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Authors: Soyoung Kim, Aaron Mehrotra

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Managing price and financial stability objectives in inflation targeting economies in Asia and the Pacific¹

Soyoung Kim² and Aaron Mehrotra³

²Seoul National University. Department of Economics, San 56-1, Sillim-Dong, Gwanak-Gu, Seoul 151-746, Korea. Tel. +82-2-880-2689. E-mail: soyoungkim@snu.ac.kr.

³Bank for International Settlements. Centralbahnplatz 2, 4001 Basel. Tel. +41-61-280-8489. E-mail: aaron.mehrotra@bis.org. Corresponding author.

Highlights:

- We analyse trade-offs between price and financial stability objectives in inflation targeting economies in the Asia-Pacific region.
- The analysis is done by structural vector autoregressions that identify both monetary policy and macroprudential policy shocks.
- We find that there have been occasional short-term trade-offs between price and financial stability objectives.

Abstract

Many central banks have adopted explicit objectives for financial stability, raising the possibility of trade-offs between price and financial stability objectives. Based on structural vector autoregressions that incorporate both monetary and macroprudential policy shocks for four inflation targeting economies in Asia and the Pacific, we analyse the role of each policy shock in explaining deviations from the other policy's objective, by applying historical decompositions. The macroprudential measures used in the study affect credit extended to the private sector. We find that there are periods when macroprudential

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