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Opening Remarks

by

H.E. Chea Chanto, Governor of the National Bank of Cambodia

7th SEACEN BOJ Workshop on

Capital Account Liberalization and Capital Flows Management

Siem Reap, 26 August 2013

- **Mr. Hoo-Kyu Rhu, Executive Director, the SEACEN Center,**
- **Mr. Soichiro Mitsuno, Deputy Director, Balance of Payment Division, International Department, Bank of Japan,**
- **Dr. Diwa Guinigundo, Deputy Governor, Bangko Sentral ng Pilipinas,**
- **Distinguished Speakers,**
- **Excellencies, Ladies and Gentlemen,**

Good morning!

Today I have the great honor and pleasure to host the SEACEN BOJ Workshop on Capital Account Liberalization and Capital Flows Management in Siem Reap Province, in collaboration with the SEACEN Center and the Center for Monetary Cooperation in Asia of the Bank of Japan.

As a foreword, on behalf of the National Bank of Cambodia, I would like to warmly welcome all honorable speakers, delegates and participants from Central Banks and Monetary Authorities of the SEACEN family to the Kingdom of Cambodia, and especially to our Ancient Capital City of

Angkor. I am pleased to express my sincere thanks to Mr. Rhu and the SEACEN Center as well as to Mr. Mitsuno and the Center for Monetary Cooperation in Asia of the Bank of Japan and also to Distinguished Speakers for making this workshop possible.

In the current context, this workshop is of paramount importance. It will provide an excellent opportunity for representatives from the SEACEN Member Countries to enhance their analytical knowledge by learning from our resource speakers on the topics of capital flows and their implication on macroeconomic and financial stability. The workshop will be a foundation for participants to better understand and formulate policies to achieve the dual objectives of Central Banks and Monetary Authorities, namely: low and stable inflation and financial stability.

Excellencies, Distinguished Guests, Ladies and Gentlemen,

In the meantime, taking this opportunity, let me say a few words on some latest key-developments related to capital flows, their underlying issues and policy measures for emerging and developing countries.

As you know, the capital flows to emerging and developing countries, particularly in Asia, have revived strongly after a temporary stop and decline during the global financial crisis. This situation results from continued loose policy stance and fragile economic conditions in the most advanced economies, combined with robust economic prospects and high risk-adjusted returns in emerging and developing economies.

On a positive side, this surging capital inflow has provided a beneficial source of funds for the emerging and developing countries, aimed at financing the households' consumption and the productive investments

needs, which seem to be never sufficient for economic development. This is not yet to mention about the benefit we can get in terms of risk sharing and diversification of funding source.

However, along with the benefits, we need to be aware of the great challenges and high potential risks coming from sudden capital flow reversals, which historically can cause intense economic and financial crises.

So, briefly, what are these challenges and risks?

Experiences show that large inflow of capital undermines macroeconomic stability, including build-up of inflationary pressure and exchange rate overshooting, which also raise the issue of export competitiveness. This upward pressure on exchange rates then forms undesirable vicious cycles and attracts more inflows.

Meanwhile, rapid capital inflow is also linked to financial instability through the channel of credit growth and a potential cycle of asset price boom-busts. This phenomenon is what we have observed and experienced in some of our economies in the past decades, particularly during the Asian Financial Crisis in 1997-1998. This is what we need to remain extremely vigilant!

To address these challenges, a range of policies are available, and of course those policy responses vary across countries. Nevertheless, we learnt about the common approach to address these issues. Let me share with you a little bit about this common approach.

The first and foremost priority I would like to highlight is to preserve domestic monetary stability; that is: stable price level, stable exchange rate movement, and strengthened economic fundamentals. This domestic monetary stability is the precondition for both sustainable long-run growth and credibility of the Central Banks, and it can be achieved through sound and prudent macroeconomic policies related to exchange rate, monetary and fiscal policy mix.

Another increasingly popular approach is to rely on the so-called macro-prudential measures, which intend to address the risk build-ups in the banking sector or in specific markets, especially real estate. However, perception should be clear that macro-prudential measures should only be complementary and not substitutive for sound macroeconomic policies. In this sense, they serve as the second line of defense.

In addition to these actions, other financial policies and continuing structural reforms are needed; for example, deepening financial markets, enhancing regulatory and supervisory framework, and improving regional financial cooperation and safety net.

Excellencies, Distinguished Guests, Ladies and Gentlemen,

You perfectly understand that, facing these challenges, the responsibility we bear now is ever larger and the tasks we need to do are harder. This is why you are here attending this important workshop and I believe that all the key-issues, particularly policy implication, will be addressed and deliberated by Dr. Diva, Mr. Milan Zavadjil, Dr. Faisal Ahmed, and other experienced speakers.

They will help to guide you through the conceptual design of which policy priorities will be the most appropriate for your respective Central Bank. To this respect, I strongly believe that this one-week workshop will represent a substantial step for our respective Central Bankers and that it will produce fruitful and interesting discussions. I have no doubt that, by the end of the sessions, all of you will have obtained a better understanding of this topic.

For these reasons, I would like to take this opportunity to renew our deep appreciation for your effective support and your kind cooperation in participating in this workshop.

Last but not least, I am convinced that all of you really enjoyed the yesterday pre-course tour, and took great pleasure in visiting Angkor Museum and temple complex including Angkor Wat Temple, which is ranked among the World's ancient Wonders and registered as a UNESCO's World Heritage Site.

I know you have a tight schedule in Siem Reap, but I hope you will find time to discover other interesting places, do some shopping and get to know more about our people, our history and our culture.

Finally, I wish you all good luck for the coming days, and I sincerely hope that you will have a very pleasant stay in our Ancient Capital City of Angkor. Now, let me wish you a friendly, active, productive, and successful discussion!

Thank you very much for your kind attention.