

The Trilemma Then and Now

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5TH ASIAN MONETARY POLICY FORUM 2018

Introduction

The classic trilemma — evidence

Trilemma versus dilemma

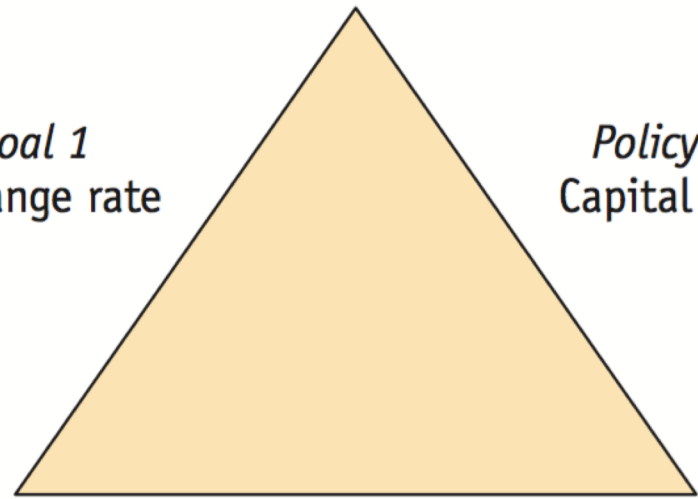
Expanding the trilemma — macro-financial stability

Summing up

Policy choice
No monetary policy autonomy
Sacrifice goal 3 to attain 1 & 2

Policy goal 1
Fixed exchange rate

Policy goal 2
Capital mobility

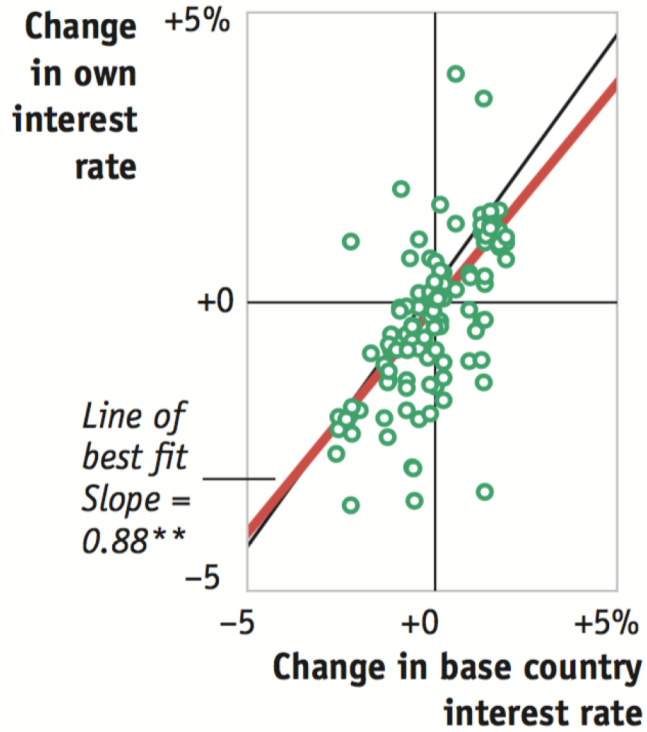


Policy goal 3
Monetary policy autonomy

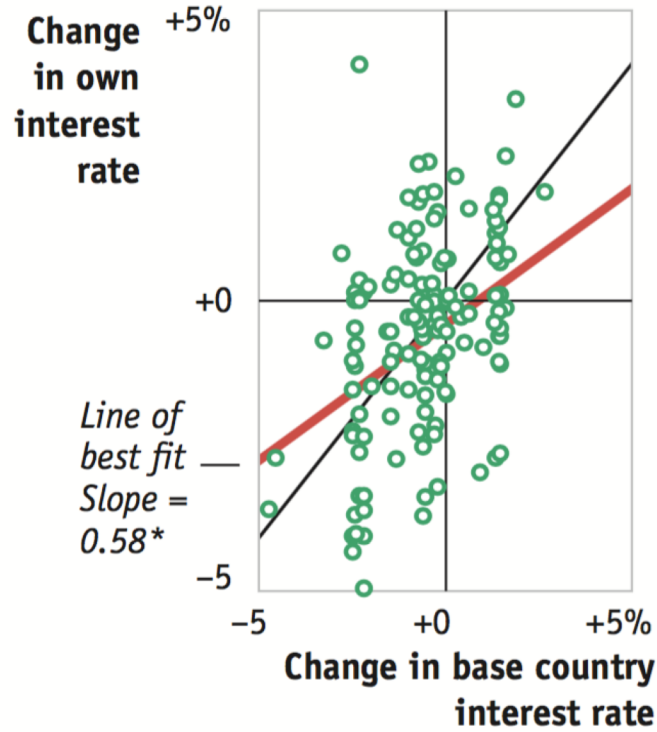
Policy choice
Capital controls
Sacrifice goal 2 to attain 3 & 1

Policy choice
Floating exchange rate
Sacrifice goal 1 to attain 2 & 3

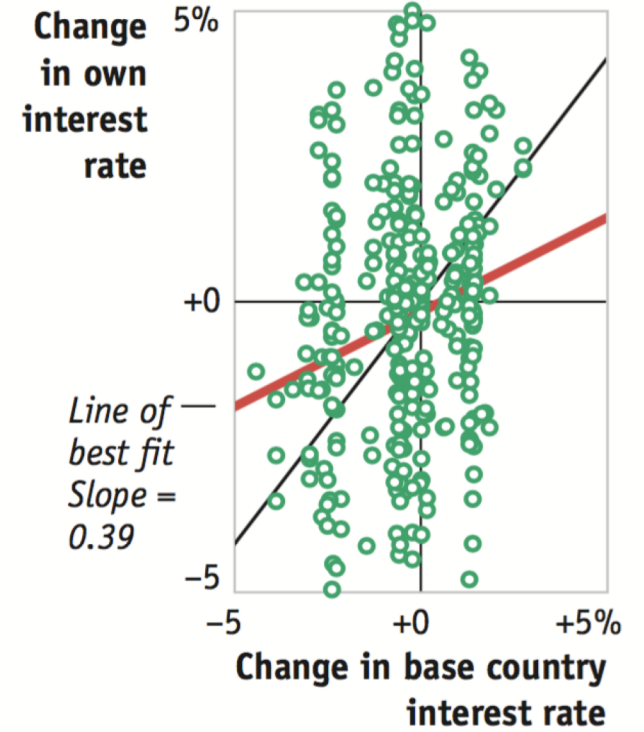
(a) Open and Pegged



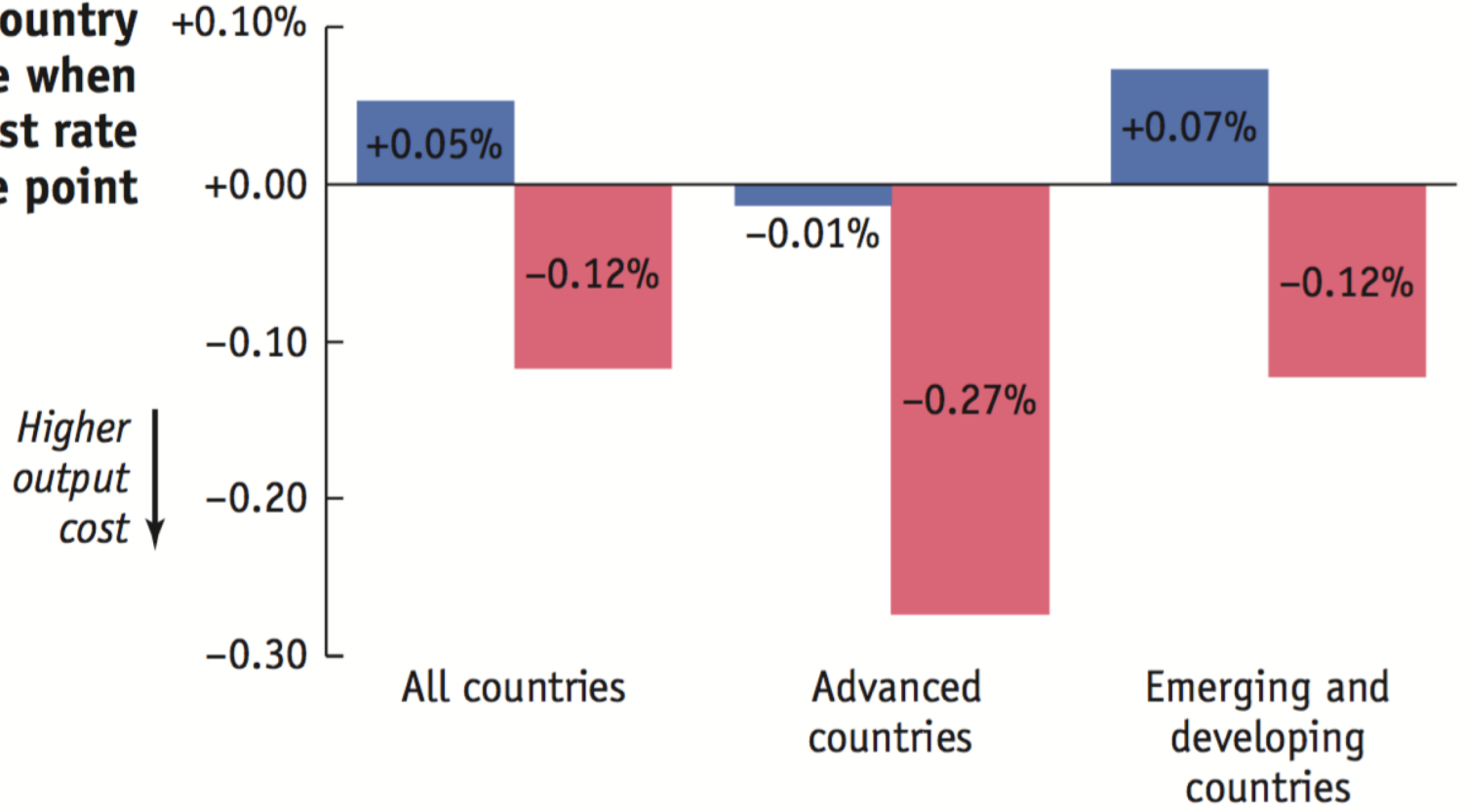
(b) Open and Not Pegged



(c) Closed



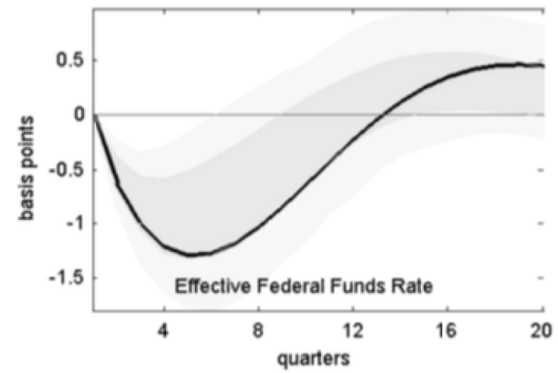
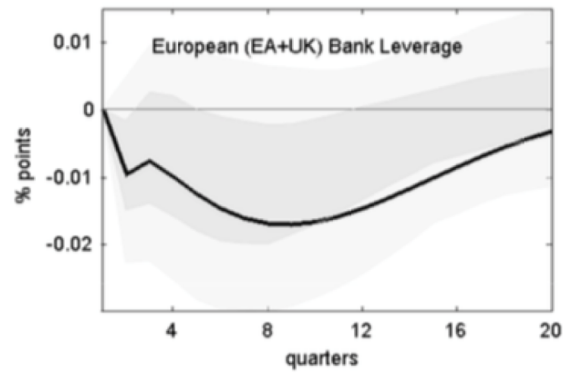
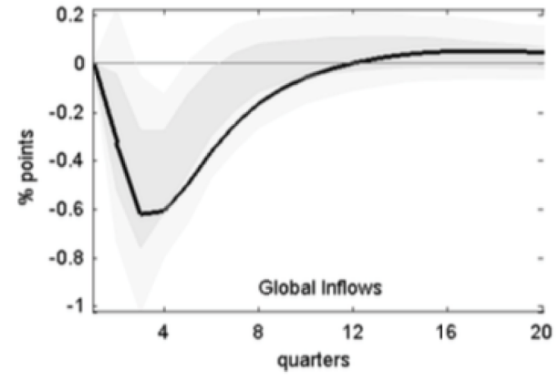
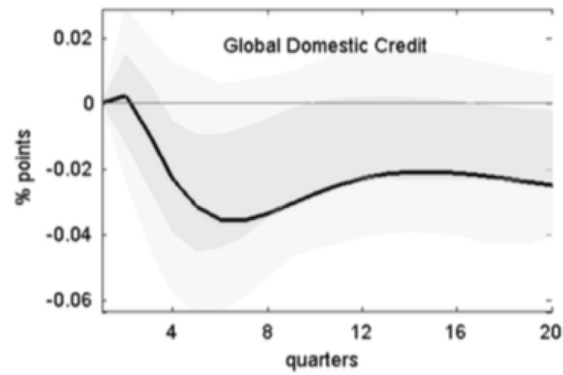
Change in home country real GDP growth rate when base country interest rate rises by 1 percentage point



■ Floating exchange rate regimes

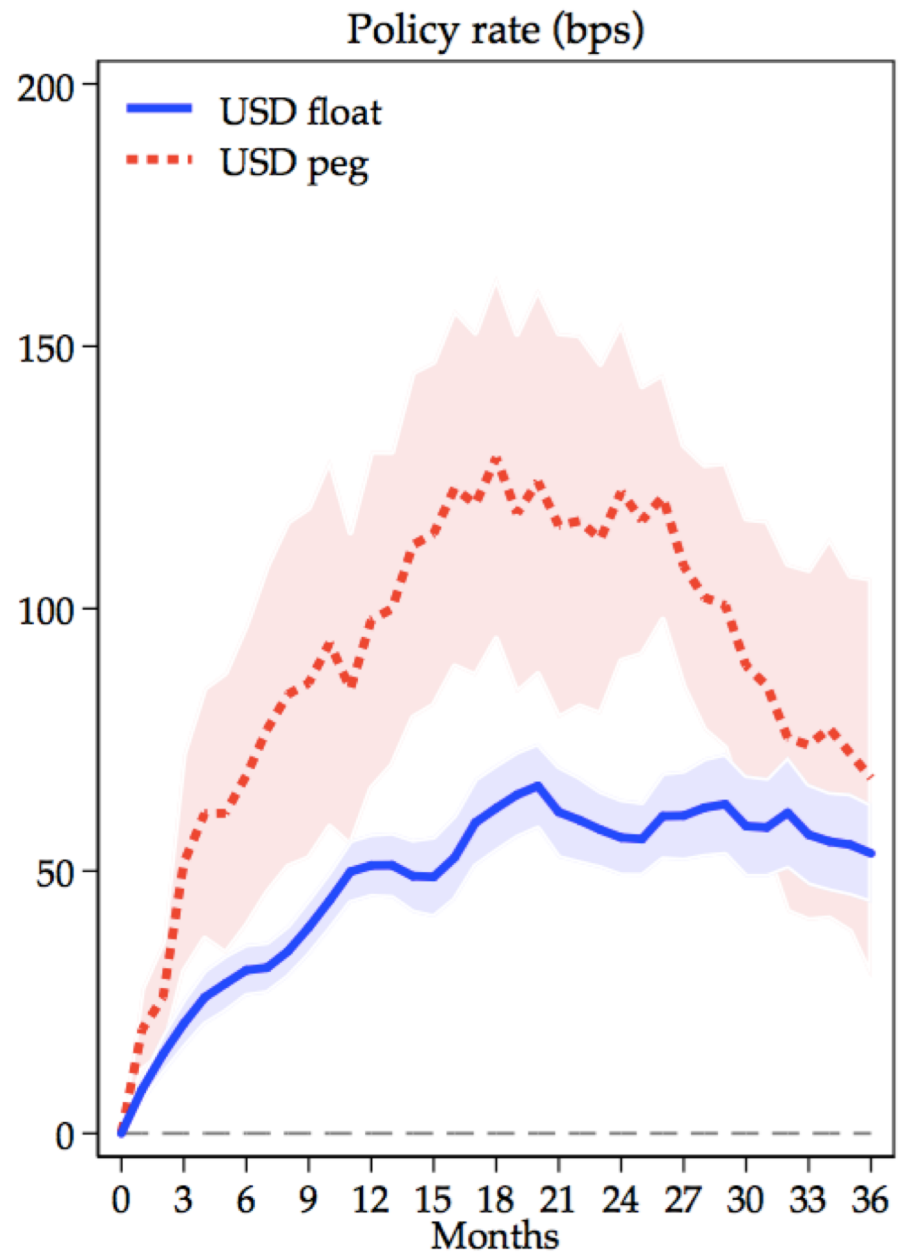
■ Fixed exchange rate regimes

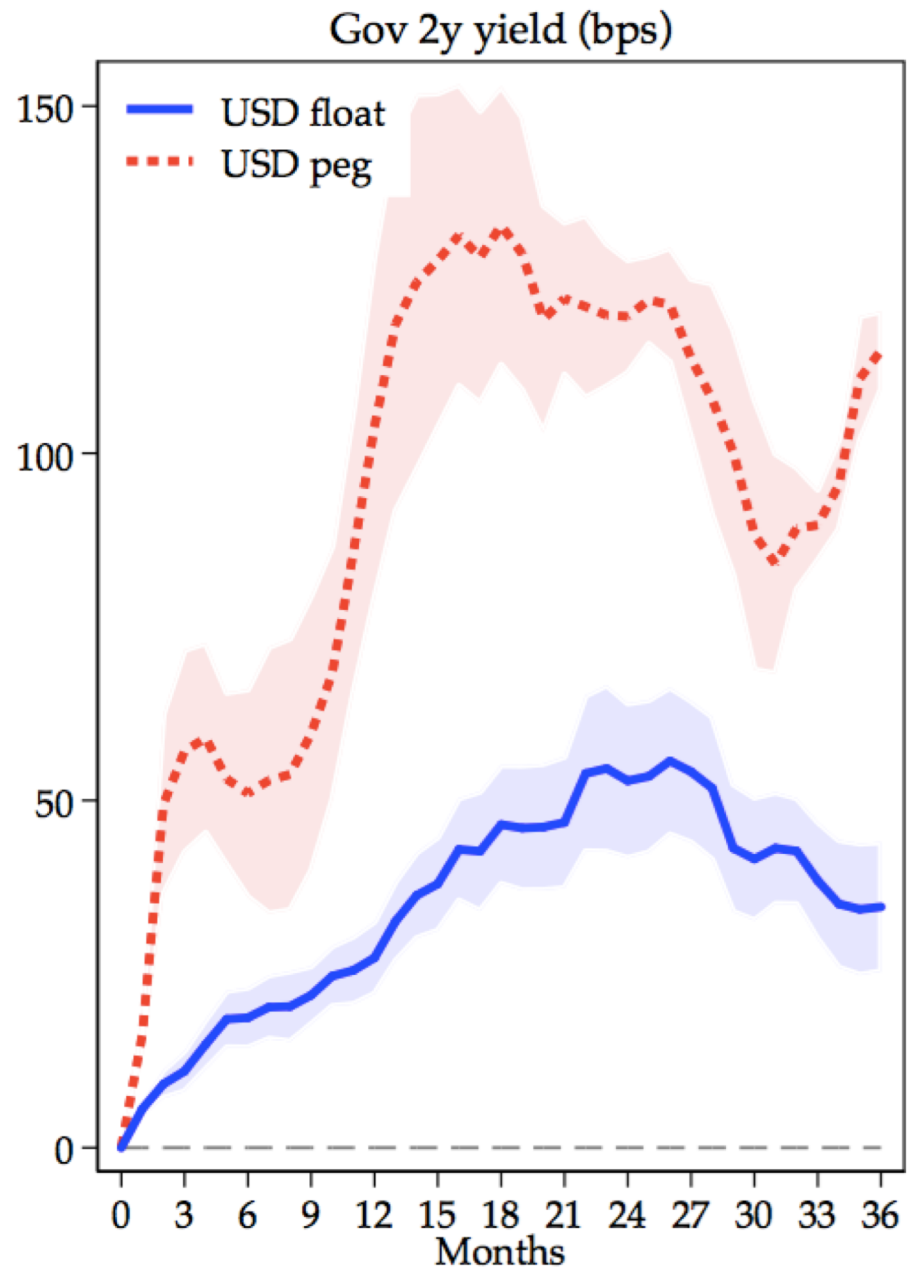
Chart 3b
Responses to a 1 Percent Increase in the VIX

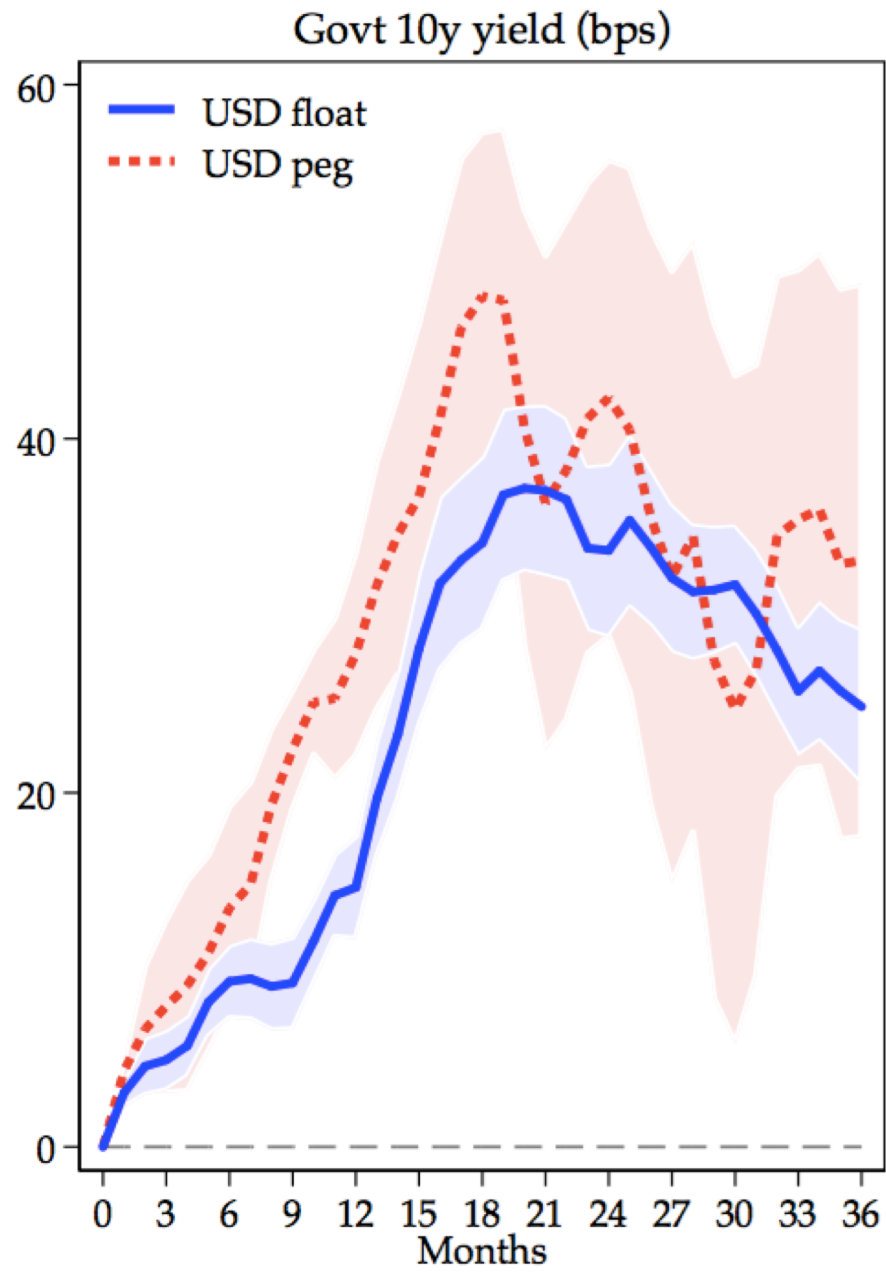


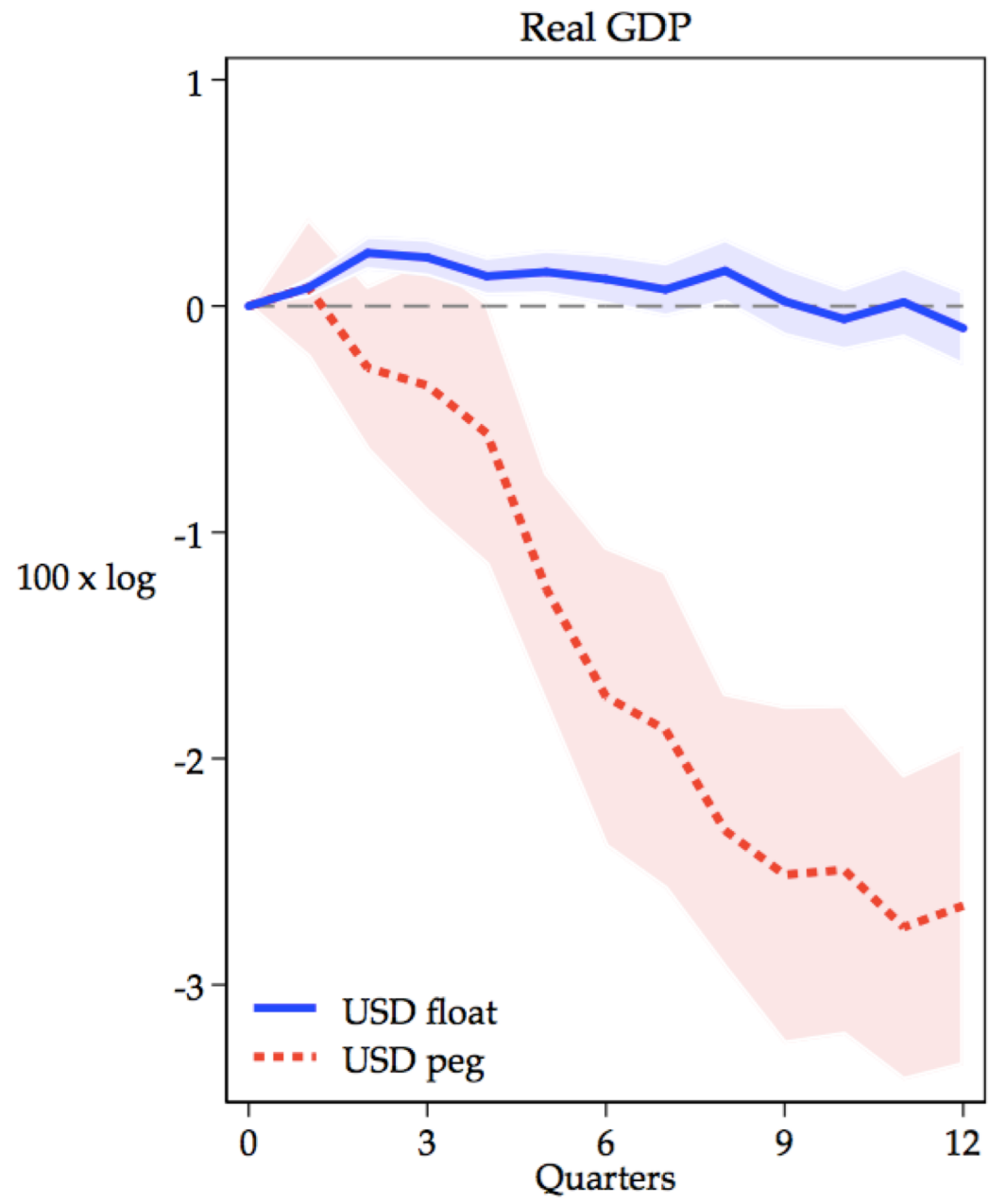
Local projection

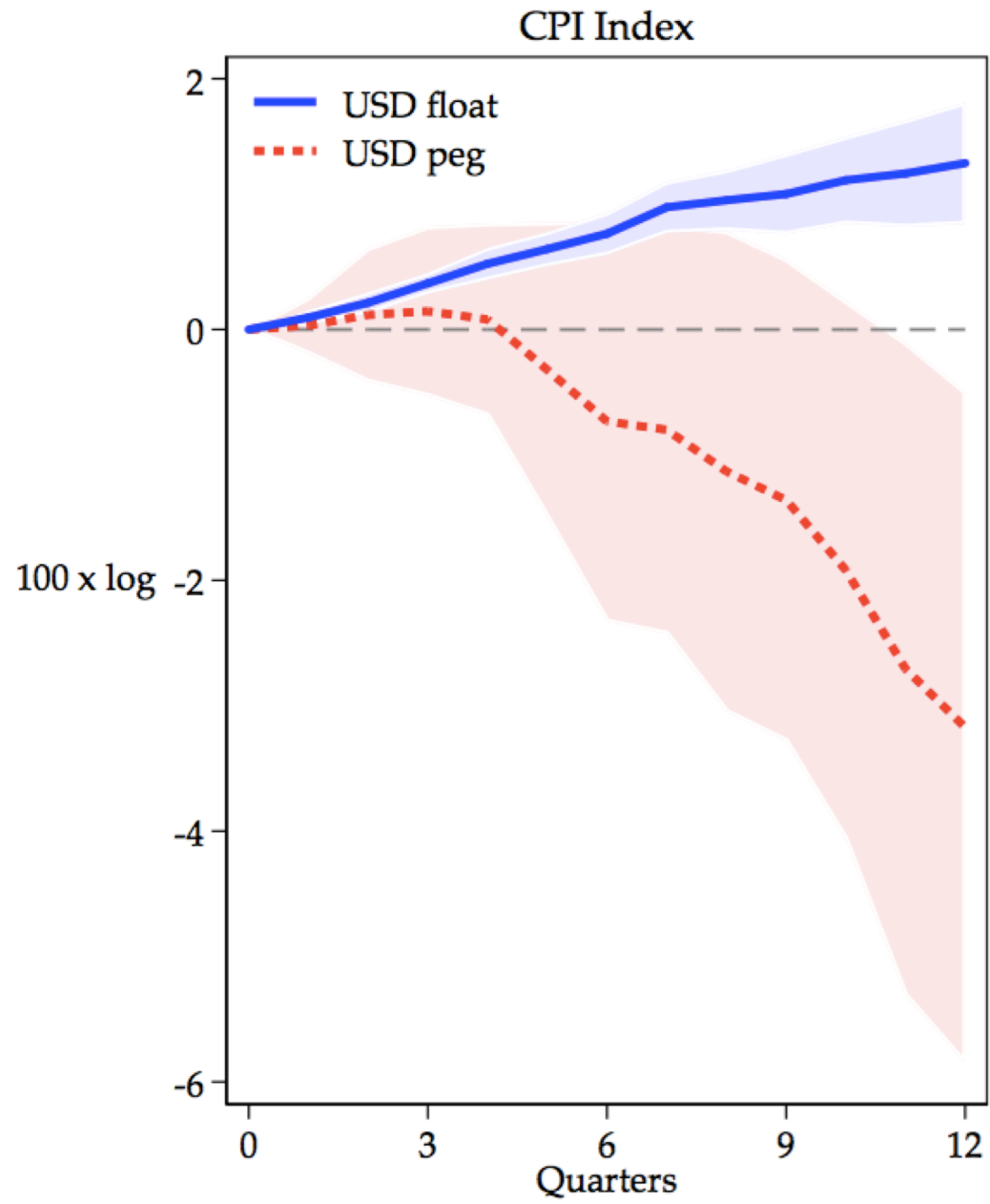
$$\Delta y_{it}^h = \alpha + \beta_{peg}^h USDPEG_{it} \Delta FFR_t + \beta_{float}^h (1 - USDPEG_{it}) \Delta FFR_t + \gamma x_{it} + u_{it}$$

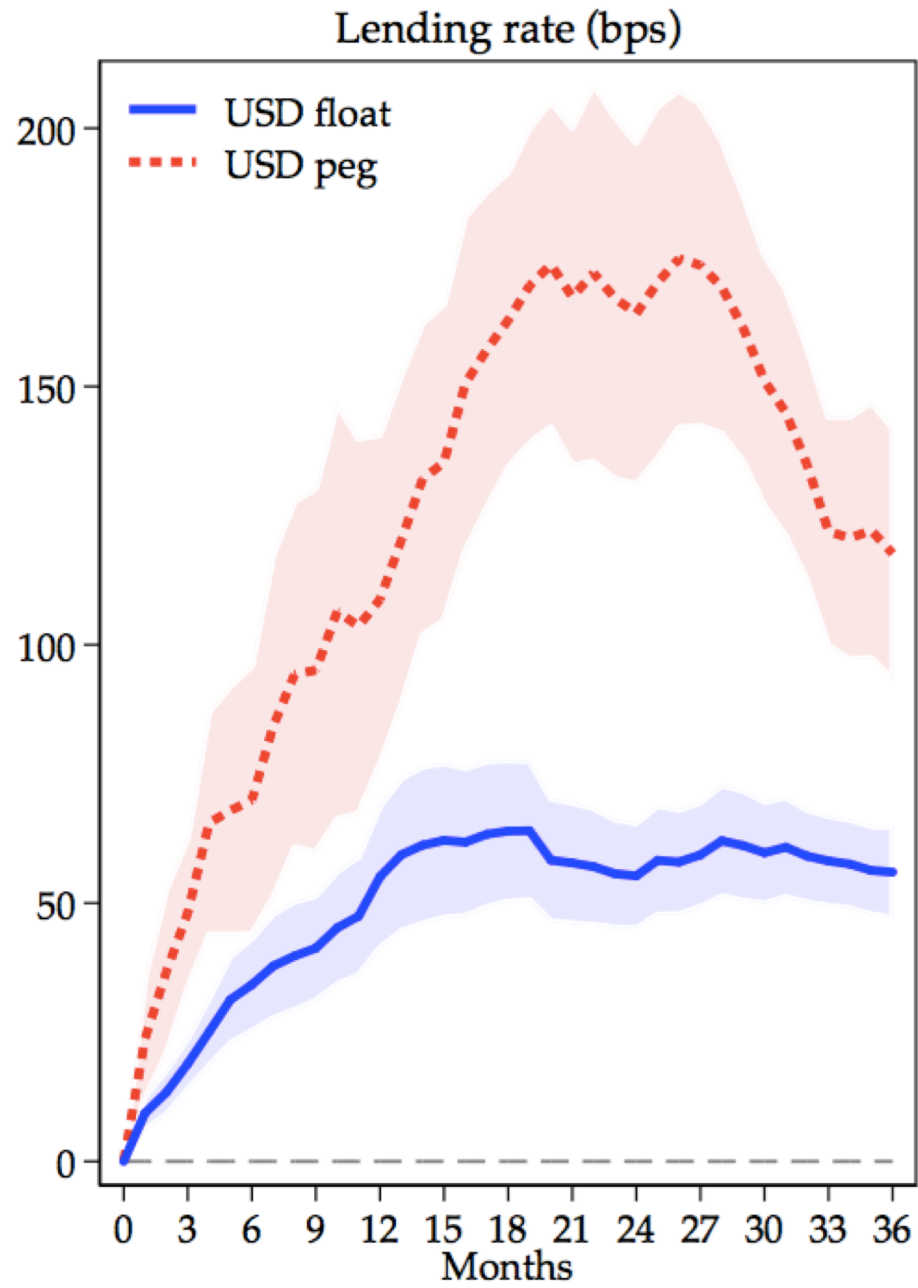


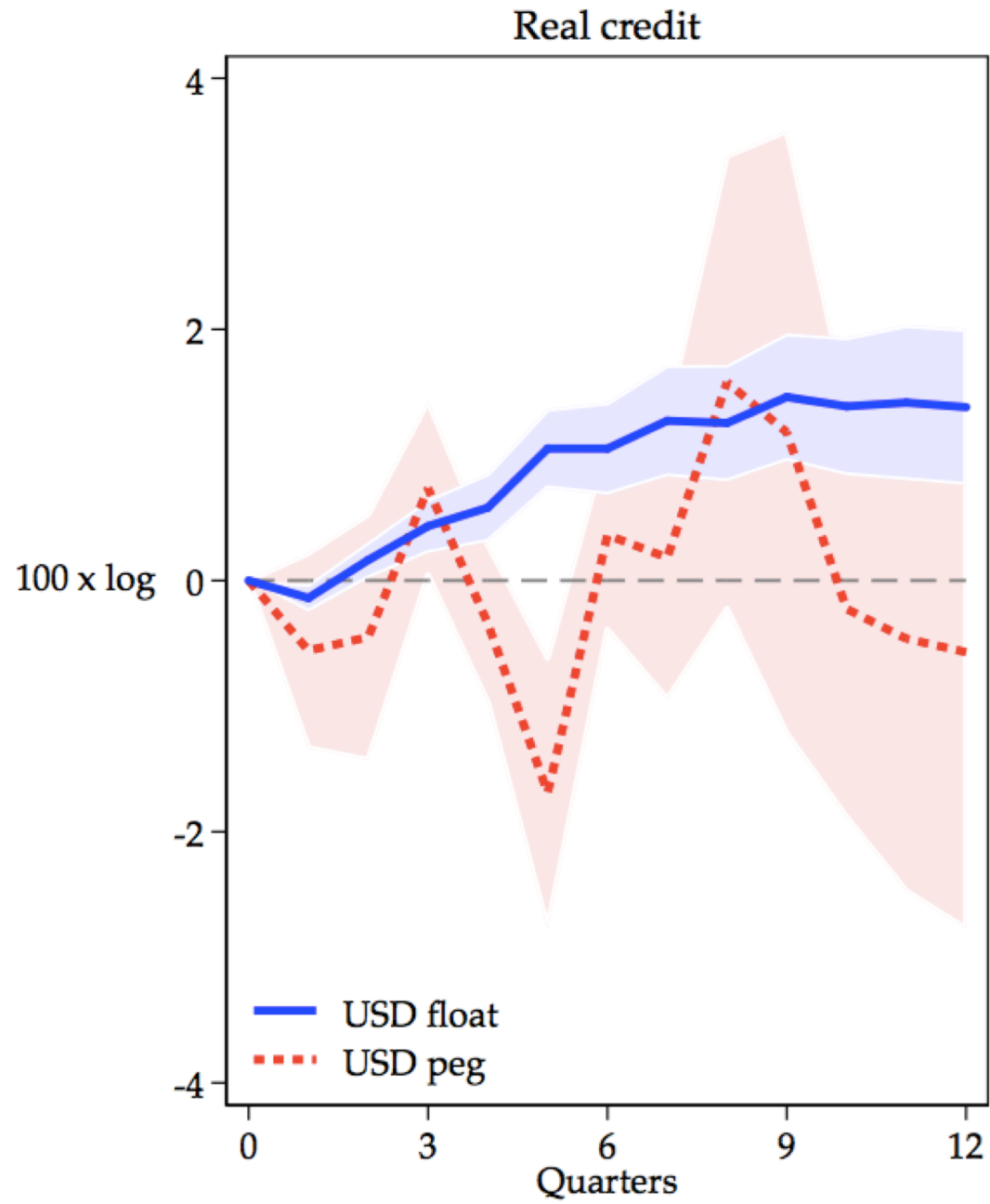


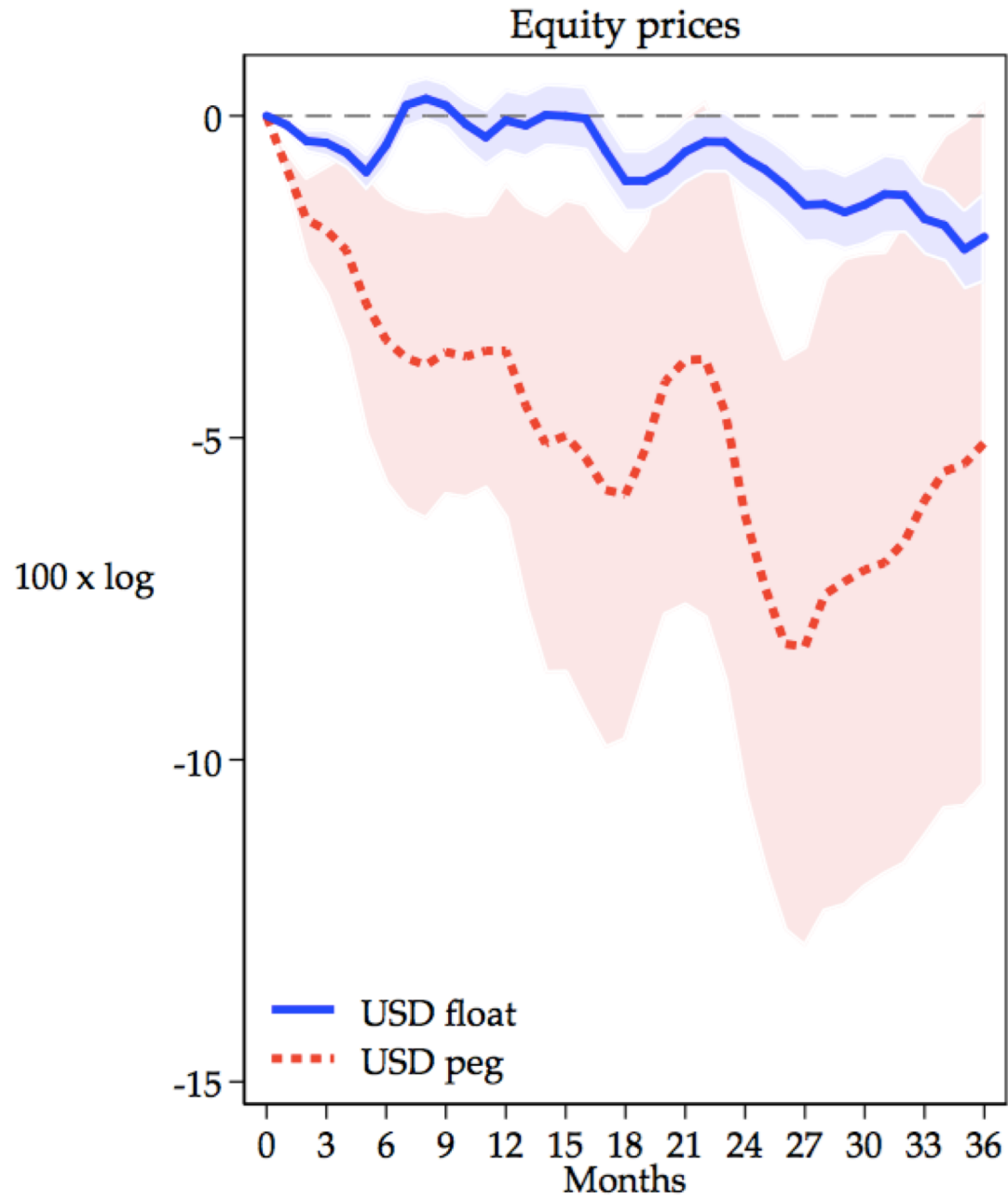












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