Tarisa Watanagase: The changing financial environment and implications for central banks

Welcome address by Dr Tarisa Watanagase, Governor of the Bank of Thailand, at the 27th SEANZA Governors' Symposium, Bangkok, 20 September 2008.

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Fellow Governors, Distinguished Guests, Ladies and Gentlemen,

It is my privilege to extend a warm welcome to all SEANZA Governors and distinguished participants to the 27th Governors' Symposium and the Central Banking Course.

At the outset, I would like to take this opportunity to express my sincere gratitude to Mr. Jaime Caruana, the former Governor of the Bank of Spain, and currently the Counsellor and Director of the Monetary and Capital Markets Department of the IMF, who flew half way around the world to be with us today to share his views and enrich us with his experiences from a global perspective.

This year's theme of the Governors' Symposium is *"The Changing Financial Environment and Implications for Central Banks"*. I believe you would all agree that the discussions on this topic couldn't have come at a more appropriate time, given the current financial market turbulence we are encountering today.

Right now, all eyes are focusing on what solution central banks will come up with to resolve the current global crisis. This gathering is the first regional meeting of governors amidst the turmoil, and so we should take this opportunity to exchange views and reflect on how the financial environment which is undergoing a major transformation as we speak, will have implications on our roles as central banks.

Looking at the overall picture, what is now going on in Wall Street may remind us of what happened in our region 11 years ago. At a glance, the root causes of both events are strikingly similar: investors taking excessively high risks creating asset price bubbles, against the background of lax prudential and monetary policy.

With today's financial environment, however, changes in the regulatory requirements, market players, business models of financial firms, as well as economic conditions have all played a part in escalating the impact of financial turmoil through the creation of a broader and deeper financial system.

What is unfolding right now is taking place in the world's largest economy with deepest capital markets, most sophisticated financial instruments – and, let me also add, the most advanced risk management tools.

Given the increased complexity and magnitude of the current crisis, this calls into question whether the tools available at hand to policy makers are adequate in ensuring economic stability, the essence of our mission as central bankers.

No matter how large the storm is, we have to lean against the wind and adhere to a set of principles which central banks have been practicing. I try to sum up these principles which guide us not only in weathering this storm, but also in sunnier days, when the role of crisis prevention cannot be overlooked.

The **first and foremost principle** rests upon the authorities' ability to carry out **prompt and preemptive actions** with the best set of available information in dealing with changes in the market conditions and practices. Of course, we all know that to be able to identify where the risks are is no longer a simple task in this current environment. But once any significant sign of imbalances in the economy is detected, central banks need to be vigilant and act in a timely manner. True, it is difficult to counter the sentiments of the government, investors and the public alike if central banks play their role of "taking away the punch bowl when the party gets going". In a nutshell, this implies that we central bankers need to be **watchful and decisive**, not to be swayed by these voices.

Second, we also need to **maintain flexibility** in the conduct of central banking policies. By this, I mean flexibility in terms of policy instruments and also in terms of using innovative methods to deal with the evolving challenges. For example, we may not be able to just rely on, say, using traditional solutions of raising interest rates to address rising inflation, but we may also have to resort to a mix and match of the toolkit available to us. Here I think of some of the prudential measures that could help cool down asset prices, which is a case in point of how monetary and supervisory policies can be intertwined.

Indeed, central banking policies need regular evaluation as its effectiveness could be undermined by the evolving financial landscape. In sum, we need to **continually evaluate the effectiveness of our policy tools**, in particular, the potency of monetary policy transmission mechanism in the changing financial environment.

My third point is that **good central bank governance** is also essential. To maintain its credibility, any central bank should strive to be independent, accountable and transparent. I don't need to touch on all three pillars of good central bank governance, but on transparency I should add that effective public communication is key to achieving our policy goals. This is especially important for monetary policy since **effective public communication** can play a crucial role in anchoring expectations in both sunny days and during the storm.

Fourth and finally, **regional cooperation in the areas of surveillance and financing** should be further fostered. Regional surveillance can help contribute to financial stability by strengthening the policy framework at the national level. Cooperative financing arrangements at the regional level designed to supplement resources provided by the IMF can also enhance effectiveness in crisis prevention and resolution. Here I see great strides being made in these cooperative efforts in the region, including swap mechanisms that have been developed and are being expanded.

Furthermore, cooperative efforts in promoting the practice of information sharing and capacity building will help strengthen competency of regional central banks to safeguard against external shocks and disturbances. Although the practice of information dissemination among the regional peers is nothing new, there is still room for improvement to facilitate a more structured approach and timely delivery.

Ladies and gentlemen, these are just some food for thought to precede the more detailed discussions and lively debate to follow. I certainly look forward to hearing the views of Mr. Caruana, who has been among those at the centre of the challenges facing us. His perspectives will be valuable for our further discussions and deliberations.

And we will learn more from Mr. Glenn Stevens, Governor of the Reserve Bank of Australia; Mr. Kiyohiko Nishimura, Deputy Governor of the Bank of Japan; and Mr. Heng Swee Keat, Managing Director of The Monetary Authority of Singapore, who will lead the discussions focusing on their respective country's experiences. This will be in keeping with our tradition in learning from one another to further enhance SEANZA cooperation and promote greater stability in the region.

In concluding my remarks,

I would like to reiterate to you my warmest welcome, and may I also wish us all a successful and fruitful meeting, which would hopefully bring us on the right track towards weathering the storm in anticipation of sunnier days.

Thank you.