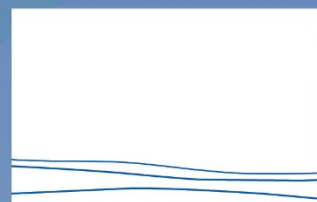


NOVEMBER 16-17, 2017



asia
ECONOMIC
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CONFERENCE

FEDERAL RESERVE BANK OF SAN FRANCISCO

Monetary Policy Challenges in a Changing Global Environment

A stylized globe graphic in the bottom right corner, showing the Americas and Australia, with a grid of latitude and longitude lines.



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

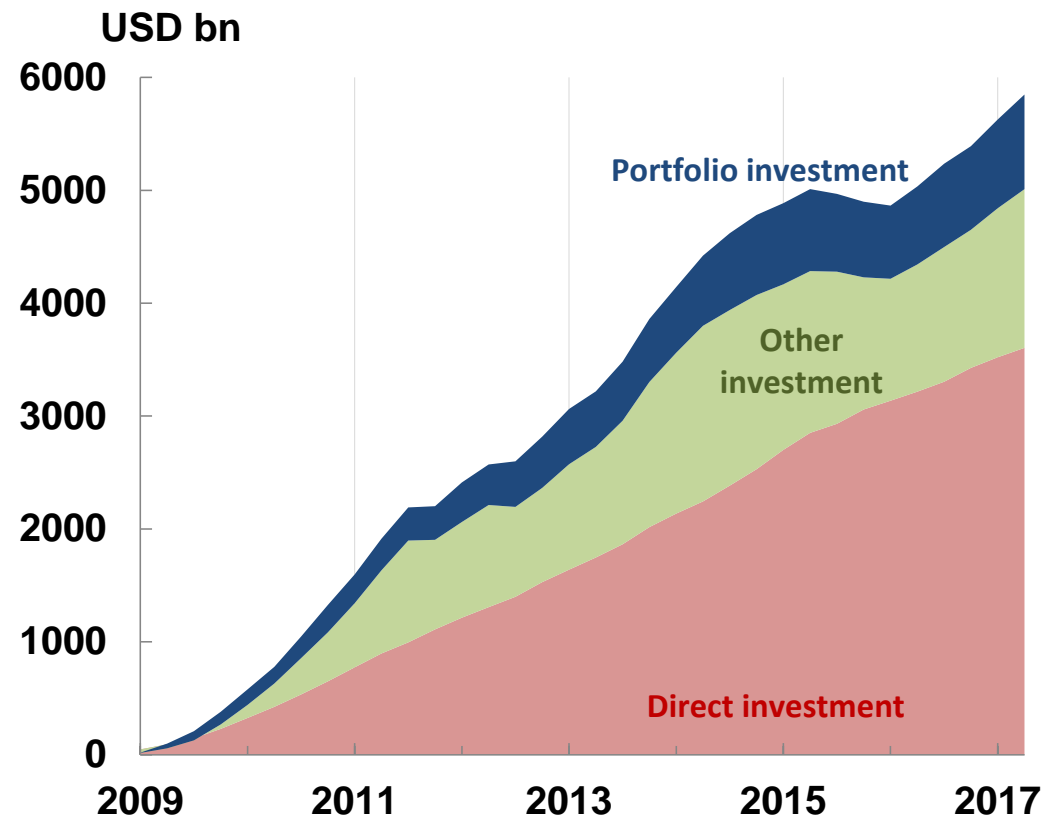
Lillian Cheung
Executive Director
Research Department
Hong Kong Monetary Authority

2017 Asia Economic Policy Conference
Federal Reserve Bank of San Francisco, 16-17 November 2017

Massive capital inflows into Asia since the GFC



EM Asia¹: Cumulative Capital Inflows²



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

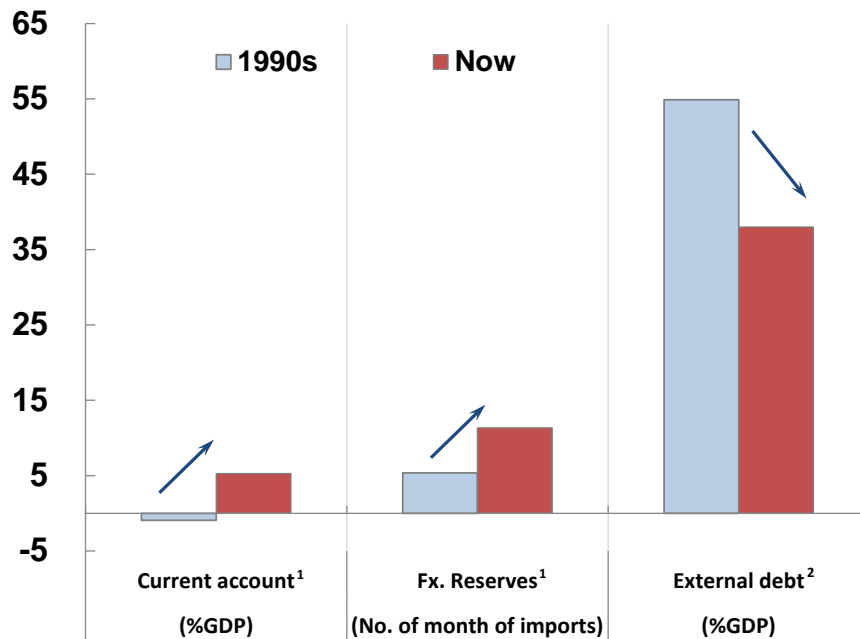
Repetition of another 1990s' BOP crisis is unlikely, but the region is facing some other challenges



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

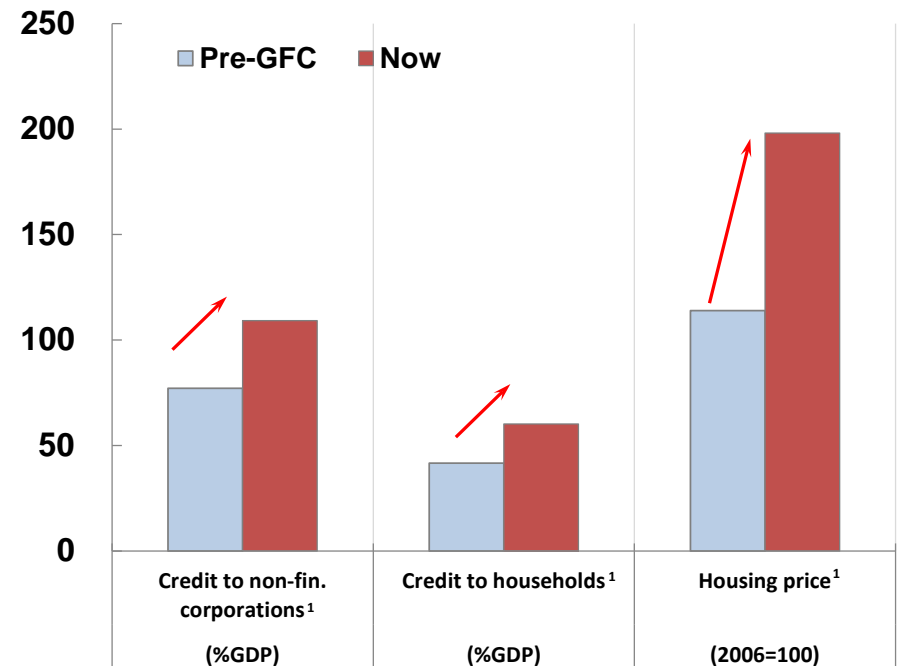
...but domestic vulnerabilities have become more significant in certain aspects

EM Asia: External vulnerabilities



1. Simple average of CN, HK, ID, KR, MY, PH, SG and TH; blue bar shows value in 1996. 2. Simple average of CN, ID, KR, MY, PH and TH; blue bar shows value in 1999.

EM Asia: Domestic vulnerabilities



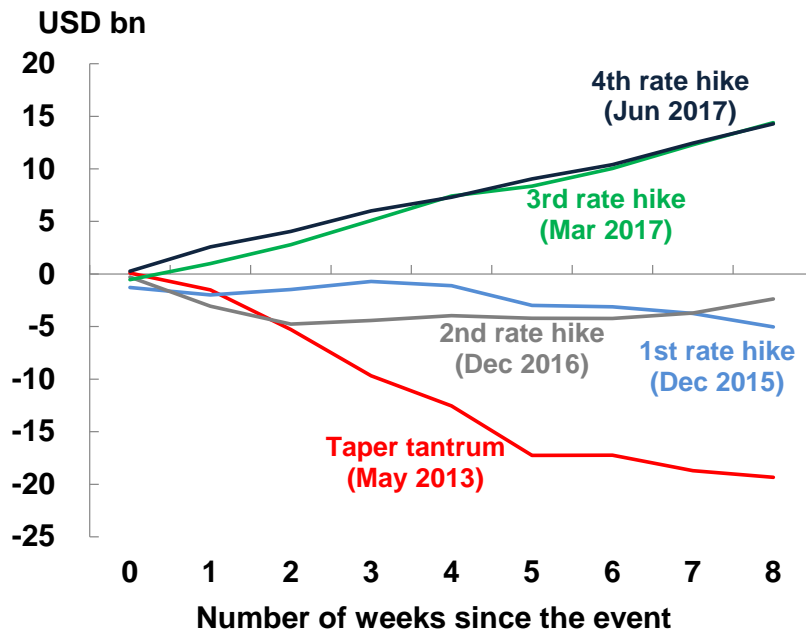
1. Simple average of CN, HK, ID, KR, MY, SG and TH; the blue bar shows value in 2008.

Some mitigating factors may reduce the sensitivity of Asia's capital flows to monetary policy normalisation in the US?



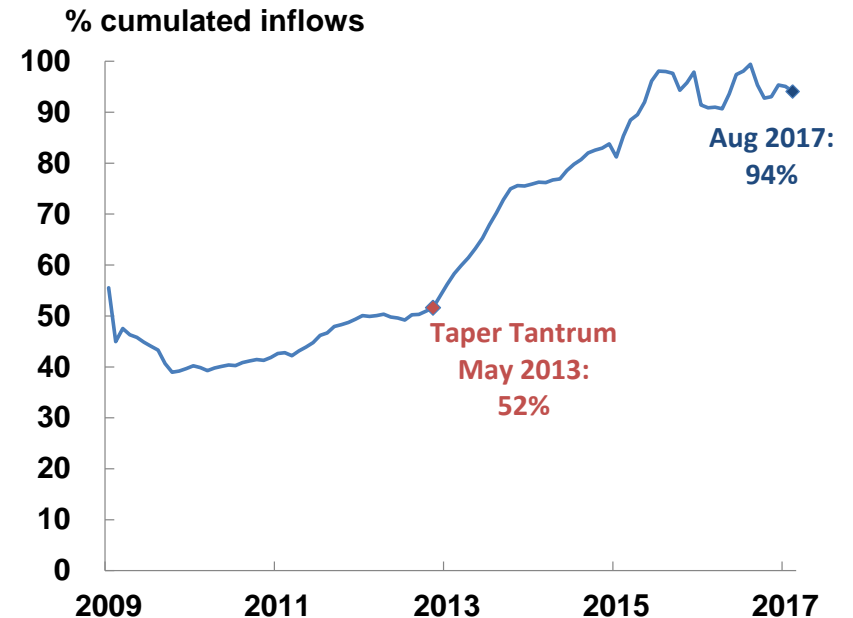
Portfolio flows to Asia-Pacific have become less sensitive to US rate hikes after the taper tantrum

Asia Pacific¹: Portfolio flows around Taper Tantrum and recent rate hikes in the US



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

Asia Pacific¹: Share of institutional investors in bond portfolio fund inflows



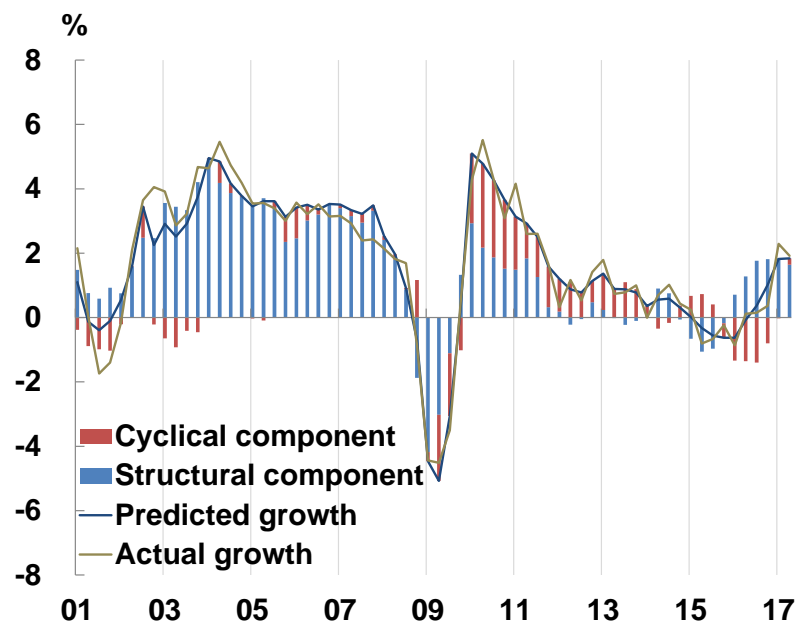
1. Asia Pacific economies are AU, CN, HK, ID, KR, MY, NZ, PH, SG, TH.

Sustainability of the recent export-driven recovery is uncertain



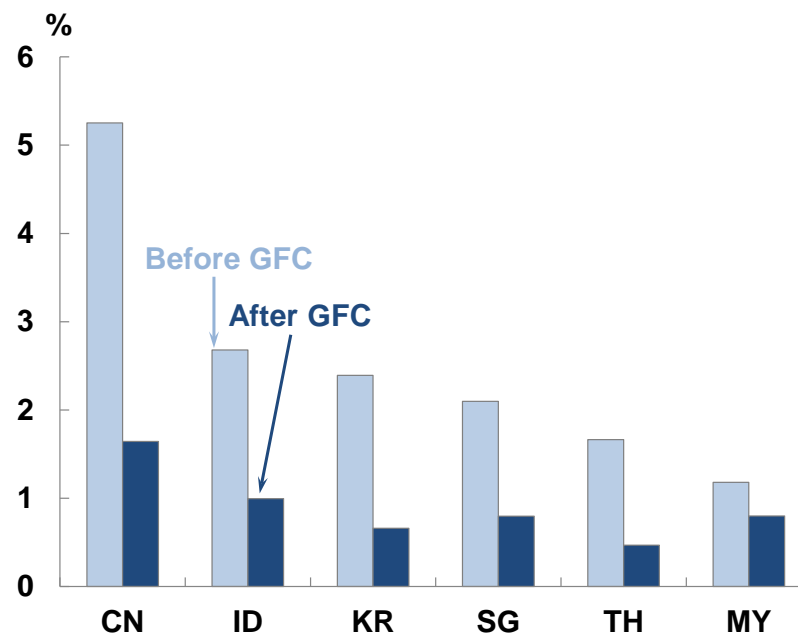
Recent rebound in exports is largely driven by the improvement in cyclical factors

EM Asia: Decomposition of export growth¹



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



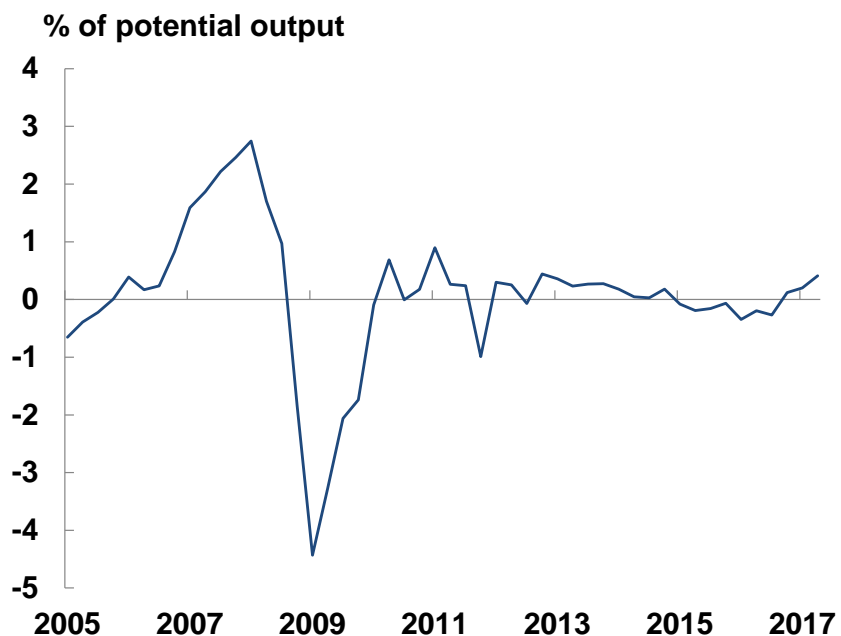
1. Export-value-weighted averages of eight Asian economies (CN, HK, ID, KR, MY, PH, SG and TH).

... and persistently low inflation complicates monetary policy making



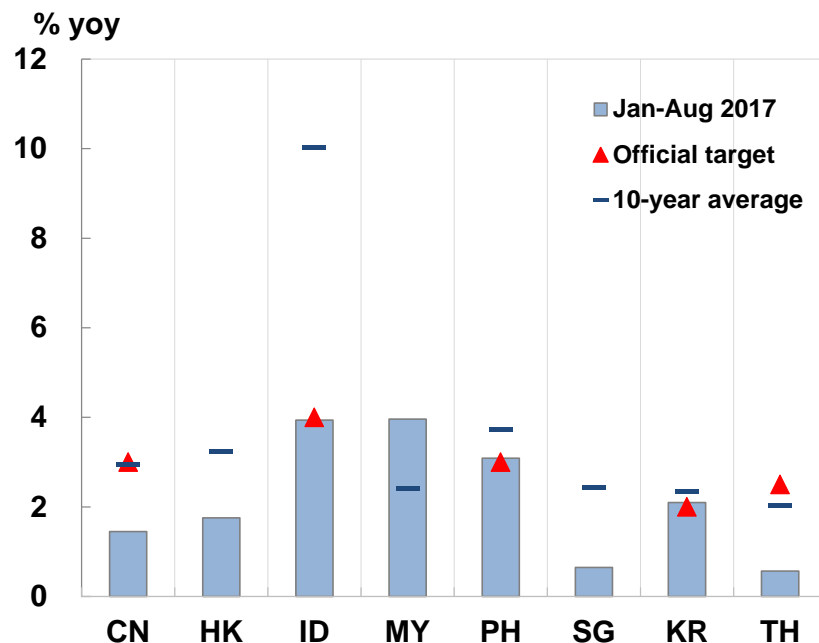
Output broadly remains around its potential level...

Output gap: average of emerging Asian economies¹



...but inflation has been persistently low

Headline CPI inflation in emerging Asian economies



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