

A Comparative Study on Determinants of Monetary Policy Framework in Five Asian Developing Countries after the Financial Crisis

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Abstract This paper proposes a three-dimensional framework that divides the determinants of monetary policy frameworks according to the degree of controllability from the point of view of monetary authority into institutional, financial structural and other determinants. Three aggregate indices were constructed and applied to five Asian developing countries, namely Indonesia, Korea, Malaysia, the Philippines and Thailand. After analyzing country by country, three lessons from the experiences of the five Asian countries were drawn. First, an imbalanced improvement between legal and operational aspects of the institutional capacity could be a source of ineffectiveness in monetary policy formulation. Second, the need to improve the effectiveness of the monetary policy framework was more important in the case of a flexible exchange rate regime than in the case of a pegged exchange rate regime. Third, the purposes of adopting inflation targeting varied across countries. In order to be successful in adopting the inflation targeting to decrease the inflation rates, the central bank is expected to have high credibility before the adoption. On the other hand, if the framework is employed in order to build credibility, the central bank has to choose the right time to implement the framework and has to set an attainable target.

Keyword: monetary policy framework, institutional determinants, financial structural determinants

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