SPEECHES

Welcome Address

A S Jayawardena, Governor, Central Bank of Sri Lanka
39th SEACEN Governors' Conference
12-13 February, 2004 - Colombo, Sri Lanka

Hon Minister of Finance, Hon Minister of Rural Economy, Governors and Heads of Delegations of SEACEN member and observer countries, the General Manager of the Bank for International Settlements Mr Knight, Executive Directors of the IMF Mr Callaghan and Dr Indrawati and Mr Jayatissa, Executive Director of the SEACEN Centre Dr Joyosumarto, distinguished ladies and gentlemen

As a founder member of SEACEN, the Central Bank of Sri Lanka is honoured and delighted to host the 39th SEACEN Governors' Conference and the 23rd Meeting of the SEACEN Board of Governors in Colombo, Sri Lanka. On behalf of the Central Bank of Sri Lanka, I extend a warm welcome to all the delegates from the SEACEN member and observer countries, our special guests, and of course, the SEACEN Centre.

It has become a practice that we select a theme for our Conference. Our governors have agreed that this time, we should reflect on “How central banks in emerging markets can respond to external shocks?” This is a most appropriate and timely theme. In the 1970s and 1980s, most external shocks were related to external trade such as terms of trade shocks arising from fluctuations in oil and other commodity prices. Naturally, central banks had a less prominent role in dealing with those crises. However, since the 1990s, opening of markets and global financial integration around the globe has added a new dimension of large cross-border financial flows. The Mexican crisis in 1994/95, the Asian crisis in 1997/98 and the crisis in Argentina in recent times are a few crises triggered by massive capital flows. With continuous rapid developments in communication technology and innovations in financial instruments, financial flows across borders had been growing at several times the growth of trade flows – and they are very sensitive to small changes in market information and confidence. These flows can be merciless where countries adopt weak policies. In this volatile scenario, emerging economies cannot afford to let their guard down. They will have to reinforce stable macroeconomic policies and strengthen the capacity of their financial institutions to face external shocks. In dealing with these issues, international financial organizations play an important role to support us in implementing necessary measures to prevent external shocks leading to crises and to provide necessary assistance to face crisis when they occur. Hence, we invited Dr Anne Krueger, the First Deputy Managing Director of the IMF and eminent economist to lead the discussion.

As central bankers, we all know the important role the BIS plays in setting standards to promote financial stability. Most central bankers and regulators of financial institutions now follow rules recommended by the Basel Committee in 1988. With rapid developments in technology and telecommunications, together with financial innovations, the Basel Committee has identified the need for a revision of the standards set earlier. The Committee is now working to develop a New Capital Accord – Basel II. The soundness of our banking systems occupies a prominent place on the authorities' agenda. In this context, we are extremely fortunate to have Mr Malcolm Knight, the General Manager of the BIS, who will enlighten us on the latest developments in setting new standards on banking supervision and other important issues relating to promoting financial stability. We are grateful to Dr Knight for his presence today.

We also know the important role the IMF plays in handling issues related to macroeconomic and financial stability in emerging market economies. The joint IMF and World Bank Financial Sector Assessment Program (FSAP) has been developed to identify financial sector vulnerabilities. The Fund has strengthened financial sector stability assessment through the compilation and dissemination of financial soundness indicators. The fund also explores the full use of sectoral balance sheet analysis to better understand large-scale currency mismatches between assets and liabilities. In addition, the Fund's assessment of debt sustainability helps to identify potential crises. Attention has also been given to provide timely financial assistance into member countries when they face crisis by improving the flexibility of existing facilities. Hence, we invited two eminent speakers from the Fund who are Executive Directors for some SEACEN member and observer countries. We are grateful to Mr Michael Callaghan and Dr Sri Mulyani Indrawati for their presence at this forum. We are also glad that Mr Jayatissa from our constituency at the Fund is able to join us.

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In addition, this forum has provided us an excellent opportunity to share actual experiences and learn from each other on issues faced by monetary authorities in relation to external shocks. SEACEN central banks have a wealth of experience in handling such issues. In response to the Asian currency and banking crises, monetary authorities took several measures that would hopefully prevent similar crises in the future. Following the Asian crises in 1997, SEACEN countries faced a severe setback due to a synchronized downturn in the world's three major economies, the US, Japan and the Euro area. Thus, monetary authorities were faced with new challenges in implementing monetary policies to boost aggregate demand to offset the reduced external demand. It is timely now for us to look back and assess the effectiveness of the measures we have taken to promote macroeconomic and financial stability. Since our economies are at different stages of development, external shocks of the past impacted on us in different ways and with different intensities. The measures we undertook were also different. Hence, sharing each other's experience is the most efficient way of learning. The deliberations in the afternoon will provide us with an opportunity to do exactly that.

In addition, Governors will have a brief discussion on recent developments in our countries and the regional prospects with the assistance of the SEACEN Centre. Thereafter, they will focus on two major objectives of monetary authorities.

The first topic is the “National Institutional Arrangements for Banking Supervision” for which a background paper has been prepared in consultation with the SEACEN Centre. I hope the paper has provided useful information for us to initiate a fruitful discussion on the issue of financial stability. I am confident that the Governors would contribute with their country specific experiences on institutional arrangements on banking supervision.

The second topic we have chosen for the discussion is “Domestic Demand-Led Growth: Challenges to Monetary Policy”. In response to the lower external demand in 2001, most of our economies implemented domestic demand led growth strategies of a varying degree. It is timely now for us to assess the effectiveness and sustainability of these policies and the challenges we faced in implementing such policies. In this context, the background paper prepared for this topic in consultation with the SEACEN Centre would provide basic information and raises few major issues that we have faced or are likely to face in implementing these policies. I hope the paper would provide a good basis for discussion.

Ladies and Gentlemen, I have no doubt that deliberations of this Conference will be of great benefit to all of us. I also hope your journey to Sri Lanka will give you a chance to see a little of our country. We have arranged for you to see some places of interest in Sri Lanka and we hope that all of you will be able to join this.

Let me conclude by wishing you a productive and enjoyable visit to Sri Lanka.

Thank you,