

Regional central banking relations

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In this article Bruce White outlines recent developments in the area of central bank co-operation in the Asia-Pacific region.

I Introduction

Over the last decade or so, the Asia-Pacific region has featured prominently in New Zealand's economic relations. At the forefront of this development have been some path-breaking trade agreements, beginning with ANZCERTA (Australia New Zealand Closer Economic Relations Trade Agreement), signed with Australia in 1983. More recently, New Zealand became a founding member of the APEC (Asia Pacific Economic Co-operation) group in 1989. Under the framework of ANZCERTA, substantial progress has been made in liberalising trade between New Zealand and Australia, to the point where now there is free trade in virtually all goods and services between the two countries. The APEC members have committed to a similar goal – free trade and investment, by 2010 in the case of those with developed economies and by 2020 for developing economy members.¹

Against this backdrop of trade developments, the question may be asked, "What has been happening in terms of financial liberalisation and co-operation?" The answer is "Quite a lot". A number of the countries in the region have been deregulating and liberalising their financial sectors since the 1980s, with the result that the financial markets of most of those countries - including New Zealand's - are now integrated into global financial markets. Singapore, Hong Kong and Tokyo are also major international financial centres.

A natural corollary to these developments in financial markets has been a building of closer contacts, and collaboration, amongst the central banks of the region. This mostly occurs in relatively informal fora, although it has also been proposed (initially by the Reserve Bank of Australia) that an institution, per-

haps modelled on the Bank for International Settlements, which is located in Basle, Switzerland, might usefully be established in Asia at some stage.² This article outlines the central banking fora within the Asia and South Pacific regions in which we currently participate.

II Asia-Pacific economies in perspective

To put the importance of the region - which, for this purpose, we will take as comprising East Asia and Australasia - in context, it is helpful to consider, first, its current significance in the world (Table 1, Part A), and, secondly, the importance of the region nowadays to New Zealand (Table 1, Part B).

Other points worthy of note are:

- that Tokyo, Singapore and Hong Kong are, respectively, the third, fourth and fifth largest foreign exchange dealing centres (after London and New York) and account for 23 percent of the world foreign exchange market;
- that, in the decade to 1994, the East Asian economies (excluding Japan) averaged about 7.5 percent economic growth, compared with 2.5 percent for the OECD (which, apart from Japan, comprises mainly European and North American economies);

1 The APEC member countries are Japan, Republic of Korea, People's Republic of China, Chinese Taipei, Hong Kong, Thailand, Malaysia, Singapore, Indonesia, Brunei, Philippines, Papua New Guinea, Australia, New Zealand, Canada, USA, Mexico and Chile.

2 The operational role of the BIS is largely centred on provision of deposit and other facilities which central banks can use for placing part of their foreign reserves. It also plays a prominent role in fostering international collaboration on central banking policy issues, principally in the following areas: international financial markets, banking supervision, and payment and settlement systems. Until recently the membership of the BIS comprised mostly the G10 and other European central banks, with Japan (a G10 member) and Australia being the only members from the "Asian" region. In July 1996 nine additional central banks became members, including those of China, Hong Kong, Korea and Singapore from the Asian region. New Zealand is not a member.

Table 1**Asia region^(a)***Part A*

Share of world

Population	31%
GDP	27%
Trade	30%
Foreign direct investment (inward)	25%

Part B

Share of New Zealand's

Exports	58%
Imports	52%
Foreign direct investment (inward) ^(b)	47%
Tourist arrivals	65%

^(a) Broadly comprising the APEC countries but excluding USA, Canada, Chile and Mexico. Data is for 1994 or 1995

^(b) Based on the value of Overseas Investment Commission consents granted, rather than actual investment data.

- that half of New Zealand's 18 registered banks, accounting for 76 percent of the New Zealand banking industry (by total assets), are from Australia and East Asia. Although most are Australian based, there is growing interest by banks from the East Asia region in establishing a presence in New Zealand. Banks based in Hong Kong (Hong Kong and Shanghai Banking Corporation) and Japan (Bank of Tokyo-Mitsubishi Limited) already have a presence here, and it seems likely that other banks from the region will follow.

III Regional central banking fora

The Reserve Bank of New Zealand's regional central banking relationships are centred on two long established groupings, and a third which is of more recent origin. They are, respectively:

- the SEANZA (South East Asia New Zealand Australia) group of central banks
- a South Pacific central banks group; and

- the EMEAP (Executive Meeting of East Asia and Pacific) group.

The role of each of these groups is outlined in turn.

SEANZA

SEANZA is the oldest, largest and most diverse of the three groupings. Established in 1957, its membership comprises 18 countries from Australasia and the Asia region, including the Indian sub-continent and central Asia.³ Its primary function is training of central bankers. The centre piece of the training programme is a residential training course, extending over several weeks, for middle ranking central bank managers. This course is hosted by member countries, by rotation, every two years. The Reserve Bank of New Zealand will be hosting the next course in 1998 and assumed the chair of SEANZA from the People's Bank of China (this year's host) in November 1996, for the two year period to 1998.

In addition to the core training programme, SEANZA convenes occasional other meetings - in recent years mainly in relation to banking supervision - and there is also an annual meeting of Governors. SEANZA has also played a role, albeit a limited one, as a regional voice on banking supervision policies being developed for international adoption by the Basle Committee on banking supervision.

SOUTH PACIFIC CENTRAL BANKS GROUP

A close relationship has existed amongst the central banks of the South Pacific, including Australia and New Zealand, for several years.⁴ Governors have met annually since 1986 to discuss matters of mutual interest, including economic and financial sector policy issues, and administrative matters relevant to the region's central banks. The meetings are hosted (and chaired) in turn, by Australia, New Zealand and

3 The members of SEANZA are Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Bangladesh, India, Iran, Nepal, Pakistan, Papua New Guinea and Sri Lanka.

4 The participants in this group are Fiji, Tonga, Vanuatu, Solomon Islands, Western Samoa, Papua New Guinea, Australia and New Zealand.

one of the Pacific Island central banks. The next meeting of Governors is scheduled for December 1996, in Wellington. The group also places some emphasis on providing training to the staff of the central banks involved, mainly by way of an annual training course hosted by one of the members.

EMEAP

The EMEAP group of central banks⁵ is a more recent development. As the name suggests, it has evolved from a series of informal meetings, and it is only in the last year that initial steps have been taken to give the group more form. The group was initially convened by the Bank of Japan in 1991 as a forum for dialogue on issues of common interest and through which issues being considered in the principal global economic fora (the G7 and G10), of which Japan is a member, could be discussed amongst the other central banks of the East Asia region. Such meetings have taken place twice yearly since 1991, typically at deputy governor level.

Over the last 12 months, the EMEAP central banks have been exploring ways in which co-operation and collaboration amongst them might be taken a step further. A first meeting of EMEAP central bank Governors in Tokyo in July 1996 decided to establish three groups, focused on:

- central bank operations;
- financial market development; and
- banking supervision.

The Reserve Bank of New Zealand is represented on all three groups. A summary of the role of each follows:

- The terms of reference for the *Working Group on Central Bank Operations* will be addressing aspects of the financial operations central banks perform, for example, management of foreign reserves portfolios. This will be against a backdrop of increasing market innovation and inter-

dependence. The Working Group will exchange information and technical experience.

- The *Working Group on Financial Market Development* will be focusing on how financial markets can be best developed in a way which fosters efficient allocation of the already high levels of savings generated within the region, and to mobilise capital required from outside the region to finance even higher levels of investment. One area for attention will be the payments and settlement systems through which financial market transactions, within and across national markets, are effected.
- A *Study Group on Banking Supervision* has been commissioned to develop further the existing links amongst the banking supervision personnel of the region's central banks, to develop improved understanding of the regulatory arrangements of each country and to collaborate on matters of common interest in relation to banking supervision policies and techniques. All these are essential for effective supervision of banks which are active across the region, which it is expected will increasingly be the case, as banks expand geographically in parallel with expanding regional trade and investment flows.

While outside the EMEAP umbrella, a number of EMEAP central banks have, during the last year or so, entered into bilateral repurchase agreements⁶. Under these arrangements, the central banks involved have reached understandings which provide for them to purchase, on a temporary basis, each other's foreign reserves investments (generally US government securities). Such agreements could be invoked when a central bank faces a temporary need to liquidate its foreign reserves holdings, say to generate the foreign exchange needed if it were to intervene in the foreign exchange market to support its own currency.

By using central bank to central bank repurchase agreements, foreign reserve assets can be liquified "off-market" and confidentially, if that is desired. More generally, the existence of the arrangements signals a willingness on the part of the region's cen-

5 The EMEAP group comprises the central banks of Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand.

6 A repurchase agreement is an agreement in which one party agrees to buy a financial security and simultaneously contracts to sell the same (or an identical) security back at a specified future date.

tral banks to liaise and co-operate in times of market instability, which of itself may have a stabilising influence on markets.

The Reserve Bank of New Zealand has not, to date, entered into any of these arrangements. This reflects, perhaps, our relatively greater emphasis on maintaining a freely floating currency, and also the fact that our smallness makes such arrangements less relevant for us than for other countries in the region. The small size of the New Zealand economy, and hence of our official overseas reserves holdings, means that we would have less difficulty in rapidly liquifying even a large proportion of our foreign reserves on the market, if that were required. Also, our smallness means that we have only a very limited capacity to provide liquidity support to the other central banks of the region - some of whom have amongst the largest holdings of overseas reserves in the world.

For these reasons, entering into re-purchase agreements with other central banks has not been a priority for us. Such agreements may nonetheless be of value to us if they mean that slightly less emphasis can be given to maintaining market liquidity when structuring our foreign reserves portfolios, with resultant benefits in terms of the rates of return which can be generated from those portfolios. Also, such agreements would be a strong symbol of our commitment to the region. Accordingly, the potential scope for us to enter into repurchase arrangements with some other central banks in the region is being actively considered.

On a more general note, there exists scope within the EMEAP framework for us to both learn and contribute. On the learning side, the fact that the EMEAP group of countries comprises some of the fastest growing economies in the world points to the scope that exists for us to benefit from participating in the group. To be sure, the high growth rates being achieved by most EMEAP countries can be explained by the fact that they are starting from a lower level of development, but equally it is the case that their standards of living, in GDP per capita terms, are improving rapidly and in some cases, eg, Hong Kong and Singapore, already surpass those in New Zealand. Strengthening links with this rapidly growing part of the world economy, and being able to participate in regional policy discussions has the potential to be of material benefit for New Zealand over the longer term.

New Zealand's experience with inflation targeting, payments system reform, financial deregulation, and the use of disclosure requirements in banking supervision is of interest to others and these are areas where we may have a particular contribution to make to central banking in the region.

IV Conclusion

The Reserve Bank of New Zealand has been strengthening its relationships with its counterpart central banks in the Asia-Pacific region in recent years. Primarily, this has been in the context of developments involving the EMEAP group of countries, although our assuming the chair of SEANZA at this time is also of note, while our relationships with the central banks of the South Pacific island states have also been deepening.

In many respects our involvement in these central banking networks mirrors two of New Zealand's key areas of foreign relations - Asia and the South Pacific. While perhaps not as high profile as other aspects of New Zealand's foreign and trade relations, the behind the scenes co-operation and collaboration amongst the region's central banks is making a significant contribution to the promotion of growth and stability in the financial markets of the region, and to the region's economies more generally.

