

RFAs will be an important pillar of global monetary and financial system stability

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Articles and Op-eds

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"Regional Financing Arrangements will be an important pillar of global monetary and financial system stability"

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Regional Financing Arrangements (RFAs) will be an important pillar for the stability of the global monetary and financial system in the future. From a European perspective, RFAs are indispensable for a better crisis response; both in terms of their instruments and their scale of financing. It would have been impossible to solve European crises only with the resources of the International Monetary Fund (IMF). Today, the IMF forms together with the seven regional RFAs – such as the European Stability Mechanism (ESM) – the multilateral backbone of the Global Financial Safety Net (GFSN).

First, RFAs have the financial instruments geared to the needs of the region. We drew inspiration from the IMF's experience to shape our own instruments. But our lending conditions differ from those of the IMF, and we have different tools to address problems in the banking sector. The seven RFAs have their own "toolbox",

which complement the IMF's capacity. There is a great deal of complementarity and opportunities to cooperate between RFAs, both with each other and with the IMF.

Second, we have shown that our "toolbox" is adaptable to each crisis. Take, for example our responses to the euro crisis and the pandemic. In the wake of COVID, Europe created new financing instruments, such as the ESM's Pandemic Crisis Support. The European Commission launched Next Generation EU, which supports the digital and green transition. The task now is to ensure that we can develop them further and find institutional arrangements that address Europe future challenges in the long term. Other RFAs around the globe also took steps to support their members, reviewing their tools and policies to enhance their readiness.

Third, we must work together globally. Over the past decade, the ESM has cultivated and nurtured an open and candid dialogue with its global and regional peers to share knowledge and to strengthen inter-institutional ties. Last May, we hosted the annual RFA research seminar, and there is an ongoing exchange of experiences and analyses with the IMF and other RFAs. This is essential for us to better meet the challenges ahead of us.

These three characteristics suggest that the IMF and RFAs are the institutional backing through which global financial stability can be preserved.

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