Monetary Policy Challenges in a Changing Global Environment
Monetary Policy Challenges in a Changing Global Environment: the Case of Asia

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Massive capital inflows into Asia since the GFC

**EM Asia\(^1\): Cumulative Capital Inflows\(^2\)**

1. Aggregate of CN, HK, ID, PH, SG, KR and TH.  2. Gross capital inflows based on the BOP statistics

Source: CEIC and HKMA staff calculations.
Repetition of another 1990s’ BOP crisis is unlikely, but the region is facing some other challenges

The region’s external positions have improved generally since the Asian financial crisis...

...but domestic vulnerabilities have become more significant in certain aspects

**EM Asia: External vulnerabilities**

<table>
<thead>
<tr>
<th>Metric</th>
<th>1990s</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account (%)GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fx. Reserves (No. of month of imports)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External debt (%)GDP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EM Asia: Domestic vulnerabilities**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Pre-GFC</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit to non-fin. corporations (%)GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit to households (%)GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing price (2006=100)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Sources: BIS and CEIC.
Some mitigating factors may reduce the sensitivity of Asia’s capital flows to monetary policy normalisation in the US?

Portfolio flows to Asia-Pacific have become less sensitive to US rate hikes after the taper tantrum.

Does the increased share of institutional investors make fund flows more sticky?

**Asia Pacific**: Portfolio flows around Taper Tantrum and recent rate hikes in the US

**Asia Pacific**: Share of institutional investors in bond portfolio fund inflows

1. Asia Pacific economies are AU, CN, HK, ID, KR, MY, NZ, PH, SG, TH.

Source: EPFR.
Sustainability of the recent export-driven recovery is uncertain

Recent rebound in exports is largely driven by the improvement in cyclical factors

**EM Asia: Decomposition of export growth**

- **Cyclical component**
- **Structural component**
- **Predicted growth**
- **Actual growth**

Long-run income elasticity of the world import demand for the region’s exports has declined after the GFC

**Estimated long-run income elasticity of world import from selected EM Asian economies**

1. Export-value-weighted averages of eight Asian economies (CN, HK, ID, KR, MY, PH, SG and TH).

Source: HKMA staff estimates.
... and persistently low inflation complicates monetary policy making

Output broadly remains around its potential level...

But inflation has been persistently low

**Output gap: average of emerging Asian economies**

<table>
<thead>
<tr>
<th>Year</th>
<th>CN</th>
<th>HK</th>
<th>ID</th>
<th>MY</th>
<th>PH</th>
<th>SG</th>
<th>KR</th>
<th>TH</th>
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</thead>
<tbody>
<tr>
<td>2005</td>
<td>-5</td>
<td>-4</td>
<td>-3</td>
<td>-2</td>
<td>-1</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>2007</td>
<td>-4</td>
<td>-4</td>
<td>-3</td>
<td>-2</td>
<td>-1</td>
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<tr>
<td>2009</td>
<td>-3</td>
<td>-3</td>
<td>-2</td>
<td>-1</td>
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<tr>
<td>2011</td>
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<td>-2</td>
<td>-1</td>
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<tr>
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<td>0</td>
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</tr>
</tbody>
</table>

Source: HKMA staff estimates

**Headline CPI inflation in emerging Asian economies**

1. EM Asian economies include CN, HK, ID, MY, PH, SG, KR and TH.

Source: CEIC.