



International Monetary and Financial Committee

Fourteenth Meeting
September 17, 2006

**Statement by Nor Mohamed Yakcop
Minister of Finance, Malaysia**

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

**Statement by Honorable Tan Sri Nor Mohamed Yakcop
Minister of Finance II, Malaysia**

**International Monetary and Financial Committee (IMFC)
Sunday, 17 September 2006**

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

The Global Economy and Financial Markets

1. Since the last IMFC meeting, global growth has continued to remain strong and broad-based with activity in most regions meeting or exceeding expectations. Going forward, the balance of risks to the outlook for global growth and inflation is more clearly slanted to the downside. After a long period of sustained high rates of global growth, it would still be within rational expectations for inflationary risks to remain on the upside and in view of prolonged high oil prices and ongoing geopolitical tensions, inflationary pressures could even intensify. However, of greater concern is that recent data on home sales in the US market seem to suggest that the housing market could be cooling more rapidly than expected, and this would have a negative knock-on effect on U.S. growth, with negative spillover effects on the rest of the world. The present environment, therefore, poses challenges to the monetary authorities in their pursuit of an appropriate policy stance, which could adequately address both growth and inflation concerns. While a clear communication strategy is needed to anchor market expectations, going forward policy makers would need to find the right balance in the trade-off between inflation and growth outcomes and this would differ depending on individual country circumstances.

2. In the medium-term, the prospect for sustained growth depends on an orderly unwinding of the global imbalances. Although global growth has remained strong in the meantime, no one knows for certain if this is the lull before the storm. Hopefully, it is a case of effective surveillance by the Fund together with willing co-operation of all systemically important countries that has succeeded in nipping the problem in the bud. In this regard, we welcome the Fund's initiative in conducting the first multilateral consultation and look forward to learning the outcome of the consultations later this year. However, the challenge here is for the Fund to be seen as providing even-handed and unbiased policy advice to all parties involved.

Quotas and Voice

3. We welcome the proposed reform package on quotas and voice with the dual objectives of better aligning quota shares with members' economic weight in the global

economy and ensuring adequate participation of low-income countries in the governance of the Fund. These reforms are long overdue and are necessary for the Fund to regain its legitimacy and relevance with its members. While we were disappointed that the stage one ad hoc increase was limited to just four countries and failed to address the significant under-representation of members in our constituency, nevertheless, in the interest of consensus building, we are willing to co-operate and to wait for our turn at the second stage. BUT we underscore the importance of expeditious forward momentum to this long-overdue reform process. Moreover, we cannot overemphasize the need for a clear political commitment, especially from advanced country members, towards making significant progress on the second stage immediately after Singapore. This is to assure those members who have incurred a downpayment by having their quota shares further eroded by the stage one ad hoc increase that the entire quota reform process will indeed be a credible and meaningful exercise and they will be able to justifiably benefit from a broader and more comprehensive reform in the second stage. We would like to stress that it is imperative that the overall membership supports a significant ad hoc quota increase in the second stage for the legitimate purpose of further realignment in quota shares according to relative economic weights without using the Fund's sound liquidity position as an excuse not to achieve meaningful progress by 2008.

4. Indeed, the second stage package of reforms must sincerely embrace three key elements – the simplified and transparent new quota formula, the appropriate increase in basic votes and avoidance of future erosion, and the selection of the Managing Director according to international best practice for good governance. The new quota formula should re-examine all four variables in the existing formula (GDP, openness, variability, and reserves), without prejudging that GDP should be the predominant factor, to ensure that the appropriate variables are not only truly indicative of members' relative economic importance and influence in the world economy but also balance the need of members to use Fund resources.

5. The issue of basic votes is of paramount importance to ensure adequate voice and representation for the Fund's low-income members. While we fully support the proposal to raise the share of basic votes and to introduce a mechanism to prevent the repetition of a similar erosion in the share of basic votes, this process needs to be properly sequenced and proceed on a simultaneous track with work on the new quota formula and the stage two ad hoc quota increase, since the exact size of basic vote increase to preserve the voting share of low-income members can only be determined once the precise quantum of second stage ad hoc quota increases is agreed upon. Thus, these two issues are inextricably linked and have to be considered together in a logical sequence. Therefore, if there exists broad support on this matter together with progress on an agreement of a new formula, specific proposals on these issues should be put forward to the 2007 Annual Meetings to provide sufficient time for the completion of all aspects of the second stage reform by the 2008 Annual Meetings.

Fund Surveillance Framework

6. As an appropriate strategic response to the demands of integrated financial markets and large-scale private capital flows, we support the efforts to review the Fund's surveillance framework with the aim of strengthening its effectiveness. In line with the cooperative nature of the institution, we firmly believe that the best approach to achieve this objective is to strengthen the Fund's role as a confidential advisor rather than imposing new obligations on the members. In this spirit, we reiterate that the 1977 Decision over Exchange Rate Policies has served the Fund well and remains relevant to the Fund's mandate on exchange rate surveillance.

7. Going forward, we underscore two key considerations which should be taken into account when the Executive Board meets to complete the Review of the 1977 Decision later this year. Firstly, we do not see any compelling reason to amend the Decision to include Fund mandate over members' domestic policies since under the present Decision the Fund can, and in fact does, take into account member' domestic policies in their exchange rate surveillance work. An explicit re-statement of obligations would not go well with the Fund's role of a trusted confidential advisor and it may raise the risk of countries not meeting their obligations under the Article IV. Secondly, we do not support the proposal for the Fund to determine and make public whether a member's exchange rate is misaligned. It is widely known that the estimation of equilibrium exchange rate levels is highly sensitive to the underlying assumptions and it is best to leave the markets to decide the appropriate level of exchange rates. In this regard, we underscore that the Fund should confine its role to assessing the consistency of members' economic policies with their exchange rate regimes, NOT the level of the exchange rate per se.

Fund Engagement with Emerging Market Countries

8. As emerging market economies grow in importance in the world economy, the Fund should strive to reinvent itself to serve the changing needs of its diverse membership. In this regard, we welcome the Managing Director's recognition that the Fund has to broaden its crisis-prevention toolkit to foster closer engagement with emerging market members. The rapid movement of capital flows of unprecedented scale continue to expose those emerging market countries, which rely on external financing, to significant vulnerability to sudden stops or reversals of capital inflows. We welcome the efforts to rectify the shortcomings of the defunct Contingent Credit Line (CCL) and hope for swift progress in resolving the perennial tensions between the conflicting objectives of automaticity of access and safeguarding of Fund resources. The experience of past Fund programs shows that no emerging market member has defaulted on the Fund; so the issue of safeguarding Fund resources should not be unduly over-emphasized, especially at this juncture when the Fund is running the risk of losing its relevance with members in a number of regions.

9. For the new liquidity facility to be effective in preventing a crisis, its access should be automatic to members who have been assessed to be implementing strong policies but who may be subject to external vulnerabilities. In order to ensure that the objectives of supporting

macroeconomic stability and reducing vulnerabilities are achieved, we see merit in having a streamlined monitoring process. However, we do not see a strong rationale for setting onerous indicative quantitative targets since those members who are eligible for this facility have already demonstrated that they are capable of pursuing strong policies. With regard to terms of financing and access limit, we support the proposal to establish the new facility as part of the Special Reserve Facility (SRF) and consider an initial access level of at least 300 percent of quota to be reasonably adequate for the facility to serve as a precautionary credit line.

IMF Support to Low-Income Members

10. We welcome the progress in the implementation of the HIPC Initiative and the MDRI as all post-completion-point HIPCs have qualified for MDRI debt relief from the Fund and other international financial institutions. These freed-up resources should go a long way in helping these countries achieve their Millennium Development Goals (MDGs). Going forward, the Fund is faced with the challenge in not only helping other interim and pre-decision-point countries move through the debt relief process, but also ensuring those who have benefited from the debt relief will not re-accumulate unsustainable debt burdens..

Activities of the IEO

11. The Independent Evaluation Office continues to play an important role in ensuring that the Fund is learning from its experience, strengths, as well as weaknesses. Previous candid reports on Fund activities seem to suggest that there are adequate Chinese Walls between IEO and other Fund staff and we encourage this practice to continue. We also encourage the Board to work closely with the management in ensuring that IEO recommendations endorsed by the Board are implemented. As for the work program going forward, we welcome the choice of the evaluation topics, especially that relating to the relationship between the Fund and its members.