An Analysis of Reverse Repurchase Rate on Selected Monetary Policy Indicators: A Vector Auto-regression

Martin Roy B. Base
Polytechnic University of the Philippines

ABSTRACT

This study evaluated the effectiveness of the reverse repurchase (RRP) rate as the main monetary policy instrument of the Bangko Sentral ng Pilipinas in affecting selected monetary policy indicators, particularly output gap, inflation, and nominal exchange rate, through a modified New Keynesian monetary policy model using vector autoregression (VAR). The results showed that changes in the RRP rate affects output gap, inflation, and nominal exchange rate, albeit not statistically significant. In addition, the "price puzzle" was seen in the results. This pertains to an increase in inflation after monetary policy contraction which is in contrast with the standard monetary policy theory.

Keywords: monetary policy, interest rate, monetary economics, macroeconomics

About the presenter:

Martin Roy Base is a MEAL Officer at Save the Children Philippines. His other previous experiences involve working as a Planning Officer at Department of Trade and Industry, Budget and Management Analyst at the Department of Budget and Management and as an Accounting Staff at Bangkok Bank PCL – Manila Branch, among others. He has acquired his Bachelor's Degree in Accountancy at Divine Word College of Legazpi in 2014. He entered Graduate School in 2017 and took up Master of Arts in Economics at the Polytechnic University of the Philippines. His field of interests in research include Macroeconomics, Development Economics, Public Economics, Labor Economics, and Monetary Economics.