

International and regional co-operation assumed increased importance in 1997 as efforts intensified during the year to identify the means by which the current financial crisis could be resolved. The need to evolve a new mechanism in the international financial system has now become more urgent in the light of the increasing integration of the global financial system and the accompanying challenges posed by such integration, in particular, the need to deal with the regional financial turmoil. In this connection, Bank Negara Malaysia (BNM) continued to participate actively in various international, regional and bilateral fora. The Bank was also directly involved in several multilateral and bilateral financial arrangements that were aimed at promoting stability in the international financial system. In the area of external relations with developing economies, the Bank continued to provide bilateral technical assistance to a number of central banks.

International Relations

During the year, several new initiatives were introduced in the area of international and regional co-operation to enhance the stability of the international monetary system. These included measures to increase the financial resources and capacity of the International Monetary Fund (IMF) to respond effectively to members' financing needs, as well as closer co-operation among regional economies. The latter included efforts to promote mutual surveillance in the Association of South-East Asian Nations (ASEAN) and the Asia-Pacific region as well as a new co-operative financing arrangement to supplement IMF resources in times of need.

International Monetary Fund

During the 48th meeting of the Interim Committee of the IMF in Washington, D.C., on 25 April 1997, the Committee urged the Executive Board of the IMF to expedite its work on the Eleventh General Review of Quotas, an allocation of Special Drawing Rights (SDRs), and the proposal to extend the jurisdiction of the IMF to the capital account of the balance of payments of its member countries. Currently, such jurisdiction covers the current account of the balance of payments. At the 49th Interim Committee meeting

on 21 September 1997 in Hong Kong, Special Administrative Region (SAR), China, consensus was reached on a 45% increase in overall IMF quotas (members' capital subscriptions to the IMF) under the **Eleventh General Review of Quotas**. This increase, when fully subscribed, would increase IMF resources to SDR212 billion (about US\$288 billion). The Articles of Agreement of the IMF provide for a general review of quotas every five years. The last (tenth) quota review, originally scheduled for end-March 1993, was completed in early 1995 without any increase in quotas. Under the Eleventh General Review of Quotas, 75% of the overall increase would be distributed in proportion to members' present IMF quotas while 15% would be distributed in proportion to members' shares in calculated quotas. This distribution was aimed at reflecting better the members' relative economic positions. As in previous reviews, the calculated quota for each member took into account its Gross Domestic Product, reserves position, variability in exports, and payments and receipts for the period 1990-94. The remaining 10% of the overall increase in quotas would be distributed among those IMF members whose existing quotas were out of line with their positions in the world economy (as measured by the excess of calculated over actual quota shares), of which 1% would be distributed among five member countries (namely, Luxembourg, Malaysia, Singapore, Korea and Thailand) whose quotas were significantly out of line, and which were in a position to contribute to the IMF's liquidity over the medium term. In responding to the Interim Committee's request, in December 1997, the IMF Executive Board submitted a draft resolution on the quota increase for the approval of the Board of Governors to effect the agreed increase in quotas. The Resolution was adopted by the Board of Governors in February 1998. The adoption of the Resolution, which required an 85% majority of the total voting power of the IMF's membership, completes the Eleventh General Review of Quotas. A member country that does not have overdue obligations to the General Resources Account of the IMF will be able to consent to the increase in its quota any time before 29 January 1999.

Under the Eleventh General Review of Quotas, Malaysia's quota would increase to SDR1,486.6 million (0.701% of total IMF quotas) from SDR832.7 million

(0.569%). The total proposed quota size of the South-East Asia (SEA) Voting Group (the constituency in the IMF to which Malaysia belongs together with Indonesia, Thailand, Singapore, Vietnam, Union of Myanmar, Brunei Darussalam, Cambodia, Nepal, Fiji, Lao People's Democratic Republic (PDR) and Tonga) would increase from SDR4,050.5 million or 2.77% of total IMF quotas to SDR6,601.9 million or 3.114%, surpassing the proposed quota size of the African (Anglo-phone) Group (SDR6,359.8 million or 3%). In line with the proposed quota increase, the voting power of the SEA Group would also increase from the present 2.91% to 3.19% of total votes. As a result, the SEA Group's ranking in the 24-member IMF Executive Board, in terms of voting share, would improve by one place to 15th position. Within the SEA Group, Malaysia's relative position would remain unchanged, with the second largest quota share. Indonesia would continue to hold the largest share, while Thailand and Singapore would remain at third and fourth position respectively. The relative ranking of the other members of the Group would also remain unchanged under the proposed Eleventh General Review of Quotas. Countries in the SEA Group with the three largest quota sizes have the opportunity to represent the SEA Group members at the Interim Committee meetings of the IMF. In 1997, Malaysia represented the SEA Group at these meetings.

The 49th meeting of the Interim Committee also reached a consensus on the issue of a **special allocation of SDRs**. It was agreed that the Articles of Agreement of the IMF would be amended to provide for a special one-time SDR allocation totalling SDR21.4 billion, to provide all members with an equitable share of cumulative SDR allocations. Under this arrangement, IMF members which faced balance of payments difficulties could draw down their SDR allocations to obtain an equivalent amount of foreign exchange from the IMF. The use of the SDRs would result in a decline in the member's holdings of SDRs below its cumulative allocations and would be subject to IMF interest charges. In contrast, members which held SDRs in excess of their allocations would receive a return on such holdings from the IMF. As Malaysia's holdings exceeded its allocations of SDRs, the country received a return on these balances from the IMF. The share for Malaysia in the special SDR allocation amounts to SDR105.06 million, resulting in a cumulative SDR allocation of SDR244.11 million. This new allocation, when implemented, would result in a net increase in BNM's reserves in the form of SDRs by SDR105.06 million (about US\$143 million).

The 49th meeting of the Interim Committee also reached a consensus on the proposed extension of the **IMF's jurisdiction over the capital account** of its members. While there was broad support for the proposal, several countries including Malaysia, urged for a more cautious approach. This was considered important to ensure that the liberalisation of the capital account of the balance of payments would proceed in an orderly manner, commensurate with the appropriate sequencing of macroeconomic and financial reforms. In particular, such liberalisation needed to be accompanied by the development of stronger institutions and an adequate prudential and regulatory framework. The decisions of the Interim Committee were subsequently endorsed by the IMF Board of Governors at the 1997 Joint IMF/World Bank Annual Meetings in Hong Kong SAR, China, on 23-25 September 1997.

In response to the call for a rapid-response facility to address financial crises, the IMF Executive Board agreed on the establishment of a special facility, the **Supplemental Reserve Facility (SRF)** on 17 December 1997. The SRF would provide members with exceptional access to IMF resources where a crisis of confidence had developed with the risk of significant outflows of capital. The purpose of the SRF would be to contain further outflows and rebuild reserves, with the implementation of an adjustment programme and the implementation of a financial package that would bring about a return of confidence. Thus, the SRF is aimed at limiting the potential costs associated with an excessive exchange rate depreciation, undue correction in the current account, and unnecessary insolvency that might otherwise occur.

During the 1997 Joint IMF/World Bank Annual Meetings in Hong Kong SAR, China, BNM also participated in an informal meeting of potential participants of the **New Arrangements to Borrow (NAB)** on 23 September 1997. The meeting reviewed the status of the process of adherence to the NAB Decision and members also exchanged views on issues relevant to the NAB and its future operation. Under the NAB, 25 participating countries, including Malaysia, agreed to extend loans that would amount to a total of SDR34 billion (about US\$46 billion) to the IMF in the event that supplementary resources were required to forestall or cope with an impairment of the international monetary system, or deal with exceptional situations that posed a threat to the stability of the financial system. The NAB would come into force when it had been adhered to by potential participants with credit arrangements amounting to no

less than SDR28.9 billion (about US\$39 billion), including the five members with the largest credit arrangements. Participants of the informal meeting were informed that as of September 1997, 15 countries, with credit commitments amounting to SDR15 billion had already adhered to the NAB Decision. On its part, Malaysia ratified the NAB Decision on 4 March 1997, whereby Malaysia agreed to provide credit arrangements amounting to SDR340 million to the IMF when needed. Countries that had not done so were urged to undertake the necessary steps to adhere to the Decision.

The informal meeting of the potential NAB participating countries also discussed the South-East Asian crisis, its causes and related policy issues in dealing with such situations. Participants noted that the maturity mismatch with long-term lending being financed by short-term liabilities was a major contributory factor to the crisis. In some cases, the mismatch also involved foreign (or foreign currency) transactions. The meeting welcomed an IMF proposal to provide a paper on the lessons of the South-East Asian crisis. Potential participants of the NAB Decision would discuss this paper at the time of the 1998 Spring IMF meetings. The meeting underscored the importance for countries to consistently pursue strong macroeconomic policies, to be better prepared to respond to crises with appropriate policy adjustments, and to attach high priority to efforts to strengthen their financial systems. In this regard, the meeting welcomed the growing collaboration between the Basle Committee, the IMF and the Group of Ten (G-10) in the area of banking supervision. The meeting also suggested that the IMF should explore options to ensure that private creditors bore an appropriate share of the burden in resolving the crisis.

Notwithstanding the lack of progress on the NAB, 1997 was an important year for international and regional financial co-operation. In response to the South-East and East Asian financial crises, several bilateral contributors and international financial institutions acted in concert to provide supplementary financial support to the IMF adjustment programmes for Thailand, Indonesia and Korea. In August 1997, BNM participated in a programme whereby eight countries and the World Bank, the Asian Development Bank (ADB) and the Export-Import Bank of Japan agreed to provide supplementary financing to support an IMF adjustment programme to restore financial stability in Thailand. A total of US\$17.2 billion was raised, of which US\$4 billion would be provided by the IMF, US\$1.5 billion by the World Bank, US\$1.2

billion by the ADB and US\$4 billion by the Export-Import Bank of Japan. Bilateral financial assistance amounted to US\$6.5 billion, including US\$1 billion from BNM. The supplementary financing was in the form of a bilateral loan consisting of a currency swap agreement between the Bank of Thailand and the contributing central banks. The tenure of the financing was between three and a half to five years, in line with the IMF facility, while the rate of interest was set at the six-month London Interbank Offer Rate (LIBOR) for the United States dollar. The bilateral drawings would be made in parallel with and proportional to drawings under the IMF stand-by arrangement. In October 1997, Malaysia and other countries in the Asia-Pacific region also made available supplemental financing in support of an IMF adjustment programme for Indonesia. Such financing was in the form of stand-by credit, as a second line of defence in the event that IMF resources were insufficient to meet Indonesia's requirements. Malaysia contributed US\$1 billion to this supplemental financing package totalling US\$20 billion. Under this arrangement, the first line of defence would be provided by the IMF (US\$10 billion), the World Bank (US\$4.5 billion) and the ADB (US\$3.5 billion). Indonesia would also draw upon its own reserves (US\$5 billion) before approaching bilateral contributors for additional financing. In the case of the IMF programme for Korea in December 1997, resources from the IMF amounted to US\$21 billion, while the World Bank provided US\$10 billion, the ADB, US\$4 billion and 13 other bilateral contributors provided US\$23.35 billion of supplemental financing in support of the IMF adjustment programme.

World Trade Organisation

1997 marked an important year for the World Trade Organisation (WTO). Following three attempts over a protracted period of six and a half years, the **WTO financial services negotiations** were concluded on 12 December 1997 with all participating members agreeing to accord most-favoured-nation (MFN) treatment in financial services trade. The acceptance of MFN by all countries, including the United States, meant that any concession or favourable treatment would automatically be made available to **all** WTO members. The negotiations were concluded among 102 countries, where 70 countries offered improved commitments for market access and national treatment. The agreement was significant as it represented a multilateral acceptance of a rule-based and transparent system for the conduct of trade in financial services. It was estimated that the agreement covered 95% of financial services trade, involving US\$18 trillion in

global securities assets, US\$38 trillion in international bank lending and about US\$2.5 trillion in worldwide insurance premiums. The agreement would be ratified on 29 January 1999 and come into effect on 1 March 1999. In the meantime, members undertook a political commitment to resist any measure that would be inconsistent with their commitments.

The 1997 agreement was the third attempt in seeking a successful conclusion on a MFN basis. When the Uruguay Round was concluded on 15 December 1993, the financial services negotiations concluded without achieving a full MFN-based agreement as a result of the United States' decision to deny MFN treatment and instead allow access only on a reciprocal basis. Many countries responded by scaling down their offers, including filing MFN exemptions. Consequently, the Ministerial Meeting in Marrakesh in April 1994 agreed that the financial services negotiations be resumed in January 1995 for an extended period of six months with the objective of seeking a full MFN-based agreement. As the United States viewed the level of market openings committed by many of its important trading partners to be below expectations, it again could not agree to a full MFN-based agreement. In the light of the United States' position, countries agreed to the European Union's proposal that countries accept an interim agreement, which was subject to review in 1996. Altogether, 43 countries (except the United States) signed this interim agreement and agreed to accord MFN treatment to all WTO members. In December 1996, countries agreed to resume negotiations in April 1997 for conclusion by 12 December 1997.

In the latest negotiations, Malaysia made substantial improvements: six new licences for life reinsurance; 100% equity was offered to foreign fund management companies; and liberalisation in offshore investment banking, offshore insurance, offshore financial leasing, offshore money and foreign exchange broking services and underwriting by offshore banks and offshore investment banks. Expatriate posts in selected areas (for example, treasury operations, actuarial functions) were also committed for banking (five posts) and insurance (three posts). The most significant concession by Malaysia was in the area of foreign presence in the insurance industry. Malaysia agreed to relax the aggregate foreign shareholding in the insurance sector to 51% from 30% in 1993 and 49% in 1995. The concession, however, could be availed only in the following instances – foreign direct insurers operating in Malaysia as a branch which incorporates

locally; the existing foreign owner of a locally-incorporated insurer which has yet to restructure and provided aggregate foreign shareholding does not exceed 51%; and the present foreign shareholders of locally-incorporated insurance companies which were the original owners of these insurance companies and which had supported Malaysia's development policy, provided aggregate foreign shareholding does not exceed 51%. Equity participation in locally-incorporated insurance companies by new foreign shareholders would continue to be limited to 30%.

The Malaysian commitments in respect of foreign equity participation in the insurance sector reflected the national development policy which had been in place since the 1970s. Malaysia could not fully meet the requests of developed countries to allow 100% foreign equity in existing insurance companies because this would place at a disadvantage those foreign-owned companies which had already restructured. The concession to grant foreigners controlling interests of 51% foreign equity in the insurance sector was unprecedented and represented a significant political commitment to the importance of preserving the multilateral trading system. Despite this, the United States filed a narrow MFN exemption in the insurance sector which would deny a member country the benefit of expanding existing operations, establishing new commercial presence or the conduct of new activities in the event that the member country were to require an insurance service supplier from the United States to reduce its share ownership in an insurance services provider in the member country to a level below that prevailing on 12 December 1997.

ASEAN Co-operation

The **inauguration of the ASEAN Finance Ministers' Meeting (AFMM)** in Phuket, Thailand, on 1 March 1997 represented an important milestone in ASEAN financial co-operation. The establishment of the AFMM represented a pivotal point for ASEAN co-operation in financial matters, as it provided a more formal and structured mechanism for ASEAN co-operation in the area of macroeconomic management and finance. An important outcome of the AFMM was the decision to strengthen regional surveillance and provide financial assistance to members in times of need. While such co-operation had long been in existence in ASEAN, they had tended to be on an informal and bilateral basis in the past. Recent developments in the global and regional financial markets, however, indicated the need for a more

structured and multilateral policy dialogue among the ASEAN finance ministries and central banks to discuss common policy issues and concerns, highlight risks and policy options to promote policies that ensure price stability, sound financial systems and sustainable long-term growth in the region.

Efforts to further enhance financial co-operation gathered momentum at a **Special ASEAN Finance Ministers' Meeting** in Kuala Lumpur, Malaysia, on 1 December 1997. The meeting also witnessed the accession of two new members, Union of Myanmar and Lao PDR to the ASEAN fraternity. Issues discussed at the meeting included the regional financial crisis and member countries' policy responses to address the crisis. The meeting also discussed matters relating to the need for greater transparency of currency markets, a regional surveillance mechanism, regional financing arrangements, a market-based approach to the intermediation problem in Asia and financial and prudential regulation. On the issue of transparency of currency markets, the Finance Ministers of ASEAN recognised the importance of sound and transparent policies and governance to cope with the challenges of globalisation. The Ministers also noted the need to improve understanding and transparency of the operations of key players in financial markets to ensure the efficient functioning of economies and financial markets. The Ministers agreed that such efforts should be implemented on a global basis and welcomed the preliminary results of the IMF study on hedge funds. The Ministers urged the IMF to expand the scope of the study to examine the structure of global financial markets and short-term capital flows, including the operations of hedge funds and their impact on financial and banking sectors, as well as the impact of technology on capital flows.

The ASEAN Finance Ministers also endorsed the proposal for a new framework for regional co-operation arising from a meeting of Asian Finance and Central Bank Deputies in Manila on 18-19 November 1997. In terms of a regional surveillance mechanism at the ASEAN level, Ministers indicated a preference for a mechanism similar to the G-10 format but with a distinct ASEAN character. The Finance Ministers agreed that a permanent ASEAN secretariat be set up to facilitate the surveillance process. Regular informal meetings of central bank and finance officials at the Ministerial and Deputies' level would be held. In this connection, ASEAN Finance Ministers endorsed the establishment of the ASEAN Central Bank Forum and the Select Committee of ASEAN Central Bank

and Finance Officials, which would highlight key issues and policy concerns for the attention of the Ministers. The **inaugural meeting of the ASEAN Central Bank Forum** was held in Kuala Lumpur on 4-5 November 1997. Members of the Forum agreed to meet regularly to discuss regional economic and financial developments within the global context. The IMF would provide technical support to the Forum, in particular to assess developments in the region and to identify emerging risks. Through the Forum, members would have an opportunity to share experiences which will help anticipate economic and financial risks and exchange technical assistance and policy advice, where appropriate, on possible solutions to economic and financial issues. The Forum also agreed to discuss various options to foster a common ASEAN position in its relations with other international and regional institutions.

In terms of measures to promote regional financing arrangements, in addition to the proposed Manila Framework, ASEAN Finance Ministers agreed that the **ASEAN Swap Arrangement (ASA)** should be renewed when its current term expired on 5 August 1998. The ASA represented a long-standing tradition of ASEAN financial co-operation. First established under a Memorandum of Understanding signed on 5 August 1977 by the central banks of Indonesia, Malaysia, the Philippines and Thailand, and the Monetary Authority of Singapore, the ASA has been renewed on six occasions, the latest being on 25 July 1997 when the Sixth Supplementary Agreement was signed to extend the ASA for another year to 5 August 1998. The objective of the ASA is to provide short-term liquidity to member countries facing a temporary balance of payments need. The total credit available under the ASA is US\$200 million, with each participating central bank or monetary authority being eligible to draw a maximum of US\$80 million. The renewal of the ASA for only one year was to allow members to re-examine the role of the ASA, in line with the decision of the ASEAN Finance Ministers at their inaugural meeting in Phuket, Thailand on 1 March 1997 to conduct a review of the ASA, taking into consideration existing bilateral and multilateral arrangements. The ASEAN Ministers of Finance also agreed on the importance of a rapid-response mechanism to assist member countries facing financial crises and agreed that ASEAN countries in a position to provide financial assistance should give special consideration to any member country requiring such assistance. ASEAN countries also agreed to provide, in consultation with the IMF and on a case-by-case basis, supplemental financial resources for IMF-supported programmes.

In conjunction with their special meeting, the ASEAN Finance Ministers met with the Finance Ministers of Australia, the People's Republic of China, Hong Kong SAR, China, Japan, Korea and the United States (**ASEAN Plus Six Meeting**) on 2 December 1997 in Kuala Lumpur. The Meeting of the ASEAN Plus Six Finance Ministers discussed the regional financial situation and shared the views of the ASEAN Finance Ministers. The meeting also agreed that there was an urgent need to develop a deep, liquid and mature debt market to address the intermediation problem in Asia. In this connection, the Meeting endorsed a proposal to develop a market-based approach to mobilise private sector resources, with the intermediation of the ADB, IMF, World Bank and other international financial institutions (IFIs) to assist the adjustment efforts in the Asian region. Subsequently, the Hong Kong Monetary Authority hosted a technical meeting on 17 December 1997 to explore options to move this proposal forward.

New Framework for Asian Regional Co-operation (Manila Framework)

In order to pursue a proposal for a regional financing facility to deal with currency speculation, a Meeting of Asian Finance and Central Bank Deputies was convened in Manila, Philippines, on 18-19 November 1997. The meeting endorsed a proposal for a new framework for enhanced Asian regional co-operation to promote financial stability. The proposal, subsequently referred to as the **Manila Framework**, involved initiatives on four fronts: a mechanism for regional surveillance to complement the IMF's global surveillance; technical co-operation to enhance domestic financial systems and regulatory capacities; measures to strengthen the IMF's capacity to respond quickly to financial crises and a co-operative financing arrangement to supplement resources from the IMF and other IFIs. The mechanism for regional surveillance would involve the assistance of the IMF, World Bank and ADB in highlighting policy concerns and issues for discussion. On technical co-operation, the IFIs were urged to assist national authorities to upgrade their financial systems, enhance co-operation among market regulators to respond to contagion and explore other measures to improve the integrity and functioning of the financial markets. In terms of the proposed co-operative financing arrangement, the Manila Framework provided for member countries to contribute supplemental financing for an IMF-supported programme for a country on a case-by-case basis. In exceptional cases, where IMF resources were insufficient to meet a member country's need, other

member countries might consider lending in parallel with the IMF. However, it was noted that this initiative should be carefully designed to mitigate the moral hazard issue and ensure that private creditors adequately assess risks and bear an appropriate share of the burden of adjustment and financing in times of crisis. Japan agreed to host another meeting in Tokyo on 26-27 March 1998 to further develop the initiatives of the Manila Framework, with the assistance of the IMF. In this context, the setting up of the Regional Office for Asia and the Pacific by the IMF in Tokyo, Japan, in February 1997 was most timely.

Asia-Europe Co-operation

The First Asia–Europe Finance Ministers' Meeting was held in Bangkok on 19 September 1997. Finance Ministers from 10 Asian nations (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, the People's Republic of China, Japan and Korea) and 15 Member States of the European Union (EU) attended the meeting. The meeting was a follow-up to the First Asia-Europe Meeting (ASEM) between Leaders of Asia and Europe on 1-2 March 1996 in Bangkok. The Leaders identified several areas of co-operation, including economic co-operation, cultural and development co-operation, and co-operation in education and environment. The Finance Ministers discussed the macroeconomic outlook in their respective countries and exchanged views on developments in the foreign exchange markets and the European Monetary Union (EMU). The Ministers also considered options to promote closer co-operation in the financial sector and in customs matters. In order to enhance co-operation between Asia and Europe, the Ministers agreed to the following initiatives:

- . **ASEM Discussion on the Euro and its Implications on Global and Asian Financial Markets** – The Meeting agreed that the opportunity would be offered within the framework of the international financial institutions, bilateral contacts and inter-regional discussions to keep Asian participants fully informed about the implications for the financial markets of the forthcoming introduction of the euro. Subsequently, a seminar on “European Monetary Union” covering, amongst others, the external implications of the euro, was held in London on 4 February 1998. The seminar was attended by the ASEM Finance Deputies.
- . **Strengthening ASEM Co-operation in Fighting Money Laundering** – The Meeting

agreed to take concrete steps to strengthen the co-operation between the EU and Asia in the fight against money laundering.

- **Computerised Communication Network among ASEM Finance Ministries** – The Meeting agreed to study the development of a framework for establishing a computerised communication network among the ASEM Finance Ministries to facilitate improved information sharing about macroeconomic and financial developments and policies.
- **Strengthening Co-operation in Financial Supervision and Regulation** – In view of the increasing financial integration between Asia and Europe, the Meeting requested the European Commission to develop a programme for more effective implementation of existing supervisory principles and regulations to ensure financial stability in the region.
- **Enhancing Macroeconomic Policy Consultation** – The Meeting agreed that it would be useful to schedule meetings of ASEM Finance Deputies to discuss international financial issues raised in other international monetary and financial fora.
- **Strengthening ASEM Customs Co-operation** – The Meeting agreed to support the future work programme of ASEM Customs' Director Generals and Commissioners to develop closer co-operation between customs authorities in Asia and Europe in the areas of customs procedures and enforcement.

Asia-Pacific Economic Co-operation

The Manila Framework was also welcomed and endorsed by Leaders and Economic Ministers of **Asia-Pacific Economic Co-operation (APEC)** economies. At the APEC Economic Leaders' meeting in Vancouver, Canada, on 24-25 November 1997, Leaders supported the Manila Framework as a constructive step to enhance co-operation to promote financial stability. In this regard, they welcomed enhanced regional surveillance, intensified economic and technical co-operation to improve domestic financial systems and regulatory capacities, adoption of new IMF mechanisms on appropriate terms in support of strong adjustment programmes and a co-operative financing arrangement to supplement, when necessary, IMF resources. The Leaders also called for the acceleration of work launched at the Fourth

APEC Finance Ministers' Meeting in Cebu, Philippines, on 5-6 April 1997. This included collaborative initiatives to promote the development of APEC financial and capital markets, and to support freer and stable capital flows in the region.

In 1998, Malaysia will assume the chairmanship of APEC from Canada, the host in 1997. As chair, Malaysia has designated the issues of developing human resources and the expanding use of new technologies as key issues for its APEC agenda. The APEC Ministerial Meeting has been scheduled for 14-15 November 1998 while the APEC Leaders' Summit will be held on 16-17 November 1998.

Other Forms of Regional Co-operation

During the year, BNM continued to actively pursue close co-operation with central banks and monetary authorities in the Asia-Pacific region through the **Executives' Meeting of East Asia and Pacific Central Banks (EMEAP)**. Established in 1991, EMEAP is an informal forum for the central banks and monetary authorities of Australia, the People's Republic of China, Hong Kong SAR, China, Japan, Korea, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand. The EMEAP forum has thus far contributed greatly to strengthening the co-operation among the countries in the region and enhancing the stability of the regional financial markets. In this context, BNM participated in all four meetings of the EMEAP forum held in 1997. These included the Second EMEAP Governors' Meeting held in Shanghai, the People's Republic of China on 25 July 1997, the Thirteenth and Fourteenth Deputies' level Meetings of EMEAP held in Hong Kong SAR, China, on 21 March and Manila, Philippines, on 21-22 November 1997 respectively, and the informal meeting of EMEAP officials held in Bangkok, Thailand, on 24 May 1997.

As in previous years, EMEAP meetings held during 1997 provided participants with an opportunity to review current economic and financial conditions in the respective member countries and to exchange views on topical issues. In 1997, the Governors of EMEAP countries discussed the phenomenon of asset price inflation and its impact on monetary policy. Other topics included the new monetary arrangements in Hong Kong SAR, China, after 1997 and the new Bank of Japan Law. In line with efforts to foster closer co-operation, the meetings also reviewed the progress of the two working groups and

the study group of EMEAP. These groups also examined issues on bank supervision, development of financial markets and central banking operations. During the year, the Working Group on Financial Market Development completed its Red Book on Financial Markets and Payment Systems in EMEAP Economies. The book examined five markets in each member economy, namely, the money market, bond market, stock market, foreign exchange market and offshore market. The book also reviewed the relationship between financial markets and payment systems, and the conduct of monetary policy. The Deputies' Meeting in Manila endorsed the proposal to publish the Red Book. Similarly, the Working Group on Central Banking Operations completed its Gold Book on reserve management policies and practices among EMEAP members, while the Study Group on Banking Supervision was finalising its work on the Green Book on Prudential Banking Supervision in EMEAP Economies.

An important achievement in terms of EMEAP co-operation was the establishment of its Virtual Secretariat in 1997. The Secretariat provided a link for resources devoted to EMEAP matters in various member central banks and monetary authorities and would facilitate easier access, closer contact and better co-ordination among EMEAP working and study groups. In the process, this would further enhance the effectiveness of EMEAP activities and projects. In line with the aim to further enhance communication among EMEAP members, the first and second stages of an EMEAP Internet were also completed in 1997. In the first stage, members acquired an EMEAP Internet address to facilitate the exchange of regular documents and papers by electronic mail. The second stage involved an encryption process to enable the exchange of confidential information. Further refinements that were examined included the possibility of installing software that would perform three functions, namely, an electronic meeting system, an electronic library for EMEAP documents and an electronic bulletin board.

In addition to the regular agenda, the EMEAP Deputies also participated in a dialogue with representatives from the United States Federal Reserve Board and the Federal Reserve Bank of New York in Manila on 21 November 1997. The meeting discussed developments in asset prices and the implication for central bank policies and noted that asset price inflation often arose from easy access to financing through the banking

system and capital inflows. In this regard, the policy response in EMEAP economies included a combination of prudential guidelines, moral suasion and more stringent limits on bank exposure to the equity and property markets. Participants also exchanged views and experiences on the effects of foreign exchange market intervention. The meeting noted that the effectiveness of foreign exchange intervention was limited as the combined resources of market players far outweighed the resources of individual central banks. Hence, it was important to pursue sound macroeconomic and financial policies and allay any negative market perceptions or expectations.

The Bank participated in the **Thirty-Third Conference of Governors of South-East Asian Central Banks, SEACEN** (comprising Bank Indonesia, The Bank of Korea, BNM, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, the Central Bank of China, Taipei and the Bank of Thailand) held in Denpasar, Indonesia, on 13-14 February 1998. The keynote address on "Financial Stability and International Capital Flows" noted that even countries with strong fundamentals could be affected by a sudden loss of confidence and sound policies also required adjustments in a crisis situation. It was also noted that an exchange rate peg was not a panacea in the current globalised financial market. It was suggested that capital account liberalisation must be accompanied by stronger prudential measures to strengthen the banking system. In this connection, sound banking standards were vital and countries were urged to adopt the Core Principles for Effective Banking Supervision of the Basle Committee. The Conference also discussed the world economic outlook and current IMF issues.

As in previous Conferences, the Governors reviewed economic and monetary developments in the SEACEN economies in 1997 and prospects for 1998. It was noted that growth is expected to slow down, while inflation could increase but remain at single digit levels in 1998. The current account positions of several member countries were beginning to improve and the restructuring of the financial sector would ensure a stronger and more transparent financial system, in compliance with international standards. This would help support a return to sustainable growth over the medium term. The Governors later shared their experiences

in addressing the financial crisis, in particular, in the area of financial restructuring, private debt management, institutional and structural reforms and the provision of social safety nets. The Governors also discussed the appropriate mix between interest rate and exchange rate policies. The importance of establishing a new framework for the early resolution of the private sector debt problem was also emphasised by the Governors.

The Governors also reviewed the progress of activities of the SEACEN Research and Training Centre for the operating year 1997/98 and approved the work programme and budget for 1998/99.

Bilateral Co-operation

Given the importance of closer central bank co-operation in the region, particularly in the wake of the Asian financial crisis, BNM maintained its **Bilateral Repurchase Agreements** with several central banks and monetary authorities in the Asian region. The agreements were in the form of memoranda of understanding, which enabled the signatories to obtain immediate liquidity from each other on the sale of mutually-agreed securities and currencies as and when needed. During the year, eight such agreements were in force with the Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, The Bank of Korea, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and the Bank of Thailand. In order to ensure that the agreements could be activated smoothly when called upon, BNM carried out three test runs with the corresponding counter parties, namely, the Reserve Bank of Australia, Bank Indonesia and the Hong Kong Monetary Authority during the year. The test runs proceeded smoothly as planned.

The Bank continued to participate in **annual bilateral meetings** with a number of central banks and monetary authorities in 1997, as such meetings provided an opportunity to discuss issues of common interest and to share experiences on economic and financial matters. During the year, BNM participated in bilateral meetings with Bank Indonesia in Kota Kinabalu on 8-10 August, the Monetary Authority of Singapore in Singapore on 8-10 October and the Hong Kong Monetary Authority in Kuala Lumpur on 17-19 October. Among the issues discussed at these meetings were recent economic and monetary developments in the respective countries; bilateral

trade and investment relations; and a review of each country's strategies and policies to address the regional financial turmoil. The consensus that emerged from these meetings was that while sound policies were important, they could not guarantee that a country would be insulated from the contagion effects of market excesses. Hence, there was a need to review the operations of the international monetary system to ensure a more orderly financial environment for global trade and investment. The meetings also emphasised the importance of closer co-operation among central banks in addressing the challenges of a globalised financial system.

Technical Assistance and Information Exchange

The Bank provided technical assistance on various aspects of central banking to foreign financial institutions during 1997. This was mainly in response to the interest expressed by foreign central banks and finance ministries to study BNM's experience in central banking issues. The assistance was in the form of internships, attachment programmes and study visits.

An 8-week internship programme was arranged for the Central Bank of Kazakhstan under a Japan-IMF scholarship programme for Asia. In addition, attachment programmes for four study teams from the central banks of Tanzania, Namibia, Ghana and Vietnam were arranged.

The Bank also received several foreign delegations in 1997. Among them were delegations from the External Aid Co-ordination Department of the Republic of Kazakhstan, Prime Minister's Department of Mauritius, Islamic Development Bank, British Foreign Ministry, Central Bank of Kenya, Bank Indonesia, the Ministry of Finance of Bangladesh, Central Bank of Kuwait, Nepal Rastra Bank, Central Bank of Nigeria, Bangko Sentral ng Pilipinas, Reserve Bank of India, Reserve Bank of South Africa, Central Bank of Mauritania, National Bank of Slovakia, Central Bank of Colombia and an Insurance Trade Mission from the United States. The areas of interest to the visits included economic developments and statistics; insurance regulation; payment, settlement and clearing systems; human resource management; information technology; Islamic banking; foreign reserve management; currency operations and bank regulation and supervision.

In addition to the internships, attachment programmes and study visits by foreign delegations, the Bank also participated in a study on the Kyrgyz Republic conducted jointly by the Malaysian and Kyrgyz Governments. The Bank's role in the study focussed on the monetary sector, identifying the issues faced by the sector and putting forward recommendations to address those issues. The Bank also participated in a commission, jointly chaired by the Director-General of the Economic Planning Unit, Malaysia and First Deputy Prime Minister of

the Kyrgyz Republic, to monitor the implementation of the recommendations in the study.

During the year, the Bank offered 10 places at the Central Banking Course conducted by the Bank's Staff Training Centre to foreign participants from eligible countries under the Malaysian Technical Co-operation Programme. The participants were from the central banks of Botswana, Fiji, Malawi, Maldives, Mongolia, Union of Myanmar, Peru, Solomon Islands and Uganda.
