

Ashraf Mahmood Wathra: SAARCFINANCE – sharing experiences on macroeconomic policy issues among South Asian member countries

Address by Mr Ashraf Mahmood Wathra, Governor of the State Bank of Pakistan and Chairman of SAARCFINANCE, at the 7th SAARC Finance Ministers' Meeting, Kathmandu, 20 August 2015.

* * *

Honorable Chairman,

Honorable Ministers,

His Excellency, SAARC Secretary-General,

Distinguished Guests,

Ladies and Gentlemen: Good Afternoon/Namaste/Namskar/Aaiban and Assalamualaikum.

1. I feel honored and privileged to have been invited to this eminent gathering in the capacity of chairman of SAARCFINANCE network. I am thankful for providing me the opportunity to get your feedback on our activities and future direction.

2. It was during the 10th SAARC Summit, held on 29th July 1998, that the Heads of States of the region agreed in principle to establish a Network of Central Bank Governors and Finance Secretaries of the region. The core objective was to have a forum for dialogue on macroeconomic policies of the region and sharing mutual experiences and ideas. Accordingly, the SAARCFINANCE was established on 9th September 1998 as a regional network of the SAARC Central Bank Governors and Finance Secretaries, which, during the 11th SAARC Summit, held in Kathmandu, Nepal in January 2002, got formal recognition as permanent body of the SAARC.

3. More specifically, our terms of reference include: promoting cooperation among central banks and finance ministries in the member countries by regular exchanges of information and staff exchange programmes, working towards a more efficient payment mechanism within the region, striving for higher monetary and exchange cooperation, forging closer ties on macroeconomic policies, and sharing of experiences and ideas.

4. I am pleased to inform your Excellencies that over the years, a number of useful initiatives have been taken by the SAARCFINANCE to achieve the objectives envisaged in its terms of reference. The details of the activities, following various initiatives, have been continuously shared with you through the SAARC Secretariat in the form of progress reports.

Honorable Chairman,

5. Let me first start by describing our work mechanism. Two meetings of SAARCFINANCE Network take place annually: one alongside the IMF/World Bank Annual Meetings, while the other one is held within the SAARC region. Since its inception, the SAARCFINANCE has held thirty meetings of the Network. For smooth functioning of this network, dedicated SAARCFINANCE Country Cell has been established in member central banks, where the work is supervised by a SAARCFINANCE Coordinator with support from an Alternate Coordinator. For effective coordination with Ministries of Finance of the region, one SAARCFINANCE focal point has also been appointed from each country. Further, the Network has a rotating Secretariat which shifts to the member central bank holding the Chair, rotating annually in an alphabetical order. During the 29th Group Meeting held on 9th October 2014, the SAARCFINANCE chair was shifted to State Bank of Pakistan.

Honorable Chairman,

6. I will now proceed to a presentation of our activities. In doing so, I will take the liberty to present our progress of the past few years since it has been a while that the SAARC Chairman has been invited to this forum, to be precise since 2013.

7. As a part of its core objectives of information sharing and sharing of expertise, the Network holds regular staff exchange programmes. These programmes provide an excellent opportunity to the officials of the member central banks to learn from each other's experience and expertise. Since 2013, the network has facilitated around 35 staff exchange and training programmes. To facilitate information sharing, a number of regular and non-regular publications and other documents, especially on policy issues, are exchanged among the member institutions. Similarly, the Network arranges seminars, workshops and symposiums on regular basis. For example since 2013 ten seminars and three Governors' Symposiums have been organized. The subjects of these programs cover varied topics. To name a few: monetary policy framework, central banking operational procedures, banking supervision, currency management, internal audit, and human resource management. Similarly, the Network has initiated a scholarship scheme for capacity building of the officials of SAARCFINANCE members. This is a relatively newer initiative and so far 5 officials have been awarded scholarships for PhD and Masters programmes.

8. To further facilitate information sharing, every member central bank has created a web folder on their official websites. The Network has its own official website, which provides an informed platform to all members for disseminating important information contents. Furthermore, a SAARCFINANCE Portal has also been created which serves as a powerful tool to retain institutional memory of our Network. The portal enables SAARCFINANCE central banks to share experiences and hold online discussions on issues of mutual interest. As you know this Portal was launched in Islamabad during our Group Meeting in June 2013.

9. The SAARCFINANCE e-Newsletter is another important source of information sharing which embodies useful information about each member economy, its latest monetary policy stance, key macroeconomic indicators and summary of the activities taken place under the aegis of SAARCFINANCE. Recently, we have published 17th edition of the e-Newsletter.

The frequent staff exchanges and increased level of information sharing have been greatly beneficial in fostering close relationships and building expertise and human capital on the practical side of the central banking field.

Honourable Chairman,

10. The SARCFINANCE network has also marked another important mile stone by highlighting the importance of economic research in the form of collaborative research study arrangement. This arrangement, as a fresh initiative, is expected to focus on areas having some regional significance and common economic interests. Thus far two topics have been selected under collaborative research study arrangements, which are: (a) Managing Capital and Remittance Flows in SAARC Region for Safeguarding Financial Stability, and (b) Promoting Financial Inclusion in the SAARC Region. The modalities for collaborative research studies have also been recently accorded approval. To facilitate the collaborative researchers, State Bank of Pakistan hosted the 1st meeting of researchers for collaborative study on Monday 17th of this month in Islamabad. We hope that the collaborative research work would not only help strengthen our understanding on the impact and intensity of economic and financial shocks to our economies but would also open up new areas of cooperation in responding collectively and cohesively to these shocks to minimize their adverse implications.

11. To facilitate region-specific research activities, the SAARCFINANCE has initiated the development of a regional statistical database. In this context, the core dataset has already been identified based on the availability of data with SAARC central banks. The

database will be created on Oracle platform, with easy search and accessibility. It will also be made available free of cost to the general public. We have also planned to house the database on SAARCFINANCE website with links to websites of all member central banks. This is likely to provide a boost to research in the field of economics and finance in the SAARC region.

12. Let me now turn to our efforts on strengthening financial and economic cooperation in the region. As you know, the Network has developed a framework for currency SWAP facility. The main objective of this facility is to meet any balance of payments difficulty and short-term liquidity needs. RBI has offered the facility which is available to all member countries in specific conditions. Under the facility, the requesting member countries can make withdrawals in US dollar, Euro or Indian Rupee in multiple tranches. So far, Bhutan and Sri Lanka have availed the aforesaid facility. This kind of agreement also helped promoting economic cooperation between member countries, besides providing them a back-stop arrangement to meet their balance of payments difficulties and short-term liquidity needs arising from market turbulence.

13. Now, turning to our objective on forging closer ties in macroeconomic policies, the progress has been slower. In my humble opinion, this I think is one area in which much more can be done given the nature of our common shocks, configuration of our economies and our cultural ties. This however, will require inter and intra agency collaborations, which is why this is so challenging. Nevertheless, let me highlight three ways in which we think we have made progress to meet this objective.

14. First, the Governors' symposium, which happens on the sidelines of the regional group meeting, has been playing an important role in terms of discussing and comparing solutions to common economic issues chosen by the Governors. For example, the latest symposium showed the stark differences on our approaches to microfinance and the regulations of this sector. Second, it is becoming a tradition to complement the regional group meetings with a lecture by an eminent personality. The first of these lectures was organized in Islamabad's group meeting in June 2013 and delivered by Prof. Ha-Joon Chang, while the second one was recently organized in Dhaka and delivered by the Governor RBI, Raguram Rajan. This is an encourageable development since it helps policy-makers at the highest level to debate grand issues and policy designs. Third, the SAARCFINANCE network initiated a meeting of senior economists to discuss economic conjecture of member countries. The idea is to share and compare notes on economic policy experiences, albeit informally and at an executive level. The first of these meetings were held in Islamabad in June 2013, which could also be followed by member central banks.

15. Although, these three steps represent ways in which important economic issues of common interest are debated, they fall short of economic policy coordination within the member countries. We hope that the new collaborative research programme will mature and also help policy makers to start discussing and evaluating the possibilities of coordinating policies on the basis of evidence-based outcomes. Concurrently, we can start broaching the idea of SAARCFINANCE as an economic alliance to meet the challenges of the future.

16. Let me now turn my attention to the long term. To set a future direction and priorities for SAARCFINANCE, currently we are in the process of developing a roadmap for the Network. In this context, we have identified five areas of regional cooperation and integration, which include: (i) reducing the transaction cost of cross-border remittances in the SAARC region; (ii) facilitating the cross-border trade in the region; (iii) capacity building programmes for our staff; (iv) the creation of SAARCFINANCE statistical database; and (v) undertaking of collaborative research studies. Out of the five areas, the first two are ambitious programs, the next one is about the capacity building of the officials of members, and the work on other two projects is already going on. With your support, we believe that these five areas of cooperation will initially form the roadmap for SAARCFINANCE and would help set a clear direction and priorities for our future cooperation.

17. All the above identified areas are important. However, I would like to highlight the role of central banks in facilitating the cross-border trade. I believe that the regional central banks have the ability to form cohesive policies towards gearing up cooperation in banking and finance with a view to facilitate cross border trade and investments. Similarly, we further intend to integrate and improve our payments and settlement system. Among others, the cooperation on this specific area would help promote bilateral and regional trade besides strengthening financial infrastructure in the region.

18. Before I make my concluding remarks, I would like to record one proposal. "The SAARC Secretary General or his representative is invited for participation in regional Group Meeting only. It will be appropriate to invite SAARC Secretary General or his representative into SAARCFINANCE meetings to ensure effective liaison with all SAARC bodies". Second is a request to Honourable Finance Minister of Maldives. For the last one and a half years Maldives Monetary Authority has not been representing our meetings or events. In this context, I would request Honourable Finance Minister of Maldives to look into this issue and facilitate us with MMAs participation in our various meetings/events in future.

Honourable Chairman,

19. Let me conclude by saying that the SAARCFINANCE Network has made considerable progress in achieving the objectives as envisaged in its terms of reference. However, this is merely the beginning of a long journey which requires us to accelerate our efforts to make this network more effective. We may also need to take more initiatives and identify areas where we can further deepen our cooperation. Also, the future role of the SAARCFINANCE will become more challenging in the wake of ever-growing competition and growing economic and financial integration in the SAARC region. In this context, the regional central banks would need to join hands with other SAARC bodies and enhance coordination with them, especially with SAARC Chamber of Commerce and Industry, as it is engaged in promoting cross border trade and investment flows. We would also need to play an active role at IGEG on financial issues. I am confident that our collective commitments, level of cooperation & information sharing, and efforts towards better shaping the future course of the SAARCFINANCE would be instrumental in meeting the challenges confronting us in the fields of economy and finance.

With this update, I thank you for giving me this opportunity and your continued support to the SAARCFINANCE Network.