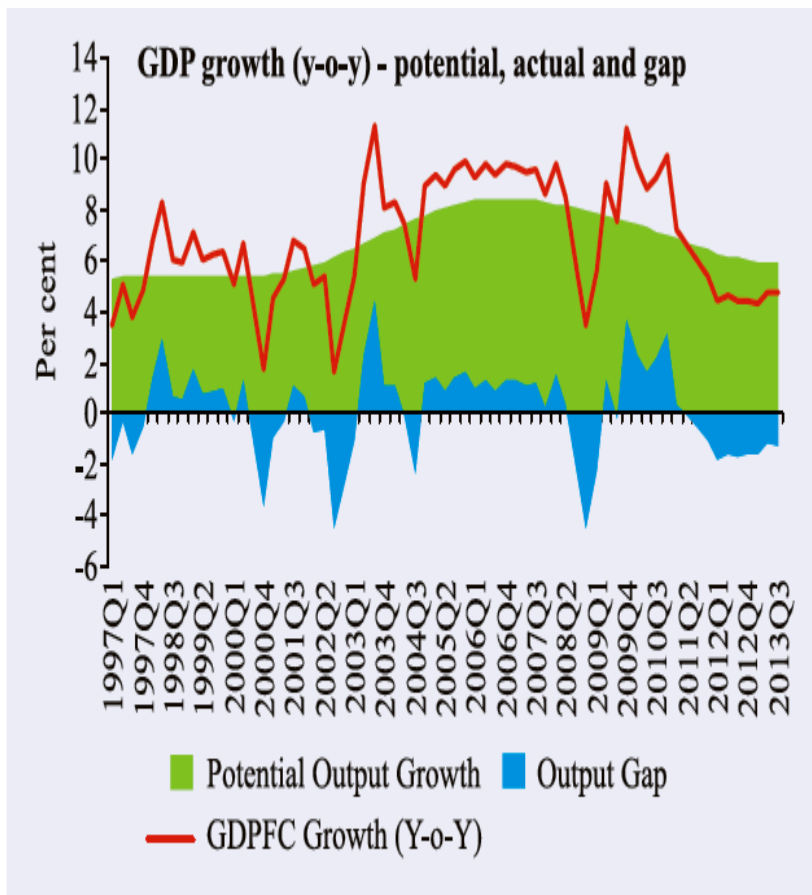


India – Large macro-economic adjustments undertaken

Variable	Variation	Period
Nominal Exchange Rate	Appreciated by 13.9 %	August 28, 2013 to May 16, 2014
REER	Appreciated by 4.8 %	August 2013 to March 2014
CAD	(-) 5.6 ppt	2012 Q3 to 2013 Q3
Gold Imports	(-) US \$ 5138.7 million	May 2013 to March 2014
Reserves	+ US \$ 5 billion	August 2013 to April 2014
Portfolio Flows	+US \$ 13.6	Mid-November 2013 to April 25, 2014

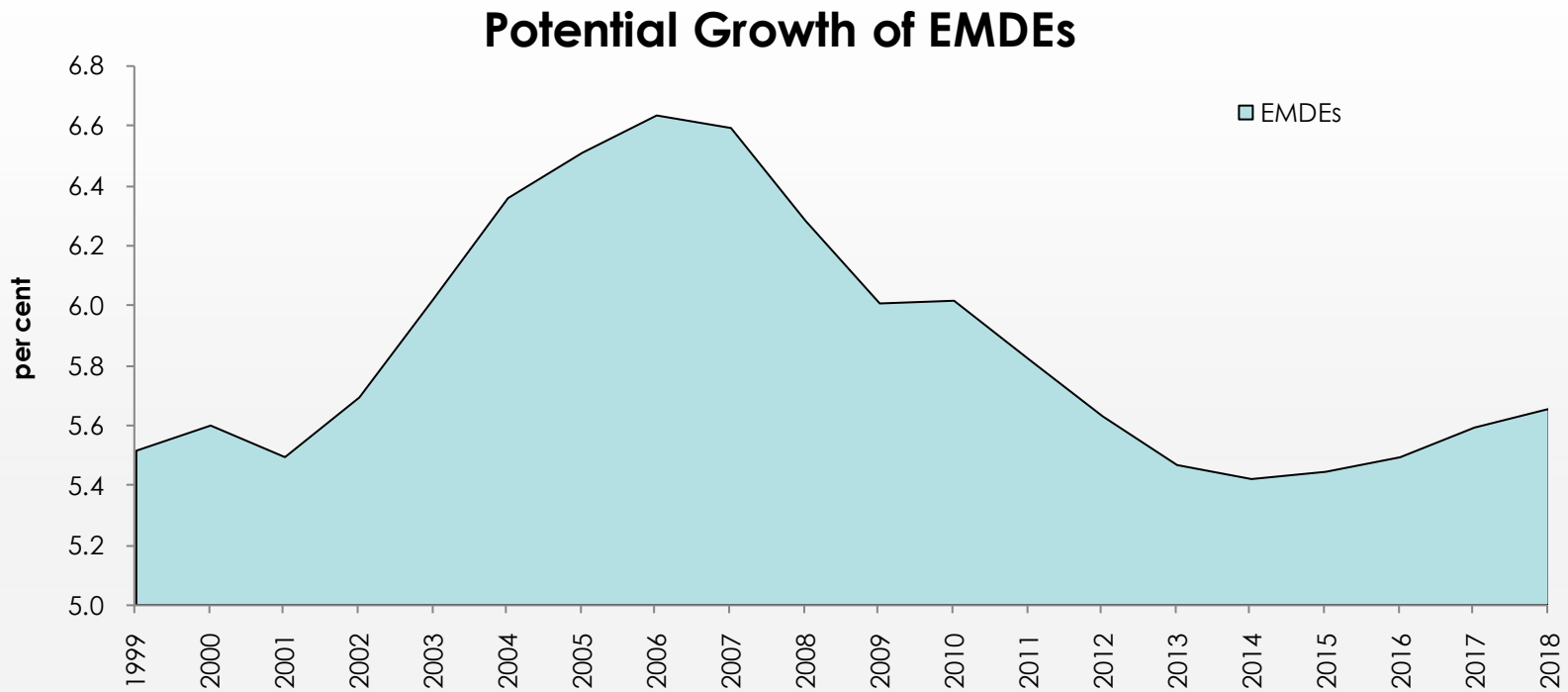


India- Potential growth impaired ?....



Estimates of future potential growth have been derived from WEO projections for growth and inflation, using a multivariate filter

....and also in EMDEs more broadly ?



Potential growth estimates have been derived from WEO data and projections for growth and inflation using a multivariate filter

Estimates of sacrifice ratio for India

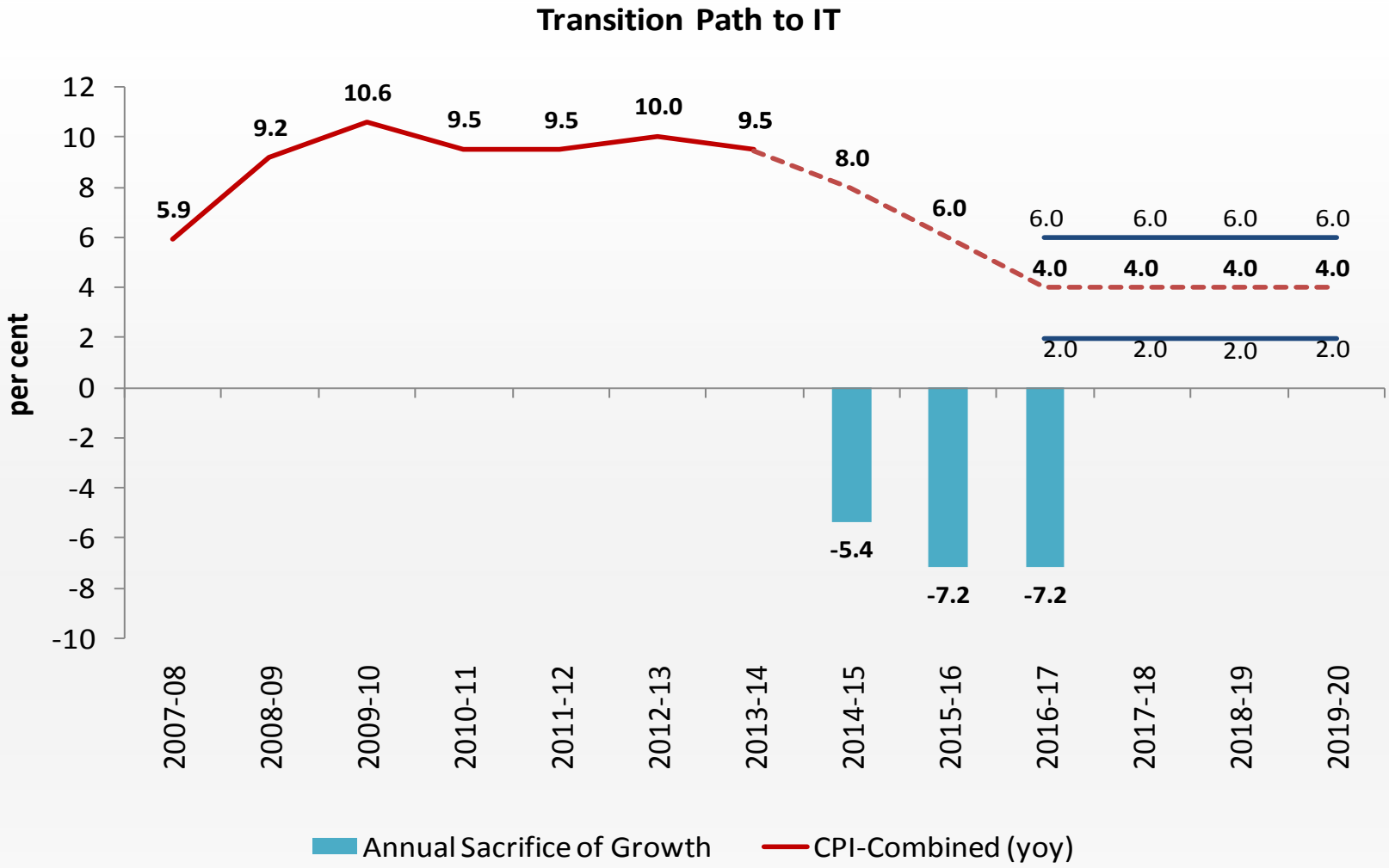
Study	Methodology	Study Period	Estimates of Sacrifice Ratio
RBI (2002)	Aggregate Supply Curve	Annual: 1975-2000	2
Kapur and Patra (2000)	Aggregate Supply Curve (alternative specification)	Annual: 1971- 2001	0.3 to 4.7
Patra and Kapoor (2010)	Aggregate Supply Curve	Quarterly: Apr-June'96 to July-Sept'09	1.1 to 1.7
Patra, M.D et. al. (2013)	Hybrid Augmented Philips Curve	Quarterly: Apr-Jun'96 to Jan-Mar'13	2.4-2.3*

Post-crisis inflation in India – one of the highest among G-20 ?

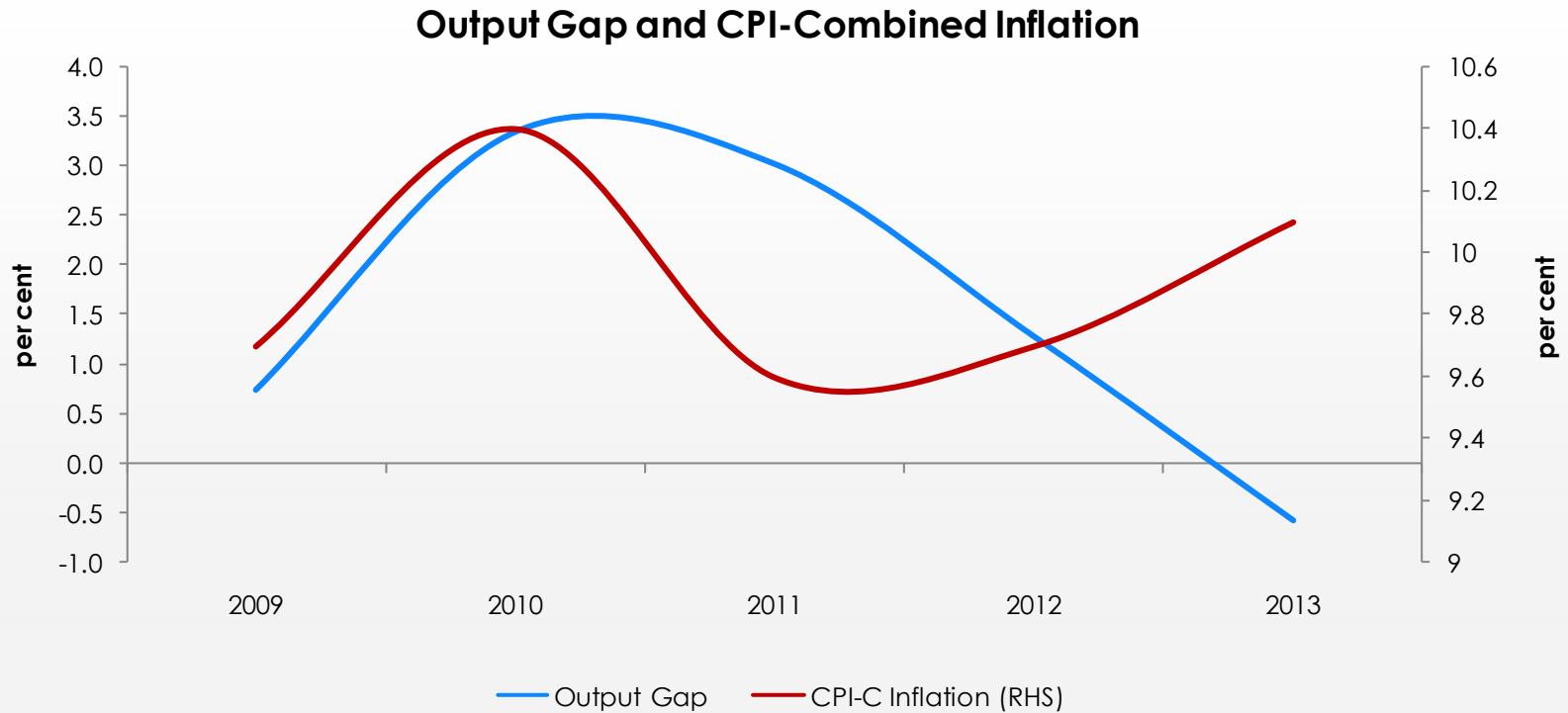
Time	2009	2010	2011	2012	2013	2014 Jan	2014 Feb	2014 Mar
Argentina	6.3	10.8	9.5	10.0	10.6
Australia	1.8	2.8	3.4	1.8	2.4
Brazil	4.9	5.0	6.6	5.4	6.2	5.6	5.7	6.2
Canada	0.3	1.8	2.9	1.5	0.9	1.5	1.1	1.5
China	-0.7	3.3	5.4	2.7	2.6	2.5	2.0	2.4
Euro Area	0.3	1.6	2.7	2.5	1.4	0.8	0.7	0.5
France	0.1	1.5	2.1	2.0	0.9	0.7	0.9	0.6
Germany	0.3	1.1	2.1	2.0	1.5	1.3	1.2	1.0
India	9.7	10.4	9.6	9.7	10.1	8.8	8.0	8.3
Indonesia	4.8	5.1	5.4	4.3	6.4	8.2	7.8	7.3
Italy	0.8	1.5	2.7	3.0	1.2	0.7	0.5	0.4
Japan	-1.3	-0.7	-0.3	0.0	0.4	1.4	1.5	...
Korea	2.8	3.0	4.0	2.2	1.3	1.1	1.0	1.3
Mexico	5.3	4.2	3.4	4.1	3.8	4.5	4.2	3.8
Russian Federation	11.7	6.9	8.4	5.1	6.8	6.1	6.2	6.9
Saudi Arabia	5.1	5.3	5.8	2.9	3.5	2.9	2.8	2.6
South Africa	7.1	4.3	5.3	5.4	5.7	5.8	5.9	...
Turkey	6.3	8.6	6.5	8.9	7.5	7.8	7.9	8.4
United Kingdom	2.2	3.3	4.5	2.8	2.6	1.8	1.8	1.7
United States	-0.4	1.6	3.2	2.1	1.5	1.6	1.1	1.5
G20	1.8	3.1	4.0	3.2	3.0	2.6	2.3	... 9

Source: IMF. For India inflation is based on CPI-Combined; data from 2012 based on MOSPI, prior data based on internal backcasted estimates

The cost of disinflation

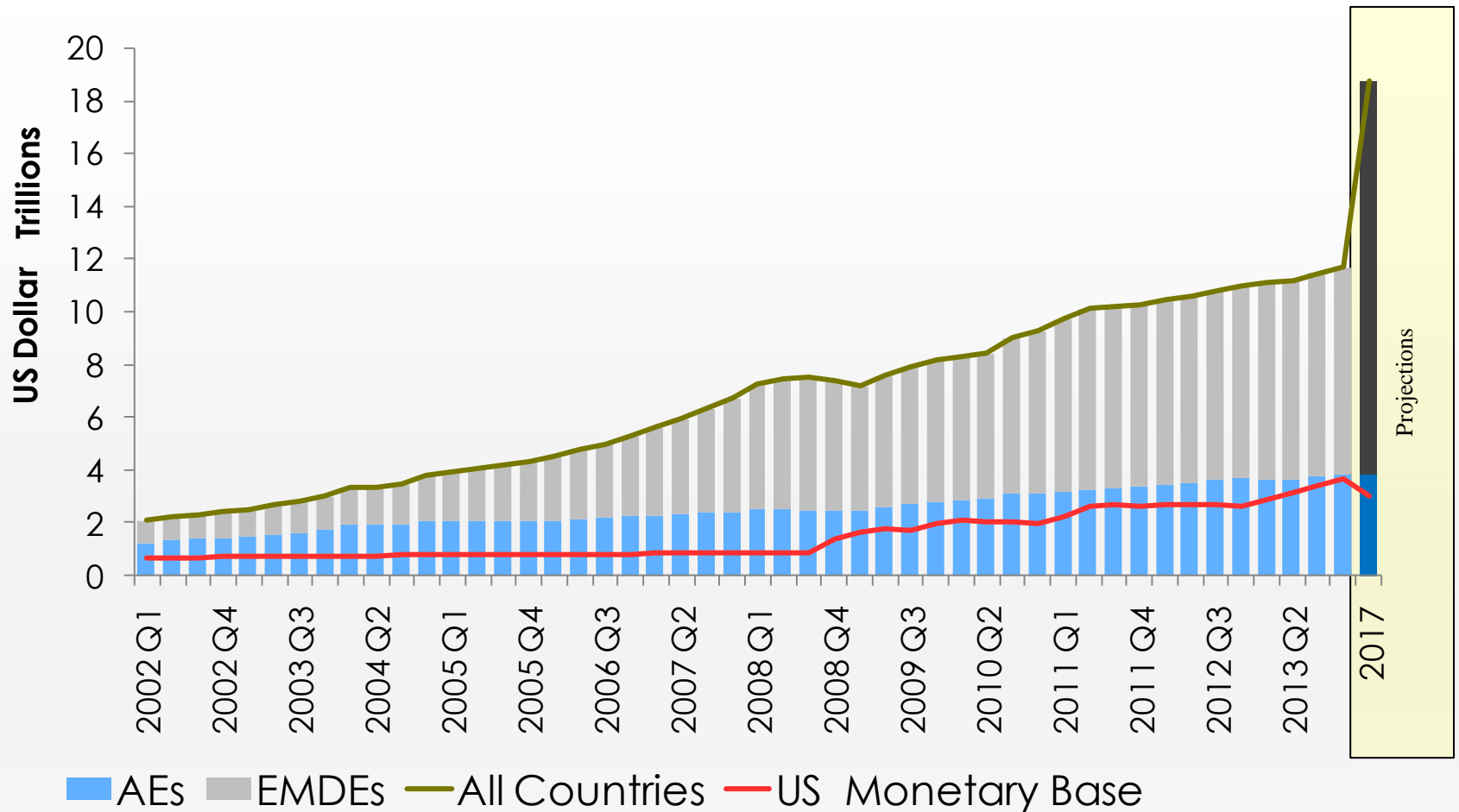


Output gap and inflation – coming apart ?

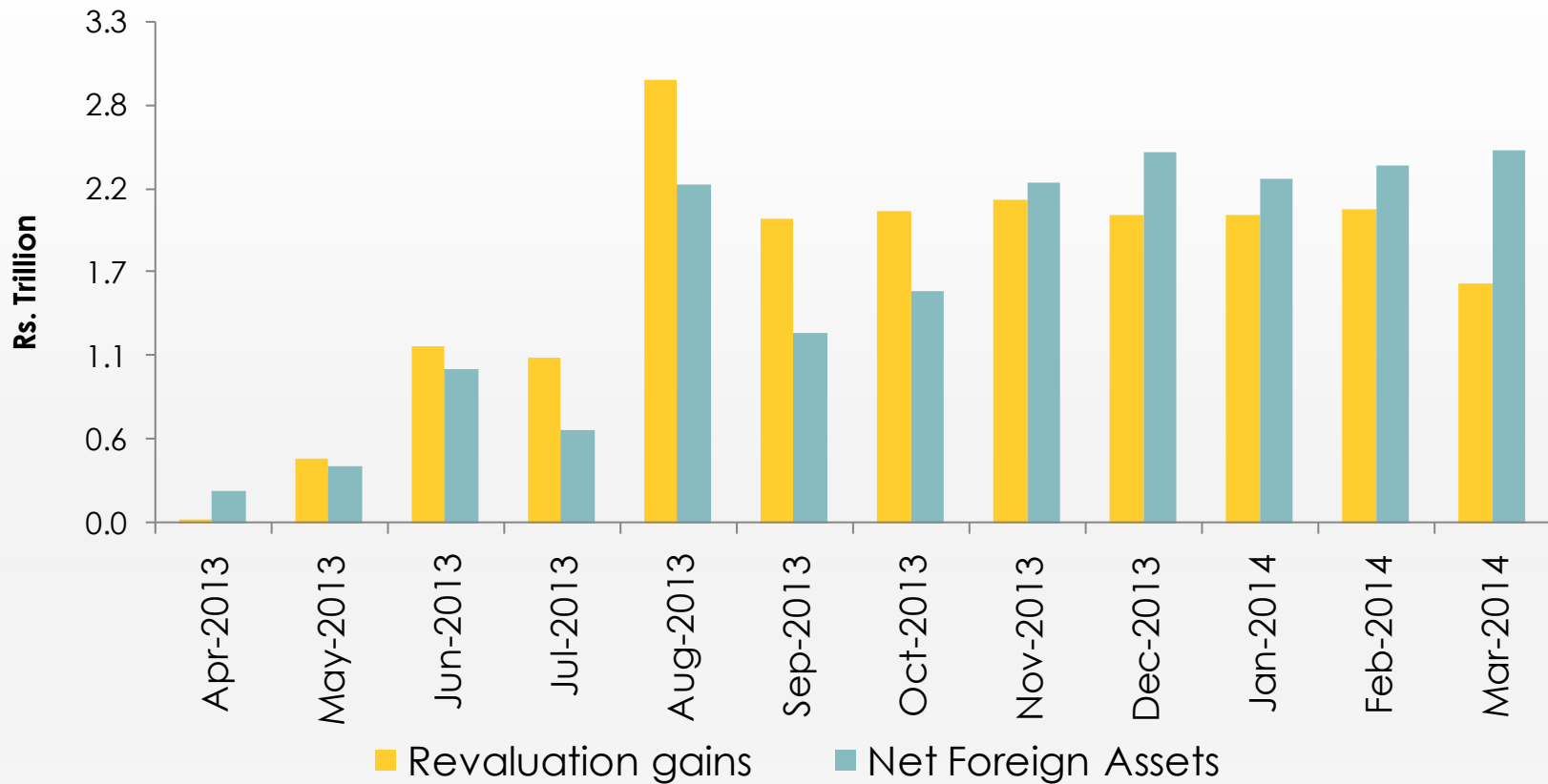


CPI-C inflation data prior to 2012 is an estimate based on a backcasted CPI-C series
Output Gap estimates have been derived from WEO data and projections for growth and inflation

Demand and supply of reserve assets – future shock ?



Foreign exchange risks and central bank balance sheet



Summing Up

- Is the era of competitive monetary policy about to ensue ?
- The global long-term interest rate matters much more for monetary policy choices facing EMEs than a decade ago, suggesting that monetary policy will never be the same again (Turner, 2014)
- Slowing potential growth – should monetary policy target activity more explicitly (IMF, 2013) ?
- Inflation and output gap – has the relationship changed ?
Implications for monetary policy ?
- Demand for reserves outstripping supply – sowing seeds of next crisis ?
- Reserves and valuation effects – loss of monetary policy independence

Turner, Philip (2014) 'The Global Long-Term Interest Rate, Financial Risks and Policy Choices in EMEs', BIS Working Papers No 441, February.
IMF (2013), 'Global Impact and Challenges Of Unconventional Monetary Policies', IMF Policy Paper, October 7.

Thank You !