"Enhancing collaboration among world’s crisis funds to fight financial crises" (op-ed in The Business Times)

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The Latin American debt crisis in the 80s, the Asian financial crisis 20 years ago, the euro crisis earlier this decade: they led to reforms and policy adjustments, and resulted in the creation of regional crisis funds. Today in Singapore, the first-ever research seminar of these regional institutions contributing to fighting financial crises around the world will take place.

While the International Monetary Fund (IMF), at the center of the international monetary system, is without a doubt the best-known firefighter to help governments that are in trouble during a crisis, it is no longer the only one. Today, a large part of the world is also covered by so-called Regional Financing Arrangements to mobilize additional financial resources for the countries facing temporary liquidity problems during a crisis. There are eight such backstops across the world, and they are all lenders for governments.

One such arrangement is the Chiang Mai Initiative Multilateralisation (CMIM), the agreement that evolved from a system of currency swaps among economies in East Asia after the 1997 Asian financial crisis. Its surveillance arm, the ASEAN+3 Macroeconomic Research Office, or AMRO, is based in Singapore.

RFAs are probably the least known among the tools the world has at its disposal to tackle a financial crisis, but they are taking on an increasingly important role. Yet it is now a common understanding that they are a robust layer of protection within the so-called Global Financial Safety Net (GFSN), whose other components are national foreign exchange reserves, bilateral swap lines between central banks, and, last but not least, the IMF.

Cooperation between RFAs – and between RFAs and the IMF – is crucial to limit the worst effects of any next crisis. The G20 has urged such cooperation at several Summits, including in its most recent statement. To that end, the first High-Level Dialogue on the role of RFAs was held last year in Washington, DC. There, participants agreed to hold a Joint RFAs Research Seminar on an annual basis. Today’s event in Singapore, which is jointly organised by AMRO, the European Stability Mechanism (ESM), and the Fondo Latinoamericano de Reservas (FLAR), is the first in that series.

RFAs were typically set up in response to different types of crises, ranging from a currency crisis to a sovereign debt crisis, to bank runs. This explains the wide variety in history, size, operating methods and experience of the world’s RFAs. The ESM, for instance, has the biggest firepower, with a total lending capacity of €700 billion. In the ASEAN +3 region, the CMIM has been developed with the size of USD240 billion in addition to more than USD160 billion equivalent of bilateral swap arrangements among the members, whose roots dated back in 2000s, just after the Asian Financial Crisis. FLAR is older still, and has provided the most programmes during its 38-year history: 50 in total, to almost each of its member states. With the ESM, it is among the few RFAs that can directly access financial markets to raise funding.

Some RFAs are in the early stages of development, and need to enhance their surveillance and crisis resolution capacity. One way to increase their contribution to global financial governance is by enhancing collaboration between the IMF and RFAs and among RFAs themselves. One goal of the conference today is for RFAs simply to learn - from each other and from academics – about crisis prevention and resolution. One topic of discussion will be economic surveillance with the focus on Early Warning Systems to detect sovereign vulnerabilities at a stage that allows to take preventive action. Secondly, RFAs will jointly seek to draw lessons from past crises, to better understand contagion and spill-over effects. Finally, cooperation is crucial to avoid moral hazard risks when providing support during a crisis. This is particularly the case when more than one institution is present, to prevent countries from shopping for the best conditions.

In all these cases, RFAs can learn from the IMF, the institution at the centre of the international monetary system. With its long history, global representation, established surveillance and monitoring capacities, there is no doubt that the IMF can provide valuable insights and it already has different degrees of formal cooperation with RFAs.

Nevertheless, this learning process is a two-way street. The IMF can also learn from RFAs, which are often better versed in regional specificities. They can, for instance, be more flexible in their lending terms and provide tools to address specific regional problems. RFAs can often also make much larger sums available than the IMF.

The IMF is currently designing a new tool to address some of these issues, which would allow it to enter a fully-fledged programme without making any IMF financial resources available. The goal would be for the IMF to act as a catalyst to facilitate financing by RFAs by providing a programme without a financial commitment.

In our modern societies, financial crises are inevitable. There is no doubt that they will hit from time to time, it is just hard to predict when and where. Financial crises are sudden, and can unexpectedly spread from country to country at high speed, for reasons that are not always well understood. Given this fundamental uncertainty, it is all the more important that the defence mechanisms the world has available are in optimal shape and that the various actors understand each other and cooperate well.

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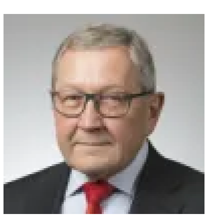

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