

## **Ravi Menon: Regional safety nets to complement global safety nets**

Welcome remarks by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the opening ceremony of the ASEAN+3 Macroeconomic Research Office (AMRO), Monetary Authority of Singapore, Singapore, 31 January 2012.

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Director, AMRO, Wei Benhua,  
Counselor, AMRO, Yoichi Nemoto,  
Head, Civil Service and Permanent Secretary (Finance) Peter Ong,  
Distinguished guests, ladies and gentlemen.  
Good morning.

### **Genesis of the Chiang Mai Initiative**

1. Twelve years ago, we took the first steps in a momentous journey that has led us here today.
2. It was the aftermath of the Asian Financial Crisis. The Crisis had ravaged several economies in the region and was a wake-up call to all of us. Rapid economic growth was not enough. To sustain growth and foster stability, sound macroeconomics and strong financial supervision mattered. Asian economies had to get their domestic acts together. And they did, with painstaking reforms over the last 15 years. So, when the Global Financial Crisis hit Asia in 2008/2009, Asian economies were shaken, but did not keel over.
3. The Crisis taught us another lesson: had the region better harnessed the resources it had available, it might have been in a stronger position to deal with the crisis. It was this conviction that provided the impetus for the first proposals for a regional financing arrangement.
4. And so, in May 2000, the Finance Ministers of ASEAN+3 gathered in the idyllic city of Chiang Mai in the highlands of northern Thailand, to discuss the establishment of a network of bilateral swap agreements. Thus was born the Chiang Mai Initiative. By October 2003, thirteen bilateral swap agreements had been successfully concluded, with a combined total size of roughly US\$35 billion.
5. In May 2007, ASEAN+3 Finance Ministers agreed to transform these bilateral agreements into a multilateral agreement that would also provide a platform for mutual surveillance and dialogue. The Chiang Mai Initiative Multilateralisation, or CMIM, thus came into being in March 2010, with a war chest of US\$120 billion. The CMIM operates as a common US dollar liquidity pool. A member state facing balance-of-payments or external liquidity problems can swap its local currency for US dollars from this pool. The size of the swap can be up to a fixed multiple of its contribution.
6. Today marks another important milestone in that journey – the opening of the ASEAN+3 Macroeconomic Research Office, or AMRO. AMRO is not just any research outfit. It is a critical component of the emerging regional architecture, based on mutual co-operation, surveillance and solidarity. Singapore is delighted and honoured to host AMRO.
7. But before I say more about AMRO, I want to touch briefly on the role of regional safety nets, and how they complement global safety nets.

## **Why regional financial safety nets matter**

8. That we live in an increasingly connected world is well known and understood. I will not bore you with statistics on the growing linkages in trade and finance that bind our countries together. Economic and financial integration in Asia has produced significant benefits for our economies. But increased connectedness also means greater potential for contagion – for the transmission of economic and financial shocks across countries within the region.

9. This does not mean we should roll back the tide and become more insular. But it does mean that we have to watch closely developments in one another's economies, assess potential spillover effects, exchange views on policy responses, and, at times of stress, pool our resources to restore confidence in our markets.

10. In an environment of increased uncertainty and volatility, it is incumbent on each of our economies to build strong buffers. This includes financial buffers in the form of a healthy foreign reserve position and a well-capitalised banking sector. It also includes policy buffers in the form of prudent monetary and fiscal stance in good times that gives scope for a more accommodative posture during times of slack or crisis.

11. But sometimes we cannot do it alone, despite having good fundamentals. At times of crisis, markets may be slow in discerning progress made in national policies. This is where external validation and resources can help build credibility and restore confidence. While the role of the IMF and multilateral organisations remains critical in this regard, regional arrangements can be a useful complement.

12. Take for example, the European experience. In 2009, when countries in Central and Eastern Europe came under stress, neighbouring economies contributed to financing schemes together with the IMF. This helped to stabilise the situation, showing how regional cooperation has a role to play alongside countries' own national buffers and international financing mechanisms. More recently, in 2010, the European Financial Stability Facility, or EFSF, was set up in response to an intensifying sovereign debt crisis. The EFSF may not have worked as well as it could, but it has helped to prevent the crisis from escalating. The Europeans are now developing plans for a stronger, permanent facility in the form of the European Stability Mechanism.

13. Regional safety net mechanisms – like the CMIM – will provide added assurance to markets that governments have the tools and resources to deal with the economic or financial challenges at hand. They can be more focused in surveillance, more timely in execution, and more contextual in policy prescription, providing balance to the multilateral approach.

## **Why regional financial safety nets alone are not enough**

14. But regional safety nets do not obviate the need for global ones. Let me offer two reasons why.

15. First, where a crisis is largely regional in nature, contagion can be rapid and the capacity of a regional safety net can be diminished. Again, consider the European experience. Earlier this month, ratings agency Standard and Poor's downgraded the credit ratings of nine Eurozone countries. One key consequence was that the EFSF itself was downgraded, since the EFSF ultimately derives its rating from the countries that fund it. Global safety nets may well be necessary as a complement in situations like these.

16. Second, Asian countries will play an increasingly prominent role in international financial institutions like the IMF as the centre of economic gravity moves eastwards. Asia will over time make contributions to the IMF commensurate with its larger role in the global economy. It is therefore in the interest of Asian countries to have the IMF continuing to play

an active role in the region, and to effectively complement regional financing arrangements like the CMIM.

17. Indeed, in today's precarious situation, it is in Asia's interest that the resources of the IMF are enhanced. Asia will not be immune to an escalation of the sovereign debt crisis and any ensuing protracted slowdown in Europe. In such a scenario, a well-resourced IMF will reassure markets, by helping to dampen any spillover effects and mitigating the risk of an excessive contraction in economic activity.

18. In short, a robust response to crisis can entail three concentric layers of defence:

- a first layer of credible economic policies backed by national resources;
- a middle layer of regional mechanisms to provide added credibility, minimise spillovers, and foster regional stability; and
- a third layer of multilateral support through the IMF.

19. All three layers – national, regional and global – must complement and reinforce one another. Well-designed, they can operate as a package, offering a comprehensive suite of financial options to countries in need.

### **AMRO – The focal point of regional surveillance**

20. Let me now turn to AMRO, the emerging focal point for regional surveillance underpinning the CMIM. AMRO was set up to perform three important functions:

- to conduct surveillance and contribute to the early detection of risks in the region;
- to facilitate the implementation of remedial action; and
- to inform the decision making of the CMIM.

21. These functions help to ensure that any activation of the CMIM mechanisms will be predicated on informed and independent judgement.

22. AMRO will give ASEAN+3 authorities a new and vital perspective as it considers the impact of global developments on ASEAN+3 as a region. AMRO's surveillance toolkit will be based on its own in-house capabilities, access to policymakers in ASEAN+3, and regular dialogue and exchange of information with the IMF and other international financial institutions. We envision AMRO emerging over time as an authoritative interpreter of economic and financial developments in the Asian region.

23. AMRO's progress since its establishment in May 2010 has been remarkable. It commenced operations just a year later, in May 2011. It has since conducted a number of surveillance visits in the region. Last month, AMRO presented its first set of Economic Review and Policy Dialogue reports at a meeting of ASEAN+3 Finance and Central Bank Deputies. AMRO's ability to deliver such comprehensive reports within such a short time of becoming operational speaks well of the quality of its leadership and staff.

24. Singapore is very pleased to serve as the base for AMRO's operations. We are fully committed to supporting AMRO – in matters both financial and administrative. As AMRO expands over the next few years and builds up its capabilities, we look forward to active engagement and collaboration.

To be effective, AMRO must be independent and objective in its assessments, and candid about risks and vulnerabilities. I am happy to note that, in its surveillance reports, AMRO has sought to clearly identify policy risks and areas for improvement in the ASEAN+3 economies. It is critical that AMRO sustains this effort and develops an effective consultation process with ASEAN+3 economies.

## **Conclusion**

25. The journey of regionalism as represented by the CMIM is an ongoing one. Today's official opening of AMRO is an important milestone in that journey that we can all take pride in. On behalf of my colleagues in ASEAN+3, I would like to congratulate AMRO and its director, Mr Wei Benhua, on your strong start and wish you every success. Let me also extend our warm wishes and full support to Mr Yoichi Nemoto, who will take over from Mr Wei as AMRO director later this year.

26. Ensuring AMRO's success is a shared responsibility. Let us work together to make AMRO a strong and credible institution, reputed around the world for its expertise in the economic affairs of our region.

27. Thank you.