Overview

of the G20-IMF Seminar: Regional Financing Arrangements—Their Role in the International Financial Architecture and Cooperation with the IMF, April 17, 2013

A seminar entitled "Regional Financial Arrangements: Their Role in the International Financial Architecture and Cooperation with the IMF" was held on April 17, 2013, at the IMF Headquarters in Washington, DC. The seminar was moderated by Mr. Michael Callaghan, Director of the G20 Studies Center at the Lowy Institute for International Policy, Australia, and attended by senior government officials of the G20 countries, senior managers of the IMF and the four regional financial arrangements (RFAs): Anti-Crisis Fund of the Eurasian Economic Community (ACF); Chiang Mai Initiative Multilateralisation (CMIM); European Stability Mechanism (ESM); and Latin American Reserves Fund (FLAR).

The seminar started with opening remarks by Mr. Sergei Storchak, Deputy Minister of Finance of Russia, followed by an overview of the RFA issues by Mr. Changyong Rhee, Chief Economist of the Asian Development Bank. The seminar featured presentations by four attending RFAs, the IMF, as well as senior representatives of the Bank of China, U.S. Treasury, European Commission, and Mr. Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago. Two academics – Mr. Randall Henning, Professor at American University and Visiting Fellow at the Peterson Institute for International Economics (Washington, DC) and Mr. Domenico Lombardi, Senior Fellow of the Brookings Institution, offered an analytical perspective on the topic. Mr. Naoyuki Shinohara, IMF Deputy Managing Director, and Mr. Eun Sung-Soo, Deputy Minister of Strategy and Finance of Korea provided concluding remarks.

Seminar discussants welcomed the IMF's stocktaking paper on RFAs-IMF cooperation as a useful contribution to the discussion, in particular given the pace at which some RFAs are evolving and their increasing weight in the global financial safety net (GFSN). This safety net *de facto* subsumes four levels: (a) national reserves; (b) bilateral swaps; (c) RFAs; and (d) the IMF.

Most participants viewed the trend toward larger and more developed RFAs – both in absolute terms and relative to the IMF – as here to stay, and a positive development reflecting increasing regional integration.

There exist important synergies between the IMF and RFAs. The latter can cushion national shocks, particularly – in non-systemic countries; strengthen local knowledge, legitimacy and ownership and can also reduce stigma. But a globally interconnected world also needs a global safety net (IMF). Participants acknowledged the IMF's role in providing a global perspective, significant financial resources, and/or enhancing the credibility of anti-crisis programs.

Some participants called on the IMF to adapt to the development of RFAs, despite the fact that cooperation with them can add a layer of complexity for the IMF.

The seminar considered three main themes: 1) the history and objectives of individual RFAs; 2) RFA-IMF cooperation; and 3) options to enhance coordination. In particular:

- The *motivations for establishing RFAs* were shown to vary widely, ranging from dissatisfaction with the existing international financial architecture, and the IMF in particular, to the need to raise additional resources.
- The discussants generally agreed that *RFAs can and should act prior to, or at early stages of the crisis*, when the costs of action are the lowest, and time is at a premium. The IMF may need more time to put together a program.
- RFAs vary in the extent to which their *conditionality* is specified. Some RFAs stressed the importance of having their own conditionality, while some others indicated that instead of conditionality they practice peer-to-peer reviews and consultations on the desirable course of macro policies. Some discussants noted that in such situations RFAs' effectiveness may be limited by their weakest link. However, the European speakers stressed that in their case there is no hesitation in imposing conditionality on other countries in the euro area.
- On *surveillance*, all speakers agreed that the IMF does not have a monopoly on surveillance; several RFAs described their surveillance mandate in detail. At the same time, some country participants stated that the IMF's surveillance mandate allows it to raise tough issues and expressed doubts that RFAs can do this, since their constituencies are much smaller, which can make impartiality more difficult. Other speakers representing the RFAs stressed that they have no problem with implementing rigorous surveillance in their borrowing countries. RFAs' surveillance function can be made more effective with technical assistance from the IMF.
- Many participants noted the *need to strengthen technical, not just financial, capacities of RFAs*, including their ability to monitor and evaluate the implementation of anti-crisis measures in their member countries. This can be done, inter alia, by granting RFAs access to the IMF training facilities, and by launching a permanent channel of dialogue among RFAs.
- Participants agreed on the desirability *of RFA-IMF cooperation*, and called to promote RFA-IMF collaboration "in all possible areas". At the same time, the *extent and forms of such cooperation* were referred to as "the most difficult question to answer."
- RFAs' varied histories seem to influence preferences for the nature of the RFA-IMF engagement. Recent experience has shown that individual members in a single RFA may hold different views regarding the desired extent of coordination with the IMF.
- Participants consider the need to *avoid "facility shopping"* as the key rationale for coordination, as such "shopping" undermines the quality of borrower's anti-crisis actions, and lowers the efficiency of using creditors' resources. Facility shopping can be prevented by having a consolidated view on the content of adjustment across all parties. Some speakers also stressed the value of harmonizing technical design (e.g., definition of technical performance criteria used in ACF arrangements is identical to that in IMF arrangements).
- Some RFAs as well as some country officials argued that the RFAs should serve as the "*lender of first resort*", and should not substitute an IMF program. However, some other speakers noted that there may be situations when the IMF does not wish or is not equipped to have a program that specifically addresses the needs of an ailing economy;

while member countries of an RFA may decide that prompt action is needed, and instruct this RFA to provide financial support. A good example is the recent Spanish adjustment program that addresses a banking crisis, and is carried out by ESM/EFSF alone, since the IMF is not equipped to deal with banking crises only. A few participants noted that there may be a tension between global and regional perspectives, and that global perspectives required the IMF. Most speakers agreed that RFAs cannot and should not substitute the IMF.

- Most discussants stressed the importance of *cooperation outside of crisis* situations (*ex ante* approach) and some noted the benefits of co-financing or establishing a formal link to IMF financing. They also noted the need to have well-organized channels of communication between RFAs and the IMF. Speakers also agreed that both RFAs and the IMF will benefit from greater coordination of surveillance activities and macroeconomic policy frameworks. There were also calls for clearly defining respective roles. For example, RFAs could focus on assisting small non-systemic countries with non-recurring financing needs; while the IMF should focus on large countries whose problems have systemic importance.
- Many participants argued that the IMF and RFAs should *develop their programs independently*, in order to preserve the integrity of their respective mandates.
- *Co-financing* with the IMF was viewed as applicable in some, but not in all cases. Some RFAs may elect to co-finance some programs, while other programs will be implemented independently. A number of participants noted that joint or parallel implementation of IMF-supported and RFA-supported programs enhances a country's chances to successfully exit from the crisis.
- Participants from Europe emphasized that *issues related to currency unions should be discussed separately from those on RFAs in general* in view of a higher degree of interconnectedness and a risk of contagion spreading within the union. This means, for example, that EC/EU takes a more encompassing approach, given that spillovers from one EU member country to others may be large and spread very quickly. The assessment of the modalities currently existing in the European Union, where the "Troika" (the ECB, ESM, and IMF) negotiate and implement truly joint anti-crisis programs ranged from "successful" to "not the best example to follow".
- The *2011 G-20 Principles on IMF-RFA cooperation* were seen as a useful basis for the dialogue. While the Principles are quite broad and general, there was little appetite to consider their revision - most speakers indicated that more time was needed for their implementation, and showed preference for the continuation with a tailored case-by-case approach to coordination.
- The discussants stressed an *important role of G-20* in studying the ways in which IMF-RFAs cooperation can be enhanced, and recommended to seek further advice from the G-20 and the IMF Executive Board.