Foreword

The papers collected in this volume were written for a conference held at the Hong Kong Monetary Authority in November 2005. It was organised jointly by the BIS Representative Office for Asia and the Pacific in Hong Kong SAR and the Hong Kong Institute for Monetary Research. The objective of the conference was to take stock of the current practice of monetary policy in a broad cross section of Asian economies. Papers on China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand and Vietnam were presented and discussed at the conference and subsequently revised by the authors. In addition, the experience of a "mature" inflation targeter, the Reserve Bank of Australia, was presented. The result, we believe, is an up-to-date account and assessment of the strategies followed by the respective central banks and monetary authorities.

In a survey of monetary policy in East Asia covering the post-crisis period until 2001, McCauley (2002) concluded that "Most central banks in East Asia focus on price stability" and that "this focus entails quite a bit of attention to the exchange rate" (p 45).[1] He also found "a willingness to use restrictions on financial transactions with non-residents to limit exchange rate volatility" (p 46) and, it might be added, to gain some additional, if temporary, degree of freedom in setting domestic interest rates.

Five years on, it is possible to discern a consolidation and strengthening in the focus on price stability in the monetary policy strategies adopted by central banks in the region. On the other hand, there appears to be a marginal reduction in the emphasis on exchange rate stability and a gradual liberalisation of international capital account transactions. Price stability remains the primary objective of the majority of the central banks, and arguably it has gained both in importance as a goal and in acceptance by the public. Formal inflation targeting regimes in Indonesia, Japan, Korea, the Philippines and Thailand have secured credibility as the institutional backing has been developed, and as communication with the public has been improved and emphasised. Singapore continues with considerable success to target inflation using the effective exchange rate as the policy instrument. India, Malaysia and arguably Vietnam also target inflation although they do not call themselves inflation targeters.

It is still common among the central banks to keep a keen watch on the exchange rate because of its importance in the inflation process, but some increase in exchange rate flexibility can be observed. China and Malaysia abandoned their strict peg to the US dollar in July 2005, and de facto fluctuations of the exchange rates of several other currencies have increased. A notable development is the increased focus on the effective exchange rate as opposed to any particular bilateral rate. Hong Kong is an exception in that it continues to base its monetary policy on the linked exchange rate with the US dollar.

While restrictions on international capital account transactions remain in several jurisdictions, their coverage appears to have been reduced at least de facto, if not de jure. This is making it increasingly difficult to manage both inflation and the exchange rate in some countries. Korea is a particularly good example.

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[1] McCauley, R N: "Setting monetary policy in East Asia: goals, developments and institutions". *Occasional Papers* No 33, The South-East Asian Central Banks Research and Training Centre (The SEACEN Centre), Kuala Lumpur, Malaysia, 2002.

Even if there are still large differences remaining between central banks, from the studies collected here it is possible to discern an increasingly strong institutional backing for the conduct of monetary policy in the region as well as a clearer articulation of its objectives and implementation.

Hans Genberg
Hong Kong Monetary Authority
and Hong Kong Institute
for Monetary Research

Eli Remolona
BIS Representative Office
for Asia and the Pacific