

# Opening remarks

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## Welcome

Governors, deputy governors, professors, distinguished guests, ladies and gentlemen, good morning.

It is a great pleasure for me to be part of this BIS Asian Research Conference – the so called “Wrap-Up Conference” – and I join Governor Zhou in welcoming you. It certainly feels good to be among friends here in Asia. And I am especially grateful that the People’s Bank of China has invited us to this exciting cosmopolitan city of Shanghai.

The topic of our conference should not come as a surprise. I think the Governors were right in advising us to focus on the international financial crisis, given what has been happening here and elsewhere in the world. While there may be a risk in trying to draw firm lessons about a crisis from which we have yet to fully emerge, I hope that you will find the discussions over the next two days to be quite rewarding and enlightening with regard to the policy challenges facing the region.

## The BIS Asian research programme

In February 2006 in this very hotel, my predecessor Malcolm Knight announced several BIS initiatives to deepen our involvement in Asia and the Pacific. One of the main initiatives was a three-year research programme on monetary and financial issues, to be undertaken in close cooperation between the BIS and Asia-Pacific central banks.

The initiatives had been endorsed, only one day before his announcement, by a meeting of the Asian Consultative Council (ACC), which some of the Governors present here today had attended. However, that was only the end of a long process of internal deliberations at the BIS and of consultations with our shareholding central banks in the region.

At the meeting of the ACC in June 2005, the BIS General Manager reported that BIS Management had set up a working group to make detailed proposals on how to deepen the involvement of the BIS in Asia and the Pacific, and a special research programme was mentioned at that point. The working group was chaired by Már Gudmundsson, Deputy Head of our Monetary and Economic Department, who is now attending his last event for the BIS before taking up the position of Governor of the Central Bank of Iceland later this month.

The deliberations of the working group formed the basis for BIS Management proposals that were submitted to the shareholding central banks in the region and discussed in visits by the General Manager and the Deputy General Manager to each of these banks.

You could say that this was a resource-heavy process<sup>1</sup>, but we think that its collaborative nature contributed to the success of the programme. We also had a sound foundation to build on. The BIS had opened its Representative Office for Asia and the Pacific in 1998, in the Hong Kong SAR, and the Asian Consultative Council was set up in 2001.

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Although significant input to the Asian Research Programme would come from Basel, both in terms of content and oversight, most of the resources for the programme were located in the BIS Asian Office. Launched in September 2006, the programme was managed in the Asian Office by the Head of Economics for Asia and the Pacific – first, Eli Remolona, and now, Andy Filardo. The Chief Representative in the Asian Office – first, Bob McCauley, and now, Eli – provided support and oversight, and so did Már in Basel. And all along, the ACC has been instrumental in providing guidance to the programme.

The goal of the Asian Research Programme was simple but ambitious – to strengthen our capacity for working with central banks in Asia and the Pacific on policy-oriented research. Today we are back here, where the journey began, to evaluate some of the fruits of our labour during the three-year programme.

The conference agenda is designed to illustrate some of the fundamental goals of the programme – high-quality, collaborative research; policy relevance; and the integration of informed insights from academia.

Moreover, in all our work, we have relied heavily on the ACC's sage advice, which has been invaluable. Perhaps, in reviewing our progress, you might want to assess the effectiveness of the research programme on the basis of how well we have listened to you. And I ask you to do so in three areas:

First, collaborative research: our staff has worked closely with central bank researchers and academics in the region on a range of key policy-related topics, including the development of Asia-Pacific financial markets; asset prices and monetary policy; capital flows; exchange rate determinants; the dynamics of household debt; and macroeconomic modelling.

Second, research networks: we have developed two research networks to facilitate the sharing of information among central bank researchers and to foster research collaboration. One network focuses on monetary policy and exchange rates, the other on financial markets and financial stability.

Third, organising high-quality conferences, meetings and seminars: the research programme has staged about a dozen events each year. These events were often jointly organised and hosted by regional central banks and covered a wide range of topics, including the development of financial markets, monetary policy operations, communication strategies of central banks and currency internationalisation. And, of course, today's event highlights our effort to better understand the implications of the international financial crisis for this region.

## **Other initiatives**

As I mentioned before, the Asian Research Programme has been part of a broader set of initiatives to deepen the BIS involvement in Asia and the Pacific. Let me just mention two of them.

- On the banking side, we have continued to expand the range and to improve the quality of our Banking Department in the Asian time zone, including our services as the manager of ABF1 and administrator of ABF2.
- On the outreach side, we have expanded the work of the Financial Stability Institute in the region through training seminars and analytical services for financial sector supervisors.

We certainly hope you have found these efforts to be valuable.

As the new General Manager of the BIS, I am happy to have joined an institution that seems to have already built a strong foundation of trust and confidence in this region. We see Asia and the Pacific as not only a strategically important region of the world but also as an

important strategic partner of the BIS. Our efforts to offer a high level of service to the region are part of the BIS mission to foster greater central bank cooperation.

## **Looking forward**

Given the growing economic and financial significance of this region, it will not come as a surprise that we are working to foster an even closer relationship with you. The economies represented by the ACC account for nearly 25% of global GDP, 50% of the world's population and 30% of world stock market capitalisation. And despite the formal end of the three-year research programme this month, the BIS will build on the legacy of that programme by, first and foremost, maintaining a significant research presence in the region.

We will continue to build on our proven strengths. Through our Asian Research Programme, we not only made significant contributions to the understanding of Asia-Pacific economies and their policy challenges but we also learned much about services we could offer that would be of value to the region.

So as we move forward, we will be proposing to you some specific research initiatives for the region, and once again, we will be seeking the guidance of the ACC Governors. Broadly speaking, we will more sharply focus our activities on monetary and financial stability. In the light of the international financial crisis, we will naturally pursue topics related to financial stability and contagion as well as topics on the nexus between monetary policy and macroprudential policy. This research will be part of our broader Basel workplan, with the Asian Office focusing on the special challenges facing Asia and the Pacific.

We will also continue to seek out opportunities to leverage our research assets through collaboration with the central banking community and in academia. As you can see from today's conference programme and from the research compendium of the three-year programme, we have benefited greatly from such collaboration.

We will continue to support conferences and workshops covering the policy concerns of the region's central banks. And we will continue to welcome opportunities to co-organise and co-host the events with the ACC central banks.

The events of the past year caused us to focus most of our attention on economic and financial developments as they unfolded. Now we are in a position to return much of our attention to research projects on topics of longer-term interest to the central banks of the region and the rest of the world.

At this point, and with an eye towards the future, I would like to give special thanks to you, the ACC Governors, for your involvement and guidance. During my first ACC meeting, in Basel last June, I was impressed by the lively give and take. It is clear that your views play a key role in directing the work of the BIS in Asia and the Pacific. My hope is that when you look at the quantity and quality of what has been achieved in the Asian Research Programme over the past three years, it will encourage you to continue your unstinting support for our efforts with your much appreciated spirit of collaboration, trust and confidence.

## **The conference preview**

Let me now briefly turn to the business at hand and provide a few remarks to preview the conference.

I will save my specific views for the discussions later; for now, I would just like to emphasise the importance of the type of research being presented today and tomorrow. Beyond the

analytical tools it helps create, the research is valuable to policymakers because it helps clarify policy trade-offs facing central banks.

At this juncture in economic history, we are all looking to whatever may help us better understand the causes and spillovers of the international financial crisis. Maybe we will never know the whole story. But the lessons from this crisis will surely shape our ways of thinking for years to come, just as the Asian financial crisis did a decade ago.

As a policymaker at the Bank of Spain, I was often frustrated with the limitations of the models but nonetheless recognised their indispensable role in central banking. Today, the limits of the current set of models we employ are still clear and still frustrating. Just a few years ago – I don't have to think back far – many conventional models in economics and finance argued for much greater reliance on the inherent efficiency of markets, on much narrower mandates for monetary policy and on market-based regulatory regimes. Well, what a difference a crisis makes. So we have lots of work to do, especially on research on monetary stability and financial stability.

The seven BIS papers at this conference showcase some of the best research from the Asian Research Programme that is relevant to our current thinking about the crisis. They make some progress in developing new tools and laying out new conceptual frameworks for the challenges awaiting us.

In focusing on Asia and the Pacific, the research programme has recognised the special characteristics of the region. This is nowhere better illustrated than in the paper produced by our Hong Kong research team, which reviews the regional impact of the international financial crisis. It shows that the experience in Asia and the Pacific certainly shared some aspects with other regions of the world, but its experience was also unique in many ways, and, to that extent, so too are the policy challenges we face.

We have organised the programme into three sessions to highlight the primary research areas of the Asian Research Programme – (1) financial market development, (2) monetary policy and exchange rates and (3) financial stability. We have scheduled ample time for general discussion so that you can help us shape the priorities for our future research.

## **Conclusion**

In sum, I am eagerly anticipating the presentations and discussions to come over the next day and a half. We will have a chance to benefit from the BIS's enhanced capacity for policy research in Asia and the Pacific while listening to the informed views of three eminent scholars. And we will have the opportunity to learn from you, our central bank colleagues from the region: What are your concerns? And what policy options do you see for the further development of efficient financial markets in the region, for restoring economic and financial prosperity in the near term, and for promoting crisis-free growth over the longer term? I am most eager to hear your views.