OPENING SPEECH
OF
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EXECUTIVE DIRECTOR, THE SEACEN CENTRE
FOR
SEACEN-BIS EXECUTIVE SEMINAR ON
NEW NORMAL AND THE NATURE
OF THE MACRO-FINANCIAL LINKAGE
Ulaanbaatar, Mongolia, 29 September 2013

Good Morning,

His Excellency, Mr. Javkhlan Bold, First Deupty Governor, Bank of Mongolia

Dr. Frank Packer, Head of Economics and Financial Markets, Representative Office for Asia and the Pacific, Bank for International Settlements,

Distinguished Speakers and Participants,

Ladies and Gentlemen,

On behalf of The SEACEN Centre, I would like to extend a warm welcome to all of you to the SEACEN-BIS Executive Seminar with the theme “New Normal and the Nature of the Macro-Financial Linkage”.

Since the global financial crisis, many argue that we face a “new ‘normal” for most economies which is now characterized by below trend economic growth, high unemployment, and ultra-low interest rates. Given the above scenario, we are now challenged by a new paradigm in terms of economic and financial environment.

Honored Deputy Governors,

Since the global financial crisis (GFC), SEACEN economies have remained mostly resilient. In the aftermath of the GFC, there have been no major disruptions to credit flows and domestic financial markets have remained orderly. In other words, the financial systems remain robust, with strong capitalisation and liquidity buffers, stable asset quality along with enhanced risk management and governance.

Market risk exposures are well supported by diversified lending portfolio and sound underwriting and risk management practices, while foreign currency liquidity positions remain well managed even as volatility was heightened during the global financial crisis. There were some fluctuations of the exchange rates but the volatilities were within expectation. There appears to be no obvious foreseeable macro-financial risk for this group of economies.

However, recently, some SEACEN economies have been adversely affected by the prolonged weakness of the global economy transmitted through the trade channel coupled with higher inflation expectations, and the negative perceptions on current account sustainability. This has led to the external sector coming under increased stress, reflecting rising external indebtedness, increased burden of servicing of external liabilities and significant depreciation of the exchange rates.

Ladies and Gentlemen,

The aftermath of the GFC saw implementation of large scale unconventional monetary policy in the advanced economies. While the FED has indicated that there will not be any QE tapering at the foreseeable future, SEACEN economies must be prepared to deal with this eventuality. The impact of the QE tapering would first manifest primarily through financial market adjustments, before filtering down to the real economy.
While some financial market volatility could be expected, I believe that it is unlikely that the US Federal Reserve would abruptly tighten its policy stance as this will bring the hesitant output recovery to a stop. Therefore, an orderly exit is expected. However, the policy normalisation in major advanced economies could induce a drastic reversal of cross-border capital flows in emerging economies.

I think SEACEN economies can implement the following measures to manage risk associated with an environment of heightened volatility in capital flows and exchange rates.

Firstly, the transformation of economic growth pattern from export-driven to demand driven must be accelerated, while macroeconomic flexibility must be enhanced at the same time.

Secondly, the macro-prudential policy framework must be improved and its implementation must be in harmony with other macro policies.

Thirdly, capital flows must be monitored closely and balanced cross-border capital flow promoted. This requires collaboration among central banks in sharing of information and the strengthening of surveillance and monitoring of regional financial markets to provide up-to-date assessment of regional financial markets conditions and prospects.

Fourthly, liquidity management should be strengthened, using a combination of policy tools, including open market operations, depository reserve, refinancing and rediscount to mitigate the impact on domestic liquidity from capital flows.

Fifthly, monetary credit must be encouraged to grow in a reasonable and appropriate manner and financial buffers must be built in order to raise the degree of preparedness to manage risks. SEACEN central banks can adopt various contingency measures to avoid the drying up of liquidity in financial markets during periods of heightened uncertainty and increased risk aversion.

Last but not least, in terms of the long-term view, SEACEN economies should continue broad-based structural reforms.

Ladies and Gentlemen,

Indeed, this SEACEN-BIS Executive seminar is very timely to discuss the New Normal and the Nature of the Macro-Financial Linkage.

In this regard, I am very grateful to The Bank of Mongolia and Governor Zoljargal Naidansuren for hosting this Seminar and the EXCO Meeting

I would also like to thank Dr. Frank Packer, Dr. IIhyock Shim and staff from the Bank for International Settlements, staff from The Bank of Mongolia for working closely with us to organise this seminar. They have been working tirelessly for many months towards the success of the EXCO meeting and Seminar.

We are also very fortunate to have a panel of distinguished speakers to lead the discussion. Our Guest speakers are:

1. Professor Jean-Pierre Landau, Sciences Po (Paris) and former deputy governor of the Banque de France who will be delivering the Keynote address;
2. Dr. David Mayes, Professor, Auckland University;
3. Dr. Frank Packer and Dr. IIhyock Shim from BIS.

I would also like to thank all our SEACEN Deputy Governors and SEACEN official who will be serving as Chairs and Discussants.

Finally, allow me to conclude by wishing everyone here a productive and rewarding Seminar.

Thank you and Bayarlalaa.