

**WELCOME REMARKS BY
MR HOOKYU RHU
EXECUTIVE DIRECTOR, THE SEACEN CENTRE
AT THE OPENING CEREMONY OF THE
7TH SEACEN-CEMCOA/BOJ INTERMEDIATE COURSE ON
MACROECONOMIC AND MONETARY POLICY MANAGEMENT
*Siem Reap, Cambodia, 25 March – 5 April 2013***

H.E. Dr. Chea Chanto, Governor,
National Bank of Cambodia

Distinguished Resource Persons

Course Participants

Ladies and Gentlemen

Good morning.

On behalf of The SEACEN Centre, I would like to extend to all of you a cordial welcome to the 7th SEACEN-CeMCoA/BOJ Intermediate Course on Macroeconomic and Monetary Policy Management.

Allow me to begin this ceremony, by thanking our gracious host, National Bank of Cambodia, for the excellent arrangements and warm hospitality in organising the Course. The SEACEN Centre is deeply grateful to H.E. Governor Dr. Chea Chanto for taking time from his busy schedule to officiate the Opening Ceremony. We also wish to thank the members of the Organising Committee under the guidance of Mr. Thai Saphear, Director, Economic Research & International Cooperation Department, and Deputy Director of the Governor's Cabinet. The Committee and secretariat have been working in partnership with SEACEN months before the Course starts to ensure that the Course is well planned and well delivered.

I would also like to express my gratitude to our collaborator, the Center for Monetary Cooperation in Asia (CeMCoA), International Department of Bank of Japan for the financial support towards conducting this Course.

Ladies and Gentlemen:

On this opening day of the 7th Intermediate Course on Macroeconomic and Monetary Policy Management, I would like to share with you some of my thoughts on the potential challenges that central bankers may face in an increasingly uncertain global economic environment.

Since the outbreak of global financial crisis in 2008, many advanced countries have held short term interest rates near zero and have taken non-traditional measures to keep the financial markets afloat and to lower long term interest rates. At first this monetary unorthodoxy was adopted to overcome the financial crisis and later to shore up economic recovery. With the euro-zone's sovereign debt crisis having persisted since 2010, many countries, whether advanced or emerging economies, still appear to keep their monetary policies accommodative until well into the recovery.

In this extraordinary circumstance, I believe that there are some macroeconomic policy issues that we at central banks in this region need to pay our keen attention.

First of all, when those central banks currently under quantitative easing or QEs need to normalize monetary policies, market interest rates will rise again, reflecting increased borrowing demand and the central banks' asset sales. This may reduce the value of central banks' assets below their liabilities, because they expanded the scope of their eligible reserve assets to include those of longer maturities. These durations have been further stretched under a swapping scheme of short-term securities for long-term securities in their portfolio. As the duration of central banks' portfolio gets longer, the value of their portfolios may fall by a greater margin. This may seriously threaten central banks' ability to sell adequate assets when they pull out of the so-called QEs.

Central banks may consider other options such as paying interests on reserves. However, if they have to pay quite high interests, that will also limit their ability to normalize monetary policies. Central bankers in our region should carefully observe how those central banks that adopted QEs will address these important issues moving forward.

Second, central bankers should prudently monitor whether the long period of low rates is causing any sectors of credit and asset markets to overheat again. Central bankers need to acknowledge a credit-fueled asset bubble was the real culprit for the current malaise in many countries. Otherwise, it is doomed to sow the seeds of the next crisis. Today's central bankers need to devise a good metric to assess when credit and asset prices have gone so far as to threaten the financial stability.

Another important macroeconomic policy issue is the potential for competitive currency depreciation. From our past experience, we clearly understand that its end result was at best a zero-sum game. I believe that there are many policy tools to strengthen export competitiveness and that among them the best is an economic overhaul in broad sectors of the economy and the worst is the pumping of a local currency into the world economy.

Ladies and Gentlemen

These challenges reflect some of the fundamental issues in making policy decisions, namely the trade-off among conflicting policy objectives, the interconnectedness of real economic and financial sectors, and the fact that a solution today could sow a seed for another problem tomorrow. Indeed, these issues are nothing new, but something to be expected from an inherent systemic instability arising from the pursuit of profit/utility maximisation of different groups of economic agents. In this light, while new theories and thinking are continuously emerging from new challenges and crises, we must not forget the importance of our solid knowledge on how the economy works and interlinks. For policy makers to be effective, new lessons must build on sound understanding of the fundamentals.

The Intermediate Course on Macroeconomic and Monetary Policy Management aims to help build this foundation. It addresses the needs of middle-level central bank staff in strengthening their analytical capability and widening their perspectives of monetary policy. In the context of an emerging economy, participants will learn to assess macroeconomic conditions; forecast key macroeconomic variables namely inflation and output gap; explain monetary policy frameworks, transmission mechanism, monetary operations and communication; and forecast liquidity. The learning will culminate to a case study that requires participants to assume the role of policy maker

in deciding the policy stance and key interest rate to achieve a given set of monetary policy objectives.

In addition to the use of case study to simulate the real situation, a distinct feature of this course lies in our approach to focus on applications of theories and methodologies as they practise in central banks. We believe this is the best approach for participants who have already learnt the concepts and theories in the universities. To achieve this objective, we are grateful to our distinguished resource speakers for travelling near and far to share their expertise and experience with participants. I'd like to especially thank my predecessor, Dr. A.G. Karunasena, for continuing to contribute his knowledge and expertise to this Course.

Having conducted the Course for the 7th consecutive year, I am pleased that the Course continues to attract a good response from our member and invitee central banks. As it is, the Course is participated by 32 well-qualified and suitable participants representing 12 central banks and monetary authorities. I am confident that the next two weeks will be a highly engaging time of learning and sharing of experience.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Research and Training Centre. Our vision is "To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region". As a Learning Hub, SEACEN aspires to drive central bank excellence, by providing a platform for members to synergise efforts in central bank learning among themselves, and across SEACEN's network base. The vision would be achieved through SEACEN's mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this course, we are confident that our vision will become a reality.

Coming back to this learning event, I am confident that participants will find it both fruitful and rewarding. Above all, the interaction among participants and with resource persons will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. I also hope that you will be able to find time to enjoy the brilliant culture and beauty of Cambodia.

Allow me to conclude by thanking H.E. Dr. Chea Chanto, Governor, National Bank of Cambodia; and resource persons for the valuable contributions and support, and all our member and invitee banks for nominating suitable participants to the Course.

I wish you a productive and rewarding learning experience.

Thank you.