Indonesia’s Perspectives on the Global Financial Safety Net

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Disclaimer: All views expressed in this presentation are the author’s and do not necessarily reflect the IDIC’s views.
Global Financial Safety Net

**Evolution & Recent Progress:** much progress has been made especially at the national & bilateral levels, but challenges remain for regional level due to coordination & regulatory fragmentation

### Global Financial Safety Net (GFSN)

**Objectives:**

1. to provide precautionary insurance against a crisis;
2. to supply liquidity when crises hit;
3. to incentivize sound macroeconomic policies

**Layers:**

- **National Level:** self-insurance against external shocks using foreign reserves or fiscal space
- **Bilateral Level:** central bank bilateral swap arrangements (BSAs)
- **Regional Level:** Regional Financing Arrangements (RFAs)
- **Global Level:** Global financial backstop by IMF

**Source:** IMF (2016)

### Regional Financing Arrangements (RFAs)

<table>
<thead>
<tr>
<th>RFAs</th>
<th>Year Enacted</th>
<th>Members</th>
<th>Prior Usage</th>
<th>Paid-in Capital</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Monetary Fund (AMF)</td>
<td>1976</td>
<td>22</td>
<td>13 member cases (recently Morocco, Egypt)</td>
<td>Yes</td>
<td>USD4 bn</td>
</tr>
<tr>
<td>Latin American Reserve Fund (FLAR)</td>
<td>1991</td>
<td>8</td>
<td>47 credit operations (recently Ecuador)</td>
<td>USD2.6 bn</td>
<td>USD6.2 bn</td>
</tr>
<tr>
<td>European Stability Mechanism (ESM)</td>
<td>2012</td>
<td>19</td>
<td>Greece, Ireland, Portugal, Cyprus, Spain</td>
<td>EUR80.55 bn</td>
<td>EUR500 bn</td>
</tr>
<tr>
<td>Chiang Mai Initiative Multilateralization (CMIIM)</td>
<td>2010</td>
<td>13+1</td>
<td>-</td>
<td>-</td>
<td>USD240 bn</td>
</tr>
</tbody>
</table>

**Source:** AMRO (2017)
Global Financial Safety Net

*Evolution & Recent Progress*: size has much expanded (tripled since 2008), but uneven in scale & coverage across regions and more reliance on BSA & RFA that somewhat still have limited crisis testability.

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**Foreign currency-swap (and repo line) arrangements between central banks**

Source: Bruegel reproduced from Allen & Moe (2010) in Papadia (2013), updated for Indonesia as if 2018 (BI)

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**GFSN characteristics:**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Reserves</th>
<th>Swaps</th>
<th>IMF</th>
<th>RFAs</th>
<th>Hedging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predictability</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Speed</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Reliability</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cost</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Policies</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Red (0) = Limited/insufficient, Yellow (1) = Some, Green (2) = Extensive/adequate

**Source:** IMF (2016)

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Source: Bank of England; central bank websites; regional financing arrangement annual reports; and IMF staff estimates as in the IMF Annual Report (2018)

1) Estimated based on known past usage or, if undrawn, on average past maximum drawings of remaining central bank members in the network. Two-way arrangements are only counted once. 2) Includes all arrangements with an explicit value limit and excludes CMIM arrangements, which are included under RFAs. Two-way arrangements are only counted once. 3) Based on explicit lending capacity/limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital. 4) After prudential balances. 5) For countries in the Financial Transaction Plan (FTP) after deducting prudential balance.
Indonesia’s Financial Safety Net Reform: Some Lessons

The 2016 Financial System Crisis Prevention & Mitigation (PPKSK) Law

Effective Bank Regulation and Supervision

Lender of Last Resort

Adequate Deposit Insurance Scheme & Effective Bank Resolution

Effective Crisis Management Policy

Financial System Stability

The Philosophy of a “Balinese Tiered-Umbrella”

Source: IDIC

Lessons from Indonesia during the recent GFC:
1. The FSN’s role at national level was crucial to mitigate the GFC, but inter-regulators coordination might have been more effective. The PPKSK Law was enacted in 2016 to optimize and strengthen the coordination between Indonesia’s FSN members, as well as extending IDIC’s mandates as the deposit insurer & bank resolution authority.
2. The authority & ability to conduct early detection & timely intervention are critical for IDIC.
3. More legal protection is needed, especially for bank resolution authority.
4. Broader resolution options are needed: P&A and Bridge Bank.
5. New funding alternatives for IDIC are needed.

The scale of problem intensifies

Strengthening the coordination “shaft” between FSN members:

The PPKSK Law (2016)

New Mandates for IDIC

New Funding Alternatives for IDIC

Bank Resolution Methods: P&A & Bridge Bank

Banking Restructuring Program

Early Intervention
Are We Safer Now?

1. The size of the GFSN has expanded substantially since the GFC, but an effective GFSN is not merely about “adequacy”, but also about “accessibility” and crisis testability.

2. A missing link: Where is the position of DICs in the current GFSN and how can it be accessed by DICs?
   - The current GFSN coverage has been too centered on macro-stability, while vulnerabilities may remain within the financial system (systemic insolvencies)

3. Challenges due to rising regulatory fragmentation
   - which might hamper effective coordination and resolution at both national and regional/international level, especially in emerging countries.

4. The “Post-truth Era” when information are opaque not because we lack of them, but instead there are too much noise in the information (e.g. hoaxes through social medias).
   - This increases the risk of self-fulfilling bank runs.
Future Research Direction

- Are we safer today?
  - The self-fulfilling prophecy bank runs is still a threat. It may become more important during the “post-truth era”, in which asymmetric information occurs not because of lack of information, but because of too much “noise” information.
  - How do deposit insurers contain the new psychological bank runs? Are the current schemes enough?
  - Would the progress made in digital/financial technology bring more stability or else?

- Are there needs to have a global/regional Deposit Insurance Funding (DIF)?
  - Disbursing loan to capitalize a DIF, e.g. Serbia Deposit Insurance Strengthening Project (USD 200m, 2014-2017, World Bank); Bulgaria Deposit Insurance Strengthening Project (USD 327.47m, 2016-2019, World Bank & EBRD)
  - Contingent (stand-by) line of credit for DIS to draw upon when/if necessary
  - Partial credit guarantee for DIS loan or contingent (stand-by) facility from other creditors

- Are there need to research “an optimal institutional arrangements for DICs” to operate during normal as well as during crises?
  - How to mitigate the regulatory fragmentation and increase the coordination effectiveness between jurisdictions, especially within regions, during a turbulence time?
THANK YOU FOR YOUR ATTENTION

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