



Refresher on Monetary Accounts

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Outline

- I. Central Bank Accounts**
- II. Commercial Bank Accounts
- III. Monetary Survey

Central Bank Accounts

Selected functions of the central bank that have a direct impact on its balance sheet include

- ✓ Issuing of currency
- ✓ regulating the money supply (monetary policy)
- ✓ acting as banker of the government
- ✓ holding the country's foreign reserves (exchange rate policy)

Analytical Balance Sheet of Central Bank

$$\text{RM} = \text{NFA} + \text{NDA}$$

Net foreign assets (NFA)	Reserve money (RM)
Net domestic assets (NDA)	Currency issued
Net claims on the government (NCG)	Held in banks
Claims on commercial banks	Held outside banks
Claims on other resident sectors	Deposits (reserves) of commercial banks with central bank
Other items net	

Analytical Balance Sheet of Central Bank

Assets

- ▶ Net foreign assets

- holding the country's foreign reserves (exchange rate policy)

- ▶ Net claims on government

- acting as banker of the government

- ▶ Claims on commercial banks

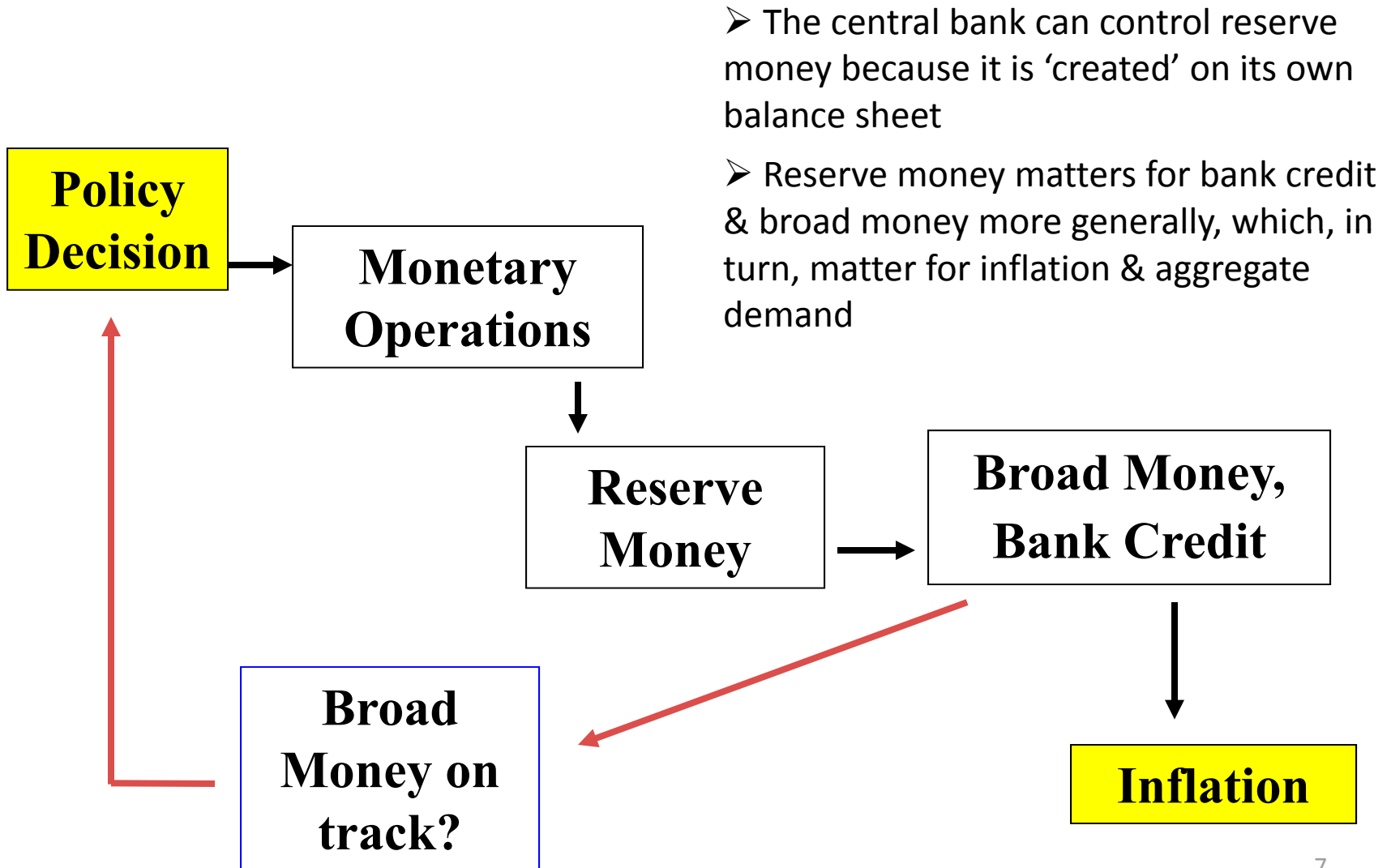
- regulating the money supply
(monetary policy)

Analytical Balance Sheet of Central Bank

Liabilities

- ▶ Currency issued
 - Issuing of currency
 - Deposits of commercial banks with central bank → regulating the money supply (monetary policy)

Why is Reserve Money Important?



Central Bank Balance Sheet Examples

- Example: On the first day of its operations, central bank decides to buy foreign currency worth Kyat 100 from commercial banks:

<u>Assets</u>		<u>Liabilities</u>	
CB's Net Foreign Assets	100	Reserve money	100
Foreign exchange	100	Currency in circulation	0
CB's Net Domestic Assets		Deposits of commercial banks	100

- Example: Next, central bank provides credit of Kyat 100 to government, which uses this credit to pay its suppliers:

<u>Assets</u>		<u>Liabilities</u>	
CB's NFA	100	Reserve money	200
Foreign exchange	100	Currency in circulation	100
CB's NDA	100	Deposits of commercial banks	100
Net domestic credit	100		

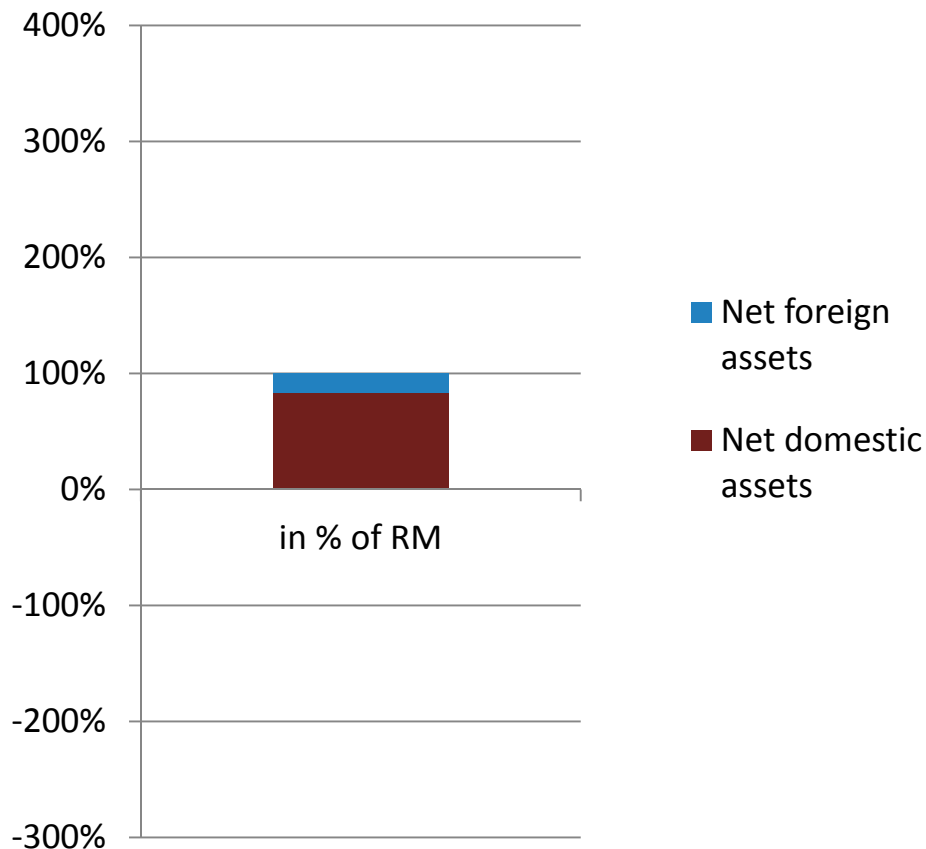
Central Bank Balance Sheet Examples

Example: central bank engages in open market operation to reduce base money supply and sells central bank securities of Kyat 100 to commercial banks:

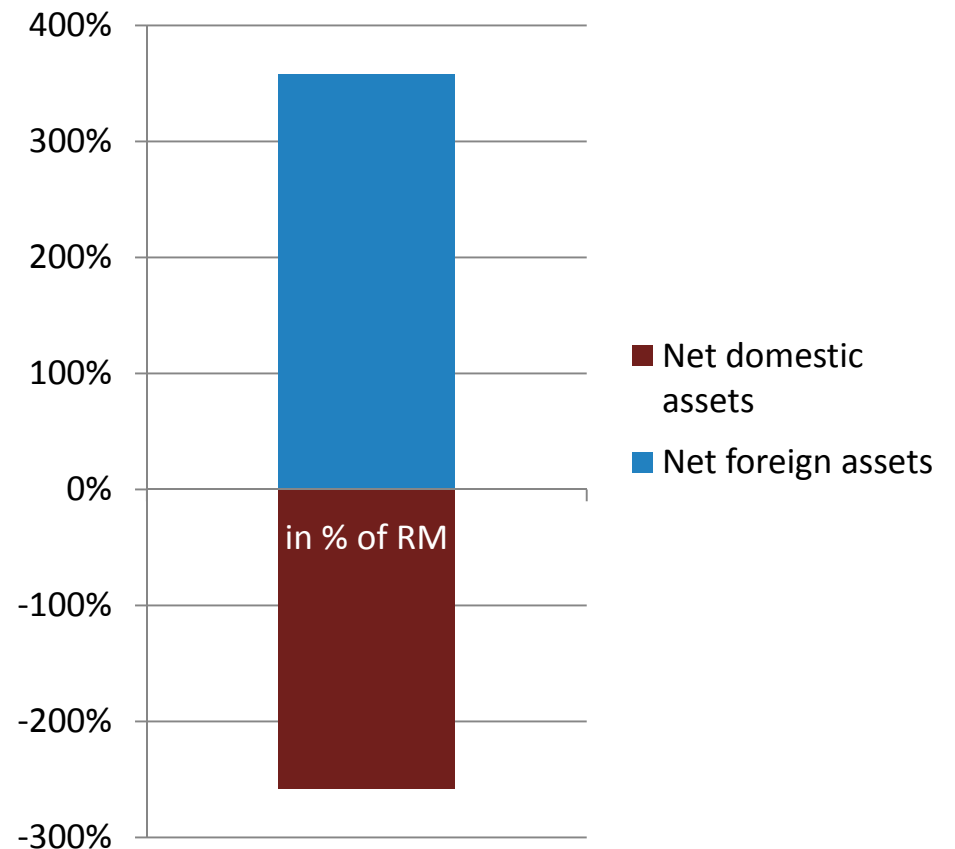
<u>Assets</u>		<u>Liabilities</u>	
CB's NFA	100	Reserve money	100
Foreign exchange	100	Currency in circulation	100
CB's NDA	0	Deposits of commercial banks	0
Net domestic credit	0		
<i>NCG</i>	<i>100</i>		
<i>Net Claims on commercial banks</i>	<i>-100</i>		
<i>Claims</i>	<i>0</i>		
<i>Liabilities</i>	<i>100</i>		

Main Components of CBM Assets (2012/13)

Composition of Reserve Money - CBM
Assets (in % of RM)

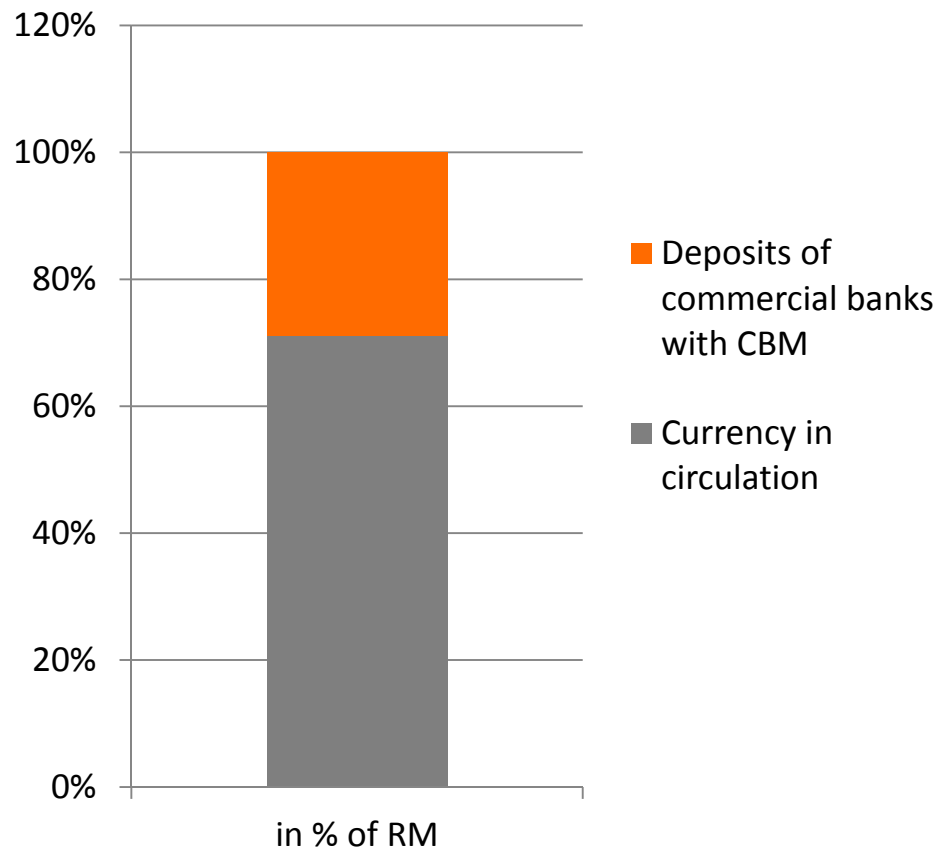


Composition of Reserve Money - BoT
Assets (in % of RM)

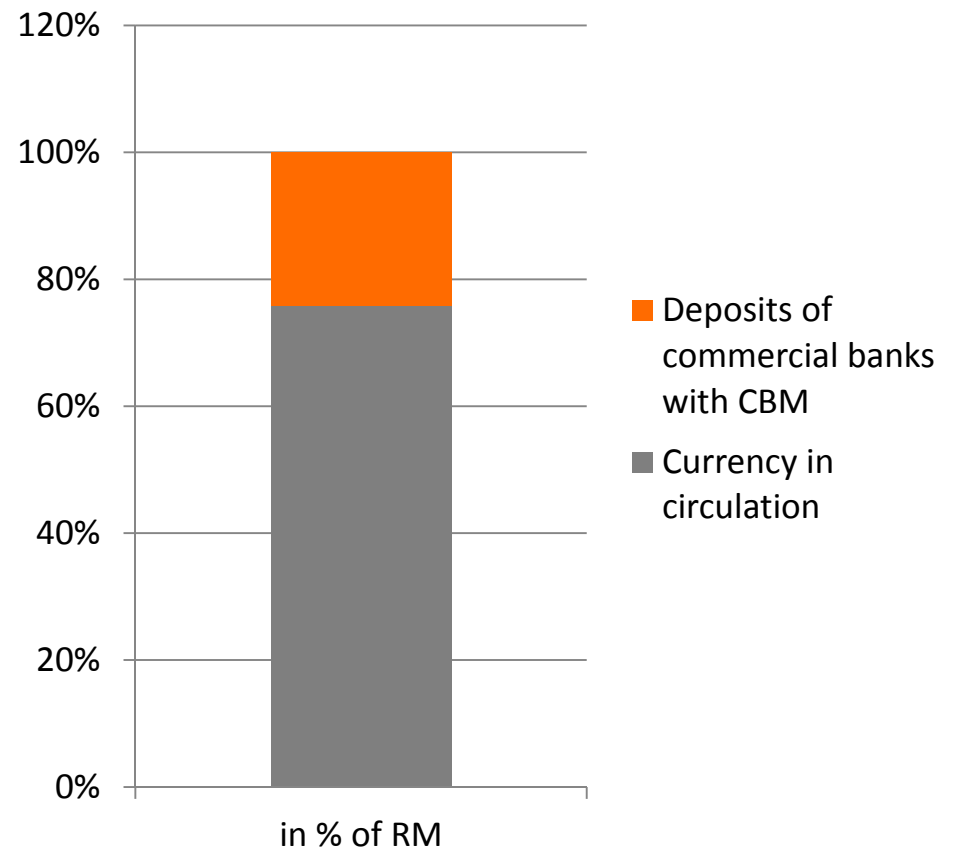


Main Components of CBM Liabilities (2012/13)

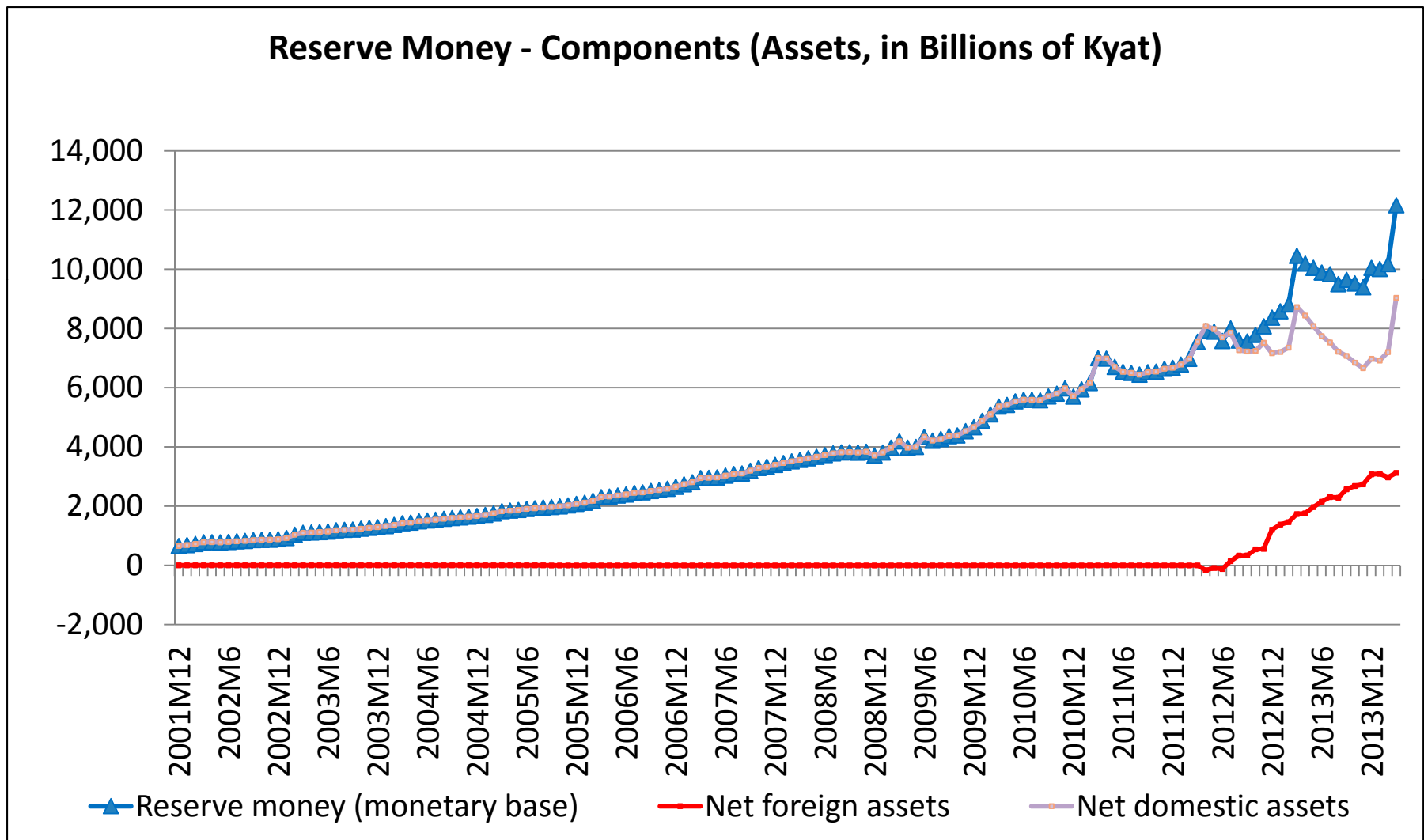
Composition of Reserve Money - CBM Liabilities (in % of RM)



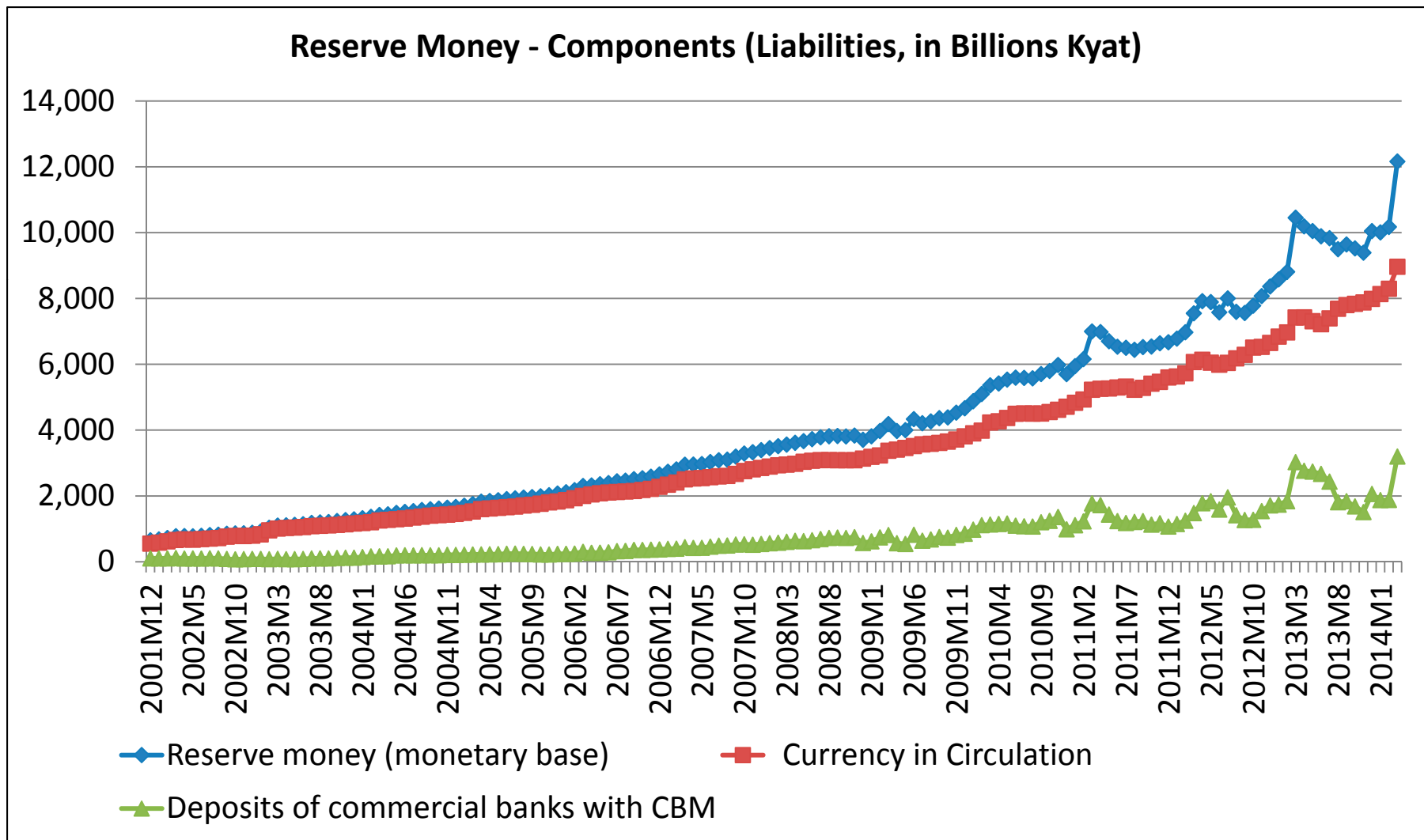
Composition of Reserve Money - BoT Liabilities (in % of RM)



Evolution of CBM Balance Sheet—Assets



Evolution of CBM Balance Sheet—Liabilities



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- IV. Monetary Survey

Commercial Bank Accounts

Selected functions:

- Facilitate savings by offering deposits
- Offer loans by transforming deposits into loans
- Commercial banks are an important channel for the transmission of monetary policy

Analytical Balance Sheet of Commercial Bank

Assets	Liabilities
Net foreign assets (NFA)	Deposits
Net domestic assets (NDA)	Demand deposits
Claims on the central bank	Time and saving deposits
○ Currency held in vaults	Foreign currency deposits
○ Deposits at the central bank	Liabilities to the central bank
○ Holdings of central bank bills	
Domestic credit	
○ Net credit to the government	
○ Credit to private sector	
Other items net	

Impact of Monetary Operations

Central bank sells Kip 100 in central bank bills to commercial banks:

Commercial Bank Balance Sheet

Assets		Liabilities	
Net Foreign Assets	...	Deposits	...
Net Domestic Assets	0	Demand deposits	...
Claims on central bank	0	Time and saving deposits	...
Currency held in vaults		Foreign currency deposits	...
Deposits/Reserves	-100	Liabilities to the central bank	...
Holdings of CB bills	+100		
Domestic credit	...		
To the government	...		
To other resident sector	...		
Other items net	...		

Impact of Monetary Operations

Central bank conducts deposit auction over Kyat 100:

Commercial Bank Balance Sheet

Assets		Liabilities	
Net Foreign Assets	...	Deposits	...
Net Domestic Assets	0	Demand deposits	...
Claims on central bank	0	Time and saving deposits	...
Currency held in vaults		Foreign currency deposits	...
Reserves	0	Liabilities to the central bank	...
Current CBM deposits	-100		
Other CBM deposits	+100		
Domestic credit	...		
To the government	...		
To other resident sector	...		
Other items net	...		

Impact of Monetary Operations

- ▶ What do these open market operations achieve?



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Monetary Survey

Consolidated balance sheet for the banking system:

- Add up balance sheets for the central bank and commercial banks, but ...
- ... before doing so, consolidate common items on the two balance sheets!

Consolidation of Central Bank and Commercial Bank Balance Sheets

Central Bank	
Assets	Liabilities
Net Foreign Assets	Reserve money (RM)
Net Domestic Assets	Currency issued
Net claims on the government	Held in banks
Claims on commercial banks	Held outside banks
Claims on other resident sector	Deposits of commercial banks
Other items net	Other deposits
Commercial Banks	
Assets	Liabilities
Net Foreign Assets	Deposits
Net Domestic Assets	Demand deposits
Claims on the central bank	Time and saving deposits
Currency held in vaults	Foreign currency deposits
Deposits at the central bank	Liabilities to the central bank
Domestic credit	
Other items net	

Consolidation of Central Bank and Commercial Bank Balance Sheets

Central Bank	
Assets	Liabilities
Net Foreign Assets	Reserve money (RM)
Monetary survey	
Assets	Liabilities
Claims on commercial banks	Held outside banks
Net Foreign Assets	Broad money (M2)
Claims on other residential sector	Deposits of commercial banks
Of the central bank	Narrow money (M1)
Other items net	Other deposits
Of the commercial banks	Currency in circulation
Net Domestic Assets	Demand deposits
Commercial Banks	
Net credit to the government	Quasi money
Assets	Liabilities
Credit on the other resident sector	Deposits
Net Foreign Assets	Time and saving deposits
Other items net	Foreign currency deposits
Net Domestic Assets	Demand deposits
Claims on the central bank	Time and saving deposits
Currency held in vaults	Foreign currency deposits
Reserve deposits at the central bank	Liabilities to the central bank
Domestic credit	
Other items net	

Monetary Survey—Why is M2 Money?

Why is M2 “**money**”?

Because it is what the economy can use to make payments and economic transactions:

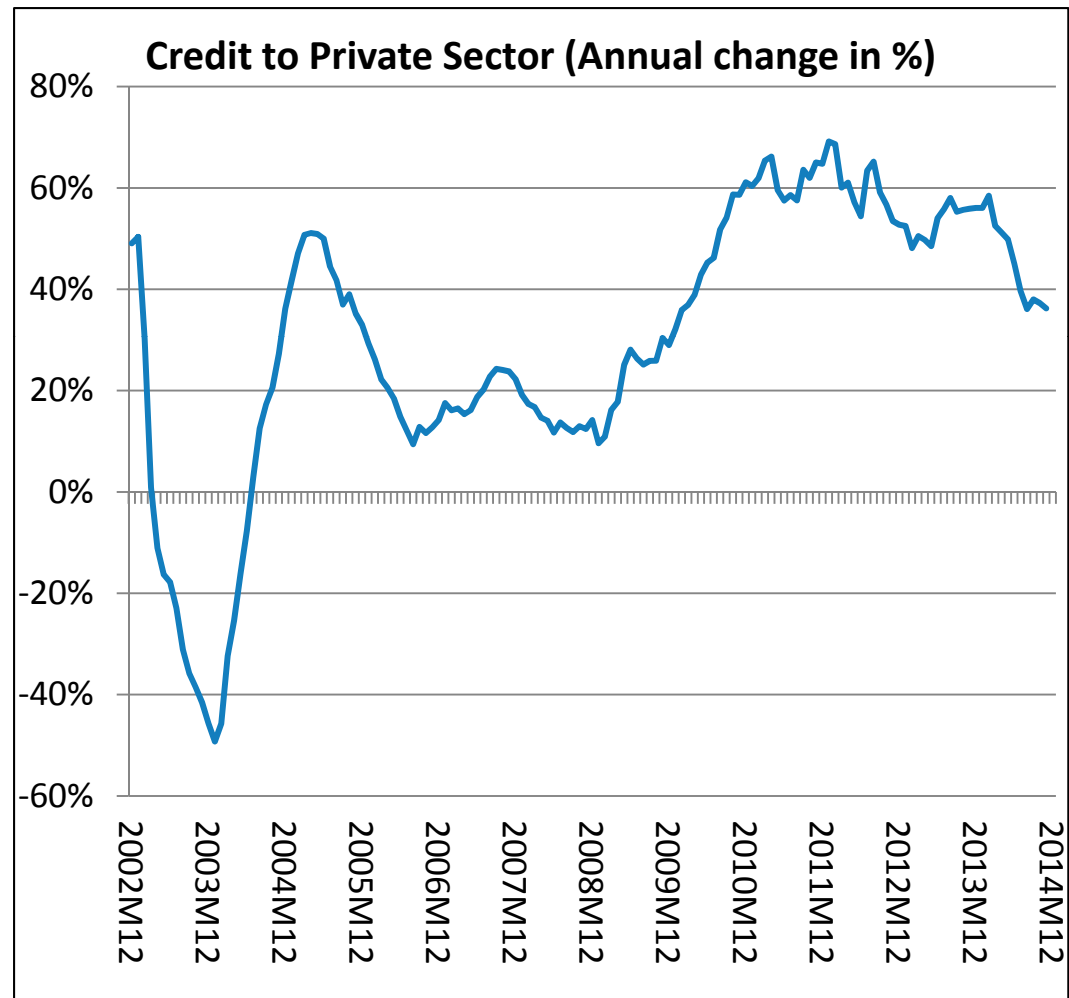
- Currency in circulation: “**cash**”
- Deposits constitute a means of payment, as one can write checks (not so common in Myanmar), or make transfers, or withdraw cash against deposits



Monetary Survey—Why Does It Matter?

Rapid broad money growth can pose risks because:

- Indicative of rapid demand expansion that can turn inflationary
- Broad money growth is often driven by rapid credit expansion: buildup of risks in financial sector?
- Large foreign liabilities can put external sustainability at risk



Next Up ...

... we will consider:

- How is money created?
- What is the role of monetary policy, and reserve money in particular, in this process?
- How do you design a monetary program?