

On Modernizing Monetary Policy Frameworks in South Asia

Chetan Ghate^{2,3} Faisal Ahmed¹

Institute of Economic Growth²

Indian Statistical Institute - Delhi³

IMF¹

South Asia's Path to Resilient Growth

January 5-6, 2023

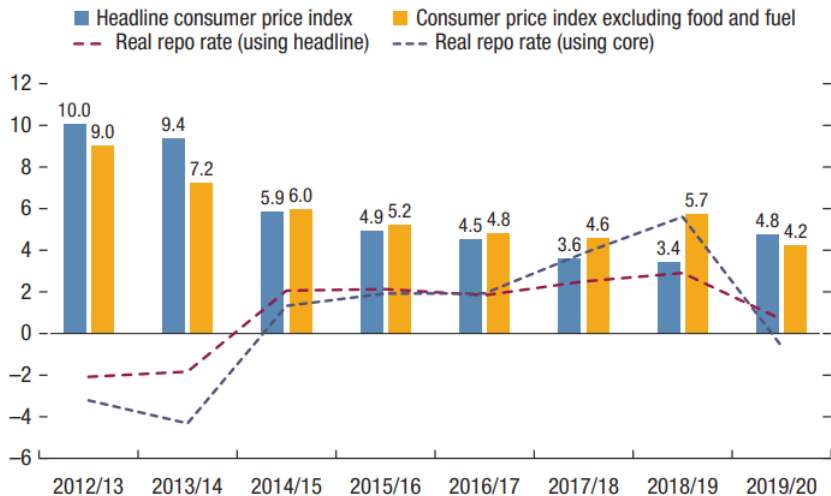
Monetary Policy in South Asia

- South Asia's monetary policy is diverse: Exchange Rate Targeters (Nepal, Bhutan, Maldives); Broad Money (Bangladesh); FIT (India, Sri Lanka)
- Batini and Laxton (2006) suggest four pre-conditions for the successful implementation of FIT: CB institutional independence, CB technical infrastructure, economic structure, and financial system development and health
- Adoption of FIT in India offers some intra-regional lessons
- In addition to price stability, EMDE Central Banks are often held responsible for a range of outcomes (growth, financial stability, exchange rates, CAD, income inequality, and increasing climate change)
- Challenges with monetary policy implementation and transmission (depth of the financial system, level of NPAs in the banking system, liquidity forecasting and management, bond market development)

Evaluation of FIT

- Main advantage of FIT - clearly defined nominal anchor that the public and financial markets understand
- Approaches to evaluation of FIT rely on 1) analyzing patterns in outcomes (have they become more stable?) and 2) Anchoring inflationary expectations
- First approach plagued by OMV, second approach is difficult since we don't have inflation-indexed bonds
- Garga, Ladkwala, Sengupta (2023) use novel forecast data to understand the shifts due to FIT (use OIS at daily frequencies) - show that both inflation and inflationary expectations have fallen post FIT (not identification, but based on trends)
- See various chapters in Ghate and Kletzer (2016), Chowdhury, Gupta, Eichengreen (2020), RBI Report on Currency and Finance (2021)
- What about fiscal dominance? Need to see public debt management, fiscal policy, and monetary policy together

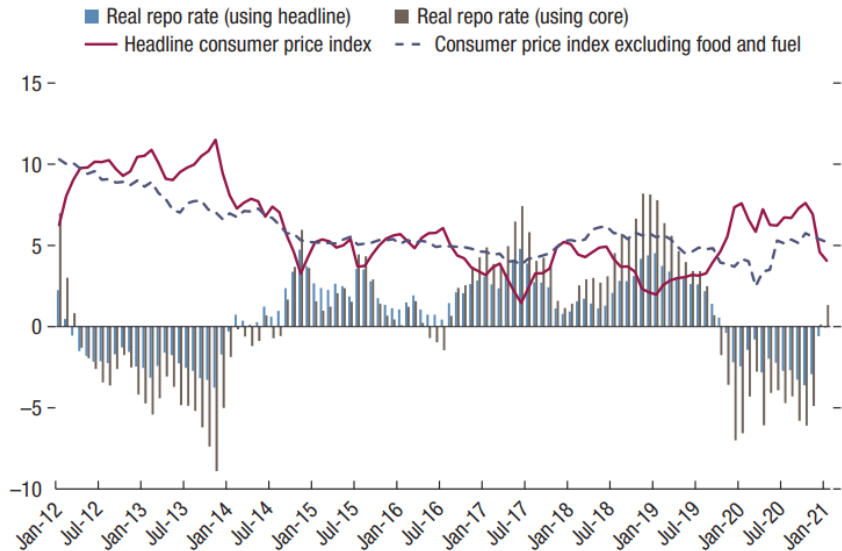
Figure 12.1. Inflation and Real Repo Rate in India
(Percent change, year on year, annual average)



Sources: Haver Analytics, and IMF staff calculations.

Figure 12.2. Inflation and Real Repo Rate in India

(Percent change, year on year, monthly)



Sources: Haver Analytics; and IMF staff calculations.

General Government Public Debt-GDP for India

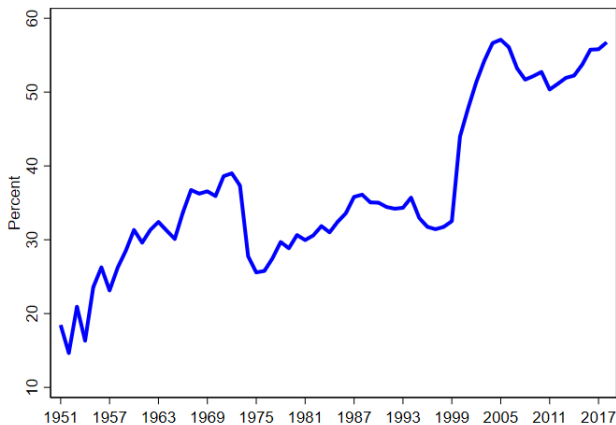


Figure 1: General Government Public Debt-GDP: 1951–2018

Government Debt with Liabilities

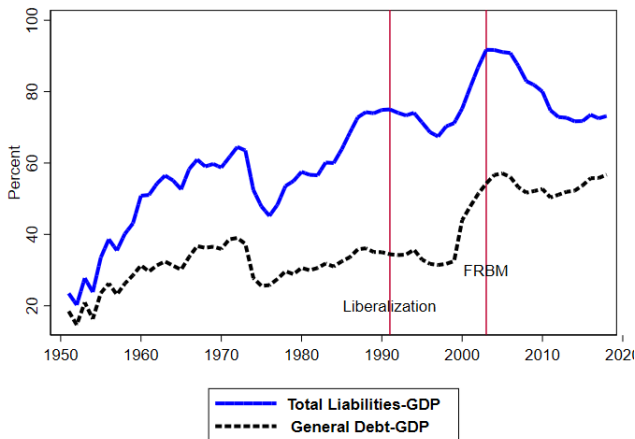


Figure 2: General Government Public Debt-GDP and General Government Total Liabilities-GDP: 1951-2018

Aggregate Debt Decomposition, Das and Ghate (2022)

Period		Debt-GDP (LHS)			Components (RHS)					RHS
Start	End	Start	End	Change	Nominal interest	Inflation	Growth	Deficit	Residual	Total
1959	1963	28.5	32.4	3.9	0.8	-3.5	-5.0	3.6	7.9	3.9
1963	1972	32.4	39.0	6.6	2.2	-20.4	-12.5	7.1	30.1	6.6
1972	1981	39.0	30.0	-9.1	3.2	-24.6	-11.3	12.3	11.4	-9.0
1981	1990	30.0	35.0	5.1	7.5	-26.5	-15.1	27.3	11.8	5.1
1990	1999	35.0	32.5	-2.5	15.4	-30.5	-14.5	18.4	8.7	-2.5
1999	2008	32.5	51.7	19.2	16.2	-20.6	-33.2	7.9	48.9	19.2
2008	2018	51.7	56.7	5.1	12.2	-41.8	-24.3	9.4	49.6	5.1
Administered Interest Rate										
1959	1998	28.5	31.7	3.2	27.1	-101.2	-58	65.7	80.8	3.2
1998	2018	31.7	56.7	25	30.4	-66.6	-57.9	20.3	98.8	25
FRBM										
1991	2003	34.4	54.3	19.9	20.8	-34.6	-19.5	20.9	32.3	19.9
2003	2018	54.3	56.7	2.5	21.6	-55.1	-50.0	10.8	75.1	2.4
Inflation Targeting										
2009	2014	52.2	52.2	0.1	6.5	-26.9	-11.0	5.6	25.8	0.0
2014	2018	52.2	56.7	4.5	4.0	-10.6	-11.1	2.2	20.0	4.5

Table 1: Debt Decomposition (General Debt): 1959-2018

Aggregate Decomposition (Central Govt. Securities)

Start End	Period					
	2000- 2022	2000- 2004	2004- 2009	2009- 2014	2014- 2020	2020- 2022
Debt-GDP						
Start	19.70	19.70	35.60	34.90	34.70	37.30
End	50.50	35.60	34.90	34.70	37.30	50.50
Change	30.80	15.90	-0.70	-0.20	2.60	13.20
Marketable debt						
Nominal return	55.80	15.10	8.40	9.40	13.60	9.40
Short-rate	45.60	9.10	8.50	12.10	9.90	5.90
Ex_Return(TP)	14.10	6.90	-0.10	-2.70	4.20	3.50
Inflation	-41.30	-5.60	-7.70	-15.70	-6.40	-6.00
Real return	14.50	9.10	0.60	-6.30	6.80	3.40
Growth rate	-32.00	-8.90	-9.00	-7.00	-8.10	1.00
Non-marketable debt						
Nominal return	29.70	13.30	7.40	4.10	3.10	1.70
Inflation	-5.40	-0.40	-1.10	-2.10	-0.70	-1.10
Growth rate	-3.60	-0.80	-1.30	-0.90	-0.90	0.30
Primary Deficit/GDP	26.00	3.40	1.90	10.80	2.30	7.70

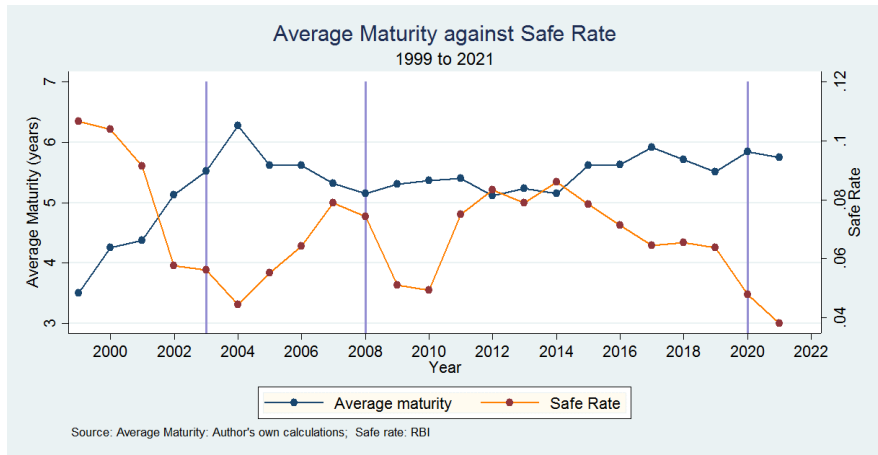
Table 1: Security level debt decomposition for centre securities.

Decomposition by maturity

		Period					
Start	End	2000-2022	2000-2004	2004-2009	2009-2014	2014-2020	2020-2022
Debt-GDP							
	Start	19.70	19.70	35.60	34.90	34.70	37.30
	End	50.50	35.60	34.90	34.70	37.30	50.50
	Change	30.80	15.90	-0.70	-0.20	2.60	13.20
Marketable debt							
	Nominal return	55.80	15.10	8.40	9.40	13.60	9.40
	1-2 years	13.80	3.00	2.60	3.20	3.10	1.90
	TP(1-2 Years)	1.60	0.60	0.30	-0.2	0.40	0.50
	2-10 years	30.01	8.80	4.40	5.00	6.90	4.90
	TP(2-10 yrs)	8.20	4.40	0.40	-1.1	2.00	2.50
	10+ years	12.20	3.30	1.30	1.20	3.60	2.60
	TP(10+ yrs)	4.30	1.90	-0.20	-0.7	1.70	1.60
	Inflation	-41.3	-5.60	-7.70	-15.70	-6.40	-6.00
	1-2 years	-12.30	-1.60	-2.40	-4.70	-1.90	-1.70
	2-10 years	-21.60	-3.10	-3.90	-8.30	-3.30	-3.00
	10+ years	-7.50	-1.00	-1.40	-2.60	-1.20	-1.20
	Growth rate	-32.00	-8.90	-9.00	-7.00	-8.10	1.00
	1-2 years	-9.00	-2.40	-2.60	-2.00	-2.3	0.30
	2-10 years	-16.80	-4.80	-4.60	-3.80	-4.20	0.5
	10+ years	-6.20	-1.80	-1.80	-1.20	-1.60	0.2
Non-marketable debt							
	Nominal return	29.70	13.30	7.40	4.10	3.10	1.70
	Inflation	-5.40	-0.40	-1.10	-2.10	-0.70	-1.10
	Growth rate	-3.60	-0.80	-1.30	-0.90	-0.90	0.30
	Primary Deficit to GDP	26.00	3.40	1.90	10.80	2.30	7.70

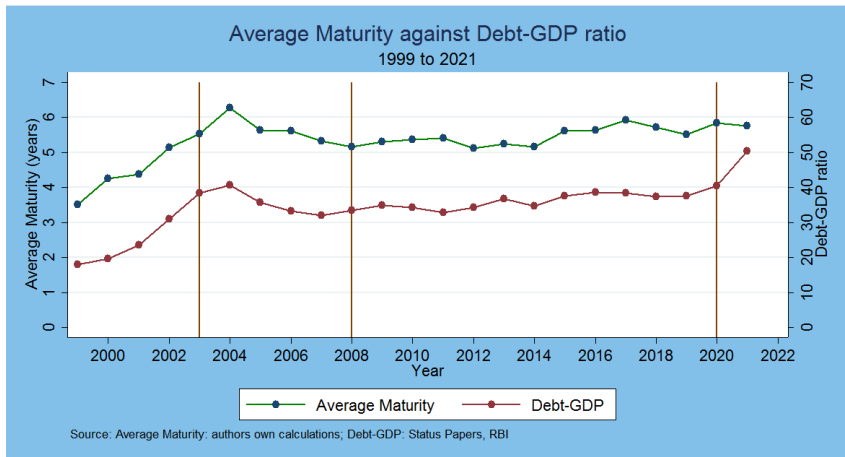
Table 2: Security level debt decomposition for Central securities by maturity.

Average Maturity against Safe Rate



- Correlation: -0.79^*

Average Maturity against Debt-GDP



- Correlation: 0.87*

Thank you