

CHAPTER 2

SUPPORTING CMIM OPERATIONS AND DEVELOPMENTS

Since the Asian Financial Crisis of 1997-1998, ASEAN+3 members have sought to build and enhance the CMIM to protect themselves from similar crises in the future. The CMIM is a multilateral currency swap arrangement that serves as an emergency liquidity fund for members facing potential or actual short-term liquidity challenges, in relation to their balance of payments or otherwise.

The CMIM facility includes both an IMF De-linked Portion (IDL) and an IMF Linked Portion (ILP), with the latter subject to oversight by the IMF. The CMIM today constitutes an essential part of the ASEAN+3 regional financial safety net, alongside individual countries' own reserves, bilateral swap agreements between central banks, and the IMF itself.

One of AMRO's main functions is to improve the effectiveness and reliability of the CMIM by providing technical and analytical inputs.

The CMIM has grown from an initial US\$120 billion to US\$240 billion today. This has occurred in tandem with the

increasing standardization of agreements and procedures around its deployment; as well as AMRO's increasingly sophisticated surveillance of member economies and the regional macroeconomic landscape.

The work that AMRO performs every year in this area must therefore be considered as part of a decades-long journey in the growth and evolution of the CMIM.

In 2020, AMRO supported its members in the following areas:

- Producing the Technical Guidance on the CMIM Conditionality Framework for the IDLP and the ILP
- Revising the CMIM Agreement, which includes a legal basis for:
 - i. an increase of IDLP from 30% to 40%; and
 - ii. local currency contribution to the CMIM
- Facilitating the annual CMIM Test Run
- Updating the swap manual
- Improving the ERP Matrix
- Conducting studies on the CMIM's future direction
- Enhancing collaboration with international financial institutions

Producing the Technical Guidance on the CMIM Conditionality Framework

With AMRO's support, this Technical Guidance (TG) will assist all CMIM parties as they formulate the conditionality of CMIM agreements, for both the IDLP and the ILP. The TG for the ILP ensures the CMIM's independent decision-making process, supported by AMRO, while clarifying the operational mechanism for smooth and swift cooperation and coordination between AMRO and the IMF during times of crises. This will help avoid imposing an excessive burden on the requesting country.

With the analytical and policy support provided by AMRO, the CMIM is now able to set its own conditionality. This bolsters the ability of member economies to make appropriate policy adjustments to mitigate relevant risks and vulnerabilities and regain economic and financial soundness.

Revising the CMIM Agreement (Ad hoc Amendment 2020)

In May 2019, the ASEAN+3 Finance Ministers and Central Bank Governors approved the amendment of the CMIM Agreement, concluding the first CMIM Periodic Review. The process to sign the amended CMIM Agreement began thereafter and was completed in June 2020. The revision, among other things, provided more flexibility for the financing period of the ILP of the CMIM; and introduced an overarching legal basis for the conditionality framework.

Subsequently in September 2020, members approved an ad hoc amendment of the CMIM Agreement. One of the major milestones from the amendment is the increase of the IDLP from 30% to 40% of each member's maximum arrangement amount or swap quota. As the IDLP is typically disbursed faster than the ILP, this provision means that CMIM members will be able to get access to greater and faster

financial support. The completion of the CMIM Conditionality Framework complements the increase of the IDLP.

Another landmark from the ad hoc amendment is the decision to institutionalize the use of local currencies—as an alternative to the prevailing US dollar—for CMIM financing on a voluntary and demand-driven basis. While the detailed modalities and procedures are to be finalized, this will broaden the financing options for members in times of need, thereby enhancing the flexibility of the CMIM.

The ad hoc amendment of the CMIM Agreement in 2020 also addressed technical preparations for the ongoing global LIBOR reform and other technical inconsistencies between the CMIM Agreement and the Operational Guidelines.



Facilitating the CMIM Test Run

Since 2013, the CMIM's members have conducted regular test runs to ensure its operational readiness. In 2020, they conducted its 11th test run which, like the 10th in 2019, focused on the technical aspects of CMIM swap transactions. AMRO again supported members in the preparation, implementation and evaluation stages. This support included the provision of necessary documents, inter-party coordination, and test monitoring.

Updating the Swap Manual

In 2019, at the 10th CMIM Test Run, members identified technical gaps in the swap manual.

With support from AMRO, members updated the manual in May 2020 to address these gaps. After the 11th Test Run in October-November 2020, they updated it again to improve its operational consistency, and include an additional procedure for resolving critical operational glitches.

Improving the ERPD Matrix

AMRO has been improving the ERPD Matrix as an effective tool both for the qualification criteria of the CMIM Precautionary Line and for peacetime surveillance. The ERPD Matrix applies both quantitative and qualitative methods to analyze five key areas, namely, the external sector, fiscal policy, monetary policy, the financial sector, and data adequacy.

In 2019, members endorsed the ERPD Matrix Scorecard as a qualification reference proposed by AMRO. In 2020, AMRO also started to integrate the ERPD Matrix into its surveillance work and get this mainstreamed. In addition, AMRO further enhanced the "regional tracker" to operationalize the Scorecard, based on members' suggestions.

Conducting Studies on the CMIM's Future Direction

While aware of the pressing short-term need to ensure CMIM's operational readiness, members have also set aside time to strategize CMIM's future direction from a medium- to long-term perspective. AMRO has facilitated this important thought process by providing intellectual support, in the form of staff discussion notes, concept papers, and other research outputs. In order to learn more from the IMF and other RFAs, in 2020 AMRO conducted a comparative study of RFAs for members' reference.

Enhancing Collaboration with International Financial Institutions

AMRO actively participated in international conferences and seminars to enhance communication and collaboration with other international financial institutions. In particular, the RFA HLD provides a platform for top officials of RFAs and the IMF to regularly discuss key developments and policy issues related to the strengthening of the global financial safety net, cooperation among RFAs, and their interactions with the IMF. In 2020, AMRO, together with the European Stability Mechanism (ESM) and the Latin American Reserve Fund (FLAR), co-organized the [5th RFA HLD in October](#) and the [4th Joint RFA Research Seminar in December](#) (both were held virtually).

In 2020, the participating RFAs also finalized in-depth studies on RFA activities in six areas, including training and capacity building, technical assistance, macroeconomic surveillance, communication strategies, lending toolkits and policies, and conditionality design. AMRO has been actively involved in this joint initiative through its leadership of a study on macroeconomic surveillance.

