Preface

This book is about central banking and monetary policy in the Asia-Pacific. The purpose of this book is as a reference text. It surveys the major theories, models and approaches to inflation and monetary policy, with a focus on developing countries of the Asia-Pacific. The subject matter is topical, as it highlights contemporary issues in the design and conduct of monetary policy for price stability. High interest rates, inflation, exchange rate volatility and large-scale capital flows since the early 1970s have indeed raised the importance of monetary, fiscal and exchange rate policies in developing countries. Most Asian developing countries have maintained high economic growth since the 1980s without experiencing serious policy-induced macroeconomic problems, such as inflation and large current account deficits. The 1997–98 currency crises in East and Southeast Asia did, however, expose the vulnerability of these economies to both domestic and external shocks. Since then, most countries of this region have undertaken both stabilisation and structural reform measures. As part of improving economic policy, they have given more importance to monetary and exchange rate policies for price stability with the goal of maintaining sustained economic growth without creating unsustainable macroeconomic imbalances. Recognising these macroeconomic developments, this book provides an overview of key concepts and principles of central banking and monetary policy and reviews contemporary issues in monetary policy in the Asia-Pacific. The ongoing global financial crisis that has originated from the US subprime mortgage crisis has raised a wide range of issues about the role and effectiveness of monetary policy in economic stabilisation. Given space constraint and its analytical focus, the book does not review in detail this and other global or regional financial crises. The book highlights aspects of these financial crises only to develop or illustrate the key concepts and principles in central banking and monetary policy in developing countries.

This book took formal shape as part of my sabbatical research in 2005. I have, however, thought about writing this book much earlier while teaching some undergraduate courses in the areas of money, banking and finance at the University of Newcastle, Australia. My frustration stems from using various popular texts on money, banking and finance which are often detailed in their exposition of macroeconomic and monetary concepts and have excessive exposure to monetary histories and institutions of developed countries, yet avoid adapting the concepts and principles of money, banking and finance to conditions of developing countries. Although the developing countries of the Asia-Pacific were outside the intellectual radar throughout the 1950s and 1960s, it is foolhardy to ignore these countries at this junction of economic history of this region. Therefore, I have been looking for a survey text that covers the concepts and principles of monetary theory and policy, and reviews contemporary monetary policy issues in developing Asia, but without going into the detail of monetary histories of countries of this region.

I acknowledge my debt to my colleagues Professor John Burgess and Dr Andrew Nadolny; both read the manuscript and provided suggestions for its improvement. I also

acknowledge the comments of an anonymous reviewer for his/her constructive comments on an earlier draft and suggestions for its improvement. I wrote preliminary drafts of this book at Bank Indonesia. I acknowledge the hospitality of Bank Indonesia and the friendliness of its staff. My special debt is to my colleague Gregory Bauer who has drawn the figures and charts for this book. The professional team of Edward Elgar Publishing has taken care of transforming the final draft into a reference text with care. I am grateful to the Faculty of Business and Law of the University of Newcastle for awarding me a research grant in the form of some teaching relief that helped me to finalise the manuscript. Finally, I take this opportunity to thank my wife, Nilufar, and our children, Andaleeb, Ayeeda, Afeeya and Azleena, for their support and understanding while I worked on this book. I dedicate this book to them.

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