An introduction to

Monetary policy tools

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Why?

General macro-economic objectives:

- o Promote sustainable economic growth and development;
- o Full employment; and
- o Macroeconomic stability.

- In these, Monetary policy is key.

- Monetary policy needs tools to do its job.

Overview

- Brief discussion on CBM's objective

- Role of projections in policy decision making

- Data requirements

- Types of monetary operations tools

- What is appropriate in Myanmar

- Current state and going forward

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Objective

Monetary stability

- Not just price stability!

- Foreign exchange stability (on a broad measure of exchange rate)

- Stability in expectations of prices and exchange rates.

Keeping inflation under control

"…it was clearly understood that my task was to get inflation above zero and below 2%."
Don Brash, former RBNZ Governor

Technical projections: "forecasts"

Data

- "… there is another kind of knowledge which we need to increase – namely exact quantitative information… "

- "The expected never happens; it is the unexpected always."

- "When the facts change, I change my mind. What do you do, sir?"
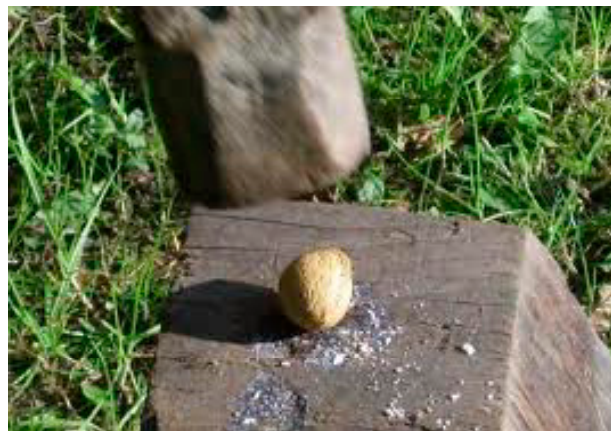
John Maynard Keynes

Monitoring

Monitoring

Monitoring

Appropriate tool/instrument

Tools and options

Types of monetary operations tools

- Reserves

- Deposit and borrowing facilities

- Central bank bills

- Repurchase operations

- FX market operations

Myanmar – current state of play

- Developing legal structures

- Low frequency data

- No market instruments at this time

- Quantitative controls via banking system

Going forward

- Development of market mechanisms:
  - Legal frameworks
  - Clearing - payment and settlement system

- Development of debt instruments:
  - market driven auctions of government debt
  - secondary market trading of debt

- Development of CBM open market operations

So what?

Outcome

- Helps develop a vibrant, growing economy.

- Greater transparency for private and public sector decision makers.

- Increases wealth and well-being for all citizens.

Summary - I

- Monetary stability is the first objective of the Bank.

- Reliable statistical data are essential in the decision making process.

- Monetary policy decision work in an uncertain environment.

- Monetary policy decisions are "repeatable games".

Summary - II

- Current situation - quantitative monetary instruments, e.g., "reserve ratios".

- New infrastructure - open market operations.

- This is a long term project requiring steady, consistent application of effort. Let's take this one step at a time.