

**Opening Remarks  
by  
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**ADB-BIS-HKIMR Joint workshop on “Monetary Policy Spillovers”  
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**I. Introduction**

1. Distinguished speakers and panelists, guests, ladies and gentlemen. Good morning and a very warm welcome.
2. On behalf of the Asian Development Bank, I would like to thank Mr. Edmond Lau, Deputy Chief Executive of the Hong Kong Monetary Authority for his welcoming remarks. I would also like to extend a warm welcome to Mr. Tao Zhang, Chief Representative for Asia and the Pacific of the Bank for International Settlements, who will chair the policy panel later today, and the distinguished panelists from the region’s Central Banks.
3. I am pleased to see that this ADB-BIS-HKIMR workshop has attracted so many participants from academia, governments, financial authorities, and international financial organizations. The topic of today’s workshop, *Monetary Policy Spillovers*, is very timely given current circumstances when many are concerned that ongoing shifts in monetary policy in some major economies will unavoidably create spillover effects on other economies in a globalized and financially integrated world.

**II. US interest rate hikes and EME financial vulnerabilities**

4. Global inflation has climbed higher driven by high energy and food prices. Central banks in the United States, Europe, and some parts of Asia have already begun lifting interest rates to fight inflation. The economic outlook is deteriorating both in advanced and emerging market economies due to heightened uncertainty and setbacks to growth and confidence. It is therefore critical to reflect on monetary policy spillovers with special attention to financial vulnerabilities and the policy implications for emerging market economies.

5. Asia faces considerable challenges as the global economy exits from a period of very accommodative monetary policies. One major concern is that Asian economies tend to import US tightening regardless of their cyclical positions. Despite the strong export recovery from the pandemic, domestic demand has yet to find firmer ground, as recurrent pandemic waves have delayed the full reopening in a number of economies. Then there are the high energy and food prices that reduce consumption spending while pandemic-related fiscal spending has reduced fiscal space to support continued post-pandemic recovery. With risks to inflation tilted to the upside, ongoing interest rate hikes by the US Fed have led many Asian central banks to raise interest rates as well.
6. Past experience and empirical evidence show the region's financial markets are increasingly integrated with global markets, and thus vulnerable to monetary or financial shocks from elsewhere. This is especially true for shocks to important economies such as the US, Europe, Japan, and the People's Republic of China. A good example is how Asian shares and currencies plummeted in the wake of the pandemic in March 2020 and again when the European Union introduced the ban on SWIFT transactions by key Russian banks. Financial risks are high due to rising inflation, capital flow and exchange rate volatilities, and with spillovers from the US Fed's interest rate hikes.

### **III. Systemic Risk, Financial Stability, and Policy Implications**

7. Financial crises and spillovers require greater vigilance and planning by policymakers against potentially destabilizing shocks. Distress in one or more financial products, institutions, or markets can be rapidly transmitted to domestic, regional, and global financial systems. In such highly interconnected financial systems, financial resilience cannot be achieved solely by individual countries or even one region.
8. In light of this reality, we need to develop new models and tools to correctly assess how financial markets and institutions are interconnected, identify the risks of contagion and spillovers, and consider ways to mitigate systemic risks. For policymakers, it is certainly beneficial to understand the mechanisms of how monetary and financial spillovers occur through such financial interconnectedness. The papers that will be presented today will help us learn how to enhance financial resilience by addressing these risks holistically.

9. Increased financial linkages and associated risks highlight the important role that regional institutions and regional cooperation can play. This requires that we monitor macroeconomic and financial conditions and offer assistance in times of need. A sudden shift in capital flows, for example, could add financial and economic stress if not properly managed, particularly for small economies with less developed financial systems.
10. To manage these risks, we first need to safeguard financial stability by reducing macroeconomic and financial vulnerabilities and building resilience as emphasized by Mr. Lau. We must address potential risks of monetary and financial spillovers by monitoring and managing cross-border capital flows and exchange rate volatilities, among others.
11. Second, closer regional financial cooperation is essential. Past financial crises are vivid reminders of the need for regional economies to strengthen crisis preparedness and response. ADB is committed to support regional initiatives that strengthen the regional financial safety net arrangement, including the Chiang Mai Initiative Multilateralization for liquidity support and the ASEAN+3 Macroeconomic Research Office (AMRO) for regional macro-financial surveillance. We also have provided an additional layer of support to regional economies suffering financial distress through our policy-based lending, emergency assistance loans, and other instruments tailored for crisis response, such as ADB's Countercyclical Support Facility.
12. I hope this workshop will provide a foundation for continued policy dialogue. The goal of our discussions is to increase understanding of the mechanisms and channels through which monetary and financial spillovers occur. We also need to better understand how systemic risks can be linked and transmitted through financial interconnectedness with greater academic rigor and policy insights. I hope that today's discussion will help us identify the region's emerging macro-financial vulnerabilities and address the challenges that we currently face.
13. In this way, I hope that our deliberations can contribute to strengthening financial resilience and safeguarding economic stability in Asia.
14. Once again, welcome to all participants. I look forward to fruitful discussions and to a successful workshop.

Thank you.

(898 words)