

ANNEX V.

Structure of the Chiang Mai Initiative

CMI has two components: (a) an expanded ASEAN swap arrangement and (b) a network of bilateral swaps and repurchase arrangements among the 13 countries concerned.

In 1977, five ASEAN countries – Indonesia, Malaysia, the Philippines, Singapore and Thailand – agreed to establish the ASEAN Swap Arrangement, a short-term liquidity-support facility for participating countries suffering balance-of-payments difficulties. In May 2000, the arrangement was expanded to include the 5 new member countries under CMI, and the total amount of the facility was raised to \$1 billion from the initial amount of \$200 million.

The currencies available under the ASEAN Swap Arrangement are the United States dollar, the yen and the euro. The euro, yen and euro LIBOR interest rates are used as the base rates for swap transactions. Each member is allowed to draw from the facility a maximum of twice its committed amount for a period not exceeding six months, subject to extension for another period not exceeding six months.

ASEAN+3 agreed to a system of bilateral swap arrangements (BSAs) which provides a short-term facility for liquidity assistance in the form of swaps of dollars with the domestic currencies of the 13 participating countries. The maximum amount that can be drawn under each of the BSAs is determined in bilateral negotiations. However, it is expected that disbursements to a member requesting liquidity assistance would be made in a concerted manner through consultation among the swap-providing countries. One of these swap-providing countries then serves as the coordinator for the consulting process. The BSA agreement allows an automatic disbursement up to 10 per cent of the maximum amount of drawing. However, a country drawing more than 10 per cent from the facility is required to accept an IMF programme for macroeconomic and structural adjustments. In this sense, the BSA is complementary to IMF's financial assistance.

Participating countries are able to draw from the BSA for a period of 90 days. The first drawing may be renewed seven times. The interest rate applicable to the drawing is LIBOR plus a premium of 150 basis points for the first drawing and the first renewal. Thereafter, the premium rises by an additional 50 basis points for every two renewals but it is not to exceed 300 basis points.

Repurchase (repo) agreements are used to provide short-term liquidity to a participating member through the sale and buy-back of appropriate securities. The basic features of repo agreements are finalized through bilateral negotiations

between the contracting parties. The securities used for a repo agreement are United States Treasury Notes or Bills, with remaining maturities of not more than five years, and government securities of the counterpart country of the repo.

The term of a repo agreement is one week but can be extended on the termination value date by agreement between the contracting parties. The minimum amount for each repo transaction requested is 5 per cent of the total amount of the repo agreement. In each repo transaction, the buyer is given a margin of 102 per cent for United States Treasury Notes or Bills and 105 per cent for government securities of the counterpart country.