

Norman T L Chan: Symposium on Financial Stability – opening remarks

Opening remarks by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the HKMA Financial Stability Symposium, Hong Kong, 30 May 2013.

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Good Morning Ladies and Gentlemen,

1. Welcome to the HKMA Financial Stability Symposium. The Symposium marks the 20th Anniversary of the HKMA, which is a very young central banking institution comparing with its peers. It is very timely and appropriate for the HKMA to convene this Symposium on Financial Stability because Hong Kong, like many of our Asian neighbours, have learnt from our own bitter experience in the few years after 1997 just how painful and devastating financial crisis can become. So it is clearly our common wish to do what we can to reduce the risks of financial crisis recurring or at least mitigate the damage that it can cause to the financial system and the economy when it occurs.

2. In this connection, it may perhaps be useful to look back and observe how the mainstream thinking on financial stability have changed or evolved since the time when the HKMA was set up in 1993. I would list a couple of key issues below:

- (i) there was the belief that financial crises would only occur in the developing economies because they had weak financial institutions and poor regulatory regimes. Advanced economies would be immune as they had mature financial institutions and robust regulatory systems. We now know that this is not true: Since the eruption of the Global Financial Crisis in 2008 we have witnessed the fact that even the most advanced economies cannot be immune from financial instability.
- (ii) there was the view that as long as price stability was attained, financial stability would not be a problem. We now know severe vulnerabilities in the financial system can build up even when inflation is stable and output volatility is low.
- (iii) while very few people would doubt the need to avoid financial crises, there was no consensus view, not until more recently, on who or which institution should be given the mandate to maintain financial stability. Given what we have experienced after the Global Financial Crisis, the common view nowadays is that central banks should take a leading role in maintaining financial stability, given that central banks would, in a financial crisis, typically act as, amongst other things, the lender or liquidity provider of the last resort.
- (iv) the term “macroprudential policies” was little known not long ago but has now become the buzzword that everybody in the financial and regulatory circles talks about. However, even up to now, there is no clear consensus on what these policies mean, what are the instruments and how effective they are, and who should be given the powers to decide when and how to deploy such instruments.

3. I am very pleased that at today’s Symposium we have managed to gather a very distinguished group of speakers and participants. I am sure there will be very interesting and fruitful exchange of views and ideas on the major financial stability issues, including those that I have mentioned earlier. Once again, thank you all for being with us today.