Peter Pang: Economic and financial outlook for the Asia/Pacific region

Welcome remarks by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Launch of the International Monetary Fund's Regional Economic Outlook, Hong Kong, 28 April 2014.

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1. Good afternoon. It is my pleasure to welcome all of you to the launch of the latest issue of the IMF's Asia and Pacific Regional Economic Outlook. We are honoured to have Mr. Changyong Rhee, Director of the Asia and Pacific Department of the IMF, and his colleagues to share with us today their views on the region's economic and financial developments, the outlook and the challenges, and what can be done to manage the risks and promote further growth that is sustainable over the years ahead.

2. I totally agree with the theme of this issue of the REO – sustaining Asia's high growth momentum would require continuing vigilance and reforms. There is little doubt that Asia will continue to grow faster than most other regions in the world. Since the Asian financial crisis, policymakers have implemented many structural reforms making the region more resilient. Asia has also been leading the world recovery after the global financial crisis. Having said that, Asia cannot afford to feel complacent as the road ahead is bumpy. And we will be in unchartered waters when the high tide of global liquidity starts to ebb as the developed economies embark on the normalization of their monetary policies. We should get well prepared or would lose the momentum quickly.

3. Exit by the U.S. Fed from its unconventional monetary policies is one of the most important external challenges that the region will face in the next year or two. A timely and orderly normalisation of monetary policy in the US should help to slow credit growth and contain asset price inflation in the region. However, a disorderly normalisation process could lead to significant outflows of capital, abrupt tightening of financial conditions and a severe re-pricing of assets. This can result in financial instability and even a sharp slowdown of economic growth in the region, particularly in those economies with weaker fundamentals and higher reliance on external financing. Yet, there is a lively debate about the size of the labour market slack in the US, which could complicate the judgment about inflation risks and the conduct of monetary policy. Indeed, the path of exit is not necessarily smooth, and interest rate volatility could be higher than currently anticipated.

4. While monetary policy normalisation may reflect a pick-up in the growth momentum in the US which should help support Asia's exports, the strength of this support is subject to some uncertainty. We also need to be aware that economic integration has increased within the region. As identified by the IMF in the REO, the increase in trade and financial integration have strengthened the propagation of growth shocks between regional partners.

5. So, what are our major policy challenges? With the US rate hike cycle drawing nearer, the window for the region to get prepared for a tightening in financial conditions is getting smaller. It is therefore important for policy makers to contain further build-up of leverage, and to ensure banks will properly manage interest rate and exchange rate risks, and can withstand any potential deterioration in loan quality. It is encouraging to see that policymakers in many economies in the region have taken pre-emptive policy actions to lower credit growth and slow house price inflation. The biggest challenge now is when and how to relax these measures when market conditions reverse.

6. Second, policymakers will need to have sufficient backstop to mitigate systemic risk in the financial system in the event of a disorderly exit of US monetary policy. In this regard, the ASEAN+3 Chiang Mai Initiative Multilateralisation Arrangement, the regional financial safety net, could help to mitigate the risk of financial contagion by providing financial resources to members in the event of short-term liquidity difficulties.

7. Third, structural reforms remain the best way to reduce vulnerabilities and achieve sustainable growth over the long-term. We have been moving forward on this front through a deepening of intraregional trade, strengthening private and public-sector balance sheets and improving market infrastructure. But a lot more needs to be done. There is still ample scope to tackle structural impediments to growth and stability such as further capital market development, product and labour market reforms and service-sector reforms. All these areas require strong political commitment and continuous efforts in order to achieve successful outcomes.

8. Lastly, I would like to highlight a key driver of sustained economic growth that is particularly important for Asia – infrastructure investment. Unfortunately, we still see big gaps for infrastructure financing today despite the large savings in the region, and infrastructure development has been slow and inefficient in many countries. One of the major reasons is the shortage of “bankable” projects. There are a host of factors behind involving legal and governance issues, and political risks. But whatsoever the reasons, it is a gap that can only be filled by bringing together capital and know-how from the public and private sectors. Indeed, the G20 has recently highlighted the importance of infrastructure investment as a growth driver, but many challenges remain in overcoming the obstacles to identifying “bankable” projects.

9. In the face of immense uncertainties and challenges ahead of us, IMF’s assessment of the prospects and risks, as well as advice on policy response for the region at this juncture is particularly important. We look forward to the presentation by IMF and the dialogue during the panel discussions.

10. Thank you.