SUMMARY OF PROCEEDINGS

Opening Session

1. The SEACEN-BIS High-level Seminar on “Enhancing the Effectiveness of Central Banks” was held on 18 September 2014 in Kathmandu, Nepal. Nepal Rastra Bank (NRB) hosted the event as the Chair of the SEACEN Executive Committee (EXCO). Besides delegates representing seventeen SEACEN members, there was also participation of high-profiled speakers from the BIS and renowned universities.

2. Dr. Yuba Raj Khatiwada, Chairman of the SEACEN EXCO and Governor of Nepal Rastra Bank, inaugurated the event. In his Opening Address, Dr. Khatiwada highlighted the changing roles of central banks and emphasized the need for redefining central banks’ goals and objectives, independence, capacity development and regional cooperation in order to cope with the emerging challenges. In line with this, he also touched on the evolving role of NRB for safeguarding financial stability and for domestic financial development to cater to inclusive growth.

3. The Welcome Address was delivered by the Executive Director of the SEACEN Centre, Mr. Hookyu Rhu who underscored the existing challenges of central banks with multiple mandates correlating with one other. Mr. Rhu stressed on the need for a careful balance between current policy challenges and the medium-term policy objectives. He reaffirmed SEACEN’s commitment in research collaboration for finding common policy grounds in addressing regional issues. In his Opening Address, Dr. Frank Packer, Head of Economics and Financial Markets for Asia and the Pacific of the BIS, remarked that the Seminar topic on “Enhancing the Effectiveness of Central Banks” was relevant and consistent with the BIS research area, in view of recent regional and global developments.

4. The Keynote Speaker, Dr. Duvvuri Subbarao, Visiting Senior Fellow at the National University of Singapore and former Governor of Reserve Bank of India, focused on the issue of quantitative easing (QE) in the emerging market economies (EMEs). As QE has spillover effects on the EMEs, Dr. Subbarao opined that there exists no first best option to deal with adverse consequences of QE but suggested that bilateral swaps, global and regional safety nets and self-insurance by individual countries, could be the second best option to cushion such impacts.
The High-Level Seminar

Session 2: Enhancing the Effectiveness of Monetary Policy

5. The second session was on the Seminar theme of "Enhancing the Effectiveness of Monetary Policy". The Session Chair, Dr. Sukhdave Singh, Deputy Governor of Bank Negara Malaysia, noted that the pressing issues of monetary policy in today’s setting necessitate the need to make monetary policies more effective.

6. Session Speaker, Dr. Kiyohiko Nishimura, Professor of Economics at University of Tokyo and former Deputy Governor of Bank of Japan, noted that major shifts of global economics that have led to slow economic growth and central bank ineffectiveness included: i) aftermath of the global financial crises, and, ii) shifts in demographic patterns in both advanced and EMEs. Weaker aggregate demand with declining flexibility and efficiency and greater reliance on central bank balance-sheet policies are some of the adverse outcomes of such shifts, leading to increased uncertainty in the economy. Dr. Nishimura also stressed the need for central banks to swiftly respond to intensified uncertainty pertaining to the serious spillover effects of unconventional monetary policy in the advanced economies.

7. The first Discussant, Dr. Frank Packer of BIS, observed the decreasing effectiveness of conventional monetary policy tools in an environment of increased uncertainty post-crisis. He stressed the need for the enhanced role of central banks in providing intermediation through special lending in recent years and as information providers to manage expectations of economic agents. Meanwhile, Dr. Hans Genberg, SEACEN Advisor, argued that persistent output loss is a structural problem in many economies which cannot be fixed by monetary policy alone. However, Dr. Genberg explained that monetary policy could prevent the building up of financial imbalances in a situation when the zero lower bound is not binding. He also pinpointed the emerging challenges of SEACEN economies such as increasing integration into the regional and global value chain as well as financial systems, and incorporating the financial stability mandate of central bank into traditional monetary policy.

Session 3: Promoting Stability through Financial Development

8. The third Session, chaired by Dr. Yi Gang, Deputy Governor of People’s Bank of China, was on the topic “Promoting Stability through Financial Development.” He highlighted the issue of balancing financial development for sustainable growth and optimal financial structure for financial stability.

9. Session Speaker, Dr. Panicos Demetriades, Professor of Financial Economics, University of Leicester and former Governor of the Central Bank of Cyprus, presented empirical findings on the positive causation from financial development to economic growth. He mentioned that as regulation and supervision frameworks were primarily based upon past experiences, today’s regulations may not necessarily be effective in mitigating the risk of future crises. Dr. Demetriades also emphasized the need to strengthen financial regulation and supervision to promote financial deepening for financial stability.
10. The first Discussant, Dr. James Yetman, Senior Economist of BIS, elaborated on the optimal size of the financial system from the perspectives of economic growth, financial crises and financial institutions as well as the response of monetary policy. He presented empirical evidence to show that increased financial access and thus increased credit flow require better institutional quality to tackle the financial crises. The second Discussant, Mr. Michael Zamorski, SEACEN Advisor, stressed that although SEACEN economies are domestically prepared, more bilateral and regional relationships among the supervisors in different jurisdictions need to be established.

Session 4: Fostering Regional Cooperation to Enhance the Effectiveness of Central Bank

11. The last session was a Panel Discussion chaired by Governor of Nepal Rastra Bank, Dr. Yuba Raj Khatiwada. The Panelists included Mr. Byung Wha Jang, Senior Deputy Governor of The Bank of Korea; Mr. Diwa Guinigundo, Deputy Governor of Bangko Sentral ng Pilipinas; Dr. P. Nandalal Weerasinghe, Deputy Governor of Central Bank of Sri Lanka; and Ms. Jacqueline Loh, Deputy Managing Director of Monetary Authority of Singapore. The Chair Dr. Khatiwada opened this session by highlighting the need for financial stability in the region.

12. The first Panelist, Mr. Byung Wha Jang, spoke on the existing regional financial cooperation initiatives, future directions as well as the role of central banks in fostering it. He highlighted three pillars of regional cooperation viz., (i) regional financial safety nets; (ii) establishing strong bilateral cooperation; and (iii) developing regional bond markets. He also emphasized the importance of strong leadership, collective and preemptive response and monitoring, collective development of intraregional markets, synergy among the regional institutions as well as the formulation of sound regional macroprudential policies.

13. The second Panelist, Mr. Diwa Guinigundo, deliberated on the issues of regional cooperation focusing on the need to harness monetary and exchange rate policies, liberalization of capital account and crisis management. He also said that there are potential benefits to be garnered from closer cooperation between SAARC and ASEAN nations. The third Panelist, Dr. Nandalal Weerasinghe opined that the plausible areas of cooperation includes knowledge and information sharing, the usage of local currency in the regional trade, risk diversification through cross-border banking, development of regional safety nets, diversification on reserve currency management and issues on cyber security.

14. The last Panelist, Ms. Jacqueline Loh, shared her experiences on the coordinated efforts of fiscal, monetary and administrative measures in Singapore during periods of crises. Ms. Loh elaborated on the need to harmonize monetary policy and macroprudential policies in the region. She viewed macroprudential policy as a possible area of cooperation to mitigate risks of cross-border transmission in interconnected markets.
15. During the floor discussion, several areas pertaining to the topic were discussed which included (i) the challenges that exist when QE is withdrawn in advanced countries, including the potential risks of currency depreciation and the occurrence of financial market dysfunctionality; (ii) the pros and cons of financial innovation, challenges of shadow banking and role of the government, central bank and regional and global financial authorities; (iii) the need for macroprudential policies since traditional tools may have already become ineffective in some of the economies; (iv) Basel III provisions and their practical implementation in the SEACEN economies; (v) the importance of regional cooperation in the area of sharing of experiences, joint research, capacity development, and reserve management strategies; and (vi) the need to foster a regional voice in international fora.