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New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability

## A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability

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### A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability

#### Meeting of Asian Finance and Central Bank Deputies Agreed Summary of Discussions Manila, Philippines 18-19 November 1997

1. Finance and Central Bank Deputies representing Australia, Brunei Darussalam, Canada, People's Republic of China, Hong Kong SAR of China, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States met in Manila on 18-19 November 1997 to develop a concerted approach to restoring financial stability in the region. Canada attended the meeting in its capacity as current APEC Chair. High-level representatives from the International Monetary Fund, World Bank and Asian Development Bank also attended the meeting.
2. Deputies noted Asia's dynamic growth over the past decades and the unprecedented gains in per capita incomes. They agreed that the region's strong growth was a reflection, in part, of the increasing openness of their economies. Their strong economic fundamentals provide a basis for confidence that the region will return to robust growth rates and can continue to benefit from globalization. Recent market turmoil has therefore not altered the consensus that open capital

markets bring significant benefits to an economy. It has, however, brought into focus the challenges that accompany globalization of financial markets and the increased volatility of capital flows.

3. Against this background, Deputies agreed on the need and desirability of a framework for regional cooperation to enhance the prospects for financial stability. This framework, which recognizes the central role of the IMF in the international monetary system, includes the following initiatives: (a) a mechanism for regional surveillance to complement global surveillance by the IMF; (b) enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen the IMF's capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources.
4. These initiatives underscore the importance of maintaining sound macroeconomic and structural policies, appropriate exchange rate policies, strong domestic financial institutions and supervisory regimes in fostering and sustaining growth. It also recognizes that measures to enhance transparency and disclosure will reinforce efforts to maintain economic and financial stability.
5. Deputies agreed on the need to establish a new mechanism for regional surveillance. This mechanism would provide a basis for a more intensive and high-level process of surveillance and dialogue among participating finance ministries and central banks with support from the IMF, World Bank and ADB. It will also help identify potential risks to growth and financial stability and advise on appropriate policy responses to reduce those risks. Meetings for this purpose would be held twice a year, with additional ones as warranted.
6. Deputies stressed the importance of economic and technical cooperation to strengthen banking and financial systems and to deepen capital markets. They welcomed the efforts undertaken so far by the international financial institutions (IFI's) and the international supervisory community to assist domestic authorities in this area, and urged these institutions to:
  - Be prepared to respond to banking and financial sector difficulties, on an emergency basis, with technical and analytical advice as well as appropriately structured financing that can be an integral part of a macroeconomic and structural reform package to be supported by the IFI's.
  - Assist domestic authorities in upgrading their financial systems, help enhance cooperation among market regulators and supervisors to respond to contagion, and promote the development of deep, liquid and mature debt markets.

- Work with officials in the region to monitor and prevent an excessive increase in the external liabilities of their financial and corporate sectors and a shortening in the maturity structure of those liabilities. This work should also focus on prudent management of foreign currency exposures.
  - Explore other measures that could help improve the integrity and functioning of financial markets.
7. Deputies recognized their common interest in strengthening the capacity of the IMF to carry out its central responsibilities for the international monetary system by ensuring that it can mobilize substantial assistance quickly in support of strong macroeconomic and financial programs, and provide where appropriate, the predominant share of official financing in situations of severe financial crisis.
- They welcomed the recent decision to increase IMF quotas, and in particular, the increase in relative quotas of many countries in the region. They called on participants to move forward quickly to ratify the New Arrangements to Borrow (NAB).
  - They encouraged the IMF to review its access policies, including the application of the exceptional circumstances clause, in order to help ensure that its resources can be mobilized on a scale sufficient to help restore market confidence.
  - They also urged the IMF to constructively examine the establishment of a new mechanism to provide short-term financing to augment an exceptional standby or extended arrangement in the light of the globalization of financial markets and the increased scale of private capital flows.
8. Deputies also agreed on the need to develop a cooperative financing arrangement for the region that would supplement IMF and other IFI resources. Under this arrangement participants could provide, in consultation with the IMF and on a case by case basis, supplemental financial resources for IMF-supported programs. Such support could be extended in exceptional circumstances to augment a country's reserves after making use of the resources made available by the IMF, which should as a first recourse take full advantage of the flexibility provided under the exceptional circumstances clause and any new financing mechanisms. Where necessary, participants will seek legislative authorization to participate in this arrangement. Other IMF members could be encouraged to join in providing supplemental finance in individual cases, as appropriate.
9. Deputies stressed that the financial initiatives must be carefully designed in order to mitigate moral hazard so as to enhance the prospects that private creditors adequately assess risks and bear an appropriate share of the burden of adjustment and financing in times of crisis. In light of recent

financial market pressures in the region, they urged the establishment of a working group of experts from interested economies within and outside the region and relevant international institutions to carry forward earlier work on orderly workout procedures.

10. Japan agreed to host the next meeting of this forum early next year to carry forward the initiatives under this framework. The IMF agreed to provide technical support as secretariat for this forum going forward, in coordination with the host country.

11. Deputies unanimously thanked the Philippine Government for its warm hospitality and excellent arrangements.

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