



SEACEN CENTRE

**DEVELOPMENTS IN GOVERNMENT
EXTERNAL DEBT IN THE
SEACEN COUNTRIES**

Zeti Akhtar Aziz

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Dr. Zeti received her B.A. in Economics from the University of Malaya and her M.A. and Ph.D. in Economics from the University of Pennsylvania, majoring in Monetary Economics and International Trade and Finance.

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

DEVELOPMENTS IN GOVERNMENT EXTERNAL DEBT
IN THE SEACEN COUNTRIES: 1980-1983

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Staff Papers No. 7

FOREWORD

One of the major activities of the SEACEN Research and Training Centre in the pursuance of its objective of promoting closer collaboration and understanding among the South-East Asian central banks is undertaking research. The research activities of the SEACEN Centre covers a wide range of subjects, in particular, monetary, foreign exchange, fiscal and other current issues faced by central banks and monetary authorities in the region.

The publication of the Staff Papers reflects the continuing efforts of the SEACEN Centre to achieve the above-cited objective. These papers were prepared by the professional staff of the Centre, and were done mostly in connection with its other activities. More specifically, they were undertaken to serve as background papers for the seminars and meetings conducted by the Centre, as special papers on current issues in the annual Economic Survey on SEACEN Countries, as materials for the speaking engagements of the staff members. The papers also include other subjects of interest to the professional staff. In other words, these studies are not the regular research projects of the Centre which are more in-depth and usually cover a longer time perspective.

The views presented in these papers are those of the authors and do not necessarily reflect those of the SEACEN Centre or the member central banks and monetary authorities. It is hoped that the publication of the Staff Papers would contribute to a better understanding of the developments and issues currently confronting central banks and monetary authorities in the region.

This Staff Papers No. 7 entitled "Developments in External Debt in the SEACEN Countries: 1980-1983" was prepared by Dr. Zeti Akhtar Aziz as the special topic for the 1984 Economic Survey on SEACEN Countries.

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DEVELOPMENTS IN GOVERNMENT EXTERNAL DEBT IN THE SEACEN COUNTRIES: 1980-1983

Introduction

A major concern facing the world economy in the recent years is the increased external indebtedness of several of the developing countries. The recent external debt difficulties for many of these countries stemmed from a series of developments in both the world economy and the international financial markets as well as from developments in their own domestic economies.

The external indebtedness of many of the non-oil developing countries can be discussed in the light of two broad series of developments. Firstly, the difficult international economic environment marked by the sharp increase in oil prices, the depressed export markets and the high interest rates during the period contributed to the widening of the current account deficits in developing countries, thereby increasing their financing needs. This adverse external imbalance was further compounded in certain countries by the high demand for imports required by development programmes.

Secondly, the relatively easy access to funds from international financial markets for most of the 1970s up to 1981 permitted increased borrowing by the developing countries. During this period, commercial banks had access to funds from oil exporting countries. For most of the period in the 1970s, the average nominal interest rates on commercial borrowing was also low. In view of these developments, international lending became an important source of financing external imbalance and allowed for reserve

accumulation in several developing countries. These conditions contributed to the rapid increase in the external debt of developing countries. Countries that relied heavily on financing from commercial sources at variable interest rates, however, faced increased debt servicing requirements as interest rates increased sharply over the period 1979-1981. The massive rise in interest payments, in turn, further contributed to the mounting deficit in a number of developing countries.

Despite the continued depressed export markets for developing countries after 1981, adjustment efforts involving drastic cutbacks of import demand contributed significantly to the narrowing of their current account deficits. As a result, financing needs moderated somewhat during this period. This development was also accompanied by a radical change in the global financial environment. As a consequence of the debt service difficulties of a number of developing countries and the uncertain outlook in 1982, commercial banks became cautious of their exposure in these countries. The risk perception of the creditors was also affected by the decline in official reserves and the capital flight experienced by a number of developing countries. The shift in willingness of private creditors to extend new loans was also the consequence of reduced availability of funds in view of the general recessionary trends. In view of these developments, external borrowing showed a perceptible decline for a number of developing countries.

This paper aims to discuss the government external debt situation in the SEACEN countries in the context of the world economic and financial environment outlined above. In the following section, a survey is made on the trends in the financing needs and the reliance of the SEACEN countries on

alternative sources of financing. In particular, the extent to which these countries relied on debt and non-debt creating sources and the degree to which reserves were drawn upon will be discussed. The trend and structure of external debt of the SEACEN countries are described in the subsequent two sections. Specifically, the trend in the external debt outstanding is examined in relation to changes in exports and total output of the respective countries. On the other hand, the change in the structure of the external debt is discussed in terms of borrowing from official and private sources and maturity distribution. This is followed by a discussion of the debt service burden.

This paper focusses on the government external debt outstanding for which data and information is available. The scope of this paper does not include the effect on the external debt situation of debt management strategies pursued by the individual countries. It is fully realised, however, that poor debt management policies have also contributed to debt difficulties in many developing countries.

Background: Financing the Balance of Payments Deficit

The rising external imbalance in the SEACEN countries in the face of the difficult world economic environment and developments in the international financial markets has significantly affected the magnitude and pattern of the financing of the balance of payments deficit in the region. The combined current account deficits of the SEACEN countries deteriorated rapidly from US\$2,055 million in 1977 to a peak of US\$16,976 million in 1982. While the combined current account balance showed some improvement in 1983, it, nevertheless, continued to remain high by historical standard.

For the SEACEN countries, the pattern of deficit financing during the period 1974-1981 was characterised by the extensive use of both non-debt creating sources and external borrowing. As observed in most developing countries during this period, the access to international banking markets allowed many countries to build their holdings of external reserves. For a number of countries, there was considerable accumulation of reserves during this period. As can be seen in Table 1, considerable reserve accumulation took place in the SEACEN countries during the period 1977 to 1981. In 1982, however, the pattern of financing changed as countries were affected by the reduced access to international financial markets. In addition to the slowdown in world economic activity particularly in the developed countries, there was also a substantial decline in financing from non-debt creating sources. Apart from these changes, the most significant change in the financing of the balance of payments deficit was the intensive use of reserves by US\$100 million in 1982. This is in contrast to the considerable net accumulation that took place over the period 1977-1981.

For Indonesia, Malaysia, Nepal and Singapore, financing from non-debt creating sources was relatively a more important means of deficit financing during the period prior to 1981. The relative share to total deficit financing for these countries increased during most of this period. This is due mainly to increases in official transfers and direct investment. The higher inflow of official transfers to certain SEACEN countries, particularly Nepal, was partly on account of higher financial assistance received from both bilateral and multilateral sources. For a number of SEACEN countries, the increase in foreign direct investment could also be traced to foreign investment promotion measures undertaken

mainly in the form of fiscal incentives. In addition, high growth performance and a relatively more stable political situation in many of the SEACEN countries during this period have also positively contributed to increased foreign direct investment. However, in 1982, the ratio of non-debt creating sources of financing to total deficit financing declined in most of the SEACEN countries. This partially reflected the adverse effect of global recession which led to the slow down in both financial assistance and direct investment from the industrial countries.

Since 1974, external borrowing, particularly long-term borrowing increased in importance in a number of SEACEN countries. During the period 1974-1980, the relative share of external borrowing to total deficit financing in Burma and the Philippines increased considerably. In Thailand and to a lesser extent in Sri Lanka, the ratio of external borrowing to total deficit financing was high although it showed a moderately declining trend since 1980. The relative importance of borrowing as a source of financing reflected, to some extent, the easy access to international borrowing and the relatively lower cost of borrowing during the period. Since 1982, however, the share of external borrowing declined in a number of the SEACEN countries, reflecting in part higher international interest rates and the more difficult access to external borrowing in view of the global external debt problem. In Indonesia and Malaysia, the ratio of external borrowing to total deficit financing, however, showed a significant increasing trend in 1981 and 1982.

Trends in the External Debt Outstanding

Total external debt of the non-oil developing countries grew by more than five-fold during the period 1973 to 1983 to reach US\$685.5 billion in 1983.

The rapid growth in the external debt outstanding of the non-oil developing countries over the period 1979-1981 reflected the large magnitude of the current account deficits during the period which was in turn financed mainly through private sources. During 1979-1981, the aggregate debt of non-oil developing countries increased at an average annual rate of 19 per cent after which there was a pronounced deceleration in the growth rate. For the SEACEN region, the rate of growth of total government external debt decelerated only marginally after 1981, from 22.2 per cent in 1981 to 20.8 per cent in 1982. The total external debt of the SEACEN region, excluding Burma for which data was not available, stood at US\$51.8 billion at the end of 1983, compared with US\$38 billion at the end of 1981 and US\$31.1 billion at the end of 1980.

As can be observed in Table 2, the growth trend in government external debt varied for the individual SEACEN countries. In Malaysia, Singapore, Sri Lanka, Thailand and the Philippines, the growth rate of total external debt decelerated slightly in 1982 while in Indonesia and Nepal, it accelerated. In Indonesia, the rate of growth of external debt peaked in 1982 when it reached 20 per cent compared with 7.7 per cent in 1981. For many of the SEACEN countries, increased borrowing was undertaken to some extent to pursue sustained economic growth and to finance existing and new development programmes. The growing total government external debt also suggests that loans had been forthcoming during the period. This is partly due to the fact that a significant proportion of the government external debt for most of the SEACEN countries came from official sources. As such, borrowing from these sources was relatively less affected by the conditions and sentiments of the international financial markets. Countries that had relied more heavily on private sources tended to be

affected by the reversal in the lending behaviour of the private banks towards developing countries in 1982.

For the SEACEN region as a whole, the seriousness of the external debt issue was felt in the 1980s. Growth in the external debt outstanding during the 1970s was generally accompanied by a corresponding expansion of output and exports. The same situation, however, did not persist during the early 1980s. This is reflected in the increasing ratio of government external debt to export earnings during the period 1980-82. The ratio of government external debt outstanding to exports was 48.2 per cent in 1980 and rose to 54.9 per cent in 1981 and 64.7 per cent in 1982. The ratio of government external debt to Gross Domestic Product also increased in 1982 for all the SEACEN countries with the exception of Singapore, as growth slowed down during the period.

Changes in Debt Structure

A notable feature associated with the major growth in government external debt of developing countries during the period 1980-81 was the shift in the structure of financing. For many developing countries, the debt composition moved towards liabilities owed to private creditors generally with shorter maturities. This further compounded the problems associated with the growing debt size. In 1983, however, new private loans declined as private creditors became more cautious in view of the debt problems experienced in a number of countries. Similarly, official development assistance showed a marginal decline in 1983. Likewise, the maturity composition of the debt shifted as net private medium-term and long-term loans for all developing countries increased from US\$34 billion in 1982 to about US\$40 billion in 1983, of which, almost half represented the

conversion of short-term debt to medium-term maturities.

Table 3 presents the proportion of official and private loans to total government external debt for the SEACEN countries where data is available. As can be observed from the table, for almost all of the SEACEN countries, a substantial portion or almost half of total government external debt is classified under official borrowings. Over the period 1980-1984, however, the rate of growth of official loans in the SEACEN region decelerated while private financing showed a rising trend for several of the countries. Nevertheless, despite this trend, for most SEACEN countries the relative importance of official and private borrowings did not change significantly.

In Nepal, Burma and Sri Lanka, official borrowings generally exceeded 80 per cent of the total government external debt outstanding. Nepal which has relied only on official borrowing registered a sharp deceleration in growth rate, from 43.5 per cent in 1980 to 18.9 per cent in 1983. Although the growth of long-term borrowing has slowed down, the amount has nevertheless been increasing partly on account of the financing of heavy capital investment on large development projects. The rate of growth of official borrowing in Burma increased from 10.9 per cent in 1981 to 22.2 per cent in 1982, whereas, the rate of growth of private-sourced financing decelerated from 20.5 per cent in 1981 to 10.1 per cent in 1982. The official availments of Sri Lanka increased from 9 per cent in 1981 to 12.5 per cent in 1983 while there was a distinct drop in the rate of growth of private loans from 150 per cent to 20.6 per cent during the period 1981-1983.

For the remaining countries, official borrowings generally ranged from 40 to 60 per cent of total

government external debt outstanding. In Indonesia, the rate of growth of official external financing was fairly constant within the range of 5.7 per cent to 6.4 per cent while the rate of growth of private loans decreased markedly from 49.9 per cent in 1982 to 37.4 per cent in 1983. Nevertheless, the relative share of loans raised from private sources increased significantly over the period 1980-1983. The bulk of the official loans was on soft terms primarily in the form of official development assistance originating from IGGI member countries and bilateral and multilateral borrowings from IBRD, IDA and ADB.

In Malaysia, the rate of growth of official borrowing declined marginally in 1982. The World Bank and the Asian Development Bank were the principal sources of project borrowing while Japan continued to be the major source of bilateral loans. While the rate of growth of market loans decreased over the period 1981-1983, its relative importance has, however, increased. This rise in market loans is mainly attributable to the increasing financial requirements for development programmes. Borrowing from the international capital markets in the recent years has generally been in the form of syndicated loans. In the Philippines, financing from private sources accounted for more than half of total government external debt outstanding.

In Singapore, the downward trend in government external debt outstanding was experienced both in terms of official and private credit. Except in 1983, when borrowing from private sources declined significantly, the relative share of official and private sources of borrowing remained approximately equal. In Thailand, official borrowing increased rapidly over the period 1982-1983, from 12.3 per cent to 24.3 per cent. Major sources of official funds were the World Bank, Japanese Government financial

institutions and the Asian Development Bank while Singapore and Hong Kong were the main sources of private credit.

In the course of accumulating external debt in the recent few years, a continued build-up of long-term debt in most SEACEN countries was also registered. Long-term debt constituted more than 90 per cent of total government external debt outstanding in most SEACEN countries. In recent years, however, certain countries have resorted to short and medium-term borrowing in financing their deficit. It is recognised that recourse by borrowers to shorter-term maturities would increase the vulnerability of these countries to changes in the international financial markets.

Debt Service Payments

A major concern in the recent years is the continuously rising external debt service payments in the face of weak export performance. Debt service payments which constitutes two parts, that is, the interest payments and the repayment of principal, have risen rapidly due primarily to the increase in the amount of the debt as well as the steep increase in interest rates during the period. Over the period 1978-1981, total debt service payments of non-oil developing countries increased at an average annual rate of 29 per cent. During this period, interest payments increased at an average annual rate of 41.1 per cent. However, in 1982, the rate of growth of debt service payments decelerated to 12 per cent and in 1983, it declined by 10 percent. Interest payments also exhibited a declining trend although to a lesser extent and this trend reflected the impact of rescheduling.

For the SEACEN region as a whole, during the period 1981-1982, the annual average rate of increase of interest payments on government external debt was 31 per cent. This rate of increase was registered despite the deceleration in the overall rate of growth of the debt outstanding during the period. Except for Singapore, most countries experienced a pronounced increase in interest payments on their government external debt in 1982. For Thailand and Malaysia, a sharp increase was also experienced in 1981. In 1983, the rate of growth of the debt continued to accelerate in Sri Lanka while it decelerated in Indonesia, Malaysia and Thailand. For Nepal and Singapore, interest payments declined.

As can be observed in Table 4, while the magnitude of absolute payments has increased, interest payments as a proportion of exports in the SEACEN region is still relatively low compared with other developing countries. In 1981, the average interest payments to exports ratio for the region was 2.5 per cent as compared to 12.1 per cent for the non-oil developing countries. For the individual countries, Indonesia, Malaysia, Sri Lanka and Thailand, the ratio had an uptrend. For Nepal and Singapore, the ratio was relatively low and has remained stable during the period. For a number of countries, increases in interest payments owing to high interest rates prevailing during the period combined with low export earnings accounted for the upward trend in the ratio. For the group, the ratio is expected to decline for the period 1983-84 with the improvement in the current account position, the deceleration in the rate of borrowing and relatively lower interest rates.

Table 1

CURRENT ACCOUNT DEFICIT FINANCING OF THE SEACEN COUNTRIES
(in million US Dollars)

	1977	1978	1979	1980	1981	1982
Current account deficit ^{1/}	2055	4694	3481	4685	10844	16976
Financing:						
Non-debt creating flows	1465	2162	2088	4387	7088	5541
Official transfers	267	305	463	632	852	761
Counterpart items ^{2/}	-92	123	-286	700	2317	1014
Direct investment	1290	1734	1911	3055	3918	3766
External borrowing	2824	5591	5069	7608	8711	14124
Long-term	2832	3236	4823	5361	6663	10482
Short-term	-7	2355	246	2247	2048	3642
Use of reserves ^{3/}	-1638	-2156	-2983	-4860	-1974	100
Errors and omissions	-597	-904	-693	-2447	-2979	-2790

^{1/} Figures exclude official unrequited transfers

^{2/} Figures include monetisation/demonetisation of gold, allocation/cancellation of SDRs, and valuation changes in reserves

^{3/} Negative sign indicates accumulation of reserves

Source: International Monetary Fund, International Financial Statistics Supplement on Balance of Payments, 1984

Table 2

GOVERNMENT EXTERNAL DEBT OUTSTANDING OF THE SEACEN COUNTRIES^{1/}

	Amount in Million US\$	As Per Cent of Exports ^{2/}	As Per Cent of GDP
Burma			
1980	1453.0	303.7	24.8
1981	1638.6	319.3	27.8
1982	1960.1	485.6	32.9
1983	n.a.	n.a.	n.a.
Indonesia			
1980	13000.0	58.9	17.9
1981	14000.0	77.4	16.6
1982	16800.0	83.3	19.5
1983	20000.0	102.6	27.9
Malaysia			
1980	2181.0	15.5	9.4
1981	3458.9	26.4	14.8
1982	5397.8	39.7	21.5
1983	7241.6	46.1	26.1
Nepal			
1980	140.2	62.4	7.2
1981	169.2	57.6	8.2
1982	218.6	78.7	10.3
1983	260.0	106.9	11.8
Philippines			
1980	8519.0	118.1	24.1
1981	11304.0	154.5	30.7
1982	13083.0	198.9	32.8
1983	15059.0	222.3	43.5

Table 2 (cont'd)

	Amount in Million US\$	As Per Cent of Exports ^{2/}	As Per Cent of GDP
Singapore			
1980	463.3	2.5	4.0
1981	454.2	2.3	3.2
1982	420.7	2.2	2.8
1983	295.7	1.5	1.8
Sri Lanka			
1980	1265.2	97.6	34.2
1981	1457.9	108.4	35.2
1982	1659.3	127.2	35.3
1983	1851.2	136.0	38.0
Thailand			
1980	4061.3	49.6	12.2
1981	5503.4	61.3	16.1
1982	6363.5	69.4	17.3
1983	7118.1	79.1	17.7
SEACEN			
1980	31083.0	48.2	16.5
1981	37986.2	54.9	18.3
1982	45903.0	64.7	20.8
1983 ^{a/}	52825.6	70.7	25.3

1/ Figures for Burma, the Philippines and Thailand refer to total public external debt outstanding

2/ Goods and services with the exception of Singapore

a/ Figures exclude Burma

Sources: SEACEN Centre, SEACEN Economic Survey Questionnaire Response, 1984

The Central Bank of the Philippines, Philippine Financial Statistics

The World Bank, World Debt Tables, 1983-84 Edition

Ministry of Finance, Malaysia, Economic Report 1984/85

Table 3

STRUCTURE OF GOVERNMENT EXTERNAL DEBT OUTSTANDING
OF THE SEACEN COUNTRIES*
(Percentage Distribution)

	1980	1981	1982	1983
Burma				
Official loans	80.3	79.0	80.6	n.a.
Private loans	19.7	21.0	19.4	n.a.
Others	-	-	-	n.a.
Indonesia				
Official loans	68.4	67.4	59.3	53.0
Private loans	31.6	32.6	40.7	47.0
Others	-	-	-	-
Malaysia				
Official loans	54.9	38.2	26.9	22.9
Private loans	45.1	61.8	72.1	72.7
Others	-	-	1.0	4.4
Nepal				
Official loans	100.0	100.0	100.0	100.0
Private loans	-	-	-	-
Others	-	-	-	-
Philippines				
Official loans	n.a.	n.a.	34.0	35.3
Private loans	n.a.	n.a.	66.0	64.7
Others	-	-	-	-

Table 3 (cont'd)

	1980	1981	1982	1983
Singapore				
Official loans	49.2	49.6	49.9	69.2
Private loans	50.8	50.4	50.1	30.8
Others	-	-	-	-
Sri Lanka				
Official	93.8	88.8	86.1	85.9
Private loans	4.0	8.6	11.7	12.6
Others	2.2	2.6	2.2	1.5
Thailand				
Official loans	51.4	49.0	52.1	57.9
Private loans	47.8	49.5	45.2	38.9
Others	0.8	1.5	2.7	3.2

* Figures for Burma, the Philippines and Thailand refer to total public external debt outstanding

Sources: SEACEN Centre, SEACEN Economic Survey Questionnaire Response, 1984
 Management of External Debt and Investment Accounts
 Department, Central Bank of the Philippines
 The World Bank, World Debt Tables, 1983-84 Edition
 Ministry of Finance, Malaysia, Economic Report 1984/85

Table 4

DEBT SERVICE PAYMENTS OF THE SEACEN COUNTRIES

	Interest Payments (Million US\$)	Interest Payments to Exports Ratio	Debt Service Ratio
Burma	n.a.	n.a.	n.a.
Indonesia			
1980	721.0	4.4	8.8
1981	785.0	6.2	13.0
1982	946.0	5.5	11.5
1983	1115.0	7.1	13.6
Malaysia			
1980	171.8	1.2	1.8
1981	276.9	2.1	2.7
1982	391.4	2.9	4.4
1983	514.4	3.3	4.6
Nepal			
1980	1.6	0.7	1.4
1981	2.3	0.7	1.5
1982	3.5	1.2	2.2
1983	3.2	1.7	3.0
Philippines			
1980	367.0	4.5	18.7
1981	516.4	6.0	19.1
1982	535.2	n.a.	19.4
1983	n.a.	n.a.	19.6

Table 4 (cont'd)

	Interest Payments (Million US\$)	Interest Payments to Exports Ratio	Debt Service Ratio
Singapore			
1980	26.2	0.1	0.2
1981	23.2	0.1	0.2
1982	20.6	0.1	0.2
1983	19.6	0.1	0.4
Sri Lanka			
1980	n.a.	n.a.	5.0
1981	40.1	0.9	5.6
1982	45.5	1.0	6.3
1983	56.7	1.1	8.0
Thailand			
1980	178.7	0.5	5.3
1981	449.9	1.3	7.0
1982	554.6	1.5	8.9
1983	537.4	1.3	10.3
SEACEN ^{1/}			
1980	1466.3 _{a/}	1.9 _{a/}	5.9
1981	2093.8	2.5	7.0
1982	2496.8	2.0 _{b/}	7.6
1983	2246.3 _{b/}	2.4 _{b/}	8.5

^{1/} Figures exclude Burma

_{a/} Figures exclude Sri Lanka

_{b/} Figures exclude the Philippines

Sources: SEACEN Centre, SEACEN Questionnaire Response 1983 and 1984
The World Bank, World Debt Tables, 1983-84 Edition
Ministry of Finance, Malaysia, Economic Report 1984/85

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.