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Develop policy instruments to enhance stability: MAS chief

Besides macroeconomic and macro-financial stability, it helps make financial globalisation safer

Choo Yun Ting

Developing effective policy instruments and using them in a coherent way will enhance macroeconomic and macro-financial stability, Monetary Authority of Singapore (MAS) managing director Ravi Menon said yesterday.

It will also help to make financial globalisation safer, especially for emerging market economies, at a time of growing risks of fragmentation in international economic relationships, he added.

"An integrated policy framework could perhaps shed light on the circumstances under which monetary policy could also serve financial stability objectives, and whether there are benefits to jointly calibrating monetary policy and macroprudential policy, as well as how this calibration should be done," he said.

Macroprudential policies are aimed at ensuring the stability of the financial system.

Mr Menon was speaking at the eighth edition of the Asian Monetary Policy Forum and the MAS-Bank for International Settlements (BIS) Conference on Macro-Financial Stability Policy, which is being held virtually.

He outlined how the traditional inflation-targeting framework for monetary policy is now coming under strain, leading both emerging and advanced economies to resort to other policy tools and measures to achieve financial stability.

But practice has moved ahead of theory, and central banks of emerging economies facing large and volatile international flows of capital have had to experiment with various tools, such as macroprudential policies.

"We need a framework that provides coherence not only across these various policy tools but also with traditional monetary and fiscal policies," said Mr Menon.

He said that policymakers have typically used various policy tools for different objectives, such as interest rates for price stability, and they usually determine the appropriate tool based on factors such as the country's circumstances.

But policies interact with overlapping effects, and an integrated policy framework needs to provide greater clarity on these interactions, he said, adding: "We need a deeper understanding of how these instruments can complement, substitute or conflict with one another."

The conference, which began yesterday and will run until tomorrow, gathers central bank governors, senior officials and leading academics to discuss macroprudential policies that safeguard financial stability and complement monetary policy.

It is jointly organised by the MAS and BIS, in collaboration with the Asian Bureau of Finance and Economic Research, the National University of Singapore Business School and the University of Chicago Booth School of Business.

Topics being discussed during the three-day conference include advanced and emerging markets' experiences with monetary, macroprudential, exchange rate and capital flow management policies.

yuntingc@sph.com.sg

COHERENT FRAMEWORK

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MONETARY AUTHORITY OF SINGAPORE MANAGING DIRECTOR RAVI MENON

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