

SEACEN fulfills its mission through:

- Learning solutions aimed at strengthening central banking knowledge and skills
- Networking and collaboration platforms to deliberate on issues and challenges on central banking; and share experiences, knowledge and expertise in central banking areas

Research  
Programme



Modern facilities at SK provide  
a conducive environment for learning and research

## RESEARCH PROGRAMME FOR OPERATING PERIOD (OP) 2012 APRIL - DECEMBER 2012

### I. RESEARCH PROGRAMME

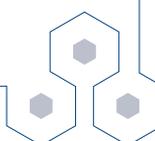
#### R1. Role of Payment and Settlement Systems in Monetary Policy and Financial Stability

##### Rationale

The payment and settlement system plays a core intermediating function and operates as the “plumbing system” for financial markets to help ensure swift, safe and seamless flowing of funds from one payment participant to another. Certainty and smooth settlement of payments would reduce risks, including exchange rate risk, and improve liquidity management. In turn, this will not only enhance transaction certainty for the financial institutions, but also facilitate timely availability of critical information for supervisors and monetary authorities. Concurrently, prompt and smooth financial settlements should further enhance the effectiveness of monetary policy transmission and the overall conduct of monetary policy. An efficient payment and settlement system is, therefore, a critical infrastructure to the success of attaining monetary and financial stability.

The recent financial crisis has also demonstrated that payment and settlement systems around the world have become more interdependent as a result of increasing cross-border activities and higher aversion to settlement risks. A recent study projects that the Asia-Pacific region will be at the centre of the largest share of global transaction volumes of payment and settlement activities in 2020 (Boston Consulting Group (2010)). The rising trend in the payment and settlement activities has contributed to the strengthening of global financial infrastructure through the reduction of settlement risks and costs. At the same time, tightened system connections have reshaped the risk landscape and increased the potential for contagion across interrelated systems.

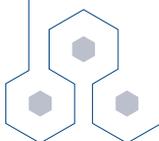
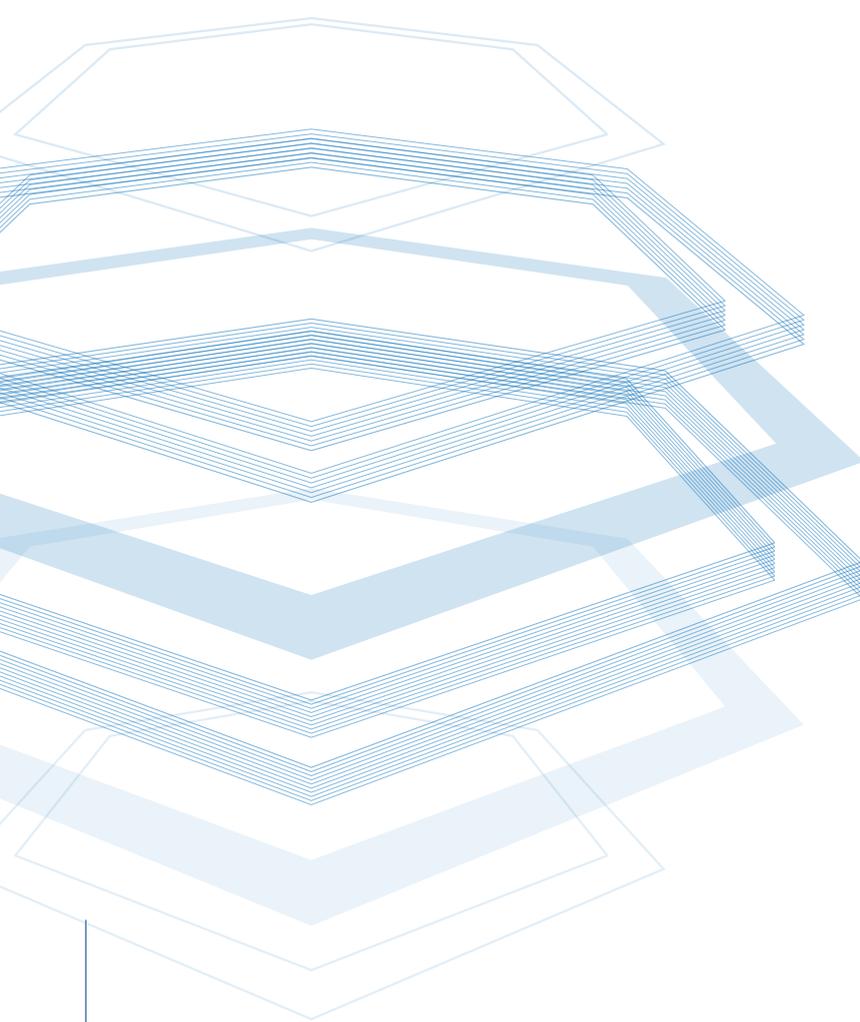
Efforts have been made by the SEACEN members to jointly improve and develop the regional payment and settlement systems. ASEAN Pay for instance was conceptualised at the ASEAN Finance and Central Bank Deputies Meeting in October 2002. It started as an initiative to create cross-border payment linkages in the ASEAN region and to facilitate a more efficient, secure, risk-contained and timely settlement of international payments among the ASEAN countries. A more recent initiative was the establishment of the ASEAN Working Committee on Payment and Settlement Systems (WC-PSS) in 2010 by the central banks of the region. This aimed to fulfill the need for efficient, secured, and reliable payment and settlement systems to support regional financial integration and increased economic activities under the ASEAN Economic Community (AEC) blueprint, which seeks to guide the region towards the free flow of goods, services, investment, skilled labour, and freer flow of capital.



## Objectives

The objectives of this study are as follows:

- a. Assess payment and settlement system standards across the SEACEN economies, both on the retail and wholesale levels;
- b. Identify key challenges and issues to improve the efficiency of the payment and settlement systems of the SEACEN economies;
- c. Identify areas where payment and settlement system directly influence domestic monetary and financial stability;
- d. Assess efforts to further develop and improve payment and settlement systems across the region;
- e. Take stock of regional cooperation(s) on the areas of payment and settlement system involving SEACEN economies and evaluate the outcome and shortcoming;
- f. Identify key areas of cooperation going forward.



## R2. Basel III Implementation: Challenges and Opportunities

### Rationale

The recent financial maelstrom that engulfed the world economy during the 2007-2009 global financial crises was rooted in debilitating weaknesses in the banking sector such as inadequate quality and low level of capital, excessive leverage and insufficient liquidity buffers. In view of the global nature of the crises and its catastrophic and far-reaching consequences to the real economy in terms of large falls in production and output, rising unemployment and ballooning budget deficits and public debt, longer term reforms, in particular, the special regulation of banks are needed in order to ensure that the financial system becomes resilient to future crises. The Basel Committee has been at the core of these reforms and the reform package that has been agreed more recently in late 2010 has come to be known as Basel III.

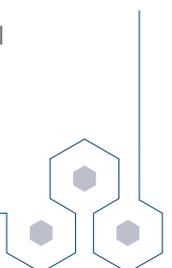
In a nutshell, across a span of a number of years of transition period, the Basel Committee has essentially proposed the following regulatory reforms and frameworks that attempts to address the above mentioned roots of the crises: first, banks must hold more and better quality capital than before. Secondly, the introduction of a minimum liquidity requirement for banks, and, thirdly, the introduction of a risk measure – a leverage ratio. Furthermore, Basel III also takes on a system-wide focus by introducing broad macro-prudential measures that tries to address financial stability concerns in the form of pro-cyclicality, i.e., the tendency of the financial system to magnify the inherent economic cycles of the real economy, and, the inter linkages of financial institutions, especially those that are considered to be systemically important or too-large to fail. To be more specific, these broad measures will require banks to maintain large enough capital levels to offset losses in times of adverse financial shocks as well as the requirement that banks should build-up extra capital in times of excessive credit growth and as such banks can tap the buffer during periods of financial distress without having to raise new capital immediately.

As the full implementation of the Basel III will be phased in over a period of six years, national economic authorities face challenges and uncertainty should they choose to adopt Basel III. In the same vein, supervisors must also explore options and opportunities available to them, in view of the current national regulatory and supervisory frameworks to meet the requirements of Basel III.

### Objectives

Against this backdrop of increased complexity in national financial regulation and its accompanying supervisory challenges and concerns, the primary objectives of this study are as follows:

- a. Identify challenges of implementing Basel III for SEACEN economies, both for individual banks, the financial system as well as supervisory aspect of it;
- b. To review the impact of Basel III on supervisory concerns and its potential impact ;
- c. To explore options and opportunities regarding Basel III and,
- d. To assess the interconnectedness of the domestic financial system in the regional and global context in view of Basel III and its impact on cross-border supervision.



### R3. Finding Asia's New Sustainable Growth Model Post GFC: The Role of the Central Banks

#### Rationale

Two contrasting trends emerged at the outset of the recent global financial crisis in a number of key SEACEN economies. On the one hand, the resilient financial sectors, particularly the banking sector of this group of emerging markets generally withstood the crisis and emerged relatively unscathed. In contrast to the 1997 East Asian financial crisis, the capital adequacy and liquidity positions of the banking sector of these economies remain above the Basel requirements, while non-performing loans have been kept at very low levels in the recent years.

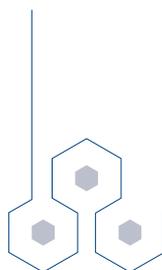
On the other hand, the exports of key SEACEN economies have been indiscriminately impaired by the global financial meltdown. As further demonstrated, the impact of the subprime crisis on the real sectors came predominantly through trade channels. For some SEACEN economies, the decline in exports was even more severe when compared to the 1997 Asian financial crisis. In fact, the rate of decline in global trade during the sub-prime crisis has been more severe and more widely spread than during the era of Great Depression of the 1930s. SEACEN economies have largely been known for their trade-oriented nature. At the peak in 2009, the average ratio of total trade (export and import) over GDP in many SEACEN economies was well above 100 percent.

The way the subprime crisis has impacted the Asian economies leads to the argument that in the longer-run, Asia should work towards a rebalance of growth by increasing its dependency on domestic and intra-regional demand for economic growth. The proponents of this view claim that this can be done through, in the long-run, a higher growth rate of consumption as well as investments in the domestic economies. The central banks' role in promoting sustainable economic growth is to support and provide an environment conducive for financial, monetary and economic stability. Therefore, in view of finding the new sustainable growth model, there is a vital role that central banks can play in terms of implementing an all-encompassing reform package which includes among others, financial, monetary, fiscal and economic reforms.

#### Objectives

The objectives of this study are as follows:

- a. Examine sector contribution to GDP in recent years;
- b. Assess and propose feasibility of a new sustainable growth model;
- c. Identify emerging issues and challenges of the new growth model;
- d. Assess the role of central banks in realizing the new growth model; and
- e. Identify possible areas of regional cooperation in realizing the new growth model.

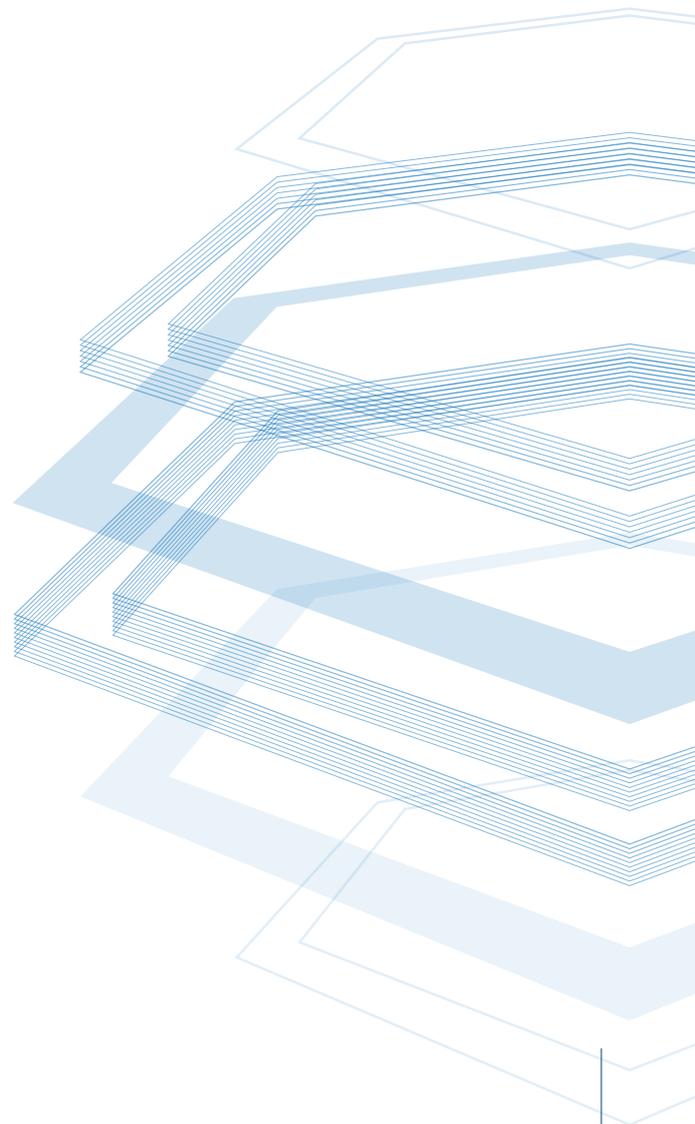


## II. CASE STUDIES

In line with the strategy to link research to learning, the Research and Learning Contents Department in OP 2012 to OY 2013 aims to prepare 3 case studies based on the 3 research projects.

The list of the case studies is as follows:

- C1. Role of Payment and Settlement Systems in Monetary Policy and Financial Stability
- C2. Basel III Implementation and Its Impact on SEACEN Economies
- C3. Finding Asia's New Sustainable Growth Model Post GFC: The Role of the Central Banks



### III. PROPOSED SEG ACTIVITIES

The SEACEN Centre will continue to provide secretariat support for the SEACEN Expert Group (SEG) on Capital Flows. Specifically, the following activities are proposed for OP 2012:

#### 1. Exchange of Data on Capital Flows

The SEACEN Centre will continue to facilitate the exchange of data in the confidential SEG database system. The Centre will also make efforts to expand the SEG membership and improve participation and timeliness in data sharing

#### 2. Assessment of Capital Flows

The SEG Secretariat will prepare twice a year brief reports on capital flows to be circulated to members which includes forward looking indicators, namely, the Exchange Market Pressure (EMP) index as an initial stage of the Early Warning System (EWS) composite index. The Secretariat will also conduct a feasibility study on Financial Stress Index (FSI) and conduct a survey on FSI on member banks

#### 3. Collaboration and Information Sharing

- On line Secure Real-time Forum

The purpose of this online forum is for SEG members to exchange the most current information on capital flows. To ensure confidentiality, only full SEG members are allowed to participate in the proposed forum.

- Expectation (Forward Looking) Survey

The purpose of this set of survey is to analyse capital flow movements in a more forward looking manner.

#### IV. PUBLICATIONS

1. 3 Research Studies
2. 3 Staff Papers
3. 2 Occasional Papers
4. 1 SEACEN Economic Letter (provides insights on topical global/regional issues, disseminates findings of research studies, staff papers, occasional papers and other research output)
5. 1 SEG Report
6. 1 Background Paper for High-level Meeting
7. Guide to SEACEN Bank Watch 2013
8. Web update of SEACEN Profile OP 2012
9. Annual Report OP 2012
10. SEACEN Programme OP 2012
11. E-alumni/Newsletter

