Atchana Waiquamdee: Brief look at financial market indicators

Opening remarks by Dr Atchana Waiquamdee, Deputy Governor for Monetary Stability, Bank of Thailand, at the Workshop on Financial Market Indicators, Bangkok, 7 June 2007.

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Good morning, and allow me to welcome you to Bangkok, and to this morning's Workshop on Financial Market Indicators. The issue we are about to discuss today, namely the use financial indicators, itself is not a new topic. Especially in more developed financial markets, the use of financial indicators has been integral to the well-functioning of markets. In those cases, utilizing financial market indicators in the policy-making process is nothing new.

In many of the emerging markets of Asia, however, this has not been the case. Financial indicators in the emerging markets have been more difficult to come by, and even much more difficult to interpret – due largely to gaps in market development. Yet, as the financial markets of Asian economies began to gather both depth and breadth, more and more financial market indicators are becoming readily available for policy use. Since the availability of the indicators in emerging markets is rather recent and the fundamental conditions in these markets are still very dissimilar to those of the more matured ones, the use of financial market indicators in emerging markets for policy purposes merits much thought and attention.

So what exactly are we talking about when referring to financial market indicators? Interpreted broadly, this can include relatively simple indicators, such as interest rates, interest rate spreads, and returns. They include other measures related to the value of financial or tangible assets like bonds, stocks, housing, and gold. And of course they also include more sophisticated, data-intensive estimates of risk, which we hope to discuss today.

For central banks, one of the main questions that arises is whether financial market indicators are useful in setting monetary policy. And if so, which ones are most useful for central banks, and for what purpose?

In general, financial market indicators are used by central banks to: (1) gauge market sentiment with regards to expected changes to policy variables; (2) identify types and sources of shocks to the economy; and (3) predict future developments in economic activity and inflation. Such predictions of longer-term inflation are also useful in checking how markets view the credibility of the authorities' commitments to their final price target.

So financial indicators can be used to double check econometric and judgmental predictions as well as flag a problem of asset price misalignment, which may need to be addressed by policy. In addition, financial market indicators have the potential to reflect developments at critical stages of the transmission process. This is due to the fact that financial markets in general adjust faster than goods markets, and their prices are timelier and less prone to measurement error.

Today's workshop will give us the chance to discuss these and many other issues. I am that sure my colleagues around the table would like to share their practical experiences so that we could have a better understanding of the financial market indicators suitable for emerging markets and how we as policy makers can best make use of them. Let me now pass the chair to Mr. Eli Remolona, Head of Economics for Asia and Pacific, BIS.