Call for Papers – Bank Negara Malaysia's Conference on "Monetary Policy in the New Normal"

Bank Negara Malaysia (BNM) is organising a conference on "Monetary Policy in the New Normal", to be held in Kuala Lumpur, Malaysia on 10-11 June 2013. The aim of the conference is to generate an active discourse on current issues surrounding monetary policy. It is hoped that through this conference, participants could enrich the existing body of work on the issues and challenges in the conduct of monetary policy, and importantly, provide insights into the effective conduct of monetary policy in the challenging environment going forward. Among the topics that we expect to be addressed are the following:

Monetary policy in an era of high financial market volatility

The high volatility in global financial markets has become a regular feature confronting policy makers since the start of the financial crisis in 2008. Higher global liquidity amid monetary policy easing measures in advanced economies appear to have amplified these bouts of volatility and at times, raised concerns over the spillover effects and externalities to national economies. The elevated level of volatility may have also altered the dynamics between financial and real variables and their interaction with monetary policy.

Papers in this area are expected to explore the relationship between financial market volatility and the conduct of monetary policy and to draw lessons on how monetary policy effectiveness can be maintained in the face of such volatility.

Managing imbalances and rising indebtedness under a low interest rate environment

Very low interest rates have now prevailed for a number of years and appear to be likely to continue for the foreseeable future. Given the duration of the easing period, a key question is whether monetary policy can still be considered as being counter-cyclical or has there been a stuctural change in the monetary environment. It also gives rise to the potential unintended consequences of the prolonged low interest rate environment in terms of the mis-pricing of risks, overleveraging and rising household indebtedness, disintermediation of savings away from the banking system, excessive speculation, and the formation of asset price bubbles. Such developments could create financial and macroeconomic vulnerabilities that could harm the long term growth potential of the economy.

Papers on this topic could touch on potential policy issues arising from the prolonged period of low interest rates, and explore possible measures to address financial imbalances. Studies on the effectiveness of alternative monetary tools and instruments in managing risks of imbalances are also welcomed.

Global monetary easing and the search for returns – emerging markets' perspective in managing capital flows

Emerging market economies have seen a noticeable increase in financial flows following significant monetary expansion in the advanced economies. Several central banks in emerging markets have adopted various capital account measures to prevent financial flows creating risks that could undermine macroeconomic and financial stability. Some policy makers have even considered capital account measures as part of a bigger framework of macroprudential policies.

Papers in this area may wish to explore issues faced by emerging market economies in managing these capital flows, and to assess the various policy options available to policymakers in these economies. Other issues relate to whether the policy actions of individual countries could have potential spillovers effects on their neighbours, and whether it would be better to adopt a regional approach. Issues related to regional surveillance, crisis prevention and policy coordination would therefore be relevant. Additional areas relevant to the topic would include the role of the international monetary system in the current state of affairs, and what role of international financial institutions (IFIs) can play in forming a more cohesive framework for managing inflows.

Monetary policy in an environment of supply shocks

In recent times, episodes of supply shocks have become more frequent, pronounced and persistent. As supply shocks become almost a feature of the global economy, this could alter the dynamics of domestic inflation and add another layer of complexity to the management of inflation by central banks. Conventional wisdom suggests that monetary policy should accommodate the first-round effects while remaining vigilant against incipient signs of second-round effects. For central banks, however, it is increasingly becoming more challenging to determine whether supply shocks are permanent or transitory, which could potentially make it more difficult for central banks to determine the timing and magnitude of the monetary policy response.

Possible papers may discuss the dynamics of supply shocks, their transmission to the economy and their implications for monetary policy. What is an appropriate policy response and are there indicators that central banks can use to gauge the depth of the response needed? Papers that discuss on possible ways to explore and construct forward-looking indicators of supply pressures, effective surveillance of second-round effects on inflation, and ways to enhance existing forecasting models and techniques taking into account supply shocks are also of interest.

Monetary policy in times of high public debt

While fiscal policies have been instrumental in cushioning the impact of the financial crisis and resulting sharp global slowdown, over-stretched fiscal positions have now turned this instrument into a source of negative shocks for the economy, especially in major economies. With public debt levels surging dramatically in the wake of the crisis, concerns on the emergence of fiscal dominance has resurfaced. At the same time, there were also concerns that, the high public debt and limited policy space for fiscal policy has left monetary policy as the sole instrument supporting economic activity.

Possible papers could cover issues such as the potential risks and implications of the interplay of fiscal policy and monetary policy in an environment where fiscal policy has approached its limits. What are the potential implications for growth and inflation in the medium to long-term? A less explored area, but of equal interest would be on the ways of policy coordination between monetary and fiscal policies.

Submission of papers:

Drafts or detailed abstracts should be submitted to the organising secretariats at nozlan@bnm.gov.my or shakira@bnm.gov.my by 18 February 2013. Authors of accepted papers will be notified by 11 March 2013. Final drafts of papers should be submitted no later than 10 May 2013. Further updates on the conference will be posted on BNM's website at http://www.bnm.gov.my.