

Opening Address
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SEACEN EXCO Seminar on
Building Credibility for Effective Monetary Policy
Phuket, 25 January 2008

Members of the SEACEN EXCO,
Distinguished Guests,
Ladies and Gentlemen,

It gives me great pleasure to welcome you to the 6th Meeting of the SEACEN EXCO and Seminar on Building Credibility for Effective Monetary Policy. The Bank of Thailand is very pleased to host these two important events in Phuket, where as you know is among the most popular tourist destinations in Thailand.

Today's seminar comes amid very challenging conditions for central banks. In recent years, we have been confronted with numerous episodes of financial market turbulence which have tested the economic fundamentals of both advanced as well as emerging market economies. With the advent of globalization, innovative financial products with complex risk profile, and technological advancement, the identification and management of risks have presented major challenges for policymakers in

maintaining economic and financial stability. Moreover, currently the rising oil prices and looming recession in the US added a significant degree of uncertainty on the potential effects on economic activity across regions. The increasing uncertainty, risks, and volatilities in the global financial markets have particularly complicated the conduct of monetary policy, as rules can become too rigid and greater reliance on discretion is needed for policy setting and application. It is therefore very timely that we reexamine the role and effectiveness of monetary policy in such a dynamic environment.

Over the years, experts have tried to pin down the secret recipe for effective monetary policy, and the debates have gotten quite technical. Nevertheless, if we strip all the jargons, hypotheses, and numbers, common sense tells us that the effective conduct of monetary policy hinges largely on having clear objectives, sound and disciplined framework, operational independence and accountability, and, last but not least, clear and effective communication.

All these are to be implemented with the dual objectives of achieving price stability as well as the right public understanding of the responsibilities and accountability of central banks. With this right understanding, we can hope to achieve the right public expectations of what central bankers can achieve with our policy

tools and our mandates. In reality, we all know that public understanding of our tasks tends to undershoot whereas their expectation overshoot.

Yet, having all these ingredients do not necessarily guarantee instant success; they only lead policymakers to the right path of effective conduct of monetary policy. Indeed, the details and practices adopted by central banks do differ as the underlying conditions and circumstances are different, and it involves more the arts of policymaking than any rigid science or theories. Adding to this is the domestic political pressure which carefully watches over our performance, as well as external factors which further complicate our policy implementation in manifold. **Only with great perseverance, consistency, and perhaps a little luck, would we achieve good reputation and, over the long horizon, credibility.**

Ladies and Gentlemen,

I hope I have not painted too grim a picture of the challenges facing monetary authorities. After all, we are rare species in this business which exudes mystique and constantly strives for a sense of purpose. On this particular topic and at this juncture, it is easy to be humble and admit that we do not have all the answers.

This seminar will therefore provide a good opportunity for this close circle of policymakers and experts to exchange views and share experiences on how to achieve effective monetary policy as we continue to live with increasing economic uncertainty and financial volatility. We are fortunate to have with us today Mr. Claes Berg, Advisor to the Governor from Risksbank, Mr. Robert McCauley, Chief Representative of the BIS Hong Kong Office, and Mr. Akira Ariyoshi, Director, Office of Asia and the Pacific, IMF, who have been among those at the center of this issue, to share with us their views on the many important aspects of this topic. I believe that their perspectives will be valuable for our discussions and deliberations.

I wish you a fruitful deliberation and an enjoyable stay in Thailand.

Thank you.