International Monetary and Financial Committee

Thirty-First Meeting
April 18, 2015

IMFC Statement by Tharman Shanmugaratnam
Deputy Prime Minister and Minister for Finance
Singapore

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

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Deputy Prime Minister and Chairman, Monetary Authority of Singapore

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Introduction

- Economic prospects for the global economy as a whole have improved slightly over the past year. Advanced economies (AEs) are expected to show a modest upturn in economic activity while growth in the emerging markets and developing countries (EMDCs) is projected to slow. In both groups of economies, longer-term growth potential has been constrained by a shortfall in investment and relatively slow progress in structural reforms. The Fund's efforts in assisting countries with the necessary macro-policy adjustments and measures to boost supply-side capacity remain critical in sustaining growth and strengthening the resilience of the global economy and financial system.

Global and Regional Prospects

- Growth in the global economy has been uneven, and is expected to remain as such in 2015. Even as disparities in the AEs narrow, their monetary policy settings are set to diverge. This dis-synchronisation in monetary policies reflects the evolving growth-inflation outcomes across economies, but could in the short term create stresses and volatility in financial markets. The uncertainty over the pace of policy normalisation in the US is an added challenge for financial markets at this juncture. In recent months, some central banks in the Asian region have reacted to lower oil prices and the resultant disinflation by easing monetary policy, which should provide a short-term fillip to growth. This has also occurred against the backdrop of the ongoing realignment of major currencies.

- Asian economies have generally seen steady growth, and will remain on a moderate trajectory with improving external demand conditions including from strengthening non-commodity exports, as the US-led G3 recovery continues apace. Lower energy prices have supported consumer spending, and offer reform opportunities for countries that continue to maintain fuel subsidies. However, tighter financial conditions and possible capital reversals could constrain the region's ability to fully leverage on the continued recovery in AEs. At the same time, risks arise from higher interest servicing costs and a potentially sharper appreciation of the US dollar. We therefore agree with the Fund's assessment that the risks to financial stability have increased since October 2014, underlining the necessity for enhanced vigilance.

- Structural reforms must continue, as the Fund has strongly and consistently advocated, in order to boost investment and job creation over the short-to-medium-term as well as potential output growth over the longer term. Key priorities for the region include removing infrastructure bottlenecks, eliminating the frictions on trade and investment, strengthening competitive conditions in labour and product markets, and building human capital to raise overall productivity. We underscore the importance of continued reform to buttress economies' resilience to cyclical shocks.

IMF Surveillance and Policy Priorities

Surveillance and Financial Stability

- We welcome the Managing Director's Action Plan for Strengthening Surveillance which charts the path towards the full implementation of the 2014 Triennial Surveillance Review. We recognize the progress made in the introduction of integrating macro-financial analysis in selected Article IV reports. We welcome the use of pilot phases when applying new surveillance templates and practices in future bilateral surveillance. We also look forward to the Fund's ongoing initiatives to further strengthen the methodology underpinning the external sector report (ESR) and country assessments. We continue to emphasize that country-specific circumstances must be reflected in the ESR reports, particularly as the Fund extends the use of the methodology to additional countries.

- While global macroeconomic risks now appear to be more balanced than last year, risks to global financial stability are rising. We support the observations in the Global Financial Stability Report (GFSR) that efforts should focus on making the global financial system safer for cross-border lending by requiring greater cooperation and harmonisation between national regulators and supervisors. We note that the Fund's assessment of developments in the asset management industry and the associated risks to financial stability are broadly in-line with observations by the FSB. While we agree that strengthening micro and macro prudential oversight will help mitigate risks posed by the asset management industry, it will be important for regulators to tailor the regulatory regime and monitoring frameworks to address the risks without overly constraining the activities of asset managers and potentially driving risky behaviour into a less regulated sphere.

- We welcome the Fund's initiatives to broaden the coverage and analytical work on Islamic Finance. Islamic banking assets have doubled since the global financial crisis, and the sector has become systemically important in some jurisdictions. We support the strengthening of surveillance and policy advice on Islamic finance and encourage the Fund to deepen its engagements with the Islamic Financial Services Board (IFSB) particularly in the areas of capacity development, adoption and operationalization of prudential standards, development of sukuk market and effective liquidity management.

International monetary system

- We look forward to the IMF's stocktake of the challenges facing the IMS, including the need for close cooperation with regional facilities and institutions to enhance the efficacy of the global financial safety net and adequate support for the financial integration of dynamic emerging economies. We also look forward to the review of the Special Drawing Rights (SDR) basket and further work on the criteria to broaden its composition. We encourage the Fund to assess how the SDR basket can be strengthened to better reflect changes in the international monetary and trading system in the post crisis environment, and medium term developments in global trade and financial flows.

Financing Sustainable Development

- As the global economy continues its moderate recovery, it is timely that the international community commit to a shared vision on goals for international development. The Fund has aptly identified a set of deliverables that could further strengthen support to developing countries, including by enhancing the impact of capacity building and tackling infrastructure gaps.

- We are supportive of these initiatives and our constituents have taken the first steps to help the Fund realize its deliverables. On capacity building, we agree with the proposal to enhance support for Regional Technical Assistance Centers (RTACs), and are pleased that the RTAC in Thailand was able to rapidly respond to the increased demand for technical assistance and training in Myanmar and Laos. The IMF-Singapore Regional Training Institute (STI) has collaborated closely with the RTACs, most recently in designing and delivering a program of courses for the Mekong region. Beyond ASEAN, the STI continues to provide assistance to Pacific Island countries (PICs).

Quota and Governance

- We remain deeply concerned with the protracted delays in the ratification of the 2010 IMF Quota and Governance Reforms. We reiterate that these reforms are crucial to strengthen the credibility, legitimacy, and effectiveness of the Fund, and should remain of foremost priority for the membership. In view of the continuing delay, this constituency supports the on-going discussions to deliver on the membership's collective commitment to take interim steps by end-June 2015. We agree that the interim steps should result in meaningful progress towards attaining the outcomes of the 2010 Reforms, while recognising that these cannot be a substitute for the actual reforms.

- Pending full implementation of the 2010 reforms, we must continue to stand by our collective commitment to ensure that the Fund remains strong and adequately resourced. A well-resourced IMF is essential to secure a steady global recovery, and maintain stability within the international monetary system.

Support for Small States and Low-Income Countries

- We welcome the Fund's continued commitment to engage small states and low income countries. We commend the Fund's initiatives to improve dialogue and traction with these member states, such as the quarterly publication of the Small States Monitor. The Asia Pacific Department has also conducted training that has enabled IMF mission chiefs to work more effectively with authorities from small states. We also welcome the establishment of the Catastrophe Containment and Relief (CCR) Trust to enhance support for low income countries affected by natural and public health disasters. Our constituents remain committed to providing favourable responses to the MDRI-II Trust Instrument amendment request. Nonetheless, we urge the Fund to enlarge the number of countries eligible for the CCR Trust to other PRGT-eligible members, particularly to small island developing economies that are at a higher risk of catastrophic natural disasters.