An introduction to
Monetary policy tools

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Why?

General macro-economic objectives:

- Promote sustainable economic growth and development;
- Full employment; and
- 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
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

NORMAL VIEW

ALLVIEW™

Monitoring
Monitoring

Appropriate tool/instrument
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:
  o Legal frameworks
  o Clearing - payment and settlement system

• Development of debt instruments:
  o market driven auctions of government debt
  o 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.