



## Central banks in developing Asia are prepared for uncertain times

---

Lessons learned during the Asian financial crisis leave central banks in developing Asia well-prepared for potentially volatile times as the world emerges from a period of ultra-low interest rates. That's the view of central bank expert Hans Genberg, an advisor at the South East Asian Central Banks Research and Training Centre.

Genberg, who has worked at the International Monetary Fund and the Bank for International Settlements, said central banks in countries such as Indonesia, Malaysia, and the Philippines have become accustomed to using regulatory powers to influence the financial systems they supervise. The use of those measures, known in banking circles as macroprudential policies, plus relatively tight controls over capital flows across borders, leave central banks in developing Asia ready for uncertain times.

Uncertainty going forward could create difficulties for emerging Asia, particularly the smaller economies. I am going to argue, however, that perhaps the central banks and the economies are relatively well prepared. It has been 18 years since the Asian financial crisis, and Asian economies have not been particularly affected by the financial aspects of the North Atlantic financial crisis. Since the early 2000s, Asia has adopted macroprudential policies to a larger extent than other regions of the world. Asian economies have also resorted to capital account management policies. Central banks, in general, feel more comfortable using these policies and no longer feel like they need to be on the defensive for using these unorthodox policies, especially now that the IMF has endorsed some of these ideas.

The use of these tools alongside more traditional monetary policies has forced central banks to work closely with other regulators and governments to ensure that they do not conflict with each other, Genberg notes. So far, they have managed to do so.

That is good, as long as it does not infringe on the independence of the central bank in setting pure monetary policy. There might be a potential issue of weakening central bank independence as a result of the proliferation of macroprudential type tools.

As well as the issue of central bank independence, Genberg says the use of nontraditional policies also means greater regulatory supervision is needed within countries and, increasingly, across borders.

Central banks are less defensive now about the use of unorthodox policies, including interventions in the foreign exchange markets, macroprudential policies, and capital flow management. When these are used more frequently, a coordination mechanism between them will be needed. There is more cross-border banking by design in the region, and there are conglomerate banking firms that operate in several jurisdictions. It is important supervision of these banking conglomerates is coordinated across regions.

Genberg says that coordination is needed so that banks can't shop around to find the least-regulated place to do their business.

**That was Hans Genberg, advisor to the South East Asian Central Banks Research and Training Centre, Kuala Lumpur, Malaysia, speaking at the 2016 annual meeting of the Asian Development Bank Institute.**

#### **Listen to podcast**

- <https://soundcloud.com/adbinstitute/central-banks-in-developing-asia-are-prepared-for-uncertain-times/>

#### **Watch the presentation**

- <https://bit.ly/2UvwWM1>

#### **Know more about ADBI's work**

- <https://bit.ly/2SGaOmQ>
- <https://bit.ly/2EhoErR>