

Tarisa Watanagase: Dealing with volatile capital flows

Welcome address by Dr Tarisa Watanagase, Governor of the Bank of Thailand, at the 42nd SEACEN Governors' Conference, Bangkok, 28 July 2007.

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Your Excellency Minister of Finance,
Mr. Rodrigo de Rato,
Mr. Hervé Hannoun,
Fellow Governors, Distinguished Guests,
Ladies and Gentlemen,

I would like to begin by extending a very warm welcome to all of you to Bangkok. We are pleased to host the 42nd SEACEN Governors' Conference and the 26th Meeting of SEACEN Board of Governors here in Bangkok. I would also like to express my sincere appreciation to His Excellency Chalongsak Sussangkarn, Finance Minister of Thailand, for his presence here to officially open the Conference.

This year's theme on "Living with Volatilities: Is SEACEN prepared for Rising Fluctuations in Exchange Rate and Capital Flows?" comes at an opportune moment, given a recent volatile and uncertain market conditions. This volatility has posed challenges to central banks in maintaining monetary and financial stability.

Let me share with you some of my views on this very important issue.

It is traditionally believed that emerging markets are subject to more volatile capital flows than developed countries due to underdevelopment of our financial markets and weak institutions. Thus, putting in place a more flexible exchange rate policy, credible monetary policy and sound domestic financial system could help emerging markets reduce the volatility of capital flows as well as its negative effect on the economic stability.

The Asian financial crisis in 1997 taught us a number of painful lessons from volatile capital flows associated with such weak institutions. Since then, we have seen a large number of developing countries moving towards flexible exchange rate regime, adopting inflation-targeting framework, and improving the resilience of financial system. Yet, the challenges from volatile capital flows have become more intensified and we still see the implications of volatile capital flows on our economies.

We are, therefore, very fortunate to have with us Mr. Rodrigo de Rato, Managing Director of the IMF, and Mr. Hervé Hannoun, Deputy General Manager of the BIS, to share their views and insight on this issue. I believe that we can greatly benefit from the IMF's new surveillance framework, which put greater emphasis on the volatile financial market, as well as from the BIS expertise on analysis of capital flows during the morning session.

I am certain that their perspectives will be useful in setting the tone for our further discussions on how to better prepare ourselves for the more intensified volatility of capital flows, which, I believe, have been rooted to our current economic environment.

Ladies and Gentlemen,

Following our discussions on the theme, we will have Dr. Perry Warjiyo and Mr. Richard Murray, our Executive Directors from the IMF to lead our discussions this afternoon on recent developments in global and regional economies with a view to identifying challenges ahead of us. I hope that we could learn a great deal from one another in this traditional session, particularly on how we should prepare ourselves for those potential risks in order to maintain internal as well as regional economic stability.

In addition, I believe that the Meeting of SEACEN Board of Governors, tomorrow, will continue to play an important role in providing guidelines for future works and activities of

SEACEN for the years to come. Our guidelines will be important for the SEACEN Centre to pursue its mission and become “a premier regional training centre for central banks in the Asia-Pacific region” according to its vision.

Ladies and Gentlemen,

This year is a very auspicious year for SEACEN over its 40 year-history as it marks the 25th year of the establishment of the SEACEN Centre. We are, therefore, very honored and privileged to host the Celebration of the Silver Anniversary of the SEACEN Centre, here again in Bangkok, where the Agreement to establish the Centre was signed back in 25 years ago.

Over these past two decades, the SEACEN Centre has become increasingly important in promoting better understanding of the financial, monetary, banking and economic development matters. Its role does not benefit only the sixteen member central banks but also extends to several other countries throughout Asia and Pacific region.

I would like to take this opportunity, therefore, to congratulate the SEACEN Centre for its work in helping bind together our community of central banks in the region. And, I would like to invite all of you to tomorrow’s dinner to commemorate its achievements in the past quarter of a century together.

Ladies and Gentlemen,

May I take this opportunity to wish all of you a successful and fruitful deliberation, and an enjoyable stay in Thailand.

Thank you.