

# STRENGTHENING THE REGIONAL **FINANCIAL SAFETY NET** WITH EFFECTIVE **SUPPORT**



**As an essential part of the ASEAN+3 RFSN, the CMIM provides a financial safeguard against potential or actual balance of payments difficulties, and/or short-term liquidity difficulties that its members may face. It is one of AMRO's main functions to support the members in improving the effectiveness and reliability of the CMIM through technical and analytical inputs.**

#### WHAT ARE THE RESOURCES AVAILABLE FOR ECONOMIES TO SAFEGUARD AGAINST FINANCIAL SHOCKS?

The global financial safety net (GFSN) provides insurance for countries against a financial crisis. The GFSN consists of four layers:

- (1) international reserves held by national central banks,
- (2) bilateral swap arrangements (BSAs),
- (3) regional financing arrangements (RFAs), and
- (4) the International Monetary Fund (IMF).

Since the 2008 GFC, the GFSN has evolved in size and structure, mostly driven by the RFAs and BSAs. While its coverage has widened, the GFSN has also become more decentralized and complex. Recognizing the important role the GFSN plays in safeguarding global economic and financial stability, the international community, such as the Group of Twenty (G20), has affirmed its commitment to strengthen the GFSN.



In 2019, we facilitated the conclusion of the first Periodic Review of the CMIM Agreement, the relevant revisions of its OG<sup>1</sup>, and the completion of the 10<sup>th</sup> test run as well as identification of updates to the Manual for CMIM Swap Transaction. With AMRO's support, members adopted the Guiding Principles of the CMIM Conditionality Framework and discussed the Technical Guidance to ensure its smooth implementation. The ERPD Matrix was enhanced to provide the necessary analytical and policy support for the activation of the CMIM facilities. Collectively, these activities reinforced the CMIM's effectiveness as a crisis resolution and prevention mechanism, and ensured its smooth operation upon activation.

Long-term efforts to improve the CMIM include supporting members in endorsing the *"General Guidance on Local Currency Contribution to the CMIM"*, providing comparative studies of RFAs, and conducting workshops to enhance members' capacity to participate smoothly in the operationalization of the CMIM. AMRO continues to enhance its support for CMIM members' collaboration with other International Financial Institutions (IFIs).

### WHAT ARE REGIONAL FINANCIAL ARRANGEMENTS (RFAs)?

An RFA is a financing mechanism or agreement within which a group of regional economies pledge financial support to members of that group that could potentially, or actually be experiencing financial difficulties, either through a pool of contributed or borrowed reserves, or through currency swaps. Despite their different mandates and modalities across the world, RFAs, as an important component of the GFSN, serve as an additional line of defense for regional members to safeguard against financial shocks.

There are about 10 RFAs globally, and the CMIM, is one of them. A few other examples of RFAs are the European Stability Mechanism (ESM) and the Fondo Latinoamericano de Reservas (FLAR).

## PROVIDING SUPPORT AND EXPERTISE IN THE CMIM PERIODIC REVIEW

Every five years, it is mandatory for the CMIM parties to conduct a review of the CMIM Agreement with the aim of ensuring that the CMIM remains up-to-date and reflects member economies' circumstances, as well as global economic and financial conditions.

The CMIM's first periodic review began in 2017. AMRO analyzed the key issues raised and revised the CMIM Agreement for members' discussion. The review concluded in May 2019, with ASEAN+3 Finance Ministers and Central Bank Governors approving the amended CMIM Agreement, with the following revisions:

- (1) Secure compatibility of the terms and conditions of the IMF-Linked Portion of the CMIM with the IMF-Supported Programs,
- (2) Add a legal basis for conditionality,
- (3) Strengthen the coordination mechanism with the IMF,
- (4) Reinforce the review and ex-post monitoring mechanism, and
- (5) Fine-tune the confidentiality clause and other legally ambiguous provisions.

<sup>1</sup> Operational Guidelines refer to the *"Operational Guidelines for Enhancing the Effectiveness of the CMIM Agreement"* that is revised from time to time.

### HOW BIG IS THE CMIM, AND HOW DOES IT WORK?

The CMIM is a multilateral liquidity support arrangement in the ASEAN+3 region with a total size of USD 240 billion.

Member countries can request liquidity from the CMIM under two schemes:

#### 1. CMIM Stability Facility (CMIM-SF)

In the case of actual balance of payments and/or short-term liquidity difficulties, any central bank of ASEAN+3 countries as well as the Monetary Authority of Hong Kong, China, is entitled to request a swap of their local currencies with the US dollar for an amount up to their contribution multiplied by their respective purchasing multiples.

#### 2. CMIM Precautionary Line (CMIM-PL)

CMIM-PL is a crisis prevention facility introduced in 2014. It aims to assist the CMIM members with sound

macroeconomic management against potential short-term external shocks. The CMIM decision-making body, i.e., the Executive Level Decision Making Body (ELDMB) decides on whether the requesting country qualifies for the CMIM-PL after considering the economic reports from the requesting country and analyses provided by AMRO (and if necessary and available, Third Parties such as the IMF or ADB) based on the following five areas:

- (1) external position and market access,
- (2) fiscal policy,
- (3) monetary policy,
- (4) financial sector soundness and supervision, and
- (5) data adequacy.

## ENHANCING OPERATIONAL GUIDELINES FOR THE CMIM

The Operational Guidelines for Enhancing Effectiveness of the CMIM (CMIM OG) is a living document adopted by the Deputies of member authorities to facilitate the implementation of the CMIM Agreement. It provides detailed procedures regarding the CMIM's operation and defines its technical aspects that are mandated by the CMIM Agreement.

In 2019, AMRO supported members in revising and updating the CMIM OG. For example, the financing terms and conditions of the IMF-linked portion were adjusted and the procedure for phased drawings was introduced. Based on findings from the 10<sup>th</sup> test run, we also suggested other areas for OG revisions to enhance the operational readiness of the CMIM, as well as updated the Manual for CMIM Swap Transaction.





## ENSURING OPERABILITY OF THE CMIM

To ensure its operational readiness, CMIM members have conducted regular test runs since 2013. In 2019, members successfully conducted the CMIM's 10<sup>th</sup> test run, with a focus on technical and operational aspects. AMRO supported the preparatory, implementation and evaluation stages during this exercise.

During the preparatory stage, we provided the necessary documents and conducted a series of workshops for relevant parties to promote a sound understanding of the technical procedures to be carried out during the CMIM activation process. We helped members ensure the smooth implementation of CMIM operations.

## PROVIDING TECHNICAL GUIDANCE FOR CMIM CONDITIONALITY FRAMEWORK

The Guiding Principles of the CMIM Conditionality Framework, an essential tool for enhancing the facility, was adopted in May 2019. AMRO developed the Technical Guidance to promote its implementation and detailed the methodology for formulating the CMIM conditionality to be attached to a CMIM Arrangement. Discussion among members on the Technical Guidance is ongoing.



## IMPROVING THE ERPD MATRIX

AMRO has been improving the ERPD Matrix to make it an effective tool for assessing the macroeconomic and financial performance of member economies and to determine its qualification for access to the CMIM-PL, and also to enhance peacetime surveillance.

The ERPD Matrix applies both quantitative and qualitative methods to analyze five key areas to determine if the requesting party qualifies for access to the CMIM-PL. These five areas are:

- (1) external position and market access,
- (2) fiscal policy,
- (3) monetary policy,
- (4) financial sector soundness and supervision, and
- (5) data adequacy.

## CONDUCTING STUDIES ON THE CMIM'S FUTURE DIRECTION

In considering matters related to the CMIM's operational readiness, members have also given attention to issues linked to the CMIM's future direction in the medium to long term. To support these discussions, AMRO provides intellectual support through various ways such as staff discussion notes, concept papers, workshops, and relevant ASEAN+3 meetings.

In 2019, we provided analyses on the pros and cons of these future direction issues, as well as options on the CMIM's future priorities and a work plan for members' consideration. We also conducted a comparative study of RFAs to derive insights for members' reference. A collaborative research on local currency contribution to the CMIM, conducted in collaboration with regional scholars in 2018 and later updated with members' contributions, was also published on AMRO's website. With our support, the "General Guidance on Local Currency Contribution to the CMIM" was endorsed by the Finance Ministers and Central Bank Governors in May. Following this, we have embarked on a study of the possible modality on local currency contribution to the CMIM.

### WHY LOCAL CURRENCY CONTRIBUTION TO THE CMIM?

In recent years, regional economic and financial integration has deepened and the demand for local currency usage in the ASEAN+3 region has grown. Meanwhile, the U.S. dollar remains the dominant currency in the region, making it vulnerable to the exchange rate volatility of the U.S. dollar. To mitigate this risk, ASEAN+3 authorities have been advocating for local currency usage in this region. Against this backdrop, we have conducted a collaborative research study to examine the plausibility and possible modality of local currency contributions to the CMIM, which was published in early 2019. Based on the research, a general guidance on local currency contribution to the CMIM was endorsed in May 2019 to provide more funding options for members to enhance financial stability.

## STRENGTHENING REGIONAL AND INTERNATIONAL DIALOGUE AND COLLABORATION

AMRO actively participated in international conferences and seminars to improve our engagement and collaboration with other IFIs in 2019. Of note are the 4th High Level RFA Dialogue in Washington D.C. and the 3rd Joint RFA Research Seminar in Luxembourg that we had co-organized with ESM and FLAR.

The participating RFAs conducted in-depth studies on their activities in six areas:

- (1) training and capacity building,
- (2) technical assistance,
- (3) macroeconomic surveillance,
- (4) communication strategies,
- (5) lending toolkits and policies, and
- (6) conditionality design.

We were actively involved in the joint initiative and led the study on macroeconomic surveillance.

In 2019, we have stepped up dialogue with members regarding CMIM-related matters. From May to July, we conducted five customized workshops on CMIM issues in Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam. This helped members to better prepare for the 10<sup>th</sup> test run and deepened their understanding of CMIM-related and GFSN issues.



In October 2019, we co-organized the 4<sup>th</sup> RFA High Level Dialogue on the role of RFAs in the GFSN with ESM and FLAR.