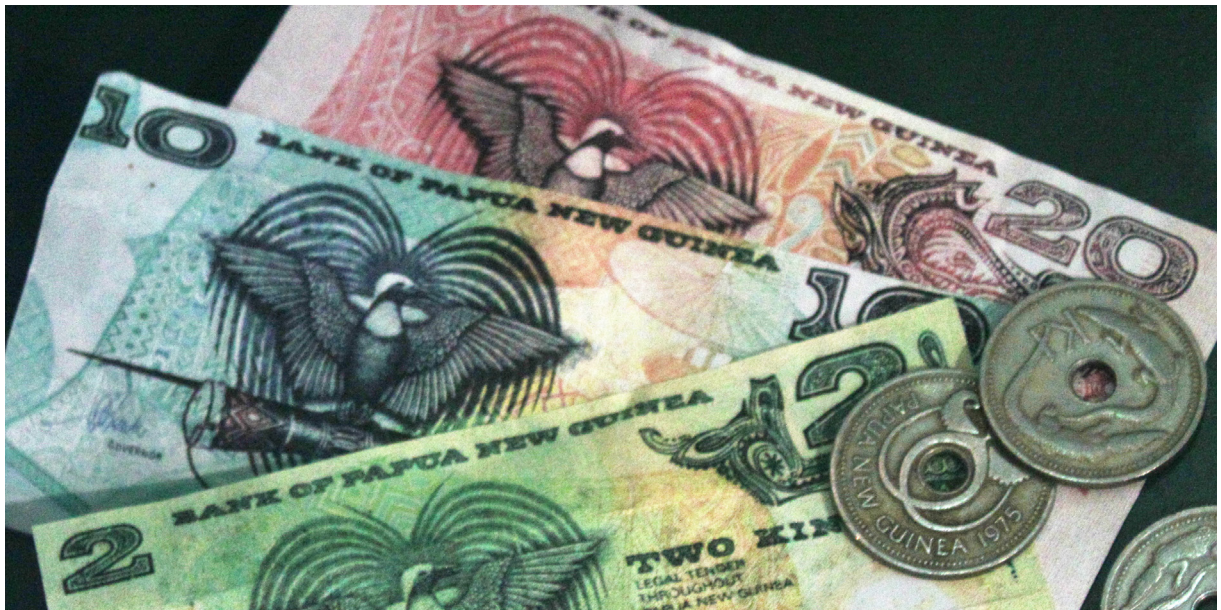




Impact of excess reserves on monetary policy transmission in PNG

Friday, 5 July 12:30-1:30pm



Banknotes and Coins of Papua New Guinea by Bin im Garten

The accumulation of excess reserves in PNG's banking system may have undesired implications on the effectiveness of monetary policy transmission. This paper employs a structural VAR model to measure flow-on effects of positive shocks to excess reserves and the lending rate using quarterly time-series data from March 2001 to December 2020. The shocks are measured by the orthogonalized innovations to the monetary policy variables.

The impulse response results show that the lending rate and excess reserves shocks have unanticipated effects on the exchange rate and the CPI in the short run. In the long run, the response of GDP to shocks is not consistent with monetary theory. Furthermore, variance decomposition results indicate that excess reserves account for minimal components of the shocks to all variables in the short horizon. The historical decomposition results suggest that the excess reserves shock contributes weakly to the fluctuations of the CPI and GDP over the sample period. The findings determine that excess reserves undermine the effectiveness of monetary policy transmission in PNG.

Speaker

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Locations

1. MBA Suite (SBPP building, UPNG)
2. Seminar room 7 (Crawford School, ANU)
3. Online via Zoom

Register

<https://events.devpolicy.org/20240705>

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