



3rd CBSL-ADBI-APAEA Workshop
Theme “Emerging Issues for Macroeconomic Stability”
Webinar Workshop, September 23, 2022

Schedule	Agenda (All time slots are Sri Lankan time)
10:00am - 10:15am	Inauguration by Governor, CBSL Dr. Nandalal Weerasinghe Opening remarks by Dean, ADBI Prof. Tetsushi Sonobe
10:15am - 12:15pm	Workshop session 1
12:15pm - 1:00pm	Workshop BREAK
1:00pm - 3:00pm	Workshop session 2
3:00pm – 3:15pm	Closing remarks and publication details Prof. Paresh Narayan , President, APAEA Dr. P.K.G. Harischandra , Director-Economic Research, CBSL

Zoom Details:

Link - Register in advance for this webinar:

https://us06web.zoom.us/webinar/register/WN_KXmQLTISTTue2yNOqfsUmw

Webinar ID: 890 5285 1698

Webinar Passcode: 268084

WORKSHOP DETAILS

WORKSHOP SESSION 1

Chair: Dr. John Beirne (Vice-Chair of Research, ADBI)

10:15am - 10:55am	Title: Whether monetary policy responds to COVID-19 effectively? Authors: Yun-Peng Wang (Xi'an University of Finance and Economics), Chun-Ping Chang (Shih Chien University) and Janaka Edirisinghe (CBSL) Presenter: Yun-Peng Wang (Xi'an University of Finance and Economics) Discussant: Ms. Madhuchhanda Sahoo (Reserve Bank of India)
10:55am - 11:35am	Title: Does credit growth affect the current account? Evidence from emerging economies Authors: Bhavesh Garg (IIT Ropar) and Harsha Parnavithana (CBSL) Presenters: Bhavesh Garg (IIT Ropar) and Harsha Parnavithana (CBSL) Discussant: Dr. Lasitha Pathberiya (CBSL)
11:35am - 12:15pm	Title: Impact of US monetary policy on foreign currency debt and credit growth in emerging market economies: evidence from COVID-19 period Authors: K.P. Prabheesh (IIT Hyderabad) and Vipula Wickramarachchi (CBSL) Presenters: K.P. Prabheesh (IIT Hyderabad) and Vipula Wickramarachchi (CBSL) Discussant: Dr. Harendra Behera (Reserve Bank of India)

WORKSHOP SESSION 2

Chair: Mrs. Yvette Fernando (Deputy Governor, CBSL)

1:00pm - 1:40pm	Title: Corporate market power and monetary policy transmission in Asia Authors: Nuobu Renzhi (CUEB) and John Beirne (ADBI) Presenters: Nuobu Renzhi (CUEB) and John Beirne (ADBI) Discussant: Prof. Dongmin Kong (Huazhong University of Science and Technology)
1:40pm - 2:20pm	Title: Financial development and the net capital flows “allocation puzzle” in developing Asia Authors: John Beirne (ADBI) and Pradeep Panthi (ADBI) Presenters: John Beirne (ADBI) and Pradeep Panthi (ADBI) Discussant: Dr. Fiskara Indawan (Bank Indonesia)
2:20pm - 3:00pm	Title: Oil price shocks and financial stress: empirical evidence from quantile on quantile approach Authors: Peter Morgan (ADBI) and Long Trinh (ADBI) Presenter: Peter Morgan (ADBI) and Long Trinh (ADBI) Discussant: Prof. Jonathan Batten (RMIT University)
3:00pm – 3:15pm	CLOSING REMARKS Prof. Paresh Narayan & Dr. P.K.G. Harischandra



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ABSTRACTS

SESSION I

Whether monetary policy responds to COVID-19 effectively? Evidence from Asian Countries

Yun-Peng Wang, Chun-Ping Chang, and Janaka Edirisinghe

Abstract

The global recession due to the COVID-19 epidemic that started in March 2020 led to an unprecedented decline in economic activity. To counteract this recession, many central banks engaged in expansionary monetary policy. This research examines whether such measures adopted by Asian central banks have been effective in boosting real activity and calming financial markets. To measure these effects at high frequencies, we propose a novel mixed frequency vector autoregressive (MF-VAR) model that allows us to combine monthly and quarterly information within a unified framework. Our model aggregates quarterly data of GDP growth in Asian countries and monthly information on the money supply measured by M2 and inflation. The latter set of high-frequency time series is utilized to dynamically interpolate the quarterly time series to obtain monthly macroeconomic measures. The results show that the monetary expansion did result in different outcomes of GDP growth and CPI in Asian countries considering the significant difference in the overall status of each economy. Therefore, we propose that monetary policy should be tailored to the specific country as a completely copy of monetary policy from other countries may not have a beneficial effect.

Does credit growth affect the current account? Evidence from emerging economies

Bhavesh Garg and Harsha Paranavithana

Abstract

This paper examines the impact of credit growth on current account balances. Evidence from five South-east Asian economies shows that total credit flows lead to an improvement in the current account balance of these countries, especially India and Indonesia, in the presence of adequate financial development. Nevertheless, for China we find that credit flows lead to a deterioration of its current account balance. When disaggregate the total credit flows, in case of China, we find that household credit negatively influences the current account balance while the bank and business do not have any significant affect. Similarly, for India, we find that most of improvement in current account from credit flows comes from household and bank credit. Interestingly, in case of Indonesia, Malaysia, and Thailand, we find evidence of aggregation bias.

Impact of US Monetary Policy On Foreign Currency Debt and Credit Growth in Emerging Market Economies: Evidence from Covid-19 Period

K.P. Prabheesh and Vipula Wickramarachchi

Abstract

This paper analyzes the impact of US monetary policy on the external debt and credit growth in emerging market economies (EMEs) during the Covid-19 period. Using quarterly data from 13 EMEs, and employing panel autoregressive methodology, the study finds (1) the global monetary policy plays a vital role in determining external debt and credit availability in the EMEs during the Covid period. (2) The global monetary expansion during the Covid crisis led to the accumulation of external debt through the risk-taking channel of the exchange rate. (3) A weak domestic monetary policy transmission in stabilizing the credit growth.

SESSION II

Corporate Market Power and Monetary Policy Transmission in Asia

Nuobu Renzhi and John Beirne

Abstract

This paper empirically examines the role of corporate market power in monetary policy transmission in Asia. Using panel local projections based on a firm-level dataset for 11 advanced and emerging Asian economies, we find that after a monetary policy tightening, the real sales of firms with low market power significantly decline while real sales of firms with high market power respond little. Moreover, we find that average responses of firms' real sales to monetary policy shocks are driven by the low mark-up firms. Our findings indicate that rising market power impairs the effective transmission of monetary policy. We discuss the implications in terms of balancing the need for industrial policies that promote innovation-led productivity against effective competition policy to compress heterogeneity in market power dynamics and enhance the monetary policy transmission mechanism.

Financial Development and the Net Capital Flows “Allocation Puzzle” in Developing Asia

John Beirne and Pradeep Panthi

Abstract

Focusing on a panel of 13 developing Asian economies from 1996Q1 to 2019Q4 across, this paper examines the role of financial development as a transmission channel for solving the “allocation puzzle” in capital flows. While portfolio equity and debt investment, and banking flows, are negatively related to TFP in emerging Asia, thereby contradicting the predictions of traditional neoclassical growth models, we find that financial development significantly mitigates this effect. Our results are robust to several alternative specifications and indicate that threshold effects in the level of financial development are key mechanisms for aligning theory and empirics in respect of capital flow dynamics in emerging Asia. Our findings highlight the importance of efficiency in financial intermediation for the productive allocation of capital inflows, and also imply that the neoclassical growth model should be augmented to reflect financial development.

Oil Price Shocks and Financial Stress: Empirical Evidence from Quantile on Quantile Approach

Trinh Q. Long and Peter J. Morgan

Abstract

This present paper aims to enrich the current literature on the relationship between oil price shocks and financial stress. We adopt Ready (2018)'s approach to decompose global oil price shocks into supply shocks, demand shocks and risks and examine the nonlinear relationship between oil price shocks and financial stress in several countries using quantile-on-quantile regression approach. Our preliminary results suggest that in all countries, high oil price shocks are correlated with volatility in the financial stress. All types of oil shocks at the higher quantiles are associated with larger effects of the financial stress. Furthermore, our results show that the effects of oil price shocks on financial stress are also dependent on the position of the financial stress on its distribution.