Enhancing CMIM-Regional Financial Safety Net against Crisis

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## Table of Contents

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Background</td>
</tr>
<tr>
<td>02</td>
<td>Main Features of the CMIM</td>
</tr>
<tr>
<td>03</td>
<td>Recent Development and Way Forward</td>
</tr>
</tbody>
</table>
1. Background
Covid-19 infections are rising again in the region and worsening significantly in some parts of the world.

**World: Daily New COVID-19 Cases by Region**
(Number of cases, 7-day moving average)

**ASEAN+3: Confirmed Cases**
(Number of days after 100th confirmed case; cases in log scale)

Sources: Haver Analytics, sourced from John Hopkins University; and AMRO staff calculations.
But market sentiment appears to be improving, as evidenced by capital inflows.

ASEAN-4, Korea and Vietnam: Weekly Net Foreign Portfolio Capital Flows
(Billions of US dollars, as of week ending November 13, 2020)

Sources: National authorities; and AMRO staff calculations.
Important macro-financial risks remain, and if they materialize, will hit the recovery in regional growth hard.

Source: AMRO staff estimates.

Global Risk Map (GRiM)
November 2020

Legend:
- Low impact
- Medium impact
- High impact

Perennial Risks:
- Climate change
- Cyber attacks
- Geopolitics
- Natural disasters

Likelihood

High

Medium

Low

Short Term (up to 2 years)
- Re-escalation in trade tensions
- Another sustained wave of the pandemic
- Protracted global recession

Medium Term (2 to 5 years)
- Financial crisis due to the pandemic
- Financial distress in corporate sector
- Sovereign debt crisis due to pandemic spending

Long Term (> 5 years)

Imminence
## Financial readiness for crisis: An overview

### Domestic Tools

**Policy tools - traditional**
- Monetary and fiscal Policies
- FX rate intervention

→ limited policy space available

**New policy tools – MPPs & CFMs**
: adding faucet and valves to in/outflows

**Domestic safety measure**
: Piling FX reserves

→ Maintaining reserves incurs cost.

### International Tools

**Bilateral level: BSAs**
- Quicker than multilateral measures, effective during the GFC.
- Not available for every country.
- Central Banks may be exposed to credit risk of their counterparts.

**Regional level: RFAs**
- Mechanism backed by pooled resources through which regional countries pledge financial support
- Quick disbursement facility, faster than IMF, deeper local knowledge

**Global level: IMF resources**
- Global coverage and the largest resources.
- Conditionality negotiation may be prolonged.
- “IMF Stigma” in some former recipient countries.
Global FSNs have expanded in the aftermath of the GFC. In particular, the RFAs has become an important pillar.

Notes: For IMF and RFAs, size is gross total resources, including capital, quotas and borrowed resources. Latest data on reserves is at end 2016. Exchange rates taken at end year in period 2000-2016. Sources: ECB, 2018, "A quantitative analysis of the size of IMF resources."
2. Main Features of the CMIM
Development of the CMIM showcased ASEAN+3 members’ commitment to step up regional financial cooperation from bilateralism to a more structured multilateral cooperation.
Main Features of the CMIM

- **Objectives**
  - Self-help mechanism to address BOP and/or short-term liquidity difficulties
  - Supplement the existing international arrangement (IMF Linked portion)

- **Members**: ASEAN+3 plus HKMA

- **Financing Structure**: Multilateral swap arrangement
  - Requesting Party’s local currency ↔ Requesting Parties’ USD
  - Total lending capacity: USD 240 billion

- **Two facilities**
  - CMIM-SF: Currency Swap for **actual** short-term USD liquidity and/or BOP difficulties
  - CMIM-PL: Swap Lines for **potential** short-term USD liquidity and/or BOP difficulties

- **Governance**
  - Fundamental issues (Revision of Agreement): Unanimous decision by Ministers and Governors
  - Executive level issues (approval of request, Revision of sub-rules): 2/3 majority decision by Deputies
  - AMRO support CMIM operation: program design based on economic surveillance and secretariat support.
3. Recent Development and Way Forward
CMIM has never been activated mainly because members have improved economic resilience, but it also implies there is room to improve:

- Operational readiness – Multilateral swap operation involves numerous transactions for a financing, lack of experience
- Adequacy of resources and facility – 2nd largest among RFAs, but IMF De-linked Portion has a smaller ceiling.
- Surveillance capacity – AMRO was established in 2012 as the surveillance unit of the CMIM but lacks program design experience.
- Coordination with GFSN – Uncertainty in coordination process for co-financing, lack of co-financing experience.
Enhancement of the CMIM: a continuous effort

**OPERATIONAL READINESS**

1st Periodic Review concluded in May 2019
- Compatibility with IMF programs
- Legal basis for conditionality

Annual Test runs since 2013
- Simulation of CMIM activation with program design and fund transactions
- Joint test runs with IMF since 2016

**ADEQUATE RESOURCES & FACILITIES**

Lending capacity increase:
USD 120 billion → 240 billion (2014)
- Second largest among active RFAs

Introduction of CMIM-PL (2014)

Increasing IMF De-linked Portion:
- 20% (2010) → 30% (2019)

**SURVEILLANCE CAPACITY**

AMRO was upgraded to IO in 2016

First Strategic Direction and Medium-Term Implementation Plan were adopted in 2016

Building a strong team and gaining experience

**COORDINATION WITH GFSN**

CMIM-IMF Information sharing process (2019)

RFAs High-level Dialogue since 2016.
Recent Development

1. IMF De-linked Portion increase

**Current Scheme**

<table>
<thead>
<tr>
<th>Co-financing with IMF</th>
<th>IMF Linked Portion: Requesting country can receive 100% of its borrowing quota from CMIM</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIM-SF CMIM-PL</td>
<td>IMF De-linked Portion: Requesting country can receive 30% of its borrowing quota from CMIM</td>
</tr>
</tbody>
</table>

**2020 Ad hoc amendment**

IMF De-linked Portion is increased from **30% to 40%**

- Reiterates the ASEAN+3 members’ willingness to make the CMIM more readily available to the countries in need.

* Past development of IMF De-linked Portion: (2010: creation of CMIM) 20% → (2019 Periodic Review) 30%
Recent Development

2. Local Currency Contribution to CMIM

Current Scheme

Swap between USD and requesting party’s local currency

Requesting party’s currency

Requesting Party ↔ Providing Parties

USD

2020 Ad hoc amendment

Requesting and providing parties may agree to substitute USD with one or more of providing parties’ local currency → More financing option, based on supply and demand

Requesting party’s currency

Requesting Party ↔ Providing Parties

USD or Providing parties’ local currency
3. Completion of CMIM Conditionality Framework

**Purpose**

The CMIM Conditionality Framework provides guidance to the CMIM Parties and AMRO in formulating and reviewing CMIM conditionality so that CMIM better supports overcoming financial risks

**Key Elements**

- **Guiding Principles**: provides high-level principles for the contents and relevant process
- **Technical Guidance**: detailed guidance on each party role, program documentation, and procedure of formulating and reviewing conditionality

**Coordination with IMF**

- In case of IMF Linked Portion, the Conditionality Framework clarifies the coordination process between AMRO and IMF during times of crises, to avoid excessive burden on the requesting country.
- It also ensures an independent CMIM’s decision making process with AMRO’s support.
Ref) Other Institutions’ Responses to COVID-19 Pandemic

**IMF**

Increased access for rapid financing (RFI, RCF):
- 50% → 100% of quota (annual) and 100% → 150% (cumulated)
- Remove RCF’s limit of disbursement

Increase normal annual access
- Standard program: 145% → 245% of quota
- PRGT program: 100% → 150%

Establish new facility: SLL

Fundraising for debt relief

Financial assistance to 81 countries, USD 102 bil.

**EU**

EU leaders endorsed a EUR 540 billion package (April 23)
- EUR 100 bil. – support to mitigate unemployment risks in an emergency (SURE)
- EUR 200 bil. – pan-European guarantee fund for loans to help hard-hit small and medium-sized enterprises (European Investment Bank)
- EUR 240 bil. – Pandemic Crisis Support through ESM to support domestic financing of direct and indirect healthcare, cure and prevention related due to the pandemic.

**Other RFAs**

**FLAR** created an exceptional temporary credit line to address BoP difficulties arising from the pandemic.

It also enhanced financial capacity through market borrowing up to USD 6.8 bil.

**EFSD** provided USD 100 mil to Kyrgyz, and USD 50 mil to Tajikistan to help counter COVID-19.

**AMF** provided USD 9.13 mil to Tunisia and USD 19.6 mil to Morocco help counter COVID-19.

**BSAs**

Fed added temporary swap lines with 9 central banks (Mar. 9), totaling USD 448 bil.
**Future Direction of the CMIM**

**OPERATIONAL READINESS**
- Detailed rules on local currency contribution
- Review on CMIM interest rate in response to LIBOR discontinuation

**ADEQUATE RESOURCES & FACILITIES**
- Forward-looking approach to ensure adequacy of CMIM resources and facilities in accordance with the potential demand of the region

**SURVEILLANCE CAPACITY**
- AMRO will build "multi dimensional" surveillance capacity to identify vulnerability:
  - Accumulate program-design experience

**COORDINATION WITH GFSN**
- IMF-CMIM Joint test run to ensure smooth implementation of conditionality framework
- Participation to IMF mission
- Joint RFAs research on issues of common interest
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