SPEECHES

Opening Address

**OPENING ADDRESS BY MR LIM HNG KIANG,
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36TH SEACEN GOVERNORS CONFERENCE WELCOME DINNER
31 MAY 2001, 7.30 PM, TANGLIN ROOM, SHANGRI-LA HOTEL**

Honourable Governors
Distinguished Guests and Delegates
Ladies and Gentlemen

Introduction

It gives me great pleasure to bid you a warm welcome to the Annual Conference of the Governors of the South-east Asian Central Banks. This is the 36th Conference and reflects the close ties and strong co-operation that central banks and monetary authorities in the region have forged over the last 30 years.

SEACEN Economy/Recent Financial Developments

This year's Conference is held amid concerns of a global economic slowdown. After expanding by an average rate of 7.3% in the year 2000, prospects for regional economies are set to slow this year.

Average real GDP growth for the East Asian economies [1] is projected to fall to around 4.5% for 2001. The slowdown will be due largely to the cyclical downturn in the US economy, as well as the global electronics industry, both of which will hurt regional exports.

Due to its very open nature, East Asian economies are susceptible to the current global downturn in external demand. The US is the largest export market for most of the SEACEN economies, with export shares averaging 20%. In terms of goods structure, electronics accounts for over 20% of total exports in all East Asian economies. Exacerbating the downturn is the continued economic weakness in Japan, the second largest market in the region. Reflecting the weak external environment, export growth in many SEACEN economies has fallen sharply. This has also undermined domestic demand.

Challenges for Asia

Concerns over the slowing growth in the US and the much weaker Japanese economy have hit regional currencies. Since end-2000, regional currencies have seen higher volatility. While the greater flexibility of exchange rates has reduced the risk of large speculative attacks, such fluctuations are not without risk. The challenge facing policymakers is how to ensure the greater exchange rate flexibility does not lead to greater financial system fragility.

Aside from macro-prudential risk, financial regulators also faced challenges arising from the rapid changes in the global financial landscape. In particular, advancement in technology, investors' demand for shareholder value and customers' demand for integrated financial supervision have accelerated consolidation and globalisation of financial institutions and markets. The boundaries of the banking, insurance and securities industries are less clearly defined. This calls for a more harmonised and integrated approach to supervision of the financial system. Besides co-ordinating among the different regulatory bodies to address unsupervised risks, overlaps and gaps in their regulatory framework, there may be a need to re-look the way national regulatory and supervisory authorities are organised, to create greater synergies and enhance efficiency.

At the international level, efforts are underway to strengthen the architecture of the international financial system. In particular, efforts have been taken to increase transparency, and develop and implement standards and codes to promote greater stability and enhance the robustness of financial systems to shocks. Efforts undertaken by international financial institutions include the IMF's Reports on Standards and Codes (ROSCs), and the IMF/World Bank's Financial Sector Assessment Program (FSAP). Many developing countries, however, have expressed concerns over the tendency of these organisations to adopt a one-size-fits-all approach without taking into account the different circumstances and varying implementation capacity of the countries involved.

In the banking industry, the Basle Capital Accord of 1988 was a landmark agreement which helped to increase the capital held by internationally active banks, and to create a more level playing field for banks under different jurisdictions. However, the rapid changes in banking and finance have led regulators to propose a New Basle Capital Accord which will establish a more risk sensitive and comprehensive capital framework, to benefit banks as well as improve safety and soundness of the financial system. The new Accord, however, poses challenges to Asian banks and regulators alike. The banks would have to develop more sophisticated risk management capability while the regulators would need to build up technical knowledge as well as supervisory resources to validate banks' risk management systems and determine if banks are sufficiently well capitalised on an on going basis.

MAS initiatives to face the challenges

I am sure Governors will discuss at length the various challenges that I have highlighted earlier. Perhaps I could share with Governors efforts taken by Singapore to address some of these challenges.

The Monetary Authority of Singapore undertook a fundamental review of our supervisory and regulatory policies. In the area of banking, our reforms have focussed on liberalising the banking sector, strengthening corporate governance and raising disclosure standards of local banks, and shifting away from one-size-fits-all regulation to risk-based supervision. MAS announced a five-year programme to liberalise access by foreign banks to the domestic banking sector in May 1999. We are currently reviewing the measures to position ourselves for the next phase of liberalisation.

In the area of corporate governance, MAS has set guidelines on the composition, roles and responsibilities of banks' Board of Directors and Nominating Committees. We are finalising the guidelines for the Compensation and Audit Committees. Local banks are also required to divest all of their non-financial business interests to limit contagion risks to the local banks arising from their non-financial businesses, enhance market discipline and improve transparency, and focus management attention on core banking business. Disclosure standards of our banks have also been significantly raised. Local banks have taken steps to disclose directors' remuneration, related party transactions and risk management practices. They will be disclosing further details next year on all these areas.

Our success in these endeavours will require effort by all market participants. A private-sector-led panel will be set up later this year to advise the Ministry of Finance and the Monetary Authority of Singapore on matters relating to corporate governance, disclosure requirements and accounting standards. Through feedback from market players and continual reviews, we will continue to refine our regulations to promote competition and innovation whilst maintaining high prudential standards and the stability of the financial system.

The Future of SEACEN

The Asian financial crisis clearly demonstrated that the world has become more inter-linked. Liberalisation of markets in the region resulted in the fortune of each economy being more intertwined to one another than ever before. There is much scope for co-operation, and room for economies to learn from the experiences of one another. Over the past couple of years, there has also been a proliferation of regional and international foras, bringing together regulators and government officials to deliberate the intricacies of financial stability.

In this regard, the challenge for SEACEN is to remain attuned to the needs of its various members, and to maintain its relevance by reaching out to its members. The SEACEN Centre has played an important role in facilitating the exchange of information and expertise on financial supervision and the conduct of monetary policy among the staff of SEACEN central banks. There is room for greater co-operation among regulators, as well as with other regional groupings and international financial institutions. SEACEN should explore ways to leverage off the expertise of these various groupings, and to create greater synergies through partnership and co-operation.

I understand that the SEACEN Board of Governors will deliberate at length a strategic review of the SEACEN Centre during the Conference. This is an opportunity for Governors to re-examine the relevance of SEACEN activities, and explore ways in which SEACEN can better serve its members. SEACEN has to reposition itself to meet the challenges of the new globalised economy.

Conclusion

We have a full and demanding agenda ahead of us. At the same time, the Conference tomorrow will allow us to share experiences and exchange ideas, as well as strengthen existing relationships and forge new friendships. I would also like to wish all participants a pleasant stay in Singapore. I now have the pleasure of declaring the 36th SEACEN Governors Conference open.

Enjoy the evening. Thank you.

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1 The East Asian 9 economies are Indonesia, Malaysia, Thailand, the Philippines, Singapore, Korea, Chinese Taipei, Hong Kong and China.
