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Statement by Mr. Martowardojo
Indonesia

On behalf of
Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia,
Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore,
Thailand, Tonga, and Vietnam

IMFC Statement by Mr. Agus D.W. Martowardojo
Governor of Central Bank of Indonesia

International Monetary and Financial Committee
April 21, 2018

On behalf of the constituency representing Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, the Philippines, Singapore, Thailand, Tonga, and Vietnam

Introduction

We welcome that positive momentum in the global economy has become broad-based, supported by a pickup in investment and international trade. Nevertheless, we remain vigilant of global downside risks that could impede recovery and weigh on medium-term prospects, including escalating trade conflicts, financial market vulnerabilities and its impact on volatility of capital flows, and geopolitical strains. The fund's policy advice to members to secure the current growth momentum and raise medium-term growth will be critical in addressing these downside risks and creating more sustainable and inclusive growth in the medium-term.

Regional Prospects

The upswing in international trade drove stronger growth in 2017 in the SEAVG constituency. The more export oriented economies experienced higher growth, underpinned by the pickup in external demand from major trading partners and modest rise in commodity prices. In addition, stronger activity has also been supported by resilient consumption and public infrastructure spending. Going forward, the short-term outlook for SEAVG is expected to be solid and strong. Albeit currently, a few countries in our constituency are experiencing the impact of natural disasters and thus are experiencing lower growth compared to the majority. Overall, countries in our constituency remain alert of the risk that could weigh on medium-term prospect. In that context, we will put forward efforts to lift potential output growth and enhance inclusiveness through implementing structural reforms, particularly in infrastructure and human capital, that are crucial to sustainable and private-sector led growth.

Given lingering uncertainties and global economic dynamics, we are very mindful of the global economic developments especially those that will have significant impact to our domestic economies. To that end, we are particularly concerned of a sharp and larger than expected tightening of global financial conditions as this will potentially induce volatility of capital flows. In this context, the role of the Fund's policy to help address this condition would be crucial. This also highlights the importance of strengthening the global financial safety net (GFSN) in order to mitigate the situation.

Enhancing Surveillance and Policy Advice

We welcome the Managing Director's Global Policy Agenda that outline policy steps to tackle key challenges ahead. Given the possible sharp tightening of financial conditions and escalation of trade conflicts that could derail the current positive momentum, we support the GPA's call for policymakers to enhance financial sector resilience, rebuild policy buffers, implement necessary structural reforms, and foster international cooperation. In this respect, the Fund can support members by providing member-tailored policy advice via IMF's bilateral surveillance and programs, strengthening capacity developments, developing a strategy to assess the impact of technological progress and digitalization, improving support for countries vulnerable to natural disasters, and advocating multilateral cooperation to address global challenges, including promoting an open and rule-based multilateral trade system. We look forward to the 2019 Comprehensive Surveillance Review to lay out the medium-term surveillance agenda and conduct a thorough assessment of the traction of Fund advice

Moving to multilateral cooperation to tackle global imbalances, we note the Fund's plan to employ an updated External Balance Assessment methodology in preparing its 2018 External Sector Report. However, since the multilaterally consistent and model-based approach has its limitations, we caution that care must be taken in interpreting the model results, and that specific country circumstances must be dully considered and transparently documented. An effective strategy for addressing imbalances should center on the structural causes of savings-investment gaps.

As mentioned above, we are particularly concerned of a sharp and larger than expected tightening of global financial conditions as this will potentially induce volatility of capital flows. Our constituency members are well-aware of the risks of capital flights and FX mismatches, particularly in shallow financial markets, and cognizant of the need to have sufficient policy toolkit. To that end, we welcome the continuation of work to develop further understanding on capital flow measures (CFM) and macroprudential policy measures (MPM). In this context, we also encourage that the IMF institutional view on capital flows to take into account the experience of the implementation of CFM/MPM to date. In our experience, the CFM/MPM is being implemented with the main objective to preserve macroeconomic and financial stability, and is not used to substitute warranted macroeconomic adjustment. Therefore, we would like to again call for acknowledgement on the CFM as part of policy toolkit, especially for emerging market economies.

Regarding technological advancement and digitalization, we encourage the Fund to continue its work on assessing the impact of technology innovations on the membership. Technological innovation has been transforming financial services by revealing its potentials to improve efficiency and choice as well as contributing to more inclusive economic growth. We view that this trend is not something to be restrained, but rather it is something that we must prepare to embrace. Digital technology is in fact a breakthrough that enable us to circumvent the problem of infrastructure in most members. Thus we hope that this breakthrough can help us in achieving a more inclusive growth. However, we are also cognizant that such advanced technology would also bring us challenges. Issues of data security risk stands out, as access and location of data has become increasingly distributed. To that end, countries must prepare to make sure that this technological advancement will be able to bring equal benefit to all. In addition, the tasks ahead will need additional vigilance in the area of information security, consumer protection, and operational risk. We also believe that a strong foundation in human capital, infrastructure, regulation, and ethics will serves as critical prerequisites. In this vein, to gain the optimal benefits of financial technology, we support Fund's proposal to adopt cooperative approach to regulation, while addressing potential risks to stability and integrity.

Making the Global Financial Safety Net Stronger *and More Inclusive*

We welcome the effort to strengthen the GFSN and believe that this can be achieved through the finalization of the 15th General Review of Quotas (GRQ) as well as through the improvement of Fund's lending toolkit. We are of the view that the current level of Fund's resources may not be sufficient and an increase in Fund quota resources is warranted to ensure that the Fund remains quota-based and adequately-resources institution and maintains, at least, the current level of lending capacity amid amplified risks faced by the membership.

To that extent, we believe that improving the Fund's toolkit such that for crisis prevention is vital for strengthening the GFSN and thus welcome the Fund's continued efforts to add toolkits which are more in sync with members' needs. In this context, we regret that there was insufficient support to establish a new lending instrument, but view that the proposal provides a blue print for future efforts in this area. On regional financing arrangement (RFA), while we applaud that the Fund has strengthened coordination with RFAs, including through the Policy Coordination Instruments (PCI), we encourage the Fund to continue to increase the intensity of coordination with RFA, in particular to improve modalities and address the issue of convergence as well as to strengthen surveillance effort to avoid overlapping.

Maintaining the Fund as a strong, quota-based and adequately-resourced institution is crucial to preserve its role at the center of the GFSN and to fulfill its mandate. In this vein, members must work together, to ensure that the 15th General Review of Quotas (GRQ) can be concluded as scheduled. In this context, we would like to highlight the importance of flexibility, pragmatism, and openness by all parties to build consensus going forward. Further, we see that there is scope for refinement in the quota formula in the 15th GRQ that would accommodate the realignment of quota shares of dynamic economies, particularly emerging markets and developing countries, to better reflect their growing relative positions in the global economy while protecting the voice and representation of the poorest members. In this connection, a reform in the quota formula should continue to be guided by the principles that underpinned the 2008 quota formula review.

Strengthening Support for the Membership

Low-Income Countries (LIC) and Small States (SS)

We encourage the Fund to provide continued support for small and fragile segments of its membership, including those undergoing geopolitical, security, and natural disaster-related shocks. We concur that the Fund can contribute considerably in this area by helping these members to improve debt sustainability, improve overall economic framework and conduct structural reforms. In this respect, we support the Fund's plan to implement the LIC Debt Sustainability Framework, review LIC facilities and adopt multi-pronged approach to enhance debt transparency and address LIC debt problems. Further, the Fund should also continue to strengthen its collaboration with other development partners to help these members build resilience.

Strengthening Capacity Developments (CD)

Most of our constituency have benefited from one of the Fund's core pillars, technical assistance and training activities for members. We therefore, welcome Fund's effort to continue to strengthen CD activities. Specifically on technical assistance, while there have been well-established vehicles to deliver assistance through HQ and regional centers, we encourage the Fund to continue to maximize donor resources to augment CD activities. The Fund could also maintain close engagement with members in prioritizing, implementing, monitoring and evaluating CD services. The full involvement and buy-in of recipient countries will ensure the effectiveness of CD services and generate a desired impact for recipient members. We also encourage the Fund to focus on core areas where it has significant competency and coordinate with other bodies to address CD that are outside the Fund's area of expertise. We view that this strategy will help ensure maximum benefits for member countries.