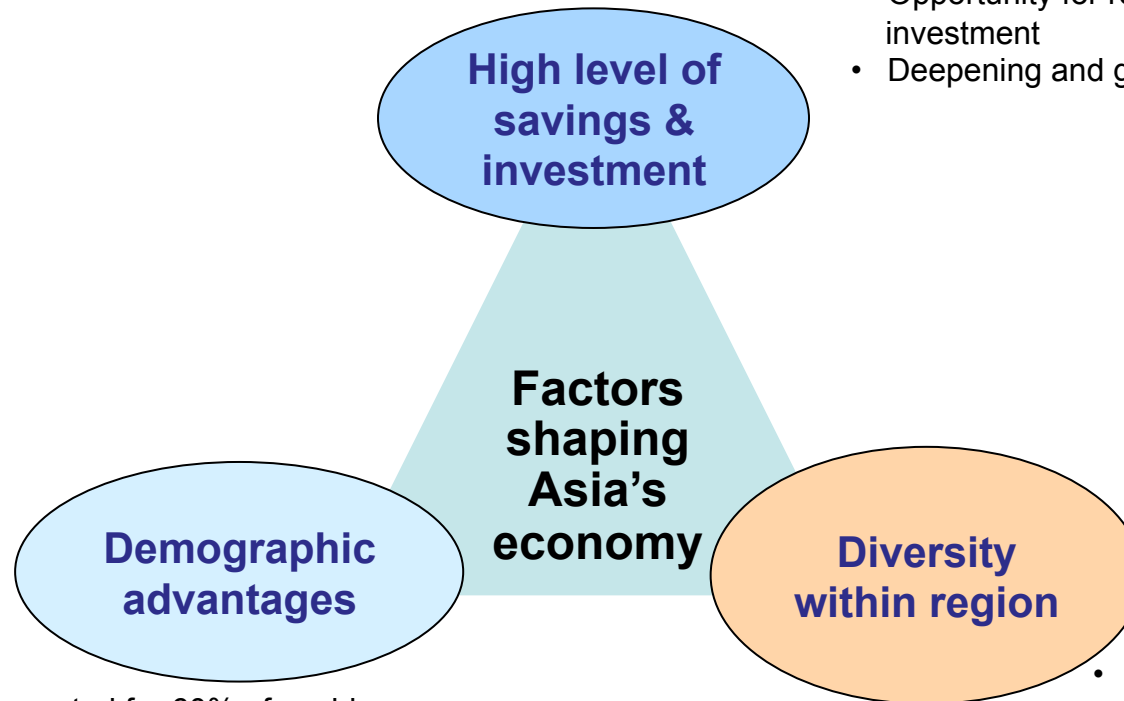


**CEMLA's 60<sup>th</sup> Anniversary Commemorative Conference**  
**“Central Bank Cooperation at the Beginning of the 21<sup>st</sup> Century”**  
**Mexico City, 19-20 July 2012**

**Panel 2**  
**Central Bank Cooperation: The**  
**Experience of Emerging and**  
**Developing Economies**

**Nor Shamsiah Yunus**  
**Deputy Governor**  
**Bank Negara Malaysia**

# Changing economic and financial environment in the Asian region



- Average savings rate in Asia is 35%
- Opportunity for recycling savings for productive investment
- Deepening and greater financial market linkages

- Accounted for 60% of world population
- Asia's middle class is growing
  - ✓ currently 500 million and expected to exceed 3 billion people by 2030
- Greater domestic demand

- Level of development
- Resources endowment
- Market structure
- Economic structure
- Degree of openness & market orientation
- Governing frameworks and policies

# Lessons from Asian financial crisis shaping central banking cooperation

## Asian Economic & Financial Landscape Post-Crisis

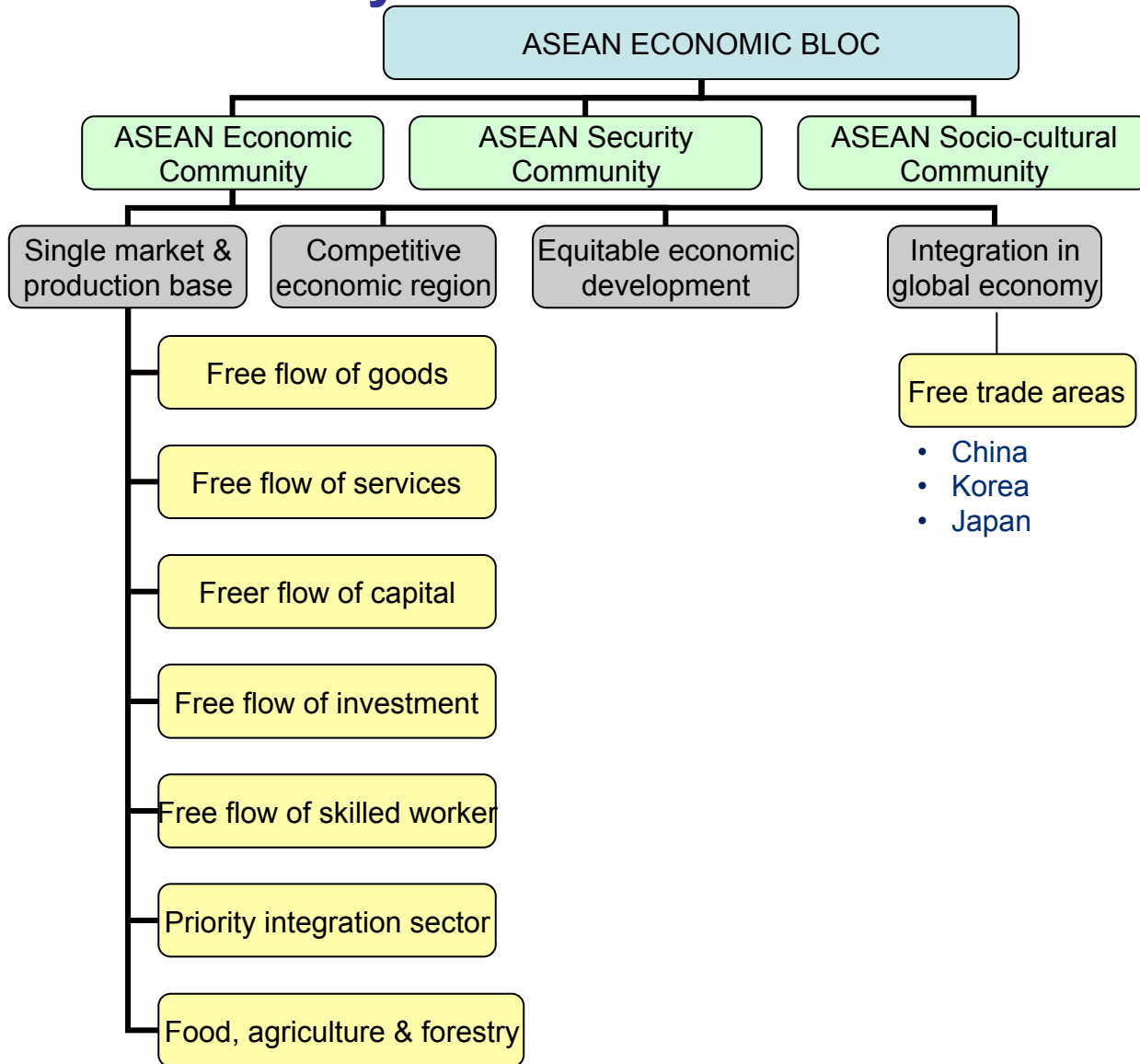
- Increased regional and global interdependence and inter-linkages
- Increased volatility in financial flows
- More diverse and complex economic and financial issues
- Heightened risk of contagion
- Increased cross-border activities
- Greater and increased external risks

## Way Forward

- Asia to pursue greater trade and financial integration to unlock growth potential and ensuring benefits of development are widely shared
- Regional financial stability and strong financial system crucial for greater economic resilience and sustainable growth



# Asia's vision for greater inter-linkages of trade and investment by 2015



- Focus on trade and financial integration – not monetary unification and single currency
- Financial sector to play the roles of enabling and facilitating growth
- Sequenced liberalisation of financial sector and capital account
- Development of regional financial market and infrastructure
- Crisis management

# Cooperation among central banks integral for economic resilience and sustainable growth

## Why cooperate?

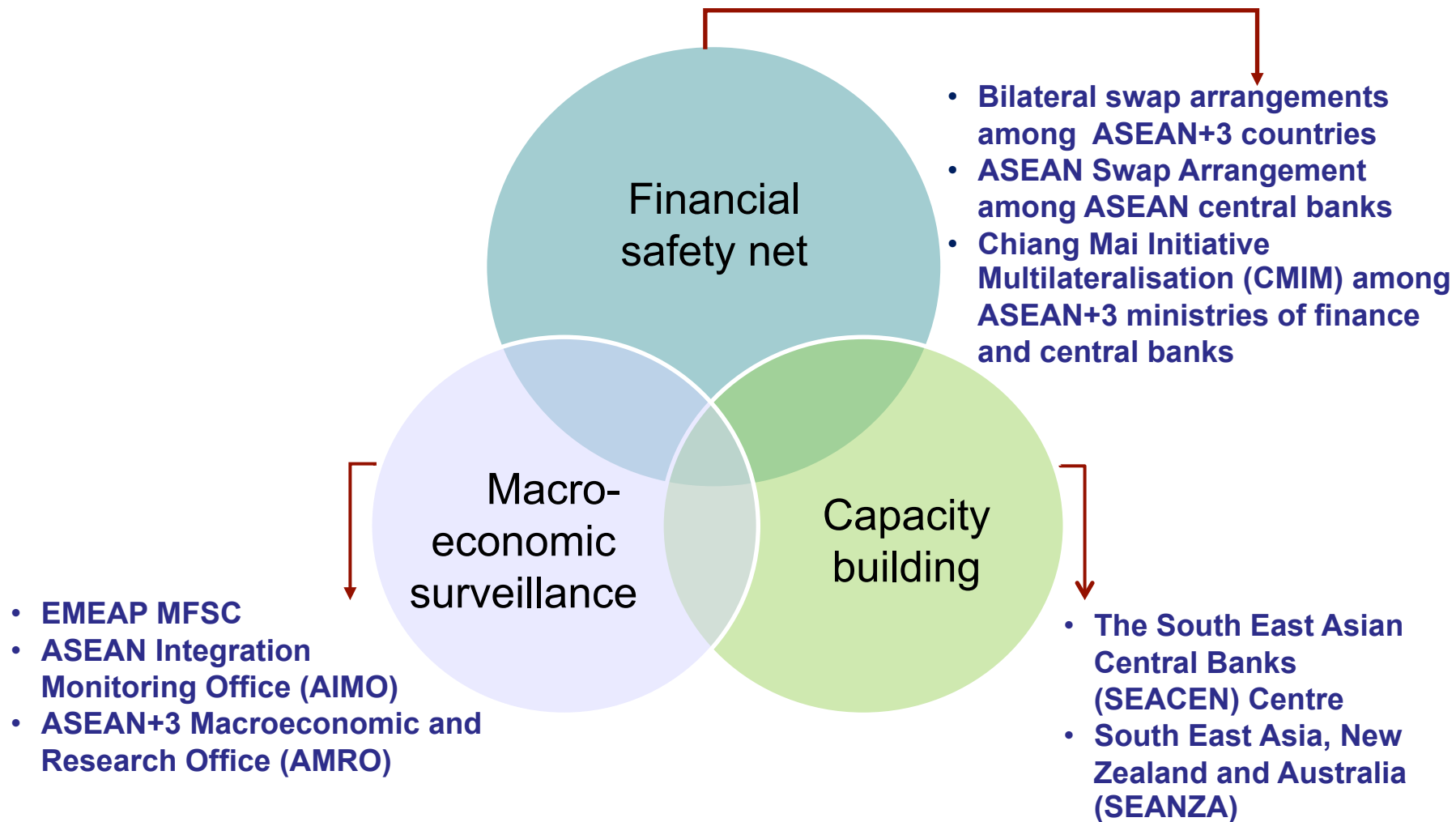


- Achieve greater mutually self-reinforcing economic growth thus accelerate economic development and growth process in the region - inclusive regionalism
- Support trade and investment linkages driven by the private sector
- Enhance interface with multilateral institutions & strengthen voice

## Key Groupings

- Monetary and financial cooperative efforts to strengthen economies' resilience to crisis
  - ✓ EMEAP Monetary and Financial Stability Committee (MFSC)
  - ✓ ASEAN+3
  - ✓ APEC
- Trade and investment linkages
  - ✓ ASEAN through Working Committee on Financial Services Liberalisation, Capital Account Liberalisation, Capital Market Development and Payment and Settlement Systems
  - ✓ ASEAN+3 through initiatives under Asian Bond Market Initiatives (ABMI) in deepening regional bond market
  - ✓ APEC
- ASEAN+1 FTAs with China, Japan and Korea

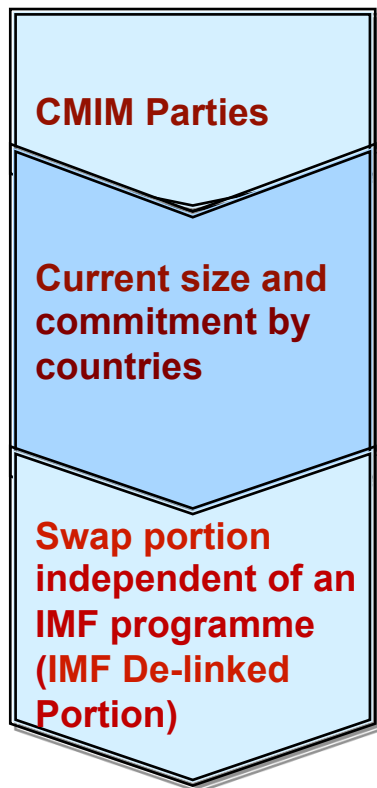
# Focus on regional crisis management framework to strengthen financial stability



# Financial safety net through Chiang Mai Initiative Multilateralisation (CMIM)

- CMIM is a self-help and self-determined liquidity support mechanism among ASEAN +3 countries
- Key objectives of CMIM:
  - ✓ addressing short-term liquidity difficulties in the region
  - ✓ supplementing existing international financial arrangements

## Key Elements



✓ 13 ASEAN+3 Finance Ministers

✓ 14 ASEAN+3 Central Bank Governors, including Monetary Authority of Hong Kong

Current size:  
USD 120 bn  
(increased to  
USD240 bn in  
May 2012)

Plus Three  
(80%)

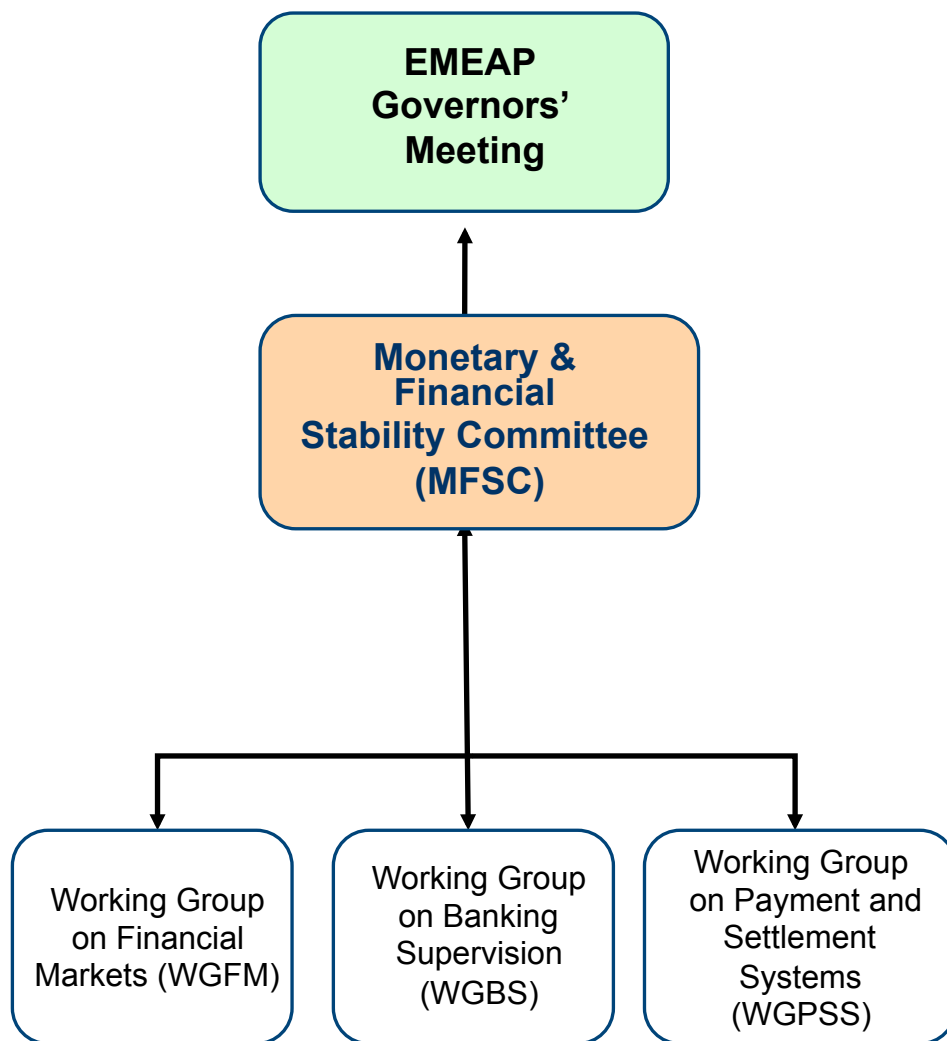
ASEAN  
(20%)

China, Korea & Japan  
(incl. HK) = USD192 bn

ASEAN-5 &  
Brunei, Lao PDR,  
Cambodia, Vietnam &  
Myanmar = USD48 bn

✓ Increased from 20% to 30% in 2012, with a view to increasing it to 40% in 2014 subject to review should conditions warrant

# Macro surveillance conducted through Monetary and Financial Stability Committee (MFSC)



- The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) is a cooperative organisation of central banks and monetary authorities in the East Asia and Pacific region.
- MFSC was established under EMEAP in 2007 to enhance regional collaboration and cooperation in the area of macro-monitoring and crisis management.
- Key Working Groups:
  - ✓ WGFM – develop central bank services and foreign exchange, money, and bond markets. The WGFM played a key role in forming the "Asian Bond Fund".
  - ✓ WGBS – develop and monitors banking supervision issues that are of interest to central banks.
  - ✓ WGPSS – develop and monitors domestic and cross-border payment and settlement systems



# Capacity building for regional financial stability and integration agenda by SEACEN

## OBJECTIVES

- Promote better understanding of financial and economic matters which are of interest to the region
- Stimulate and facilitate cooperation among member central banks in research and learning programmes

## VISION

To be the regional learning hub for Asia-Pacific central banks

## ACHIEVEMENTS

### Learning Programmes

- 12, 649 central bank officials have been trained as at end-March 2012
- 20 courses on average conducted annually
- Courses contextualised to meet region's needs
- Focus is on 4 knowledge blocks: Macroeconomics and Monetary Policy Management, Financial Stability and Bank Supervision, Payment and Settlement System, and Leadership and Governance

### Research Programmes

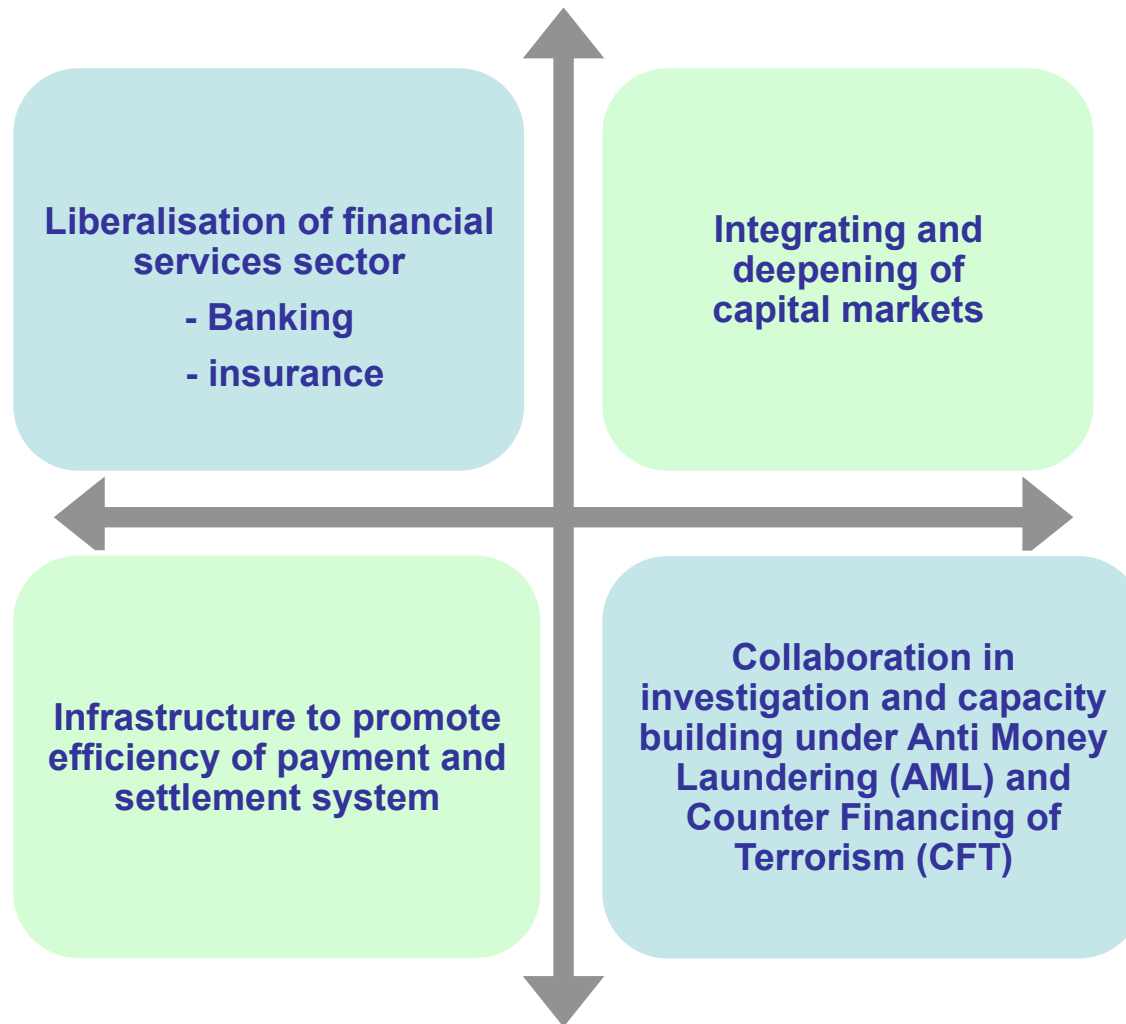
- Focus is on Asia-specific issues, with case studies developed for learning programmes

## NETWORKING & SHARING OF EXPERIENCE

- SEACEN forums facilitate networking across all levels from Governors to technical working level
- Forums foster frank exchange of views on central banking issues, focusing on challenges facing the region



# Regional financial integration to complement trade integration and investment



# Asian Bond Markets Initiative (ABMI)

**Objective: Develop deeper and more liquid capital markets to channel the large pool of regional savings into productive investments**

## TF 1: Promoting Issuance of LCY-denominated bonds

- Credit Guarantee and Investment Facility (CGIF) to support issuance of LCY-denominated corporate bonds in the region with initial capital of USD700mn
- Bond Financing for Infrastructure Projects in ASEAN+3
- ✓ Pilot project on issuance of cross-border bond of Lao Govt. denominated in Thai-baht

## TF2: Facilitating demand for LCY-denominated bonds

- Annual Asian Bond Markets Summit to bring together major players in local capital markets in Asia to discuss latest issues, development and opportunities in Asia's markets
- Improving Asian Bond Online to better disseminate information on efforts under ABMI to institutional investors in ASEAN+3
- Enhance investment environment for institutional investors

## Progress and Achievements

## TF3: Improving regulatory framework

- ASEAN+3 Bond Market Forum as a common platform to foster standardisation of market practices and harmonisation of regulations relating to cross-border bond transactions

## TF4: Improving related infrastructure for bond markets

- Developing infrastructure for the Regional Settlement Intermediary to minimise settlement risks for regional bond transactions

# Asian Bond Fund (ABF)

**Objective: Recycle large savings within the region and help develop bond market in Asia**



ABF1	ABF2
<p><b>Background</b></p> <ul style="list-style-type: none"> <li>• Launched in June 2003</li> <li>• US\$1 billion pooled from the 11 EMEAP central banks only</li> <li>• Investing in dollar bonds issued by 8 EMEAP sovereign and quasi sovereign borrowers</li> </ul>	<p><b>Background</b></p> <ul style="list-style-type: none"> <li>▪ Launched in December 2004</li> <li>▪ Initial seed money of US\$2 billion by the 11 EMEAP central banks</li> <li>▪ Investing in local-currency bonds issued by 8 EMEAP sovereign and quasi sovereign borrowers</li> <li>▪ Comprise of 2 components:               <ul style="list-style-type: none"> <li>✓ Pan-Asian Bond Index Fund (PAIF)</li> <li>✓ 8 single-market funds</li> </ul> </li> </ul>
<p><b>Key Outcomes</b></p> <ul style="list-style-type: none"> <li>• Successfully invested in a basket of US dollar denominated bonds issued by Asian sovereign and quasi-sovereign issuers in EMEAP economies (excluding Australia, Japan and New Zealand)</li> </ul>	<p><b>Key Outcomes</b></p> <ul style="list-style-type: none"> <li>• PAIF now listed in HK &amp; Japan</li> <li>• All 8 single-market funds have successfully completed the 2-phase implementation of ABF2</li> <li>• Size of ABF2 has grown from approx. USD2bn at inception to USD4.92bn in May 2012.</li> <li>• The introduction of the iBoxx has enabled private sector investors to adopt and customise the indices as benchmarks for other fixed income or derivative products in the region.</li> </ul>

# Way forward for Asia

Asia continues to undertake initiatives to facilitate greater regional financial stability and deepen integration agenda

**Future initiatives**



<b>Financial safety net</b>	Enhance crisis prevention function of CMIM
<b>Bond market development</b>	<p>ABMI</p> <p>Further develop current on-going initiatives</p> <ul style="list-style-type: none"> <li>• CGIF</li> <li>• Credit rating system</li> <li>• RSI</li> <li>• Raising financial awareness</li> </ul>
<b>New focus areas</b>	<ul style="list-style-type: none"> <li>• Infrastructure financing</li> <li>• Disaster risk insurance</li> </ul>
<b>Trade</b>	<ul style="list-style-type: none"> <li>• ASEAN Banking Integration Framework (ABIF)                             <ul style="list-style-type: none"> <li>✓ Promote regional financial sector development and stability through presence of strong ASEAN banks with capacity and capability to intermediate a greater level of funds in the region</li> <li>✓ Build capacity to enhance readiness of all ASEAN members to deepen financial integration for greater shared prosperity</li> <li>✓ Promote regional framework on financial stability infrastructure across the region to support deeper financial integration</li> </ul> </li> <li>• ASEAN Framework Agreement on Services (AFAS)                             <ul style="list-style-type: none"> <li>✓ Launching of 6th Round of Negotiation</li> </ul> </li> </ul>

# Appendix



# Central Banks' participation in regional fora

Forum	Objectives
<b>Central Bank Cooperation</b>	
South East Asia, New Zealand and Australia (SEANZA) - 1956	Assist central bank staff capacity building, promote understanding of problems of developing economies, & foster relations & technical cooperation
South East Asian Central Banks (SEACEN) - 1966	Enhance central banks' capacity via research and training
Executives' Meeting of East Asia Pacific Central Banks (EMEAP) - 1991	Strengthen cooperative relationship among members
ASEAN Central Bank Forum - 1997	Policy dialogue forum to strengthen ASEAN efforts to promote price stability, sound financial system, & sustainability economic growth in the region
<b>Finance Ministry-led</b>	
Asia Pacific Economic Cooperation (APEC) - 1994	Exchange views and information on regional financial developments to promote trade & financial sector development & liberalization
Association of Southeast Asian Nations (ASEAN)- 1997	Consultations for macroeconomic & financial matters to monitor changes in global economy & to pursue financial integration
Asia-Europe Meeting (ASEM) - 1997	Policy dialogue & consultation on macroeconomic issues
ASEAN+3 (Japan, Korea and Republic of China) - 1999	Broaden & deepen financial cooperation in East Asia to exchange views & establish regional financial facility



# Central Banks Cooperation: Plethora of fora

Area/Fora	ASEAN	ASEAN+3	APEC	EMEAP	SEACEN	SEANZA
Macro-monitoring	X	X	X	X	X	X
Liquidity support management	X	X				
Financial regulation/supervision				X		
Bond Market Development	X	X		X		
Anti-Money Laundering	X		X			
Harmonisation of regulatory and supervisory rules and policies	X			X		
Capacity building	X	X	X	X	X	X
Payment & settlement systems	X	X		X		

- Focus areas for all groupings: Macro-monitoring and capacity building
- ASEAN, ASEAN+3 and EMEAP focus area: Liquidity support management
- Other focus areas towards financial integration: Bond market development and payment and settlement systems