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# **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



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# 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?



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# 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)



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# 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



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## **...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
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- Ensure effective assistance
  - Build a credible and robust mechanism



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## 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



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## 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

