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“Framework for Regional Monetary Stabilization(FRMS)”

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FRMS - SUGGESTED OPERATIONS AND ORGANIZATION

In early May of this year, in Chiang Mai, Thailand, the ASEAN +3, Korea, China and Japan agreed to strengthen their policy dialogues and facilitate regional surveillance. They also agreed to extend the ASEAN Swap Arrangement, to strengthen their self-help and support mechanisms in East Asia, and to supplement existing international facilities.

Although the details of the Chiang Mai Initiative are under study and still unknown, we believe it very important as a first step in establishing a regional framework for policy cooperation and mutual financial support in East Asia.

On the other hand, it would be also quite important for those, independent of the authorities, to propose some kind of framework with concrete contents for further discussion. So, we would like to present an idea of the operation and organization desired for the regional framework.

Name

The framework which we propose to organize for regional cooperation can be tentatively named the “FRMS,” and acronym for the Framework for Regional Monetary Stabilization. Its aims and purposes are to help guard East Asian nations from the recurrence of another currency crisis, to bail out crisis-hit countries, and to form a basis for regional mutual economic cooperation.

Operation

The FRMS should have two primary pillars in its operation: economic surveillance and liquidity support. These two pillars should be tightly inter-connected.

The FRMS will also conduct research and studies on themes generally useful to the region and to member nations.

Surveillance:

The FRMS will conduct periodic regional surveillance, as a part of efforts to promote and strengthen regional communication among member nations. It will accelerate the economic reforms of member countries, encourage them to maintain sound policies and strengthen their resilience against crises through mutual “peer pressure.”

The FRMS's surveillance will enhance the scope of "on-the-ground" studies, and various economic-policy areas of member nations should be reviewed, including fiscal, financial, monetary policies, supervisory measures for banking sectors, as well as economic and financial environments. Surveillance is basically to be conducted once a year for each country, in which FRMS staff will not only analyze economic data, but also visit countries as often as possible, to exchange views with officials there. Member nations will be expected to accept FRMS personnel, and to disclose all relevant data and information.

FRMS personnel will make reports which include drafts of policy recommendations for the FRMS consultation committee to assess. This committee, organized by representatives from assigned member nations and international financial institutions, such as the IMF, World Bank and Asian Development Bank, as observers, will discuss these reports and drafts, both amongst themselves and with representatives of the assessed country. The policy recommendations will be delivered to the assessed country with the consent of the Executive Board. Member countries will be expected to adopt these recommendations, and to make progress reports to the committee, which will follow up on them. These reports, discussions in the consultations, and recommendations are to be usually disclosed to the public. The FRMS will also make efforts to develop an early-warning system, to help predict and prevent balance-of-payments crises. Upon finding any issues that might induce another crisis in a given country, the FRMS will swiftly give warning, accompanied with request for implementation of pertinent countermeasures against the risk.

Liquidity Support:

When a member nation is actually hit by a crisis, and faces a foreign currency shortage in spite of the efforts mentioned above, the FRMS will quickly provide it with liquidity in foreign currency or a member nation's currency, to prevent a draining of its foreign reserves and stave off a nose-dive of its exchange rate which may lead to economic and social turmoil, and to prevent any contagion of the crisis to other countries or regions. It is very important to protect member nations and their citizens from economic turmoil and social insecurity.

Financing by the FRMS should be short-term oriented. Conditions are to be attached to the disbursement of liquidity support. They would be devised mainly from the results of its own surveillance and desirably contain private sector participation. The conditions would be decided involving private sector in some appropriate cases and generally in full consultation with the IMF.

Research and Studies:

The FRMS will undertake research and studies pertinent to financial and monetary issues in the region, such as capital-account development and financial-sector issues, foreign exchange rate regimes, debt and reserve management, and measures for supervising banking sectors.

Organization

Members:

ASEAN+3 countries are expected to be the founding members of the FRMS, but any other nations which commits to lending the FRMS funds for liquidity support to member nations, and pays the operational fee, may be welcome as donor membership. Any nation which does not commit to

lending, as well as IFIs, is welcomed to participate as an observer without voting power. The amount of commitment for the emergency fund is determined in consideration of the GDP and foreign exchange reserves of member nations.

Organization:

The FRMS will have a General Meeting as the highest decision-making body, as well as a Board of Executive Directors and a Secretariat. The General Meeting will be held at least once a year, to make decisions on such matters as budgets, revisions of agreements, and approval for participation of new members. The Board of Executive Directors is to make decisions on the agendas delegated by the General Meeting, including execution of emergency lending. The board is to be held at least every month. A managing director will chair the board and acts as chief executive officer. The decision-making process in the General Meeting and the Board of Executive Directors will vary, depending on the agenda. Some decisions will be made by consensus, and others by weighted majority voting, in which voting weight will be decided according to nations' committed lending amount, GDP, and other factors. No single country should have veto power in weighted majority voting.

The secretariat will be composed of three bureaus, i.e., an economic bureau which conducts the surveillance and emergency lending, a research bureau, and an administration bureau.

Staff:

Staff will be composed of officers seconded to the FRMS from member countries' monetary and financial authorities, banking supervisory agencies, as well as economists and assistants recruited within the region. Personnel should hold nationality of the member nations, as in other international financial institutions.

Source of Funds for Emergency Lending:

One way to secure funds for the emergency lending is to establish a fund by payment of equity by member nations. It would be less burdensome, however, and thus more recommended to establish standing borrowing arrangements, similar to the IMF's General Arrangements to Borrow, between member nations and the FRMS. Under such arrangements, member nations would commit to lending the FRMS up to a specific amount in major currencies, which is be earmarked as such in their foreign exchange reserves.

Expenses:

To cover the operational costs of the FRMS, member nations and observers (other than IFIs) will be charged an annual fee. With the current low interest rates in the developed countries, we cannot expect to earn sufficient income from the advance paid-in capital even if we do obtain it. Under annual payment of fees, members and observers may check the operations of the FRMS more effectively, to prevent them from expanding too much.