THE DAILY tribune

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QUOTE OF THE DAY

LIFE IS REALLY SIMPLE, BUT WE INSIST ON MAKING IT COMPLICATED.
CONFUCIUS

Who is the free rider on the OPEC+ journey?

FAISAL FAEQ

The journey of the OPEC+ group to cut oil production began in January 2017 and lasted until the end of March 2020.

This entailed 39 months of collaborated efforts among 24 oil producers outside and inside OPEC.

It amounted to total output cuts of some 1.2 million barrels a day, where OPEC producers agreed to cut 800,000 barrels per day (bpd) and non-OPEC producers by 400,000 bpd. Within this, Saudi Arabia reduced output by 500,000 bpd and Russia by 230,000 bpd.

At the end of 2019, the agreement was amended to deepen the output cuts by 500,000 bpd to 1.7 million bpd through the end of March 2020.

Who then shouldered most of the burden of the OPEC+ production reduction?

Since the very start of the agreement, the Kingdom of Saudi Arabia has absorbed the lion's share of the cuts.

It assumed more than 41 percent of the total OPEC cuts, even though its production share was just 31 percent.

Its motivation has always been to ensure the security of energy supplies and balance in oil markets for the good of the global economy.

Russia's commitment to comply with the OPEC+ output cuts was shaky and questionable from the outset, as some resistance came from the Russian oil companies who tried to hinder these efforts.

Russia also claimed it was difficult to reduce production due to the harsh climate and geological conditions of many production areas during the winter season.

Production figures shows that on average, Moscow produced about 70,000 bpd more than it should under the OPEC+ agreement.

On the other hand, Saudi Arabia committed more than i

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Maintaining Banking System Safety amid th

BY TOBIAS ADRIAN AND ADITYA NARAIN

Today we face economic upheaval potentially more severe than we witnessed during the global financial crisis. The coronavirus pandemic is a different kind of shock. Never before have modern economies shut down at the drop of a hat. From one week to the next, many workers lost their jobs and paychecks. Restaurants, hotels, and airplanes all emptied. And consumers and businesses now face steep losses in income—and potentially widespread bankruptcies.

Pressure on the banking system is growing and higher defaults on debt are imminent. And many now expect a shock to the financial sector similar in magnitude to the 2008 crisis.

The question on the minds of policymakers is how they should prepare for this.

Just over a decade ago, global policy makers came together in an unprecedented display of coordination to launch the development of a revamped regulatory framework for the financial sector. They significantly raised the minimum standards for the quality and quantity of bank capital and liquidity and succeeded in building a more resilient banking system designed to hold buffers above the minimum that could be safely drawn down in stressed conditions.

In the current crisis, national authorities are taking a host of measures to provide fiscal support, and central banks are opening new liquidity lines. How should bank supervisors respond to ensure continued trust and confidence in the banking system?

Like the health experts, bank supervisors are responding to a fast-moving and extraordinary situation. Supervisors must combine the tools from their playbooks for dealing with natural disasters, operational risk events, and bank stress episodes.

Banking system prescription

Like the health experts, bank supervisors are responding to a fast-moving and extraordinary situation. Supervisors must combine the tools from their playbooks for dealing with natural disasters, operational risk events, and bank stress episodes. With its global vantage point, and drawing from past experience, the IMF can offer some additional guidance on the way forward:

Don't change the rules. Doing this in the midst of a crisis will likely cause more confusion. Likewise, be prepared to give banks time to meet rules if they fall short, and hold off on implementing new initiatives—banks should remain focused on maintaining ongoing operations, given the increased difficulties of conducting such operations remotely.

Use the buffers. Regulators have to communicate clearly that capital and liquidity buffers should support continued bank lending, without adverse consequences for bank management. Banks built these buffers well above Basel minimum standards to manage strains on liquidity and revenue loss from missed loan repayments.

Encourage loan modification. Supervisors should clearly communicate to banks to be proactive in rescheduling their loan portfolio for those borrowers and sectors that have been hard hit by the severe, but temporary, shock. They should also remind banks about flexible credit risk management and the accounting standards for impairment in these situations. Accounting bodies have helpfully stepped in to clarify to auditors how such modifications should be viewed once the economy begins to recover.

Don't hide the losses. Banks, investors, shareholders and even taxpayers have to bear them. Transparency helps prepare all stakeholders; surprises only worsen their response, as was proven during the 2008 crisis.

Clarify regulatory treatment of support measures. Clarifying upfront how banks and regulators should treat fiscal measures, including measures directly targeted at borrowers, credit guarantees, payment holidays, direct transfers and subsidies—beyond any current guidance in the Basel capital framework—would help with overall transparency.

Strengthen communication. Encourage continuous dialogue between supervisors and banks, especially in this unprecedented situation of working remotely with colleagues, customers, and supervisors. Typically, reporting requirements in key areas, such as liquidity and creditor positions, are enhanced in a crisis, but given operational disruptions, deferring other reporting requirements less material to assessments of financial health may make sense.

Coordinate across borders. Banking is a global business. Broad coordination among national regulators at the international level is imperative. This crisis will pass eventually, and the effects may take time to dissipate, but preserving the integrity of the international framework will be crucial for the credibility and integrity of the global financial system. International bodies like the Financial Stability Board and the Basel Committee on Banking Supervision are working night and day to do just this.

Will it be enough?

Simply put, it may be too early to tell. At this point, conditions in many countries are as severe as the adverse scenario of the stress tests that banking regulators commonly use to assess the strength of their banking systems.

And it might get worse.

All of this assumes that economic activity cou er this year, but w consider more adv Under more seve circumstances, w rethink our playbo ly. Some banking s

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