RESEARCH PROGRAMME

RESEARCH PROGRAMME FOR FINANCIAL YEAR 2014 JANUARY – DECEMBER 2014

1. COLLABORATIVE RESEARCH PROJECTS

R1. ADVANCING INCLUSIVE FINANCIAL SYSTEM IN THE NEXT DECADE

Several initiatives have been undertaken to ensure widespread global financial access. World leaders recognised financial inclusion as an important tool to promote sustainable economic growth and development. In Asian emerging economies, financial inclusion has progressively assumed greater priority in its development agenda.

While considerable advancement has been made, there is a need to identify bottlenecks which continue to impede progress. Varied experiences of different economies have identified several sources of friction. Market players are concerned that they are investing in a marginally profitable business activity. In many cases, banks have yet to develop sustainable and scalable business and delivery models to guide its financial inclusion initiatives while in others, the usage of financial infrastructure continues to be lethargic. These have not only restricted the potential benefits from increased financial access but also reduced the viability of financial inclusion activities of banks.

The task of financial inclusion is indeed, challenging. Because the issues that cause the friction vary across economies, it is crucial to think of a financial inclusion agenda as one that identifies the main barriers in the journey to a financially inclusive system as well as the biggest opportunities that need to be pursued for a greater portion of the population to be served through formal financial services. The thrust moving forward is how to unlock the next decade towards realisation of the global ambition of universal financial inclusion.

This collaborative research aims to draw lessons from experiences of respective SEACEN economies to help fine tune the national financial inclusion agenda. The research will also identify bottlenecks impeding progress as well as successful financial inclusion initiatives and advocacies. It will also help in recalibrating regulatory policies and practices to facilitate an expansive microfinance industry.

R2. BUILDING ON THE COUNTER-CYCLICAL BUFFER CONSENSUS: ASIAN EMPIRICAL TEST

The concept of requiring banks to hold more capital in good times and less in bad times is not new. However, the design of a rule-based, counter-cyclical mechanism is still in early stages and broad consensus on its formulation has yet to emerge. Many policy issues relating to the implementation of this proposal have also yet to be resolved. Although various literatures have proposed different design mechanisms, the challenge in the design has always been to find a formulaic expression that allows for the buildup of a capital buffer during the growth stage of the business cycle and the subsequent decline of this buffer that can keep pace with the unanticipated losses during the downturn. Another cited fundamental design issue relates to the choice of anchor variables on whether to use micro or macro variables (i.e. bank's profitability or credit to GDP ratio).

Overcoming these challenges is expected to entail careful judgment on the part of the regulators. The chosen solution for counter-cyclical design mechanism should be supported by extensive empirical analysis. The choice of anchor variables for the proposed mechanism must be robust over time and across economies.

This collaborative research aims to provide guidance to regulators' national capital buffers decisions. This research will help relevant authorities assess credit growth conditions and decide whether it is leading into excessive buildup of system wide risks. Based on this assessment, regulators will be guided in determining whether a counter-cyclical capital requirement should be imposed. This research project also aims to aid regulators in formulating effective capital buffer policies and develop proper communication strategies to promote regulatory accountability.

2. HIGH LEVEL SEMINARS/CONFERENCE

S1. GLOBAL LIQUIDITY AND IMPACT OF CAPITAL FLOWS ON EXCHANGE RATES IN EMERGING ASIA

The aftermath of the Global Financial Crisis saw implementation of large scale unconventional monetary policy in the advanced countries. This unusual policy approach has somewhat helped to ease tail risks, thus encouraged global resumption of capital flows. However, these flows have added a new dimension to global liquidity. It has resulted in the large surge of volatile capital inflows to emerging Asia.

Given the open nature of emerging Asia economies, it is undeniable that development in the advanced economies have transmitted financial contagion across geographical borders and different asset classes to Emerging Asia, resulting in potential financial instability, e.g., the effect on asset prices in emerging Asia. However, what is not so clear is the effect of the prolonged accommodation of quantitative easing on the exchange rates of emerging Asia in both the short- and the long-run. There is also no broad consensus whether the magnitude of these effects depend on the institutional setup of the economy as well as the policy responses towards them. In other words, is it country-specific?

This High-level Seminar will explore the following issues: Firstly, from a central bank's perspective, what is the optimal policy mix to minimise the volatility of exchange rates? Secondly, following ample global liquidity given that some central banks have actively intervened in the foreign exchange market, what would be the consequences of accumulation of sizeable foreign exchange reserves? Thirdly, what would be the effect on exchange and the equilibrium rates and policy responses following potential unwinding and tapering of quantitative easing on Emerging Asia in the near future?

S2. HIGH-LEVEL SEMINAR 2

Just-in-Time (JIT) topic

S3. 4TH CEMLA-SEACEN HIGH-LEVEL CONFERENCE

Topic to be decided later in consultation with CEMLA.

S4. DORT HIGH-LEVEL SEMINAR

Topic to be decided later in consultation with SEAG MMPM.

S5. EXCO HIGH-LEVEL SEMINAR

Topic to be decided later in consultation with host bank.

S6. BOG HIGH-LEVEL SEMINAR

Topic to be decided later in consultation with host bank.

3. CASE STUDIES

5 – 7 cases studies based on research topics and just-in-time topics in consultation with the Learning Design and Development Department (LDD).

4. RESEARCH WORKSHOPS

4 research workshops will be conducted in conjunction with research studies R1 and R2.

5. SEG ACTIVITIES

SEACEN will continue to facilitate the exchange of data in the confidential SEG database system. SEACEN will also make efforts to expand the SEG membership to improve participation and timeliness in data sharing. SEACEN will prepare twice a year brief reports on capital flows to be circulated to members, which include the Financial Stress Index (FSI) and Expectation (Forward Looking) Survey. The consolidated Exchange Market Pressure (EMP) Index, which has forward looking indicators as an initial stage of the Early Warning System (EWS) composite index, is already included in previous reports. The forthcoming reports will analyse capital flow movements in a more forward looking manner and includes Financial Stress Index analysis.

6. PUBLICATIONS

1. 2 Research Studies
2. 2 Publications from 2 High-level Seminars
3. 8-10 Working Papers
4. 5-7 Case Studies (3 from LDD)
5. 2 SEG Reports
6. Background Papers for High-level Meetings (subject to request)
7. 1-2 articles for Professional Journals