5 External Relations

Overview

As the crisis-affected economies recovered and stability returned to the world financial markets, discussions at regional and international meetings during the course of 1999 veered away from crisis management towards sustaining the recovery process and the reform of the international financial architecture (IFA). However, limited progress has been achieved with respect to the fundamental IFA issues. Progress has only been in terms of recognition of the need to address some issues to prevent future crises. So far, there is no consensus on implementation plans for areas agreed upon.

Positive developments in 1999 included the recognition by the international community that reforms are necessary to improve the transparency of market players, particularly the highly leveraged institutions. Similarly, there is a consensus on the need for a mechanism to avoid excessive risk-taking by market participants, including measures to ensure that private investors and market players assume a fair share of the costs of crisis management and resolution. The global community has acknowledged the importance of orderly capital account liberalisation and there is growing support for the use of temporary controls as prudential safeguards against financial market excesses. Recognition by important segments of the international community, including the International Monetary Fund (IMF), was gained on the merits of selective and temporary capital controls as a prudential safeguard against volatile and disruptive capital flows. However, the IMF has not explicitly recommended the use of such measures to address financial crises, and has remained silent on whether such prudential safeguards are useful to reduce the vulnerability of small emerging market economies.

The year also witnessed the formation of two new fora for deliberations on the IFA issues, namely the Financial Stability Forum and the Group of 20. The latter provide for a closer dialogue between the industrialised and large developing countries. A number of new initiatives were also launched during the year. These included the establishment of the Contingent Credit Line by the IMF, designed for crisis prevention. Meanwhile, in addressing the need to strengthen surveillance on the financial sector, the IMF and World Bank have launched a pilot project on a Financial Sector Assessment Programme. The transformation of the Interim Committee of the IMF into the International Monetary and Financial Committee (IMFC) represented a step in the process to reform the IMF and accord the IMFC with more decision-making authority.

Notwithstanding these developments, the return of stability to financial markets has also given rise to concern that complacency may set in and dissipate the momentum for reforms in the international financial architecture. While there is a consensus on the need for reforms, progress remains slow in terms of practical proposals for implementation. Although the international community agreed on the need for symmetry in the call for greater transparency in both the public and private sectors, no measure has been made to require greater disclosure by private sector entities. Similarly, progress has yet to be made with respect to greater involvement of the private sector in crisis management and resolution. At the same time, there remains much outstanding work on the new financial architecture. Work needs to be expedited on mechanisms for ensuring orderly capital flows so that the full benefits of globalisation can be realised.

Bank Negara Malaysia (BNM) has continued to participate actively in various international, regional and bilateral fora in pushing for the reform of the international financial architecture. Apart from highlighting the views and interests of emerging countries, BNM's participation also sought to foster support for greater independence of domestic policy actions and for countries to be given the opportunity to implement non-conventional policies when exceptional circumstances required an alternative approach. Much work was also done to forge an ASEAN common position on the reform of the international financial architecture that was adopted at the Informal ASEAN Finance Ministers Meeting on 30 April 1999.

In recognition of the Bank's positive commitment to be an integral part of the international community, BNM was officially admitted as a shareholding member of the Bank for International Settlements (BIS) on 24 December 1999. As a shareholding member of the BIS, it is envisaged that BNM will participate more actively in the activities of the BIS.

International Relations

International Monetary Fund

The Interim Committee of the IMF met on two occasions in 1999, namely the 52nd and 53rd meetings in Washington, D.C. on 27 April and 26 September 1999 respectively. As in 1998, efforts to reform and strengthen the international financial architecture remained at the centre of discussions of the Committee. The Committee's deliberations included a review of efforts to prevent crises and ensure their orderly resolution, measures to further strengthen IMF surveillance, and increase transparency of national government policies, the private sector and the IMF. The Committee also discussed issues relating to the choice of an appropriate exchange rate, capital flows and country experiences with the use and liberalisation of capital controls. Reflecting the international community's commitment to fight poverty, the Interim Committee convened, for the first time, a Joint Meeting with the Development Committee of the World Bank on 26 September 1999 to discuss the enhancement of the Heavily Indebted Poor Countries (HIPC) Initiative.

In the area of crisis prevention, the IMF established the Contingent Credit Line (CCL). Through the CCL, the IMF provides short-term financing, if the need arises, to assist members in addressing the exceptional balance of payments financing needs that can arise from a sudden and disruptive loss of market confidence due to contagion. This refers essentially to circumstances that are largely beyond the member's control and stem primarily from adverse developments in international capital markets consequent upon developments in other countries. Eligible member countries would, however, need to have in place, prior to the crisis, sound and sustainable policies; adherence to internationally accepted standards; and constructive involvement of the private sector. The last criterion is to ensure that the private sector shares the burden in crisis management and resolution. In addition, the IMF is also working with member countries to put in place data monitoring mechanisms as part of the effort to avoid future crises and ensure their orderly resolution. These included the establishment of systems for high frequency monitoring of private external liabilities, maintaining adequate foreign exchange liquidity and effective communication with private capital markets.

In order to further strengthen IMF surveillance, the Committee felt that assessments of the implementation of the Basel Core Principles should be embedded into the regular IMF surveillance activities. In this regard, the IMF and World Bank have launched a pilot Financial Sector Assessment Programme (FSAP), designed to identify financial system strengths and vulnerabilities, so that appropriate policy responses can be developed. The FSAP is aimed at promoting a more effective dialogue with national authorities. It would also aim to provide the IMF and World Bank with a common platform for financial sector policy advice and technical assistance to member countries. The scope of the FSAP generally included an assessment of the macroeconomic environment; financial institutions' structure; financial markets; review and assessment of systemic risks in the payment systems, and risk management procedures. The FSAP would be conducted on a 5-year cycle on a voluntary basis. The FSAP report would feed into the Financial System Stability Assessment (FSSA), which would become a regular part of Article IV Consultations. The Interim Committee encouraged member countries to participate in the FSAP programme.

During the year, the Committee continued to urge for greater transparency of national government policies, as well as of private sector reporting and of the international financial institutions, including the IMF. New initiatives to improve the transparency of member economies include the adoption of the "Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles" to be used as a guide for members to increase transparency in the conduct of these policies. Meanwhile, the Special Data Dissemination Standard (SDDS) was expanded further to require subscribing members to include additional data on international reserves. The IMF is also in the process of establishing a separate category for data on external debt and international investment positions.

In the IMF, the initiative to enhance its own transparency included a pilot project for the voluntary public release of Article IV staff reports, which contained the assessment of IMF staff on member economies. Greater IMF transparency would also be in the form of the release of the concluding statements on the IMF Executive Board's deliberations on decisions regarding the use of IMF resources by a country as well as the release of Public Information Notices (PINs) on the IMF Executive Board's discussions on policy issues. Public access to the IMF's archives would also be expanded.

During discussions on the choice of an appropriate exchange rate, the Committee noted that global capital mobility has increased the requirements for policy adaptability and institutional preparedness for maintaining a fixed exchange rate. The Committee emphasised that countries should be able to choose an exchange rate regime that is suitable for their specific circumstances and longer-term strategy. In this regard, the Committee agreed that IMF programmes and surveillance should focus on the consistency of macroeconomic and other policies and institutional arrangements with the chosen exchange rate regime. In addressing the issue of sudden reversals in capital flows, the Committee highlighted the need to address sources of economic vulnerabilities and urged the IMF to review efforts to eliminate any regulatory bias in favour of short-term interbank credit lines and to identify arrangements to assure continuing private sector financing in times of crisis. On the use of controls to manage capital flows, the Committee encouraged the IMF to build upon its study of individual countries' use and liberalisation of controls, with particular attention to the relationship between capital account liberalisation and financial sector stability. The IMF and World Bank were requested to develop a set of best practices in public debt management to help countries reduce vulnerability. The IMF has initiated a survey on capital flows associated with foreign exchange markets.

In order to provide faster, broader and deeper debt relief with the central goal of reducing poverty in the poorest countries in the world, the Interim Committee endorsed the new Poverty Reduction and Growth Facility (PRGF). The PRGF replaced the IMF's Enhanced Structural Adjustment Facility and incorporated efforts on poverty reduction as part of a new growth-oriented strategy among low-income members to ensure that debt relief will result in poverty reduction. To finance the IMF's participation in the HIPC Initiative, the Committee endorsed the one-time off-market transactions of up to 14 million ounces of gold by the IMF, in addition to bilateral contributions from member countries.

In the area of institutional reforms in the IMF, the Committee agreed that the IMF should enhance the modus operandi of its institutional mechanism and its co-operation with other institutions. There was a consensus on a proposal to transform the Interim Committee into the International Monetary and Financial Committee and to strengthen its role as the advisory committee of the IMF Board of Governors. This was in line with on-going proposals to reform the IMF, which included a move to accord more decision-making authority to the Committee, as opposed to an advisory role. However, progress in terms of fundamental reforms in the IMF, for example, to make the IMF more accountable for its policy prescriptions, is yet to be seen. Despite the call from various quarters, a review by an independent panel of the performance of the IMF in managing the Asian crisis has not been conducted. Such a review was undertaken after the Mexican crisis. Following the Asian crisis, another review would be important to draw lessons not only on the appropriate policy stance in crisis management and resolution, but also on the institutional arrangements for more effective implementation of these policies.

Financial Stability Forum

Deliberations on reforming the international financial architecture continued in 1999, with the establishment of two new fora, namely the Financial Stability Forum and the Group of 20 (G-20). A number of large developing countries and emerging market economies were invited to participate in the deliberations of the G-20 and in the Working Groups of the Financial Stability Forum. Established by G-7 Finance Ministers and Central Bank Governors on 22 February 1999, the **Financial Stability Forum (FSF)** was designed to facilitate the exchange of information and the co-ordination of issues on international financial stability between national authorities, international regulatory and expert groups and international institutions. The membership of the FSF comprised the G-10 countries, the financial centres such as Hong Kong SAR and Singapore, as well as representatives from international financial institutions and regulatory groups. The scope of activities of the Forum was to evaluate the vulnerabilities affecting the stability of the international financial system and identify and administer the actions needed to deal with these vulnerabilities. To address the wide-ranging issues on financial stability, the FSF formed three ad-hoc Working Groups in May 1999 to study three areas, namely, highly leveraged institutions, capital flows and offshore financial centres.

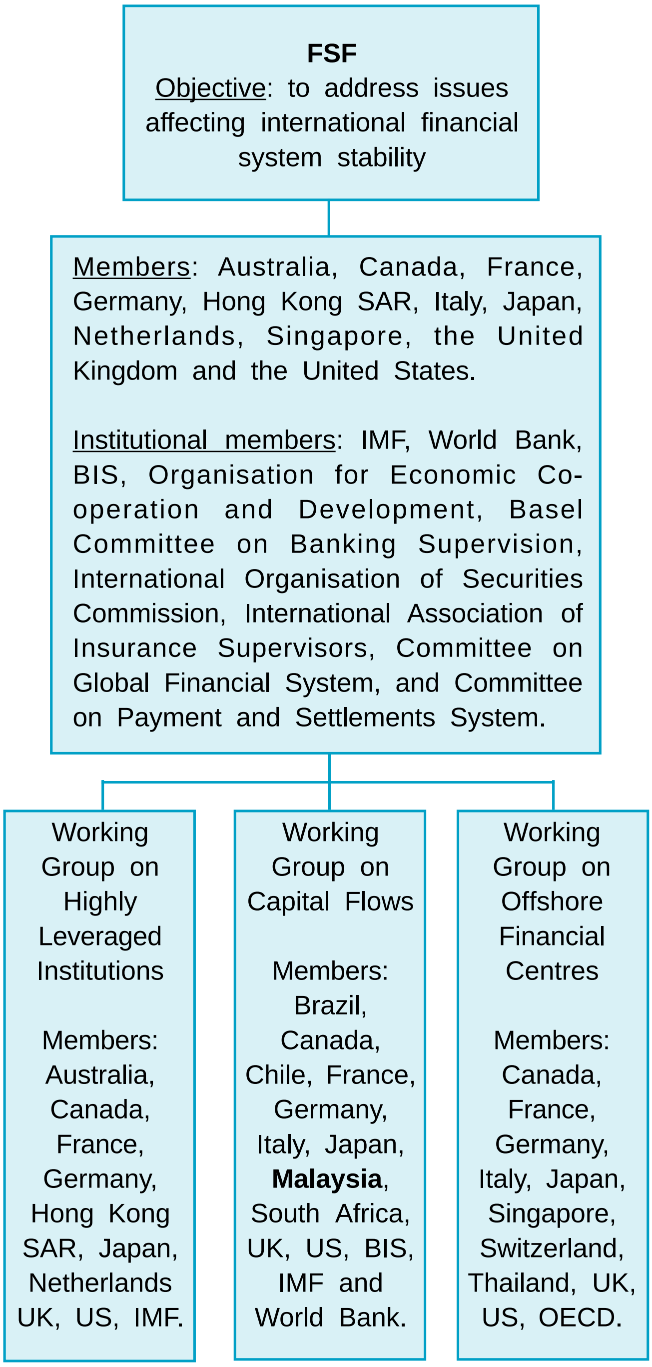
The Deputy Governor of Bank Negara Malaysia is a member of the FSF Working Group on Capital Flows. In participating in the Working Group, Malaysia shared its experience in managing volatile capital flows. Malaysia also presented its views on the role of capital controls as a prudential measure to ensure financial stability and emphasised the need for the working group to not only consider the issues associated with debt, but also non-debt flows.

The Terms of Reference of the **Working Group on Highly Leveraged Institutions (HLIs)** were to recommend actions to reduce the destabilising potential of HLIs in financial markets. To date, the Group had focused its discussions on addressing the effects arising from the activities of HLIs on the dynamics and integrity of financial markets. A study group to assess the impact of HLIs' activities on small- and medium- sized economies was established by the Group. Based on these discussions and studies, the Group focused on developing recommendations for improving risk management practices, enhancing both institutional disclosure and market transparency and strengthening the infrastructure and functioning of markets.

The **Working Group on Capital Flows** focused its attention on measures that would help reduce volatility of capital flows in borrower and creditor countries and the risks associated with excessive short-term external indebtedness to financial systems. In this regard, Malaysia emphasised the importance of also considering non-debt related flows. A risk management framework was adopted, emphasising the resulting stocks of assets and liabilities of capital flows and the associated risks. Recommendations would focus on the assessment and management of risks on an economy-wide basis through prudent debt and liquidity management by the public sector, the management of various risk exposures and their inter-relationship by banks and corporations, and the improvement of data reporting systems required for sound risk management. The Group also examined distortions that could bias capital flows and increase volatility. The Group examined the costs and benefits of controls on inflows as a preventive risk management tool in the context of implementing sound policies that contribute to internal and external stability.

The **Working Group on Offshore Financial Centres (OFCs)** examined the impact on global financial stability of the use made by market participants of OFCs and the OFCs' progress in conforming with cross-border information exchange agreements and enforcing international prudential standards. The group has reviewed activities of OFCs, and problems that emerged given the prevailing weaknesses in cross-border co-operation, financial supervision, and transparency. In this regard, the Group focused on relevant international standards for implementation by OFCs and the development of recommendations on mechanisms for evaluating and enhancing compliance in the implementation of these standards.

Since its establishment, the FSF has met twice, on 14 April 1999 and 15 September 1999. The working groups have also drawn on work by other private and public sector fora, and have been in consultation with private sector participants and supervisory authorities as well. The Final Reports of the Working Groups are expected to be submitted to the FSF in March 2000.



Group of 20

The **Group of 20** or **G-20** was established on 25 September 1999 to provide a new mechanism for informal dialogue within the framework of the Bretton Woods institutional system. The role of the new Group is to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth. Membership of G-20 includes systemically significant developed countries and a number of emerging market economies. The IMF and World Bank also participate in the Group's discussions.

G-20

Objective: forum for informal dialogue on key economic and financial policy issues among systematically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all.

Members: Argentina, Australia, Brazil, Canada, The People's Republic of China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, the European Union, IMF and World Bank

At its inaugural meeting on 15-16 December 1999 in Berlin, Germany, it was agreed that the immediate attention of the Group would be to reduce countries' vulnerabilities to international financial crises. The task, to be carried out by the G-20 Deputies, is to focus on four main areas, namely, a complete stock taking of member nations' progress in reducing vulnerability to crises; an assessment by member nations on their compliance with international codes and standards in financial sector policy and transparency; the completion of Reports on Observance of Standards and Codes (Transparency Reports) and Financial System Stability Assessment by the IMF; and an assessment of various exchange rate arrangements and their role in minimising the impact of financial crises.

Regional Relations

ASEAN Finance Ministers' Meeting

Co-operation under the ASEAN Finance Ministers process was further strengthened in 1999 in the aftermath of the financial crisis of 1997-98. The Finance Ministers met on three occasions during the year, namely at the **Third ASEAN Finance Ministers' Meeting (AFMM)** on 19-20 March 1999 in Hanoi, Vietnam, the **Informal AFMM** in Manila, the Philippines, on 30 April 1999 and again at the **Special AFMM** on 25 November 1999 in Manila. The latter was in conjunction with the Third Informal ASEAN Summit on 27-28 November 1999. The meetings provided an opportunity for ASEAN Finance Ministers to review the economic and financial situation in their respective economies, as well as to exchange views on regional and global developments and the near term outlook. Ministers also discussed issues related to the International Financial Architecture.

Members of ASEAN are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

An important move forward in ASEAN co-operation was the adoption of an "ASEAN Position on the Reform of the International Financial Architecture" at the Informal AFMM. Under the Joint Position, ASEAN agreed to adopt a pro-active approach in international discussions on the reform of the international financial architecture. This was considered essential to ensure that such reforms were a joint effort of both industrial and developing countries, and took due cognisance of individual countries' circumstances. ASEAN Finance Ministers agreed that there was a need to strengthen domestic financial systems to avoid future crises, and that a strengthening of regional support mechanisms was important to assist members in times of need. The Ministers emphasised that greater transparency and disclosure of the public sector should be matched by the private sector, including international credit rating agencies, due to their influence on the market. ASEAN Finance Ministers also stressed the importance of an orderly and well-sequenced approach to capital account liberalisation to ensure that countries were adequately prepared to face the challenges of globalisation. Ministers reiterated that stable exchange rates were important for international trade and payments, and that there was no single exchange rate regime that was appropriate for all countries. With regard to short-term capital flows, ASEAN Finance

Ministers emphasised the need for an effective, globally agreed mechanism to promote closer and more co-ordinated monitoring of short-term capital flows. The recent crisis also highlighted the need for an adequate mechanism to protect the most vulnerable segments of society. In this connection, ASEAN Finance Ministers considered it important to reconcile the objectives of greater economic stability with those of improving the standards of living and the attenuation of the effects of crises on the poor and most vulnerable. The Ministers also considered it timely for a review of the roles of the International Financial Institutions (IFIs). Such a review was essential to ensure greater co-ordination of activities and to ensure that IFIs have the capacity and capability to effectively manage and resolve crises.

At the Special AFMM on 25 November 1999, the ASEAN Finance Ministers reiterated their commitment to persevere with reforms to ensure sustainable recovery. At the same time, the Ministers emphasised the importance for the G-7 (Group of Seven) industrialised nations to pursue policies that were conducive to global financial stability and sustained global growth. The Ministers approved a Work Programme on specific activities to implement the commitments in the area of finance co-operation outlined in the Hanoi Plan of Action adopted by the ASEAN Leaders in December 1998. The Work Programme was designed to promote economic recovery and strengthen the region's competitiveness in order to meet the challenges ahead. Among the major activities, Malaysia will lead in the projects in relation to the greater use of ASEAN currencies and to study the feasibility of establishing an ASEAN currency and exchange rate system as a long-term objective of ASEAN co-operation. With regard to the latter, the IMF had agreed to ASEAN's request and prepared a concept paper on a common ASEAN currency, which was tabled for discussion at the Fifth Meeting of the ASEAN Central Bank Forum in November 1999. The IMF study highlighted the preconditions, costs and benefits of a common currency arrangement. Given the different stages of development in the ASEAN economies, it was agreed that the IMF study should examine in greater detail the implications of a single ASEAN currency. The ASEAN Finance Ministers also agreed on the objectives, principles and elements of the Terms of Understanding for the establishment of the ASEAN Surveillance Process. In particular, the scope of the surveillance activities would include the monitoring and analysis of macroeconomic developments within the region, as well as other specific areas, including structural and sectoral issues, that would be of interest to ASEAN members.

Manila Framework

The Manila Framework continued to meet twice in 1999 to discuss issues relating to regional surveillance, policy options in crisis management and the reform of the international financial system. During the **Fourth Meeting of the Manila Framework** held in Melbourne, Australia on 26-27 March 1999, discussions were focused on the efficacy of IMF programmes in Asia. In particular, the meeting assessed the various approaches in the use of monetary policy in an environment of large and sudden movements in short-term capital flows. The meeting noted that the general conditions under which higher interest rates would work were not yet understood and required further study. Participants agreed that constraints on capital inflows could act as a buffer against adverse effects of volatile capital movements in countries where the banking system was still developing. While recognising that controls can work under certain circumstances, the meeting felt that the use of controls should be market based, specific, temporary and in conjunction with other appropriate domestic policy adjustments. In the discussion on international financial reforms, the meeting focused on the impact of large institutional investors, including highly leveraged institutions on foreign exchange markets, the role of the private sector in forestalling and resolving crises, and transparency. It was noted that the stabilisation of global financial markets and the implementation of supportive fiscal and monetary policies were important in contributing to the economic recovery in the crisis-affected economies.

> The Manila Framework is a regional surveillance process to complement the IMF's global surveillance. Its members comprise finance and central bank deputies from Australia, Brunei Darussalam, Canada, The People's Republic of China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States.

By the time of the **Fifth Meeting of the Manila Framework** on 30-31 August in Singapore, the performance of most of the regional economies had improved significantly. To ensure sustained, broad-based recovery, it was emphasised that progress in bank restructuring should be reinforced by further progress in corporate restructuring. On reforms of the international financial architecture, there was broad support for better disclosure by highly leveraged institutions and better risk management by the creditors and counterparties of such institutions. The Meeting agreed that capital account liberalisation needs to be carefully sequenced within a framework of sound financial supervision and prudential regulation. It should be supported by adequate reporting and surveillance requirements for capital flows. There was also consensus that the choice of an appropriate exchange rate regime should depend on each economy's circumstances and institutional structure. The Meeting agreed that it was important to achieve greater progress to involve the private sector in the prevention and resolution of financial crises.

The Manila Framework meeting in Singapore included, for the first time, the Bank for International Settlements (BIS). This is in addition to the regular participation of officials from the IMF, World Bank and Asian Development Bank (ADB). The participation of the BIS reflects the increased emphasis on financial sector surveillance and provides an avenue for the views of the Manila Framework on the international financial architecture issues to be communicated to the Financial Stability Forum chaired by the General Manager of the BIS.

Asia-Europe Co-operation

The Asia-Europe Vision Group, established under the **Asia-Europe Meeting (ASEM)** process, completed and presented its report to the ASEM Foreign Ministers on 29 March 1999. The report, "For a Better Tomorrow: Asia-Europe Partnership in the 21st Century", envisioned a broad scope of Asia-Europe co-operation encompassing issues on sustaining economic partnership; environmental challenge; educational, cultural and societal exchanges; political and security co-operation; and the ASEM process. A number of areas were identified under the theme of economic partnership. These included liberalisation and open markets. The report recommended that ASEM partners set a goal of free trade in goods and services by the year 2025 by adopting a strategic framework for the progressive freeing of trade in goods and services among Asia and Europe.

On co-operation for financial stability, the major economic players were urged to undertake closer macroeconomic policy co-ordination. The Vision Group focused on the need for Asia and Europe to work together in order to achieve a co-ordinated response matching rapid globalisation. In enhancing Asia-Europe trade and investment, the Vision Group recommended that the ASEM Leaders establish Asia-Europe Business Advisory Councils to institute high-level dialogue to promote Asia-Europe investment. The conclusions and recommendations of the Vision Group's report will be presented to the ASEM Leaders' Summit in Seoul in October 2000.

The Asia-Europe Meeting (ASEM) process emanated from the meeting of Leaders of Asia and Europe held on 1-2 March 1996, to facilitate economic and financial co-operation between the two continents. Members of ASEM are Brunei Darussalam, The People's Republic of China, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, Sweden, the United Kingdom and the European Commission.

The ASEM Finance Officials met in Washington, D.C. on 26 April 1999 in a follow-up to the Second ASEM Finance Ministers' Meeting in Frankfurt, Germany on 15-16 January 1999. Among the agreements reached by the Ministers was that, in the field of financial sector supervision, there was a need for technical assistance to align the current supervisory and legal systems to internationally agreed standards. Member countries were encouraged to submit their request for technical assistance to the European Commission, which would forward them for discussion by the ASEM Finance Officials in April 2000. Malaysia has been a recipient of grants and technical assistance under the ASEM Trust Fund. In the area of strengthening the financial system, BNM is presently undertaking projects on the study of international practices regarding depositor protection and deposit insurance schemes, and on the development of early warning systems, financed by the ASEM Trust Fund.

Asia-Pacific Economic Co-operation

As the chair of the Asia-Pacific Economic Co-operation (APEC) Finance Ministers Process from May 1998 to May 1999, Malaysia hosted the Eighth APEC Finance Working Group Meeting on 23-24 March 1999 in Kuala Lumpur and subsequently chaired the APEC Finance and Central Bank Deputies Meeting in Washington, D.C. on 29 April 1999. Malaysia hosted the Sixth APEC

Finance Ministers meeting in Langkawi on 15-16 May 1999, which heralded the inaugural participation of the Finance Ministers of Peru, Russia and Vietnam into the forum. New Zealand assumed the chair of the APEC Finance Ministers Process and hosted the Deputies meeting in Wellington, New Zealand on 26-27 August 1999 and the APEC Leaders Summit in Auckland, New Zealand on 13 September 1999.

Since the meeting in Kananaskis, Canada in May 1998, the economic climate had improved markedly. Nonetheless, the meeting in Langkawi accorded the opportunity for Finance Ministers to take stock of the economic and financial situation in the region, explore ways to further strengthen economic fundamentals to accelerate the recovery process, and to meet the longer-term challenges. Malaysia, together with the World Bank, presented a background paper on the experience of the crisis-affected economies in East Asia and Latin America, and the lessons from the crisis for a discussion on mitigating the impact of the crisis on the poor. In addition, APEC Finance Ministers discussed the issue of appropriate exchange rate regimes and concluded that any regime adopted must be supported by consistent policies and robust financial systems. The importance of peer surveillance, restructuring of the financial and corporate sectors, as well as the need for a stronger international financial architecture was also stressed by Ministers. In the discussion on the international financial architecture, there was general agreement on the need for greater transparency and disclosure by market participants and the need to involve emerging market economies in discussions on the reform process. Ministers noted that the approach to capital account liberalisation should be properly sequenced, taking into account the specific circumstances of individual countries. Social issues are also an important element in the new architecture and crisis resolution procedures should take into account the social impact.

Members of APEC are Australia, Brunei Darussalam, Canada, Chile, The People's Republic of China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russian Federation, Singapore, Taiwan, Thailand, the United States and Vietnam.

In the area of finance, various on-going initiatives under the APEC Finance Ministers process were discussed. These included efforts to strengthen financial market supervision; pension fund reform; supporting the development of credit rating agencies and strengthening information disclosure standards; and development of the domestic bond market. Ministers also reviewed the development of a Voluntary Action Plan for Supporting Freer and Stable Capital Flows to enable economies to benefit from and minimise the risks of capital account liberalisation. Malaysia led and presented the results of the initiatives on Strengthening Corporate Governance in the APEC Region and on a Survey on the Adequacy of the Bank Supervisory Regimes in APEC Economies. Ministers approved recommendations contained in the report on governance and urged member economies to take early and comprehensive implementation of reforms to enhance corporate governance. Meanwhile, the results of the survey on adequacy of bank supervisory regimes showed that member economies have achieved a high degree of compliance with the requirements of the Basle Core Principles for Effective Banking Supervision. The Ministers also agreed on the need to expedite the development of the domestic bond market.

During the Meeting of APEC Finance and Central Bank Deputies in Wellington, New Zealand on 26-27 August 1999, the discussions focused on the proper sequence and timing for liberalising capital accounts, ways to further improve IMF surveillance and programmes, a review of the status and progress in implementing international standards, as well as options to involve the private sector in the resolution and containment of crises. In addition, the meeting discussed the applicability of debt standstills to Asia. Deputies also considered measures to promote APEC co-operation via members' efforts to strengthen financial markets.

The work programme of APEC Finance Ministers was endorsed by The APEC Leaders' Summit on 13 September 1999 in Auckland, New Zealand. The APEC Leaders encouraged the Finance Ministers to continue with their efforts to strengthen domestic financial markets and secure the foundation for the return of capital to the region. Towards this objective, the APEC Leaders stressed that there should be enhanced supervision of financial markets, development of domestic bond markets based on an APEC Compendium of Sound Practices published in early September 1999 and development and application of agreed corporate governance principles. APEC Leaders also tasked the Finance Ministers to develop uniform banking standards that will allow greater transparency and accountability among international banks and thereby reduce high-risk lending, especially for speculative purposes.

G-15

The **Ninth Summit of the Heads of State and Government of the Group of Fifteen Developing Countries (G-15)** was held on 10-12 February 1999 in Montego Bay, Jamaica, with Sri Lanka joining as the 17th member of the Group. Noting the slow progress being made in the reform of the international financial system, the Leaders called for concrete steps in a number of areas. These included the need for an appropriate mechanism and rules to monitor and supervise the operations of large financial market players, including hedge funds and currency speculators; and the inclusion of social safety nets as an integral part of development policies and programmes, at both the micro and macro levels. The Leaders reiterated that liberalisation of the capital account should be carried out in an orderly, gradual and well-sequenced manner. In addition, the reform process should be a consultative process involving both the developed and developing countries.

G-15 comprises Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Sri Lanka, Venezuela and Zimbabwe.

D-8 Summit

Economic co-operation among the Islamic countries was further enhanced in 1999. At the **Second D-8 Summit** on 1-2 March 1999, Leaders held discussions on a diverse range of issues and programmes of co-operation. On financial issues, D-8 Leaders expressed concern over the lack of progress in the reform of the international financial architecture, that was needed to guard against possible recurrence of crises as well as new threats of instability and protectionism. Leaders noted that such reforms should be a global effort, involving the developing as well as developed countries so that the diverse experiences, problems and circumstances of countries at different stages of development are taken into account. The Leaders supported the call for greater transparency and disclosure, and noted that it should apply equally to both the public and private sectors. On globalisation, mindful of the risks of destabilisation and increased inequality between developed and developing countries, the Leaders stressed the need to address all aspects of globalisation, including the establishment of appropriate safeguards to minimise the risks and to ensure that benefits of globalisation are shared by all.

D-8 is a forum of functional co-operation, which exploits the element of comparative advantage, complementarity, economies of scale and a commonality of interest, so that real benefits can accrue to the D-8 member countries. D-8 members are Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

With respect to the D-8 programme of co-operation, Malaysia has agreed to organise activities to enhance the capacity of an existing re-takaful company to meet the needs of D-8 countries. In this connection, Malaysia has convened a workshop to draw up the modus operandi and formulate the appropriate strategies to promote takaful and re-takaful activities on 31 May to 1 June 1999 in Kuala Lumpur. Subsequently, a Conference on Takaful was held on 2-3 June 1999 and a Seminar on Islamic Banking and Finance was also organised on 2-4 June 1999 with participation from all D-8 countries.

Central Banking Fora

ASEAN Central Bank Forum

An important area of central banking co-operation was the meeting of the **ASEAN Central Bank Forum (ACBF)**. **The Fifth ACBF** was held in Hanoi, Vietnam on 3 November 1999. In discussing the current economic and financial developments, there was a general commitment by members to persevere with structural reforms to ensure the pace of recovery is sustainable. During the meeting, the IMF made a presentation on its latest initiative to expand IMF surveillance to include the financial sector. The absence of ASEAN involvement in the new and voluntary IMF Financial Sector Assessment Programme signalled the ASEAN economies' commitment to focus their efforts on economic recovery and restructuring.

The ACBF was established in 1997 to facilitate frank and open exchange of views between ASEAN central banks and monetary authorities on monetary policy and general macroeconomic and financial matters and to highlight policy issues that might require the attention of the ASEAN Finance Ministers.

The meeting also discussed the IMF study on the concept of an ASEAN currency arrangement. The study highlighted the preconditions as well as the costs and benefits of such an arrangement. While members recognised that a single currency would improve fiscal discipline, there was concern over the loss of monetary autonomy. Members also highlighted that given the diversity, different stages of development, and macro and microeconomic as well as institutional differences in the ASEAN economies, more work was needed to fully assess the costs and benefits of a single ASEAN currency. The meeting agreed that the study needed to examine more deeply the benefits of a common currency for ASEAN.

The Fifth ACBF also discussed the future of the **ASEAN Swap Arrangement (ASA)**, an ASEAN financial arrangement which was first established under a Memorandum of Understanding signed on 5 August 1977 by the central banks of Indonesia, Malaysia, Philippines, Thailand and the Monetary Authority of Singapore. The objective of the ASA is to provide short-term liquidity to member countries facing a temporary balance of payments need. Under the present arrangement, 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. It was agreed that the agreement be renewed for another one year period, pending a comprehensive review of the facility to identify and rectify its shortcomings, as well as to explore the benefits and feasibility of alternative arrangements. The Eighth Supplementary Agreement to the Memorandum of Understanding on the ASA was signed on 27 January 2000.

SEACEN

The Annual Conference of Governors of **South-East Asian Central Banks (SEACEN)** represents one of the earliest fora on regional surveillance. In addition to reviewing economic and financial developments, the Governors also reviewed the progress of activities of the SEACEN Centre and approved its budget and proposed programme for the new operating year. During the Thirty-Fourth Conference in Seoul, Korea, on 20-21 May 1999, the discussions among Governors focused on the lessons drawn from the recent crisis and the importance of closer international co-operation in building a new international financial architecture. Governors also considered it important for the SEACEN Research and Training Centre to strengthen and expand its training for financial supervisors to support ongoing efforts to strengthen the financial sector in SEACEN countries. The Governors agreed to a strategic review of the future role of the SEACEN Centre to ensure that it would effectively meet the changing needs of its membership, given the significant changes that had taken place in the recent period.

During their Thirty-Fifth Conference in Kuala Lumpur on 27-28 January 2000, SEACEN Governors discussed the preliminary report on the Strategic Review. The final report, which will be completed by May/June 2000, would set the future direction of the SEACEN Centre to effectively achieve its objectives in meeting the research and training needs of the regional central banks.

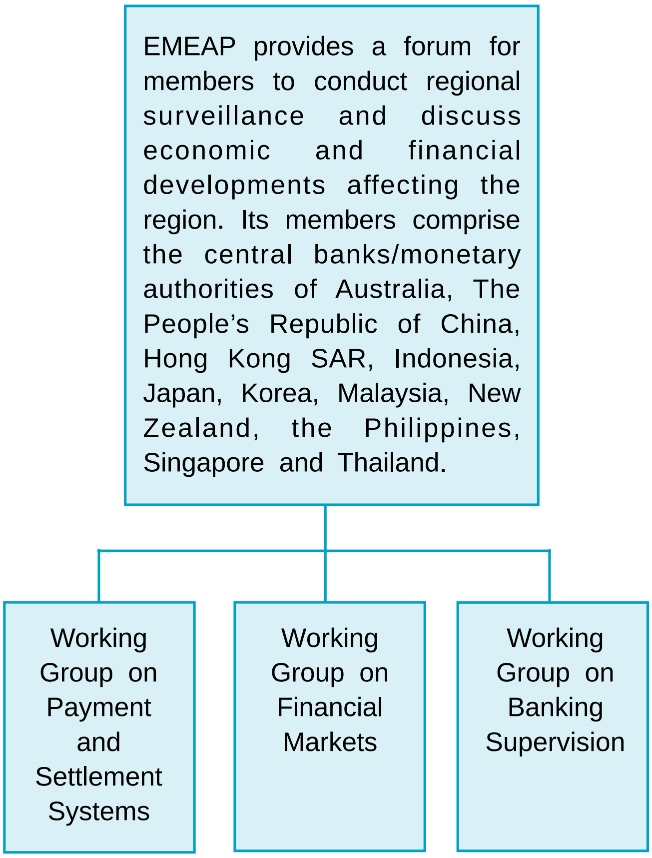
SEACEN was established to promote greater understanding of monetary, banking and economic development matters which are of interest to its member central banks and monetary authorities, through conferences and activities of its research and training centre. SEACEN members comprise the central banks and monetary authorities of Indonesia, Korea, Malaysia, Mongolia, Myanmar, Nepal, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand.

In considering options to further enhance the role of the SEACEN Centre as a world-class centre for co-operation in research and training in central banking polices and operations, Governors encouraged the Centre to expand its collaborative training programmes through strategic alliances with other international and bilateral agencies. To further enhance SEACEN co-operation, the Governors agreed to expand the membership of the Board of Directors of the SEACEN Centre to include two additional members from other SEACEN central banks on a rotation basis.

In their deliberations on economic and financial matters, SEACEN Governors noted that the crisis-affected SEACEN economies recovered sooner than expected in 1999. The recovery was expected to be sustained in the year 2000 with stronger economic fundamentals in the medium term. While inflation would not be an issue despite higher GDP growth, Governors noted the need to be cautious and to persevere with policies to achieve growth with price stability while continuing with efforts aimed at strengthening the financial sector. The Governors emphasised the need for an orderly liberalisation of the capital account as part of the reform process. It was recognised that developments in the capital markets need to be monitored closely in view of the potentially destabilising implications. Governors also agreed to exchange views and assess the efficacy of inflation targeting in the conduct of monetary policy, given the different structure of the economies in the region.

EMEAP

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)**. As with the previous year, three meetings were held (two at the Deputies' level and one at the Governors' level) during 1999. The Seventeenth EMEAP Deputies' Meeting was held in Melbourne, Australia, on 25 March 1999. This was followed by the Fourth EMEAP Governors' Meeting in Hong Kong SAR on 9 July 1999, and the Eighteenth EMEAP Deputies' Meeting in Tokyo, Japan, on 29 October 1999. The Nineteenth EMEAP Deputies' Meeting was held in Hong Kong SAR on 18 March 2000.



In general, the EMEAP meetings provided the opportunity for members to conduct regional surveillance and take stock of the progress of activities in the three working groups. BNM hosted the back-to-back meetings of the three working groups on 4-5 March 1999 in Kuala Lumpur.

Common themes in the EMEAP meetings convened in 1999 were deliberations on financial policy options during a crisis and the reform of the international financial architecture (IFA). In particular, at the Seventeenth EMEAP Deputies' Meeting, members discussed and agreed on a common position on the role of monetary policy in a crisis, as well as ways to better manage capital flows to avoid undue volatility. With regard to the former, it was agreed that the prescription of higher interest rates during the Asian crisis was not only ineffective, but also aggravated problems in the corporate and financial sectors. The meeting noted that more research was needed to identify the conditions where higher interest rates would work in restoring confidence. With reference to the latter, the meeting agreed that the use of capital controls might be beneficial in specific and exceptional circumstances. However, preference was for such controls to be market-based, specific, temporary, and in conjunction with appropriate domestic policies. Deputies also agreed that greater involvement by the private sector in resolving crises would help to attenuate the problem of moral hazard. Moreover, the role of Highly Leveraged Institutions (HLIs) in the recent crisis prompted calls for greater transparency from both the private and public sectors, including some form of regulation for the HLIs.

The discussion on IFA reforms at the Fourth EMEAP Governors' Meeting on 9 July 1999 also included a discussion of reform efforts in other fora such as the G-7 and the Financial Stability Forum (FSF). The meeting agreed on a common view which included the need for the private sector to match public sector transparency, the need for international co-operation to address the potentially destabilising impact of the activities of the HLIs on the financial systems of the small- and medium-sized open economies, and the importance of emerging market economies' involvement in the process of reforming the IFA. The EMEAP's views on these issues were conveyed to the IMF and the FSF. These issues were also discussed by EMEAP Governors with Mr. Andrew Crockett, General Manager of the BIS, at a special session on 10 July 1999. Mr. Crockett stressed that while the international financial system will remain market-based and that the global surveillance function will remain with the IMF, other aspects needed to be changed.

The EMEAP Governors also addressed issues pertaining to the preparedness of members in the face of the Year 2000 (Y2K) problem. Members were advised to prepare for possible liquidity shortages and upward pressure on interest rates as financial institutions and the general public demand more liquid funds in preparing for contingencies in the new Millennium. Members exchanged information and shared plans on managing year-end financial operations to cope with any Y2K problem.

At the Eighteenth Deputies' Meeting in Tokyo on 29 October 1999, EMEAP Deputies agreed on a study on exchange rate regimes to be initiated by the Bank of Japan. The study, when completed, would be submitted to other international organisations, such as the IMF.

A new initiative under the EMEAP Working Group on Financial Markets was the establishment of a forum among EMEAP members to enable an informal, and where appropriate, technical dialogue on developments in foreign exchange markets. The first Regional Foreign Exchange Markets Monitoring Meeting was held on 2 March 2000 in Hong Kong SAR. Meanwhile, the Working Group on Banking Supervision introduced the Six Guidance Notes regarding the definition, classification and disclosure of problem loans. The objective of the Guidance Notes is to try to facilitate the alignment of practices and standards in respect of problem loans by EMEAP members. While adoption of the Guidance Notes is not compulsory, members were encouraged to work towards these common standards.

Technical Assistance and Information Exchange

As part of the Bank's policy to share its expertise with interested parties, BNM continued to provide technical assistance to foreign public and private sector institutions in 1999. The assistance was in the form of training and attachment programmes, study visits, and briefings on various aspects of central banking in Malaysia. During the year, the Bank received 48 foreign delegations for study visits. The delegations were from the central banks, government agencies and private sector organisations of Bahrain, Brazil, Brunei Darussalam, Fiji, India, Indonesia, Kingdom of Lesotho, Lao PDR, Namibia, Papua New Guinea, Peoples' Republic of China, Republic of Djibouti, Republic of Guinea, Saudi Arabia, Sri Lanka, Sudan, Thailand, Vietnam, and Zimbabwe. Briefings to the study groups covered various aspects of central banking, including money market operations, the development of Islamic banking in Malaysia and policy initiatives in response to the Asian crisis. In addition, BNM participated in the Malaysian technical assistance programme to the Kyrgyz Republic. The programme, under the Special Joint Malaysian-Kyrgyz Commission, was in its second phase of monitoring the implementation of recommendations contained in an earlier joint study. The recommendations covered all aspects of economic development policies for the Kyrgyz Republic, including the principles to guide monetary policy formulation.

A team of officers from The Reserve Bank of India and Bank of Thailand visited BNM to study Malaysia's bank supervision and payment systems respectively. In addition, briefings on the latest developments in the Malaysian economic and financial system were conducted for delegations from Finland, France, Japan, Singapore, the United Kingdom and the United States of America. The Bank also offered 10 places at the Central Banking Course conducted by the Bank's Human Resource Development Centre to foreign participants under the Malaysian Technical Co-operation Programme. The participants were from the central banks of Benin, Brazil, Ghana, Indonesia, Jamaica, Namibia, Sri Lanka and Vietnam.