

Monetary and Macro-Prudential Policy at the BSP

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Outlines

- 1, Reserve Requirement Ratio**
- 2, Increase of risk premium of the Philippines after the Lehman shock**
- 3, Utilization of capital stock**
- 4, DSGE Model with Small open economy**
- 5, Financial Friction**
- 6, Simulation of various shocks**

<What are the causes of big risk premium ? >

- 1, **Risk Premium** = $r(90) - r(\text{LIBOR}) \rightarrow$ **financial instability**
- 2, Capital outflow by **domestic investors or overseas' investors**
- 3 Fluctuations of **exchange rate**
imported inflation will rise (domestically created inflation)

<Financial markets>

- 1, **Bank channel**, **bond market**, **stock market** etc.
- 2, Adjustment costs of foreign debt (0.5)
Adjustment speed may differ from time to time (**Crisis period**)
- 3, **Foreign interest rate** will be affected by US monetary policy
it should not be stochastic.

<Production Function>

1, Utilization of Capital is introduced

→ Changes in productivity of capital

→ Technological progress

2, Imported inputs and Labor

→ FDI, production networks within the Philippines

<Monopolistic Competition>

Imperfect competition (?)

<Bank lending market>

Financial frictions may be larger in small banks

< **Banking Behavior**>

- 1, Default risks of bank loans could be included
- 2, Various loans such as Real estate loans
- 3, Deposit Insurance (Stability of Financial system)
- 4, Starting “New bank” might not be so easy

< **Government Bond Market**>

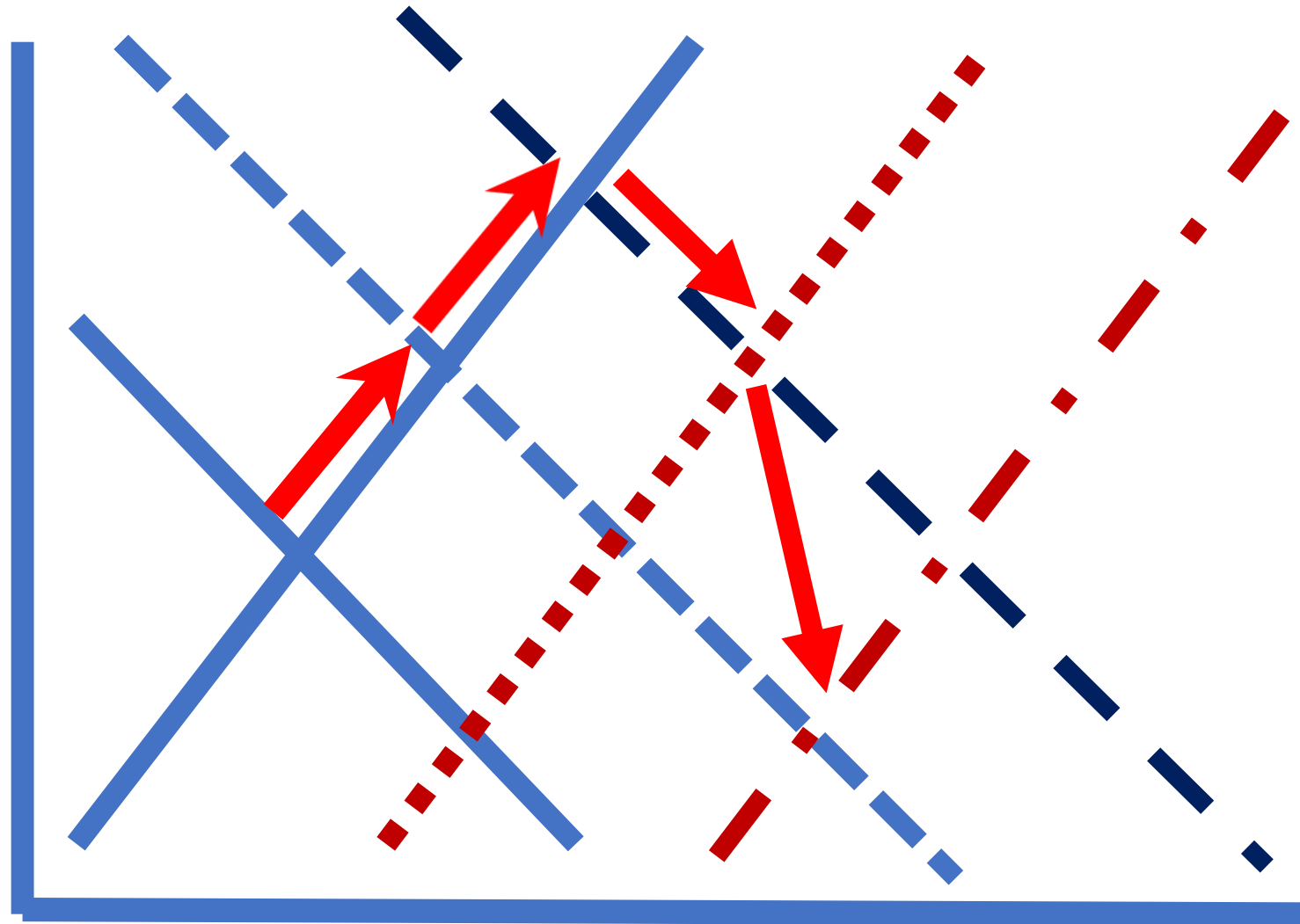
Who will purchase government bonds ?

→ Are Banks major holders of government bonds ?

< **Financial Stability**>

- 1, Land price and Housing price
- 2, Capital injection, 3, Early warning indicators

**Property
price**



Loan Supply and Demand