

Conference on

Deepening Financial Sector Reforms and Regional Cooperation in South Asia

India Habitat Centre in Delhi on November 6 & 7, 2008

(2nd ICRIER – InWEnt Annual Conference)

Background

Financial markets in developing countries and emerging markets have undergone tremendous transformation over the last decade. During this period, financial markets have experienced a rapidly changing global environment involving widespread liberalisation of capital flows, the emergence of new market participants and the creation of highly sophisticated instruments. Robust financial markets and sound financial institutions have not only a critical role to promote growth and development, but can also better cope with boom-bust cycles. Policy makers, central bankers and supervisory authorities of developing countries and emerging markets alike have initiated vast financial sector reforms in which course several segments of domestic financial markets, in particular the banking sector and government bond markets, have been deepened and broadened.

On a regional Asian level, the severe experience of financial crisis by developing countries and emerging markets in the late 1990s induced a process of intensified cooperation in financial and monetary issues. Currently, high current account surpluses and considerable built-up of foreign exchange reserves are taken by developing countries and emerging markets as an opportunity to tackle currency and maturity mismatch by deepening regional financial markets and increasing their size and liquidity. However, considerable downside risks for financial stability and vulnerability to extra-regional shocks still remain. In addition, enhancing regional frameworks and shaping of policy space on a regional level constitute encouraging tasks. These and other trends and problems provide demanding challenges for central banks, financial supervisory authorities and policy makers in these countries.

Conference Concept

Against this backdrop, an international conference on **“Deepening Financial Sector Reforms and Regional Cooperation in South Asia”** is being organised by Indian Council for Research on International Economic Relations (ICRIER) and InWEnt Capacity Building International, Germany, during 6-7 November 2008 in Delhi. ICRIER, based in Delhi, is an autonomous, policy oriented, not-for-profit research institute and has emerged as a leading think-tank in India over the last 26 years. InWEnt is commissioned by the German Federal Government represented by the Federal Ministry for Economic Cooperation and Development (BMZ). InWEnt operates worldwide and is dedicated to human resource development, advanced training and dialogue.

This conference will focus on financial sector issues with particular reference to regional financial cooperation and integration. It will cover issues of deepening financial markets in South Asia and broadening regional financial cooperation in a wider Asian context. The conference seeks to bring together central bankers, policy makers and financial practitioners from South Asia with selected representatives from international organizations and academia for a dialogue on four related sets of questions. First, what are the next steps of financial market reforms given the increasing financial globalisation and rising regional interdependence? Second, what policy measures would improve regional financial market infrastructure taking into account that the pace of financial deepening has been accelerating in individual countries in recent years, while regional cross-border financial flows are still limited? Third, what policy responses would be conducive to increase financial sector access to those segments of the population which have not benefited from financial sector reforms and financial market integration, yet? And fourth, what are the challenges to more intensified pan-Asian financial and monetary cooperation?

To address these questions, the conference will be organised around three substantive sessions and a high level panel discussion, as below.

Session 1: Financial Sectors in South Asia in the Backdrop of Financial Sector Reforms (6 Nov, 2008, 9:30 – 12:45)

The financial sectors in South Asia are at different stages of development. While most countries in the region have a reasonably well functioning banking sector, many sectors of the financial system still remain underdeveloped. As far as the capital market is concerned, India has established a mature capital market, with highly sophisticated stock exchanges, clearing corporations, depositories and derivatives markets. Pakistan has also reasonably well-developed financial markets. However, other countries in the region, such as Bangladesh, Bhutan, Maldives and Afghanistan are still at preliminary stages of developments of their capital markets. In insurance and pension sectors, the region has a long way to go. With this backdrop, this session will try to address the following important questions:

- What are the stages of development of financial sectors in South Asia?
- Is there a sequencing of financial sector development?
- What can South Asia learn from the experiences of the rest of the world?
- Should there be multiple regulatory authorities for different segments of the financial sector or should there be only one umbrella regulatory body?

Suggested key speakers: Dr. Salehuddin Ahmed, Governor of Bangladesh Bank, Dr. Joshua Felman, Senior Resident Representative, India Mission, IMF; Dr. K. P. Krishnan, Ministry of Finance, India, Dr. Salman Shah, Former Finance Minister, Govt of Pakistan.

Session 2: Integration of Regional Financial Markets – The Road Ahead (6 Nov, 2008, 14:00 – 17:15)

Regional financial markets, as they mature, are considered to be a stable source of financing for companies, banks and public entities in the region, while at the same time they offer options of wealth accumulation to individual households and institutional investors like pension funds. It is hoped that deeper regional financial markets are

characterized by higher competition with lower costs for customers and less concentration of risks and market power. Moreover, integrated regional financial markets are expected to reduce currency and maturity mismatches which played a prominent role in the outbreak of financial market crisis in developing countries. However, there are still several obstacles to both broadening and deepening of regional financial markets in terms of players, products and services. In this context, the session will address in particular the following questions:

- What are the barriers, domestic and regional, that hamper regional cross-border flows?
- What kind of financial institutions (e.g. supervisory authorities) and market infrastructure is required to deepen and broaden regional financial markets?
- Is there a catalytic role for public entities in issuing local currency denominated bonds?
- How can liquidity of regional bond markets be increased?
- What policy measures could tackle market barriers restricting the access of non-financial corporations to the regional capital markets?

Suggested experts for session 2: Mr. W.A.Wijewardena, Deputy Governor (chair), Central Bank of Sri Lanka; Mr. C. B. Bhavé, Chairperson, SEBI; Mr. Ugo Panizza, Head Debt Branch, UNCTAD; Eli M. Remolona, Deputy Chief Representative, BIS Office for Asia and the Pacific.

Session 3: Financial Inclusion in South Asia (7 Nov, 9:30 – 12:45)

Exclusion of some segments of people from the formal financial system stands as a key challenge in building up an inclusive financial system. Countries in South Asia face severe financial exclusion and the emergence of Grameen Bank in Bangladesh, self help groups in India and similar institutions in other countries in the region do reflect the severity of the problem. The financial sector regulators have announced several policy initiatives to promote financial inclusion in the countries in South Asia. The State Bank of Pakistan's "Financial Inclusion Programme" and the wide ranging recommendations

of the “Committee on Financial Inclusion in India” are some recent examples of the policy makers’ initiatives for tackling the problem of financial exclusion. This session would attempt to address the following key questions:

- What is the extent of financial exclusion in South Asian countries?
- What are the policy initiatives to promote financial inclusion in these countries?
- What are the success and failure stories that can be learnt from these initiatives?

Suggested experts for session 3: Dr. C. Rangarajan, former Governor of RBI and presently the Chairman of Prime Minister’s Economic Advisory Council, India (Chair of the session), senior representative from Grameen Bank, Bangladesh, Mrs. Usha Thorat, Deputy Governor, Reserve Bank of India, Prof. Stijn Classens, University of Amsterdam.

**High Level Panel Discussion: Regional Financial and Monetary Cooperation:
Pursuing Financial Stability (7 Nov, 2008, 14:00 – 18:00)**

While emerging markets have greatly increased the efficiency of and access to their financial markets, substantial risks for macroeconomic and financial stability remain. Sudden reversals of capital flows and volatile exchange rates are major sources of instability, even if domestic fundamentals are good. Erosion of competitiveness in times of capital inflows and currency mismatches as a result of capital outflows have negative spill-over effects on the real economy, restraining growth and employment. Additional risks arise from the rapid diffusion of new financial instruments like derivatives and asset-backed securities, as well as the entry of new investor groups like hedge funds and private equity funds. Increasing regional interdependence raises the question whether vulnerability to systemic risks and contagion have a regional bias and if yes, what are the policy and regulatory responses required in a pan-Asian context (e.g. SAARC and ASEAN+3 or ASEAN+3+3) to reduce the exposure of Asian countries to the international economy. In this context, the following questions appear to be of particular relevance:

- What are the impacts of capital account openness for financial stability?
- Is unilateral foreign exchange accumulation adequate to face systemic risks?

- Should a substantial regional emergency finance mechanism be established?
- What would be the division of labour with the IMF?
- Should regional cooperation also cover exchange rate policy?

Suggested experts/panelists: Dr. Y. V. Reddy, Governor, Reserve Bank of India, Prof. Charles Wyplosz, University of Geneva, Dr. Sheel Kant Sharma, Secy. General, SAARC secretariat, Dr. Rajiv Kumar, Director, ICRIER, Dr. Sebastian G. Paust, ADB; senior representatives from ASEAN and InWEnt.

TENTIVE PROGRAMME

Conference on
Deepening Financial Sector Reform and Cooperation in South Asia
November, 6-7, 2008,
Gulmohar Hall, India Habitat Centre Lodhi Road, Delhi

6 November 2008 (Thursday)

08:30-09:00	Registration and tea
09:00-09:30	Inaugural Session
09:00-09:10	Words of welcome by Rajiv Kumar , ICRIER
09:10-09:20	Special address by representative of the Economic Cooperation and Development, Embassy of the Federal Republic of Germany
09:20-09:30	Overview of the conference by Günther Taube , InWEent
09:30-12:45	Session 1: Financial Sectors in South Asia in the Backdrop of Financial Sector Reforms
Chair:	Salehuddin Ahmed , Governor, Bangladesh Bank (TBC)
9:30-10:00	K.P. Krishnan , Ministry of Finance, India
10:00-10:30	Salman Shah , Former Finance Minister, Pakistan
10:30-11:00	Tea /coffee break
11:00-11:30	Joshua Felman , IMF
11.30-12:45	Discussion, question and answer

12:45-14:00	Lunch break
14:00-17:15	Session 2: Integration of Regional Financial Markets – The Road Ahead
Chair:	W. A. Wijewardena , Dy. Governor, Central Bank, Sri Lanka
14:00-14:30	Eli M. Remolona, Deputy Chief Representative, BIS Office for Asia and the Pacific
14:30-15:00	C.B. Bhave , Chairman, Securities and Exchange Board, India (TBC)
15:00-15:30	Tea / coffee break
15:30-16:00	Ugo Panizza ; Chief Debt, Development and Finance Unit, United Nations Conference on Trade and Development, Geneva
16:00-17:00	Discussion, question and answer
19:00	Dinner on Invitation by ICRIER

7 November, 2008 (Friday)

09:00 – 09:30	Tea /coffee
09:30-12:45	Session 3: Financial Inclusion in South Asia
Chair:	C. Rangarajan , Chairman, Prime Minister’s economic Advisory Council and Former Governor of RBI
09:30-10:30	Senior representative from Grameen Bank (TBC)
10:30-11:00	Usha Thorat , Deputy Governor, RBI
11:00-11:30	Stijn Classens , University of Amsterdam and IMF Financial Studies Division
11:30-12:45	Discussion, question and answer

12:45-14:00 Lunch break

14:00-18:00 High Level Panel Discussion: Regional Financial and Monetary Cooperation: Pursuing Financial Stability

Chair: **Y. V. Reddy**, Governor, RBI

14:00 – 14:20	Sheel Kant Sharma , Secretary General, SAARC Secretariat
14:20 – 14:40	Senior Representative from ASEAN secretariat (TBC)
14:40 – 15:00	Sebastian G. Paust , Asian Development Bank
15:00 – 15:20	Representative from InWEnt
15:20 – 15:40	Coffee / tea break
15:40 – 16:00	Rajiv Kumar , Director and CE, ICRIER
16:00 – 16:20	Charles Wyplosz , Professor of Economics, The Graduate Institute, University of Geneva
16:20-17:45	Discussion, question and answer
17:45-18:00	End of conference with a vote of thanks by Günther Taube

For further information on the Indian Council for Research on International Economic Relations (ICRIER)
and InWEnt Capacity Building International, please refer to:

www.icrier.org and www.inwent.org.