

Malaysia's participation in financing arrangements

New Arrangements to Borrow (NAB)

- Concerns that substantial more resources might be needed to respond to future crises following the Mexican crisis, participants in the 1995 G-7 Halifax Summit called on the G-10 and other financially strong countries to develop financing arrangements that would double the amount available to the IMF under the General Arrangements to Borrow (GAB).
- Basically, the NAB is a set of credit arrangements between the IMF and 25 member countries and institutions. It entered into force in November 1998 and is the borrowing facility of first and principal recourse.
- The NAB was activated for the first time in December 1998 to help finance a SBA for Brazil. The IMF called on funding of SDR 9.1 billion, of which SDR2.9 billion was used. These drawings were repaid in March 1999 following the increase in IMF resources resulting from the 11th Review quota repayments.
- Malaysia's commitment under the NAB amounts to SDR340 million (similar to the commitments by Korea, Singapore and Thailand).

ASEAN Swap Arrangement (ASA)

- The purpose of the ASA is to provide unconditional and immediate short-term foreign exchange liquidity for member countries that experience short-term international liquidity problems. The domestic currency of the requesting participating members shall be exchanged for the US dollar, Japanese yen or the Euro.
- The ASA was first signed in 1977 between the central banks of Indonesia, Malaysia, the Philippines, Thailand and the Monetary Authority of Singapore,

with a total facility of USD100 million. The total amount available was increased to USD200 million in 1978.

- The level of utilisation of ASA was very low. It was used five times by Philippines (totalling USD340 million) and once each by Indonesia (USD20 million), Malaysia (USD4 million) and Thailand (USD80 million), during 1979-1985. It was not utilised thereafter.
- The low utilisation of ASA could be attributed to a number of reasons, including rapid capital inflows for most ASEAN countries in the 1990s; the size of the facility is too small to handle the possible magnitude of reversal of capital flows; and there was no serious liquidity problems during the 1980s and 1990s.
- On 17 November 2000, the membership of ASA was expanded to include all the 10 ASEAN member countries, while the total amount available under the facility was enlarged to USD1 billion. The maximum amount committed by each participating member is USD150 million for Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei; USD60 million Vietnam; USD20 million for Myanmar; USD15 million for Cambodia; and USD5 million for Lao PDR.
- The maximum drawdown amount by each participating member is limited to twice the committed amount by the respective participating member under the ASA.
- In order to coordinate the implementation of the ASA, an Agent Central Bank is appointed on a rotation basis based on alphabetical order for a term of two years. Bank Negara Malaysia's (BNM) role as the agent bank will end in November 2002 and the Central Bank of Myanmar is expected to assume this role.

Chiang Mai Initiative (CMI)

- The CMI was launched on 6 May 2000 by the ASEAN Finance Ministers and their counterparts in China, Japan and Korea (the ASEAN + 3 Ministers), to strengthen regional self-help and support mechanisms to supplement the existing international facilities. The objective of the CMI is to enable the ASEAN + 3 countries to pool their resources and provide short-term financial assistance to member countries in need of temporary balance of payments or liquidity support to avert a crisis and its contagion effects. The CMI comprises two components, namely, an expanded and enlarged ASA; and a new network of bilateral swap arrangements (BSA) and repurchase agreements among the ASEAN + 3 countries.
- BNM had entered into a new USD1 billion BSA under the CMI with the Bank of Japan (BOJ) on 5 October 2001 for a tenure of 3 years. This was in addition to the renewal of an existing US\$2.5 billion swap arrangement under the New Miyazawa Initiative (NMI).
- On 26 July 2002, BNM entered an agreement with the Bank of Korea on a BSA under the CMI amounting USD1 billion.

Thailand Assistance Package

- In August 1997, BNM participated in a programme whereby eight countries and the WB, the ADB and the EXIM Bank of Japan agreed to provide supplementary financing to support an IMF adjustment programme to restore financial stability in Thailand in response to the Asian crisis.
- Financial support raised totalled USD17.2 billion with bilateral financial assistance amounting to USD6.5 billion.
- The financing package was based on the principle of 'first line of defence' approach, with the bilateral funds provided in tranches, in parallel with the

disbursement of IMF resources. This form of bilateral support provided greater certainty and confidence on the activation of committed bilateral resources.

Indonesia Assistance Package

- In October 1997, Malaysia participated in the financing commitments in the form of pledges from interested countries to assist Indonesia during the crisis which amounted to USD20 billion. However, in contrast to the Thailand assistance package, the financing support was provided under a “second line of defence approach” with contingent financing given on an “as needed” basis. The first line of defence would be provided by the IMF (USD10 billion), the WB (USD4.5 billion) and the ADB (USD3.5 billion). Indonesia would also draw upon its own reserves before approaching bilateral contributors for additional financing.
- The second line of defence has not been activated.
- The drawback with this approach is that in the absence of formalised commitments and/or finalised contracts, it gives rise to uncertainty about whether the resources would be available when needed.

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