



The **SEACEN** Centre

The Way Forward

Panel Session at the FRB Chicago – ECB International
Banking Conference, Chicago, November 4, 2016

Hans Genberg

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Outline

1. Eighteen years since the AFC
 - Good luck or good policies?
2. Asia early adopters of macroprudential and capital account management policies
 - Belief in hands off approach to capital-account and financial market regulation was questioned
3. Did they work?
 - Real estate loans in Hong Kong (yes), Credit growth in a panel of EMEs in Asia (yes)
 - Financial Stability (?)
4. Potential side effects
 - Risk migration, weakening central bank independence
5. Concluding Remarks
 - Less defensive about unorthodox central bank policy strategies

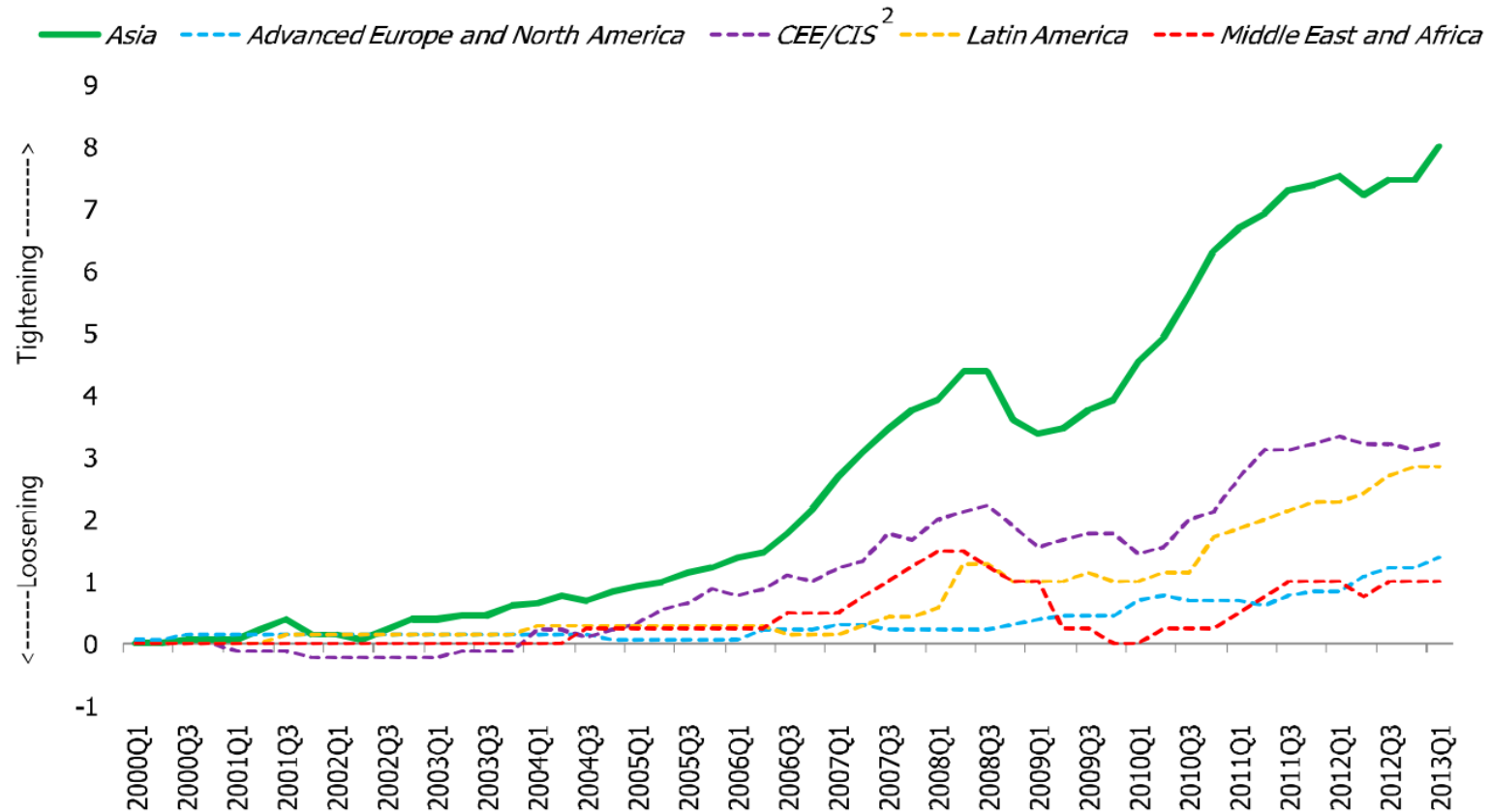
Eighteen years since the Asian Financial Crisis

- Good policies?
 - Greater exchange rates flexibility
 - Strengthening of regulatory and monetary policy institutions
 - Caution in the liberalization of financial markets *inter alia* by making use of what now is being referred to as macroprudential and capital account management policies

The Use of Macro-prudential Policies. Source: Zhang and Zoli (2014)

Figure 7: Macroprudential Policies: Cumulative Actions by Region

(Average per country in each region; 2000:Q1-2013:Q1)¹



Source: IMF staff calculations.

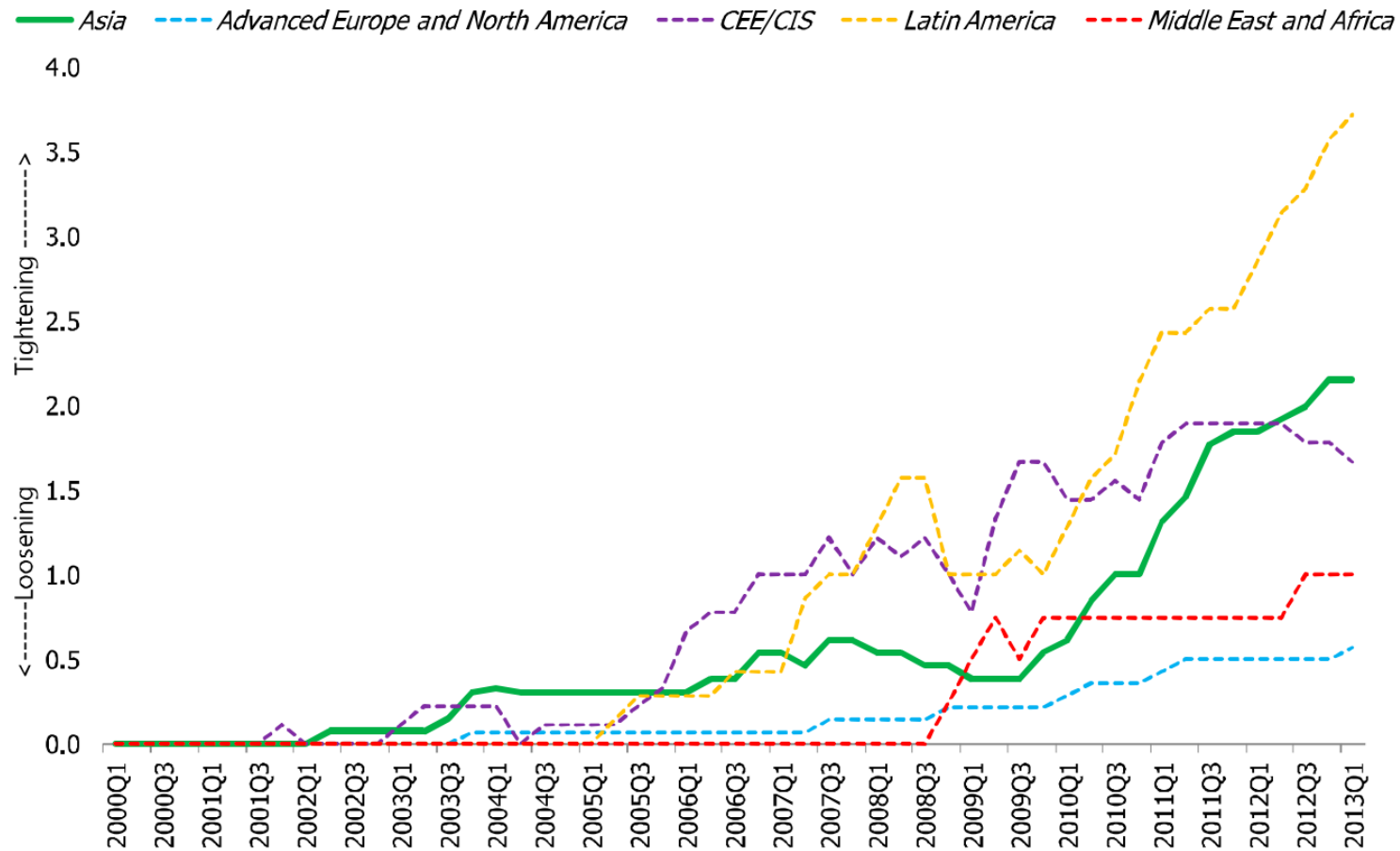
¹ Index summing up housing-related measures, credit measures, reserve requirements, dynamic provisioning and core funding ratio. Simple average across countries within country groups.

² Central and Eastern Europe and Commonwealth of Independent States.

The Use of Capital Flow Management Policies. Source: Zhang and Zoli (2014)

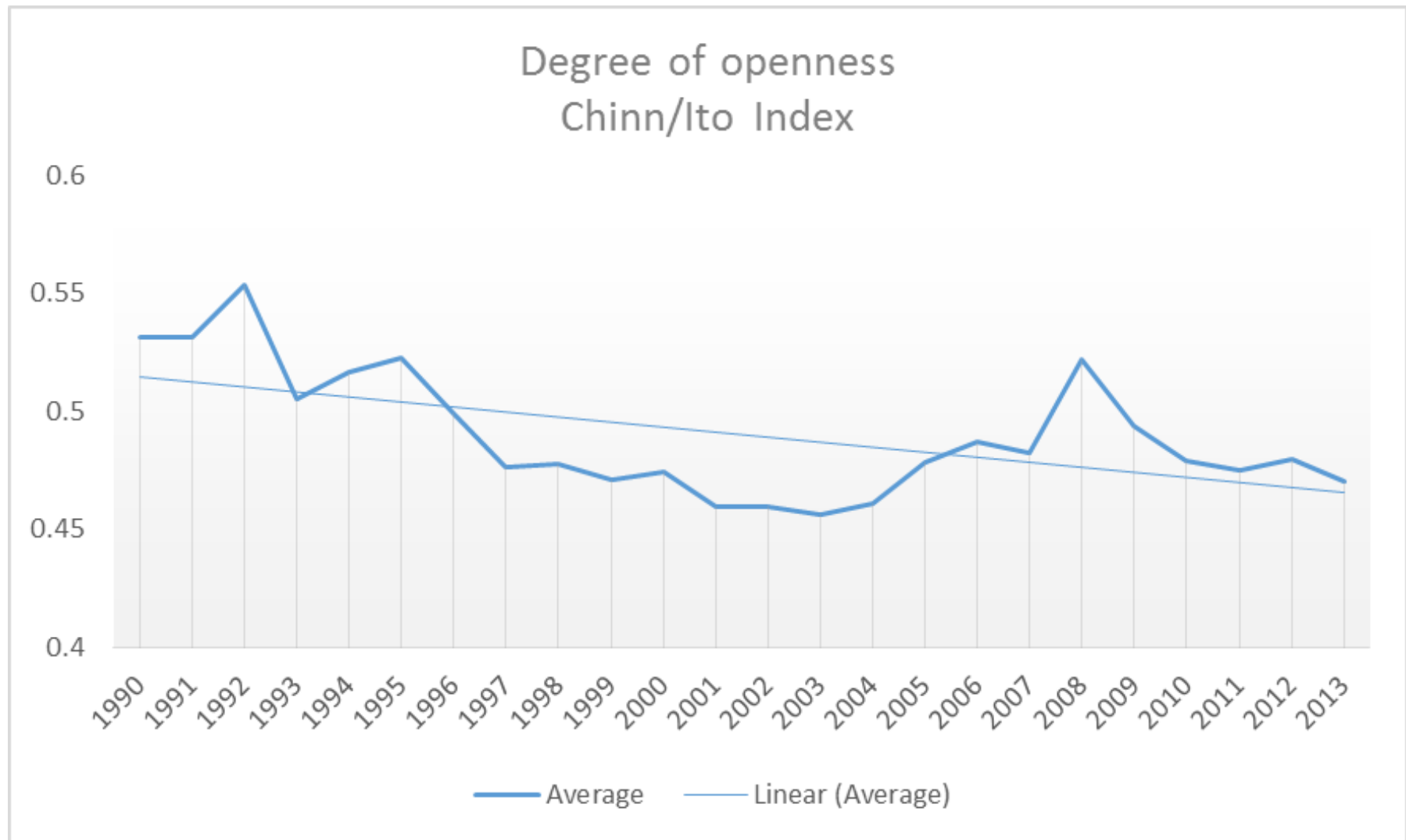
Figure 8: Capital Flow Management Measures: Cumulative Actions

(Average per country in each region; 2000-2013Q1)¹



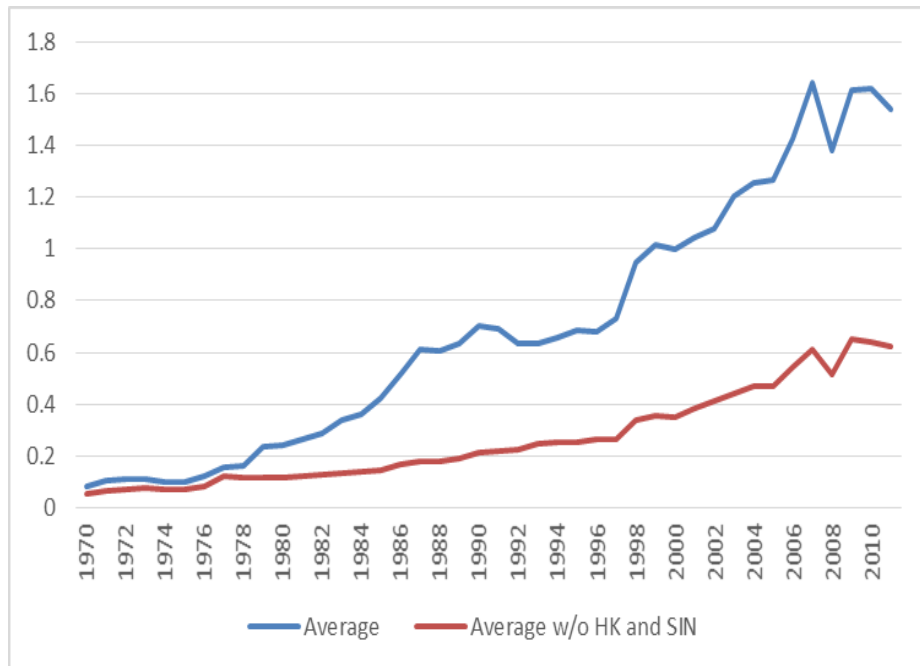
¹ Index summing up foreign currency and residency-based measures. Average across countries within country groups.

De Jure Capital Account Openness

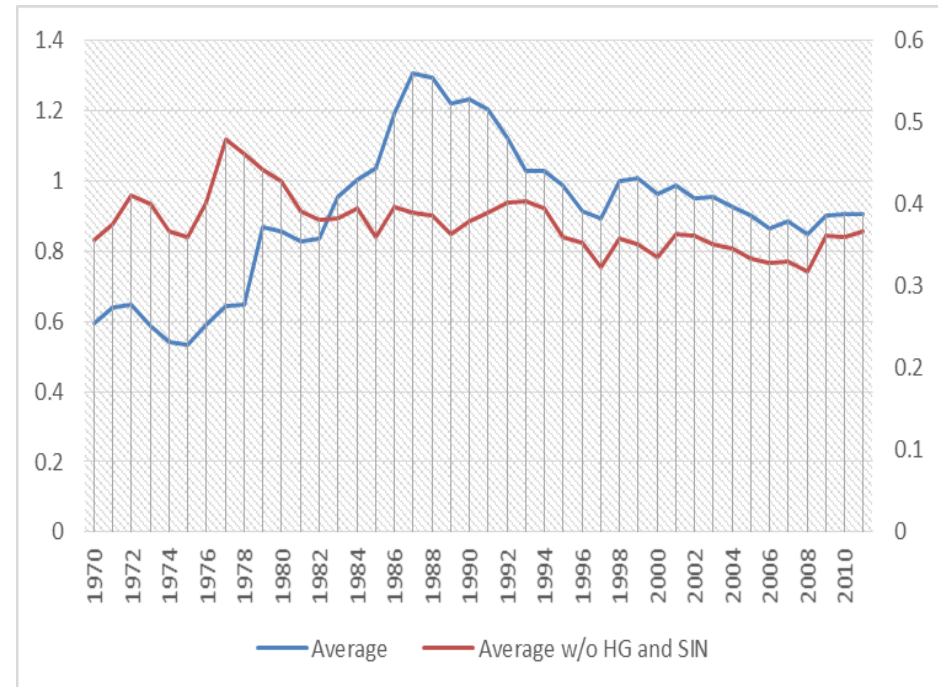


Measures of de facto openness

Average of $\frac{FA^i}{GDP^i}$



Average of $\frac{\frac{FA^i}{GDP^i}}{\frac{FA^W}{GDP^W}}$



Eighteen years since the Asian Financial Crisis

- Good luck?
 - Relatively less developed financial markets implied less reliance on ‘exotic’ financial products and hence less exposure to the type of assets that became toxic in the Great Financial Crisis (GFC)

Asia early adopters of macroprudential policies. Did they work?

- Hong Kong
 - Extensive use of limits on LTV ratios for mortgages
 - Reduction in LTVs – policies were at least partially binding
 - Reduction in NPL ratios
- Panel of EMEs in Asia. VAR methodology (BIS Working Papers No 533)
 - Macroprudential policies have an effect on credit growth
 - Macroprudential policies also affect output and inflation dynamics
- What about the effect on financial stability?

Potential side effects

- Risk migration
 - Shadow banking (developers offering mortgages in Hong Kong)
 - Whack-a-mole effect more generally
- Weakening of central bank independence
 - Macroprudential measures have a fiscal component. Hence there is more coordination with fiscal authorities. Will this constrain central banks also in their purely monetary policy operations?



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Concluding Remarks

- Asia is highly integrated into the international financial system and hence exposed to risks
- Policy frameworks have been strengthened, but policy makers need to be vigilant
- Less defensive about unorthodox central bank policy strategies
 - Macroprudential and capital flow management policies
 - Interventions in the foreign exchange market
 - Coordination between the policies is necessary



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Thank You

Our **VISION**

To be the Regional Learning Hub for
Central Banks in the Asia-Pacific Region.

Our **MISSION**

To build capacity in central banking and
foster networking and collaboration.