Financial Safety Nets: complementarities between regional and global FSN

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Regional financial safety nets are rare

Regional FSN are not widespread
Regional FSN are relatively recent (e.g. EFSM, CMIM)

So far, debate has focused on FSN & self-insurance...now this focus is shifting. Issues:

What are the specificities of a regional financial safety net? (club)
When are regional safety nets an alternative? (cost / benefits)
What could be the optimal design? (pre-requisites)

Can the positive effects be exploited further?
→ Availability/accessibility

What is the role of regional FSNs in the global architecture?
→ As confidence-builders
Overview of European attempts at designing a regional FSN

First line of defence:

stability-oriented macroeconomic and financial policies / crisis-prevention instruments

Second line of defence:

-1- Balance of Payments assistance
-2- European Financial Stability Framework/Mechanism
-3- Implementation issues at regional level
-4- towards a more permanent crisis resolution mechanism?
Is a European Monetary Fund what Europe needs?

- Pros and cons of establishing an EMF
  → including penalties
  → conditionality
  → enforcement
  → confidence-building

- Key questions:
  → would it help to push through more stringent adjustment? (question of independence)
  → what would make an EMF the optimal set-up for Europe? (question of political leverage)
Pre-requisites for the articulation between the regional and global level...

- Common goal is to provide sufficient additional liquidity when needed → complement existing international financial arrangements

- Governing mechanisms need to be in place in the region → implement and enforce

- Surveillance function is crucial → analyse, monitor, recommend, apply preventive / corrective measures

→ Advantages of the regional level: e.g. draw on local expertise and governance/working methods, strengthen peer pressure and facilitate mutual surveillance.

→ Coordination and cooperation between the regional and global level may be difficult, but is achievable
...and for the cooperation between regional and global to be beneficial

- Joint programmes
- Equal footing in negotiating the programmes
- Analysis and communication need to be aligned
- Swift turnaround time is a must
- Conditionality: consistent with existing regional policy framework

→ Ensure effective assistance
→ Build a credible and robust mechanism
In practice, global-regional relationship needs to be reinforced

- Reserve accumulation: can global FSN ultimately substitute the regional level

- Moral hazard: more complex, make use of existing instruments from the regional framework, for more leverage (e.g. conditionality)

- Stigma: reputation-building, requires strong regional policies (need to strengthen macro-financial surveillance at regional level)

- Market behaviour: confidence-building, EBCI – make use of the particularly high stakes for the private sector in a regional setting

G20 achievements so far; next step is to focus on relations between global and regional financing arrangements
Complementarities between regional and global FSNs

Global Safety Net: many open issues
→ IMF’s evolving tools: recent IMF agreement on FCL and PCL: further attempts at fixing the system
→ How to mitigate moral hazard?
→ Financial implications of a more comprehensive global FSN?
→ Need to strengthen macro-financial surveillance at global level (esp. interlinkages and possible spillovers between regions, capital flows)
→ Principle of subsidiarity needs to remain a key feature of International monetary system