PROCEEDINGS OF THE
SEACEN HIGH-LEVEL SEMINAR ON
GLOBAL LIQUIDITY AND IMPACT
OF CAPITAL FLOWS ON
EXCHANGE RATES IN EMERGING ASIA

Bandung, Indonesia, 9–11 June 2014
FOREWORD

The uncertainty of QE tapering in the advanced countries has generated expectations concerning capital outflows and deepening of sell-off assets in the region. In fact, the Institute of International Finance (IIF), reported that in early 2013 emerging market conditions have continued to be quite choppy, including a significant market correction. However, retrenchment of flows in the middle of 2013 from the emerging economies is proven to be temporary as the global economy gained pace and the markets absorbed the impact of Fed tapering since its decision in December 2013. While the IIF continues to expect a gradual rebound in capital flows to emerging economies in 2014 and 2015, there are some elements of uncertainty, in particular when the advanced economies start to increase their key interest rates, which may result in the narrowing of interest rate differentials, resulting in a surge of capital outflows from this region.

Hence, the challenge to policymakers in the developing economies is thus how to manage these boom-bust cycles of capital flows to ensure that they do not have any long-term adverse effect on the economic growth and financial stability. To address these issues, policymakers are implementing or searching for appropriate policy responses.

Among other things, two questions are attracting our keen attention. First, what are the right policy tools and the right combination of them to deal with large capital flows, both inflows and outflows at the individual economy level? Second, do we need regional initiatives or actions to complement and facilitate domestic policies in managing surge in capital flows? If yes, what are the more realistic regional initiatives or actions?

In light of this, SEACEN held the High-level Seminar on “Global Liquidity and Impact of Capital Flows on Exchange Rates in Emerging Asia,” in Bandung, Indonesia, on 9-11 June 2014, to discuss these issues, among others.

This publication is a selected collection of the papers presented and discussed in that Seminar. The objectives of the High-Level Seminar were:

- From a central bank’s perspective, what is the optimal policy mix to minimize the volatility of exchange rates?
- Following ample global liquidity given that some central banks have actively intervened in the foreign exchange market, what would be the consequences of accumulation of sizeable foreign exchange reserves? and;
- What would be the effect on exchange and the equilibrium rates and policy responses following potential unwinding and tapering of quantitative easing on Emerging Asia in the near future?

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The views expressed in these proceedings are those of the resource persons and do not necessarily reflect those of their respective institutions, SEACEN member central banks and monetary authorities or The SEACEN Centre.

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