REGIONAL FINANCIAL ARRANGEMENTS AND IMF COORDINATION: AN ASIAN PERSPECTIVE

Aizong Xiong and Haihong Gao[1],[2]

COVID-19 pandemic has caused heavy blows to the global economy and financial stability. There is an urgent need to further strengthen global financial safety nets, with a view to alleviating the insufficient international liquidity caused by the pressure from balance of payments and financial market turbulences in many countries (especially emerging markets and developing countries). After the outbreak of the pandemic, the IMF has provided large sums of financial support through existing and new lending facilities and debt relief to its member states. The RFAs have also vigorously assisted their member states affected by the shock of the pandemic. This brief policy review begins with evaluation of some of the policy responses from the IMF and RFAs during the pandemic. On this basis, it provides suggestions for further cooperation between the IMF and RFAs from the Asian perspective.

RESPONSES FROM THE IMF AND RFAS UPON THE OUTBREAK OF THE COVID-19 PANDEMIC

THE IMF’S PANDEMIC RESPONSE

Emergency financing: In early March 2020, Kristalina Georgieva, Managing Director of the IMF, announced that the IMF would offer US $50 billion to low-income and emerging market countries, which might receive support through the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). As the pandemic spread all over the world, in early April, the IMF decided to raise the annual access limits from 50 percent to 100 percent of the member states’ quota for the RCF and RFI, and raised the Emergency Financing Toolkit from US $50 billion to US $100 billion.

Adjusting existing lending arrangements: Since late March 2020, considerations have been given to both new lending arrangements and existing lending arrangements of the IMF, with a view to satisfying the member states’ need to cope with the shock of the pandemic.

New financing instruments: On April 15th, the IMF Executive Board approved the establishment of the Short-Term Liquidity Line (SLL) to further strengthen the global financial safety nets. The SLL is for countries with very strong policies and fundamentals and it can provide a member state with up to 145 percent of its quota. The SLL is a prevention tool to minimize the risk of shocks evolving into deeper crises and spilling over to other countries.

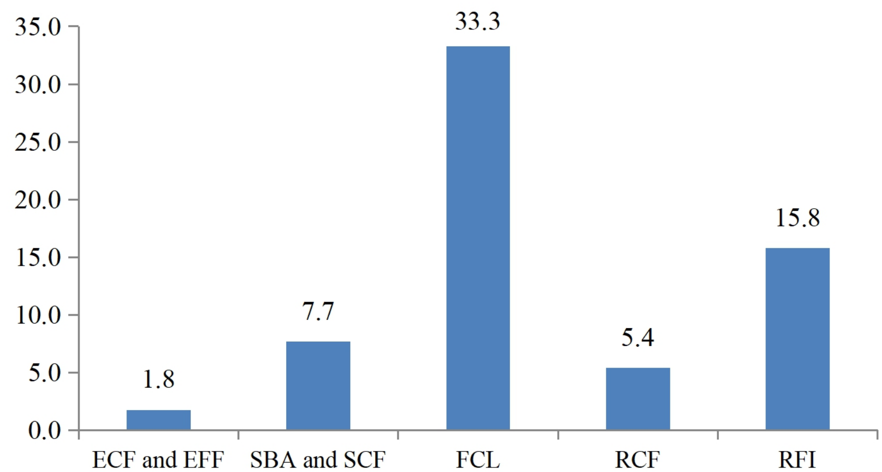
Debt relief: The IMF, through the Catastrophe Containment and Relief Trust (CCRT), has provided eligible countries with upfront grants to reduce their maturing debts owed to the IMF and free up resources to help these countries respond to the pandemic.

---

[1] Institute of World Economics and Politics, Chinese Academy of Social Sciences.
[2] The authors would like to thank the insightful comments of Randall Henning, William Kring, Kevin Gallagher and other attendees at Workshop of “Reforming the Global Financial Safety Net: Financial Instability, Global Pandemics, Climate Change, and Sustainable Development” on October 19-20, 2020.

By the end of August 2020, the IMF had provided 101 loan arrangements to 80 countries with a total amount of SDR 63.89 billion, in which emergency financing accounted for 57.8 percent, coupled with a total of SDR 1.83 billion to 28 countries for debt relief.

Figure 1: The IMF's Lending Arrangements to Member States for Responses to COVID-19 (SDR Billion)



Source: IMF, 2020.

RFAS' PANDEMIC RESPONSE

Europe: On May 15, 2020, the Board of Governors of the European Stability Mechanism (ESM) approved the establishment of Pandemic Crisis Support in response to the shock of the pandemic. Under this instrument, the ESM could provide a total of EUR240 billion in loan support to member states, with a view to meeting their direct and indirect health financing needs and to address and prevent liquidity shortages caused by the COVID-19 crisis.

Asia: To further strengthen the prominent role of the CMIM in the East Asian regional financial safety net, East Asian countries have amended the CMIM Agreement and its Operational Guidelines. Such amendment enhanced the flexibility on supporting periods of the CMIM IMF linked portion, and strengthened the coordination mechanism with the IMF.

Middle East: The Arab Monetary Fund (AMF) has provided loan support to Sudan, Jordan, Morocco, Tunisia, and other members through existing or new lending facilities.

Latin America: On May 25, the Board of Directors of the Latin American Reserve Fund (FLAR) approved a debt program leveraging its credit resources up to a total of US $6.8 billion, which represents a 60 percent increase from before the decision. Meanwhile, the FLAR Board of Directors approved the creation of an exceptional credit line to help member states better cope with COVID-19-inflicted problems related to balance of payments through flexible and timely disbursements.

COMPARISON OF RESPONSES MADE BY THE IMF AND THE RFAS

Firstly, in the wake of the pandemic outbreak, only the AMF provided assistances to its member states, despite a series of countermeasures taken by the RFAs. In contrast, countries are still more likely to turn to the IMF for loans—and less likely to seek assistance from the RFAs.

Secondly, overall, countries have received far more loans from the IMF than they could possibly get from the RFAs (Table 1). For example, Jordan received 21.8 times more loans from the IMF than from the AMF. Egypt obtained 12.8 times more loans from the IMF than the AMF. Loans received by some countries from the IMF far exceeded the maximum amount they could receive from the RFAs. Colombia and Peru, for example, have respectively received 8.7 times and 8.8 times more loans from the IMF's Flexible Credit Line (FCL) than from the FLAR. The rapid credit resources, which Kyrgyzstan and Tajikistan have access to from the IMF, are nearly equal to or exceed the maximum credit line available to them from the Eurasian Fund for Stabilization and Development (EFSD).

Thirdly, with the exception of a few lending arrangements, most of the loans, which countries have received from the IMF, are emergency financing mechanisms, which can meet the needs of member states faster. By contrast, it may take a longer time for them to apply for loans from the RFAs—which may be one of the reasons why most countries are reluctant to apply for assistance from the RFAs.

The major regional financial arrangements include the Arab Monetary Fund (AMF), the BRICS' Contingent Reserve Arrangement (CRA), the Chiang Mai Initiative Multilateralization (CMIM), the Eurasian Fund for Stabilization and Development (EFSD), the Latin American Reserve Fund (FLAR), as well as RFAs in the European Union such as the Balance of Payments (BoP) Assistance Facility, European Financial Stabilization Mechanism (EFSM), European Financial Stability Facility (EFSF), and European Stability Mechanism (ESM). The countries we selected are developing countries which borrowed from the IMF and are also members of RFAs.

Table 1: Selected Developing Countries Drawings from the IMF and Maximus Access Limits from the RFAs (SDR Million) (as of the end of August 2020)

Country	Actual Drawings from the IMF	Maximus Access Limits from the RFAs
Asia		CMIM
Myanmar	258.4	424.4
Middle East		AMF
Djibouti	31.8	1.8
Egypt	5,800.7	346.5
Jordan	1,217.9	58.5
Mauritania	115.9	54.2
Somalia	292.4	29.4
Tunisia	545.2	75.8
Central Asia		EFSD
Armenia	128.8	856.5
Kyrgyz	177.6	197.7
Tajikistan	139.2	131.8
Sub-Saharan Africa		BRICS CRA

South African	3,051.2	7,072.65
Latin American		FLAR
Bolivia	240.1	470.8
Colombia	7,849	907.1
Costa Rica	369.4	907.1
Ecuador	469.7	470.8
Paraguay	201.4	452.6
Peru	8,007	907.1

Notes: 1USD = 0.707265 SDR; 1AAD=3SDR.
Sources: IMF, ARMO, AMF, EFSD, FLAR, 2020.

CHALLENGES FACING RFAS – THE CMIM CASE

FACTORS DRIVING HOW A COUNTRY CHOOSES AMONG DIFFERENT LAYERS OF GLOBAL FINANCIAL SAFETY NETS (GFSNS)

Confronted with the shock of the pandemic, the RFAs failed to play their designated roles. Myanmar became the first CMIM member state to apply for assistance from the IMF, receiving emergency financing support of US $365 million on June 26th, 2020. Although Indonesia did not apply for a loan from the IMF, it needed a US $60 billion repurchase facility with the New York Federal Reserve to help deal with a dollar shortage caused by the pandemic outbreak—but it did not apply to the CMIM for help. Why didn't Myanmar and Indonesia seek help from the CMIM? The possible reasons include the following:

Firstly, the size of available financial resources from the CMIM is relatively small. The maximum amount of loans available to Myanmar from the CMIM was US $600 million, of which the IMF-delinked portion was only US $240 million. The Government of Myanmar initially wanted to apply for US $700 million from the IMF, which exceeded the maximum amount the CMIM could provide to Myanmar. The maximum loan Indonesia could obtain from the CMIM was US $22.76 billion, which was higher than its loan from the IMF (100 percent Quota), but was far lower than its repurchase facility from the US Federal Reserve.

Table 2: Comparison for the Resources Obtained from the Different Layers of the GFSNs (USD Million)

Country	CMIM		IMF (100% Quota)	Repurchase facility with the US Federal Reserve
	Maximum Arrangement Amount	IMF-De-linked Portion (40%)		
Indonesia[3]	22,760	9,104	6,572.4	60,000
Myanmar	600	240	730.7	-

Note: 1USD = 0.707265 SDR.
Sources: AMRO, IMF, Bank Indonesia, 2020.

[3] Indonesia has also executed bilateral currency swap agreements with China, Japan, South Korea and Singapore.

Secondly, the response from the CMIM was relatively sluggish. In early April 2020, the Government of Myanmar began planning to seek emergency financing support from multilateral mechanisms such as the IMF. At the spring meeting of the IMF and ASEAN Central Bank Governors and Finance Ministers on April 24, the Governor of the Central Bank of Myanmar said that the bank was preparing to request loan schemes of RCF and RFI from the IMF. The proposal to apply to the IMF for loans was approved by the Myanmar Parliament on May 26th. Since then, the IMF team has held discussions with Myanmar's authorities. On June 16th, the Union Minister of Planning, Finance and Industry, and Governor of the Central Bank of Myanmar presented the Letter of Intent to the Managing Director of the IMF. On June 26th, the Executive Board of the IMF approved the loans to Myanmar. If calculated from the time when the loan application was approved by the Myanmar Parliament, it took the IMF one month to complete its lending to Myanmar.

Table 3: Timeline for the IMF's Lending to Myanmar

Myanmar Timeline	April 24, 2020	Governor of the Central Bank of Myanmar (CBM) U Kyaw Kyaw Maung said the CBM is preparing applications for RCF and RFI of the IMF.
	May 26, 2020	Myanmar Union Parliament approved a proposal to obtain USD700 million in loans from the IMF.
IMF Timeline	May 27–June 1, 2020	IMF team held discussions with Myanmar authorities by teleconference.
	June 12, 2020	Myanmar submitted the Letter of Intent for the loan to IMF.
	June 16, 2020	The Staff Report for the Executive Board's consideration was completed.
	June 26, 2020	IMF Executive Board approved a disbursement of USD356.5 million to Myanmar.

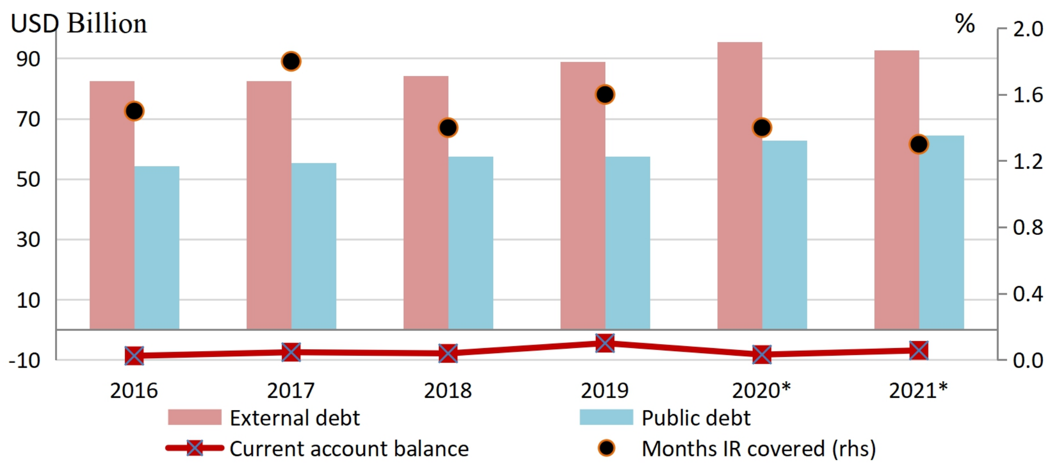
Sources: IMF, 2020.

TREMENDOUS LIQUIDITY ASSISTANCE DEMANDS FROM ASEAN IN THE POST-PANDEMIC ERA

ASEAN economies are still exposed to pressures from balance of payments, and it is still possible for the CMIM to be activated. From the perspective of the changes in international reserves, most ASEAN countries were under great pressure from February to April 2020. But such pressures began to ease in most countries since then, except for Laos and Brunei, which failed to turn the tide. Of these, Brunei is highly dependent on oil and natural gas, and its economic and financial vulnerability will be subject to the impact of the international energy market. Low oil prices will have spillover effects on Brunei's external balances and the robustness of its domestic banking sector (AMRO, 2020d). The situation in Laos is worse. According to AMRO estimates, Laos' fiscal revenues have fallen sharply, while its public debt is estimated to rise from 57.5 percent of its GDP in 2019 to 62.4 percent in 2020 and further up to 64.4 percent in 2021. Due to slumping exports, tourism revenues, and remittances, Laos' current account deficit rose from 4.5 percent of its GDP in 2019 to 8.3 percent in 2020 and is expected to reach up to 6.9 percent in 2021. Laos' total official reserves have also significantly fallen, estimated to decline to US $917 million in 2020, covering only 1.4 months of imports of goods and services. Laos' total external debt has risen from 88.9 percent of its GDP in 2019 to 95.6 percent in 2020 (Figure 2). According to an estimation by the World Bank, Laos' external debt servicing burden (interest and principal) is expected to exceed US $1.2 billion in 2020 (World Bank, 2020).

Will Laos and Brunei turn to the CMIM for help when they are confronted with liquidity pressures? If Laos and Brunei seek help from the IMF emergency financing mechanism, they can get SDR 105.8 million and SDR 301.3 million respectively (100 percent quota). If they seek help from the CMIM, they can get a maximum loan of US $300 million, and the IMF- delinked portion is US $120 million (Table 4). If the CMIM's slow decision-making process is taken into account, Laos and Brunei may still regard the IMF as the first choice.

Figure 2: Laos' BoP and Public Debt



Source: AMRO, 2020c.

Table 4: Comparison of Resources Obtained from the CMIM and IMF (USD Million)

Country	CMIM		IMF
	Maximum Arrangement Amount	IMF-Delinked Portion (40%)	Quota (100%)
Brunei	300	120	426.0
Lao PDR	300	120	149.6

Note: 1USD = 0.707265 SDR.
Sources: AMRO, IMF, 2020.

SUGGESTIONS ON THE REFORM OF THE RFAS AND COOPERATION WITH THE IMF—FROM THE PERSPECTIVE OF THE CMIM

IMPROVEMENT OF THE CMIM LENDING TOOLKITS

Currently, RFI and RCF loans, offered by the IMF to ASEAN+3, amount to US $36.97 billion. In case of emergency needs, the IMF's help is likely to become their first choice. In comparison, the CMIM emergency lending facilities are still missing. In order to strengthen lending adaptability and efficiency of the CMIM, we recommend that the CMIM should set up an emergency financing mechanism under the CMIM IMF de-linked portion. This instrument mainly targets short-term or temporary liquidity shortages in member economies when they are hit by external shocks. References can be given to RFI and the RCF of the IMF and the Short-term Liquidity Facility of the AMF.

INSTITUTIONAL INTEGRATION OF AMRO AND CMIM

Currently, the AMRO and CMIM remain institutionally separate. Without CMIM institutional linkage, it is difficult for AMRO to enhance its surveillance up to the level of policy advice. There are different levels of surveillance from basic data exchange, peer pressure, and due diligence to policy advice. In the absence of the CMIM lending policy, the AMRO's policy advice can only remain a research outcome. We recommend that the decision-making body of the CMIM and AMRO be integrated. This would require a change in both the CMIM and AMRO agreements. The experience of the Asian Infrastructure Investment Bank (AIIB) can be used to transform the CMIM Executive Level Decision Making Body (ELDMB) into the AMRO's non-resident Board of Directors with the responsibility for execution-level issues of the CMIM. In the meantime, the CMIM Ministerial Level Decision Making Body (MLDMB) should be converted into the Board of Governors of AMRO (the Executive Committee of AMRO is dissolved), which will be responsible for deciding on the fundamental issues of the CMIM. All of these are conducive to improving the decision-making efficiency of the CMIM and AMRO.

LENDING COOPERATION BETWEEN THE CMIM AND IMF

The example of Myanmar indicates that the IMF has not fully met the financing needs of Myanmar. In the absence of other alternative external resources, the CMIM can and should be one of the defense lines of financial safety for Myanmar. The amended CMIM Agreement and the Operating Guidelines stress that the CMIM's financing conditions should be further updated to echo the IMF's support programs. In the case of co-financing by the CMIM and IMF, the reviews and disbursements should be consistent with each other. The attempt to co-finance can be first carried out in the CMIM IMF delinked portion. Currently, the CMIM should develop a financing instrument matching the IMF's emergency financing mechanism to secure consistency with the IMF. In addition, the Indonesian case proves that some East Asian economies still have doubts about the relief from the IMF. For this reason, we suggest that the CMIM imports other financial mechanisms (such as bilateral currency swaps and multilateral development banks) in the joint assistance from CMIM and the IMF, just as bailout programs for Thailand, South Korea, Indonesia and other countries did during the Asian Financial Crisis. Henning (2020) suggests that Indonesia and its ASEAN+3 partners can activate the delinked portion of CMIM, and then take into account the cooperation with multilateral development banks and bilateral currency swap. This will be helpful to avoid the stigmatization effect of the IMF, but the surveillance capabilities of CMIM/AMRO still need to be improved.

SURVEILLANCE COOPERATION BETWEEN THE AMRO AND IMF

The strengthening of surveillance cooperation is conducive to improving surveillance capabilities of AMRO. Further engagement of AMRO is also conducive to increasing ownership for the use of CMIM funds. We suggest that the CMIM member countries should be encouraged to apply for the IMF's Policy Coordination Instrument (PCI), and countries with the PCI can draw from the CMIM if they are confronted with a crisis. With the gradual increase in experience, AMRO/CMIM should put forward their own lending conditions and conduct joint relief efforts with the IMF.

Bibliography

AMRO (2020a) *AMRO Annual Consultation Report Brunei Darussalam – 2019*.

AMRO (2020b) *AMRO's 2020 Annual Consultation Report on Lao PDR*.

AMRO (2020c) "ASEAN +3 Global Value Networks", *ASEAN+3 Regional Economic Outlook (AREO) 2020*.

AMRO (2020d) *The Amended Chiang Mai Initiative Multilateralization (CMIM) Comes into Effect on 23 June 2020*.

Henning, C. R. (2020) Regional Financial Arrangements and the International Monetary Fund: Sustaining Coherence in Global Financial Governance. *CIGI Special Report*. Waterloo, Ontario: Centre for International Governance Innovation.

IMF (2020) Myanmar: Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument. *IMF Country Report* 20/215.

World Bank (2020) *Lao PDR Economic Monitor*.