



International Monetary and Financial Committee

Thirty-Fourth Meeting
October 8, 2016

**IMFC Statement by Muhammad bin Ibrahim
Governor, Bank Negara Malaysia
Malaysia**

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

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Saturday, October 8, 2016**

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

Introduction

1. Global growth momentum remains modest, and prospects differ across countries. Short-term risks have abated with substantial progress made in strengthening the global financial system. Nevertheless, as downside risks remain dominant, the membership should continue with efforts to further strengthen resilience, address remaining and emerging vulnerabilities, and enhance growth prospects for all. Decisive policy actions using all policy levers, supported by greater multilateral cooperation and clear communication of policies will place the global economy on a stronger growth momentum. The Fund's role in safeguarding global financial stability, providing multilateral and bilateral policy advice, extending prompt financial support, and delivering effective capacity building remain critical in supporting the membership to achieve durable, sustained and inclusive growth.

Global Economic Developments and Prospects

2. Signs of improvements have emerged in many emerging market and developing countries (EMDCs). Growth in EMDCs is expected to strengthen in 2016, reversing five consecutive years of slowing growth, before further accelerating in 2017. In particular, emerging Asia is expected to register robust growth, albeit at levels lower than historical trends. China's ongoing rebalancing would lead to healthier and more sustainable growth in the medium-term. On the other hand, growth in major advanced economies (AEs) remains subdued and is projected to remain muted over the longer-term. This continues to be a source of concern and reinforces calls by the Fund to ensure a more comprehensive policy response by the authorities.

3. Near-term risks have also abated, as a result of several positive developments, including firmer commodity prices, ongoing adjustments in emerging markets, smooth market adjustments to Brexit-related volatility and easing concerns surrounding China's near-term growth outlook. Nonetheless, medium-term risks, including the risk of secular stagnation in AEs and political discord and inward-looking policies have

risen. Moreover, while the commitment by both the UK and the European Union (EU) to ensure smooth and orderly exit of the UK from the EU is reassuring, this remains an unfolding event and its macroeconomic implications remain uncertain.

4. The current benign environment provides a window of opportunity that should be used judiciously to rebuild buffers, reduce vulnerabilities and inject renewed vigor in implementing structural reforms. What policymakers achieve during this brief respite will have important consequences on our ability to withstand future bouts of volatility.

5. Growth in SEAVG economies is expected to remain steady in 2016 and is envisaged to strengthen in 2017, underpinned by firm domestic demand and gradual pick up in exports. In several economies, public investment, including infrastructure development, is expected to provide support to growth. In the medium-term, the growth outlook remains favorable, supported by on-going implementation of structural reforms, measures to enhance the business environment and further progress in the pace of regional economic and financial integration mainly guided by the implementation of the ASEAN Economic Community Blueprint 2025. While external headwinds will weigh on growth prospects, our determination towards the formation of a regional economic community that is highly integrated and cohesive has not wavered. In particular, our commitment to promote financial integration, financial inclusion and financial stability is reaffirmed through the Strategic Action Plans for ASEAN Financial Integration 2025.

6. SEAVG policymakers will stay vigilant to the medium-term risks and remain committed to sound economic management. Furthermore, our policymakers will continue to implement appropriate reforms to strengthen policy frameworks, including initiatives to strengthen human capital and raise productivity, scale up infrastructure investments, and enhance financial sector resilience. This will facilitate adjustment to the ongoing global realignments and mitigate the adverse effects of globalization and technological change.

Policy priorities

7. We welcome the Managing Director's Global Policy Agenda and support the call for a more potent and decisive policy mix involving monetary policy, fiscal policy and structural reforms to strengthen growth momentum. In particular, we concur that more needs to be done to ensure that the gains from globalization and technological progress are shared more widely and that those adversely affected are provided with assistance to adapt to the new economic landscape.

8. We share the view that while monetary policy should remain accommodative, monetary policy alone is insufficient. Together with growth-enhancing structural reforms, complementary fiscal policy actions should be undertaken in countries with sufficient fiscal space. As risks of secular stagnation in AEs have become more prominent, decisive action in deploying all three policy levers is needed. We therefore welcome the staff's recent work on the need for comprehensive policy actions and consistency in policy frameworks within a country and across time and the benefits of coordinated policies to revive global growth. In addition, building on the significant progress that has been made, continued efforts to address remaining and emerging challenges in the financial sector are still vital, to ensure that the global financial system can continue to support the global economic recovery.

Surveillance

9. We look forward to the review of the Fund's policy advice on dealing with capital flows. The review should ensure a balanced coverage of policies in both source and recipient countries to enhance understanding of "push" and "pull" factors. We also look forward to the analysis of the implications of negative policy rates and prolonged low interest rates in AEs, including an assessment of its global spillovers. In preserving global financial stability, the Fund has an important role to play in not only communicating the effects of the eventual unwinding of these policies, but also mitigating negative cross-border externalities and repercussions from disorderly exit.

10. We welcome the Fund's efforts to enhance the quality of its fiscal policy advice to countries. In this regard, the importance of ensuring consistency between the Fund's multilateral and bilateral policy advice, while giving due regard to country circumstances cannot be overemphasized. These efforts would ensure quality, evenhandedness and traction of policy advice. We welcome the upcoming work by the Fund to review the debt sustainability framework for low-income countries (LICs) and encourage the Fund to ensure that the framework is sufficiently flexible to take into account LICs' often large financing needs for infrastructure and social spending.

Strengthening the International Monetary System

11. While our constituency continues to pursue sound domestic macroeconomic policies and maintain policy buffers as an important first line of defense against crisis, we welcome the Fund's efforts in strengthening the global financial safety net (GFSN), including the ongoing reforms to its lending toolkit and strengthening coordination with Regional Financing Arrangements (RFAs) including the Chiang Mai Initiative Multilateralization (CMIM). RFAs can complement and reinforce the Fund's resources for crisis management and resolution purposes. Such cooperation should be tailored to the unique mandates of the respective RFAs and must take into account the RFA's

independence, decision-making processes and its specific role in the region for which it serves. The Fund should continue to explore measures to reduce the stigma associated with accessing the Fund's precautionary and lending facilities and must undertake significant care to ensure that any reforms to the lending toolkit does not risk further perpetuating the stigma. Furthermore, such reviews should be holistic and take into consideration the need to maintain sufficient lending capacities in line with members' needs.

Enhancing Support for Small States and Low-Income Countries

12. We are encouraged by the Fund's active role in supporting small states, fragile countries and frontier economies. In this regard, we would like the Fund to further examine the scope to enhance financial support for LICs, in particular to increase the size of Fund facilities to help meet the urgent needs arising from natural disasters. On the breakdown of correspondent banking relationships, we urge continued efforts by the Fund in identifying solutions and encourage concrete and swift actions to mitigate financial exclusion in affected countries. We look forward to further work from the Fund on enhancing the resilience of small states, which will require varying growth strategies tailored to country and regional specificities.

Enhancing Voice and Representation

13. We continue to underscore the importance of quota and governance reforms to strengthen the credibility, legitimacy and effectiveness of the IMF. In this regard, whilst remaining cognizant of the challenges in achieving broad consensus, our constituents reaffirm our commitment to work towards expeditious completion of the 15th General Review of Quotas. Increased spirit of cooperation, compromise and flexibility from all members will be needed to ensure the timely completion of the review. In the interim, while we remain supportive of the need to augment the IMF's resources, we reiterate our commitment to preserving the quota-based nature of the IMF. Finally, we encourage the Fund to continue to work and build on the progress achieved thus far towards a more diverse and inclusive work environment at the Fund.