Staff Papers No 4

SEACEN CENTRE

CREDIT PLANNING IN THE SEACEN COUNTRIES

Gerardo S Tison

The SEACEN Research and Training Centre
1985

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Gerardo S. Tison

Mr. Tison is a Research Economist of the SEACEN Centre on secondment from the Central Bank of the Philippines. He has been with the Department of Economic Research since 1974 where he held the position of Assistant Director prior to joining the Centre in 1984. He is currently working on the Centre's research projects on selective credit policies and the financial structure of the SEACEN countries.

Mr. Tison obtained his B.A. in Economics from the University of the Philippines and his M.B.A. with concentration on Management of Financial Institutions from the Ateneo University. He also attended special central banking courses and observation studies conducted by the central banks of the United States, England and West Germany.

The South-East Asian Central Banks (SEACEN)
Research and Training Centre

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"Credit Planning in the SEACEN Countries" is the fourth of the Staff Papers series and was prepared by Mr. Gerardo S. Tison in connection with the SEACEN Seminar on Credit Planning held in Kathmandu, Nepal on September 5 - 7, 1984.

Vinyu Vichit-Vadakan

Vinyu Vichit-Vadakan
Director
SEACEN Research and Training Centre

CREDIT PLANNING IN THE SEACEN COUNTRIES

Most less developed countries nowadays are being guided by an economic plan in pursuing their growth and development paths. Invariably, the financing of the plan is one of the most difficult and crucial. This is particularly true among the SEACEN countries where the scarcity of financial resources is a major constraint in achieving accelerated growth and development.

In view of the paucity of financial resources and the crucial impact of this input to the successful implementation of the economic development plan, most of the SEACEN countries also devote closer attention to the financing of the plan. Emphasis is placed not only on the sources of financing but on the direction and distribution of funds as well. Thus, most of the SEACEN countries follow some kind of a credit planning exercise where an estimate of the total available financial resources is made and its allocation to various sectors is undertaken.

Credit planning as an allocative device involves two stages, the planning stage and the operative stage. The planning stage includes the setting of the objectives of credit policy, the estimation of available credit and its sectoral distribution. On the other hand, the operative stage involves the implementation of the credit planning exercise which includes the regulation of the magnitude of credit expansion and the monitoring of credit to ensure that it flows into designated sectors or activities. Evaluation of the credit planning exercise in terms of the instruments used, institutional channels employed and the like, is also undertaken during the operative stage so that modifications, adjustments or adaptations could be made and thereby gear this planning activity towards its objectives.

This paper gives a general account of the more recent efforts of the SEACEN countries in rationalising the flow of credit into various sectors or activities. Except for Singapore where the sectoral allocation of credit has been left to market forces, the other seven SEACEN member countries still adopt some kind of credit planning in their respective economies. Although not all of these SEACEN countries adopt a formal credit plan, all these countries, nevertheless, have promulgated various credit allocative measures. This sectoral allocation of credit represents a developmental task of the central banks of these countries and it is interesting to note that it is through the credit planning exercise where such responsibility is made consistent with their stabilisation objective. This is because credit allocation is undertaken only after the monetary budget or the total resource plan has been drawn with its attendant impact on growth, inflation and balance of payments expectations assessed. In short, it is apparent that in these SEACEN countries, the authorities have found the need to intervene in the financial markets to direct scarce credit resources into predetermined priority sectors and activities.

BURMA

The nationalised nature of the banking system in Burma enables the Government to effectively mobilise available financial resources and allocate them in high priority areas where optimum returns could be obtained. The Union of Burma Bank takes the lead role in credit planning by prescribing credit ceilings including sub-ceilings by type and functions of credit, after consultation with the technicians of the Ministry of Planning and Finance and sometimes with the International Monetary Fund during stand-by agreements. The permissible level of credit under a credit plan is then allocated among the three main sectors of Burma: the public sector, the cooperative sector and the private sector. Credit allocated to the private sector (except agriculture) is treated as a residual after the credit requirements of the public and the cooperative sectors have been met. Credit control is exercised by the Myanma Economic Bank at the enterprise level, on the basis of documentary evidence and situation reports.

Moreover, the specialised banks in Burma, namely, the Myanma Economic Bank, the Myanma Agricultural Bank and the Myanma Foreign Trade Bank provide credit for specific purposes at differential rates of interest. The Myanma Agricultural Bank (MAB) lends to farmers through Village Banks (farmers associations) at rates prescribed by the Management Committee of the Bank. In addition to short-term seasonal loans at selected areas for selected or high priority crops under the credit plan, the MAB in recent years has been extending medium term credit for purchase of cattle, extension of cultivable lands, to cooperatives for mixed farming, livestock breeding and fisheries. The main task of the Myanma Economic Bank is to carry out banking operations for state economic enterprises and cooperatives. This includes extending credit to state economic enterprises for working capital and investment purposes. The Myanma Foreign Trade Bank finances the external trade requirements of the Government and the state economic and trading enterprises. It also operates a tax-cum-subsidy scheme called the Export Price Stabilisation Fund with a view to encouraging exports of new and non-traditional commodities through a fund supported by windfall profits arising from traditional exports.

A differential lending rate structure in Burma has also been designed so as to encourage investment in priority areas such as agriculture, livestock, transportation and procurement of paddy by state agencies for domestic distribution and exports. For instance, ordinary and term loans of state corporations for working capital are charged annual rates of 6 per cent and 5 per cent, respectively; for private sector agriculture to village banks and farmers, 8 per cent and 12 per cent, respectively. In contrast, small personal loans carry an interest rate of 24 per cent per annum.

INDONESIA

As in any other SEACEN countries, the control and supervision of credit is one of the main tasks of monetary authorities in Indonesia. In particular, the Bank Indonesia Act specified the use of selective credit controls by the Monetary Board in performing such task.

Selective credit policy in Indonesia is best seen in its banking structure, specifically the existence of five state banks. These banks are owned by the Government of Indonesia and perform development roles tailored to the needs of certain sectors. The <u>Bank Rakyat Indonesia</u> is mainly concerned with the financing of agriculture, cooperatives and rural activities. <u>Bank Ekspor Impor Indonesia</u> provides full banking services to the export sector while <u>Bank Bumi Daya</u>'s activities are directed to the estate sector. The financing needs of the mining, trade and industry sectors are handled by <u>Bank Dagang Negara</u>. On the other hand, <u>Bank Negara Indonesia</u> acts as the government arm in assisting and promoting the people's welfare as well as national economic development especially in the industrial sector.

With the five state banks assigned to take care of the credit and other banking requirements of specific sectors, the harnessing of financial resources to identified areas in Indonesia can be said to be built-in in the country's financial system. The state banks have branches in every city in Indonesia which enable them to have wider geographical reach. These specialised banks are also relatively better capitalised and their access to the refinancing facilities of Bank Indonesia is easier and at terms more liberal than that accorded to other bank types. In comparison, private local and foreign banks in Indonesia are relatively less capitalised and cater largely to foreign trade and exchange transactions of the country. Moreover, their influence on credit is not as pervasive as the state banks since they operate only in large cities, with the foreign banks limited to operate only in Jakarta.

The deliberate effort to promote credit flows to identified sectors in Indonesia is not only undertaken through the specialised nature of its financial system. Credit priorities are determined jointly by Bank Indonesia and the Monetary Board. Despite the deregulation of interest rates of the state banks in June 1983, interest rates on credit to high priority activities are still obtained below the market level. For example, credit policy in 1982/83 placed more emphasis on loans bearing interest rates below 13.5 per cent, the category of loans accorded priority status. The rediscount facility of Bank Indonesia also gives preference to priority sectors through low interest rates and high rediscount proportions. In 1982/83, several refinancing regulations were issued to encourage exports of non-oil products, food production and the development of economically-weak groups as well as the financing of higher education. In contrast, Bank Indonesia since August 1982, no longer provides refinancing facilities for working capital credit with interest rates of 13.5 per cent and above, loans categorised as non-priority lending.

MALAYSIA

Credit allocation measures in Malaysia are largely in the form of lending guidelines for banks issued by Bank Negara Malaysia to ensure that the priority sectors would continue to have ready access to credit at reasonable costs. The first set of general guidelines on the direction of credit was issued in 1974 to curb undue lending for consumption and speculation. These guidelines were also issued to support the overall credit growth ceilings which were first adopted in the same year. Subsequently, the lending guidelines were made more specific and revised from time to time, normally once a year.

During the more recent years, the lending guidelines to commercial banks and finance companies favoured credit to small-scale enterprises, housing, agricultural food production and special groups. The credit preference for the first three economic activities was in recognition "of their wide domestic linkages and significant income multiplier effects that could provide a stable base upon which sustained economic growth could be built upon."1/ On the other hand, lending to the Bumiputera community and the small man constituted another credit priority aimed at directly promoting the New Economic Policy's objective of eliminating poverty and restructuring the society as well as reducing past inequities.

The latest guidelines governing bank lending in Malaysia were introduced by Bank Negara Malaysia on March 31, 1984. These included the requirement to commercial banks and finance companies to extend at least 20 per cent of their loans outstanding as at December 31, 1983 to the Bumiputera community. Minimum requirement on commercial bank lending for agricultural food production was set at 6 per cent of their loans outstanding as at end-1983. Lending guidelines to small scale enterprises specified that

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1/ Bank Negara Malaysia, Annual Report: 1982, p.12.

commercial banks have to maintain their 1983 level of loans throughout 1984 while finance companies have to extend at least 25 per cent of their end-1983 loans outstanding to these enterprises. Commercial banks and finance companies were also required to maintain throughout 1984 loans to the housing sector at their end-1983 levels. Moreover, these financial institutions are required to make new firm commitments to finance the purchase of specified units of new houses costing M$100,000 and less, of which certain minimum units should be for Bumiputera individuals.

A review of the lending guidelines is undertaken annually and takes into account, among others, the lending performance of the commercial banks and the finance companies during the previous year to the priority sectors. If it has been found that bank credit to certain priority sectors had already generated its momentum, lending guidelines to such sectors would no longer be issued. Otherwise, the specific lending directive is allowed to continue, or if necessary, even made more stringent. Moreover, during the review of the guidelines, new measures may be introduced to favour those sectors identified by the Government as priority and requiring bank credit.

The quantitative credit guidelines in Malaysia are also supplemented with the existence of other financial institutions established to meet specific needs of certain sectors. Thus, the first Islamic Bank commenced operations in Kuala Lumpur in July 1983 and is expected to fill a gap in the existing banking system in terms of mobilising the savings and meeting the credit needs of the Muslim community in Malaysia. Other notable financial institutions in Malaysia whose credit operations are largely geared to specific sectors are the industrial finance institutions, the credit housing institutions and the agricultural credit institutions specially the Agricultural Bank of

Malaysia and the Federal Land Development Authority (FELDA).

NEPAL

The task of allocating credit to priority sectors in Nepal is being undertaken by the Priority Sector Coordination Committee which was formed in August 1980. It is composed of 11 members with the Governor of Nepal Rastra Bank as chairman. The members of the committee included the heads of the Ministries of Finance, Food and Agriculture, Industry and Commerce and the National Planning Commission as well as representatives from the different banks and financial institutions, the Centre for Economic Development and Administration (CEDA) and the private sector.

The Committee determines periodically the priority areas, fixes the annual financial assistance required by the banks and financial institutions and prepares an annual loan plan for the priority sectors. A quarterly review of the implementation aspect of the loan plan is also undertaken by the Committee to ensure the efficient and effective utilisation of credit to the priority sectors.

The Nepal Rastra Bank has also already started macro-level credit planning with the active participation of the banks and other financial institutions. In the process, the Rastra Bank has been persuading commercial banks to adopt credit planning as their policy tool. Likewise, on an institutional level, the National Planning Commission of Nepal has constituted the Credit Planning Committee under the chairmanship of the Nepal Rastra Bank. The Committee draws its membership from representatives of the Ministries of Finance, Industry, Supplies, Agriculture and Land Reform and from the National Planning Commission. The main responsibility of the

Committee is to review monetary and credit developments during the Sixth Plan period and to offer suggestions for improvement. In consultation with banks and other financial institutions and major users of funds, the Committee is also entrusted with the preparation of the availability of and demand for credit resources for the Seventh Plan Period, taking into account price and balance of payments developments.

The agricultural sector is the backbone of Nepal's economy and has been accorded top priority since the country followed a planned economic development path in fiscal year 1956/57. To promote the development of the agricultural sector, a three-year crash programme was launched in 1981/82 in accordance with the general framework laid in the Sixth Five Year Plan. For one, the programme has to ensure the supply of credit to agriculture and therefore, activities of all agencies have been coordinated to achieve this end.

Some credit allocation measures are already in place in Nepal. In 1974, the Nepal Rastra Bank had made it obligatory for commercial banks to invest at least 7 per cent of their total deposit liabilities in agriculture and other priority small sectors. In addition, the principal source of institutional financing for agriculture, the Agricultural Development Bank of Nepal, was established in 1968 and provides short, medium and long-term agricultural loans. On the other hand, another specialised financial institution, the Nepal Industrial Development Corporation, takes care of the financing requirements of the industrial sector.

Measures to ensure credit flows to priority sectors are supplemented with regulations to see to it that credits are obtained at lower costs and are used for the purposes they are intended. For example, the

Nepal Rastra Bank prescribed a 10 per cent ceiling on the interest rate on working capital loans for cottage and rural industries with fixed capital of two hundred thousand rupees. For working capital credit over two hundred thousand rupees, commercial banks were directed to charge 14 per cent per annum. With a view to checking the misuse of credit extended to the priority sectors, the Nepal Rastra Bank had instructed banks in June 1980 to charge a penal rate of 16 per cent on such misused credit. This measure was designed to discourage the misappropriation of credit meant for the priority sectors which were obtained at lower interest rates.

PHILIPPINES

The Philippines adopts an annual financial programme which involves the setting of intermediate growth targets for domestic liquidity and credit to sustain a target rate of growth in national output as well as an acceptable rate of inflation and expected balance of payments outcome.

The first financial programme was formulated in 1976 to support a medium term facility which the Central Bank of the Philippines drew against the International Monetary Fund (IMF) for the period 1976-1978. Since then, an annual financial programme has been drawn up which enabled various government economic planning agencies to coordinate and monitor their programmes on a regular basis.

The Central Bank of the Philippines takes the lead in this exercise and handles the estimation of the balance of payments and monetary aggregates. Other agencies actively involved in the preparation and monitoring of the financial programme include the National Economic and Development Authority (NEDA) which is mainly responsible for the formulation of the target growth rate in output and inflation rate as well as the identification of priority sectors. The Ministry of Finance and the Office of the Budget and Management, on the other hand, undertake the estimation of the revenues, expenditures and borrowings of the public sector.

The quantitative formulation of the financial programme in the Philippines involves three steps, as follows:

1) estimation of domestic liquidity requirements as a function of the targetted GNP growth rate and expected rate of inflation;

2) estimation of the balance of payments outcome which would produce a projected level or change in the net foreign assets of the monetary system; and

3) finding the warranted level of net domestic assets which serves as the basis for the programming of domestic credit for the private and public sectors over the period of the financial programme.

The programming and monitoring of domestic credit is confined to credit of the Central Bank and commercial banks. Except for the broad breakdown into private and public sector credits, no further disaggregation of domestic credit in the financial programme is done. Instead, the financial programming exercise in the Philippines gives emphasis to the aggregate flows and levels of domestic credit during the programme period while its allocation is governed in a general manner by the priority areas identified in the economic development plan in NEDA.

The absence of sectoral credit allocation in the Philippines is, however, compensated by a number of other selective credit measures. The foreign exchange swap and rediscounting windows of the Central Bank of the Philippines operate selectively and give preferential treatment to exports and food production, among others.

Moreover, certain portfolio requirements have to be observed by banks to channel more credit for agricultural and regional development. One is a directive enforced since 1974 requiring all banks to allocate at least 25 per cent of their loanable funds for agricultural credit, of which not less than 10 per cent shall be made available for agrarian reform credit. In the absence of qualified borrowers, banks are allowed to temporarily invest in government securities expressly declared for the purpose. All banks have to comply also with another measure which stipulates that at least 75 per cent of the total deposits gathered in a region should be invested in the same area.

Lastly, despite the universal banking orientation of the Philippine financial system, certain banks continue to channel the bulk of their funds to specific sectors. The rural banks were established to cater primarily to the credit needs of small farmers and merchants in the countryside. Three specialised government banks allot their credit portfolio to specific sectors and activities. These are the Development Bank of the Philippines which is a major source of medium and long-term credit for development activities, the Land Bank of the Philippines which serves as the financing arm of the agrarian land reform programme and the Philippine Amanah Bank which was established to meet the special credit and other banking requirements of Muslim Filipinos.

SRI LANKA

Credit planning in Sri Lanka is a deliberate and formal exercise which was initiated in 1981 by the Central Bank of Ceylon. The National Credit Plan was devised in "an attempt at intervening in the market in order to bring about a more development oriented credit allocation in the economy."2/ It is also aimed at attaining the development objective of the Central Bank of Ceylon by employing a novel instrument of selective credit control.

In the absence of a physical plan covering the entire economy, the annual National Credit Plan of Sri Lanka is confined only to credit of commercial banks to the private sector which includes government corporations. Credit to the Central Government is excluded from the plan since a separate medium-term Public Investment Programme is prepared.

The starting point of the yearly formulation of the credit plan in Sri Lanka is the preparation of a monetary budget for the economy. This budget sets out the monetary targets, taking into account the projected real growth, the estimated inflation rate and an allowance for increased monetisation in the economy. The monetary target is then translated into the permissible credit levels after allowing for the behaviour of the external sector and the credit requirements of the Government. These credit levels represent the demand side of the National Credit Plan and are further allocated between the Central Government and the private sector.

After identifying the credit needs of the various sectors, total credit for the purpose of sectoral allocation is divided into eleven categories.

2/ Central Bank of Ceylon, National Credit Plan: 1983, p.1.

From these categories, priority has been given to agriculture, industry and exports while a low priority has been assigned to imports and consumption.

The availability of resources to finance the estimated demand for credit is determined with the formulation of the resource plan. Commercial banks are requested to submit their annual budgets which are aggregated to form the total credit plan from the supply side.

The demand and supply-determined credit plans are compared for consistency, in the first instance, and then discussed at separate meetings held with each commercial bank. Thus, the final estimate of credit that was agreed upon with commercial banks in these meetings was an attempt to match the demand for and supply of credit to the private sector. The estimated total credit is then allocated among commercial banks. Each bank is also presented with an active plan which has to be implemented during the plan period.

The credit plan cell of the Central Bank of Ceylon monitors and reviews the plan for its successful implementation. The credit plan is reviewed by the end of each quarter and necessary modifications are incorporated. A quarterly review of the disbursements of credit by purpose is also undertaken by the credit plan cell in order to regularise the flow of credit to important sectors of the economy. The commercial banks are also expected to review their individual plans by the end of each quarter or half yearly and are met by the Central Bank of Ceylon at the end of each quarter to discuss matters that will crop up during the plan's implementation. During the course of the implementation, the credit plan cell also organises several meetings with various economic associations of the country to get their views on credit planning and its implementation.

A number of financial institutions also cater to the credit needs of specific sectors in Sri Lanka. The most notable ones are the Bank of Ceylon sub-offices at Agrarian Service Centres and the Cooperative Rural Banks affiliated with the People's Banks which continue to function as the main outlets for granting loans to the rural sector. Moreover, the Central Bank of Ceylon grants refinancing loans at preferential rates to priority sector activities and prescribes the on-lending spreads on these loans. Exports, agricultural and other productive activities benefit from the favourable refinancing terms by the Central Bank of Ceylon.

THAILAND

Agriculture is a priority sector in Thailand and Thai authorities have promulgated measures to ensure that more funds are channeled into agricultural production activities. Since commercial banks are the major source of funds in Thailand, specific directives were given to these financial intermediaries to increase their lending to agriculture.

The Bank of Thailand requires commercial banks to extend credit of at least 13 per cent of their total deposits to the agricultural sector. This practice started in 1975 when commercial banks were requested to extend at least 5 per cent of their total credit outstanding at the end of 1974 to the agricultural sector. Since then, the extension of credit for agricultural purposes based on the total deposits of commercial banks became mandatory and has been increasing through time. However, consultation between the Bankers Association and the Bank of Thailand are held prior to the setting of a fixed percentage for agricultural credit, taking into consideration the needs of the agricultural and agri-business sectors and the ability of banks to provide credit every year. Banks that could not comply fully with this requirement are asked to deposit the rest of the amount with the Bank for Agriculture and Agricultural Cooperative.

Another banking measure was introduced in 1975 to further stimulate inflow of loans to the agricultural sector. Commercial banks are automatically granted official permit to open up a branch in the outlying areas provided they meet two conditions. One requires the new branch to extend at least 60 per cent of its total credit to residents of that location to prevent the net inflow of funds from the outlying areas into urban centers. The other stipulates that at least 30 per cent of the total credit must be granted to farmers.

In addition to these commercial bank-portfolio requirements, regulations on lending rates are also promulgated. As of mid-1984, the authorities prescribed a preferential ceiling of 17.5 per cent, as against the usual 19 per cent, as interest rate charged for credit to specified agricultural, industrial and export activities.

Specialised financial institutions in Thailand were also established to extend credit to specific sectors. The Agricultural Credit Cooperatives which has been operating since 1916 and the Bank for Agricultural and Agricultural Cooperatives, founded in 1957, lend money to farmers either directly or through farmer groups and agricultural cooperatives. Likewise, the Government Savings Banks, the Industrial Finance Corporation of Thailand and the Small Industries Finance Office were set up to provide financing to specific sectors of the economy. These institutions have to maintain lending rates below market level. To meet the demand for such credit at preferential rates, these institutions get various financial assistance from the government.

Other measures in Thailand designed to allocate credit to identified areas included refinancing privileges accorded to banks which lend to priority sectors. Rediscount rates for these sectors are fixed at levels much lower than the market rate and because of this, demand for refinancing is always higher than what the Bank of Thailand could supply. More importantly, such demand has to be balanced with the bank's stability objective, and in recent years, increase in refinancing has been made temporary so as to accommodate seasonal demand, e.g., during export season. Commercial banks are also required to hold a certain amount of bonds issued by the National Housing Authority in their portfolios.

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THE SEACEN CENTRE

The SEACEN Research and Training Centre was set up by the South-East Asian Central Banks (SEACEN) comprising the Union of Burma Bank, Bank Indonesia, Bank Negara Malaysia, Nepal Rastra Bank, the Central Bank of the Philippines, the Monetary Authority of Singapore, the Central Bank of Ceylon and the Bank of Thailand.

The basic objective of the SEACEN Centre is to promote closer collaboration and better understanding among member central banks and monetary authorities by undertaking research activities, conducting training courses and organising seminars and meetings.

Research activities of the SEACEN Centre are undertaken to have a better understanding of the monetary, foreign exchange, fiscal and other economic issues and developments affecting the member countries.

Training courses are conducted to provide an opportunity for officials of the member central banks and monetary authorities to acquire, refresh and expand their knowledge of the basic concepts and techniques necessary in the performance of their tasks as well as to widen their understanding of the issues related to policy formulation and implementation.

Seminars and meetings are organised to provide a regional forum for exchange of views and experience on selected aspects of central banking from the operational and policy standpoint.

Although the SEACEN Centre acquired its formal legal status only in 1982 when it was registered as a corporation in Malaysia and agreements to that effect were signed by the Governors and Managing Director of the member central banks and monetary authorities, collaborative efforts started as early as 1972. These undertakings initially consisted of training courses and eventually expanded to research activities and holding of seminars and meetings.

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