

International Financial Co-operation

Given the globally integrated nature of economies and financial markets, central banks increasingly require an international perspective in order to carry out their responsibilities. The RBA, in common with most central banks, is therefore involved in a range of co-operative international relationships, both bilateral and multilateral. The nature of these relationships varies across the groups: at the simplest level, they involve discussions to promote understanding of each others' policies and priorities, while in other cases they require a deeper level of co-operation often directed at the development of the regional or global financial infrastructure.

Some international groups are confined to central banks, but most have broader coverage including finance ministries and various financial regulators. In the former category are the bimonthly meetings at the Bank for International Settlements (which involve a broad cross-section of central banks from around the globe) and the Executives' Meeting of East Asian and Pacific central banks, known as EMEAP, which includes eleven central banks from the region. The Financial Stability Forum, a group covering financial authorities from the Group of Seven (G7) and several other significant financial centres, is not strictly confined to central banks, but the RBA acts as Australia's representative. In broader groups, such as the Group of Twenty (G20), the International Monetary Fund and APEC, the RBA participates with other Australian authorities, usually the Australian Department of the Treasury. Co-ordination of Australia's participation in international economic policy issues occurs formally through meetings of the International Economic Policy Group in Canberra, in which the RBA participates. This group is chaired by the Department of the Prime Minister and Cabinet and also includes representatives from the Treasury, Department of Foreign Affairs and Trade, Office of National Assessments and AusAID.

In recent years much of the focus of international co-operation has been directed at improving the quality of international financial infrastructure, given that this has become a key factor in reducing the risk and severity of financial crises. The RBA's contribution to the work of these various fora is outlined below.

Bank for International Settlements (BIS) and Associated Committees

The RBA participates in the meetings of BIS central bank governors that are held on a bimonthly basis, usually at the BIS headquarters in Basel, Switzerland. These meetings provide the opportunity for central bank governors from industrialised and emerging market countries to discuss developments in the global economy as well as major policy issues confronting central banks. Twice each year there is an additional meeting of governors from the Asian region who make up the BIS Asian Consultative Council (ACC). The ACC was established in 2001 to guide the work of the BIS in the Asian region and oversee the work of the BIS representative office for Asia and the Pacific, which is located in Hong Kong. Much of the discussion in the ACC in 2003/04 covered issues relating to the New Basel Capital Accord (Basel II), including the development of a questionnaire on the plans for the implementation of Basel II by central



The RBA hosted the annual BIS Working Party on Monetary Policy in Asia meeting in Sydney on 10/11 June 2004. Malcolm Edey, Assistant Governor (Economic), and Luci Ellis, Economic Analysis Department, represented the RBA.

banks in the Asian region. The Hong Kong office of the BIS organised a number of conferences and workshops during the year in which the RBA participated. These addressed topics such as monetary policy frameworks, Asian bond market development, reserves management, and banking sector issues such as crisis management. In June 2004, the RBA hosted, in Sydney, the annual meeting of the BIS Working Party on Monetary Policy in Asia, which comprises senior central bank officials responsible for monetary policy.

There are a number of committees associated with the BIS and the Group of Ten (G10), including the Committee on the Global Financial System (CGFS) and the Markets Committee, in which the RBA participates along with a small number of other non-G10 countries. The aim of these committees is to promote information-sharing among central banks with the particular focus of identifying any vulnerabilities that might be emerging in the global financial system. The Markets Committee focuses mainly on examining developments in foreign exchange and capital markets. The CGFS has a wider remit, assessing potential sources of stress in the global financial environment. Discussions during the year focused on the likely impact on markets of the global economic recovery and the associated prospect of rising official interest rates. There

was also much analysis of the impact of China's economic growth and economic policies on the world economy.

The CGFS undertakes some of its more detailed analysis of issues through working groups. During the past year, there were two such working groups, with the RBA represented on both. One of these working groups examined recent trends in foreign direct investment in the financial sectors of emerging market economies. The report of the working group, which was released in March 2004, found that the surge in financial sector foreign direct investment over the past decade has been instrumental in integrating emerging economies into the global financial system. This integration has brought substantial benefits to host countries' financial systems in terms of efficiency and stability. A second working group is examining the role of ratings agencies in structured finance and is expected to complete its report in the second half of 2004.

While the RBA is not a member of the BIS Committee on Payment and Settlement Systems (CPSS), it does from time to time participate in the Committee's working groups. During 2003/04, the RBA was represented on the CPSS Sub-Group on Foreign Exchange Settlement Risk, which monitors developments in foreign exchange settlement risk as well as providing the basis for co-operative oversight of Continuous Linked Settlement (CLS) Bank.

Executives' Meeting of East Asian and Pacific central banks (EMEAP)

EMEAP continues to be an important element of the RBA's approach to regional central bank co-operation. The group of 11 central banks from the region meet at Governor, Deputy Governor and working group level. The RBA is represented at all levels of EMEAP.

A central focus of EMEAP's work over the past year has been the second phase of the Asian Bond Fund initiative (ABF2). This initiative is aimed at developing bond markets in the Asian region. The first step (ABF1), which became operational in July 2003, pooled US\$1 billion of member central banks' foreign exchange reserves in the Fund which in turn invested in US dollar denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies (except Japan, Australia and New Zealand, which already have developed bond markets). ABF2 will be more significant for bond market development as it will invest in local currency denominated bonds. The objective of the initiative is to identify and remove impediments to investment in Asian bond markets and to facilitate private sector investment by improving market infrastructure. The size of the Fund will deliberately be kept small so as not to crowd out private sector investment. While the initial investment is limited to EMEAP central banks, ABF2 is being designed to facilitate investment by private sector and non-EMEAP public sector investors. Work is proceeding on various technical issues involved in setting up the Fund.

Financial Stability Forum

Since its inception in 1999, the Financial Stability Forum has contributed to co-operative efforts and information exchange between authorities responsible for financial supervision, surveillance and stability. Its members are drawn from the central banks, finance ministries and supervisory agencies of the G7 countries and the governors of the central banks of four other economies with globally significant markets (Australia, Hong Kong, the Netherlands and Singapore).

Evaluating the risks facing the international financial system has formed an important part of the Forum's work. The Forum judged the global economy and financial conditions to be improving during the past financial year. Nonetheless it was recognised that the outlook was not without risk, including from the high level of oil prices, the imbalances between major economies, and high levels of household indebtedness.

The Forum has taken an active interest in measures to strengthen the international financial system. Over the past year, it has reviewed progress in work aimed at improving financial reporting, including the move towards international accounting standards and reforms to the process of setting international audit standards. Steps are also being taken to improve transparency and disclosure in the reinsurance industry. It is intended that a range of new information on reinsurance activity worldwide will be available by the end of this year. Efforts will now concentrate on raising the level of public disclosure by individual reinsurers, particularly in relation to their risk exposures and the financial resources they have available to absorb potential losses.

The Forum has also continued its work on improving the quality of information available about credit risk transfer markets. Over the past year, it has worked to identify the principal participants in the market, the main risks incurred and the risk management practices employed. It has also sought information on the effectiveness of credit risk transfer – in particular, whether credit risk transfer has led to undue concentrations of risk that might threaten financial stability and whether buyers of credit risk understand the risks they undertake. The preliminary conclusions are positive – the evidence suggests that credit risk transfer is generally effective in reducing risk concentrations and promoting price discovery.

Group of Twenty (G20)

The G20 was established in 1999 with the aim of providing a forum for discussions on major economic and financial policy issues and promoting sustainable and equitable economic growth through international co-operation. The G20 brings together a cross-section of systemically significant economies along with the European Union, the IMF and the World Bank. The Ministerial meeting, where Australia is represented by the Treasurer and the Governor, is convened annually, while Deputies' meetings of central bank and finance ministry officials are held twice-yearly.

Over time, members' experiences with globalisation have become a focus of the G20's work. The current G20 agenda builds on this work with discussion now focusing on the role of financial sector institution building in maximising the benefits of globalisation and promoting economic growth. During the year, member countries finalised case studies on this topic which are due to be published in a consolidated form in 2004. The Australian case study was prepared jointly by the Treasury and the RBA.

The G20, along with the IMF, has also continued its work promoting crisis prevention and resolution measures. At the G20 Ministerial meeting in October 2003, members welcomed the increasing use of collective action clauses (CACs) in sovereign bond contracts. RBA staff have actively participated in the debate on the use of CACs, with research concluding that CACs do not increase borrowing costs for sovereign bond issuers. Recently, the G20's main focus has

been on the development of a voluntary code of conduct aimed at improving the framework for the more orderly workout of sovereign debt crises.

Other issues discussed by the G20 during the year included combating abuse of the financial system, improving the effectiveness of official development assistance, financial integration and growth.

International Monetary Fund (IMF)

While the Treasury bears the primary responsibility for Australia's relationship with the IMF, the RBA has a supporting role, particularly to do with monetary and financial matters. As well as Executive Board decisions to grant assistance to countries experiencing balance of payments difficulties, other issues to which the RBA contributed in the past year included the review of the framework for granting exceptional access to IMF resources, efforts to enhance the quality and effectiveness of IMF surveillance, policies to strengthen the framework for crisis prevention and resolution, and measures to combat money laundering and the financing of terrorism.

APEC Finance Ministers' Process

The APEC Finance Ministers' process during the past year has continued its focus on issues associated with bond market development. An RBA official has acted as Convenor of the Expert Panel for Thailand in the APEC initiative on Securitisation and Credit Guarantee Markets in Asia. In addition, the RBA participated in a number of policy dialogues organised by APEC on financial sector issues. The 2004 APEC Future Economic Leaders Think Tank was again held at the RBA's training centre at Kirribilli. Sponsored by Axiss, the aim of the Think Tank was to bring together promising public sector managers from around the region to discuss policy issues of relevance to member countries. This year's conference, which was held in late June, focused on policy responses affecting capital flows in the region.

Bilateral Relations and Assistance

The RBA continues actively to support developing economies' central banks through training and technical assistance, so as to improve the knowledge of their staff and the effectiveness of their operations. Just as the range and focus of general international co-operation has changed in recent years, so has the manner in which technical assistance and training are provided. One-off, long-term secondments of RBA officers to developing country institutions are now rare, though in certain cases they still have a role to play. More common, on the other hand, are short-term training and technical assistance missions (often involving a number of visits), attachments of developing country staff to the RBA, and formal programs of lectures or seminars.

In 2003/04, most of the RBA's assistance was focused on the areas of monetary policy design and implementation, debt management, foreign exchange markets, reserves management, and the payments system. On a bilateral basis, staff visited the central banks in Egypt, Fiji and Tonga to offer technical assistance in some of these areas. In conjunction with the IMF, a member of staff also provided technical assistance in the payments system area to the National Bank of the Republic of Macedonia.

RBA staff are regularly requested to participate as presenters in training courses in the region. During the year staff visited Indonesia, Malaysia, Singapore and Thailand for this purpose, mainly to assist in courses sponsored by multilateral institutions. The RBA also hosted a number of visits by staff and delegations of other central banks who visited to improve their knowledge and understanding of core policy functions. Visitors in these areas were received from China, Indonesia and Thailand during the year.

Beyond core policy functions, central banks are also working co-operatively on areas such as internal audit, relationships with governments, budgets and planning, human resources, accounting systems and standards, and risk management (encompassing not only financial risk but also the security of both physical premises and electronic communication and data storage systems). The RBA provided assistance in several of these areas to a number of central banks, including those from China, Fiji, Indonesia, Malawi, Pakistan, Papua New Guinea and Thailand.

The RBA has occasionally been requested to assist the Asia/Pacific Group on Money Laundering in its mutual evaluations of member jurisdictions. These evaluations aim to identify where a member's legal, supervisory and law enforcement systems do not meet the international standards for preventing money laundering and combating the financing of terrorism. The objective is to assist members improve their systems rather than draw up a critique. During the year a member of staff participated in the evaluation of the Philippines.

In a similar vein, the RBA has on occasion made its HC Coombs training centre available to multilateral non-profit organisations hosting training programs for developing country participants. This is done in the spirit of assisting the advancement of developing countries and occurred twice in 2003/04, once for a regional workshop run by the Association of Financial Supervisors of Pacific Countries and once for a seminar for Pacific Island and some other neighbouring countries on Financial Soundness Indicators offered by the IMF.