

## **Asian Financial Forum 2017**

### **Policy Dialogue - Challenges for Central Banks and Financial Regulators in an Era of New Political and Economic Uncertainty**

#### **Synopsis**

2016 has turned some recent assumptions on their heads, which means that 2017 will be challenging for policy makers and markets. With Brexit, President-elect Trump's election, dollar appreciation, the return of inflation in some developed markets and increasingly divergent fiscal and monetary policies in the US, Asia and Europe, the 'low for long' assumption about interest rates is being re-assessed. Emerging economies are dealing with capital flight, currency depreciation pressures and a backlash against globalisation. Protectionism is also on the rise. This Policy Dialogue will discuss how central banks and financial regulators can respond to achieve sustainable economic growth while maintaining financial stability, and what economies in the greater Asian region can do in response.

#### **Moderator**

**Mr Ashley Alder**, Chief Executive Officer, Securities and Futures Commission; Chairman of the Board, International Organization of Securities Commissions

#### **Panel Speakers**

**Mr Klaus Regling**, Managing Director, European Stability Mechanism

**Mr Saeb Eigner**, Chairman, Dubai Financial Services Authority

**Mr Andrea Enria**, Chairperson, European Banking Authority

**Mr Mirza Adityaswara**, Senior Deputy Governor, Bank Indonesia

**Ms Ksenia Yudaeva**, First Deputy Governor of the Bank of Russia

**Dr Eun-bo Jeong**, Vice-Chairman, Financial Services Commission, Korea

Central bank policymakers and regulators expect to see on-going uncertainty in 2017 as the world's economies respond to a year that saw political risk injected into the global financial system. Senior regulators offered a cautious picture for the health of the world's economy, sharing a consensus that the reverberations from the events of an extraordinary year would continue to be felt for some time, but that oversight could mitigate risk.

The panel's moderator, Ashley Alder, Chief Executive Officer, Securities and Futures Commission in Hong Kong, opened the session by noting it has been 10 years since the global financial crisis and two decades since the Asian currency crisis. Mr Adler said there have been two driving policy factors since the global financial crisis. "The first is the whole question of ending 'too big to fail', which has been focused on fireproofing the resilience of the largest global banks. The second angle, that is just as important, is all about low interest rates and moving into accommodative monetary policy right across jurisdictions from Japan, Europe and into the United States."

Mr Adler called the low-interest-rate policy a qualified success in supporting growth. Nevertheless, the events of last year – including the Brexit vote in

Britain and the Republican Party's surprise victory in the United States' presidential election – have given rise to other policy considerations, including isolationist trade measures.

Klaus Regling, the Managing Director of the European Stability Mechanism, an intergovernmental body that makes loans to European nations in financial trouble, said the rise of populist politics questions the structure of the global economy. While he said he is worried about the future of world trade, he is also heartened by the fact that similar turmoil has been overcome before.

"If you ask people in Europe what their biggest concerns are today, they will say terrorism and immigration. At the same time, Europeans are less concerned today about the economy. Not so long ago this used to be their top concern," he said.

The Eurozone is healthy and many economies have grown beyond their potential, with a per capita growth higher than in the United States or Britain for any extended period of time since 1960. Mr Regling presented European cooperation as an example of consistency and continuation that is inclusive and fair, and an answer to questions of economic inequity.

Saeb Eigner, the Chairman of the Dubai Financial Services Authority, told the AFF that a tectonic political shift meant the forces of globalisation are on the back foot but the financial services sector is marching ahead, a dynamic that highlights the importance of the regulators' role as new financial technologies are introduced.

Cybersecurity, for example, is now an area of crucial concern for regulators, some of whom lack the necessary human resources to stay ahead of these advances in technology. One strategy for regulators to ensure the integrity of the financial services sector is to concentrate on instilling a positive culture and pay close attention to bankers' remuneration. Finding a balance between innovation, safety and consumer satisfaction is now a key concern for banks in the Middle East and elsewhere.

The Chairperson of the European Banking Authority, Andrea Enria, said the work of European regulators in the past few years has provided three focuses to improve regulation. There has been the creation of homogenous rules for the European Union; the institutions that oversee the market have been rejuvenated and the balance sheets of financial houses have also been reinforced. "Thanks to the strengthening of the setup, we have seen some pick-up in the financial integration of Europe," he said.

The legacy of the crisis is still evident around the globe, which Mr Enria suggested is an opportunity for positive policy action, including global regulatory standards: "I really think we should be focused more and more on the relevance of global standards for restoring the function of banking in the world."

While banks in Asia are on the whole more profitable and more stable than their international counterparts, financial sector reforms are on going, especially in markets such as Indonesia.

The Senior Deputy Governor, Bank Indonesia, Mr Mirza Adityaswara, said the banks are reforming, with the central bank asserting its independence and strengthening its administration of monetary policy. Mr Adityaswara said the key to the central bank's enhanced oversight since 2000 has been improved data, greater banking integration and better communications between all market players.

He was bullish on the archipelago's economic health this year: "What we see in 2017 is recovery in domestic economy, recovery in the loans flow and growth of about 5 to 5.4 per cent for Indonesia."

Ksenia Yudaeva, the First Deputy Governor of the Bank of Russia, spoke on the challenges faced by the Russian economy. The country's regulators, she argued, have protected domestic stability through the retention of capital reserves to guard against fluctuations in the oil price. Only then can structural reform be implemented to ensure growth.

With stable oil prices forecast this year, Ms Yudaeva said Russia will see economic growth and slower inflation, which is on target to decrease to an annual rate of 4 per cent by the end of 2017.

The final regulator to speak was Eun-bo Jeong, the Vice-Chairman, Financial Services Commission, Korea. He told the session that, through prudent reform and the restructuring of debt, South Korea has bounced back from the 2008 financial crisis to relatively sound financial economic health. "We have been making active efforts to restructure government debt," Dr Jeong said. "Today, Korea's government debt-to-GDP ratio is around 40 per cent, which is lower than most major countries." Debt in the manufacturing sector, and household debt at 91 per cent, have also been tackled through fixed-rate loans.

While each of these case studies offers a sound example of proactive intervention by regulators and policymakers, Mr Alder suggested there was more that could be done to ensure the on-going stability of markets, including global regulation and international standard-setting. "I frankly worry that 10 years out from the [global] financial crisis that the direction of travel is away from a consensus around global standards, not the least because the sense of urgency has diminished," he said.

**ENDS**