INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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April 21, 2022

IMFC Statement by Perry Warjiyo
Governor of the Central Bank

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

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Global and Regional Outlook

1. **While the world economy is still expected to expand by 2022, it would significantly be at a slower pace than earlier expected.** The current heightened geopolitical tensions and associated fallout add to already strong headwinds from the enduring impact of the COVID-19 pandemic, particularly at a time when most authorities are preparing to unwind the extraordinary measures implemented during the pandemic. All of these occur against a backdrop of generally narrower policy space and a growing confluence of structural fragilities. The unfavorable situation, if not handled swiftly, could contribute to economic fragmentation and further disrupt the good work of international coordination and multilateralism efforts thus far.
2. **We note that the Fund's outlook revisions for our constituency members' economies are generally smaller than the other regions, but uncertainty is unusually high, with risks tilted to the downside.** Higher global commodity prices would add pressure to inflation and risk de-anchoring inflation expectations. In addition to monetary policy normalization in advanced economies, the elevated uncertainty emanating from the impact of geopolitical tensions elevates the risks of destabilizing capital flow reversals from emerging economies, including those in our constituency. Complex, interconnected and reinforcing vulnerabilities owing to scarring effects from the pandemic and a slowdown in China's economic growth eventually would also add to the skewed balance of risks. Authorities in our constituency would remain vigilant in confronting these challenges and would strike a balance between maintaining macro-financial stability and supporting the economic recovery.

Roles and Priorities of the Fund

3. **Against this backdrop, the IMF's central role in the international monetary system and at the core of the global financial safety net (GFSN) is more critical than before**. Other than problem solving for shocks that have already materialized, the Fund's role is also to anticipate and mitigate the forthcoming risks. In this regard, the IMF should continue to strengthen its instruments with respect to surveillance, lending, and capacity development. The Fund's intensified engagement with the authorities and provision of tailored policy advice remain ever more important, given that the nature of each shock could differ each time.

Surveillance and policy advice

4. **On surveillance, it is important for the Fund, as a trusted policy advisor, to help members prioritize their objectives and weigh policy trade-offs.** Member countries could benefit from policy advice and insights to tackle the two difficult policy trade-offs, between tackling inflation and safeguarding the economic recovery; and between supporting the vulnerable and rebuilding fiscal buffers. This will better support the members to formulate a well-calibrated, well-planned,

and well-communicated exit strategy from accommodative monetary policy and the strategy to lessen the scarring effect of the pandemic, that both consider country specificities. In general, we see merit in more intensive, and two-way policy dialogue with authorities. This is especially the case for small and vulnerable countries, which often need to deviate from standard macroeconomic textbook solutions to deal with shocks.

5. **Given the unprecedented confluence of different shocks, it is crucial that the Fund policy advice provides authorities with flexibility to deploy a full range of policy mix, aligned with the principles of the Integrated Policy Framework (IPF)**, which covers monetary, the exchange rate (including foreign exchange intervention), macroprudential, capital flows management (CFM) policies, and their interactions with fiscal policy and other policies. We see the Fund's work on the IPF as essential to help countries weigh the associated policy trade-offs, and hence view that the Fund should expedite its deep analytical work and discussion on the operationalization of the IPF. We welcome the recent review of the Fund's Institutional View (IV) on the Liberalization and Management of Capital Flows and support the acknowledgment that preemptive use of measures on debt inflows is warranted in some circumstances. However, we see that IV needs to be more forward-looking to help countries cope with more pressing circumstances, as well as allow for more prudent, pre-emptive efforts to prevent the buildup of vulnerabilities as opposed to third-best solutions in responding to shocks only after vulnerabilities have accumulated. In addition, future work on IV should place more emphasis on the "use of outflow CFMs outside 'imminent crisis' situations", as this is a matter of particular relevance for EMEs and essential for the completeness of the IV.

6. **We also welcome efforts to ensure evenhandedness and multilaterally-consistent policy advice and assessments and upgrades to several of the Fund's surveillance tools.** We support continued efforts to refine the External Balance Assessment (EBA) methodology to provide more robust assessments. Amidst highly uncertain conditions, rigorous assessment of member's debt sustainability is critical. We welcome the new Sovereign Risk and Debt Sustainability Framework (SRDSF), which assesses sovereign risks comprehensively at three horizons –near, medium, and long-term– and will become the Fund's principal debt sustainability assessment tool for market access countries. For all these analytical tools, staff judgment remains a critical part of the assessment. We encourage the preparation of practical guidance notes to ensure consistency, evenhandedness, and at the same time, provide scope for tailored assessment through more in-depth dialogue at a bilateral level.

7. On the multilateral front, we support the Fund's unbiased application of its macroeconomic analytical toolkit and further contribution to **policy coordination and multilateral efforts to address common challenges and prevent global economic fragmentation**.

Addressing debt vulnerabilities

8. **Addressing rising debt vulnerabilities has become more urgent.** The Debt Service Suspension Initiative (DSSI) that expired in December 2021 has helped the poorest countries free resources to increase social, health, and other critical spending in response to COVID-19. However, many low-income developing countries are in, or confronting high risk of, debt distress and are vulnerable to tighter external financing conditions. Therefore, we encourage that the lessons learned from the DSSI should be incorporated into future playbook for how the Fund could coordinate official creditors' support in the future for urgent financing needs.

9. **In addition, we need to step up progress in the operationalization of the Common Framework (CF) in a timely, orderly, and coordinated manner**. Here, we especially support greater clarity of the timelines and processes of the CF and for the Fund to proactively engage with debtors who might be in need of debt treatment to explain CF processes. These efforts will help spur members with debt sustainability issues to pursue appropriate debt treatment in a more timely manner. We also call for urgent action from the Fund to address the substantial underfunding of the Catastrophe Containment and Relief Trust (CCRT) to ensure that it is equipped to provide relief for members' financial obligations to the Fund when the next shock hits.

Lending to support vulnerable members

10. **We welcome the Fund's July 2021 comprehensive reform of the Poverty Reduction and Growth Trust (PRGT).** To support these reforms, the Fund needs to make greater progress in the first stage of the two-stage funding strategy to cover the cost of pandemic-related lending and build up the PRGT's self-sustaining capacity.

11. **In addition, we commend the Fund's tremendous speed in designing a brand-new financing facility, the Resilience and Sustainability Trust (RST), and look forward to its timely operationalization.** The ultimate proof of success is operationalizing the RST, and ensuring that it garners support from contributors while being flexible and nimble enough to meet members' structural transformation needs. It is also crucial that the RST does not overlap with the features of currently available financing facilities. In our view, the key to success can be encapsulated in the 3Cs: ***Collaborate*** more closely with other international institutions; ***Communicate*** effectively with eligible members; and ***Catalyze*** other resources of finances to meet members' needs.

Supporting a sustainable recovery

12. **Even as we navigate the challenging cyclical environment, the global community cannot lose sight of ongoing structural trends, such as digitalization and climate change**. We support the Fund's efforts to bolster members' resilience to these shifts. Digital money will have a tremendous impact on monetary policy transmission and financial stability, both domestically and for the international monetary system, as well as on the effort to expedite inclusive growth. The Fund needs to provide strategic advice to design, regulate, and deliver on its benefits as well as mitigate the associated risks.

13. **Regarding climate change, the Fund must help members to deal with the challenges across multiple fronts.** The Fund should support orderly, just, and affordable transitions towards a climate-resilient economy, helping members strike the appropriate balance between growth and development with the attainment of global climate goals, all while operating with limited fiscal space and considering country specific circumstances. To better engage members in policy discussions, the Fund should continue to enhance its analytical capacity to study climate mitigation options and its distributional impact. We welcome recent progress in areas such as integrating climate change adaptation to fiscal frameworks and climate change risk analysis in Financial Sector Assessment Programs (FSAPs). Further efforts need to be put in to seamlessly integrate these across all the pillars of the Fund's work – from Article IVs, FSAPs for bilateral surveillance to the design of lending arrangements and the delivery of capacity development, while recognizing the significant data challenges that need to be addressed. We also encourage the Fund, working within the confines of its core mandate, to provide support for the development of innovative financial products, such as sustainable bonds, green bonds, and also state-

contingent debt instruments. The availability of such products would help members finance the transition and achieve greater macroeconomic resilience against climate-related shocks.

Fund Resources and Governance

14. **Finally, we support a sizeable quota increase under the 16th General Review of Quota (GRQ).** We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF at the center of the Global Financial Safety Net (GFSN) with sufficient financial arsenal to address a range of adverse scenarios. We remain committed to revisiting the adequacy of quotas and will continue the process of IMF governance reform under the 16th GRQ, including a new quota formula as a guide, by December 15, 2023. This is important as the Fund must have adequate resources to serve as a source of stability amidst a highly uncertain and more shock prone global macroeconomic environment. The quota increase would also restore the key role of quota in the Fund's governance structure and avoid over-reliance on borrowed resources, giving the Fund greater flexibility and certainty in performing its role at the center of the GFSN.

15. **Against this backdrop, progress of the 16th GRQ, limited thus far, should be expedited.** We encourage the Fund to re-double efforts and build consensus to foster progress in the run-up to the end of 2023. The successful conclusion of the 16th GRQ, given the broader objectives of ensuring a well-resourced IMF and the follow-through of governance reforms, should not be hindered by the inability to agree on new quota formula elements. We underscore that the quota formula should continue to conform to the four principles that guided earlier deliberations.