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## Macroeconomic: Emerging Market Resilience [91]

### Commitment [#91]

*“Emerging market economies commit to adopting macroeconomic policies to enhance the resilience of their economies”*

G20 Cannes Action Plan for Growth and Jobs

#### Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina			+1
Australia		N/A	
Brazil			+1
Canada		N/A	
China			+1
France		N/A	
Germany		N/A	
India			+1
Indonesia			+1
Italy		N/A	
Japan		N/A	
Korea		N/A	
Mexico			+1
Russia			+1
Saudi Arabia		0	
South Africa	-1		
Turkey			+1
United Kingdom		N/A	
United States		N/A	
European Union		N/A	
Average Score		0.7	

#### Background:

At the Seoul Summit G20 members asked the Financial Stability Board (FSB), the International Monetary Fund (IMF) and the World Bank to report on measures that emerging market economies could adopt to enhance financial stability. This was partly a reflection that since 2008 problems in advanced economies were the focus of the financial regulatory reform debate.<sup>337</sup> The shift in focus towards emerging market economies and developing economies (EMDE) is recognition that these countries have a significant effect on global recovery.<sup>338</sup>

The FSB, IMF and World Bank released their findings in an October 2011 report. Five key market stability issues were selected as the focus from which to derive recommendations. The issues were selected based on “their degree of materiality for a reasonably broad range of EMDEs; their implications for regulatory, supervisory or other financial sector policies; and the

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<sup>337</sup> Financial Stability Issues in Emerging Market and Developing Economies, FSB, IMF and World Bank (Basel) 20 October 2011. Date of Access: 4 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111019.pdf](http://www.financialstabilityboard.org/publications/r_111019.pdf).

<sup>338</sup> Financial Stability Issues in Emerging Market and Developing Economies, FSB, IMF and World Bank (Basel) 20 October 2011. Date of Access: 4 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111019.pdf](http://www.financialstabilityboard.org/publications/r_111019.pdf).

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extent to which these issues are not already being addressed by other international workstreams.<sup>339</sup>

The five identified stability issues for EMDEs are:

1. Application of international financial standards
2. Promoting cross-border supervisory cooperation
3. Expanding the regulatory and supervisory perimeter
4. Management of foreign exchange risks
5. Developing domestic capital markets

It is possible for the FSB, IMF and World Bank to make common recommendations to address these issues because the financial systems of EMDEs share certain characteristics. For example, EMDEs typically have a relatively smaller financial system than those in advanced economies, a larger role for the state than for capital markets or other financial institutions, greater dependence on foreign capital, greater use of international currencies in domestic markets, and weak institutional and market infrastructures.<sup>340</sup>

**Commitment features:**

The country focus of this commitment is on the emerging market economies among the G20 members. These members are Argentina, Brazil, China, Indonesia, India, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.

A range of macroeconomic policies can be categorized as those which enhance market resilience. Not all significant policies will be considered in this analysis, however, since some are treated as separate commitments in this report. Market resilient policies which are not considered here but which are analyzed elsewhere in this report are those introduced to: enhance exchange rate flexibility; mitigate price volatility in agriculture; regulate OTC derivatives and SIFIs; and implement Basel-led reforms such as raising capital requirements.

Instead, policies of focus are those that follow the recommendations made by the FSB, IMF and World Bank to address EDME stability issues (listed above). The key recommendations are:

- Strengthening supervisory independence, resources and capacity;
- Adjusting prudential frameworks to reflect the growth in, and the risks arising from, small-scale non-bank lending and deposit-taking institutions;
- Strengthening the management of foreign exchange risks;
- Promoting the development of a domestic investor base;
- Taking measures at both national and regional levels to deepen capital market liquidity; and
- Ensuring the robustness of the infrastructure for clearing and settlement systems.<sup>341</sup>

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<sup>339</sup> Financial Stability Issues in Emerging Market and Developing Economies, FSB, IMF and World Bank (Basel) 20 October 2011. Date of Access: 4 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111019.pdf](http://www.financialstabilityboard.org/publications/r_111019.pdf).

<sup>340</sup> Financial Stability Issues in Emerging Market and Developing Economies, FSB, IMF and World Bank (Basel) 20 October 2011. Date of Access: 4 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111019.pdf](http://www.financialstabilityboard.org/publications/r_111019.pdf).

<sup>341</sup> Financial Stability Issues in Emerging Market and Developing Economies, FSB, IMF and World Bank (Basel) 20 October 2011. Date of Access: 4 February 2012.

[http://www.financialstabilityboard.org/publications/r\\_111019.pdf](http://www.financialstabilityboard.org/publications/r_111019.pdf).

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In order to achieve compliance, G20 members that adopt policies in line with these recommendations must be clear that the intent is to enhance market resilience. Attention is paid to policies that are termed ‘macroprudential.’

Policy commitments made by G20 members are listed in an annex to the G20 Cannes Action Plan for Jobs and Growth.<sup>342</sup>

**Definitions:**

*Resiliency:* An ability to recover readily; a form of stability.

*Macroprudential policies:* The objective is to limit systemic risk; the scope is the financial system as a whole (including real and financial sectors); and the instruments are prudential tools meant to target the sources of systemic risk.<sup>343</sup>

**Scoring Guidelines:**

-1	G20 member does not adopt policies to enhance market resilience and does not declare intent to do so.
0	G20 member is in the process of adopting policies OR declares intent to adopt policies to enhance market resilience.
+1	G20 member adopts policies to enhance market resilience.

**Argentina: +1**

Argentina has fully complied with its commitment to adopt macroeconomic policies to enhance the resilience of its economies. The Ministry of Economy and Public Finance (MEcon) has pursued new programs on top of existing schemes. The country experienced a 2% budget deficit in 2011.<sup>344</sup>

On 16 February 2012, MEcon announced the Oil Plus and Gas Plus programs, which provide tax credit certificates “to promote the development in energy, promoting increased production and reserves, as well as promote the expansion and growth of activities related to exploration and production of hydrocarbons and their derivatives”<sup>345</sup> and “encourage the investments needed to increase gas production from the private sector in exploration and development of new gas prospects,”<sup>346</sup> respectively. The program was offered to all private sector companies.

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<sup>342</sup> Cannes Action Plan for Jobs and Growth – annex of commitments per member, G20 (Cannes) 4 November 2011. Date of Access: 4 February 2012. <http://www.g20.utoronto.ca/2011/2011-cannes-action-annex-111104-en.pdf>.

<sup>343</sup> Macroprudential Policy Tools and Frameworks, FSB, IMF and Bank for International Settlements (Basel) 27 October 2011. Accessed 4 February 2012. [http://www.financialstabilityboard.org/publications/r\\_111027b.pdf](http://www.financialstabilityboard.org/publications/r_111027b.pdf).

<sup>344</sup> World Fact Book: Argentina, Central Intelligence Agency (Langley) 21 February 2012. Date of Access: 5 March 2012. <https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html>.

<sup>345</sup> Oil Program Plus, Ministry of Economy and Public Finance (Buenos Aires) 16 February 2012. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2606&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2606&order=fecha%20desc&cantidad=3).

<sup>346</sup> Gas Plus Program, Ministry of Economy and Public Finance (Buenos Aires) 16 February 2012. Date of Access: 4 March 2012 [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2721&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2721&order=fecha%20desc&cantidad=3).

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On 8 November 2011, MEcon announced 14 instruments to support the private sector, categorized into tax benefits and financial facilities. The four tax-benefit programs are the LPI-Investment Promotion Act,<sup>347</sup> the Special Tax and Customs in the Provinces of Tierra Del Fuego, Antarctica and South Atlantic Islands,<sup>348</sup> the Incentive Scheme for the Production of Capital Goods,<sup>349</sup> Promotion System Software Industry,<sup>350</sup> and the Temporary Admission Arrangements.<sup>351</sup> These programs are generally aimed at attracting private investment in various industries and regions with favourable tax schemes. In addition, the Temporary Admission Arrangements eliminate tariffs and taxes levied on consumer products and components of domestically manufactured goods to make Argentina's exports more competitive.

The ten schemes that provide financial facilities are Fontar,<sup>352</sup> Fontsoft,<sup>353</sup> Improvement in the Productive Sector Environmental Performance of the Basin Creek Massacre,<sup>354</sup> The Subline BICE-Productive and Competitiveness of the Province of Mendoza,<sup>355</sup> Program for the Financing

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<sup>347</sup> LPI-Investment Promotion Act (ACT 26 360), Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1021&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1021&order=fecha%20desc&cantidad=3).

<sup>348</sup> The Special Tax and Customs in the Province of Tierra Del Fuego, Antarctica and South Atlantic Islands (LAW 19640), Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1033&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1033&order=fecha%20desc&cantidad=3).

<sup>349</sup> Incentive Scheme for the Production of Capital Goods – Decree 379/01, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1018&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1018&order=fecha%20desc&cantidad=3).

<sup>350</sup> Promotion System Software Industry (LAW 25922), Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1024&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1024&order=fecha%20desc&cantidad=3).

<sup>351</sup> Temporary Admission Arrangements, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=879&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=879&order=fecha%20desc&cantidad=3).

<sup>352</sup> Technological Innovation Program II – Fontar, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4093&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4093&order=fecha%20desc&cantidad=3).

<sup>353</sup> Non-refundable Contributions – Fonsoft, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1817&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1817&order=fecha%20desc&cantidad=3).

<sup>354</sup> Subline BICE Improvement in the Productive Sector Environmental Performance of Basin Creek Massacre, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4089&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4089&order=fecha%20desc&cantidad=3).

<sup>355</sup> Subline BICE-Productivity and Competitiveness of the Province of Mendoza (IDB LOAN No. 1640/OC-AR), Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4087&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4087&order=fecha%20desc&cantidad=3).

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of Investments,<sup>356</sup> Program for the Financing of Investment in Renewable Energy,<sup>357</sup> Finance Exports of Goods and Services,<sup>358</sup> Subline Financing of Capital Goods National Origin,<sup>359</sup> SME Financing Line and Cooperative,<sup>360</sup> and Financing Investment Productive Activities for SMEs.<sup>361</sup> These programs are specifically targeted at vulnerabilities faced by micro, small and medium enterprises and disadvantaged industries such as agriculture, with financial subsidies to help beneficiary companies increase productivity and competitiveness.

On 7 November 2011, MEcon announced 12 financial facilities programs and two credit relief programs.

The financial facilities programs are the Modernization Project Credits,<sup>362</sup> Regional Development Program and Industry (PRODER),<sup>363</sup> CAE-BICE,<sup>364</sup> Young SMEs,<sup>365</sup> Productive Investments

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<sup>356</sup> Program for the Financing of Investments – Combined Rate – BICE, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2141&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2141&order=fecha%20desc&cantidad=3).

<sup>357</sup> Program for the Financing of Investment in Renewable Energy – BICE, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2136&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2136&order=fecha%20desc&cantidad=3).

<sup>358</sup> Finance Exports of Goods and Services (POSFINANCIACIÓN) – BICE, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2147&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2147&order=fecha%20desc&cantidad=3).

<sup>359</sup> Subline Financing of Capital Goods of National Origin – BICE, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4075&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4075&order=fecha%20desc&cantidad=3).

<sup>360</sup> SME Financing Line and Cooperative - BICE, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4073&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4073&order=fecha%20desc&cantidad=3).

<sup>361</sup> Financing Investment Productive Activities for SMEs – Pears and Apples – BNA, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4064&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4064&order=fecha%20desc&cantidad=3).

<sup>362</sup> Article 2 – Modernization Project Credits – Fontar, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1708&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1708&order=fecha%20desc&cantidad=3).

<sup>363</sup> Regional Development Program and Industry (PRODER) – BNA, Ministry of Economy and Public Finance (Buenos Aires) 8 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=1351&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=1351&order=fecha%20desc&cantidad=3).

<sup>364</sup> CAE-BICE, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=3161&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=3161&order=fecha%20desc&cantidad=3).

<sup>365</sup> Young SMEs, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=2264&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=2264&order=fecha%20desc&cantidad=3).

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Financing,<sup>366</sup> Productive Investment Financing — Tourism,<sup>367</sup> Financing Program for Production of Bicentennial,<sup>368</sup> Financing Investment Productive Activities for SME — Agricultural Production and Value Added at Source,<sup>369</sup> Financing Investment Productive Activities for SME — Production of corn, grain sorghum, sunflowers and wheat,<sup>370</sup> Financing Investment Productive Activities for SMEs — Dairy Sector,<sup>371</sup> Financing Investment Productive Activities for SMEs — Various,<sup>372</sup> and Financing Investment Productive Activities for SMEs — Won and Meat. As mentioned, these financing schemes are aimed to help SMEs and/or vulnerable sectors of the economy become more resilient and productive.

The two credit programs are Line of Credit to Finance Sector<sup>373</sup> and Bonus Rate Regime of SEPyme.<sup>374</sup> These programs provide a credit line at a subsidized rate (i.e. subsidized loans) to agricultural producers and SMEs, thereby encouraging private investment.

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<sup>366</sup> Productive Investments Financing – BNA SSEPyME, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4065&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4065&order=fecha%20desc&cantidad=3).

<sup>367</sup> Productive Investments Financing – Tourism – BNA, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March

2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4069&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4069&order=fecha%20desc&cantidad=3).

<sup>368</sup> Financing Program Production of Bicentennial, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=3127&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=3127&order=fecha%20desc&cantidad=3).

<sup>369</sup> Financing Investment Productive Activities for SMEs – Agricultural Production and Value Added at Source – BNA, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4063&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4063&order=fecha%20desc&cantidad=3).

<sup>370</sup> Financing Investment Productive Activities for SMEs – Production corn, grain sorghum, sunflowers and wheat – BNA, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March

2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4062&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4062&order=fecha%20desc&cantidad=3).

<sup>371</sup> Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4056&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4056&order=fecha%20desc&cantidad=3).

<sup>372</sup> Financing Investment Productive Activities for SMEs – Dairy Sector – BNA, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March 2012.

[http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=4055&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=4055&order=fecha%20desc&cantidad=3).

<sup>373</sup> Line of Credit to Finance Sector Tambero, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March

2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=712&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=712&order=fecha%20desc&cantidad=3).

<sup>374</sup> Bonus Rate Regime of SEPyme, Ministry of Economy and Public Finance (Buenos Aires) 7 November 2011. Date of Access: 4 March

2012. [http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id\\_prog=944&order=fecha%20desc&cantidad=3](http://www.instrumentos.mecon.gov.ar/mensajes-ver-mensajes.php?id_prog=944&order=fecha%20desc&cantidad=3).

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Therefore, Argentina is awarded a score of +1 for compliance with its commitment of adopting macroeconomic policies to enhance market resilience, evident in its numerous policies that target vulnerable sectors of the economy.

*Analyst: Jason Li*

**Brazil: +1**

Brazil has complied with its commitment to use macroeconomic policy to enhance market resilience.

On 7 March 2012, the Monetary Policy Committee (COPOM) of the Central Bank of Brazil decided to reduce the Special Clearance and Escrow System (SELIC) rate, which is the country's main mechanism to execute monetary policy, from 10.5 to 9.7% without bias.<sup>375</sup> The Committee evaluated that “deceleration of the Brazilian economy in the second half of 2011 was higher than expected” and “constitute[d] an economic environment in which a much above-than-usual uncertainty level prevails.”<sup>376</sup> As such the adjustments in the SELIC rate was targeted to decreasing risks by deepening the availability of credit.

On 18 January 2012, COPOM decided to reduce the SELIC rate from 11.0% to 10.5% without bias.<sup>377</sup> By pursuing a moderate reduction in the SELIC rate, COPOM aimed to “ensure the timely convergence of inflation to the targets path.”<sup>378</sup> Thus, the adjustment in the SELIC rate is a management mechanism for inflation, used to ensure stability in the market.

On 30 November 2011, COPOM decided to lower the SELIC rate from 11.5% to 11.0% without bias.<sup>379</sup> The measure was aimed at “decreasing risks to the confirmation of a scenario in which inflation timely converges to the midpoint target.”<sup>380</sup> By lowering the risk of uncontrolled inflation, COPOM is enhancing market resilience.

Therefore, Brazil has complied with its commitment to pursue macroeconomic policies to protect market resilience through adjustments of the SELIC rate to control inflation, and is awarded a score of +1.

*Analyst: Jason Li*

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<sup>375</sup> 165th Meeting, Central Bank of Brazil (Brasilia) 7 March 2012. Date of Access: 28 April 2012. <http://www.bcb.gov.br/?STATEMENT165>.

<sup>376</sup> Minutes of the 165th Meeting of the Monetary Policy Committee (COPOM), Central Bank of Brazil (Brasilia) 7 March 2012. Date of Access: 28 April 2012. <http://www4.bcb.gov.br/pec/gci/ingl/COPOM/COPOM20120323-165th%20Cpom%20Minutes.pdf>.

<sup>377</sup> 164th Meeting, Central Bank of Brazil (Brasilia) 18 January 2012. Date of Access: 5 March 2012. <http://www.bcb.gov.br/?STATEMENT164>.

<sup>378</sup> Minutes of the 164th Meeting of the Monetary Policy Committee (COPOM), Central Bank of Brazil (Brasilia) 17 January 2012. Date of Access: 5 March 2012. <http://www4.bcb.gov.br/pec/gci/ingl/COPOM/COPOM20120131-164th%20Cpom%20Minutes.pdf>.

<sup>379</sup> 163rd Meeting, Central Bank of Brazil (Brasilia) 30 November 2011. Date of Access: 5 March 2012. <http://www.bcb.gov.br/?STATEMENT163>.

<sup>380</sup> Minutes of the 163rd Meeting of the Monetary Policy Committee (COPOM), Central Bank of Brazil (Brasilia) 29 November 2011. Date of Access: 5 March 2012. <http://www4.bcb.gov.br/pec/gci/ingl/COPOM/COPOM20111130-163rd%20Cpom%20Minutes.pdf>.

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**China: +1**

China has fully complied with its commitment to adopt macroeconomic policies to enhance the resilience of its economy.

On 6 April 2012, the People's Bank of China (PBC) issued a press release promising to “continue to promote in-depth reforms in China's financial sector, strengthen the financial stability and crisis management framework, increase the supervisory effectiveness of the financial industry, and further improve the financial infrastructure and financial services, so as to support the stable and sound development of the economy.”<sup>381</sup> This statement of intent is in response to five detailed assessment reports by the IMF and the World Bank praising the country's high level of adherence to international financial standards and codes.

China expanded a program to allow “qualified investors to invest yuan-based funds raised in Hong Kong in the mainland securities market within a permitted quota”<sup>382</sup> that is aimed to shore up the domestic capital market. On 3 April 2012, Xinhua, China's state news agency announced that the government would expand its RMB Qualified Foreign Institutional Investors (RQFII) pilot program “by increasing the investment quota by 50 billion yuan (7.94 billion U.S.dollars) from the previous 20 billion yuan.”<sup>383</sup>

On 24 February 2012, the PBC reduced the Renminbi required reserve ratio for deposit-taking financial institutions by 0.5 percentage points.<sup>384</sup> According to Xinhua the reduction is meant “to ease short-term credit crunch and secure growth in the wake of a lackluster external market”<sup>385</sup> by increasing liquidity in the banking system, and “to strengthen support of the real economy,” said Lian Ping, chief economist of the Bank of Communications.

On 16 February 2012, Xinhua announced that the PBC “will further strengthen [small and mid-sized] banks' daily financial risk monitoring, their soundness appraisals and their reporting upon financial emergencies, in an effort to prevent systematic and regional financial risks.”<sup>386</sup>

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<sup>381</sup> Strengthen International Cooperation and Promote Sound Development, People's Bank of China (Beijing) 6 April 2012. Date of Access: 29 April 2012. <http://www.pbc.gov.cn/publish/english/955/2012/20120406080446691826646/20120406080446691826646.html>.

<sup>382</sup> China Expands RQFII, QFII Investment Quota, Xinhua News Agency (Beijing) 4 April 2012. Date of Access: 29 April 2012. [http://news.xinhuanet.com/english/china/2012-04/04/c\\_131506130.htm](http://news.xinhuanet.com/english/china/2012-04/04/c_131506130.htm).

<sup>383</sup> China Expands RQFII, QFII Investment Quota, Xinhua News Agency (Beijing) 4 April 2012. Date of Access: 29 April 2012. [http://news.xinhuanet.com/english/china/2012-04/04/c\\_131506130.htm](http://news.xinhuanet.com/english/china/2012-04/04/c_131506130.htm).

<sup>384</sup> RMB Required Reserve Ratio for Deposit Taking Institutions Cut by 0.5 Percentage Points, People's Bank of China (Beijing) 18 February 2012. Date of Access: 5 March 2012. <http://www.pbc.gov.cn/publish/english/955/2012/20120227172256393663207/20120227172256393663207.html>.

<sup>385</sup> China cuts RRR to ease credit crunch, secure growth, Xinhua News Agency (Beijing) 18 February 2012. Date of Access: 5 March 2012. [http://news.xinhuanet.com/english/china/2012-02/18/c\\_131418271.htm](http://news.xinhuanet.com/english/china/2012-02/18/c_131418271.htm).

<sup>386</sup> China should reform banks to prevent risk: Central Bank, Xinhua News Agency (Beijing) 16 February 2012. Date of Access: 5 March 2012. [http://news.xinhuanet.com/english/china/2012-02/16/c\\_122713248.htm](http://news.xinhuanet.com/english/china/2012-02/16/c_122713248.htm).



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On 9 February 2012, the PBC announced the implementation of the Measures for the Pilot Program of Investment by Fund Management Companies and Securities Companies Approved as Renminbi Qualified Foreign Institutional Investors (RQFII) in Domestic Securities Market Program.<sup>387</sup> According to Xinhua, the trials for RQFII, launched in December 2011, were designed “to widen investment channels for overseas yuan funds on the Chinese mainland.”<sup>388</sup> The measures allow investors “to invest yuan-based funds raised in Hong Kong in the mainland securities market within a permitted quota” and the total investment quota is approximately 20 billion yuan (USD3.2 billion).<sup>389</sup> A government official also said that RQFII “will help diversify investment products for overseas RMB funds and facilitate off-shore RMB business.”<sup>390</sup> The RQFII is tightly regulated with the use of quotas and in addition to promoting the domestic investor base is also a mechanism to manage foreign exchange risks.

On 18 January 2012, the Ministry of Commerce released a notice to further improve management measures concerning foreign-invested companies. The measures are aimed to “regulate the approval procedures and foreign exchange management of foreign-funded investment companies, and promote the development of foreign-invested investment companies.”<sup>391</sup> Ensuring that foreign-funded investment companies should be noted and “registered in the system of administration of review” and ensuring that other types of enterprises are not allowed to be name themselves as ‘Investment Company’... or similar terms does this.<sup>392</sup> Such measures reflect China’s commitment to macroprudential strategies by strengthening supervisory independence and regulation in the investment sector.

On 28 December 2011, central bank governor Zhou Xiaochuan gave a keynote speech at the Central Economic Work Conference, stating that in 2012 the PBC would adhere to the principle

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<sup>387</sup> PBC Announcement on Implementation of RQFII Pilot Program, People’s Bank of China (Beijing) 9 February 2012. Date of Access: 5 March 2012. <http://www.pbc.gov.cn/publish/english/955/2012/20120227171723053208048/20120227171723053208048.html>.

<sup>388</sup> China's regulatory body considers expanding RQFII program: report, Xinhua News Agency (Beijing) 15 January 2012. Date of Access: 5 March 2012. [http://news.xinhuanet.com/english/china/2012-01/15/c\\_131361239.htm](http://news.xinhuanet.com/english/china/2012-01/15/c_131361239.htm).

<sup>389</sup> China's regulatory body considers expanding RQFII program: report, Xinhua News Agency (Beijing) 15 January 2012. Date of Access: 5 March 2012. [http://news.xinhuanet.com/english/china/2012-01/15/c\\_131361239.htm](http://news.xinhuanet.com/english/china/2012-01/15/c_131361239.htm).

<sup>390</sup> China to launch RQFII trials, Xinhua News Agency (Beijing) 16 December 2011. Date of Access: 5 March 2012. [http://news.xinhuanet.com/english/china/2011-12/16/c\\_131311460.htm](http://news.xinhuanet.com/english/china/2011-12/16/c_131311460.htm).

<sup>391</sup> Notice on Further Improving Management Measures Concerning Foreign-invested Companies by Ministry of Commerce and State Administration for Foreign Exchange, Ministry of Commerce (Beijing) 18 January 2012. Date of Access: 5 March 2012. <http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201202/20120207955891.html>.

<sup>392</sup> Notice on Further Improving Management Measures Concerning Foreign-invested Companies by Ministry of Commerce and State Administration for Foreign Exchange, Ministry of Commerce (Beijing) 18 January 2012. Date of Access: 5 March 2012. <http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201202/20120207955891.html>.

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of “making progress while maintaining stability.”<sup>393</sup> This is done by expanding domestic demand “to develop the real sector, to deepen reform and promote innovation, and to safeguard and improve the livelihood of people.”<sup>394</sup>

On 16 November 2011, the PBC released the China Monetary Policy Report for the third quarter of 2011. The PBC reaffirmed its commitment to improve the macroprudential policy framework and “to maintain a proper volume of all-system financing aggregates.”<sup>395</sup> It promised to “combine the adjustment of aggregates in the form of money, credit, and liquidity management with stronger macro-prudential management, and to properly adjust the measures in line with the macroeconomic changes and the soundness of the banking system.”<sup>396</sup> This is done with the intention to “encourage financial institutions to maintain sound operations, to adjust lending, and to boost their risk-prevention capability,” in line with the Cannes Summit commitment.<sup>397</sup>

Therefore, China is awarded a score of +1 for its compliance to the commitment to adopt macroeconomic policies to enhance its market resilience both in terms of widening investment markets and increasing supervisory measures.

*Analyst: Jason Li*

### **India: +1**

India has complied with its commitment to enhance market resilience through macroprudential policies.

On 10 March 2012, the RBI reduced the cash reserve ratio (CRR) from 5.5% to 4.75%, a measure to address “the persistent structural liquidity deficit.”<sup>398</sup> This follows a cut in the CCR effective 28 January 2012 of 50 bps from 6.0% to 5.5%.<sup>399</sup> The monetary policy goals behind the CRR

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<sup>393</sup> PBC Will Continue to Implement Prudent Monetary Policy and Promote Stable and Healthy Economic Development, People’s Bank of China (Beijing) 28 December 2011. Date of Access: 5 March 2012.

<http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012.html>

<sup>394</sup> PBC Will Continue to Implement Prudent Monetary Policy and Promote Stable and Healthy Economic Development, People’s Bank of China (Beijing) 28 December 2011. Date of Access: 5 March 2012.

<http://www.pbc.gov.cn/publish/english/955/2012/20120106163202059869012/20120106163202059869012.html>

<sup>395</sup> China Monetary Policy Report Quarter Three, 2011, People’s Bank of China (Beijing) 16 November 2011. Date of Access: 5 March 2012.

[http://www.pbc.gov.cn/image\\_public/UserFiles/english/upload/File/2011Q3MPR.pdf](http://www.pbc.gov.cn/image_public/UserFiles/english/upload/File/2011Q3MPR.pdf)

<sup>396</sup> China Monetary Policy Report Quarter Three, 2011, People’s Bank of China (Beijing) 16 November 2011. Date of Access: 5 March 2012.

[http://www.pbc.gov.cn/image\\_public/UserFiles/english/upload/File/2011Q3MPR.pdf](http://www.pbc.gov.cn/image_public/UserFiles/english/upload/File/2011Q3MPR.pdf)

<sup>397</sup> China Monetary Policy Report Quarter Three, 2011, People’s Bank of China (Beijing) 16 November 2011. Date of Access: 5 March 2012.

[http://www.pbc.gov.cn/image\\_public/UserFiles/english/upload/File/2011Q3MPR.pdf](http://www.pbc.gov.cn/image_public/UserFiles/english/upload/File/2011Q3MPR.pdf)

<sup>398</sup> Mid-Quarter Monetary Policy Review: March 2012, Reserve Bank of India (Mumbai) 15 March 2012. Date of Access: 18 March 2012.

[http://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=26124](http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=26124)

<sup>399</sup> Third Quarter Review of Monetary Policy 2011-12 Press Statement by Dr. D. Subbarao, Governor, Reserve Bank of India (Mumbai) 24 January 2012. Date of Access: 18 March 2012.

[http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25841](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25841)

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cuts, according to central bank governor Dr. D. Subbarao, are “to manage liquidity to ensure that it remains in moderate deficit” and “to respond to increasing downside risks to growth.”<sup>400</sup> These policies aim to increase India’s resilience in the face of significantly tightened liquidity since November 2011.<sup>401</sup>

On 17 January 2012, the RBI announced that banks could allow unlisted companies to hedge the price risk of commodities, with the exception of gold, silver and platinum, in international markets.<sup>402</sup> The focus of this measure is on risk containment.<sup>403</sup>

On 23 November 2011, the RBI effectively promoted the domestic investor base by hiking interest rates on Non-Resident (External) Rupee Term Deposits and on Foreign Currency Non-Resident (Bank) Deposits, both effective 23 November 2011.<sup>404</sup>

On 1 December 2011, the Reserve Bank of India (RBI) implemented Guidelines on Credit Default Swaps for corporate bonds.<sup>405</sup> The guidelines are a set of prudential policies aimed to help banks or investors manage credit risk associated with corporate bonds.<sup>406</sup>

On 21 February 2012, the RBI released its Draft Guidelines of Liquidity Risk Management and Basel III Framework on Liquidity Standards.<sup>407</sup> In addition to addressing Basel Principles, the guidelines address deficiencies in liquidity risk management through consolidation and/or harmonization of various instructions and guidelines issued by the RBI.<sup>408</sup>

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<sup>400</sup> Third Quarter Review of Monetary Policy 2011-12 Press Statement by Dr. D. Subbarao, Governor, Reserve Bank of India (Mumbai) 24 January 2012. Date of Access: 18 March 2012. [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25841](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25841).

<sup>401</sup> Macroeconomic and Monetary Developments: Third Quarter Review 2011-12, Reserve Bank of India (Mumbai) 23 January 2012. Date of Access: 18 March 2012. [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25835](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25835).

<sup>402</sup> Risk Management and Inter-Bank Dealings – Commodity Hedging, Reserve Bank of India (Mumbai) 17 January 2012. Date of Access: 4 May 2012. <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6946&Mode=0>.

<sup>403</sup> RBI Allows Unlisted Cos to Hedge Commodity Price Risk, The Hindu Business Line (Mumbai) 17 January 2012. Date of Access: 4 May 2012. <http://www.thehindubusinessline.com/industry-and-economy/banking/article2808878.ece>.

<sup>404</sup> RBI Hikes Interest Rates on NRE and FCNR (B) Deposits, Reserve Bank of India (Mumbai) 23 November 2011. Date of Access: 18 March 2012. [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25471](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25471).

<sup>405</sup> Introduction of Credit Default Swaps (CDS) for Corporate Bonds, Reserve Bank of India (Mumbai) 30 November 2011. Date of Access: 18 March 2012. [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25511](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25511).

<sup>406</sup> Prudential Guidelines on Credit Default Swaps (CDS), Reserve Bank of India (Mumbai) 30 November 2011. Date of Access: 18 March 2012. <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6852&Mode=0>.

<sup>407</sup> Liquidity Risk Management and Basel III Framework on Liquidity Standards – Draft Guidelines, Reserve Bank of India (Mumbai) 21 February 2012. Date of Access: 18 March 2012. [http://www.rbi.org.in/Scripts/bs\\_viewcontent.aspx?Id=2498](http://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=2498).

<sup>408</sup> RBI Releases Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards, Reserve Bank of India (Mumbai) 21 February 2012. Date of Access: 18 March 2012. [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=25997](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25997).

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India therefore receives a compliance score of +1 to reflect its implementation of prudential policies and guidelines to enhance market resilience.

*Analysts: Dana Wagner and Manasi Joshi*

**Indonesia: +1**

Indonesia has fully complied with its commitment to enhance market resilience. Bank Indonesia has implemented macroprudential policies aimed at cooling inflation and has signaled intention to grow the rural and Islamic banking sectors to strengthen resilience and promote the domestic investor base.

On 9 February 2012, Bank Indonesia decreased its benchmark interest rate to 5.75%, a cut of 25 basis points, in a step to boost Indonesia's economic growth.<sup>409</sup> The decision was intended to achieve "inflation target and exchange rate stability" and the central bank said it will "continue to strengthen monetary and macro-prudential policy."<sup>410</sup> This follows a 50 bps decrease implemented on 10 November 2011 to 6%, a decision that was also taken to reduce the impacts of the worsening global economy on domestic markets.<sup>411</sup>

On 5 December 2011, Bank Indonesia launched two sets of guidelines, contained in the Generic BPR Apex Model and the BPR Business Model, on how to establish a rural bank and manage it sustainably.<sup>412</sup> The guidelines aim to grow rural banks, because of their critical role in overall market resilience, by improving financial performance and capital, management, and business strategy.<sup>413</sup>

On 16 March 2012, the central bank set rules that will limit housing loans and set minimum down payments for auto purchases. These are set to take effect on 15 June 2012.<sup>414</sup> The prudential policies are intended to prevent excessive lending that could lead to price bubbles.<sup>415</sup> Cooling the auto sector is important for market resilience because manufacturing, along with the transportation and communication sectors, is leading Indonesia's economic growth.<sup>416</sup>

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<sup>409</sup> BI Rate Lowered by 25 bps to 5.75%, Bank Indonesia (Jakarta) 9 February 2012. Date of Access: 18 March 2012. [http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140312.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140312.htm).

<sup>410</sup> BI Rate Lowered by 25 bps to 5.75%, Bank Indonesia (Jakarta) 9 February 2012. Date of Access: 18 March 2012. [http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140312.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140312.htm).

<sup>411</sup> Board of Governor Decreased BI Rate to 6,00%, Bank Indonesia (Jakarta) 10 November 2011. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_133711.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_133711.htm).

<sup>412</sup> Bank Indonesia Launches the Generic BPR Apex Model Book and the BPR Business Model Book, Bank Indonesia (Jakarta) 5 December 2011. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_134211.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_134211.htm).

<sup>413</sup> Bank Indonesia Launches the Generic BPR Apex Model Book and the BPR Business Model Book, Bank Indonesia (Jakarta) 5 December 2011. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_134211.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_134211.htm).

<sup>414</sup> Indonesia sets rules to prevent housing, auto loan bubbles, Reuters (Jakarta) 16 March 2012. Date of Access: 18 March 2012. <http://www.reuters.com/article/2012/03/16/indonesia-economy-cbank-idUSL4E8EG1XD20120316>.

<sup>415</sup> Indonesia sets rules to prevent housing, auto loan bubbles, Reuters (Jakarta) 16 March 2012. Date of Access: 18 March 2012. <http://www.reuters.com/article/2012/03/16/indonesia-economy-cbank-idUSL4E8EG1XD20120316>.

<sup>416</sup> BI Rate Lowered by 25 bps to 5.75%, Bank Indonesia (Jakarta) 9 February 2012. Date of Access: 18 March 2012. [http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140312.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140312.htm).

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Indonesia's policies to enhance market resilience are further evidenced by two rating agency upgrades. On 18 January 2012, Moody's Investors Service upgraded the sovereign rating to Baa3, citing resilient economic growth, "the presence of policy buffers and tools that address financial vulnerabilities," and "a healthier banking system capable of withstanding stress."<sup>417</sup> On 15 December 2011, Fitch Ratings upgraded the sovereign credit rating to BBB-, reflecting Indonesia's "strengthened external liquidity, low and declining public debt ratios, and a prudent overall macro policy framework."<sup>418</sup> A recent affirmation of BB+ long-term and B short-term sovereign credit ratings from Standard and Poor's signals Indonesia's "declining public sector debt burden, strengthening external liquidity, and resilient economic performance."<sup>419</sup>

Bank Indonesia committed to implement policies in 2012 to develop the Islamic banking sector, said Deputy Governor Halim Alamsyah on 14 December 2011. Development of Islamic banking will enhance Indonesia's resilience because the sector is relatively insulated from global financial shocks. This is due to the financing portfolio of Islamic banks, which is allocated almost entirely to productive sectors and which is primarily extended to domestic business — the sector is therefore not directly linked to foreign trade.<sup>420</sup>

As a result of the numerous macroprudential policies implemented by Indonesia to enhance market resilience, as well as decisions taken by government to further enhance resilience, Indonesia receives a +1 compliance score.

*Analysts: Dana Wagner and Manasi Joshi*

### **Mexico: +1**

Mexico has complied with its commitment to adopt macroeconomic policies to enhance market resilience. The Mexican economy has grown at a moderate pace since the crisis, enabled by resilience-focused improvements in employment, credit, and investment conditions.<sup>421</sup> Mexico has continued to implement macroprudential policies since the Cannes Summit.

On 29 November 2011, Mexico's Foreign Exchange Commission announced a two-part policy "with the goal of preserving the orderly functioning of the foreign exchange market."<sup>422</sup> First, the Bank of Mexico temporarily suspended auction of FX options which grant the right to sell dollars

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<sup>417</sup> Moodys Upgrades Indonesia Sovereign Rating, Bank Indonesia (Jakarta) 18 January 2012. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140212.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140212.htm).

<sup>418</sup> Fitch Rating Upgraded Indonesia to Investment Grade, Bank Indonesia (Jakarta) 15 December 2011. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/SP\\_13452011.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/SP_13452011.htm).

<sup>419</sup> S&P Affirmed Indonesia Sovereign Rating at BB+, Outlook Positive, Bank Indonesia (Jakarta) 23 April 2012. Date of Access: 4 May 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_140912.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140912.htm).

<sup>420</sup> Bank Indonesia hosts Seminar on Outlook for Islamic Banking in 2012, Bank Indonesia (Jakarta) 14 December 2011. Date of Access: 18 March 2012.

[http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp\\_134411.htm](http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_134411.htm).

<sup>421</sup> Mexico: Review Under the Flexible Credit Line Arrangement, International Monetary Fund (Washington) December 2011. Date of Access: 15 March 2012.

<http://www.imf.org/external/pubs/ft/scr/2011/cr11367.pdf>.

<sup>422</sup> Mexico Suspends Monthly Dlr Option Sales to Ensure Liquidity, Market News International (Mexico City) 29 November 2011. Date of Access: 15 March 2012. <https://mninews.deutsche-boerse.com/index.php/mexico-suspends-monthly-dlr-option-sales-ensure-liquidity?q=content/mexico-suspends-monthly-dlr-option-sales-ensure-liquidity>.

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to the Bank. Second, the central bank announced it would provide FX liquidity up to USD 400 million per day when the currency depreciated by more than 2% from the previous day's rate.<sup>423</sup>

On 9 January 2012, the Ministry of the Economy and numerous large corporations and industrial associations in Mexico signed an amendment to the Agreement for Continuous Improvement of Business Practices.<sup>424</sup> Goals of the amendments include strengthening the domestic market for SMEs and protecting small producers.<sup>425</sup> This is done through regulatory advancements, for example, a grievance mechanism aimed to enhance conflict resolution between businesses.<sup>426</sup>

At the time of writing, Mexico's Finance Ministry is considering issuing sovereign bonds in Japanese yen and euros in an effort to diversify its investor base and exposure to international markets.<sup>427</sup>

Mexico has implemented market resilient policies since the Cannes Summit, primarily through policies to manage foreign exchange risks and enhance supervisory mechanisms, and therefore receives a compliance score of +1.

*Analyst: Dana Wagner*

### **Russia: +1**

Russia has fully complied with the commitment to enhance the resilience of its economy.

Russia has undertaken measures to ensure the robustness of its infrastructure for clearing and settlement systems.

On 7 December 2011, Russian President Dmitry Medvedev signed a law, providing for the establishment of central depository in the Russian securities market. This depository will improve settlement system infrastructure in Russia.<sup>428</sup>

Russian authorities have taken measures aimed at deepening financial market liquidity.

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<sup>423</sup> Mexico: Review Under the Flexible Credit Line Arrangement, International Monetary Fund (Washington) December 2011. Date of Access: 15 March 2012.

<http://www.imf.org/external/pubs/ft/scr/2011/cr11367.pdf>.

<sup>424</sup> Press release No. 003/12, Ministry of the Economy (Mexico City) 9 January 2012. Date of Access: 13 March 2012. <http://www.economia.gob.mx/eventos-noticias/sala-de-prensa/comunicados/7132-boletin-003-1>.

<sup>425</sup> Signing of Agreement Amending the Agreement for Continuous Improvement of Business Practices, Ministry of the Economy, (Mexico City) 9 January 2012. Date of Access: 15 March 2012. <http://www.economia.gob.mx/eventos-noticias/sala-de-prensa/discursos/7166-firma-del-convenio-modificatorio-del-convenio-de-concertacion-para-la-mejora-continua-de-practicas-comerciales>.

<sup>426</sup> Signing of Agreement Amending the Agreement for Continuous Improvement of Business Practices, Ministry of the Economy, (Mexico City) 9 January 2012. Date of Access: 15 March 2012. <http://www.economia.gob.mx/eventos-noticias/sala-de-prensa/discursos/7166-firma-del-convenio-modificatorio-del-convenio-de-concertacion-para-la-mejora-continua-de-practicas-comerciales>.

<sup>427</sup> Update: Mexico Weighs Issuing Bonds in Yen, Euros to Diversify, The Wall Street Journal (New York City) 8 March 2012. Date of Access: 15 March 2012. <http://online.wsj.com/article/BT-CO-20120308-716617.html>.

<sup>428</sup> Federal Law On Central Depository Is Signed, Office of the President (Moscow) 7 December 2011. Date of Access: 31 March 2012. <http://kremlin.ru/news/13880>.

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On 9 December 2011, Russian President instructed the Government to facilitate the formation of liquid futures market in Russia for trading in contracts on domestically-produced commodities.<sup>429</sup>

On 28 December 2011, Russian Presidential Aide Arkady Dvorkovich declared that the instruments of increasing liquidity in the banking sector used by the Central Bank and the Government, which had been created during the world financial crisis, may be re-introduced in case of the situation in the global economy deteriorates.<sup>430</sup>

Russian authorities have taken measures to strengthen supervisory independence, resources and capacity.

On 9 December 2011, Russian President gave instructions to the Government, concerning the establishment of a special authority to manage Russia's government debt, as well as Reserve Fund and National Welfare Fund assets.<sup>431</sup>

On 22 March 2012, Russian President instructed the Government to propose amendments to legislation in the financial sphere aimed at ensuring market stability and strengthening supervisory independence. Amendments should, inter alia, give to the Russian Central Bank «the right to use an informed judgment in exercising supervisory functions» and facilitate the establishment of a Financial Stability Council in Russia.<sup>432</sup>

Russia has followed the recommendations made by the FSB, IMF and World Bank to address several EDME stability issues. Thus, it is awarded a score of +1.

*Analyst: Andrey Shelepov*

#### **Saudi Arabia: 0**

Saudi Arabia has partially complied with its commitment to enhance market resilience. It is in the process of implementing policies to increase financial supervision.

On 4 February 2012, the Saudi Arabian Monetary Agency and The Capital Market Authority signed a memorandum of cooperation to strengthen oversight of financial entities through better inter-agency coordination.<sup>433</sup> The framework will improve supervision, oversight, and risk

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<sup>429</sup> Instructions following meeting of the International Advisory Board on establishing and developing an international financial centre in Russia, Office of the President (Moscow) 9 December 2011. Date of Access: 31 March 2012. <http://kremlin.ru/assignments/13925>.

<sup>430</sup> Presidential Aide Arkady Dvorkovich answered journalists' questions following a meeting on economic issues, Office of the President (Moscow) 28 December 2011. Date of Access: 31 March 2012. [http://eng.news.kremlin.ru/ref\\_notes/70](http://eng.news.kremlin.ru/ref_notes/70).

<sup>431</sup> Instructions following meeting of the International Advisory Board on establishing and developing an international financial centre in Russia, Office of the President (Moscow) 9 December 2011. Date of Access: 31 March 2012. <http://eng.kremlin.ru/news/3204>.

<sup>432</sup> Instructions following meeting on economic issues, Office of the President (Moscow) 22 March 2012. Date of Access: 31 March 2012. <http://eng.kremlin.ru/news/3575>.

<sup>433</sup> Memorandum of Co-operation Between Saudi Arabian Monetary Agency and The Capital Market Authority, Saudi Arabian Monetary Agency (Riyadh) 4 February 2012. Date of Access: 18 March 2012. <http://www.sama.gov.sa/sites/samaen/News/Pages/agreesett.aspx>.

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management “leading to the development of the financial sector and enhancing its stability.”<sup>434</sup> A committee has been established to implement this framework.

A partial compliance score of 0 is assigned because Saudi Arabia has not fully implemented policies to strengthen market resilience through supervisory capacity, but is in the process of implementation.

*Analysts: Dana Wagner and Manasi Joshi*

### **South Africa: -1**

South Africa has not complied with its commitment to use macroeconomic policy to enhance market resilience.

On 29 March 2012, the Monetary Policy Committee released a statement on the South African Reserve Bank’s monetary policies, noting that the “domestic economic growth remains constrained, but the improved performance of the economy in the fourth quarter of 2011, and some positive developments in the global economy indicate a slightly better outlook than previously expected,” as such “the Committee is of the view that at this stage the current stance of monetary policy is appropriate to support the real economy.”<sup>435</sup> In other words, the MPC made no adjustments and pursued no new programs.

On 1 March 2012, the South African Reserve Bank implemented changes to its monetary policies, primarily the allocation of the amounts tendered by banks in the weekly main repo auctions based on a “pro rata basis, up to the announced average daily liquidity requirement for the week in instances where the auction is over-subscribed.”<sup>436</sup> This is to correct problems that have arisen from the previous system where banks were able to absorb the whole amount offered at the auctions, leading to the money-market being in a surplus position for which banks are penalized. However, the Bank emphasizes that the “refinements mentioned above are operational in nature and do not in any way reflect a change in the monetary policy stance of the Bank.”<sup>437</sup> Thus these changes are not targeted to protect market resilience.

On 19 January 2012, the MPC released its monetary policy statements. While acknowledging that the “global outlook remains clouded,” the central bank’s governor, Gill Marcus “feels that given the lack of demand pressures, monetary tightening at this stage would not be appropriate. At the same time, the nominal policy rate is at a long term low and the real policy rate is slightly

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<sup>434</sup> Memorandum of Co-operation Between Saudi Arabian Monetary Agency and The Capital Market Authority, Saudi Arabian Monetary Agency (Riyadh) 4 February 2012. Date of Access: 18 March 2012. <http://www.sama.gov.sa/sites/samaen/News/Pages/agreesett.aspx>.

<sup>435</sup> Statement of the Monetary Policy Committee, South African Reserve Bank (Pretoria) 29 March 2012. Date of Access: 29 April 2012. <http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5005>.

<sup>436</sup> Publication Detail D1/2012, South African Reserve Bank (Pretoria) 23 January 2012. Date of Access: 5 March 2012. <http://www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=4944>.

<sup>437</sup> South African Reserve Bank’s monetary policy operational procedures, South African Reserve Bank (Pretoria) 22 February 2012. Date of Access: 5 March 2012. <http://www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=4968>.



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negative, indicating a monetary policy stance that is accommodative of the real economy.”<sup>438</sup> Interest rates were held steady and no change in monetary policy was proposed.

Therefore, as South Africa’s change in monetary policy has been operational and not explicitly intended to enhance market resilience as no further macroeconomic policies have been adopted it is awarded a score of -1.

*Analyst: Jason Li*

### **Turkey: +1**

Turkey has fully complied with its commitment to use macroeconomic policies to enhance market resilience. The Central Bank of the Republic of Turkey (CBRT) releases monthly press reports that track economic developments on its Monetary Policy Committee (MPC) meetings, open market operations, and interest rates — which indicate a high and consistent level of supervisory independence.<sup>439</sup>

On 18 April 2012, the MPC announced that it has decided to keep the short term interest rates determined on 21 February 2012 but indicated that “additional monetary tightening may be implemented more frequently in the forthcoming period.”<sup>440</sup> The Bank also stated in the summary of the MPC meeting that the policy stance is aimed to “facilitate price stability and financial stability” and the monetary policy stance may be revised if it has an “adverse effect on the medium-term inflation outlook.”<sup>441</sup>

The Bank is taking steps to protect its supervisory capability to intervene in the economy to protect the resilience of the markets. On 29 March 2012, the Bank announced that it had “enabled the facility that allows holding up to the entire amount of reserve requirements for precious metal deposit accounts, and up to 10% of reserve requirements for FX liabilities excluding precious metal deposit accounts and Turkish lira liabilities in the form of standard gold.”<sup>442</sup> One aim of this decision is to “provide the banking system with more flexibility in liquidity management.”<sup>443</sup>

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<sup>438</sup> Statement of Monetary Policy Committee, South African Reserve Bank (Pretoria) 19 January 2012. Date of Access: 5 March 2012. <http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=4930>.

<sup>439</sup> Press Releases, Central Bank of the Republic of Turkey (Ankara). Date of Access: 5 March 2012. <http://www.tcmb.gov.tr/yeni/announce/2012/announce.php>.

<sup>440</sup> Decision of the Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 18 April 2012. Date of Access: 29 April 2012. <http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-18.pdf>.

<sup>441</sup> Summary of the Monetary Policy Committee Meeting, Central Bank of the Republic of Turkey (Ankara) 18 April 2012. Date of Access: 29 April 2012. <http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-19.pdf>.

<sup>442</sup> Press Release on the Facility of Maintaining Reserve Requirements as “Standard Gold”, Central Bank of the Republic of Turkey (Ankara) 29 March 2012. Date of Access: 29 April 2012. <http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-15.htm>.

<sup>443</sup> Press Release on the Facility of Maintaining Reserve Requirements as “Standard Gold”, Central Bank of the Republic of Turkey (Ankara) 29 March 2012. Date of Access: 29 April 2012. <http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-15.htm>.

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On 21 February 2012, the MPC announced its decision to adjust the short term interest rates.<sup>444</sup> It held the one-week repo rate at 5.75%. The lending rate for overnight interest rates was cut from 12.5% to 11.5%; the interest rate on borrowing facilities provided for primary dealers via repo transactions was cut from 12% to 11%; and the lending rate for late liquidity window interest rates was cut from 15.5% to 14.5%. These measures are part of a “rebalancing process” to improve the current account deficit.<sup>445</sup> Although the cuts may have an inflationary effect on the economy, the bank also said that a “cautious monetary policy stance should be maintained for a while in order to keep inflation outlook consistent with the medium term targets.”<sup>446</sup>

On 23 November 2011, the MPC decided that the “impacts of the measures undertaken on credit, domestic demand, and inflation expectations would be monitored closely and the amount of Turkish lira funding via one-week repo auctions would be adjusted on both sides.”<sup>447</sup> It also set the one-week repo rate at 5.75%.<sup>448</sup> One-week repo auctions are employed to facilitate banks’ liquidity management and assist them in estimating their total funding cost as well as to help slow inflation while supporting growth in the markets. The MPC emphasized its continued monitoring on “global developments closely and take the needed measures promptly to maintain the stability in the domestic financial markets.”<sup>449</sup>

Therefore, Turkey is awarded a score of +1 for pursuing a flexible monetary policy and vigilant supervision of the economy to enhance market resilience.

*Analyst: Jason Li*

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<sup>444</sup> Decision of the Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 21 February 2012. Date of Access: 5 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-10.pdf>.

<sup>445</sup> Decision of Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 21 February 2012. Date of Access: 5 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-10.pdf>.

<sup>446</sup> Decision of Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 21 February 2012. Date of Access: 5 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2012/ANO2012-10.pdf>.

<sup>447</sup> Press Release on Open Market Operations, Central Bank of the Republic of Turkey (Ankara) 25 November 2011. Date of Access: 5 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2011/ANO2011-55.htm>.

<sup>448</sup> Decision of Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 23 November 2012. Date of Access: 5 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2011/ANO2011-53.pdf>.

<sup>449</sup> Decision of the Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 22 December 2011. Date of Access: 18 March 2012.

<http://www.tcmb.gov.tr/yeni/announce/2011/ANO2011-58.pdf>.