



SPEECHES

Press Communiqué

36TH CONFERENCE OF THE GOVERNORS OF THE SOUTH EAST ASIAN CENTRAL BANKS (SEACEN) 1-2 JUNE 2001, SINGAPORE

The 36th Conference of the Governors of the South East Asian Central Banks (SEACEN) was held in Singapore on 1-2 June 2001. Seventeen member and observer central banks and monetary authorities participated in the conference. ¹ Mr Lim Hng Kiang, Minister for Health and Second Minister for Finance and Deputy Chairman of the Monetary Authority of Singapore (MAS), officiated the Opening Ceremony. The theme of this year's conference, chaired by Mr Tharman Shanmugaratnam, Managing Director, MAS, was "Financial Sector Reforms in a Globalised Economy: Issues for Financial Stability in Asia".

In his opening address, Minister Lim highlighted the challenges facing financial regulators and policymakers in Asia amid the fast-changing global financial landscape and the blurring of the traditional boundaries between banking and other financial activities. He noted efforts to improve transparency and adopt international standards and codes and added that this work should take into account countries' circumstances and implementation capacity.

In his welcome remarks, Mr Shanmugaratnam said that supervisors and central bankers have to keep abreast of financial innovations and fast-changing global markets in order to preserve the stability and efficiency of their financial systems. He also reflected on SEACEN's contributions during its Centre's 30-year history, particularly in the area of training and joint research, and the web of relationships and friendships among central bank governors and officials in the region.

In her response address, Dato' Dr Zeti Akhtar Aziz, Governor, Bank Negara Malaysia, highlighted the emerging risks posed by the slowdown of the US economy, and volatile capital flows and exchange rates of the G3 currencies. She noted that the reforms in the financial and corporate sectors as well as other measures undertaken in recent years had strengthened members' ability to manage such risks. She also emphasised the role of the SEACEN forum in fostering regional cooperation through efforts such as the SEACEN Experts Group (SEG) on Capital Flows. Amidst recurring instability in the international system and the efforts being made by members to move from production-based to knowledge-based economies, the SEACEN Centre should ensure its continued ability to meet members' needs.

Presentations by Guest Speakers

Guest speakers at the conference shared their views on ways to address these challenges. Mr Andrew Crockett, General Manager of the Bank for International Settlements, delivered the keynote address on "Issues in Global Financial Supervision". He spoke of how maintaining financial stability had become a more complicated task given the increased speed of developments in finance, the array of activities undertaken by financial institutions, and enhanced competition. Regulators are faced with two options: to adapt to this increasing complexity, or to try and shape the financial system so that it is compatible with existing regulatory frameworks. But the latter option has risks of its own, and may not be feasible given the globalisation of finance. Supervisory oversight should be organised in this new environment to ensure consistent rules and no gaps in supervision. The efficiency and stability of the financial sector also depended on the robustness of the underlying infrastructure for finance. This included accounting practices and insolvency arrangements, both of which remained a major cause of problems. At the international level, Mr Crockett believed that international harmonisation and cooperation should take place within voluntary groups and fora like the Basel Committee on Banking Supervision and the Financial Stability Forum, rather than through the creation of a single global super regulator.

Mr Stefan Ingves, Director of the Monetary and Exchange Affairs Department at the International Monetary Fund (IMF), spoke on the Fund's role in financial sector surveillance, focusing on the joint IMF-World Bank Financial Sector Assessment Program (FSAP). ² He pointed out the evolving nature of this surveillance process, and acknowledged that adherence to standards and codes by themselves were no panacea for crisis prevention. Indeed, financial system stability has to be underpinned by macroeconomic stability and strong market infrastructure.

Speaking from a private sector perspective, Mr Jeffrey Shafer, Managing Director of the Investment Banking Division at Salomon Smith Barney New York, touched on central banking and capital market developments. Mr Shafer argued that a vibrant capital market would allocate resources efficiently and bring benefits such as more stable long-term financing to firms. At the same time, financial markets are not completely efficient, and asset prices may not reflect fundamentals for periods of time. On balance, the capital markets bring greater benefits than costs, and the challenge for investors, central bankers, and businesses in Asia is to adapt to a world where these markets play an increasingly important role. For central bankers, this includes placing greater importance on managing expectations. The monetary transmission mechanism is likely to become more complicated, now that changes in equity and bond prices need to be taken into account when considering the impact of interest rates on economic activity.

In their discussions, Governors described how their countries had responded to the challenges of maintaining financial stability. They considered several issues, including the management of exchange rates, the need to upgrade supervisory capabilities and frameworks, and the implementation of the New Basel Accord. Excessive exchange rate volatility can have severe consequences for small open economies. It is therefore important to implement policies to ensure sustainability of any exchange rate regime that members may choose to adopt. In this context, Governors noted that macroeconomic fundamentals of member countries remain sound.

Governors considered the issue of how supervision should be organised including the effectiveness of having a separate integrated supervisor independent from the central bank. It was observed that no one model would fit all countries. Finally, Governors noted the challenges facing banks and regulators in the region in implementing the New Basel Capital Accord by 2004. In particular, infrastructure and internal capacities in some member countries could limit their ability to fully implement the Accord by then. Governors noted the need to work together with international agencies such as the Financial Stability

Institute to enhance the implementation capacity of members.

Review of World and Regional Economic Outlook

Dr Subarjo Joyosumarto, Executive Director of the SEACEN Centre, presented a paper on the challenges confronting the development of Asian economies in the post crisis era. He noted that declining exports from, and capital flows to Asia, had adversely affected its economic growth. In his presentation, he identified the challenges facing the regional economies, including issues relating to bank and corporate restructuring, regional policy mechanisms aimed at stabilising exchange rates, and rapid developments in the new economy. Governors also updated the meeting on the recent developments in their respective economies.

Mr Dono Iskandar Djojosebroto, Executive Director (South East Asia Voting Group), IMF, briefed the meeting on the world economic outlook and current issues in the Fund. On the world economic outlook, he noted that prospects for the global economy had deteriorated in the past months, with global growth projected at 3.2% in 2001. This has been led by a marked slowdown in the US, the stalling recovery in Japan, and a slowing growth in the Euro area and in a number of emerging market countries. SEACEN countries, especially those with close trade linkages with the US and Japan, have been affected by the global economic slowdown. Mr Dono Iskandar highlighted the need for countries to continue with prudent financial policies and structural reforms, in order to sustain growth and recovery. On IMF-related issues, he briefed the meeting on conditionality in Fund-supported programmes, standards and codes, governance, strengthening the IMF's focus on financial markets and crisis prevention, private sector involvement in the resolution of financial crises, and combating money laundering.

Review of the SEACEN Centre

At the 20th Meeting of the Board of Governors of the SEACEN Research and Training Centre, the SEACEN member Governors reviewed the Centre's activities for the Year 2000. Governors noted the progress of work by the SEG on Capital Flows, and approved the setting up of an electronic data exchange facility at the SEACEN Centre to facilitate the sharing of data and information among the SEG members. Governors approved the programme of activities and budget for the Year 2001. In implementing the programme, Governors emphasised the need to focus the Centre's activities on core central bank functions which include financial sector supervision.

The Board of Governors deliberated on the recommendations of a strategic review of the SEACEN Centre, aimed at ensuring the Centre's relevance in the new globalised economy and its role as a unique and reputable training and research network in the region. In this regard, Governors agreed in principle to proposals to realign and give greater focus to the Centre's activities and organisational structure.

The Governors accepted with thanks the offer of the Bank of Mongolia to host the 37th Conference of the SEACEN Governors and the 21st Meeting of the SEACEN Board of Governors in 2002.

Governors expressed their appreciation to the MAS for its warm hospitality and the excellent arrangements for the Conference.

Date: 2 June 2001

¹ The members are Bank Indonesia, Bank of Korea, Bank Negara Malaysia, Bank of Mongolia, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, Central Bank of China, Taipei, and Bank of Thailand. The participating observers include Brunei's Ministry of Finance, National Bank of Cambodia, Reserve Bank of Fiji, Bank of Lao PDR, Bank of Papua New Guinea, and National Reserve Bank of Tonga.

² The FSAP, started in 1999, assesses strengths, vulnerabilities, and risks of individual financial systems. It seeks to help national authorities design appropriate policy responses to address weaknesses, as well as ascertain developmental and technical assistance needs.