



# Refresher on Monetary Accounts

Financial Programming and Policies  
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**TAOLAM**

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# Outline

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

# Central Bank Accounts

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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

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

<b>Net foreign assets (NFA)</b>	<b>Reserve money (RM)</b>
<b>Net domestic assets (NDA)</b>	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

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## 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)

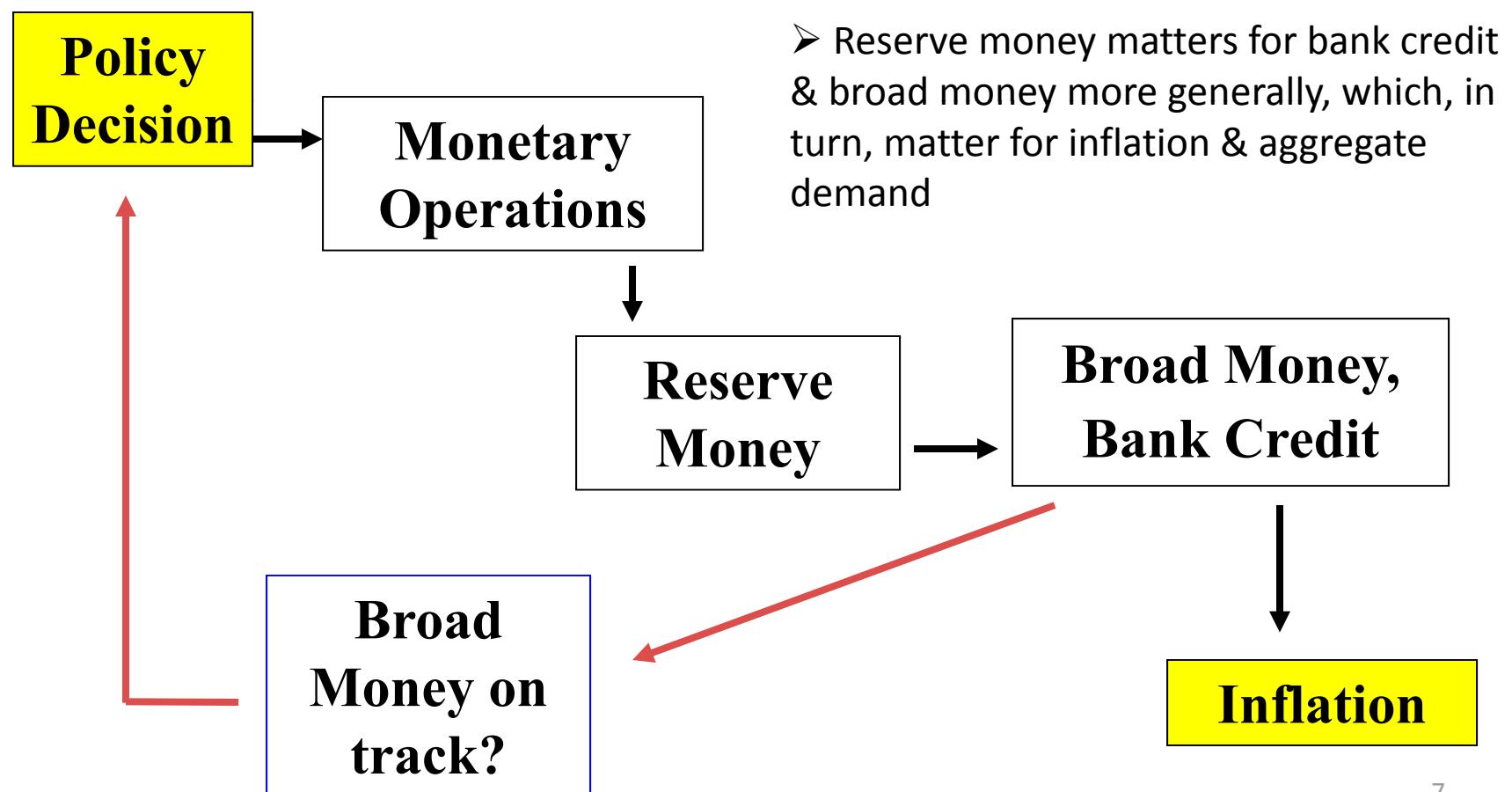
# Analytical Balance Sheet of Central Bank

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## 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>	
<b>CB's Net Foreign Assets</b>	<b>100</b>	<b>Reserve money</b>	<b>100</b>
Foreign exchange	100	Currency in circulation	0
<b>CB's Net Domestic Assets</b>		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>	
<b>CB's NFA</b>	<b>100</b>	<b>Reserve money</b>	<b>200</b>
Foreign exchange	100	Currency in circulation	100
<b>CB's NDA</b>	<b>100</b>	Deposits of commercial banks	100
Net domestic credit	100		

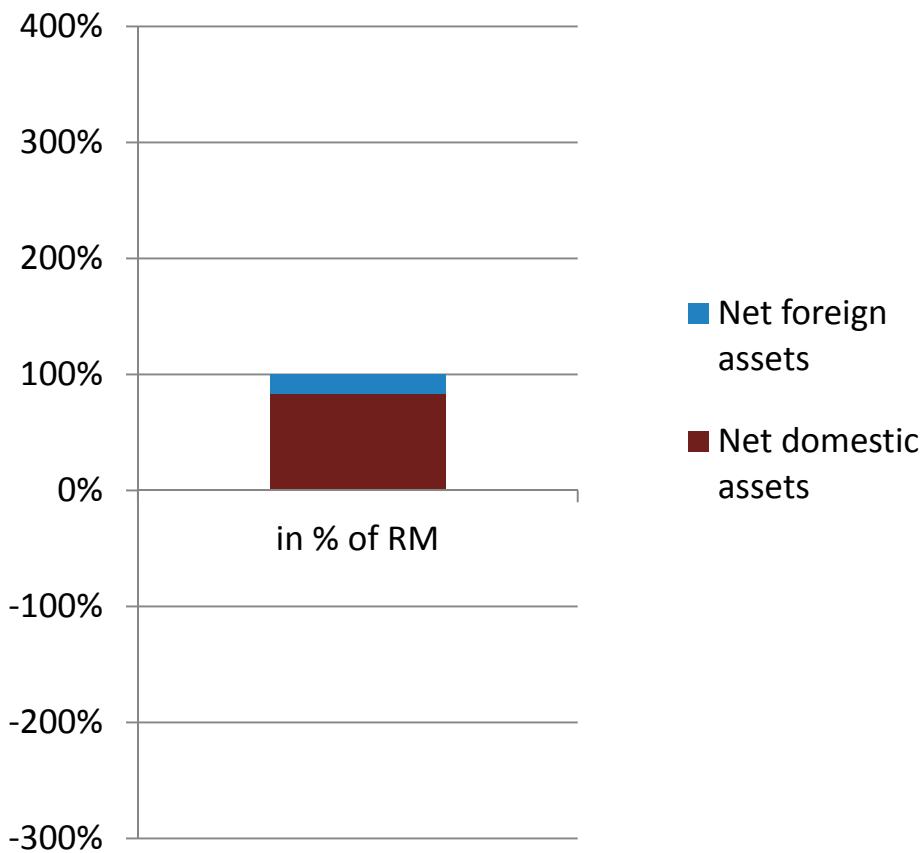
# Central Bank Balance Sheet Examples

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

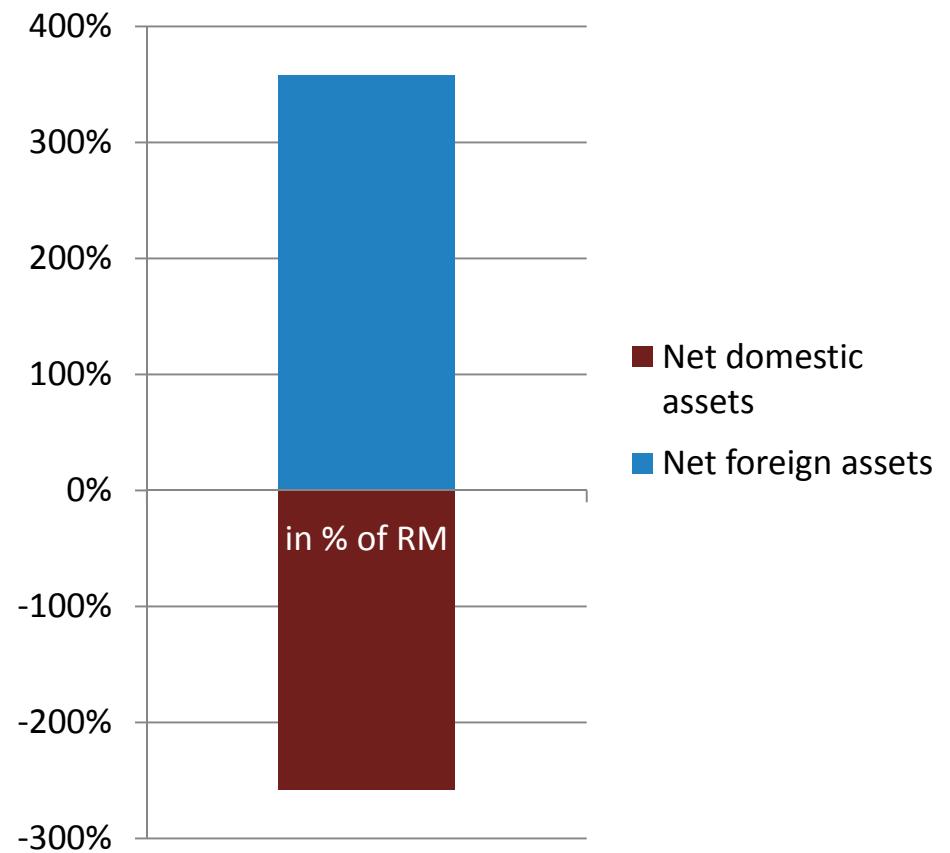
<u>Assets</u>		<u>Liabilities</u>	
<b>CB's NFA</b>	<b>100</b>	<b>Reserve money</b>	<b>100</b>
Foreign exchange	100	Currency in circulation	100
<b>CB's NDA</b>	<b>0</b>	Deposits of commercial banks	<b>0</b>
Net domestic credit	0		
<i>NCG</i>	<i>100</i>		
<i>Net Claims on commercial banks</i>	<i>-100</i>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

# Main Components of CBM Assets (2012/13)

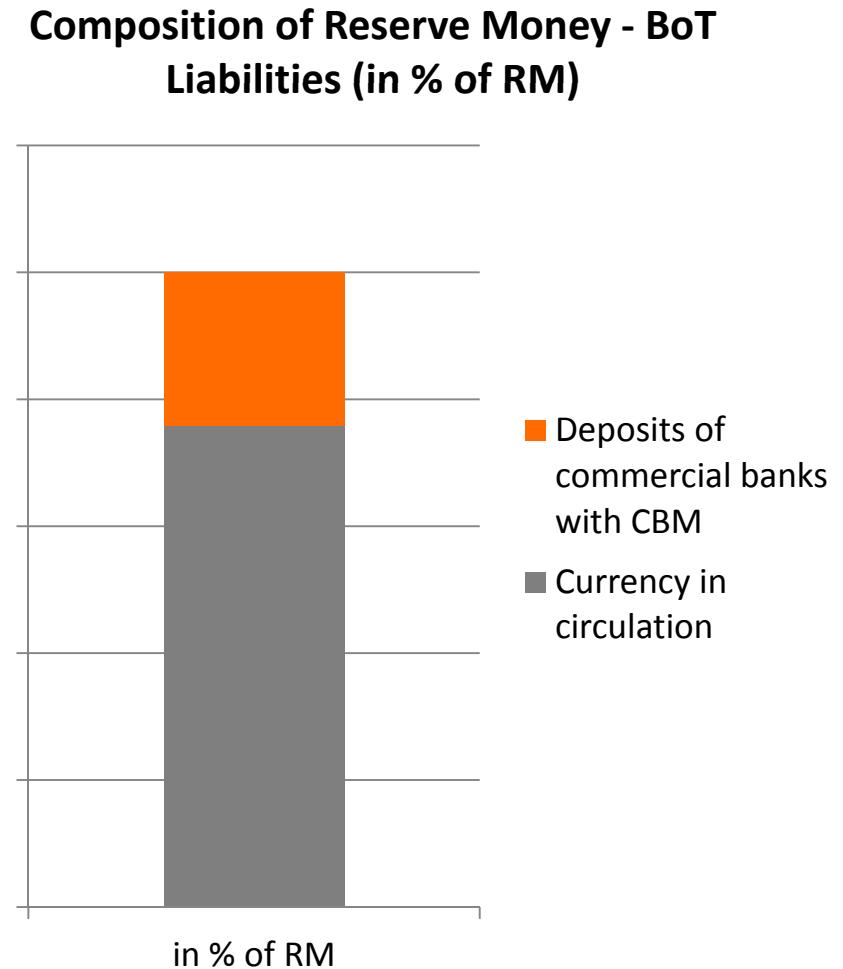
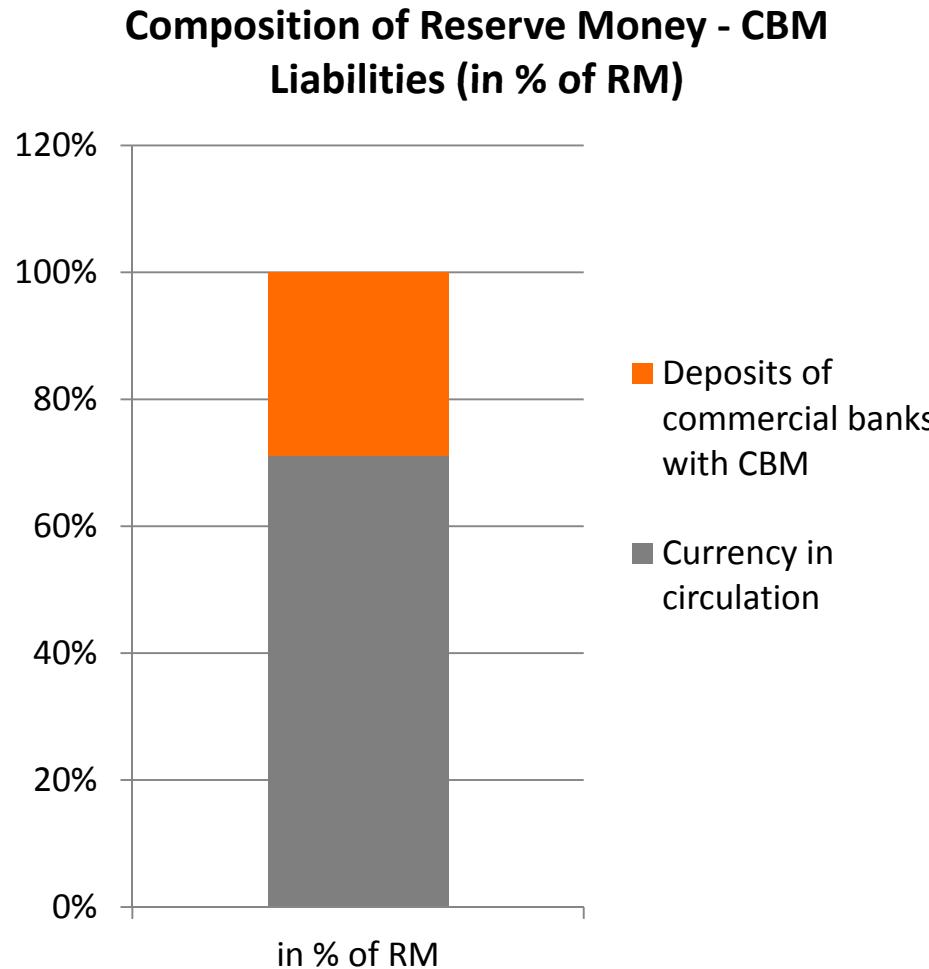
Composition of Reserve Money - CBM  
Assets (in % of RM)



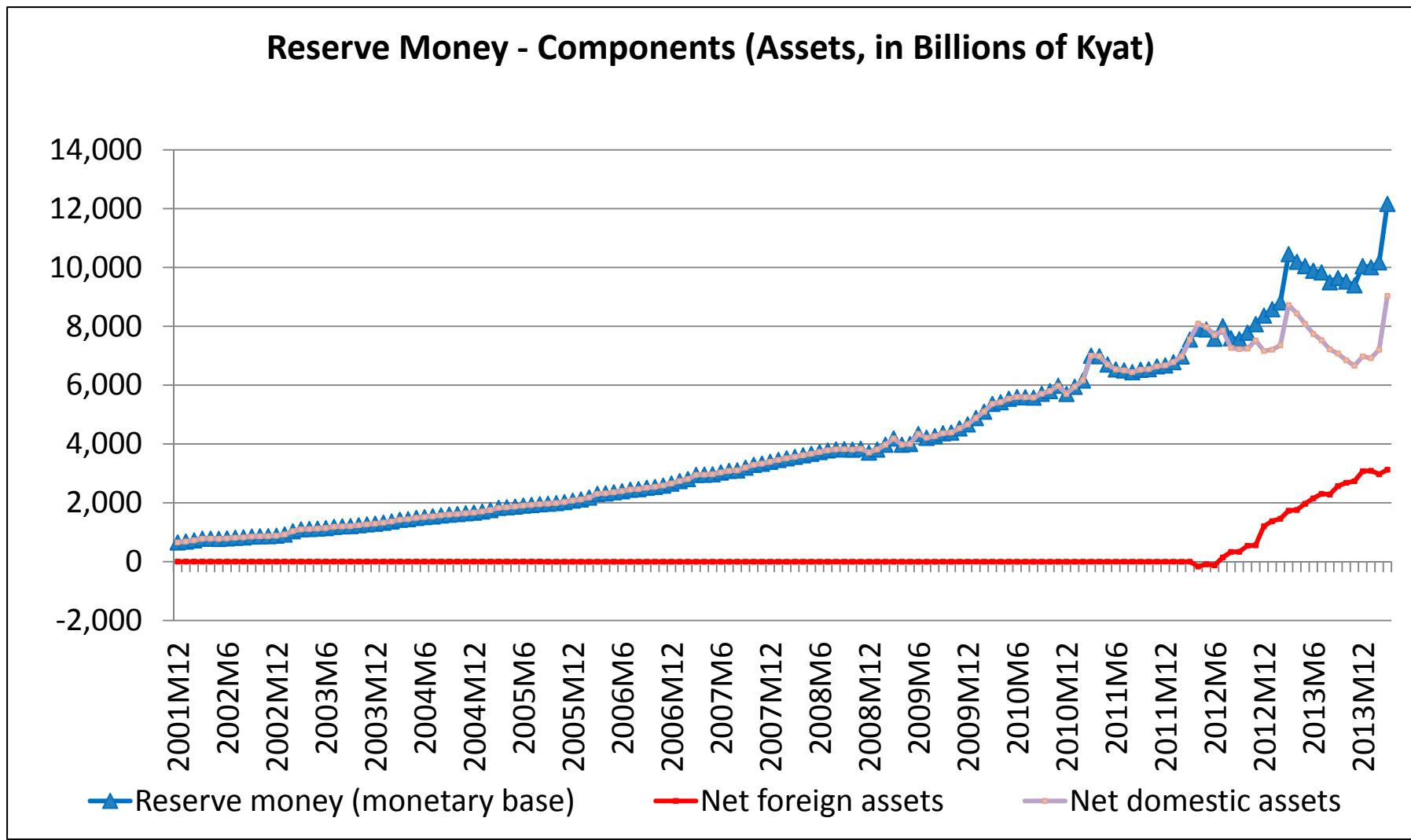
Composition of Reserve Money - BoT  
Assets (in % of RM)



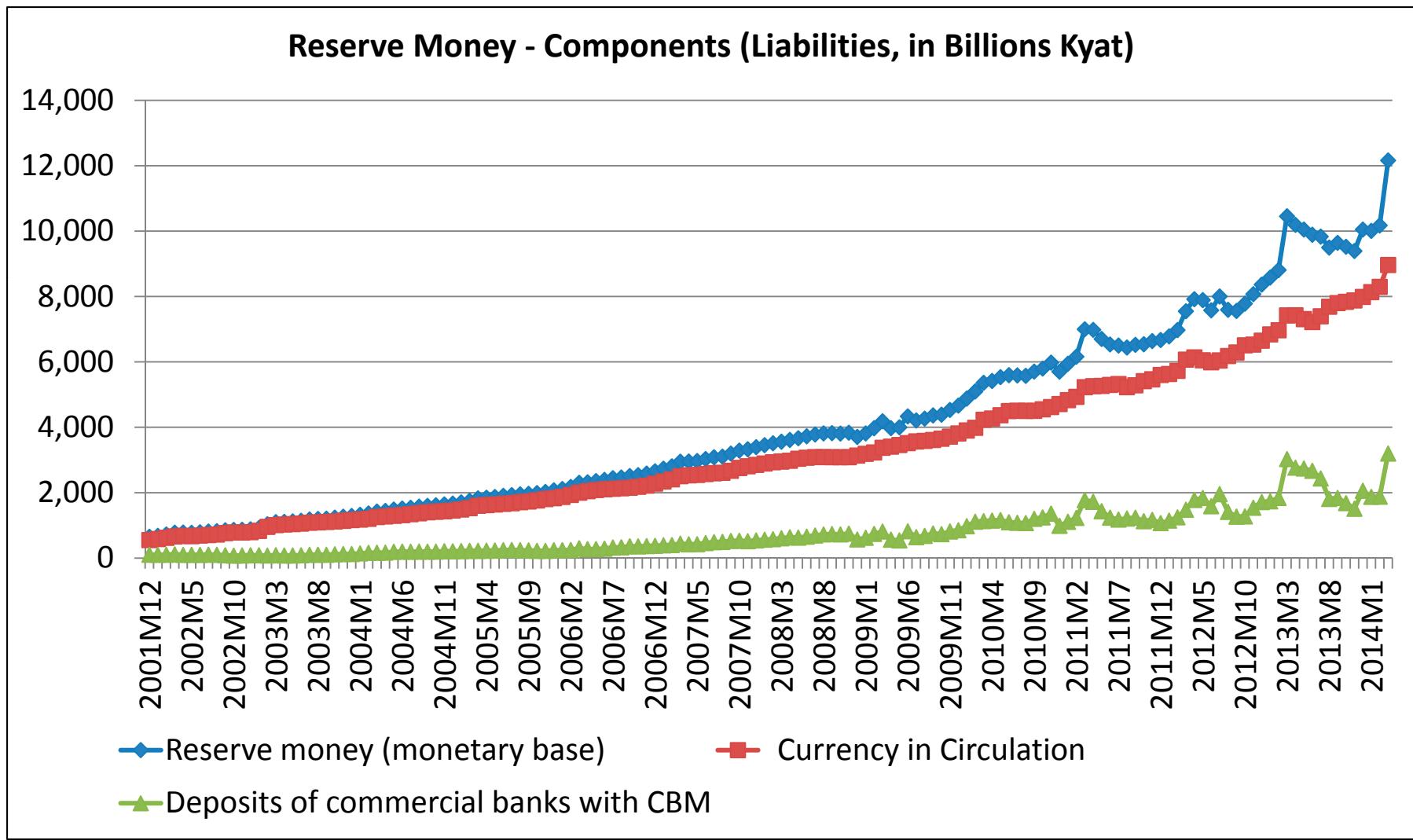
# Main Components of CBM Liabilities (2012/13)



# Evolution of CBM Balance Sheet—Assets



# Evolution of CBM Balance Sheet—Liabilities



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- IV. Monetary Survey

# Commercial Bank Accounts

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

# Impact of Monetary Operations

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

## Commercial Bank Balance Sheet

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

# Impact of Monetary Operations

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- ▶ What do these open market operations achieve?



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# Monetary Survey

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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
<b>Net Foreign Assets</b>	<b>Reserve money (RM)</b>
<b>Net Domestic Assets</b>	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
<b>Net Foreign Assets</b>	<b>Deposits</b>
<b>Net Domestic Assets</b>	Demand deposits
Claims on the central bank	Time and saving deposits
Currency held in vaults	Foreign currency deposits
Deposits at the central bank	<b>Liabilities to the central bank</b>
Domestic credit	
Other items net	

# Consolidation of Central Bank and Commercial Bank Balance Sheets

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

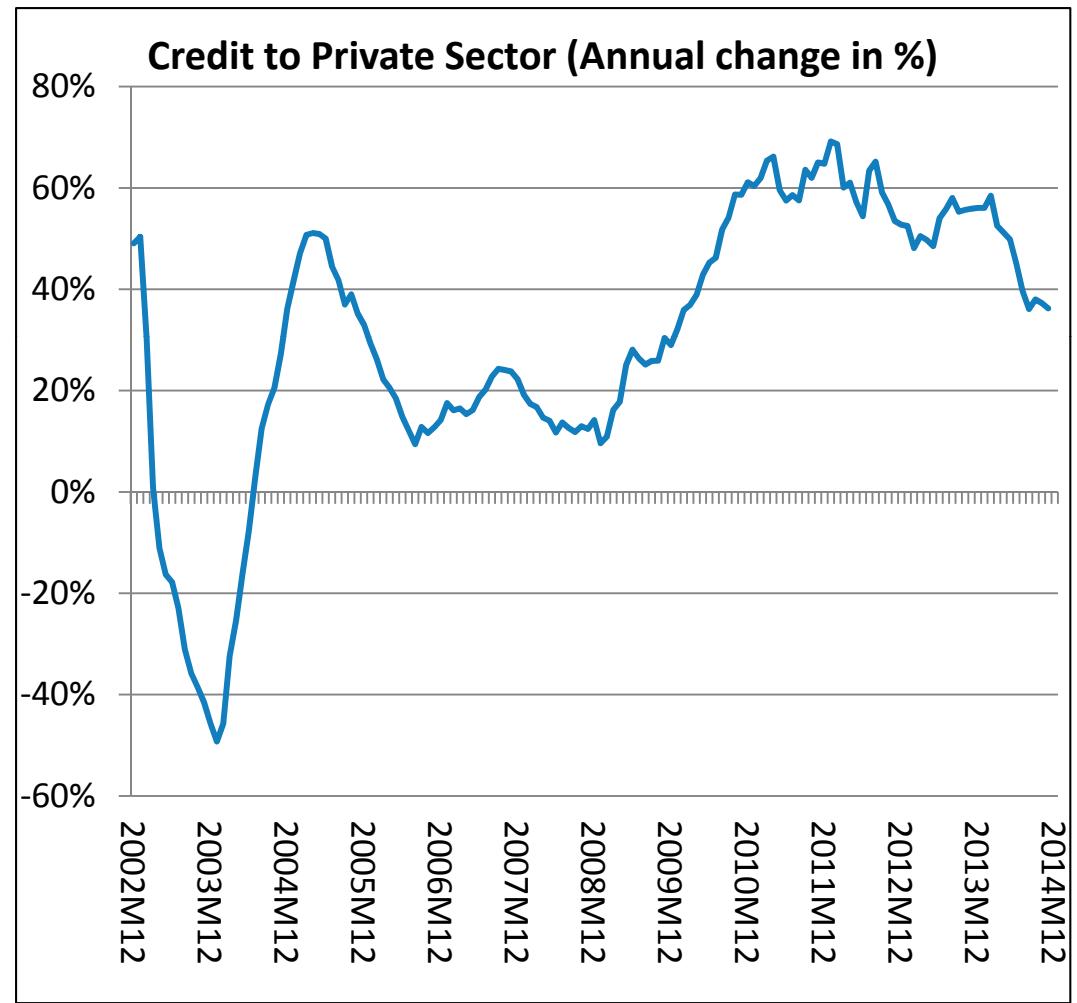
- Currency in circulation: “**cash**”
- Deposits constitute a means of payment, as one can write checks (not so common in Myanmar), or make transfers, or withdraw cash against deposits



# 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 ...

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... 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?