

**SEACEN EXCO SEMINAR ON
BUILDING CREDIBILITY FOR
EFFECTIVE MONETARY POLICY**
Phuket, Thailand, 25 January 2008

**Welcome Remarks by Dr. A.G. Karunasena
Executive Director, The SEACEN centre**

Dr. Tarisa Watanagase, Governor, Bank of Thailand, and
Chairman of the SEACEN Board of Governors & EXCO;

Dr. Claes Berg, Advisor to the Governor,
Sveriges Riksbank;

Dr. Robert McCauley, Chief Representative,
BIS Hong Kong Office;

Mr. Akira Ariyoshi, Director, Office of Asia and the
Pacific,
IMF Tokyo Office;

Dr. Bandid Nijathaworn, Deputy Governor,
Bank of Thailand;

Distinguished SEACEN EXCO Members;

EXCO Delegates and Honoured Guests;

Ladies and Gentlemen:

Good morning and a very warm welcome to the
**SEACEN EXCO Seminar on Building Credibility for
Effective Monetary Policy.**

I would like to begin my Welcome Remarks by sincerely thanking our Host – the Bank of Thailand – for the superb arrangements, generosity and warm hospitality that have been so famously characterized Thailand. For us at the SEACEN Centre, the 6th EXCO Meeting and Seminar gave us a sense of déjà vu of the unforgettable 42nd Governors Conference, 26th SEACEN Governors Meeting and the Celebration of the 25th Anniversary of the Establishment of The SEACEN Centre that the Bank of Thailand graciously hosted in Bangkok in July 2007.

On an individual basis, our deepest appreciation goes to Governor Tarisa for taking time out of her busy schedule to officiate at this Opening Ceremony, and to chair the 6th SEACEN EXCO Meeting tomorrow. I would also like to record our sincere appreciation to the

Organising Committee and Secretariat Team from Bank of Thailand for their dedication and commitment in making our stay here both fruitful and comfortable.

I must include in my thank you list all the speakers, who have traveled from far and near, to be here with a common purpose of sharing their expertise and experiences with us. It is a pleasure to welcome SEACEN long-time friends and distinguished speakers in the persons of Dr. Bob McCauley and Dr. Bandid Nijathaworn. It is also a privilege to meet new collaborators in Dr. Claes Berg of the Riksbank and Mr. Ariyoshi of the IMF Regional Office of Asia and the Pacific. We hope that this EXCO Seminar will only mark a beginning of our partnerships with the Riksbank and the IMF Regional Office of Asia and the Pacific (OAP). For this, I am thankful for Deputy Governor Lars Nyberg of the Riksbank for agreeing to embark on a SEACEN-Riksbank collaboration journey.

Ladies and Gentlemen:

The theme of this fourth EXCO Seminar is a subject close to the heart of central bankers – how to be effective in the conduct of monetary policy. My experiences as a member of the team working on monetary policy in the Central Bank of Sri Lanka enable me to truly understand the challenges faced by central banks today. Not only because we have to make policy decision with imperfect knowledge and incomplete information on the structure of the economy and how monetary policy works through the economy, but we also have to factor in the risks and uncertainties arising from exogenous shocks in an increasingly globalised environment. Monetary policy is thus more of an “art” rather than an exact science, and judgment and risk management will always have the final say.

At the other end, market participants such as consumers and firms who have to make rational decisions on their economic activities are faced with similar uncertainties. Not only that, they also have to consider the possible central bank's policy actions and the impact of these actions. This has been one of the compelling reasons for central banks – in the words of the Fed Chairman Mr. Ben Bernanke - to strive for transparency and predictability in the conduct of their policy. Indeed, empirical research findings have confirmed that central bank credibility and reputation help provide a firmer anchor for expectations of households and firms, thus making stabilisation measures less costly by reinforcing the intended effects of monetary policy.

Notwithstanding a general consensus that transparency and communication could be a powerful tool for effective transmission of monetary policy, many

operational issues need to be tackled. How do central banks' optimal degrees of transparency and openness vary among different monetary policy frameworks? How do transparency measures and communication strategies of central banks in developing economies in Asia and the Pacific differ from those of their counterparts in more developed economies? Should there be a limit to transparency? How to deal with the possible incompatibility between greater clarity and monetary policy efficiency? These are just some of the key issues that need to be considered within the context of the individual economy by giving due attention to the country specific situation.

Turning back to the second part of Mr. Bernanke's view – that central banks should not only be more transparent, but also more predictable – the key question to us in the SEACEN region would be – is the much discussed monetary policy rules observed in the

advanced central banks applicable to central banks in the emerging economies? We are aware that the Taylor's Rule, which relates the nominal policy interest rate to output and inflation gaps, provides useful inputs to policy makers and helps market participants to form a baseline expectation with regard to future course of monetary policy. It is also helpful in central bank communication with the general public. However, it has a number of limitations, particularly with regard to operational issues such as what should be the appropriate measures of inflation, and how to measure potential output and how to select the value for equilibrium interest rate. In addition, it depends only on a small set of indicators and variables and does not capture risk management consideration.

Ladies and Gentlemen:

You must have already noted from the Seminar Brochure that the above challenges and issues have

been included as the subjects of today's discussions. Admittedly, the coverage seems rather broad as it encompasses four important topics – risks and challenges in monetary policy; building credibility to enhance effectiveness of monetary policy; transparency and communication strategy; and applicability of monetary policy rules for policy decision-making, each of which warrants a 2-3 day seminars of its own. Nonetheless, with the four highly qualified and well-experienced speakers in Dr. Claes Berg, Dr. Bob McCauley, Mr. Akio Ariyoshi and Dr. Bandid Nijathaworn, we are confident that the discussions will be well focused and effective.

In addition, we would also benefit from the experiences of our SEACEN member countries, particularly in *Session 3: Transparency and Communication Strategy on Monetary Policy*, and *Session 4: Applicability of Monetary Policy Rules for*

Policy Decision Making. To kick off the discussions on country experiences, we wish to thank – in the order of presentations: Deputy Governor Dato' Ooi Sang Kuang, Deputy Managing Director Ong Chong Tee, Deputy Governor Atchana Waiquamdee, Deputy Governor Hartadi Sarwono, Deputy Governor Rhee Gwang-Ju, and Deputy Governor Diwa Guinigundo, for accepting our invitation to be the lead discussants, which will surely generate active sharing of experiences of all the other countries around the table.

Let me close this remarks by thanking once again Governor Tarisa and the Bank of Thailand for hosting the 6th EXCO Seminar and Meeting; the very efficient secretariat team for the excellent arrangements and warm hospitality; all the distinguished speakers and lead discussants for their wholehearted efforts in sharing their expertise and experiences; and last but not least all the EXCO members for being here to exchange views and

experiences in the Seminar, and to provide guidance at the 6th EXCO Meeting tomorrow.

I wish the Seminar fruitful discussions and thank you for your attention.

The SEACEN Centre

25 January 2008