

M R Pridiyathorn Devakula: Financial markets and new financial instruments

Opening address by Mr M R Pridiyathorn Devakula, Governor of the Bank of Thailand, at the SEACEN-IMF Institute course on Financial Markets and New Financial Instruments, Bangkok, 6 September 2004.

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Dr. Subarjo Joyosumarto,

Mr. Sunil Sharma,

Distinguished Speakers and Participants,

It is indeed a pleasure for me to be here this afternoon to officially open the SEACEN-IMF Institute Course on Financial Markets and New Financial Instruments. On behalf of the Bank of Thailand, I would like to extend a warm welcome to everyone of you to Bangkok. Today's course is the second of three SEACEN courses that the Bank of Thailand plans to host this year. We are pleased to be given the opportunity to support the work of the SEACEN Centre, and all its member central banks.

These series of courses are indeed most topical, as the global economic recovery gathers momentum, financial market activities also pick up, along with innovative financial practices and instruments. The IMF recently adjusted its forecast of global GDP from 4.6 percent to 4.9 percent, the highest growth rate in nearly three decades. Economic performance in Asia has also been in sharp contrast to the situations we faced four or five years ago, reflecting the synchronized recovery of the global economy. With the strong economic recovery comes the demands from firms and enterprises for more sophisticated and efficient services from their financial intermediaries. This is expected to happen in Asia as well. The authorities therefore need to be mindful of the inherent risks associated with new financial instruments and practices.

To promote growth and financial stability sound macroeconomic and prudential policies are required, as well as vigilance in the supervision and regulation of markets and intermediaries. These include being better prepared to withstand increased volatilities in financial markets and improving the structural resilience of the financial system. As we all know, the cost of financial instability can be grave not only for the country in which the financial turmoil emerges, but also for the international financial system as a whole. We saw this in the Mexican crisis in 1994/95 and again in the Asian crisis in 1997/98 where international investors' confidence was undermined thus imposing significant economic and social costs in all affected countries.

The globalisation of markets and the increasing importance of financial stability have prompted central banks to be active and vigilance in guarding against instability. The increased focus on financial stability, is closely tied to the issue of globalisation, as events in one corner of the world can have unavoidable systemic impact on the other parts of the world. Promoting financial stability involves not only the promotion of macroeconomic stability, but also promoting a strong legal and regulatory framework that would support the development of deep and robust financial markets. This in turn would promote sound financial institutions and a stable overall infrastructure for the financial industry. In short, both the market and the intermediaries must be strong and efficient.

Against this background, it is timely that SEACEN Centre has initiated this course to explore the nature of financial intermediation, the role of financial markets in the allocation of resources and the need for appropriate regulatory framework. As regulators, we need to understand the concepts and the basics of the working, the pricing and trading strategies of the derivatives markets and instruments, how financial entities use them in risk management, as well as their potential impact on financial system stability.

But more importantly, in these two weeks, we will benefit from the presence of a number of distinguished speakers that have kindly given up their time to be with us. I hope we will use this opportunity fully. On this note, I would like to thank Mr. Sunil Sharma, Chief, Asian Division, IMF Institute, for his efforts to coordinate this course with the SEACEN Centre and the Bank of Thailand.

I trust that this course will be most fruitful and rewarding for all the participants, but above all that the interaction among yourselves will provide an opportunity for you to learn from one another, and strengthen the bonds of friendship that bind the works of our institutions for many years to come.

Ladies and gentlemen, without further ado, I now declare the SEACEN-IMF Institute Course on Financial Markets and New Financial Instruments open and wish everyone of you success in your deliberation, success in your career, and most importantly, that you would take back with you pleasant memories of your brief stay in Thailand.

Thank you.