Speech

Speech by SFST at the Policy Dialogue of the Asian Financial Forum (English only)

Monday, January 17, 2011

Following is the speech on "Challenges to Asia in a Global Environment of Low Interest Rates and Excess Liquidity" by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Policy Dialogue of the Asian Financial Forum today (January 17).

Thank you Norman.

It is good to follow the Central Banker from Singapore because his remarks precede some of my remarks. Now, the session concerns the low interest rates and excessive liquidity. That is a result of a perception of a bi-polar world we are living in. In this bi-polar world, one part of the world is really hot, as in Asia and some emerging markets, and the other part is very cold, like in the US and European markets. Each of them has its own problems. Concerns of Euro debts and the de-leveraging in the US lead to skepticism about the speed of recovery in those markets. It is because of this perception, and this perception backed up by real economic data, that we are seeing speculative capital coming into our regions and markets. Of course the capital movement, depending on the purpose, as Mr Purisima from the Philippines mentioned, can be good or bad. But at this moment, our judgement is that the speculative capital coming to Asian markets could cause the asset price bubbles that we want to prevent. Also, in the course of the money flows coming into our market, it could cause disruption and excessive trading in the market. When the liquidity pulls out, it will pose risk management problems for financial systems.

Asian countries have a long history of dealing with such issues. Dating back to the Asian financial crisis in 1997, we actually have been inventing some tools in trying to deal with these kinds of concerns. In fact we have been doing this before even the term "macro-prudential supervision" is coined. You may recall that after the global financial crisis, regulators came to a room to decide that we needed to do more about our macro-prudential regulation, so that we could prevent asset bubbles from taking place, or we could prevent excessive risk taking which would bring instability to the system.

While regulators are still debating what is a macro-prudential policy, and how to define its goals and objectives and what the tools are, Asian countries, unfortunately, have to work very hard on inventing those tools because we are now facing this excessive liquidity which is bringing instabilities to our region.

Now, we have some experience since the Asian crisis. That is why the Asian banking system stood the financial tsunami better than some other countries. We have always been managing our banking system under high prudential standards. But I think this current speculative capital that we are seeing in Asia will pose an even greater challenge to all the Asian countries. So we are now seeing experimentation by various governments and economies in the region trying to deal with the problem. We are compelled to find the answers, compelled to solve the problems.

There is not going to be a one size fits all solution as the central banker from Singapore, Mr Ong, has reminded us. Recent macro prudential regulations adopted across the region differ. South Korea put a cap on foreign exchange trading to limit exchange rate volatility. India reinstated interest rate cap on external commercial borrowing. Indonesia introduced a cap on the banks' overseas borrowing. Taiwan restricted foreign investment in government debt, and so on.

In Hong Kong, we have brought out some standard tools. Mr Norman Chan of the Hong Kong Monetary Authority has been introducing a number of measures to lower the loan to value ratio in property lending. Banks are being asked to observe more strictly the interest to income ratio for the borrowers. And we have introduced something unconventional for our market, which is the special stamp duty on short term transactions of residential properties. It was introduced last November to stamp out short term speculation from our property market. That's one part.

The other issue we have to be concerned about is the implications to financial stability if the capitals move out. That will include risk management for the trading and settlement system in our market. In Hong Kong, we are working on improvement of our risk management system.

On the short-selling regime, you might know that Hong Kong has a very tight short-selling regime. Even on the short-selling regime, we are looking into how to improve it so that we will have a better reporting of short selling positions of the market participants. We are looking into measures so that we could get a better reporting and better handling of risk taking in our market.

Each of our economy faces different kind of problems. We have different tools that we will need to use for different purposes. The idea of macro-prudential regulation is very much in the infancy. This means there is room for the governments and regulators across the region to co-ordinate better and to share our information and ideas on this subject because we need to invent more tools as we go along.

I do not want to leave this remark without talking about the opportunities that we should be taking advantage of.

There is no question about the strong economic growth in our region and in the long-term the assets under management in our region will see strong and continuous growth. The question then we should think about in longer term is how do we could do better in terms of managing and putting in better regulation of this higher level of assets under management in our region, so that we could create a stronger financial market.

What I mean is we should do more in terms of regional co-operation in the regulation of financial market and asset management. We can actually give investors better protection and at the same time promoting growth for the financial market here. So I see both opportunities and challenges and there is no-one solution that is common to all. We have to work together closely and with that, we will do better.

Thank you.

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