

Opening remarks

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General Manager Caruana, Chair Madame Zeti, fellow Governors, ladies and gentlemen:

It is a great pleasure for the People's Bank of China to co-host in Shanghai the Wrap-up Conference of the Asian Research Programme with the BIS. On today's occasion, I feel delighted to see old friends from the ACC and the BIS, as well as many professionals and experts. I would like to extend a very warm welcome, on behalf of the People's Bank of China, to everyone presenting here.

The research programme, which took off here in Shanghai three years ago, has manifested the BIS's commitment to strengthen its interactions with the Asia-Pacific central banks and brings into the region valuable policy advice and international experience. Today, with its fruitful outcome benefiting both the region and the BIS, the programme is expected to continue in other forms to further take advantage of such research resources and achieve more prominent results in addressing policy challenges ahead.

The theme of this conference is "The International Financial Crisis and Policy Challenges in Asia and the Pacific". Since the outbreak of the international financial crisis, Asia-Pacific economies as a whole have shown resilience to shocks. With lessons carefully drawn from the Asian crisis, economies in the region have built up solid foundations for economic growth that are reflected in low inflation, healthy fiscal positions and abundant official reserves. Prudential regulation was applied to financial institutions, contributing to a strengthened banking system, with capital adequacy exceeding 10% of total risk-weighted assets in most countries. Regional trade and investment have grown very fast, to some extent alleviating the reliance on the outside world. In addition, the region has strengthened policy coordination and cooperation via various channels, such as the platform provided by the EMEAP and the self-managed foreign exchange reserve pool under the multilateralisation of the Chiang Mai initiatives

Nevertheless, the effects of the current financial crisis were still strongly felt in these economies. First, the economies of most Asia-Pacific members have contracted, dragged down mainly by a dramatic fall in net exports. At the same time, as investors became more risk-averse and demanded higher premiums, the cost of international bond issuance has markedly risen. Financial market intermediation has slowed and securitisation declined.

Asia-Pacific governments have taken effective measures to cope with the crisis and prop up their economies. Fiscal stimuli and accommodative monetary policies have already yielded good results. Financial markets in the region are recovering, as evidenced by improved investor sentiment in the regional equity and credit markets. Since March 2009, Asia-Pacific equity markets have enjoyed a rally. Bond markets have recovered around 85% of the losses incurred in the 2008 crisis. The strength in Asian currencies is supported by capital inflows, improving trade balances, firmer signs of bottoming in the industrial cycle and an overall bearish market view on the US dollar.

However, efforts are still needed in the following areas. First, regional economies should endeavour to alleviate the negative contribution to growth from exports. Measures should be taken to address difficulties in trade financing, to diversify export markets, optimise industrial

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structures, and adjust growth models. Second, a more macro-oriented regulatory approach should be adopted and procyclicality should be eased to build a more resilient financial system. Third, the authorities should take further action to boost domestic demand, by, for example, increasing spending on public infrastructure, reducing the savings rate, and promoting structural reforms. Fourth, Asia-Pacific countries should beef up cooperation to actively address challenges and issues of mutual concern.

In response to the negative impact of the international financial crisis, the Chinese government has made a timely adjustment in its stance towards macroeconomic management, and it has adopted a series of measures to promote steady and rapid economic development. A proactive fiscal policy and appropriately accommodative monetary policy were pursued and the sound functioning of the financial system was safeguarded. Thanks to this policy package, economic performance improved and market confidence was restored. Domestic demand rose steadily, liquidity in the banking system remained ample, the money and credit supply increased rapidly, and the financial system performed in a stable manner. Going forward, we will further strengthen and improve macro management, steadily enhance policy consistency and effectiveness, and appropriately handle the relationship between boosting economic growth and preventing financial risks in an effort to promote sound economic and financial development.

Before I conclude, let me acknowledge with thanks the work that the BIS Representative Office for Asia and the Pacific has done in preparation for the conference.

I wish the conference a great success and hope all of you will have a good time in Shanghai.