External Relations

External Relations

Discussions at regional and international fora during 2003 focussed on promoting growth, enhancing macroeconomic surveillance, strengthening capacities, and deepening regional financial collaboration. To take these agenda forward, Bank Negara Malaysia continued to participate actively in all key international and regional fora.

Economic Surveillance

The surveillance initiatives undertaken by the regional groupings, including the ASEAN+3, South-East Asian Central Banks (SEACEN), and Executives Meeting of East-Asia and Pacific (EMEAP), were aimed at complementing surveillance activities of the international financial institutions. The meetings focussed on macroeconomic policy management, monetary and financial stability issues as well as exchange of experiences in financial sector reforms.

Economic surveillance discussions covered macroeconomic policy management, monetary and financial stability issues and strengthening banking systems. Further progress was seen in the area of developing codes and standards to strengthen financial systems.

In addition to the regional fora, surveillance issues were also discussed at meetings of the Bank for International Settlements (BIS).

Bank Negara Malaysia hosted the Sixth Meeting of the Working Party on Monetary Policy in Asia in Kuala Lumpur on 5-7 November 2003. The Meeting, chaired by the BIS, was attended by senior officers from 20 central banks and monetary authorities from the Asian and G10 economies. The Working Party, a group initiated by the BIS, meets annually to review recent global and regional economic developments and outlook, and its implications for monetary and financial policies.

Malaysia participated in several initiatives by the multilateral financial institutions to strengthen the financial sector, in particular, in the work to strengthen risk management in financial institutions. At the International Monetary Fund (IMF), Malaysia led the South-East Asia (SEA) Voting Group Office in the meeting of experts on the guide for compiling financial soundness indicators. The compilation would provide guidance to member countries on the concepts, definitions, data sources and techniques for the compilation and dissemination of the core and encouraged sets of financial soundness indicators. The set of data that member countries are encouraged to compile and disseminate include 27 indicators on deposit taking institutions, other financial corporations, non-financial corporate sector, households, market liquidity and real estate markets.

At the BIS, Malaysia was part of the regional initiative to enter into a consultative process in relation to the Basel Accord to take account of the special characteristics of banking operations in emerging market economies, particularly those from the region. Bank Negara Malaysia, as Chairman of the EMEAP Working Group on banking supervision, compiled and conveyed the views of member countries of the EMEAP group to the Basel Committee on Banking Supervision (BCBS). In August 2003, Bank Negara Malaysia organised dialogue sessions between the BCBS and regulators from EMEAP member countries and India, as well as between the banking industry of these countries and the BCBS. The Bank also facilitated the participation of the domestic banking sector in the Quantitative Impact Survey that was conducted by the BIS during the year.

International Financial Architecture

The work on reform of the International Financial Architecture (IFA) during 2003 focussed mainly on crisis prevention measures, particularly through developing a voluntary code of conduct for crisis resolution. While there was continued opposition to the IMF proposal of sovereign debt restructuring, efforts to develop a Code of Good Conduct for parties involved in sovereign debt restructuring made some progress on including collective action clauses (CACs) in international sovereign bonds. While there was no general acceptance to the inclusion of the CACs, members were willing to accept such inclusions provided the Code could accommodate country-specific circumstances, by providing a degree of flexibility in its application. Malaysia had, since 2000, issued bonds that included CACs.

A set-back in the IFA reform process was in the area of up-front IMF liquidity support. After the 1997 Asian Financial Crisis, the IMF introduced the Contingent Credit Line (CCL) facility. The objective was to provide front-loaded financial support. Access, however, was confined only to member countries with strong economic policies, which face short-term balance of payments problems arising from unexpected external developments. The facility has not been used by member countries since it was introduced in 1999. The IMF finally conceded to discontinue the CCL from end-November 2003 when all efforts to improve the design, access and implementation procedures had not resulted in a scheme that would be practical in assisting member countries.

Another area lacking progress in the IFA reform efforts was in redressing the governance of the IMF. Lack of consensus on according higher representation in IMF decision making process to non-G10 countries resulted in the 12th General Review of Quotas being concluded in January 2003, without any adjustment to the IMF quotas. Developing and emerging economies continued to view adjustment of the IMF's quota structure as critical since the current IMF quotas did not reflect the increased significance and importance of the emerging market economies in the world economy. This issue would be pursued during the 13th General Review of Quotas, which covers the period from February 2003 to January 2008. Developing and emerging economies are expected to maintain their position on the realignment of the IMF quotas to promote a more balanced voting structure at the IMF, in line with the principle that relative voting strength of members must reflect their relative economic position in the global economy.

Notwithstanding the failure of developing countries to secure higher quotas in the IMF, the SEA Voting Group in the IMF and the World Bank set up two focus groups to improve the effectiveness and efficiency of the Voting Group Offices in representing members' interests and in participating in policy discussions at the IMF and the World Bank Executive Boards. Bank Negara Malaysia was tasked to lead in the area of improving the work process at the IMF SEA Group Office. The final report of the Focus Group was endorsed by the Governors of the SEA Group at the IMF/World Bank meeting in Dubai in September 2003. A new rotation scheme, commencing from November 2004 to October 2016, was also approved with Malaysia securing greater representation at senior positions. Under this rotation framework, Malaysia will assume the post of Executive Director and lead the SEA Group Office for a period of two years from November 2004 to October 2006.

External Relations with the IMF

Malaysia continued to engage the IMF during the annual Article IV consultations on Malaysia's macroeconomic performance and policy issues for 2003 and expectations for 2004. The IMF's assessment of the management of the economy for 2003 was published as a public information notice following the conclusion of the IMF Executive Board's discussions on Malaysia. The Managing Director of the IMF visited Malaysia in September. He noted the progress of reforms had enabled Malaysia to sustain economic growth in spite of weaknesses in the external environment.

The IMF's Article IV report on Malaysia concluded that the country was well placed in the near term to benefit from the projected global upturn, with the outlook biased on the upside.

Malaysia continues to maintain its net creditor status in the IMF. Since September 2002, in line with Malaysia's strong balance of payments and international reserves position, Malaysia has been included in the IMF's operational budget's Financial Transaction Plan (FTP). Under the FTP, selected IMF members with strong balance of payments and international reserve positions may be called upon to provide foreign exchange resources to support the IMF's financial operations. Under the FTP, Malaysia was called upon to transfer SDR45 million for the period March to May 2003.

Islamic Banking

In the area of Islamic banking and finance, Bank Negara Malaysia played an active role in the Islamic Financial Services Board (IFSB), particularly through the IFSB Council and Technical Committee meetings. During the year, the IFSB finalised the guidelines for the preparation of prudential standards for Islamic financial institutions, and initiated the process of preparing two standards, namely the standard on risk management and standard on capital adequacy. In this connection, the IFSB conducted two workshops on risk identification in October 2003 in order to improve the understanding of the risks faced by Islamic financial institutions. These workshops were attended by participants from Islamic banking institutions in Bahrain, Iran, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia and Sudan.

In 2003, the Central Bank of Egypt, Central Bank of Jordan, Qatar Central Bank and Ministry of Finance, Brunei Darussalam, became full members of the IFSB. Three international organisations, namely, the Bank for International Settlements, International Monetary Fund and the World Bank, became associate members of the IFSB, while the Asian Development Bank became an observer. At end February 2004, the IFSB had 36 members, comprising 13 full members, 3 associate members and 20 observers.

Combating Money Laundering and Terrorist Financing

Malaysia continued to be at the forefront of global efforts to combat money laundering activities and the financing of terrorism. During the year, the Malaysian Parliament passed the Anti-Money Laundering (Amendment) Act 2003 to extend the scope of the Anti-Money Laundering Act 2001 (AMLA) to include measures to be taken to prevent terrorism financing offences and provisions to freeze, seize and forfeit terrorist properties.

In July 2003, Bank Negara Malaysia was admitted as a member of the Egmont Group of Financial Intelligence Units. The Egmont Group provides a forum to expand and exchange information on financial intelligence, improve expertise and capabilities of personnel, and foster better communication among financial intelligence units.

Within the Asia/Pacific Group on Money Laundering (APG), Malaysia became a member of the APG Steering Group for a period of one year, up to June 2004. The Steering Group plays an advisory role in the areas of key governance issues in the APG, which include the revision of the Financial Action Task Force (FATF) standards and modalities to meet the increased international pressure for countries to comply with the revised standards.

Malaysia participated in the training and technical assistance needs analysis that was conducted by consultants commissioned under the Asia-Europe Meeting (ASEM) Anti-Money Laundering Project. The report on Malaysia was finalised in February 2003, with the ASEM consultants' conclusion being that Malaysia's anti-money laundering system was well developed, integrated and supported by capable and professional staff across a number of agencies. The ASEM consultants had acknowledged Malaysia's efforts in constructing an effective system as well as the development of sound legislation, effective institutions and well-trained staff.

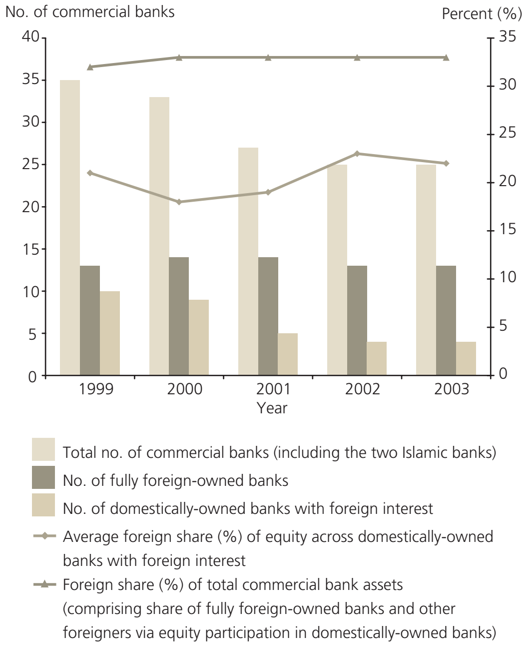
Financial Sector Liberalisation

World Trade Organisation

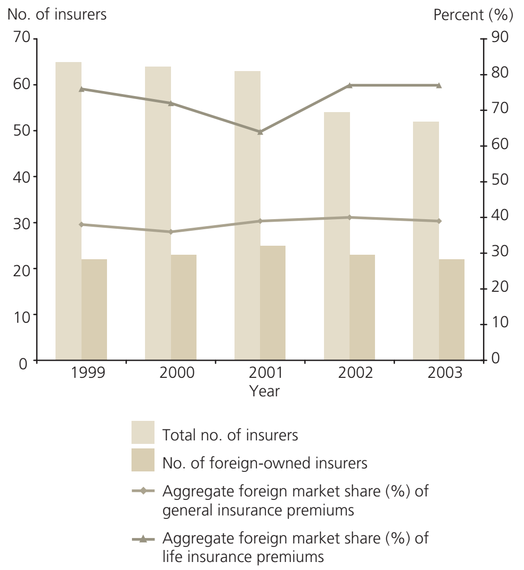
In 2003, negotiations to further liberalise the services sector, including financial services, at the World Trade Organisation (WTO) continued to focus on the "request and offer" phase, which began on 28 March 2001. The negotiations were generally based on requests for market opening submitted by member countries to a trading partner and offers submitted by the trading partner. These were conducted through bilateral discussions between

In line with the liberalisation path charted under the Financial Sector Masterplan, Malaysia implemented further unilateral liberalisation in the banking and insurance sectors in 2003.

Graph 7.1
Foreign Participation in the Malaysian Commercial Banking Sector



Graph 7.2
Foreign Participation in the Malaysian Insurance Industry



members. The deadline for completion of negotiations is 1 January 2005.

The Fifth Ministerial Conference (5th MC) to undertake a mid-term review of the progress of multilateral trade negotiations under the Doha Development Agenda (DDA), including for negotiations on trade in financial services, ended without consensus. There were wide differences in the positions of developed and developing country members on the new issues of trade and investment, trade and competition policy, transparency in government procurement and trade facilitation. Notwithstanding this outcome, the 5th MC agreed on the need for member countries to continue working on outstanding issues of the DDA. These negotiations are ongoing among trade negotiators in Geneva.

Malaysia has maintained an undertaking of progressive liberalisation of financial services as part of the overall measures to further develop the domestic financial sector. In line with the liberalisation path charted under the Financial Sector Masterplan, Malaysia has taken several steps to unilaterally liberalise the banking and insurance sectors in 2003 (see Table 1).

Table 1:
Financial Services Liberalisation Measures Since 2000

Year	
2000	**Banking Sector** • The maximum total credit facilities that could be obtained by non-resident controlled companies (NRCCs) from foreign-owned banking institutions in Malaysia was increased from 40% to 50% in December 2000. • Licensed Offshore Banks in the Labuan International Offshore Financial Centre (Labuan Offshore Banks) would be allowed to invest in ringgit assets/instruments in Malaysia for their own accounts, though not on behalf of their clients. • Licensed commercial banks, including the foreign-owned banks, and Bank Islam Malaysia Berhad in Malaysia (licensed banks) were allowed to extend in aggregate an intra-day overdraft facility of not exceeding RM200 million and an overnight facility of not exceeding RM10 million to non-resident stockbroking companies and non-resident global custodian banks to finance funding gaps due to inadvertent delay in relation to settlement for trade on the KLSE. In addition, they can also enter into short-term currency swap and/or outright forward contracts to cover for purchase of shares on the KLSE. **Non-banking financial sector (excluding insurance)** • The maximum foreign equity limits in a stockbroking company and a financial leasing company were increased to 49% from 30% effective 1 July 2000.
2001	**Banking Sector** • Foreign-owned banking institutions were allowed to set up communicative websites from 1 January 2001.

	• Banking institutions (including the foreign-owned banks) in Malaysia were allowed to extend credit facilities in ringgit to finance the purchase and/or construction of one immovable property for non-residents who participate in the Silver Hair Programme implemented by the Immigration Department of Malaysia. • Financial institutions (including the foreign-owned banks) were allowed to extend up to three credit facilities in ringgit to non-residents to finance the purchase or construction of any property in Malaysia (excluding for the purchase of land), subject to their own internal credit assessment guidelines. • Banking institutions (including the foreign-owned banks) in Malaysia were allowed to effect transfers involving External Accounts and another External Account and/or Resident Account of different account holders by way of: (a) Automated Teller Machine transfer up to RM5,000 per person/company, per day, per bank for any purpose; (b) Internet-bank transfers up to RM5,000 per person/company, per day, per bank for any purpose; and/or (c) Cheques up to RM5,000 per cheque for any purpose. **Insurance sector** • All insurers with the requisite minimum risk management and security systems in place were allowed to offer the full range of life and general insurance products through the internet with effect from April 2001.
2002	**Banking Sector** • Foreign-owned banking institutions were allowed to offer transactional internet banking from 1 January 2002. • Internal credit lines used solely to facilitate drawing against uncleared cheques, granted by licensed banks (including the foreign-owned banks) to NRCCs, were excluded from the computation of the NRCC's total domestic credit facilities. Licensed banks were also permitted to allow NRCCs to overdraw their current accounts for amounts of up to RM500,000 per account for a period not exceeding 2 working days. • Banking institutions (including the foreign-owned banks) in Malaysia were allowed to extend additional ringgit credit facilities to any non-resident up to an aggregate of RM5 million per non-resident to finance projects undertaken in Malaysia. Prior to this, credit facilities in ringgit to a non-resident, for purposes other than purchases of three immovable properties or a vehicle, were limited to RM200,000. **Insurance sector** • The areas in which insurers may employ expatriates were expanded to include, in addition to the fields of specialised underwriting, actuarial and information technology previously provided for, other areas involving product research and development, risk management and investment.
2003	**Banking Sector** • Licensed banks (including the foreign-owned banks) in Malaysia were allowed to extend overdraft facilities in ringgit not exceeding RM500,000 in aggregate to a non-resident customer, provided such overdraft facilities are covered by fixed deposits placed by the non-resident customer with the licensed banks in Malaysia. These overdraft facilities were in addition to all ringgit credit facilities allowed to be extended freely by banking institutions since 21 November 2002.

- The 50% limit on the maximum total credit facilities that could be obtained by NRCCs from foreign-owned banking institutions in Malaysia was removed on 1 April 2003.
- The overnight limit for foreign currency account (FCA) to retain receipts arising from export of goods (export receipts) for Approved Operational Headquarters (OHQ) was increased to USD70 million from USD10 million. The maximum overnight limit on export FCA of other resident exporters was also raised to USD70 million.
- Residents may invest in investment products that are linked to foreign currency denominated derivatives that are offered by licensed banks (including the foreign-owned banks) in Malaysia. The foreign currency funds used for the investment that are utilised from the residents' FCA will be earmarked and computed as part of the aggregate overnight balances of the FCA of the residents.
- Allow up to three new Islamic banking licences to qualified foreign players.

Insurance sector

- Effective 17 April 2003, foreign-owned insurers with foreign shareholding not exceeding 51% were allowed to open not more than two branch offices in one year.

Banking Sector

2004

- To enhance cash flow management for supporting value chain expansion in Malaysia, licensed banks (including foreign-owned banks) can retain higher amount of foreign currency funds for residents in FCA:
  - Up to a maximum of USD100 million (previously USD70 million) of export receipts.
  - Any amount of non-export receipts for residents with domestic borrowing (previously need approval).
  - Up to USD150,000 for education/employment purpose (previously USD100,000).
- Labuan Offshore Banks are allowed to maintain FCA for residents:
  - Up to USD0.5 million of non-export receipts for residents without domestic borrowing (previously need approval).
  - Up to USD150,000 for education/employment purpose (previously USD100,000).
  - Any amount overseas foreign currency funds for resident individuals.
- To enhance access to ringgit funds for business requirements in Malaysia, the various limits for banking institutions lending to non-residents in ringgit have been consolidated to one single aggregate limit of RM10 million for use in Malaysia for any purpose (excluding stockbroking company, custodian bank and correspondent bank).
- The extension of property loans in ringgit by residents, including licensed banks, to non-residents now includes the purchase of land (previously not allowed).
- Licensed banks are allowed to extend an aggregate overnight overdraft facility of RM200 million (increased from RM10 million) to a non-resident stockbroking company or a non-resident custodian bank to facilitate settlement for purchase of shares listed on the KLSE.
- Resident individuals employed or staying abroad with foreign currency funds sourced from abroad are allowed to invest in any foreign currency assets, including those offered by licensed banks, approved licensed merchant banks and Labuan Offshore Banks.
- Multilateral Development Bank and foreign multinational corporation issuers of ringgit-denominated bonds in Malaysia may enter into forward foreign exchange contracts with onshore licensed banks to hedge their currency risks arising from the issuance of the ringgit denominated bonds. Non-resident investors subscribing to these issues can also hedge their foreign exchange risks.

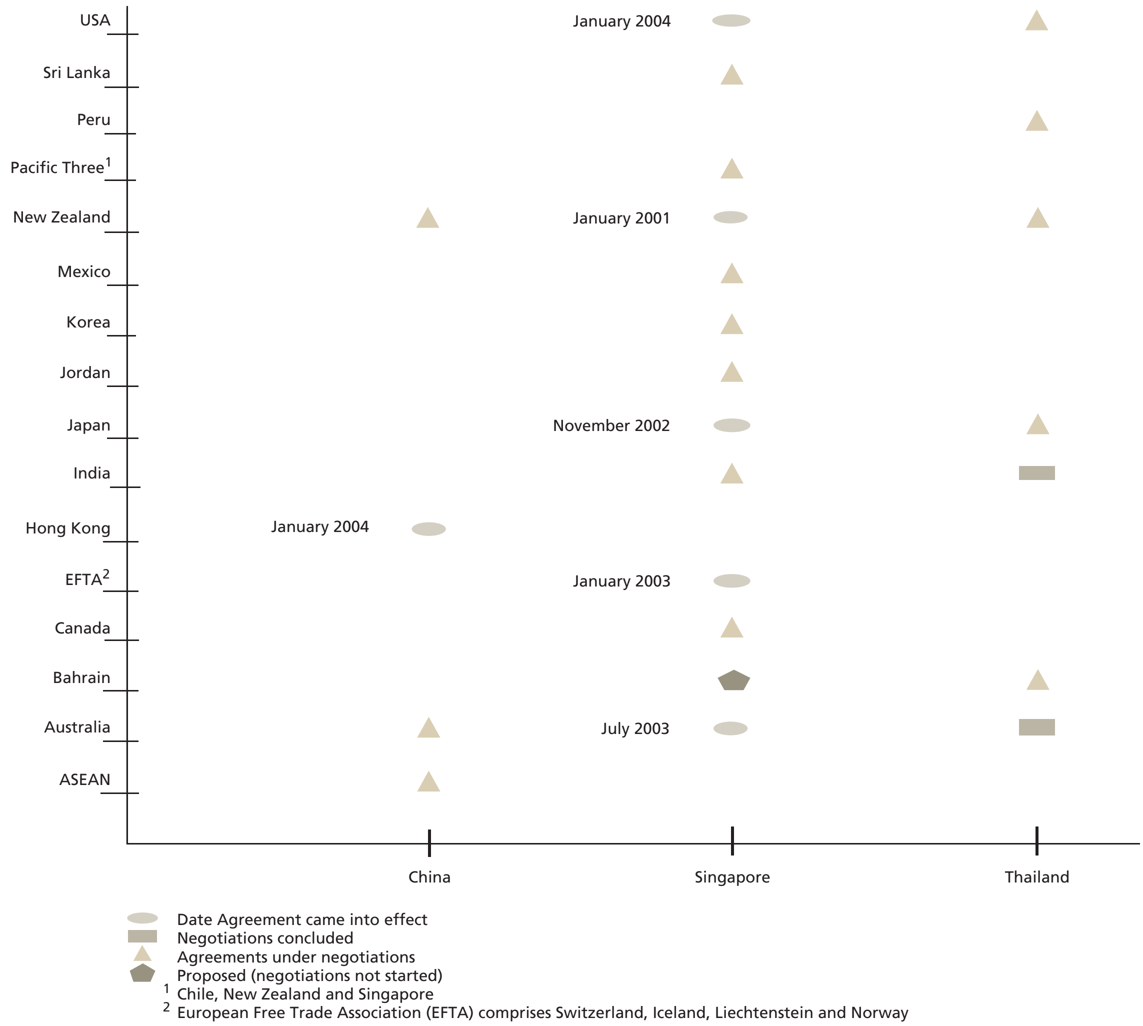
Increased foreign presence is also through strategic alliances between foreign players and local entities. These included bancassurance and outsourcing arrangements undertaken by domestic-owned financial institutions with foreign partners.

ASEAN Framework Agreement on Services and Proposed Free Trade Arrangements

Liberalisation of financial services among the ASEAN countries is also being effected under the ASEAN Framework Agreement on Services (AFAS). A third round of negotiations on financial services under the AFAS which began in 2002 is expected to be concluded by 2004. Under this round, ASEAN member countries will make further General Agreement for Trade in Services (GATS)-plus commitments on financial services, that is, undertake liberalisation measures beyond those made under the GATS.

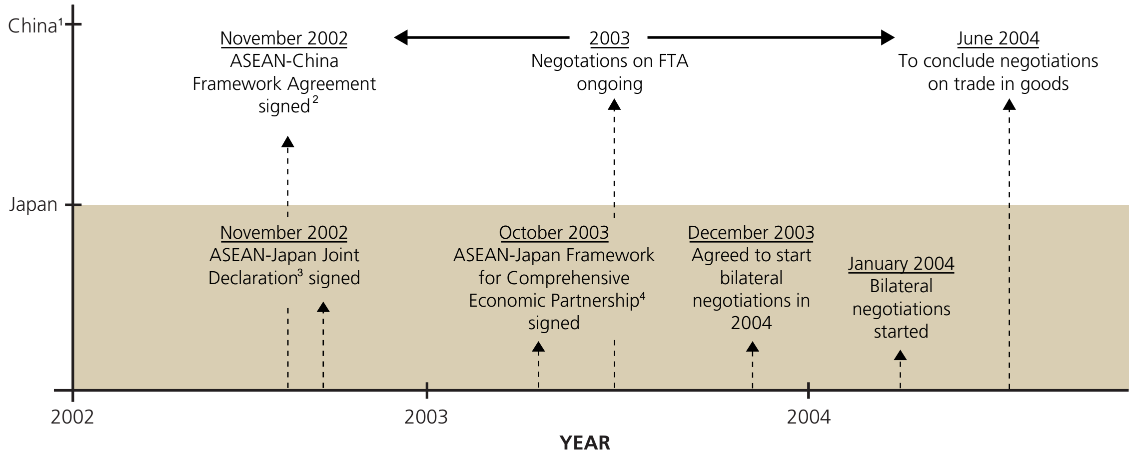
Apart from the AFAS, financial services liberalisation would be covered within the scope of trade arrangements currently pursued by Malaysia with partner countries to promote freer trade and investment regimes. Malaysia has commenced negotiations on establishing free trade arrangements (FTA)s with the People's Republic of China (under the proposed ASEAN-China free trade area) and Japan. The proposed FTAs would complement existing trade liberalisation initiatives under the WTO and other regional economic integration arrangements, namely, the ASEAN Free Trade Area for goods, the AFAS for services and the ASEAN Investment Area for investment liberalisation.

Bilateral Free Trade Arrangements (FTA)s for Selected Regional Countries since 2001



Source: Various publications

Progress of Malaysia's Negotiations on Proposed Free Trade Arrangements (FTA)s with China and Japan



1 Malaysia participates with other ASEAN countries in negotiations on the proposed ASEAN-China Free Trade Area.
2 The ASEAN-China Framework Agreement on Comprehensive Economic Co-operation was signed on 4 November 2002 to serve as a basis for the countries to start negotiations on establishing a free trade area between ASEAN and China.
3 The ASEAN-Japan Joint Declaration on Comprehensive Economic Partnership (CEP) was signed on 5 November 2002 to develop a concrete framework to realise such a partnership between ASEAN and Japan. While considering a framework for the realisation of the CEP between ASEAN and Japan as a whole, the Joint Declaration does not preclude bilateral economic partnerships between Japan and individual ASEAN countries.
4 The Framework was signed on 8 October 2003 and provides for consultations among ASEAN and Japan to start from early 2004 on areas of facilitation, co-operation, and trade and investment liberalisation, among others.

Regional Co-operation

The momentum of collaborative efforts to strengthen and deepen regional co-operation picked up in 2003, with much of the focus being on developing regional financial markets and enhancing regional financial stability. These efforts include the strengthening of short-term financial support, particularly through the bilateral swap arrangement; regional surveillance under the ASEAN+3 forum; and initiatives to meet the region's long-term funding requirements through the development of bond markets.

Further progress was made among the ASEAN+3 countries in the expansion of the bilateral swap arrangement network under the Chiang Mai Initiative (CMI). To date, 16 bilateral swap arrangements with a combined value of US$35.5 billion have been concluded, and would be available to ASEAN+3 member countries. Of the 16 bilateral swap arrangements, Malaysia had signed three agreements. The three, together with Malaysia's US$2.5 billion agreement with Japan under the New Miyazawa Initiative, provide Malaysia with access to a total of US$6 billion in financing.

An effective surveillance mechanism is essential to the effectiveness of the CMI arrangement. To improve regional surveillance, the ASEAN+3 finance forum adopted new mechanisms to enhance the surveillance processes undertaken under the CMI arrangement. In this connection, the exchange of economic reviews and policy dialogues among the ASEAN+3 countries were further deepened and broadened with an in-depth analysis of topical regional issues that would strengthen the region's peer review process. Meanwhile, regional surveillance of capital flows in the Asian region was further strengthened in 2003 and in early 2004 through data exchange and assessments of developments among members of the SEACEN Expert Group on Capital Flows.

Further strengthening of regional co-operation with the expansion of bilateral swap arrangements under the Chiang Mai Initiative (CMI); enhanced regional surveillance; and new initiatives to deepen and broaden Asian bond markets.

The year 2003 witnessed two significant events towards the development of bond markets in Asia

Bilateral Swap Arrangement Agreements under the Chiang Mai Initiative

Dates indicate when the agreements were signed. The maximum drawing amount for each agreement is indicated in parentheses. The combined total size of the 16 bilateral swap arrangement (BSA) agreements is US$35.5 billion (based on the overall availibility under the BSAs, where the maximum drawing amount under two-way swap arrangements is counted twice to reflect the swap amount available to both parties under the agreement).

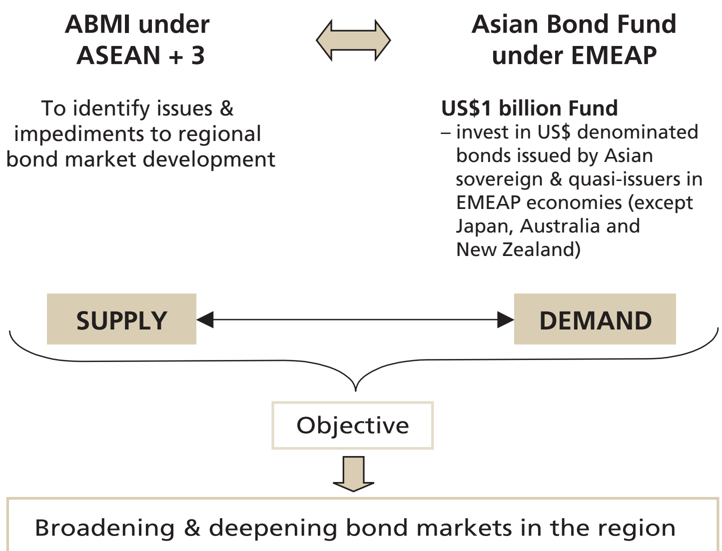
[1] A one-way swap arrangement where the requesting country under the agreement can request the swap-providing country to enter into a swap transaction.
[2] A two-way swap arrangement where either party could request the other party to enter into a swap transaction under the agreement.

Agreements signed between the Plus Three countries (People's Republic of China, Japan and Korea) and ASEAN countries

Agreements signed among the Plus Three countries

with the launch of the US$1 billion Asian Bond Fund (ABF) and the Asian Bond Market Initiative (ABMI). The development of deeper and more liquid bond markets will assist in channelling the large pool of savings in Asia to fund productive investment in the region. Together, these initiatives signal strong official support to expand regional bond markets. Under the ABMI, six working groups have been tasked to identify the necessary infrastructure and impediments that need to be removed in order to encourage the growth of regional bond markets.

While the voluntary working groups under the ABMI aim to address supply-side measures deemed necessary for active participation of both bond issuers and investors, the ABF complements the ABMI on the demand-side by taking the first step towards facilitating the channelling of a portion of official reserves held by the Asian economies back into the region. The ABF concept is being studied to include bonds denominated in regional currencies. Together, the ABMI and the ABF reflect strengthened efforts by the public sector to broaden and deepen the regional bond markets.



Asian Bond Market Initiative

Significance of the ABMI

The Asian Bond Market Initiative (ABMI), launched under the ASEAN+3 Finance Ministers' forum, is a comprehensive approach to develop a regional bond market in East Asia. Its aim of creating a deep, broad and liquid bond market in Asia would further enhance the efficiency of channelling Asian savings into long-term investments in the region. A deeper Asian bond market will also improve the management of maturity mismatches present in financing economic activities, facilitate management of currency and interest rate risks, and improve the overall efficient allocation of capital.

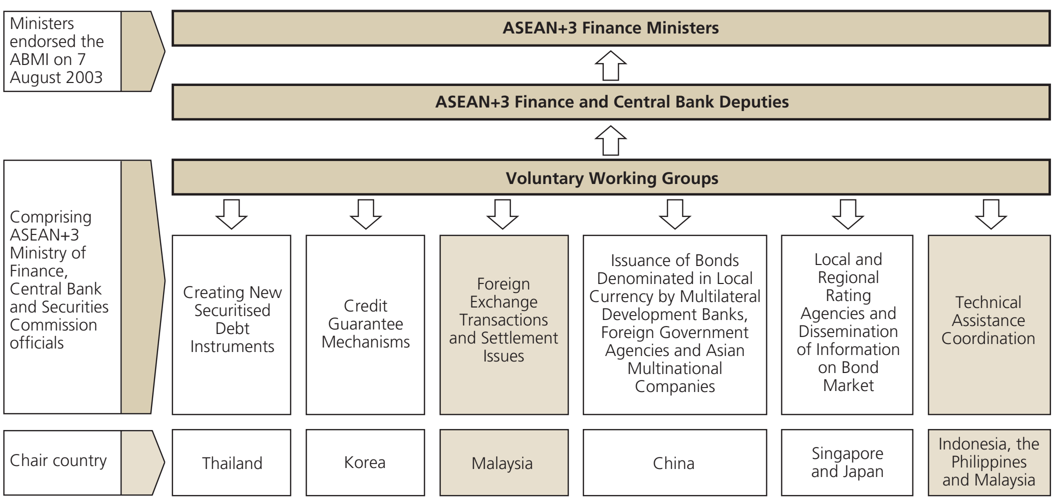
Following the Chiang Mai Initiative, the ABMI is the most significant ASEAN+3 regional financial co-operation project. Essentially, it reflects the collective effort of the ASEAN+3 finance, central bank and monetary authorities to improve the financial infrastructure and initiate appropriate policies in supporting regional bond market development. Implementation of the ABMI is through a structured approach. Six voluntary working groups have been set up to identify issues and impediments to bond market development in a range of areas through regular meetings (see chart). Studies are also being undertaken by these working groups to recommend modalities for regulatory and legal frameworks that will facilitate cross-border issuance and investment within the region. The working groups also consult regularly with key private sector stakeholders, such as multilateral development banks, financial intermediaries and market participants.

Malaysia's commitment

Malaysia is fully committed to the successful development of the ABMI and Bank Negara Malaysia is an active member in all the working groups. Malaysia chairs the Working Group on Foreign Exchange Transactions and Settlement Issues (Bank Negara Malaysia), and co-chairs the Working Group on Technical Assistance Co-ordination with Indonesia and the Philippines (Securities Commission). In leading the Working Group on Foreign Exchange Transactions and Settlement Issues, it has been acknowledged that the creation of a deep and liquid bond market in Asia needs to be complemented with a sound and efficient bond settlement system mechanism. Efforts are, therefore, being directed towards establishing a conducive and enabling environment to facilitate foreign exchange transactions and to address issues related to timely and cost-effective settlement of cross-border transactions.

As part of the work programme, the Working Group organised a Symposium on Foreign Exchange Transactions and Settlement Issues in Kuala Lumpur on 20 October 2003 to deliberate on issues pertaining to foreign exchange transactions and settlement issues in cross-border bond transactions.

Asian Bond Market Initiative (ABMI)



Malaysia accords a high priority to regional co-operation in training to strengthen domestic capacities in the financial sector and macroeconomic management. In this regard, Bank Negara Malaysia has supported the activities of the SEACEN Research and Training Centre, which undertakes intensive central banking training, especially in bank supervision, macroeconomic policy formulation, financial stability assessment, and financial reforms. In 2003, the SEACEN Centre extended its training to 16 non-members while continuing to provide training to its members, which expanded to 12, with the admission of the Ministry of Finance, Brunei Darussalam[1]. The SEACEN Centre also extended its collaboration with Japan, and regional groupings and international institutions such as the Asia-Pacific Economic Co-operation (APEC), BIS, IMF and the World Bank. The closer collaboration with a wider group of countries and institutions has facilitated the Centre's work in ensuring broad-based training of central bankers given the rapid changes in the global financial markets.

Increased focus of bilateral co-operation was in the area of trade and financing, including the use of gold in financing bilateral trade.

Bilateral Co-operation

In enhancing bilateral co-operation in trade and financing, progress was made on Malaysia's proposal for the Gold-based Trade Payments Arrangement (GTPA). The GTPA enables a debtor country to settle its bilateral trade balance using gold.

Promotion of the GTPA was also undertaken through collaboration with the Islamic Development Bank (IDB). As a result of this collaboration, member countries of the IDB unanimously endorsed the GTPA and agreed to enter into bilateral negotiations in order to operationalise the scheme. Subsequently, the GTPA was adopted by the Organisation of the Islamic Conference (OIC) countries' Heads of State/ Government at the 10th OIC Summit in October 2003, as contained in the Putrajaya Declaration. On-going discussions with bilateral trading partners on GTPA commenced in 2003.

Technical Assistance and Information Exchange

Bank Negara Malaysia continued to encourage capacity building through technical assistance and information exchange among central banks and monetary authorities. In 2003, Bank Negara Malaysia received 14 foreign participants from 13 central banks, under the sponsorship of the Malaysian Technical Co-operation Programme (MTCP), to attend Bank Negara Malaysia's central banking and banking supervision courses.

Bank Negara Malaysia also participated in collaborative capacity-building efforts under various regional fora in areas such as banking supervision, alternative remittance systems, domestic bond market development, and Islamic banking and insurance. The development of takaful and retakaful in Islamic countries was actively promoted by Bank Negara Malaysia, particularly through the organisation of international seminars and workshops, provision of training and consultancy services as well as sharing of technical expertise by the Malaysian takaful operators. These initiatives had contributed to the establishment of takaful operators in several Developing-8 (D-8) member countries, namely Bangladesh, Indonesia and Nigeria.

[1] Effective 1 April 2004, SEACEN's membership will increase to 13 members, with the admission of the Reserve Bank of Fiji. The other SEACEN members are the Ministry of Finance, Brunei Darussalam; Bank Indonesia; The Bank of Korea; Bank Negara Malaysia; The Bank of Mongolia; Central Bank of Myanmar; Nepal Rastra Bank; Bangko Sentral ng Pilipinas; Monetary Authority of Singapore; Central Bank of Sri Lanka; Central Bank of China, Taipei; and Bank of Thailand.