

INTEGRATING MONETARY POLICY & FINANCIAL STABILITY: *A NEW FRAMEWORK*

INTRO

NEW
ANALYTICAL
TOOLS

NEW
FRAMEWORK

CONCLUSION

A DECADE AFTER THE CRASH!



#1 Financial Stability (FS) risks can threaten Price Stability (PS)



#2 FS matters for effectiveness of monetary policy (MP)



#3 MP can affect
FS risks

Country Experience

MP decisions have been influenced by FS concerns



Some central banks expressed a willingness to use MP to address FS concerns in unusual circumstances



KEY TAKEAWAY 1:

FS is an integral part of the new MP framework

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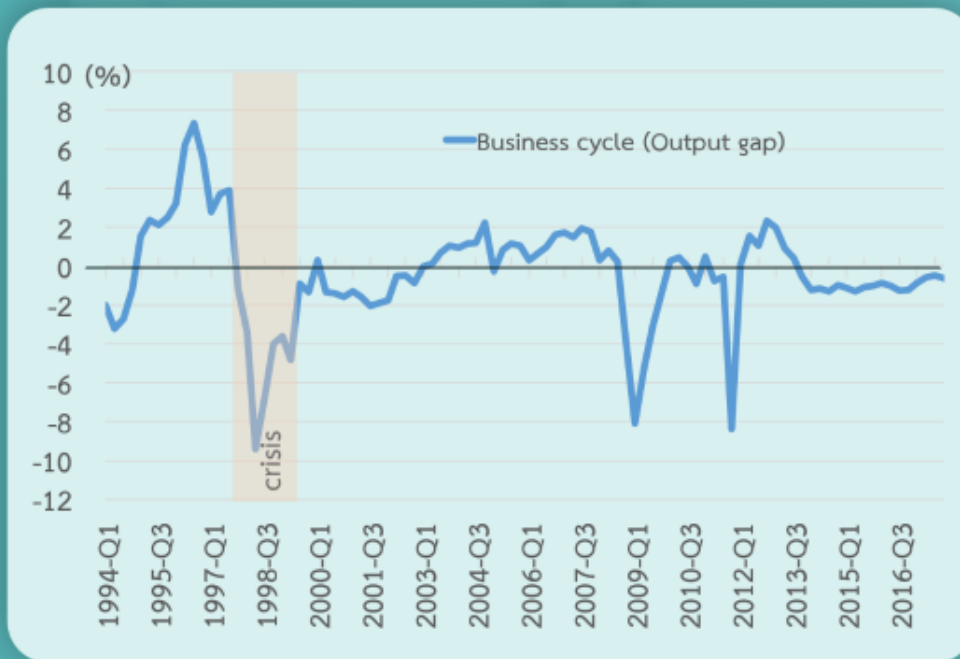
CONCLUSION

NEW TOOLS

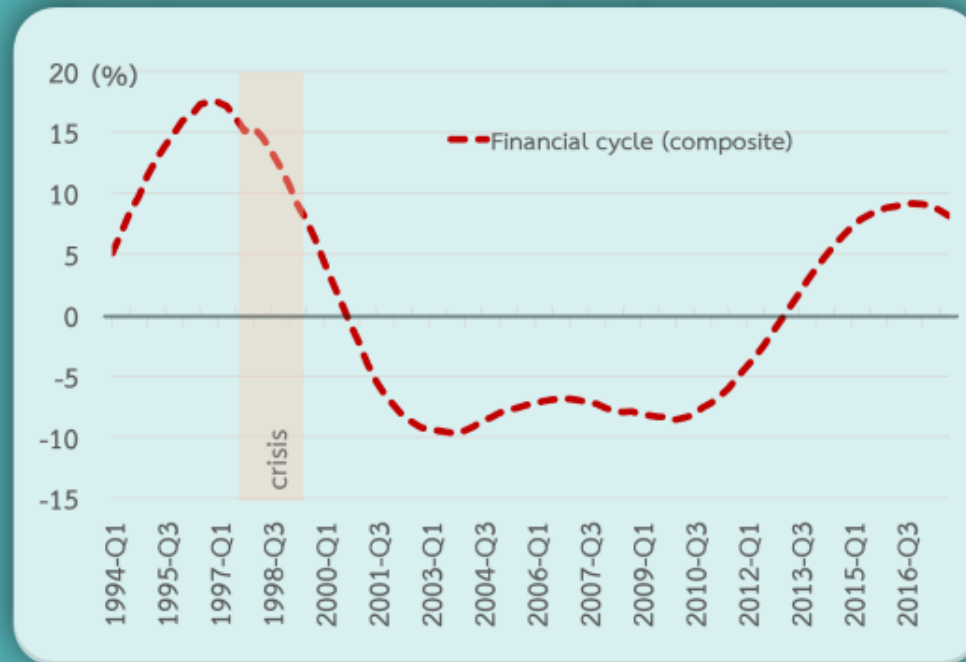
Indicator

Model
Platform

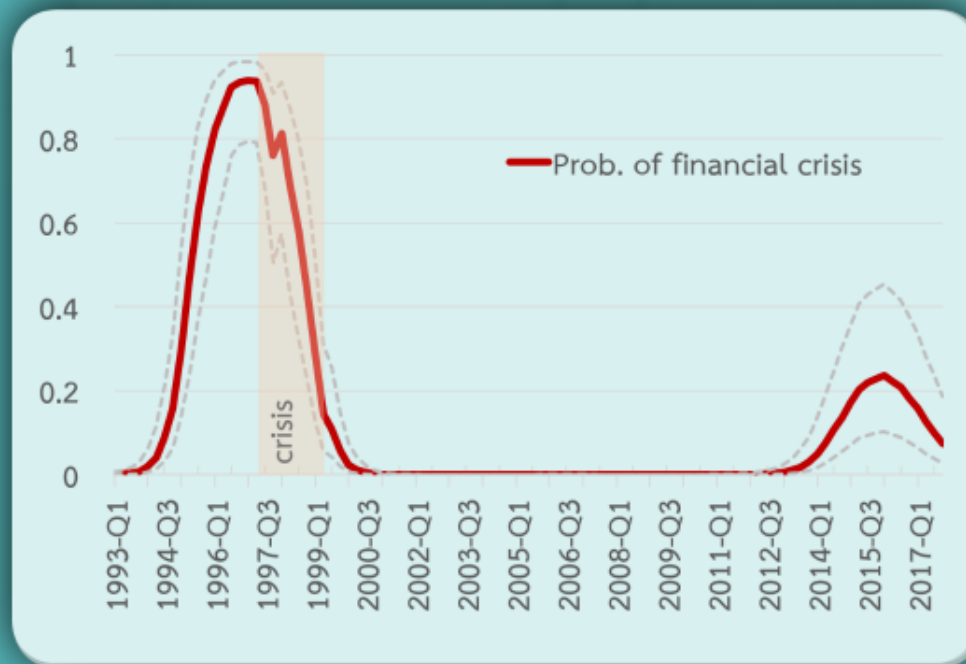
Financial Cycle (FC)



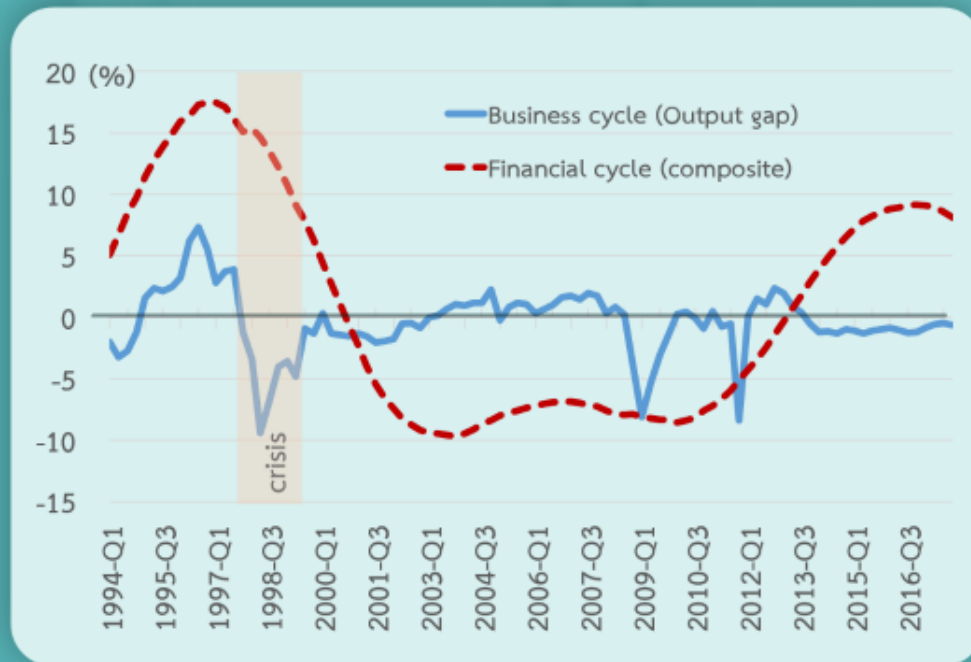
Financial Cycle (FC)



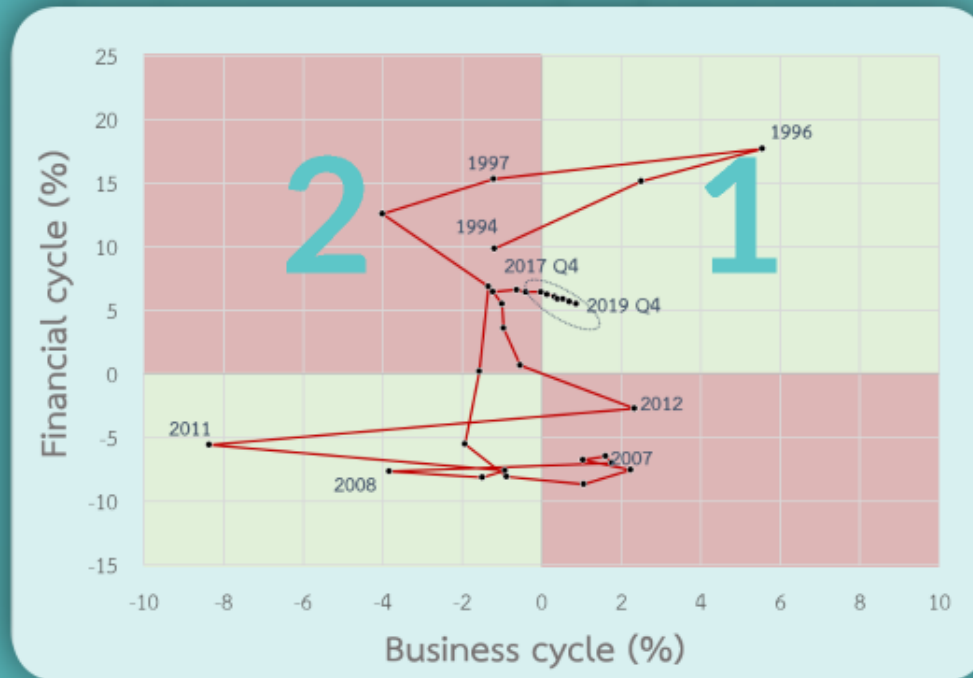
Financial Cycle (FC)



FC & BC



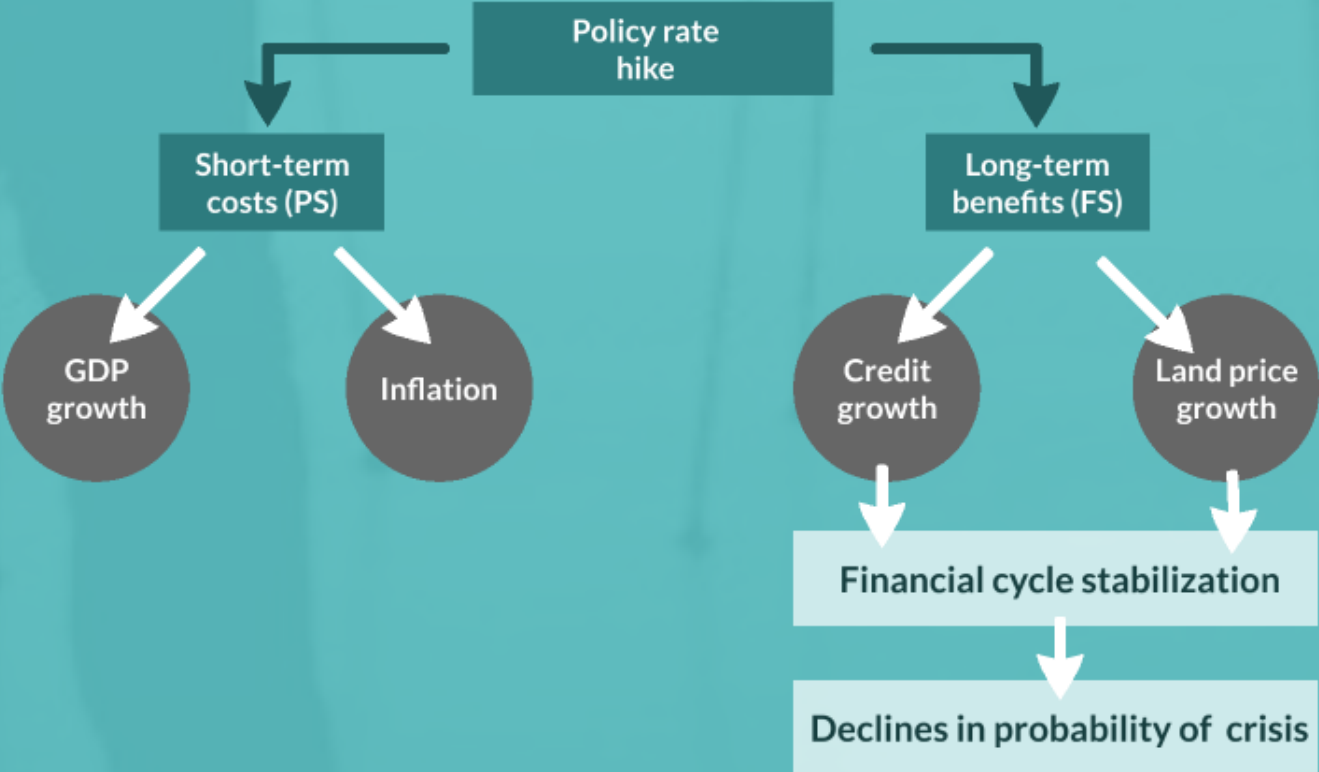
FC & BC



Model Platform



Evaluating Policy Trade-offs



KEY TAKEAWAY 2:

Developments of analytical tools are necessary for an effective integration

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Tinbergen Principle

*For each policy objective,
at least one policy instrument
is needed*

Jan Tinbergen



Incorporating *Macprudential Policy (MaP)*

Source of Financial Imbalances

House price bubble/ high mortgage growth

High household debt

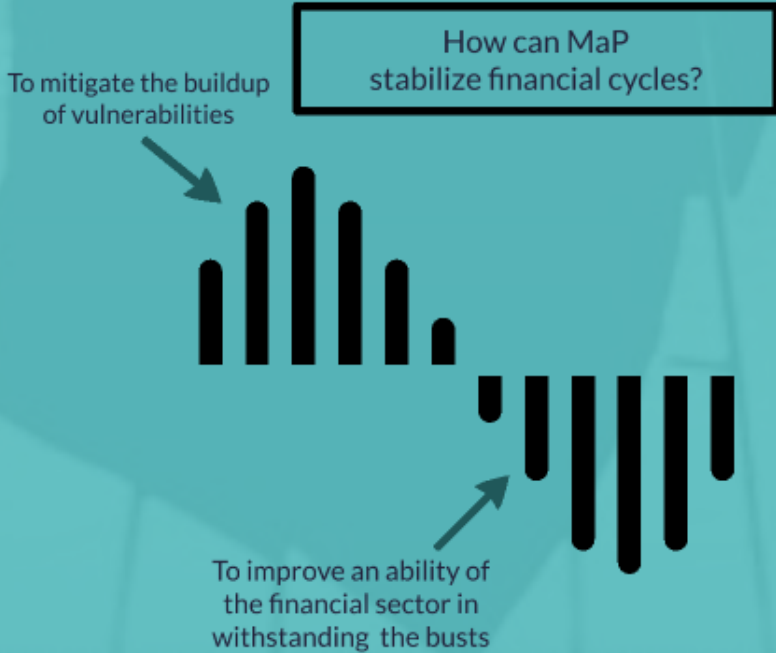
Excessive overall bank credit growth

Instruments

Loan-to-value Regulation

Limits on debt-to-income ratio

Countercyclical capital buffers

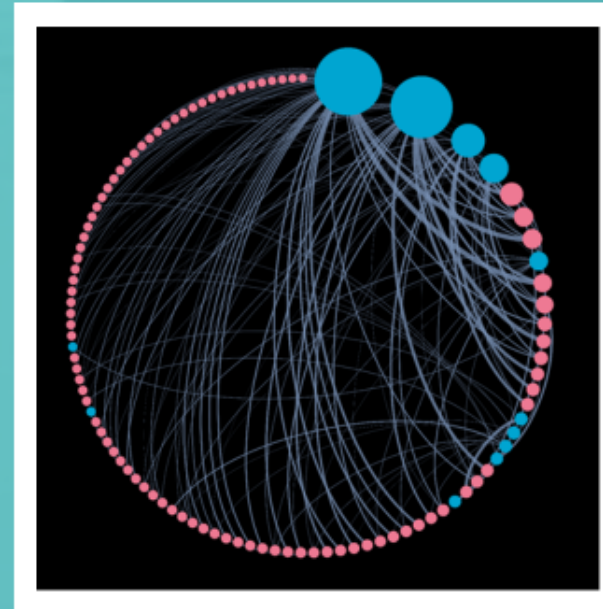


MaP also well-suited to address structural risks

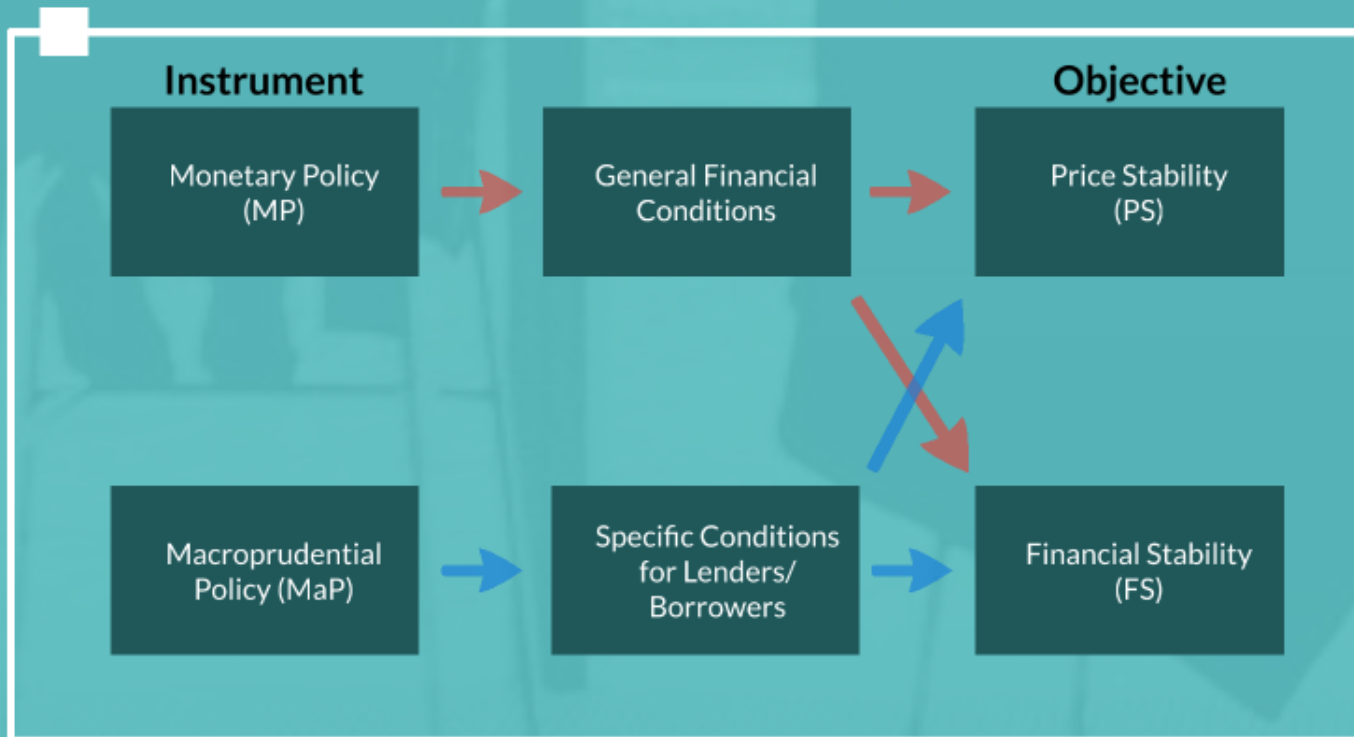
"Too big to fail"
financial institutions



Interconnectedness
within the financial system



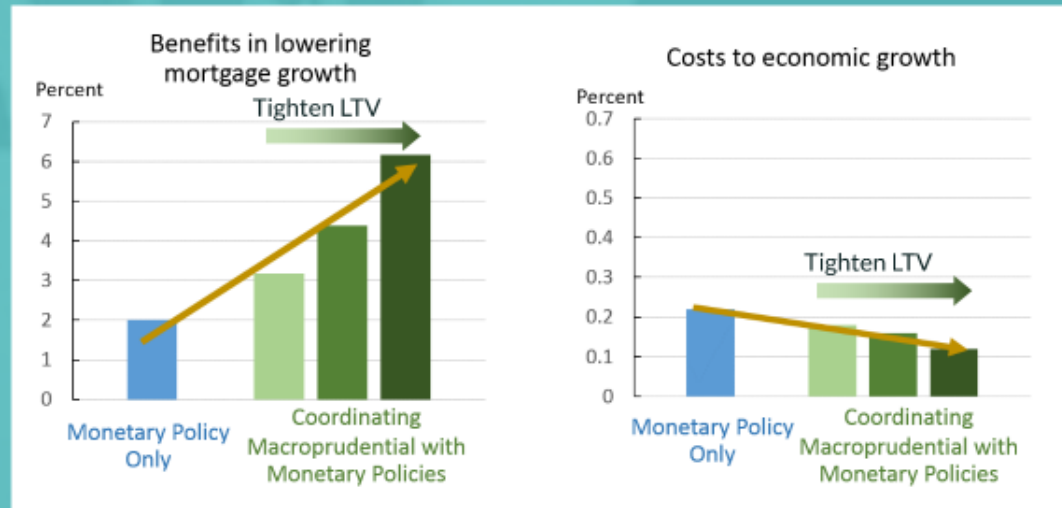
New Framework: *Two objectives, Two instruments*



Monetary and Macroprudential Policy Coordination

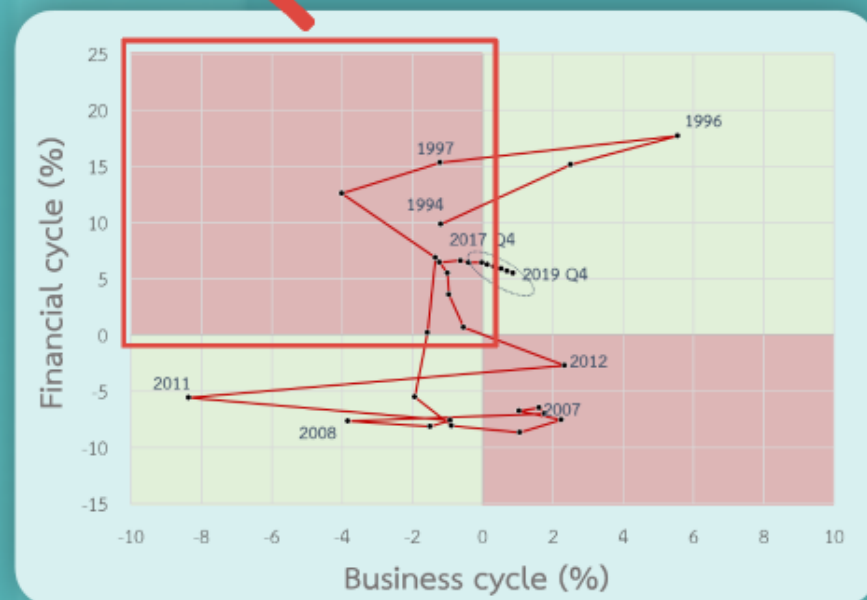
Dealing with periods of housing boom

How have policy trade-offs changed?



Stage of financial and business cycles matters

Policy coordination is the most necessary when financial and business cycles are in the opposite direction



Some Practical Considerations for MaP

Are macroprudential policies readily available?

Are macroprudential policies always effective?

Fragmented institutions



Policy implications:

Monetary policy still has a vital role in maintaining financial stability

KEY TAKEAWAY 3:

Coordination between MP and MaP
is at the heart of the decision-makings

FS-oriented Monetary Policy Decision



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The Way Forward

1 Understanding the gist of financial stability risks

2 Enhancing the policy toolkit and the analytical framework

3 Promoting the institutional arrangement that allows for better policy coordination

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