WELCOME REMARKS BY
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THE SEACEN CENTRE
at the
SEACEN-IMF COURSE ON MACROECONOMIC DIAGNOSTICS
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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 warm welcome to the **SEACEN-IMF Course on Macroeconomic Diagnostics**.

First and foremost, I wish to convey special thanks to the team from IMF - Singapore Regional Training Institute in order of appearance for their collaborative dedication in making this programme a success:

1. Dr. Mangal Goswami, Deputy Director, IMF – STI
2. Dr. Itai Agur, International Consultant Economist, IMF – STI
3. Dr. John Dodsworth, Consultant, Institute for Capacity Development

Also, I wish to convey our appreciation to resource persons from The SEACEN Centre who will share their knowledge and experience with us namely in order of appearance:

1. Dr Hans Genberg, Adviser (MMPM)
2. Dr Dongkoo Chang, Director, Research and Learning Contents

On this opening day of the SEACEN/IMF-STI Course on Macroeconomic Diagnostics, I would like to share with you some of my thoughts on key macroeconomic policy issues and challenges in an increasingly uncertain global economic environment.

Since the Global Financial Crisis, as we have observed quite closely, many advanced countries have held short term interest rates near zero and have taken unconventional measures to keep their financial markets afloat and to lower long term interest rates. At first this monetary unorthodoxy was adopted in the U.S. to overcome the financial crisis and later to shore up economic recovery.

Yet before the global economy pulled out of the GFC, the euro-zone economy was shaken by the Greek debt crisis. Moreover, 12 Euro Area states were declared to have excess deficits by the end of 2009 and early fiscal consolidation was imposed, despite persistent negative output gaps. While, there have been escalating debates on austerity vs. growth as the euro area fell to double-dip recession, the fiscal austerity demands seem to have been weakened now. However, the Euro-zone economies are still grappling with the threat of deflation. The ECB finally adopted a boldly unusual negative interest rate on banks' excess reserves deposited with the central bank, and recently showed willingness to adopt quantitative easing, if necessary.

The BOJ also has been implementing an ambitious QQE as one of the three arrows to support Abenomics' recovery efforts aimed at expediting the exit from one and a half decade long deflation. Last week, the BOJ announced it would increase its asset buying program to go trillion yen a year, up from the previous rate of 60 – 90 trillion yen.

On the other hand, the US Fed and BOE are in the process of exiting from the QE at a measured pace. Last Wednesday, the US Fed announced the end of its bond buying program.

In this extraordinary circumstance, I believe that central bankers in this SEACEN region need to learn more about new policy experiences at home and abroad.

First of all, central bankers in SEACEN region must ponder on the eventual consequences or spillovers of unconventional monetary policies in advanced economies.

With the global economy still on the mend, concerns about when and how the Fed and BOE might begin raising interest rates, cross-border capital flows may show volatile movements, causing perilous impact on the regional economies. Still there are no consensus views on the coordination of monetary policies among advanced nations and emerging economies. Regarding gyrations in bond, equity and currency markets in some emerging economies, advanced nations seem to see its causes in investors' worry about economic vulnerabilities and political turmoil in a handful of emerging countries. Meanwhile, there is a growing pressure for more collaboration in a world of increasingly large cross-border capital flows.

Second, central bankers in this region should carefully monitor whether the prolonged trend of low interest rates is causing any sectors of credit, asset and property markets to overheat again. Central bankers need to acknowledge a credit-fueled asset bubble was perhaps the most important culprit for the current malaise in many countries. Otherwise, they may simply sow the seeds of the next crisis. Today's central bankers need to devise a good metric to assess whether credit and asset prices have been fundamentally driven or liquidity driven before they go so far as to threaten the financial stability.

Another important policy issue is the potential danger of wide-spread competitive currency depreciation. From our past experience, we clearly understand that its end result was at best a zero-sum game. There are many policy tools to strengthen competitiveness of the economy and that among them the best is an economic overhaul in broad sectors of the economy. In many countries, this is certainly a daunting task both politically and socio-economically. Nevertheless, if central bankers take initiatives in moving toward more concerted efforts for bold reforms, the global economy will eventually be back on the right track.

One more critical policy issue for central banks, particularly in advanced nations, is whether they are virtually exhausting their stimulus arsenals if inflation and activity keeps fading. They need to have credible policy tools ready to be used for the worst case future scenarios. Also another big question is that they need to assure the public and the financial markets that they will take credible steps to prevent a recurrence of rising inflation as the economic recovery accelerates in the future. Also, in this SEACEN/IMF-STI Course, there are certainly a number of important macroeconomic policy issues which require your clear understanding. Let me highlight two important issues among them.

First, we in this SEACEN region need to broaden our understanding on global capital flows. In December 2012, the IMF developed a comprehensive, flexible and balanced view on the management of global capital flows as global capital flows dramatically increased from less than 5 % of global GDP during 1980-1999 to about 20 % by 2007. Key features of the IMF's institutional view included: 1) capital flows can have benefits and risks together; 2) although capital flow liberalization has generally more benefits and less risks for countries which reached certain thresholds of financial development, it needs to be well planned, timed, and sequenced; 3) rapid capital flows can create policy challenges and appropriate policy responses involve both countries that are recipients of capital inflows and those from which flows originate; 4) To manage the risks associated with volatile capital flows, a key role needs to be played by macroeconomic policies, as well as by sound financial supervision and regulation and strong institution; 5) cross- border coordination of policies would help to mitigate the riskiness of capital flows.

Second, the widely known economic trilemma is that to which monetary regimes are subject. A country can have a fixed exchange rate, free movement of capital or independent monetary policy, but not all three. From gold standard era to Bretton Woods period to modern post-Bretton Woods time, choices among these three regimes have changed, but not all the benefits from each regime have been feasible. Another topical trilemma concerns regulation of the financial system. As Dutch economist Dirk Schenmaker pointed out, it is impossible to combine financial stability, international finance and national sovereignty. Now systemically important banks operate cross-border and one needs a global regime such as Basel III capital standards to monitor them. If national governments prefer national rules to global rules, instability is the likely result.

Ladies and Gentlemen,

Before concluding, let me briefly share with you some information about The SEACEN Research and Training Centre. As approved by the Board of Governors in February 2011, 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 in learning for the region, by being a platform for collaboration 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.

Once again, I would like to thank the team from IMF - Singapore Regional Training Institute, all resource persons and their respective institutions for the support and valuable contributions; and to all our member and invitee central banks for nominating suitable participants to this course.

To all the foreign participants, welcome to Malaysia. As for everyone, I wish you a productive and rewarding learning experience.

Thank you.