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Local Currency Contribution to the CMIM

Chapter 5. Modality of Local Currency Contribution to the CMIM

Lu Feng

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Prepared by Lu Feng*

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Abstract

This chapter deals with selected practical issues regarding the modality of implementation of local currency (LCY) contribution to the CMIM arrangements. First, on the basis of the information regarding actual LCY usage in regional trade and investment as well as the intra-regional concentration ratios for various cross border economic activities, the average level of relative size of LCY contribution to CMIM may fall into the range of 10 percent to 30 percent. It is suggested that the LCY contribution scheme may be applied to both the “linked” and “de-linked” portions of CMIM, and should be designed and implemented in a voluntary manner instead of being mandatory or compulsory. Second, the eligibility of currencies for contribution to the CMIM may be addressed using two scenarios of narrow and wider coverage across the region. In narrow coverage scenario, only the Chinese RMB and Japanese yen may be fitting for LCY contribution to CMIM. The wider coverage scenario consists of two versions. The first is the inclusion of the Singapore dollar, Indonesian rupiah and Korean won in addition to the RMB and yen. The second includes the addition of the Malaysian ringgit, Thai baht and Philippine peso to the basket. Finally, arrangements about foreign exchange rate and interest rate applied to the LCY swap transaction arising from the LCY contribution scheme are also discussed and clarified.

JEL classification: F30; F33; G18

Keywords: Local currency; CMIM; Eligibility of currency; Swap

* Professor of Economics, National School of Development, Peking University (fenglu@nsd.pku.edu.cn)

Contents

Executive Summary

This chapter deals with selected practical issues regarding the modality of implementation of local currency (LCY) contribution to the CMIM arrangements. Several preliminary conclusions and tentative suggestions have emerged from discussion and analysis in this chapter.

First, on the basis of information regarding actual LCY usage in regional trade and investment as well as the intra-regional concentration ratios for various cross border economic activities, the average relative size of LCY contribution to CMIM may fall into the range of 10 percent to 30 percent.

Second, in light of survey results conducted as part of the project, the eligibility of currencies may be addressed by using two scenarios of narrow and wider coverage in the region. In the narrow coverage scenario, only the Chinese RMB and Japanese yen may be fitting for LCY contribution to CMIM. The wider coverage scenario consists of two versions. The first entails the inclusion of the Singapore dollar, Indonesian rupiah and Korean Won in addition to the RMB and yen. The second includes the addition of the Malaysian ringgit, Thai baht and Philippine peso into the basket.

Third, it is suggested that LCY contribution may be applied to both the “linked” and “de-linked” portions of CMIM, and should be designed and implemented in a voluntary manner instead of being mandatory or compulsory. Arrangements relating to foreign exchange rate and interest rate applied to the LCY swap transactions arising from the LCY contribution scheme are also discussed and clarified.

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5. Modality of Local Currency Contribution to the CMIM

1. As a multilateral currency swap arrangement, the CMIM is mandated to provide financial support through currency swap transactions to its members who are facing difficulties relating to their balance of payments (BOP) or short-term liquidity. Each CMIM member is obliged to contribute a certain amount of resources in U.S. dollars to the arrangements, and in return, is entitled to swap its local currency with U.S. dollars for an amount up to its contribution multiplied by its purchasing multiplier in special circumstances. In order to improve the system to better serve the goal of maintaining financial stability in the region, it is necessary to study the feasibility of allowing local currency contribution to the CMIM arrangements.

2. In addition to the costs and benefits, there are still practical issues regarding the modality of implementation of local currency (LCY) contribution to the CMIM arrangements. This chapter outlines the main issues of the modality and discusses how to approach them in principle. It provides tentative suggestions on the issues through looking at the related empirical evidences.

5.1. Possible Sizes of LCY Contribution

3. If members agree to allow LCY contribution, we will need to consider the possible sizes local currency contribution given the current scale of the CMIM arrangement at USD240 billion. Though the specific scale of LCY contribution for a given rescue program is likely to be decided on a case-by-case approach, it may be useful to explore its relative size in a general sense. In principle, the desired relative size should be determined by the actual and potential use of local currency in international transactions in the region. The issue can be discussed through the observation of empirical evidence from two perspectives.

5.1.1. Discussion on the Basis of Actual LCY Usage in the Region

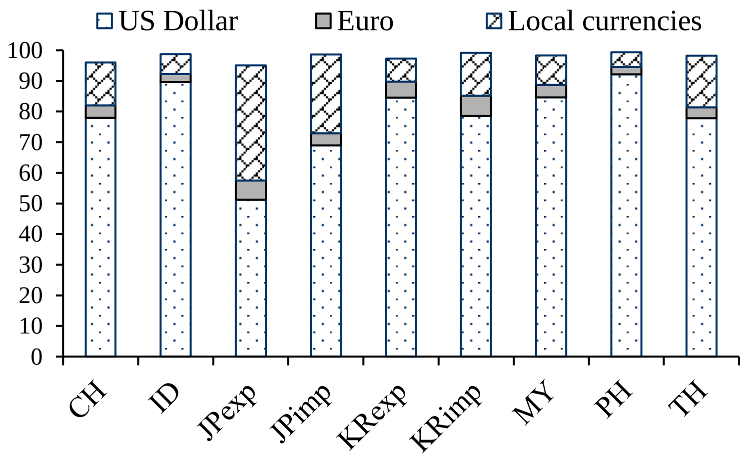
4. First, we can gauge the possible size of LCY contribution to the CMIM based on publicly available information and relevant IMF and World Bank databases – in particular the Coordinated Direct Investment Survey, Coordinated Portfolio Investment Survey, International Financial Statistics and World Development Indicators – which provide information regarding he actual LCY usage in trade invoicing and cross-border financial assets and liabilities in the jurisdiction of the members.

5. When it comes to trade, the share of exports of Asian countries invoiced in U.S. dollars has consistently been at more than 80 percent, which means a significant share of the trade within the regional trade production network is being conducted in USD. In China and Thailand, domestic currency (RMB and the baht respectively) accounted for double digit shares; while in Japan, the 50-70 percent trade was in USD while the yen made up 20-30 percent. In Laos and Vietnam, meanwhile, the RMB is the third important regional trade

settlement currency. The share of LCY in regional trade in Korea and Indonesia also reached around 10-17 percent in 2017, showing some growth.[2]

6. According to data from some of the members, regional currency settlement, on average, accounts for 15 percent of the members' trade settlement (Figure 5.1.1). Given that the regional financing arrangement (RFA) is designed to provide liquidity support to members experiencing short-term liquidity and BOP difficulties, the scale of regional currency settlement may be useful in gauging the appropriate size of LCY contribution.

Figure 5.1.1. Composition of Trade Settlement Currencies in the ASEAN+3 Region in 2017



Source: *Compiled by author, with data from Korea Customs Service (http://www.customs.go.kr/kcshome/site/index.do?layoutSiteId=english); Ministry of Finance, Japan (http://www.mof.go.jp/english/); Bank of Thailand (http://www.bot.or.th/english/ Pages/BOTDefault.aspx); Bank of Indonesia (http://www.bi.go.id/en/Default.aspx); and The People's Bank of China, (http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3461233/index.html) etc.*

7. As for the cross-border financial transactions, the USD is still dominant in both global and regional financial assets and liabilities. However, progress has been seen in some member economies. For example, according to the Coordinated Portfolio Investment Survey of IMF, in Thailand, the baht's share in global/ regional financial assets and liabilities stood at 11 percent and 17 percent respectively for residents in 2017 while the USD's share was at 65 percent and 55 percent. In Indonesia, meanwhile, the rupiah's share in global financial liabilities reached 20 percent while it stood at about 5 percent in regional financial liabilities. In Japan and Korea, the USD accounted for about half of global financial assets while over 90 percent and 70 percent of global financial liabilities were denominated in yen and won respectively.

8. Though it is difficult to obtain accurate figures on actual regional LCY usage in trade and finance, we can arrive at rough estimates on actual LCY usage in the region using the information available. As for the trade invoicing and settlement, the gauge of the average figure for members in the region may be in the range of 10 percent to 20 percent. The figures in the area of cross-border financial assets and liabilities among members are more diverse, and at this stage, we settle on 10 percent to 15 percent as the estimate. This actual usage

[2] Please refer to Figure 5.1.1 for data sources.

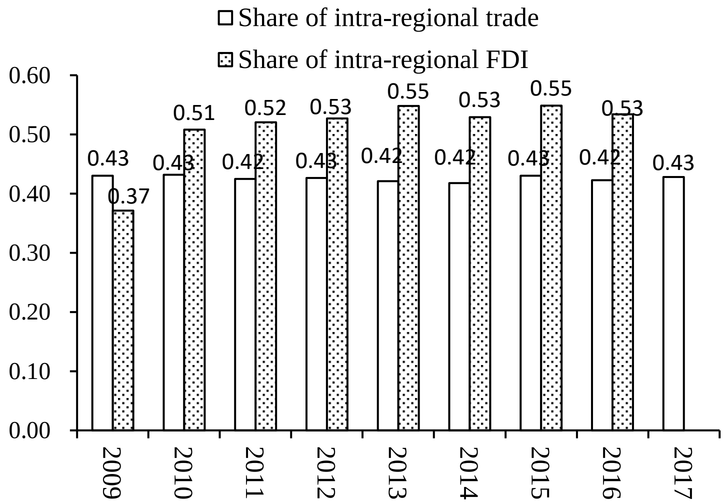
information can be viewed as a sort of lower range for the possible size of LCY contribution to the CMIM.

5.1.2. Examination Based on Intra-regional Concentration Ratios

9. The issue of the potential size of LCY contribution can be further examined through assessing factors such as the current intra-regional trade ratio, the intra-regional investment ratio and the like, that may imply possible intensity of demand for local currency usage during crisis periods, and therefore be useful in gauging the upper range of LCY contribution. In line with this consideration, we can observe intra-regional concentration ratios that are defined as the proportion of the value of a given activity among regional members to the total value of the activity of the members for various cross-border activities.

10. Using IMF data, we first observe the intra-regional concentration ratio for CMIM members as a region in terms of international trade and FDI. We find that the intra-regional concentration ratio on international trade for CMIM members in recent years has been more or less stable at around 42 percent to 43 percent (Figure 5.1.2). The intra-regional concentration ratio on FDI ratio, meanwhile, has been higher and with larger variation, fluctuating from 51 percent to 55 percent.

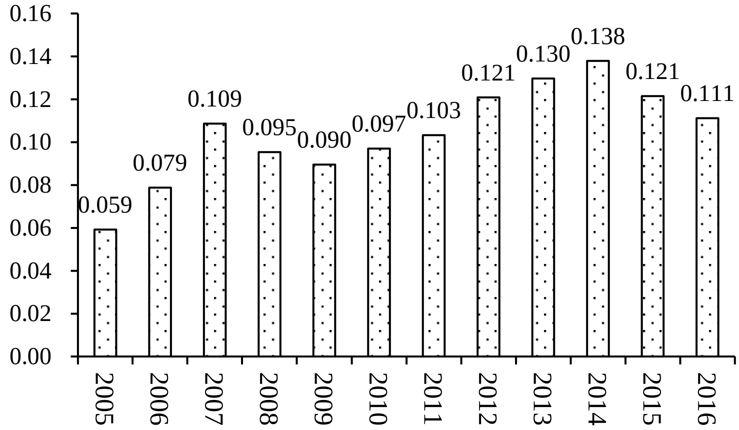
Figure 5.1.2. Shares of Intra-regional Trade and FDI (ASEAN +3, 2009-2017)



Source: UNCTAD

11. The picture of the intra-regional ratio of portfolio investment is quite different from that for trade and FDI. Although the ratio has shown a somewhat upward trend in the observed period of 2005-2016, the simple average of the indicator over the 12-year period was only 10.5 percent (Figure 5.1.3). The highest annual observation of the indicator was 14 percent in 2014. The relatively low ratio indicates that most of the portfolio investment in CMIM members either originated from or targeted at countries or areas outside the region.

Figure 5.1.3. Share of Intra-regional Portfolio Investment (ASEAN +3, 2005-2016)



Source: "Reported Portfolio Investment Assets by Economy of Nonresident Issuer", Coordinated Portfolio Investment Survey, IMF.

12. It should be noted that the IMF data on the ratio of intra-regional portfolio investment used in Figure 5.1.3 does not cover the five new members of ASEAN (Lao PDR, Cambodia, Brunei Darussalam, Myanmar and Vietnam). On the other hand, China's data used in Figure 5.1.3 are only available for 2015 and 2016. Incorporating China's data into the figure, the shares of intra-regional portfolio for the whole of the ASEAN+3 region are reduced by approximately 0.24 percentage points in 2015 and 2016 than otherwise, due to an even lower intra-regional concentration ratio of portfolio investment for China. In other words, should China's data not be included, the share for the whole region would increase slightly from 12.14 percent to 12.39 percent in 2015 and from 11.13 percent to 11.36 percent in 2016. In view of the relatively small economic size of the five new members of ASEAN, the impact of missing data for these countries is likely also likely limited.

13. The ultimate purpose of drawing of CMIM resources by an ARP member is to support this member's payment for international transactions. The degree of intra-regional concentration for cross-border economic activities may conceptually influence extend by which LCY may be needed in a possible rescue operation for a CMIM member facing BOP difficulties. It may be hypothesized that the higher the intra-regional concentration ratios, the larger the relative size of demand for resources denominated in LCY, and therefore LCY contribution. It should be noted that the potential role of intra-regional concentration ratios for different components of BOP may be different in this context. In a crisis situation, the imperative to finance maturing debts and pay import bills may present a more urgent challenge, and hence the intra-regional concentration ratios for portfolio investment and trade may have bigger weights in gauging the potential LCY demand from ARP. In comparison,

although changes in FDI may also play an important role in keeping the BOP in balance, it is relatively rare that a BOP crisis is directly triggered by abrupt changes in FDI. As a result, we can assign a smaller weight to the intra-regional concentration ratio of FDI in this context.

14. Without further deliberation with respect to specific weights of the intra-regional concentration ratios for the three cross-border economic activities at this stage of the study, we assign subjective weights of 0.5, 0.3 and 0.2 for portfolio investment, trade and FDI respectively. Using the simple average of the three intra-regional concentration ratios in the most recent three years reported in Figure 5.1.2, the weighted average intra-regional concentration ratio for the three main components of BOP is about 30 percent [(0.50)13.5+(0.20)54+(0.30)43=30.45].

15. Based on the discussion above, on the actual usage of LCY in the region, the 10 percent to 15 percent range is a rough estimate for the lower range of the possible size of LCY contribution to the CMIM. In light of the intra-regional concentration ratio for various cross border transactions, we settle at 30 percent as the upper estimate for the relative size of LCY contribution to CMIM. As a result, a tentative gauge at this stage for the relative size of LCY contribution to CMIM falls in the range of 10 percent to 30 percent.

5.2. Eligibility of Currency

5.2.1. Two Scenarios

16. Another issue regarding the modality of local currency contribution to CMIM relates to the eligibility of the currency – that is, how to select currencies for LCY contribution. In principle, there may be two ways to deal with the issue. The first is universal eligibility in which all members' currency can be used for the purpose of LCY contribution to CMIM. In this scenario, the type and amount of the local currency used for contribution to CMIM may be determined by the specific demands arising from a concrete circumstance of a possible crisis that triggers a rescue operation. As indicated by information from the survey data that will be discussed later, it is envisaged that some members' currencies are unlikely to be drawn due to understandable factors such as the relatively small size of the economy issuing the currency, the limited use of the currency in international transactions, etc. In practice, the likelihood for adopting the universal eligibility scenario is slim.

17. The second scenario is one of partial eligibility in which only selected currencies may be used for LCY contribution to CMIM. In this case, a set of criteria should be adopted to select the currencies for the purpose. Since the local currency contributed to CMIM will supposedly be used as a rescuing resource in a crisis-combating environment, the criteria of selection should primarily focus on the relative importance of a given local currency in international transactions and the relative size of the economy that has issued the currency. We first take stock of the general conditions for international currency, especially by looking at IMF's definition on reserve assets and Special Drawing Rights (SDRs). Following that, tentative suggestions on this issue will be discussed through the examination of empirical information related to this question from the survey results.

5.2.2. Criteria for International Currency

18. An international currency is a currency used by the residents of countries that are not the country of issue. Keeping in line with the notion that national currencies fulfil three functions as means of payments, unit of account and store of value, international currencies assume similar functions to facilitate international transactions. In the discipline of central banking, an international currency is largely interchangeable with the reserve currency. The IMF provides a conventional definition on reserve currency and SDRs, a special variant of reserve currencies.

19. According to the Balance of Payment and International Investment Position Manual Sixth Edition (BPM6), "reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting BOP financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)" (IMF, 2009, p.111).

20. Among attributes such as being "under effective control of monetary authorities" etc., the crucial requirement for reserve assets is that it should "be readily available". "A reserve asset must be liquid and denominated in a convertible currency. Liquidity is required so that the asset can be bought, sold for foreign currency (cash) with minimum cost and time, and without unduly affecting the value of the asset—that is there needs to be a liquid and deep market for these assets and no major restrictions impeding such transactions. Convertibility, defined in BPM6 as freely usable for settlements of international transactions, is required so that a reserve currency can be exchanged in the markets for another currency needed for balance of payments purposes, again with minimum cost and time and without substantial adverse exchange rate effect… Currency convertibility in the context of reserve assets means exchangeability of that currency to other currencies (IMF, 2015, p.3).

21. The criteria for currency selection for SDR basket inclusion covers selected quantifiable indicators that also define main conditions for reserve assets and international currencies at large. There are mainly two groups of criteria. One is "the export criterion" that reflects the extent by which those members or monetary unions that issue the currency in question play a role in the global economy through measuring the share of exports of a member or monetary union in total global exports. Another is the criterion of being "freely usable". The main indicators through which the degree of free usage may be observed and measured are listed in Table 5.2.1, which also indicates that the criteria of being "freely usable" largely overlaps that used for defining a reserve currency. Although the aim of defining a reserve currency is not exactly the same as our goal of ascertaining the eligibility of a currency for LCY contribution to CMIM, the definition by IMF could be used to provide guidance in examining the issue of eligibility for our project.

Table 5.2.1. Selected Indicators of Criteria for Freely Usable (FU) Currencies and Reserve Asseta (RA)

FU Indicators	RA Indicators
Widely used: 1. Currency composition of reserves (possible supplementary indicator: number of countries holding a currency in their reserves) 2. Currency denomination of international banking liabilities 3. Currency denomination of international debt securities Widely traded: 4. Volume of transactions in foreign exchange spot markets (supplementary indicator: Bid-Offer spreads)	1. Currency composition of reserves (possible supplementary indicators: (i) number of countries holding a currency in reserve; and (ii) other foreign currency holdings by monetary authorities) 2. Volume of transactions in foreign exchange derivative markets and over the counter derivatives trade 3. Appropriate market-based interest rate instrument 4. Volume of transaction in foreign exchange spot markers (supplementary indicator: Bid-offer spreads)

Source: "Criteria for Broadening the SDR Currency Basket", IMF, 2011, p.23, table 4

5.2.3. Selection Criteria for LCY

22. According to members' views reflected by a survey study conducted recently, four indicators are considered relatively important in selecting currencies for contribution to CMIM. They are the size of GDP, foreign trade, foreign financial transactions and foreign exchange reserves. Among them, the relative size of foreign trade and foreign financial transactions are regarded by responding members as the most important variables in assessing the eligibility of local currencies.

23. Table 5.2.2 reports data from 2016 for all four indicators that are considered important in assessing the eligibility of local currencies for contribution to CMIM. In view of data availability for all individual members, we use the data on "foreign assets excluding reserves" under the Table of International Investment Position representing "foreign financial transactions". In terms of the regional share of the four indicators, China is by far the largest member for three indicators except "foreign assets excluding reserves". Japan holds the first position for the relative share of foreign assets excluding reserves and assumes the second largest share for the three other indicators. The relative size of all indicators for other members are also indicated accordingly.

Table 5.2.2. Share of Selected Economic Indicators for CMIM Members (%, 2016)

	GDP in current U.S. dollars	Trade in goods and services	Reserves (including gold)	Foreign assets (excl. reserves)	Score
Brunei Darussalam	0.1	0.1	--	--	0.1
Cambodia	0.1	0.3	0.1	0.1	0.2
China (Mainland)	54.8	38.4	53.4	17.6	42.9
Hong Kong SAR, China	1.6	11.0	6.7	21.7	9.7
Indonesia	4.6	3.0	2.0	0.9	2.6
Japan	24.2	14.6	21.1	37.2	20.3
Korea, Rep.	6.9	10.3	6.4	4.5	8.0
Lao PDR	0.1	0.1	--	--	0.1
Malaysia	1.5	3.5	1.6	1.5	2.4
Myanmar	0.3	0.3	0.1	0.0	0.2

Philippines	1.5	1.6	1.4	0.4	1.4
Singapore	1.5	8.7	4.2	15.0	7.1
Thailand	2	4.7	3.0	1.1	3.4
Vietnam	1	3.4	--	--	1.6
Total	100	100	100	100	100

Notes: i) -- means that data are not available.
Source: World Development Indicators, WB, 2018.5.21; International Monetary Fund, Coordinated Portfolio Investment Survey, available at http://www.imf.org/external/np/sta/pi/cpis.htm, accessed 16 November 2017

24. We can then design a subjective weight for each of the four indicators simply using the members' information. The total number of members having a ranking of "very important" or "important" for all four indictors is nine, with a weight of 0.44 for "relative size of trade" (4/9=0.45), 0.33 for "relative size of foreign financial transactions" (3/9=0.33), and 0.11 for the remaining two indicators of relative size of GDP and foreign exchange reserves respectively (1/9=0.11). Using the weights, we can give a score for the eligibility of the currency for each member in Table 5.2.2. The interpretation of score is straightforward: the higher the value of the score, the more suitable it is for that member's currency to be selected for LCY contribution to CMIM, given the survey information. China has the highest score of 42.9, followed by Japan with a score of 20.3. Hong Kong, Korea and Singapore are ranked third, fourth and fifth respectively.

25. In terms of whether the currency is useful for drawing, as expected, the Chinese RMB and Japanese yen, the only two regional currencies included in SDR basket, receive the highest ratings. The relatively high rating results for the two currencies is consistent with information regarding the relative importance of the Chinese and the Japanese economies in the region, as indicated in Table 5.2.2. The second group includes the Singapore dollar, Korean won and Thai baht, and the third group comprises the Indonesian rupiah, Malaysian ringgit and Philippine peso.

5.2.4. Tentative Suggestions on Currency Eligibility

26. Based on the above discussion, a tentative "1+2" suggestion can be proposed for the eligibility of currencies for LCY contribution to CMIM. The Type I solution is one where only the Chinese RMB and the Japanese yen are used for contribution to CMIM – in what may be called the narrow range choice of currency eligibility. Type II comprises the wider range of choices that may be further divided into two variants. Under Type II-A, the eligible currencies are the Singapore dollar, Korean won and Thai baht in addition to the Chinese RMB and Japanese yen, while Type II-B extends eligibility the Indonesian rupiah, Malaysian ringgit and Philippine peso as well.

27. A final note is that not all members take a neutral or accommodative stance towards the possibility of their currency being selected as LCY for contribution to CMIM. Some members may think that the implication of their currencies being selected in this context may be at odds with the existing law or regulation regarding the internationalization of their respective currencies. In particular, for Malaysia, according to Malaysia's prevailing Foreign Exchange Administration rules, the ringgit remains a non-internationalized currency and thus,

the offshore usage of ringgit is against Malaysian policy. In Indonesia, meanwhile, the non-internationalized policy of IDR is indicated in BI regulation, and in the HKMA cannot create any HKD under the Linked Exchange Rate System adopted by Hong Kong. In the case of Vietnam, according to domestic regulations, currencies of neighboring countries are only allowed for transactions at border areas, and foreign banks that don't have a presence in Vietnam are prohibited from opening accounts in Vietnamese dong.

28. Should these currencies be selected as part of LCY for contribution to CMIM, it may be necessary to modify some members' existing regulatory policies in this regard to make them compatible with the newly designed function.

5.3. Modes of LCY Contribution

29. After examining the possible size and eligibility of currency for LCY contribution, we need to discuss selected issues with regard to the modes of LCY contribution.

5.3.1. "Voluntary" versus "Mandatory" Approach

30. The first is to consider whether contribution is to be "voluntary" or "mandatory". The voluntary approach means that LCY contribution may be based on bilateral consultations between the ARP and the APP, and therefore, may be implemented in a more flexible manner. In comparison, the mandatory approach implies that the newly established rule will be applied systematically if LCY contribution is accepted.

31. It is understood that LCY contribution to CMIM can only be activated in a situation in which the ARP requests or accepts LCY given the structural demand for resources in LCY resulting from the specific difficulties in its external payments. Because LCY contribution is pre-conditioned upon actual demand for local currency from the ARP, LCY contribution to CMIM should be voluntary in nature rather than mandatory.

32. The IMF bailout package for Mongolia's BOP difficulties in 2017 may be helpful in illustrating this point. Since China has been the largest export country[3] and a major investing country i Mongolia[4], having access to extra resources in RMB is indeed helpful for Mongolia to combat the external crisis. Giving the circumstances, China participated in the IMF-led

3 Over the three-year period from 2015 to 2017, Mongolia's total imports and exports in goods and services with China represented about 61.6 percent of its total trade. Source: "International trade in goods and service", United Nations Conference on Trade and Development, UNCTAD, available at: http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en.

4 According to the data set on IIP of IMF, as of the end of 2016, total portfolio investment and direct investment in Mongolia from China was USD4.4 billion, accounting for 22 percent of the total inflow of portfolio investment and direct investment into the country under the liability of IIP table. In the IIP data base of the IMF, both total assets and total liabilities are divided into four components of "direct investment", "portfolio investment", "financial derivatives" and "other investment" (SDR, debt instruments, etc), of which the bilateral data with other individual countries are only available for direct investment and portfolio investment. These two items accounted for 59 percent of Mongolia's total liability under IIP as of the end of 2016. Source: "Reported Portfolio Investment Liabilities by Economy of Nonresident Holder", International Investment Position (IIP), Macroeconomic & Financial data. IMF, available at: http://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363&sId=1481568994271.

bailout package by contributing RMB15 billion through a 3-year bilateral swap arrangement[5] (IMF, 2017).

5.3.2. "Linked Portion" versus "De-linked Portion"

33. Another question that should be considered in this context is whether LCY can only be used for the "de-linked portion" of the CMIM resources or may apply to both the "de-linked portion" as well as the "linked portion". According to the current rule, the potential use of resources under the CMIM arrangement is divided into two parts in terms of way utilizing them in an envisaged crisis situation. Thirty percent of the total resources may be utilized independently (the so called "de-linked portion") while the part over 30 percent has to be used through linking to an IMF-coordinated rescue program ("linked portion").

34. We think that LCY contribution is not necessarily at odds with a possible bailout program coordinated by the IMF. The above-mentioned IMF-led bailout program for Mongolia with Chinese contribution of RMB15 billion highlights the possibility for an IMF-led rescue package to be participated in by a member of the IMF through contributing LCY. This also implies compatibility between LCY contribution to the CMIM and the potential "linked portion" rescue program coordinated by the IMF for a member of the CMIM. It is therefore our tentative suggestion that LCY contribution may apply to both the "de-linked portion" as well as the "linked portion" of CMIM arrangement resources.

5.3.3. Issue of Exchange Rate

35. Under the existing system in which the USD is the only denominated currency for resource contribution, the exchange rate defining the ratio of a unit of USD contributed by the APP for the amount of LCY provided by the ARP in a currency swap transaction is determined by the market exchange rates of each member's currency vis-à-vis USD. In case of LCY contribution, we may need to define and use exchange rates converting the currency of the APP member that can be contributed to the CMIM with the ARP member's currency to make a swap among local currencies possible practically.

36. If the direct exchange rates based on market transactions for pairs of member currencies are not available, it may be necessary to design an approach to determine the quantitative ratio converting the two currencies for currency swap transactions. A natural choice in this context may be to adapt the market exchange rate of each member's currency with USD as the benchmark exchange rate, on which the cross rate for pairs of members' local currencies may be indirectly determined.

5 The Executive Board of the International Monetary Fund approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Mongolia in a total amount of SDR314.5 million (about USD434.3 million, or 435 percent of quota) to support the country's economic reform program. Other financing partners, including the Asian Development Bank, the World Bank, Japan and Korea, have also committed to provide budgetary and project support, and China has agreed to extend its swap line with the Bank of Mongolia. In sum, the total financing package amounts to about USD5.5 billion. The Board's approval of the arrangement enables the immediate disbursement of an amount equivalent to SDR27.956 million (about USD38.6 million) (IMF, 2017).

5.3.4. Issue of Interest Rate

37. It is understood that under the current CMIM system the interest rates charged on the ARP for using CMIM resources in USD may be determined by internationally representative rates such as LIBOR or SDR interest rate plus a margin. In case of LCY contribution, if the LCY resources of a member as APP have been contributed in a bailout operation, the interest rate that prevails in this member's domestic interbank market may be used in this context.

38. As an example, if the resources in Chinese RMB or Japanese yen are contributed in a rescue operation of CMIM, the SHIBOR (Shanghai Interbank Offered Rate) or TIBOR (Tokyo Interbank Offered Rate) interest rates may be adopted in consideration of the interest rate charged in this context. Should other members' currencies such as the Korean won, Singapore dollar, Indonesian rupiah or Malaysian ringgit be selected as eligible currencies in line with the wider range scenario proposed LCY eligibility in Section 2, the market information with regard to KORIBOR (The Korea Interbank Offered Rates), SIBOR (Singapore Interbank offered rate), JIBOR *(*Jakarta Interbank Offered Rate) or KLIBOR (Kuala Lumpur Interbank Offered Rate) may be also utilized in a similar manner*.*

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