

Enhancing CMIM-Regional Financial Safety Net against Crisis

Wenxing Pan

Deputy Director, AMRO

ESCAP Expert Group Meeting

November 18, 2020

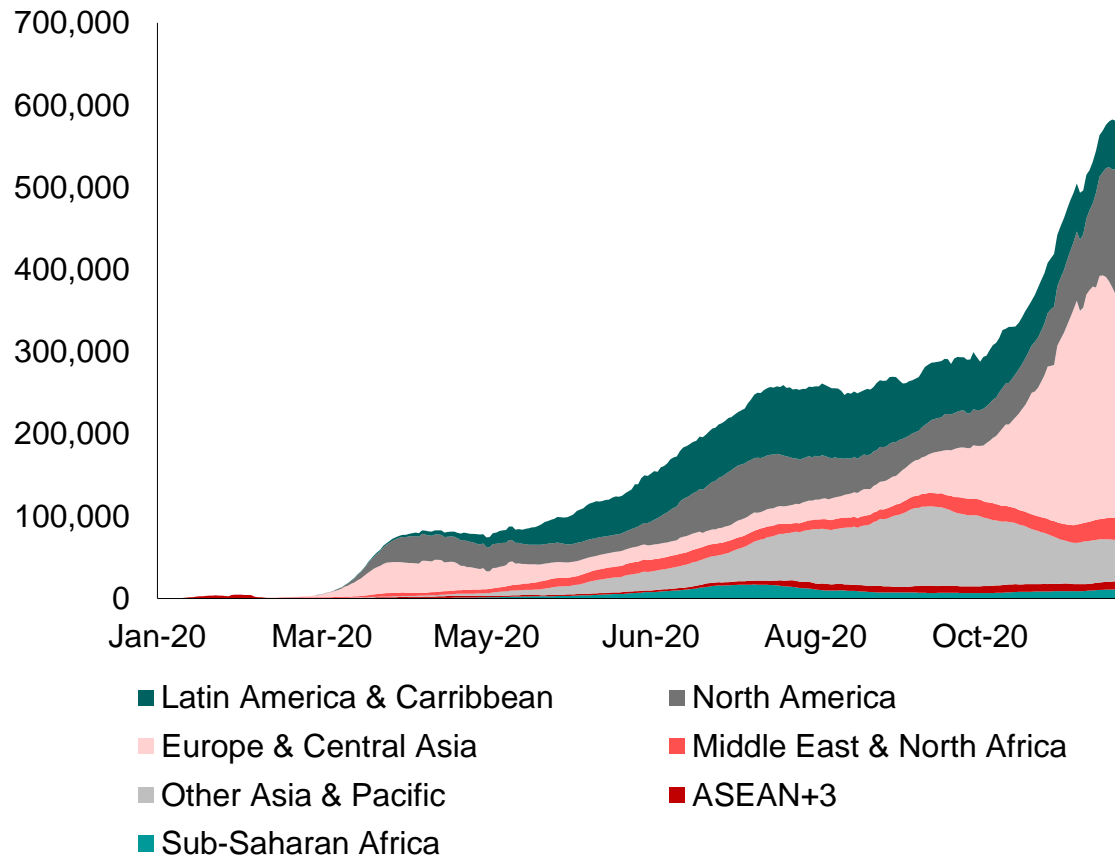


Table of Contents

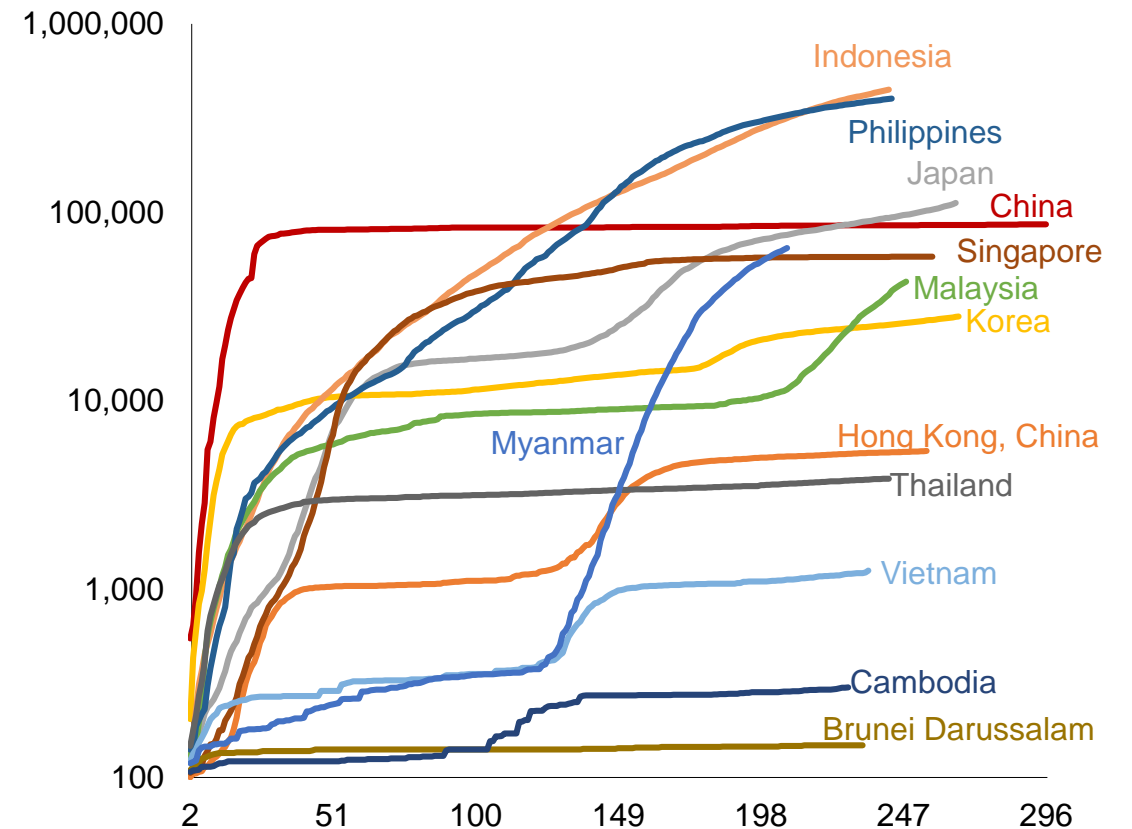
- 01 Background
- 02 Main Features of the CMIM
- 03 Recent Development and Way Forward

1. Background

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

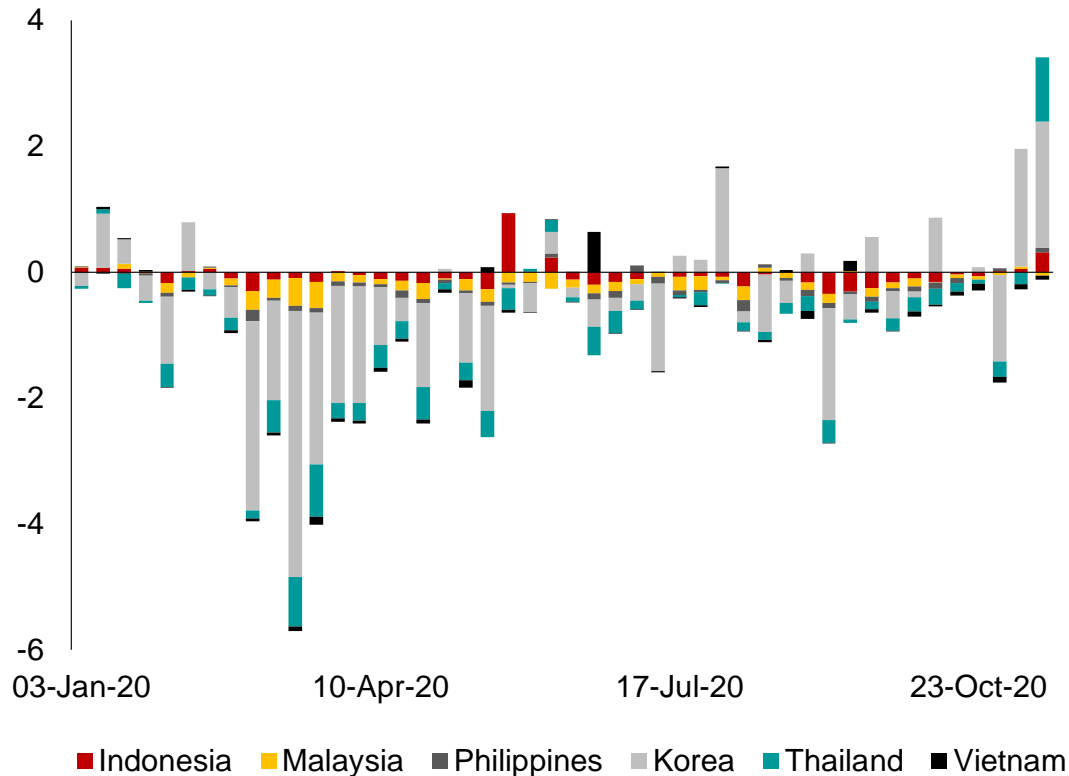


ASEAN+3: Confirmed Cases
(Number of days after 100th confirmed case; cases in log scale)

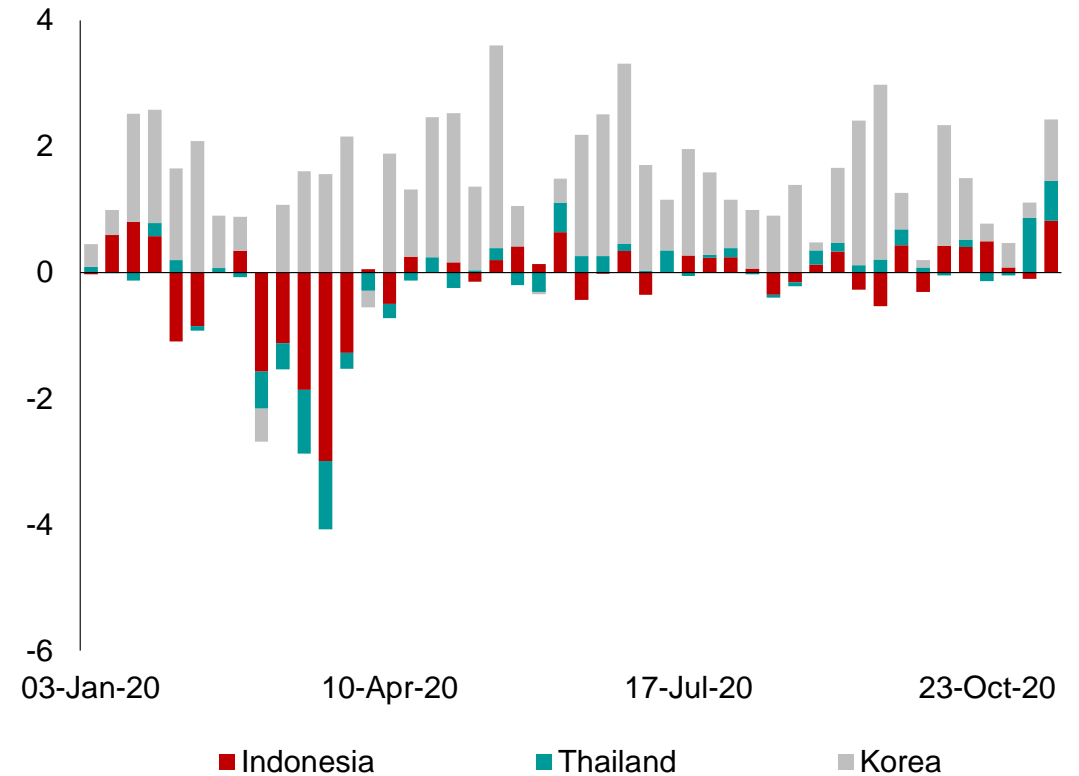


ASEAN-4, Korea and Vietnam: Weekly Net Foreign Portfolio Capital Flows (Billions of US dollars, as of week ending November 13, 2020)

Equities



Bonds



Likelihood

Global Risk Map (GRiM)
November 2020

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

High

Medium

Low

Imminence

Re-escalation in trade tensions (Medium impact)

Another sustained wave of the pandemic (High impact)

Protracted global recession (High impact)

Financial crisis due to the pandemic (High impact)

Financial distress in corporate sector (Medium impact)

Sovereign debt crisis due to pandemic spending (High impact)

Short Term (up to 2 years)

Medium Term (2 to 5 years)

Long Term (> 5 years)

Legend: ● Low impact ● Medium impact ● High impact

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

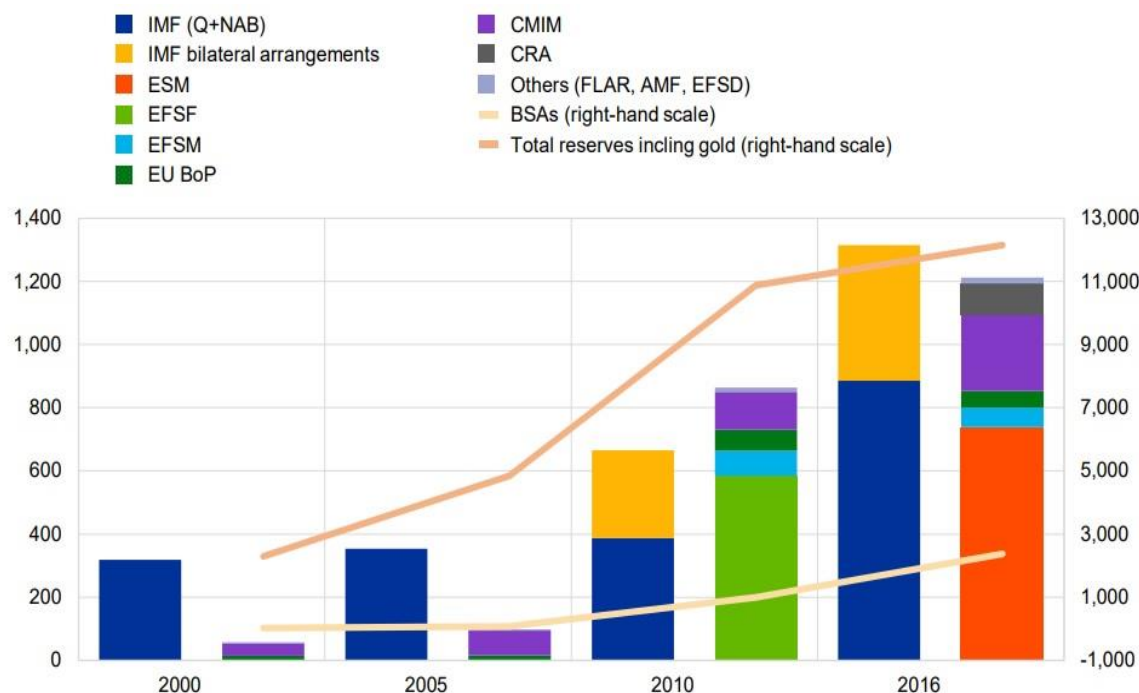
- Mechanism backed by pooled resources through which regional countries pledge financial support
- Quick disbursement facility, faster than IMF, deeper local knowledge

Global level: IMF resources

- Global coverage and the largest resources.
- Conditionality negotiation may be prolonged.
- “IMF Stigma” in some former recipient countries.

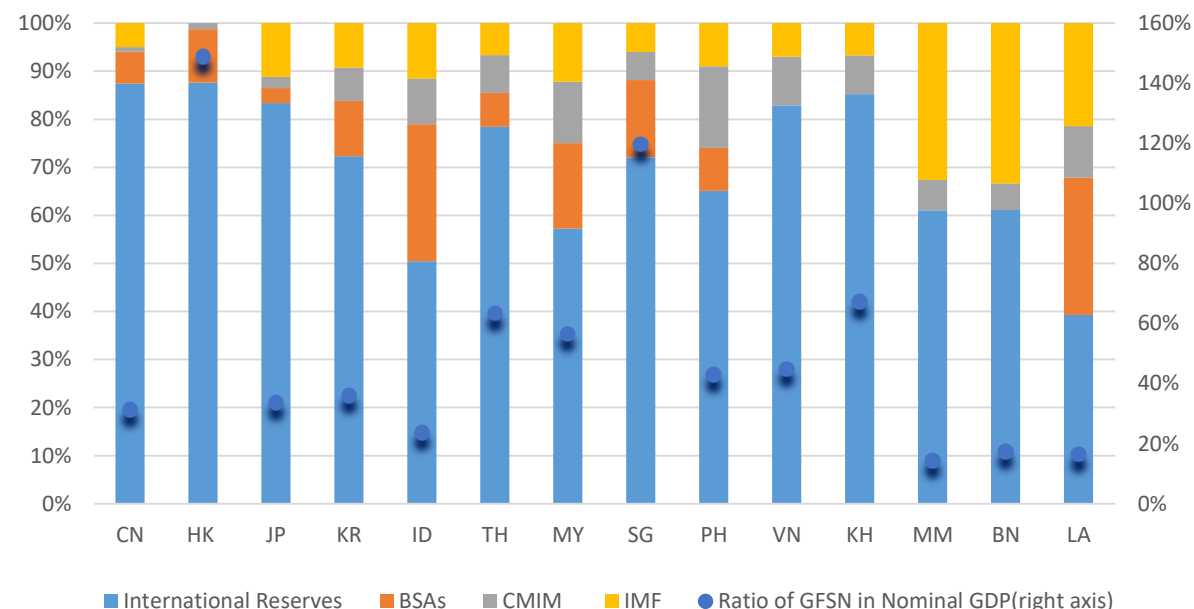
Global FSNs have expanded in the aftermath of the GFC. In particular, the RFAs has become an important pillar.

Evolution of the GFSN (USD billion)



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"

Composition of GFSN for ASEAN+3

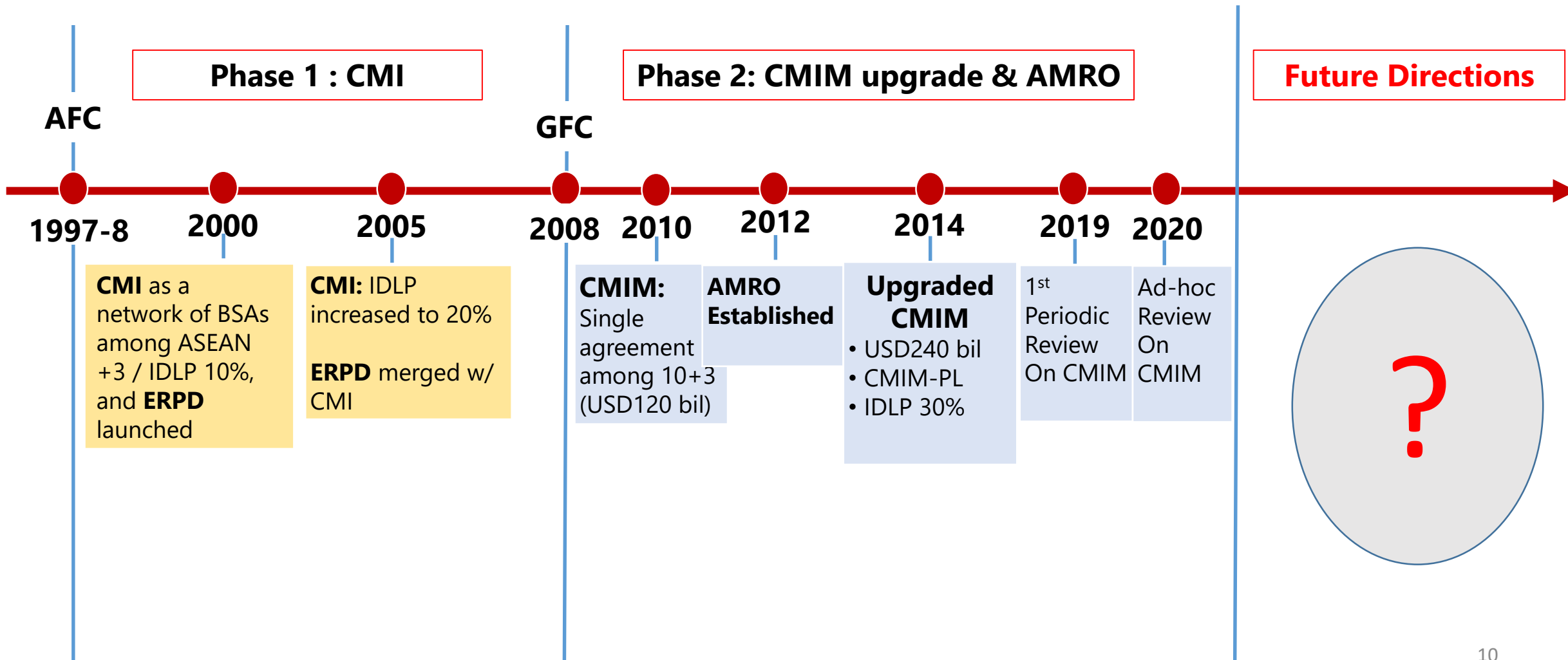


Note: IMF : 435% of quota, SBA / CMIM : IMF Linked Portion /
BSAs : calculated in USD as of Oct 2020, including local currency swaps
Reserves : as of Jan 2020 (Brunei and Myanmar, as of December 2019. Cambodia and Vietnam, as of November 2019. Lao PDR as of May 2019) / Source: National central banks, IMF, AMRO staff calculations

2. Main Features of the CMIM

Progress of CMIM/AMRO so far

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

Assessment of the CMIM

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

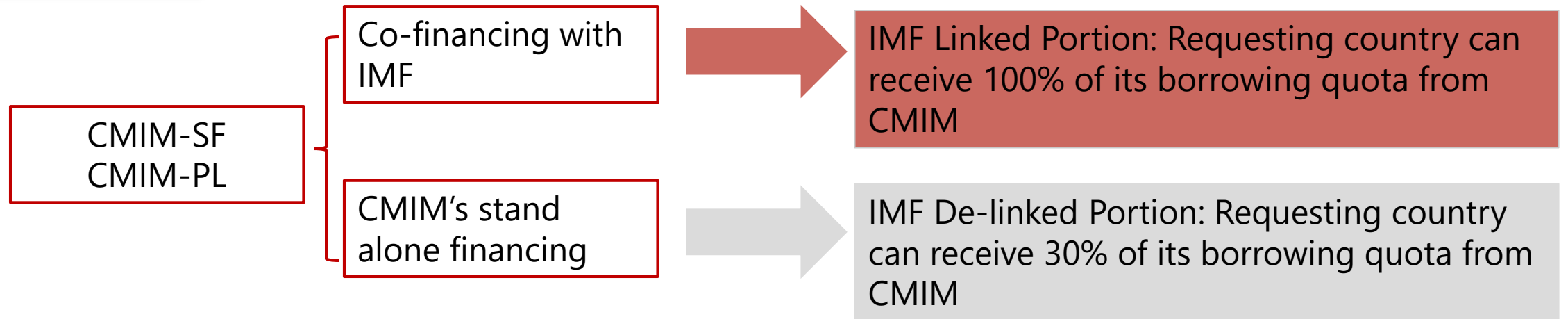
CMIM-IMF Information sharing process (2019)

RFAs High-level Dialogue since 2016.



1. IMF De-linked Portion increase

Current Scheme



2020 Ad hoc amendment

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

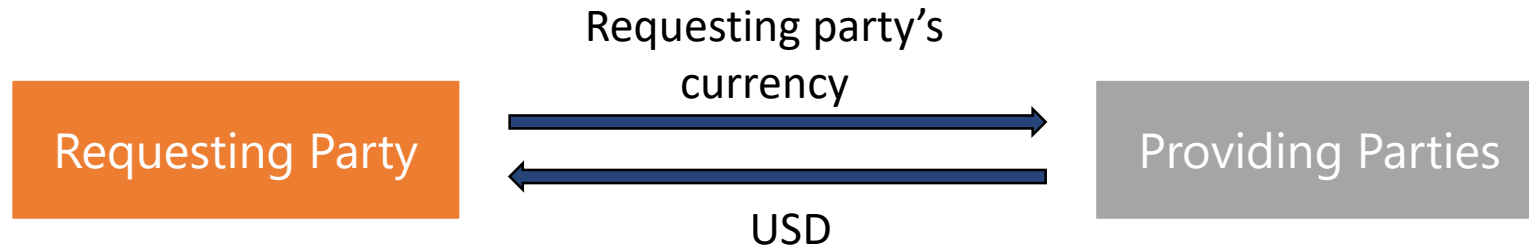
- Reiterates the ASEAN+3 members' willingness to make the CMIM more readily available to the countries in need.

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

2. Local Currency Contribution to CMIM

Current Scheme

Swap between USD and requesting party's local currency



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



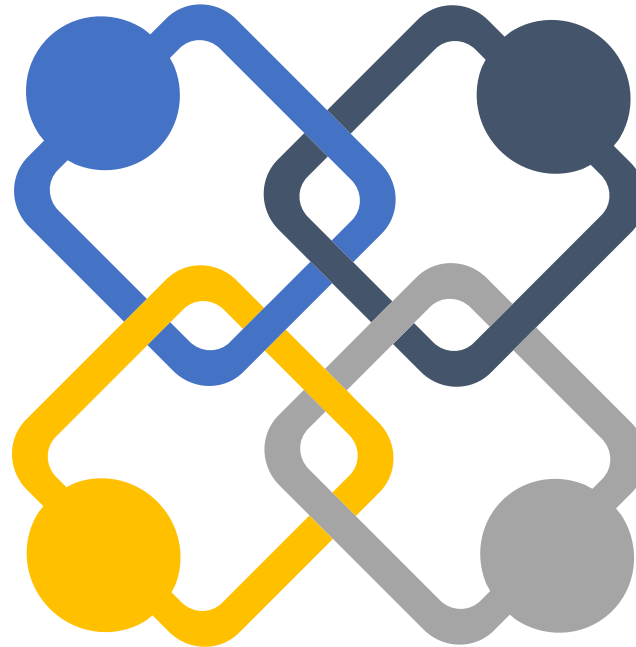
3. Completion of CMIM Conditionality Framework

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.

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.

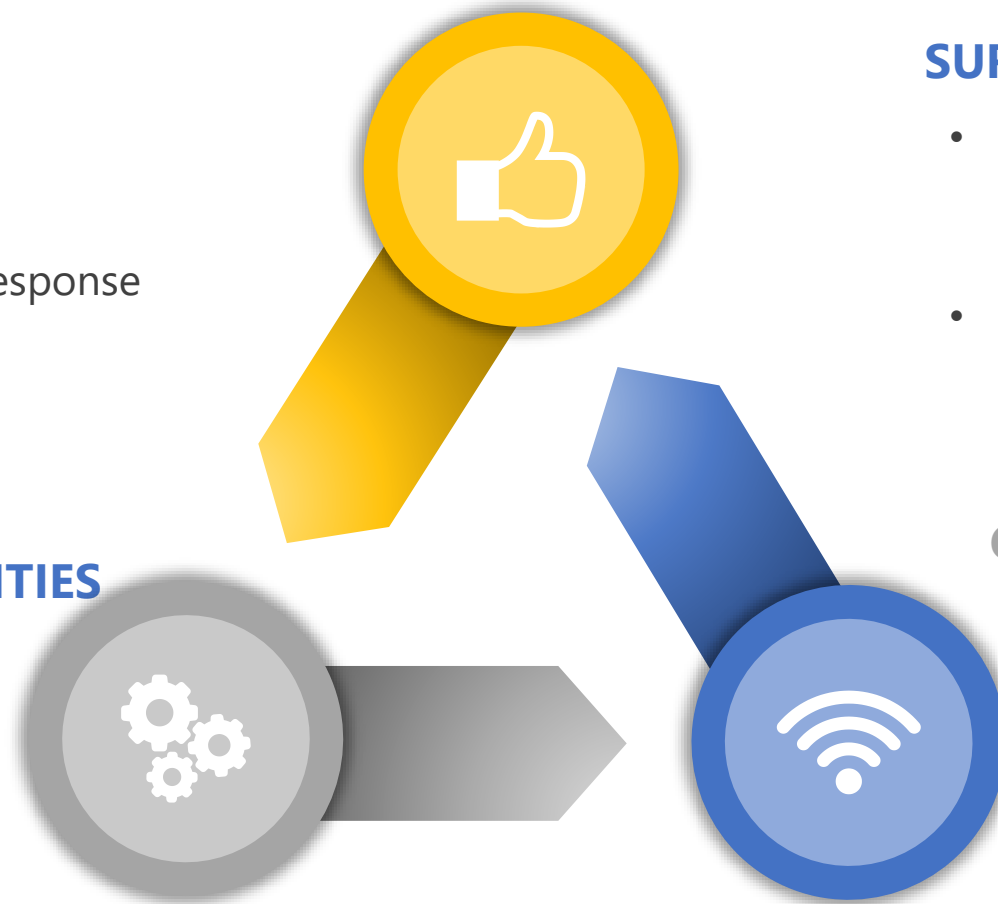
Future Direction of the CMIM

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



Contact Us:

ASEAN+3 Macroeconomic Research Office (AMRO)

Address : 10 Shenton Way, #15-08/9 MAS Building,
Singapore 079117

Tel : +65 6323 9844

Fax : +65 6323 8187

Email : pan.wenxing@amro-asia.org

Website : www.amro-asia.org