FSN: How Can Regional and Multilateral Coexist

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Crisis experience over the last 15 years clearly shows that Modern international finance is volatile and crisis prone.

It is crucial to have quick access to large amount of cash in order to stave off crisis (in the case of Global FSN: to discourage emerging market nations from hoarding foreign reserves)

Five elements of FSN:
- Regulation and Supervision
- Lender of Last Resort
- Bank / FI insolvent Resolution law
- Deposit Insurance Scheme
- Institutionalized decision making: Cooperation resolution schemes
Regional Stabilization Mechanism (fund) or (FSN)

- Available Mechanism (fund/FSN)
  - European financial Assistance Mechanism
  - Arab Monetary Fund
  - Chiang Mai Initiative Multi-lateralization CMI – CMIM (ASEAN +3)
  - North American Framework Agreement, NAFA
  - FLAR

- Element of fund / FSN
  - Power / Size of fund
  - Surveillance and monitoring
  - Speed of decision making
  - Certainty : voting formula and CMP
  - Linkage with IMF
## Regional Stabilization Mechanism

<table>
<thead>
<tr>
<th></th>
<th>Financing Adequacy</th>
<th>Surveillanc e capacity</th>
<th>Speed</th>
<th>Legitimacy</th>
<th>Ability to work with IMF</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFAM</td>
<td>Big</td>
<td>ECOFIN</td>
<td>Fast</td>
<td>Yes</td>
<td>Co financing</td>
</tr>
<tr>
<td>CMI/M *)</td>
<td>120 B with potential increase</td>
<td>AMRO but not yet function</td>
<td>Never been utilized</td>
<td>Yes, with decision making process</td>
<td>Yes, but politically sensitive</td>
</tr>
<tr>
<td>NAFA</td>
<td>3 BSA : 9 B</td>
<td>3 MOF</td>
<td>Fast, only BSA</td>
<td>Regular ad hoc consultation</td>
<td>No formal link</td>
</tr>
<tr>
<td>AMF</td>
<td>3 B</td>
<td>AMF division</td>
<td>Limited</td>
<td>Yes</td>
<td>No provision</td>
</tr>
<tr>
<td>FLAR</td>
<td>2 B paid up capital w ability to borrow</td>
<td>Economic study division</td>
<td>fast</td>
<td>yes</td>
<td>No Formal link</td>
</tr>
</tbody>
</table>

*) Fundamental issue: Review of size, contributions, borrowing multiplier, terms of lending, etc => decided by consensus of ASEAN+3, meanwhile, lending, renewal, default => by majority vote
IMF

- **Schemes/Facilities:**
  - Contingent Credit Line, CCL
  - Short Term Liquidity facility, SLF/RAL
  - Flexible Credit Line, FCL
  - Precautionary Credit Line, PCL

- **(Un) Success story**
  - Asian Crisis : Stigma
  - Eastern Europe Crisis
  - Euro (Greek) Crisis, Initially reluctance to ask IMF help but end up with co financing with Euro
  - FCL reassure the markets: Mexico, Poland, Columbia (credit line of 40B, 20B, 3.4B) even without withdrawn
Asian experience

- CMI === > CMIM = Has not operated
  - Thailand, Indonesia, Malaysia, Korea, ..
  - Thai, Indonesia and Korea enter IMF program
- Global crisis 2008
  - Indonesia, Korea, Singapore
  - Despite Flexible credit line (FCL) introduced in March 2009, it is political suicide if Korea has to go to another IMF program
  - Korea and Singapore entered swap agreement with Fed
  - Indonesia applied BSA but rejected by Fed, but end up BSA with Japan and China
  - Indonesia establish Contingency Budget financing (Deferred Drawdown Facility- DDF) 5.5B from WB, ADB, Japan and Australia
- CMI (too small with condition) vs BSA (Fed Discriminatory) vs IMF (stigma issue)
- BOP (short term debt) vs Budget Refinancing
- The role of Multilateral Development Bank, MDB (WB and ADB) on DDF Indonesia
CMIM mechanism needs refinement

- Ability to support fast and effective decision making:
  - Surveillance: more open and transparent
  - Avoid the reluctance to discuss weak policies of regional neighbors (avoid ASEAN way)
  - Implementing and monitoring mechanism
  - Making AMRO well staffing and well funded

- Increase power and size
  - Fund can be supplemented from countries in the group (similar to IMF in 97/98 crisis)
  - Swap facility with CMIM (faster and flexible)

- Refine contribution subject to “fiscal, monetary, regulatory” risk profile (similar to CAR for banks)
- More flexible and no/less conditionality with IMF
- Fund could be possible to other countries (euro help eastern euro)
Why Coexist beneficial

- International harmonization and coordination to prevent crisis (systemic and cross-border crisis)
- Political reason: Regional and Multilateral development banks face less stigma than IMF
- Complementarities in Surveillance and Decision making
  - IMF: Global surveillance with strong skill
  - Regional: more deep and detail info and surveillance. Regional can tap skill from IMF
  - Regional surveillance should supplement the IMF surveillance
  - Let regional handle political sensitive decision making?
- Bigger Fund (Size/Power) additional supplement fund from IMF but with more effective response to systemic financial crisis
- Reduce cost of self insurance, i.e. accumulation of low yields reserve asset, especially in Asia
What can we do for further improvement?

- Improve the regional FSN mechanism and make it work more effectively.
- Improve harmonization of regulation across countries within the region:
  - Prevent regulatory arbitrage.
  - Avoid gap in insurance coverage across borders (especially at the peak of crisis).
  - Standardized liquidation of international financial institution.
- Utilize MDB (to be a partner):
  - Long run sustainability interest (vs. IMF short run focus).
  - Financing (counter cyclical) with project and policy based.
  - Support the overall public expenditure framework (fiscal adjustment), help design social protection programs.
  - Pursue growth enhancing reforms.
✓ Extend liquidity provision to adjustment and debt restructuring resolution (regional FSN could supplement IMF)
  ✓ Diagnose: solvency vs liquidity
  ✓ Action: continue lending (good equilibrium) vs. Stop lending and panic withdraw (bad equilibrium)
  ✓ Sovereign Debt Restructuring Mechanism
  ✓ Orderly default and hair cut
  ✓ International legal reform (harmonization)

✓ Caveat: all facilities should not create moral hazard
✓ Clear responsibility of each FSN national, regional, multilateral, and well define linkage among them
# FSN Linkage

<table>
<thead>
<tr>
<th>National</th>
<th>Regional</th>
<th>Multilateral IMF + MDB</th>
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<tbody>
<tr>
<td>• Regulation and supervision</td>
<td>• Harmonize: prudential conditionality</td>
<td>• Harmonize</td>
</tr>
<tr>
<td>• LOLR</td>
<td>• Yes</td>
<td>• Yes (Co Financing)</td>
</tr>
<tr>
<td>• Resolution and insolvent law</td>
<td>• Harmonize: Adjustment conditionality</td>
<td>• Harmonize</td>
</tr>
<tr>
<td>• Insurance deposit</td>
<td>• Harmonize</td>
<td>• Harmonize</td>
</tr>
<tr>
<td>• Institutionalized decision making: Cooperation resolution scheme (CMP across department)</td>
<td>• Regional linkage</td>
<td>• Global linkage</td>
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