Speech by
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"Regional Outlook, Central Bank Mandates, and SEACEN's Role"

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I. Introduction

Honorable Governors, the Heads of Delegates from the SEACEN Member Central Banks, Distinguished guests:

Thank you for joining us this morning. I'm deeply honored and humbled to speak to you as the Executive Director of the SEACEN Centre for the first time. Taking this opportunity, I would also like to extend sincere thanks to Governor Dr. Changyong Rhee and the BOK team for organizing this excellent conference and welcoming us with warm hospitality.

Today, central banks around the world face complex policy challenges amid heightened uncertainty. Monetary tightening to fight post-pandemic inflation led to moderation in economic and job growth. But even as major central banks have pivoted towards easing, the specter of trade tensions threatens to throw inflation trajectory off balance. In addition, central banking environment is undergoing fundamental changes with major structural shifts driven by digital and green transitions. To complicate matters further, delayed fiscal consolidation plans, together with growing budgetary pressures due to aging populations and climate change, are weighing on fiscal positions.

An unholy combination of geoeconomic fragmentation, massive debt hangover, and the challenges of financing energy transition could have potentially detrimental effects on macroeconomic and financial stability. Structural reforms are urgently needed to tackle the issues and challenges related to the longer-term structural transformations. However, the political drive for such reforms has dwindled amid slowing growth, rising polarization, and evolving geopolitics of climate change.

II. Regional outlook, risks, and policy challenges

The SEACEN member economies, as a group, are expected to grow at 4.8% in 2024, compared to 5.0% in 2023. The region's sustained growth momentum has been underpinned by robust investment, healthy consumer spending, and buoyant exports. Despite solid demand growth, inflation has receded thanks to the declines in food and fuel prices, and continued normalization in global supply chains. Easing inflation has paved the way for monetary easing across many member economies.

However, risks to the region's growth outlook are rising amid heightened uncertainty over global trade policy. The fear of trade policy rifts and tariffs can feed into weakening business sentiment, cost-push inflation and growth slowdown. Recent geopolitical developments are already wreaking havoc across many regional currencies and financial markets. Before too long, the region's central banks may need to tame inflationary pressures against weakening economic prospects, exacerbating their monetary policy dilemmas.

Monitoring the transmission of geopolitical shocks through financial market channels is important. Geopolitical tensions can lead to higher funding costs and tighter financial conditions, turning into a vicious cycle of reduced credits and further economic downturns. Existing vulnerabilities in emerging and developing economies could be exposed by a sudden change in global financial conditions as well, especially for those with high levels of external debt, weak fiscal positions, and elevated interest rates.

Safeguarding price and financial stability is an urgent priority. However, monetary and financial conditions vary greatly across the member economies, making an appropriate policy mix unique for economy-specific requirements. For example, some economies with well-anchored inflation expectations have more room to reduce interest rates to support domestic demand as the global demand weakens. Others with large external debt may need to address rising risk aversion and capital flow volatility, with the policies attuned to building investor confidence. Timely responses based on swift assessments of policy options would be key to arresting a market panic.

Risks related to escalating geopolitical and trade conflicts loom large. Post-pandemic recovery in the region was driven by a strong rebound in global trade, but the member economies' high trade dependency makes them vulnerable to possible shifts in trade policies by major trading partners. Against potential risks, SEACEN member economies must rebuild fiscal space and debt sustainability; and strengthen financial resilience. Where monetary policy has limited room due to elevated inflation, carefully targeted fiscal measures can help alleviate the impact of economic downturn on the most vulnerable, while supporting domestic demand in the short run. Regional cooperation is key to bolstering financial resilience as economic and financial fragmentation induced by new geopolitical shocks pose serious concerns to financial stability.

More fundamentally, however, policy responses need to be configured not only with short-term goals, but also with the medium- to long-term impacts in consideration. The ultimate challenge for any member economy is to manage an orderly journey of major structural transformations to boost productivity, improve competitiveness and achieve inclusive, resilient, and sustainable growth.

III. Where do we go from here?

Many MCBs are at a crossroads, as central banks are increasingly asked to play a role in supporting the green transitions that require huge changes in economic structures and substantial investment by mobilizing private capital. Most of us here are aware of the sustainability issues and risks of climate change to financial stability. But more discourse is needed to guide financial sectors and markets to support climate-conscious economic activities and unlock the potential of responsible investment to allocate adequate resources toward sustainable growth and development.

The Asia-Pacific region is a key battleground in the global fight against climate change. While the region is responsible for more than half of the global annual CO_2 emissions, it is also one of the world's most exposed to climate change impacts, with nearly 70% of its populations vulnerable to extreme weather events. In addition, the region's heavy reliance on fossil fuels for energy poses risks to energy security and weakens regional support for driving global climate actions. An orderly and just energy transition in the region is a must for continued poverty reduction and sustainable development.

All SEACEN member economies have now net zero commitments. But the transition to net zero presents complicated challenges to growth, jobs, and financial stability due to the region's carbon and energy intensive industrial structures, with more than 80% of its energy supply from fossil fuels.

The imperative of a just energy transition and achieving net zero targets requires an enhanced role of member central banks. To support the economy's structural transition to net zero, each central bank needs to guide its financial system to manage climate-related risks and mobilize capital for green and low-carbon investments.

The broader mandates require central banks to be better equipped with tools and instruments as well as capacity to monitor and assess climate-related financial risks, evaluate the exposures of financial institutions and markets to climate-related risks, devise mitigating strategies and policies, and implement effective regulation and supervision for climate risk management. What is critical in doing so is that member central banks coordinate their actions with their national stakeholders including governments, public agencies, the private sector as well as with other central banks and international bodies.

IV. Conclusion

Distinguished participants. Let me once again thank you for the opportunity to address you here today on the urgent challenges facing our region and the member central banks. Short-term policy challenges are significant given the growing geopolitical risks and economic uncertainties. But long-term challenges are even more daunting, as climate change and the net zero transition will have far-reaching implications for the present and future of our economies and people. There are no one-size fits all solutions. I hope today's conference offers a venue where we can learn valuable lessons from each other's experiences. I look forward to lively discussions throughout the day.

Thank you.