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Singapore

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

Statement by Senior Minister Tharman Shanmugaratnam

Chairman, Monetary Authority of Singapore

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

International Monetary and Financial Committee, April 14 2023

Global and Regional Outlook

1. The global outlook remains highly uncertain. Inflation remains elevated around the world, amid labour market tightness in a number of economies and strong consumer demand. Efforts to safeguard macroeconomic stability are complicated by renewed risks to financial stability, sovereign debt vulnerabilities, and recurring shocks induced by climate change.

2. Recent bank failures, necessitating drastic measures to restore confidence to the system, have put the spotlight squarely back on vulnerabilities in the financial sector. The risk of a systemic sovereign debt crisis, while low, is growing amid elevated debt levels, high interest rates, and the global slowdown and growing risk aversion. Meanwhile, climate events are becoming more frequent and acute, imposing growing economic costs.

3. Growth in the Southeast Asian region is resilient, providing a positive impulse to the global economy. However, as the region comprises economies with strong links to markets around the world, it remains vulnerable to downside global risks. In particular, the recent further tightening in US dollar funding markets requires close attention as episodes of thin liquidity could result in a pull-back of capital. In this regard, we welcome the Fund's continued work and close engagement with our constituency to operationalize the Integrated Policy Framework.

Macro-economic and financial surveillance

4. Following a long period of low and negative interest rates, sharp and synchronized interest rate hikes around the world are exposing vulnerabilities in the financial system, and heightening financial stability risks in some countries. While policymakers have been quick to react and to restore market confidence following the failures of Silicon Valley Bank and Signature Bank in the US, and Credit Suisse in Switzerland, financial stability concerns downside risks remain. Underlying inflation remains sticky thereby leaving the possibility of a longer period of monetary policy tightness, with implications for financial sector vulnerabilities. Interlinkages across sectors, such as the nexus of the banking and non-bank sectors to the technology sector, as well as cross-border spillovers and spillbacks will need to be carefully monitored and assessed.

5. Fund advice to help policymakers navigate this uncertain environment must be nimble and responsive to the ever-changing situation. Most importantly, advice must be delivered in a practical and timely manner with due consideration to country specificities. It is also critical to ensure coherence in the Fund's policy advice to avoid any unintended consequences that could limit policy effectiveness and affect authorities' credibility. The Fund also needs to move beyond traditional macroeconomic policy objectives, to address the implications of longer-term shifts and challenges in the global economic system, some of

which arising from non-economic developments. Here, the Fund must leverage its convening power and deep macroeconomic expertise to push for multilateral dialogue and seek global solutioning. We welcome the Fund's agenda of reinvigorating its role in the field of trade, to help country authorities address key trade-related challenges. We also support the Fund's efforts in including thematic studies on the impact of geoeconomic fragmentation across the various flagship reports. We have to guard against the growth and normalisation of protectionist industrial policies, and ensure that the global economy retains the openness that it needs to deliver long-term innovation and productivity growth.

Fund Resources and Governance

6. With individual members having to walk a tight rope, the case for a strong financial safety net cannot be overstated. The Fund must restore its role at the core of the global financial safety net. The Fund's lending capacity has stagnated since the 14th General Review of Quotas (GRQ), and faces considerable uncertainty as existing Bilateral Borrowing Agreements and New Arrangements to Borrow expire in end-2023 and end-2024 respectively. The Fund's continued, uninterrupted access to adequate borrowed resources cannot be taken for granted.

7. The successful completion of the 16th GRQ – that leaves the Fund adequately resourced and the primary role of quotas preserved – is hence critical. Apart from delivering adequate resourcing for the Fund, the 16th GRQ must address the issue of member representation to safeguard its legitimacy, and ensure protection of the poorest and most vulnerable members. The current quota shares have not been reviewed since the 14th GRQ (2010) and hence, are not reflective of economic and financial markets developments over more than a decade. A repeat of the failure of the 15th GRQ would have a significant impact to the Fund's legitimacy, credibility and the broader state of multilateralism. We have to avoid this outcome. We call on members to commit to the successful conclusion of the 16th GRQ by upholding a spirit of compromise and taking a pragmatic approach to an overall package of recommendations. We urge the IMFC to provide clear, call-to-action guidance to accelerate progress of discussions on the 16th GRQ.

Sovereign Debt Concerns

8. The Fund should pay close attention to emerging sovereign debt concerns and expedite work on strengthening the global debt architecture. While private and public debt levels have receded from their highs during the pandemic, they remain elevated and are projected to increase (relative to GDP) over the medium term. About 60% of low-income countries are already in debt distress or face high debt vulnerabilities. In this regard, the Fund must focus its efforts to strengthening the global debt architecture – a key ingredient to enhance members' resilience to future crises. More immediately, successful operationalization of the Common Framework (CF) and an enhanced debt treatment mechanism for middle-income countries, are paramount. The Fund must leverage its convening powers to bring this to fruition.

9. Low-income countries are particularly vulnerable amid lower global growth, high inflation, continued heightened interest rates and tight financial conditions. In an increasingly shock-prone world, demand for concessional financing is expected to increase. It is thus imperative to ensure the self-sustainability of the Poverty Reduction and Growth Trust (PRGT). To this end, we underscore the need for the PRGT to have sufficient loan and subsidy resources and call for stepped up efforts to meet the agreed fundraising target by the 2023 Annual Meetings in Morocco. Fundraising aside, the Fund must also be ready to consider a range of options, including various modes of internal resource mobilization, to deliver longer-term financial sustainability for the PRGT.

10. We support proactive efforts by the Fund to review its lending toolkit to provide assistance to members in need, and in so doing help catalyze funding for members. We welcome the Food Shock Window and operationalization of the Resilience and Sustainability Trust, as well as efforts to facilitate members' transition towards upper credit tranche (UCT) programs. We emphasize the importance for the Fund to be seen as even-handed in its application of the existing toolkit, and upcoming reviews.

Strengthening resilience

11. We welcome the Fund's continued efforts, leveraging its macroeconomic frameworks, to advocate for climate reforms and increased climate financing. Fund analysis on climate mitigation and adaptation tools will help galvanize call to action. Policy advice should be suitably calibrated to avoid any unintended consequences on financial intermediation and inclusion, taking into account vulnerabilities of members to climate change, capacity to adopt relevant tools, as well as the socio-environmental impact of recommended policies.

12. The world is still nowhere near investing what is required to get to net zero by 2050. Here, we welcome the Fund's establishment of the Climate Finance Taskforce to proactively engage other sources of capital and to step-up the catalytic effect of the Resilience and Sustainability Facility financing. Of significance, exploration of alternative financing mechanisms, including through better risk sharing mechanisms such as blended finance, would be critical to scale up the solutions needed for members to achieve an equitable and just transition.

13. At the same time, the Fund must be cognizant of the interrelated nature of the three major shifts in the global environment, namely global warming, an out-of-balance global hydrological cycle and the loss of biodiversity, with each reinforcing risks to the other. This interaction warrants careful monitoring and coherent and integrated policy responses.

14. We call on the Fund to continue with its efforts in promoting inclusive growth (gender and diversity) and addressing the risks posed by digitalization. The Covid-19 pandemic reversed significant progress made in addressing gender gaps. This was made worse by spillovers from recent shocks such as the food crisis and higher inflation. Promoting inclusive growth remains central to countries' economic and social wellbeing and stability. We also welcome the Fund's work on digitalization. Given the rise of financial scams, there is a need for greater collaboration between the Fund and FATF in ensuring the relevant Anti-Money Laundering/Counter Financing of Terrorism requirements and standards related to crypto assets and digital financial services are implemented effectively globally.

15. We also commend the Fund for its efforts in ensuring that issued guidance is fully aligned with and undertaken in close cooperation with other international standard-setting bodies, such as the Financial Stability Board. The Fund would also have an important downstream role in propagating the implementation of standards, across its near-universal membership, through its surveillance and capacity development mandates.

16. Finally, the Fund's role in promoting capacity development (CD) will be critical in helping its member countries build resilience and cope with potential shocks and disruptions in an uncertain economic environment. We support the Fund's recent work on calibrating CD priorities over the medium term including the focus on new transformation areas such as digital money and climate change and the scaling up of CD delivery in the Asia and Pacific region.