

Klaus Regling's speech at the 1st Joint Regional Financing Arrangements Research Seminar

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Speeches

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Joint RFA Research Seminar

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Ladies and gentlemen,

Financial crises seem to be a necessary evil in our increasingly interconnected and complex economies. They keep occurring regularly, and can bear enormous cost. The financial firefighters of the world must try to prevent these crises, and to contain the damage when they do hit. An excellent understanding of the economics behind crises is crucial to fulfil this special and important role. It will help us improve our surveillance capacities, our crisis management and our policy recommendations. And that is why we are here today: to compare experiences, and to learn from each other - as institutions - and from the academic world. Research conferences happen very often and in many different places. But the direct relevance for policy makes today's research seminar a very special one. Particularly now that it is happening for the first time.

So let me offer you a very warm welcome on behalf of the ESM. We are happy to be one of the three institutions organising this Joint RFA Research Seminar, at which the regional crisis funds of the world have come together - with the IMF and with academics - to discuss the latest research on crisis prevention and resolution.

There is a second reason why today's conference is important. And that is the fact that the world's crisis defence mechanisms have rapidly evolved since the IMF was set up in 1944, especially in recent years. Of course, the IMF remains at the centre of the international monetary system today. But it is no longer the only institution to assist governments struck by a crisis. Eight RFAs now exist across the world, each of which also functions as a lender of last resort for sovereigns. It is now a common understanding that RFAs are a robust layer within the Global Financial Safety Net, together with the other components, which consist of national foreign exchange reserves, bilateral swap lines between central banks, and the IMF.

The growing role of RFAs is a welcome development. RFAs bring local expertise and knowledge, increase the volume of the available funds, and their toolkits often offer more flexibility. On the other hand, the rise of these funds adds complexity. And this underscores why it is so important that RFAs share information with each other, and with the IMF and develop their cooperation. The G20 has made this clear a number of times in its statements. As you know, RFAs held a first High-Level Policy Dialogue in Washington, D.C. last year, where we agreed to transform it into a regular dialogue framework. In addition, we agreed to hold an annual Joint RFA Research Seminar.

In this multi-layered cooperation between these different entities, it is particularly important that each RFA develops an appropriate and productive relationship with the IMF. Both sides need to adjust to a new environment: RFAs as much as the Fund itself. Already, several RFAs have started to develop their own *modus operandi* with the IMF. In Europe, the Fund was substantially involved in ESM programmes in five countries. In four of these cases, the Fund made a financial contribution, which was particularly important in the early days of the ESM. In one case - that of Spain - it was only involved in an advisory capacity. In Asia, AMRO holds joint test runs with the IMF, while the programmes of FLAR in Latin America are currently independent of the Fund.

Such relationships will continue to develop as the importance of RFAs grows. The IMF's new Policy Coordination Instrument shows that the Fund itself is also adapting to the new environment. The instrument would allow it to provide a fully-fledged programme without financing, in expectation of funds from other sources, in particular RFAs. The instrument would essentially be a form of technical assistance by the IMF, and function as a strong signalling tool.

Developing these changing relationships will require creativity, and above all a spirit of good cooperation. This research seminar, at which we will share our best analysis, will take place in that spirit. It will be a good preparation for when we meet again, at the 2nd High-Level Dialogue in October, where we will formally discuss the topic of inter-institutional cooperation.

Let me finish by saying a few words about the different topics of the day. Economic surveillance, our first subject, is essential to prevent future crises. We all know that a next crisis will come - we just don't know when and where. The global financial crisis - which came as a complete surprise to all but a few forecasters - has again shown this. This was a brutal reality check for the economic models that our profession relies on. It was in any case a strong argument for closer cooperation between the policy world and academics. This is precisely what we will be doing today and also tomorrow, when RFA experts will digest what they learn today.

The conference will also try to draw lessons from past crises. Different types of crisis require different solutions. In that context, the diversity of the institutions in this room is telling. RFAs were typically set up in response to different types of crises, ranging from a currency crisis to a sovereign debt crisis, to bank runs. This explains the wide variety in their history, size, operating methods and experience. Nevertheless, key objectives are very similar.

Finally, we will think about official sector financing and moral hazard. This is a perennial problem. Many scholars have argued that moral hazard of the IMF programmes is minimal, or at least manageable. We need to ensure that the same is true for RFAs, and that their operations take into account and minimise moral hazard concerns. This is particularly an issue when more than one institution is present, which creates the risk that countries start shopping for the best conditions.

Ladies and gentlemen, the institutions in this room fulfil an important role in safeguarding global financial stability. Financial crises are sudden. They can unexpectedly spread from country to country at high speed for reasons that are not always well understood. And they have different characteristics every time.

Given this fundamental uncertainty, it is all the more important that the defence mechanisms the world has available are in optimal shape. Academic research into the reasons behind financial crises and the efficacy of our policy tools plays an essential role. Cooperation is equally important: the various actors in this field

should speak each others' language and work together seamlessly.

Today's conference is an important step towards those goals.

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