

The severity and depth of the Asian crisis and the rapid spread of the contagion effects to other countries within and outside the region, heightened the urgency for efforts to enhance regional and international co-operation during the year. Such efforts were initially focused on measures to promote greater transparency of government policies, to enhance regional surveillance and early warning systems for countries to identify potential risks and to promote the adoption of appropriate policy responses to deal with such risks. This approach was premised on the view that the crisis reflected policy shortcomings in the domestic economic and financial system and regulatory framework in the affected countries. As the crisis became more severe and widespread, the international community conceded that in addition to policy adjustments by individual countries, a global solution was also required to address inherent weaknesses in the international financial system that had contributed to the crisis. In particular, emerging problems associated with hedge fund activities that surfaced in August prompted the international community to acknowledge the need to ensure that the process of globalisation proceeded in a more orderly manner, with an appropriate framework to minimise the destabilising effects of volatile international financial flows.

During the year, Bank Negara Malaysia (BNM) continued to participate actively in various international, regional and bilateral fora, and contributed to discussions on the global response to the financial crisis. In particular, the Bank sought to emphasise Malaysia's call for the international community to expedite efforts to seek a global solution to the crisis and to promote reforms in the international financial system to ensure stable and efficient financial markets so that economies can expand with price stability.

Several initiatives have been initiated at the international and regional levels to bring about a speedy resolution to the crisis as well as to strengthen the architecture of the international financial system to prevent and mitigate the impact of future crises. Such initiatives included measures to augment the capacity of the International Monetary Fund (IMF) to respond to future crises. Another

initiative was the special meeting of Finance Ministers and Central Bank Governors of 22 economies (the Group of 22 or Willard Group) to discuss options for crisis resolution and reform of the international financial system. Proposals on long-term reforms to the international financial architecture have been made by the Group of 22, the IMF, the United Nations, Commonwealth, and the Summits of the Group of Seven (G-7), the Group of 15 (G-15), Asia-Pacific Economic Co-operation (APEC) and Association of South-East Asian Nations (ASEAN). Apart from measures to improve transparency and to strengthen domestic economic and financial systems, these fora also called for measures to ensure more equitable burden-sharing in crisis-resolution between debtors and creditors, and between the public and private sectors, promote closer monitoring of short-term capital flows, particularly in relation to highly leveraged operations, greater accountability of international rating agencies, a review of the role of capital controls, an orderly pace of capital account liberalisation, and development of a contingency financing facility to enable countries to avert a crisis. More recent discussions have centred on issues relating to the features of an appropriate exchange rate regime, and mechanisms for ensuring orderly capital flows so that the full benefits of globalisation can be realised. Discussions have also focused on social safety net issues.

The international consensus on the need to strengthen the international financial architecture that had emerged in 1998 is a positive development. The next step would be to build the momentum to translate the proposals into concrete measures. This is a long-term process which would require consultations among the industrial economies as well as the developing countries, to ensure that all views are taken into consideration.

At the regional level, the focus of co-operation in 1998 was on strengthening peer surveillance to complement the IMF's global surveillance role in identifying emerging risks and early policy responses in individual economies and regions. During the year, BNM was directly involved in two regional surveillance efforts, namely, the ASEAN Surveillance Process and the Manila Framework Group of

Finance and Central Bank Deputies. In promoting external relations with developing countries, BNM also continued to provide bilateral technical assistance to a number of central banks.

International Monetary Fund

The 50th meeting of the Interim Committee of the IMF in Washington D.C., on 16 April 1998 endorsed a five-step action plan to help prevent financial crises, and to resolve them when they occur. The action plan included measures to (i) increase transparency of information through the IMF's Special Data Dissemination Standards; (ii) strengthen IMF surveillance over financial sector and capital flows issues; (iii) strengthen international and domestic financial systems, including adoption of international standards on banking, accounting, bankruptcy and corporate governance issues as well as the maintenance of sound and stable macroeconomic policies; (iv) establishment of a Supplemental Reserve Facility (SRF) at the IMF; and (v) measures to ensure that the private sector shared in the burden of debt workouts. On the issue of transparency, the Interim Committee adopted on 16 April 1998 the **Code of Good Practices on Fiscal Transparency - Declaration on Principles**. The Code aims to serve as a guide for members to increase fiscal transparency, and thereby enhance the accountability and credibility of fiscal policy as a key feature of good governance. In addition, the Fund is also expediting work on the code of monetary and financial policies and will be collaborating with relevant international financial institutions and other standard-setting bodies to develop codes and standards on corporate governance, accountancy, and insolvency regimes.

Efforts to strengthen the architecture of the international financial system assumed added urgency at the 51st Interim Committee meeting on 4 October 1998 in Washington, D.C., amidst a scenario of a deteriorating world economic outlook and the spread of the Asian crisis to other regions. Several developments prompted a reassessment of the international community's approach to the crisis. These included the Russian crisis in August 1998, problems in Latin America and the bailout of a large hedge fund, Long-Term Capital Management. These developments threatened the stability of the international financial system and led to a growing recognition that the crisis was not just a problem of domestic economic and financial policy slippages but also reflected weaknesses in the international

financial system. In addition to ongoing measures to improve transparency and standards, and strengthen the capacity of the IMF to assist crisis countries, the Interim Committee called for an in-depth analysis of the prudential and supervisory implications arising from the operations of international institutional investors, including highly leveraged operations, with a view to determining whether additional disclosure requirements or regulations would be appropriate to allow better public assessment of the risks involved. The Committee also requested the IMF Executive Board to study further the use of market-based mechanisms to cope with the risk of sudden changes in investor sentiment leading to financial crises. On capital movements, the Committee urged the Executive Board to review the experience on the use of capital controls, and the circumstances under which such measures might be appropriate. The Committee also emphasised that the opening of the capital account must be carried out in an orderly, gradual, and well-sequenced manner, in tandem with the strengthening of domestic financial systems and development of prudential frameworks.

In view of the Fund's tight liquidity position, arising from substantial assistance to crisis-affected countries, the Committee urged all Fund members to accelerate the process leading to the implementation of the **Eleventh General Review of Quotas** and the fourth **Amendment to the Articles of Agreement of the IMF** to provide for a one-time special allocation of Special Drawing Rights (SDRs). Consensus on both the Eleventh General Review of Quotas and the SDR Amendment was reached at the 49th Interim Committee meeting on 21 September 1997 in Hong Kong Special Administrative Region (SAR), The People's Republic of China. Subsequently, members had until January 1999 to consent to the proposed increase in quotas and SDRs. **Malaysia consented to its portion of the increase in quotas in November 1998**. The Eleventh General Review of Quotas came into force on 22 January 1999 when members having an 85% majority of the total IMF votes consented to the increase. The quota increase would raise IMF resources to SDR212 billion (about US\$297 billion), while the SDR Amendment would provide for a special allocation of SDRs, totalling SDR21.4 billion, to provide all members with an equitable share of cumulative SDR allocations. Malaysia's quota under this Review was raised from SDR832.7 million to SDR1,486.6 million, thus representing 0.701% of the total voting power.

An important development in 1998 was the coming into force of the **New Arrangements to Borrow (NAB)** on 17 November 1998. The NAB is a set of credit arrangements between the IMF and 25 members and institutions to provide supplementary resources to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. A total of SDR34 billion (about US\$48 billion) will be available to the IMF under the NAB. The first activation of the NAB was in connection with the US\$18 billion IMF standby arrangement to Brazil under the US\$41.5 billion international financial assistance package. The NAB contribution amounted to SDR9.1 billion (about US\$12.7 billion) which will be drawn down by Brazil under the IMF's Supplemental Reserve Facility (SRF). In addition, the World Bank committed to provide up to US\$4.5 billion to support the Brazilian programme. An equal amount was also provided by the Inter American Development Bank. Brazil's programme also received bilateral support from a number of industrial countries in North America, Europe and Asia whose governments or central banks would provide through, or in co-ordination with, the Bank for International Settlements (BIS) additional financing totalling approximately US\$14.5 billion, to be drawn down in 1999.

The Willard Group or the Group of 22

On 16 April 1998, the United States convened a special meeting of Finance Ministers and Central Bank Governors to explore options to address the crisis and to examine issues related to the stability of the international financial system and effective functioning of global financial markets. Subsequently referred to as the Willard Group or Group of 22 (G-22), the group represented a cross-section of countries from the emerging economies and G-10 countries. Officials from the IMF, World Bank, BIS and Organisation of Economic Co-operation and Development, International Organization of Securities Commissions also attended the meeting. The G-22 members from East Asia included Malaysia, Thailand, Singapore, Hong Kong SAR, Japan, Korea and The People's Republic of China. The G-22 formed three working groups aimed at discussing options to (i) increase transparency and accountability; (ii) strengthen financial systems; and (iii) prevent international financial crises and facilitate the orderly and co-operative resolution of crises that may occur in the future. Malaysia participated in two of the working groups, namely, on transparency and accountability, and on

strengthening financial systems. The three working groups have completed their findings and the reports are a basis for future work on the new international financial architecture.

During the G-22 meeting on 5 October 1998, the Finance Ministers and Governors expressed a strong commitment to implement the recommendations of the three working groups. They stressed the need to promote safe and sustainable capital flows by strengthening prudential regulation in major financial centres and by further improvements in transparency and accountability by both the public and private sectors, including highly leveraged financial institutions. The meeting also stressed the importance of strengthening financial systems, including ways to motivate countries to adopt and enforce international standards, and to maintain sustainable exchange rate regimes backed by consistent macroeconomic policies. The meeting endorsed the need to develop new ways to prevent and respond to crises, including the development of better management of risk by the public and private sectors, and effective debtor-creditor regimes to limit financial crises and facilitate their prompt and orderly resolution.

The views of the G-22 were endorsed by the Group of Seven (G-7). On 30 October 1998, the G-7 Leaders adopted a plan which represented both immediate and long-term measures to deal with the problems in the international financial system. The immediate measures included a reduction in interest rates in the industrial countries (Canada, Italy, Japan, the United Kingdom and the United States) and economic and financial reform to promote recovery in Japan, which were seen as vital to promoting recovery in the crisis-affected countries. It also included the establishment of an enhanced IMF facility to provide precautionary credit lines that could be drawn upon if needed by countries pursuing strong IMF approved policies, accompanied by bilateral finance, on a case by case basis, and with appropriate private sector involvement; and the establishment of a new World Bank emergency facility, which would provide in times of crisis, support for the most vulnerable groups and support for critically needed financial sector restructuring and the increased use of financing tools to catalyse private flows.

The G-7 also endorsed several long-term measures to reform the international financial system

to maximise the benefits of globalisation, minimise the risks of disruption and better protect the most vulnerable segments of society. These proposals were mainly based on the recommendations of the G-22, and included the following: (i) the need to examine the implications of operations of highly leveraged and offshore institutions, with a view to encouraging offshore centres to comply with internationally agreed standards; (ii) social safety nets to protect the most vulnerable in times of crises; and (iii) strengthening the role of the IMF, the World Bank, and other international financial institutions. On 20 February 1999, G-7 Finance Ministers and Central Bank Governors endorsed the recommendations by the Basle Committee on Banking Supervision on measures to mitigate risks in dealing with Highly-Leveraged Institutions (HLIs), including hedge funds. The meeting agreed to review the implications arising from the operations of HLIs and of offshore centres on the framework of financial supervision, including the need for additional reporting and disclosure by HLIs. The G-7 also announced the establishment of a Financial Stability Forum to foster closer and more effective co-ordination among national and international authorities and relevant international supervisory bodies and expert groups to promote international financial stability, improve the functioning of the markets and reduce systemic risk.

On 15 December, the United Nations General Assembly adopted several resolutions which requested: (i) the IMF and relevant international regulatory bodies to consider additional regulatory and disclosure measures to ensure greater transparency of financial market participants, including international institutional investors, particularly of highly leveraged operations; (ii) the international community to pursue national and international efforts, at the inter-governmental and inter-agency levels, to contribute to minimising the excessive volatility of global financial flows, and to distribute in a more equitable manner the costs of systemic adjustments between the public and private sectors; and (iii) the IMF to facilitate dialogue among relevant actors to consider the possibility of establishing frameworks for short-term capital flows and trade in currencies. More recent suggestions to strengthen the architecture of the international financial system have included institutional reforms such as proposals to review the roles of the international financial institutions to ensure closer collaboration and to avoid the duplication of functions.

On the whole, progress on the reform of the international financial system was limited in 1998. Nevertheless, a major achievement during the year was the recognition of issues raised by Malaysia at the onset of the crisis during the Joint IMF/World Bank Annual Meetings in Hong Kong SAR in September 1997. The views of the IMF Interim Committee, G-22, United Nations and the G-7 represent an important recognition of the current problems in the international financial markets. Their policy statements indicate the commitment of the global community to reform the architecture of the international financial system. The task ahead remains substantial, as much work is needed to put in place concrete measures and mechanisms to implement the proposed reforms. Such efforts will take time to arrive at the necessary international consensus. To date, questions of how or which institution or forum should oversee the design and implementation of the proposed reforms remain unclear. The Brazilian crisis, however, highlights the need to accelerate efforts at effecting the reforms.

World Trade Organisation

The World Trade Organisation (WTO) financial services negotiations were concluded on 12 December 1997, with all participating members agreeing to accord most-favoured-nation (MFN) treatment for the market access and national treatment commitments contained in their respective schedules of commitments. The negotiations were concluded among 102 countries, where 70 countries made improved commitments for market access and national treatment. Malaysia participated actively in the negotiations and made substantial improvements, including offering six new licences for life reinsurance and increasing the aggregate foreign shareholding in the insurance sector to 51%, under certain circumstances. (Details provided in BNM 1997 Annual Report). The member countries were required to ratify the agreement by 29 January 1999 and the agreement has come into effect on 1 March 1999. As at 29 January 1999, 54 countries, including Malaysia, had ratified the agreement.

ASEAN Co-operation

ASEAN co-operation was further strengthened in 1998 as member countries sought to address the challenges posed by the Asian crisis. At the **Second Meeting of the ASEAN Finance Ministers** on 28 February 1998 in Jakarta, Indonesia, Ministers

supported the use of regional currencies for intra-ASEAN trade settlement. They endorsed the use of Bilateral Payments Arrangements (BPAs) as proposed by the Special Task Force of the ASEAN Central Banks, which met on 27 February 1998 in Kuala Lumpur. The objectives of the BPA would be to enhance intra-ASEAN trade and strengthen ASEAN economic and financial co-operation. Ministers agreed that the BPA would be implemented on a voluntary basis, with a view to evolving the facility into a multilateral arrangement over the long term. The mechanism would facilitate trade settlement on a net basis. It would be market-oriented, aimed at enhancing efficiency in trade settlements, without involving subsidies or additional costs on existing market trade settlement systems. The BPA would operate in parallel with the existing trade and payment system, and would not impose additional restrictions or controls on international trade and payments. It would also operate within the existing international agreements governing the conduct of international trade and payments (including the WTO and the IMF) and domestic regulations and legislation. Reflecting the ASEAN commitment to this initiative, Bangko Sentral ng Pilipinas signed a BPA with BNM on 11 July 1998. Negotiations are at an advanced stage for a similar agreement between Malaysia and Thailand, while negotiations with Indonesia will commence soon.

During the Second ASEAN Finance Ministers' Meeting, Ministers also agreed to the establishment of an ASEAN Surveillance Process (ASP) in line with their decision at a Special Meeting of ASEAN Finance Ministers in Kuala Lumpur on 1 December 1997. Discussions on options to formalise the ASP dominated the ASEAN Finance Ministers' process in 1998. At the First ASEAN Select Committee Meeting on 7 September 1998 in Kuala Lumpur, Malaysia, ASEAN senior finance and central bank officials agreed on two broad sets of parameters for the ASP. These were (i) general macroeconomic and financial sector performance parameters which would provide the basic information on the status of the economy; and (ii) selected topics on surveillance which would provide important insights into the economic and financial situation and vulnerability of Member Countries. It would also act as an early warning system. The Asian Development Bank (ADB) had agreed to provide technical assistance to facilitate this process.

The **ASEAN Central Bank Forum (ACBF)**, comprising central bank deputies from the ASEAN

region, met twice in 1998. The **Second ACBF** was held on 9 May 1998 in Jakarta, Indonesia and the **Third ACBF** was held on 6 September 1998 in Kuala Lumpur, Malaysia. The meetings provided an opportunity for members to exchange views on recent economic developments and policy responses of each ASEAN country. The IMF also made presentations on the outlook for global growth and short-term prospects in the ASEAN region. The meetings considered the areas of surveillance and logistics of the surveillance process. At the Third ACBF, the Central Bank of Myanmar was admitted as a member of the ACBF as provided for under the Accession of New Members in the Terms of Understanding of the ACBF. The **Fourth ACBF** was held in Singapore on 1 March 1999, where Vietnam was admitted as its eighth member. In addition to surveillance issues, the meeting reviewed the ongoing efforts to reform the international financial architecture. The meeting also agreed to initiate a concept paper on the feasibility of a common ASEAN exchange rate arrangement, as a follow-up from the decision of the Hanoi Plan of Action.

The Heads of State of ASEAN gathered in Hanoi for the **Sixth ASEAN Summit on 16 December 1998**. ASEAN Finance Ministers noted in their report to the ASEAN Heads of State that the most urgent task was to restore the conditions for robust economic growth in ASEAN. Restoring sustainable growth throughout the region would include key elements such as reviving domestic demand, enhancing safeguards for the poor, strengthening banking systems, revitalising financial and corporate sectors, strengthening transparency and governance, and mobilising additional resources to finance growth. In the area of strengthening the architecture of the international financial system, ASEAN Finance Ministers agreed to promote closer collaboration and information-sharing among national and international regulatory authorities, play an active role in international fora, and support an orderly and well-sequenced approach to capital account liberalisation. During the Summit, ASEAN Leaders unveiled the Hanoi Plan of Action aimed at strengthening macroeconomic and financial co-operation within the ASEAN region by the year 2004. The Hanoi Plan of Action proposed, among others, a study on the feasibility of developing an ASEAN exchange rate arrangement as a long-term objective of ASEAN economic and financial co-operation. The Plan also called for the development of an ASEAN Bond Market by the year 2000.

In terms of measures to promote regional financing arrangements, ASEAN central bankers signed the Seventh Supplementary Agreement to the Memorandum of Understanding on **ASEAN Swap Arrangement (ASA)** on 14 July 1998 in Tokyo, Japan. The ASA was renewed for another year to 5 August 1999. The ASA represents a long-standing tradition of ASEAN financial co-operation which was 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 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.

Manila Framework

The Second Meeting of the Manila Framework, comprising 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 was held in Tokyo, Japan, on 26-27 March 1998 to review progress in addressing the present crisis, and to prepare the ground for sustainable growth in the region. Representatives from the IMF, the World Bank and the ADB also attended the meeting. Discussions focused mainly on progress under IMF-supported economic adjustment programmes in Thailand, Korea and Indonesia, but also reviewed developments across the region. An **ad-hoc joint Manila Framework/G-7 Deputies Meeting** was held in Tokyo on 20 June 1998. The Deputies considered that the restoration of the health of the banking system in Japan was critical to the recovery in Asia. Deputies, therefore, welcomed the Japanese Government's efforts to restructure its financial system as a matter of highest urgency, including the prompt disposal of bad assets, acceleration in the implementation of the fiscal stimulus package, and the reform of both corporate and individual income tax structures. Deputies also stressed the importance of addressing the social consequences of the crisis. The **Third Manila Framework Meeting** was held on 7-8 November 1998 in Kuala Lumpur, Malaysia. Deputies welcomed Japan's financial package (Miyazawa Plan) of US\$30 billion to support

economic recovery efforts in Asia. The meeting also welcomed the formalisation of the ASEAN Surveillance Process based on peer review which would complement regional surveillance within the Manila Framework Group.

Asia-Europe Co-operation

The **Second Asia-Europe Meeting (ASEM 2)** was held in London on 3-4 April 1998. It was attended by Heads of State and Government from 10 Asian nations (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, The People's Republic of China, Japan and Korea) and 15 European nations as well as the European Commission. In their discussions on the reform of the international financial system, the Leaders focused on crisis prevention and reducing the vulnerability of domestic financial systems to potential shocks, including speculation-induced instability. In this regard, the Leaders called for strengthening the capacity of the IMF to respond to financial difficulties in a timely and decisive manner. An enhanced and more transparent global IMF surveillance role should be complemented in Asia by the establishment of a new regional surveillance mechanism. The Leaders also called for strengthened co-operation, regulation and supervision in financial sectors, and requested the IMF to examine ways to improve transparency in financial and capital markets, including the monitoring of short-term capital flows.

Co-operation in ASEM was further extended through the creation of an ASEM Trust Fund at the World Bank to help finance technical assistance and advice both on restructuring the financial sector and on finding effective ways to redress poverty, drawing on both the European and Asian expertise. Malaysia has been a recipient of grants and technical assistance under the ASEM Trust Fund. Areas identified for assistance are Financial Sector Strengthening, Enhancing Industrial and Export Competitiveness, Strengthening Institutional Capacity for Implementation of Active Labour Market Policies, Guiding Health Policy Decisions through Demand Analysis and Corporate Crisis Recovery and Upgrading. In addition to existing bilateral arrangements, the Leaders announced the proposal to create a European network, in conjunction with Asian expertise, for increasing the quality and quantity of technical advice in the reform of the financial sector.

ASEM Finance Ministers met on 15-16 January 1999, in Frankfurt, Germany, to discuss the latest developments in the world economy, particularly in relation to ongoing efforts to resolve the Asian crisis. ASEM Ministers agreed that the international community should keep markets open to goods, services and capital. They stressed the need to enhance the role of the IMF in the functioning of the international monetary system and to develop procedures for crisis prevention and the involvement of the private sector in the resolution of financial crises. The Ministers also considered the possibility for strengthening the role of the IMF Interim Committee. In addition, Ministers discussed alternative exchange rate regimes and the need for transparency and disclosure standards for private sector financial institutions involved in international capital flows, including the implications of operations of highly leveraged and off-shore institutions. The Ministers also noted the IMF's ongoing review of the experience with the use of controls on capital movements and the circumstances under which such measures might be appropriate.

Asia-Pacific Economic Co-operation

Finance Ministers of the Asia-Pacific Economic Co-operation (APEC) forum met for the fifth time in Kananaskis, Canada, on 23-24 May 1998 to assess future prospects for growth and development within the APEC region in light of the Asian crisis and to discuss policies and measures to improve such prospects. The discussions focused on two broad themes. The first was an assessment of the current economic situation and policies to restore financial stability and growth, including measures to strengthen social safety nets to help cushion the impact of the crisis on the poor. The second was the development and strengthening of financial markets in the region so as to reduce the likelihood of future financial instability and to facilitate the continued dynamic growth of the APEC region.

On the second theme of development and strengthening of financial markets, Malaysia and the United States were requested by APEC Finance Ministers to undertake further work in the area of assessing the adequacy of banking supervisory regimes in APEC economies; and to co-ordinate an initiative (with the World Bank and the ADB) in the area of strengthening corporate governance in the APEC region. BNM in collaboration with the South-East Asian Central Banks Research and Training Centre (SEACEN) organised the first

meeting of APEC bank supervisors on 16-17 December 1998 in Kuala Lumpur. The meeting discussed the preliminary findings of a survey which assessed the adequacy of banking supervisory regimes in APEC economies. A full report will be tabled for the consideration of the APEC Finance Ministers at their forthcoming meeting in May 1999.

Following the APEC Finance Ministers' Meeting in Kananaskis, Canada, Malaysia assumed the chair of the APEC Finance Ministers' process for the period May 1998-May 1999. On 5-6 November 1998, Malaysia hosted the **APEC Finance Deputies Meeting** in Kuala Lumpur to discuss issues and risks facing APEC economies; the social impact of the East Asian crisis; bank and corporate restructuring; and the various ongoing initiatives under the APEC Finance Ministers' process. These included efforts to strengthen financial market supervision; pension fund reform; review the role of credit rating services and strengthen information disclosure standards; develop a voluntary action plan for supporting the freer and stable flow of capital; develop domestic bond markets; and strengthen corporate governance.

At the **APEC Leaders' Summit on 18 November 1998**, APEC Economic Leaders adopted the Kuala Lumpur Declaration which reiterated their commitment and resolve to pursue a co-operative growth strategy to support an early and sustained recovery in the region in order to contain the risks of the contagion and prevent the possibility of a global recession. The Leaders endorsed efforts by the multilateral development banks to use innovative financial instruments to help catalyse and leverage private sector capital flows. Leaders also called for a review of the practices of international rating agencies and noted that ongoing efforts to strengthen the international financial system by the G-22 and other fora should be expedited. The Leaders expressed concern over the prospects for a recovery of capital flows back into the region and noted that there was a need to develop innovative means by which to promote the recovery of such inflows.

EMEAP

Within the Asia-Pacific region, BNM continued to pursue co-operative efforts with central banks and monetary authorities in the 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, Japan, Korea, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand. The EMEAP forum, which essentially focuses on central banking issues, has thus far contributed to strengthening co-operation among the regional economies and enhancing the stability of the regional financial markets. Three EMEAP meetings (two at the Deputy and one at the Governor level) were held during 1998. The Fifteenth EMEAP Deputies Meeting was held in Singapore on 19 March 1998, while the Third EMEAP Governors' Meeting was held in Tokyo, Japan, on 14 July 1998. The Sixteenth EMEAP Deputies Meeting was held in New Zealand on 23 November 1998.

EMEAP meetings held during the year provided participants with an opportunity to review current economic and financial conditions in respective member countries and to exchange views on current issues. Governors exchanged views on the relationship between investments and financial stability. Governors agreed that, in order to benefit from and minimise the risks of capital account liberalisation, it was important to develop and strengthen domestic financial institutions and market infrastructure, such as efficient and secure payment systems and deep and liquid financial markets, as well as banking supervision. In this regard, Governors endorsed the ongoing work by the EMEAP working/study groups and supported the Deputies' proposal to re-organise the three working/study groups under EMEAP. As such, the Working Group on Financial Market Development which covered the payment system and market development would be re-organised to a new *Working Group on Payment and Settlement Systems*, focusing on payment system issues. The work of the Working Group on Central Banking Operations, which had conducted comparative studies of central bank services against the backdrop of increasing market innovation and interdependence, would be succeeded by a new *Working Group on Financial Markets*. This working group would also assume the work on market development that had been covered by the Working Group on Financial Market Development. Lastly, the Study Group on Banking Supervision would be renamed to the *Working Group on Banking Supervision* and given a more permanent status than the previous Study Group. The change reaffirmed the importance given to improving bank

supervision in the region in the wake of the Asian financial crisis. The Working Groups on Banking Supervision, Financial Markets and Payment and Settlement Systems met in Kuala Lumpur on 4-5 March 1999 to discuss recent developments in regional financial markets, supervisory approach for monitoring hedge funds and developments in payment and settlement systems.

New EMEAP initiatives during the year included a new facility for yen liquidity offered by the Bank of Japan, and the launch of the EMEAP web-site on 14 July 1998. Under the yen liquidity facility, the Bank of Japan would purchase Japanese Government bonds and bills from central banks and monetary authorities at their request either outright or under repurchase agreements. The use of this facility would enhance the use of the yen in the region, and thereby contribute to the regional financial stability. The establishment of the EMEAP web-site would facilitate collaboration among EMEAP members.

BNM 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 13-15 February 1998. In the Opening Address of the conference, it was noted that in an increasingly integrated international environment, adverse developments in one country could lead to rapid and costly contagion effects, even in countries with sound economic fundamentals. Therefore, while the pursuit of macroeconomic stability was important, it was essential for SEACEN countries to continue to strengthen regional co-operation to maintain monetary and economic stability. In this regard, it was noted that the SEACEN forum could play an important role in facilitating active policy co-operation to promote stability within an environment of free capital markets. It was suggested, however, that capital account liberalisation must be accompanied by stronger prudential measures to strengthen the banking system. 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 would likely slow down, inflation could increase but remain at single digit levels in 1998, while the current account of the balance of payments would show surpluses. Financial systems in SEACEN countries were also likely to emerge stronger and more transparent due to compliance to international standards in key areas such as capital adequacy and risk management. Strengthened financial systems in SEACEN countries would support a sustainable rate of economic growth in the medium to long term. The Governors also 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. 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.

The Eighth Summit of the Heads of State and Government of the Group of Fifteen (G-15) was held on 11-13 May 1998 in Cairo, Egypt. At the Summit, the Leaders called for equitable burden-sharing between private lenders, borrowers and governments; the strengthening of social safety nets to protect the more vulnerable segments of the population and to preserve the gains attained in poverty alleviation over many decades; and the urgent need to review the existing international financial arrangements and to ensure their adequacy in the face of the rapidly evolving financial markets. Malaysia presented a paper at the G-15 Summit on "The East Asian Crisis – Causes, Policy Responses, Lessons and Issues".

Bilateral Co-operation

The annual bilateral meeting between the Bank of Thailand and BNM was held on 20-22 February 1998, in Chiang Mai, Thailand. The bilateral meeting served as a forum for both central banks to exchange views on economic and financial matters, including interest rate policy, experience and policies in the money and foreign exchange markets, financial institutions' restructuring, experience and policies in supervision of financial institutions, use of ASEAN currencies for intra-ASEAN trade

settlement and ASEAN regional surveillance. Although only one bilateral meeting was held during the year, central bankers within the region had the opportunity to meet at various other regional fora held during the year which often included informal bilateral meetings on the fringes of the official meetings.

Technical Assistance and Information Exchange

In response to the interest expressed by foreign central banks and finance ministries to study BNM's experience in central banking issues, BNM continued to provide technical assistance to foreign financial institutions in 1998. The assistance was in the form of study visits, attachment programmes, official visits, briefings and technical assistance. During the year, 12 foreign delegations visited the Bank to exchange views on matters of mutual interest. The delegations were from the Ministry of Finance of the United Arab Emirates, Australian Securities Commission, Reserve Bank of India, Bank of Uganda, the United Nations, the Ministry of Finance of Bangladesh, National Bank of Cambodia, and the Chung Hua Institute of Economic Research, Taiwan. The areas of interest to the study groups included economics and statistics, the Malaysian capital market, payments system, preparation of budgets, exchange controls, bank supervision and human resource management. During the year, BNM also participated in the Special Joint Malaysian-Kyrgyz Commission that was set up to monitor the implementation of recommendations contained in an earlier joint study on ways to promote co-operation between the two countries and to enhance the development of the Kyrgyz Republic. Malaysia hosted the first meeting of the Commission on 15-16 December 1998.

Attachment programmes in the area of the Bank's supervisory function was provided to the State Bank of Vietnam and Reserve Bank of Fiji. In addition, briefings were also conducted for delegations from the industrial countries from Europe and Japan. The briefings focused on the latest developments in the Malaysian economic and financial system. 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 Bangladesh, Cambodia, Cuba, Egypt, Indonesia, Kenya, Lao People's Democratic Republic (PDR), Myanmar, Senegal and Turkey.

During the year, BNM continued to conduct bilateral consultations with various international financial institutions, including the IMF, World Bank, ADB and Islamic Development Bank. These consultations reviewed economic policies in Malaysia and prospects for economic growth in the near-term. Bilateral discussions were also conducted with the Institute for International Finance,

various international rating agencies and research organisations. The Malaysian Government also engaged an international consultant, Salomon Smith Barney, to provide advice on strengthening the domestic financial sector as well as to facilitate Malaysia's dialogue with international investors and access to the international capital markets.
