Summary of Proceedings

The 12th Finance and Central Bank Deputies Meeting

The Manila Framework Group

MFG

Yogyakarta, 30 November - 1 December 2004

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Deputies Meeting of the Manila Framework Group

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MINISTRY OF FINANCE BANK INDONESIA
REPUBLIC OF INDONESIA
2004

Summary of Proceedings
The 12th Finance and Central Bank
Deputies Meeting of the Manila Framework Group

Ministry of Finance of
the Republic of Indonesia
and Bank Indonesia

Jakarta, December 2004

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Remarks

It is a great pleasure for me to present the proceedings of the 12th Manila Framework Group (MFG) which was held in Yogyakarta, Indonesia on 30 November up to 1 December 2004. The decision to convene the 12th MFG meeting in Yogyakarta was taken at the 11th meeting held in Seoul, Republic of Korea on 24 November 2003. The MFG which was established in November 1997 is a forum consisting of finance and central bank deputies of 14 economies supported by the representatives of the International Monetary Fund, World Bank, Asian Development Bank and the Bank for International Settlements with its main objective to promote financial stability in East Asia.

In meeting its objectives, member agreed to take four possible initiatives comprising:

(1) regional surveillance,

(2) technical assistance,

(3) bolstering the IMF's ability to deal with financial crises, and

(4) contingent financing arrangements for Asian currency stabilisation. Initially, the MFG met twice in a year. However, given the crisis has been passed and economic recovery as well as structural adjustment progressed, member has, since 2002 agreed to conduct their meeting once in a year.

The publishing of this proceedings is aimed particularly to provide the participants and other interested parties with the results of the 12th MFG meeting with a view to improving their knowledge about the forum.

On this occasion, I would like to express my sincerest appreciation and gratitude to His Excellency, the Minister of Finance of the Republic of Indonesia, for His Excellency's kind support and guidance extended to us in the framework of publishing this proceedings. I would also like to express my hearfelt gratitude to all parties involved in organizing the 12th MFG meeting, particularly to my colleagues of Bank Indonesia. My special appreaciation and gratitude also goes to His Royal Highness, Sultan Hamengkubuwono X, for hosting the dinner at the beautiful and historical Ngayogyakarta Hadiningrat Royal Palace as well as the hospitality extended to the delegates and others during such special event. I am convinced, without their contribution, the publishing of this proceedings would have been impossible.

Finally, I deeply hope that this proceedings will prove useful to the readers, especially those who are interested in knowing more about the MFG forum.

Jakarta, December 2004

Anggito Abimanyu
Deputy Minister
Agency for Research on Economics,
Finance and International Cooperation,
Ministry of Finance

Foreword from the Editors

It is a great honour and privilege for the Editors to have the opportunity to present the proceedings of the 12th Manila Framework Group (MFG) Meeting which was held in Yogyakarta on 30 November up to 1 December 2004 and co-organized by the Ministry of Finance of the Republic of Indonesia and Bank Indonesia. The MFG is a forum comprising the finance and central bank deputies of 14 member economies supported by representatives of four international financial institutions, namely the International Monetary Fund, World Bank, Asian Development Bank, and Bank for International Settlement. The forum was established in 1997, the main objectives of which were to lay a foundation for deeper surveillance and enhance technical and economic cooperation, in the context of the Asian financial crisis.

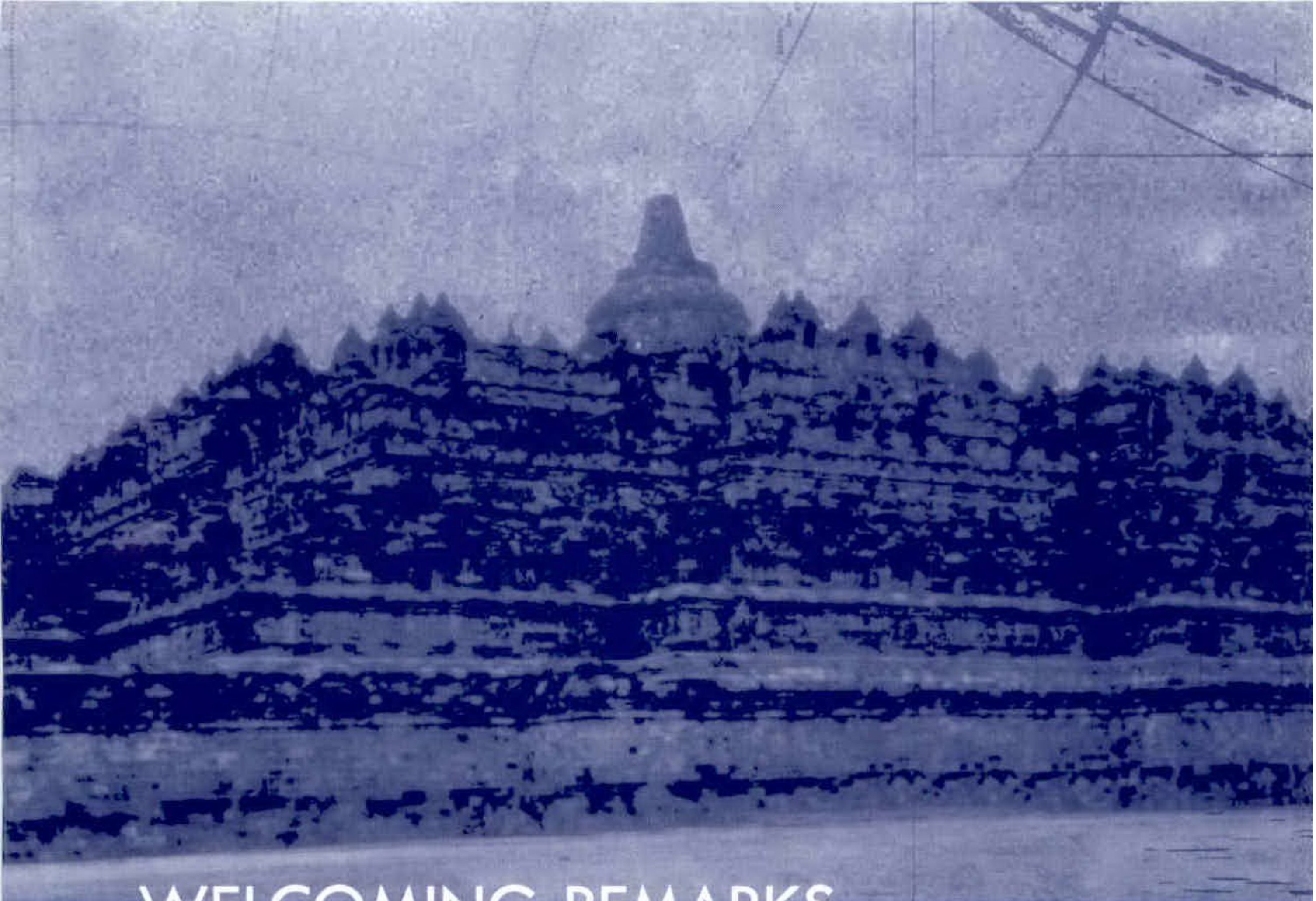
The forum has so far, conducted their meeting twelve times. During last eleven meetings, various important issues were discussed and several initiatives have been taken with a view to achieving its main objectives. At its 12th meeting, members also discussed four major issues covering (1) global and regional economic developments and outlook : risk and issues; (2) members' policy responses to sustain growth and facilitate global adjustment; (3) the business cycle and private-sector debt; and (4) future prospect of the MFG meeting. The most crucial and surprising decision taken at the 12th MFG meeting was the agreement of members to discontinue the MFG meeting in the future, since they perceived that the main objectives of the group initially set out, had already been achieved successfully.

The publishing of this proceedings is aimed, mainly to provide the interested public society in general, as well participants in particular, with the progress made during the meeting, especially on the discussion of every issue taken. The proceedings of the 12th MFG meeting composed of four main components : Firstly, Remarks by His Honourable the Secretary General of the Ministry of Finance and Remarks by the Deputy Governor of Bank Indonesia; Secondly, the Chairman Summary; Thirdly, Summary of the Sessions explaining briefly the discussion held during the working sessions; and Fourthly, Appendices comprising Agenda, Annotated Agenda, Programme of Activities, Papers Presented and/or distrbuted at the Meeting, and List of Participants.

I fervently hope that this proceedings will fully meet its objective and prove usefull and beneficial to all of us, particularly those who wish to know in detail the progress made and the issues discussed during the meeting.

On this good opportunity, I would like to express my sincerest appreciation and gratitude to all parties who have extended their supports and kind assistances for the success of publishing this proceedings. I would also like to pay tribute to the team work, who have been patiently and worked hard in the framework of finalizing this publication. I am very confident, without their contribution this proceeding wouldn't have been realized.

Jakarta, December 2004



WELCOMING REMARKS

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Welcoming Remarks

Remarks by H.E. Dr. Jusuf Anwar, Minister of Finance of the Republic of Indonesia

at the Dinner at the Ngayogyakarta Hadiningrat Palace Yogyakarta, 30 November 2004

His Royal Highness Sultan Hamengkubuwono X,

Distinguished Delegates of the Manila Framework Group Meeting,

Ladies and Gentlemen,

It is a great honour and pleasure for me to have the opportunity for participating in this special gathering at an auspicious Ngayogyakarta Hadiningrat Palace.

First of all, I would like to express my sincerest appreciation and gratitude to His Royal Highness Sultan Hamengkubuwono X for hosting the dinner as well as for the warmest hospitality extended to us. On behalf of the government of the Republic of Indonesia, may I avail myself of this opportunity to extend my warmest welcome to all of you, especially the distinguished colleagues/delegates of the Manila Framework Group (MFG) meeting to Indonesia, especially to the beautiful and historical city of Yogyakarta.

It is also indeed a great privilege and honour for Indonesia to host the 12th MFG meeting. In this connection, I would also like to express my deepest thanks to you for choosing Yogyakarta as the venue for the particular meeting.

Excellency,

Distinguished Delegates,

Ladies and Gentlemen,

As you are aware, Yogyakarta is an ancient Javanese kingdom, a centre of refined aristocratic and court culture, where the best of Indonesia's tradition are maintained. I would like to encourage you, especially those who come to Yogyakarta for the first time, to spare time to visit some of places of interest in Yogyakarta including the Borobudur Temple. Yogya was also an important place in Indonesia's independence day. Indonesia's people is now has a big obligation to fill this independence with further developments toward a noble overarching goal, a just and equitable society.

I recognize that the MFG forum has, since its establishment in 1997, taken several important initiatives in pursuing its main objective to promote financial stability in East Asia, such as regional surveillance, technical assistance, bolstering the IMF's ability to deal with financial crises, and contingent financing arrangements for Asian currency stabilization. So far, the forum has conducted their meetings eleven times, and the current meeting in Yogya is the twelfth. At the previous meetings, delegates had discussed some important issues and topics based on its theme of each meeting successfully. I am convinced and deeply hope that the Yogya meeting will also be successful. For this coming two days all the Deputies has to work extra hard to decide the future of MFG.

Excellency,

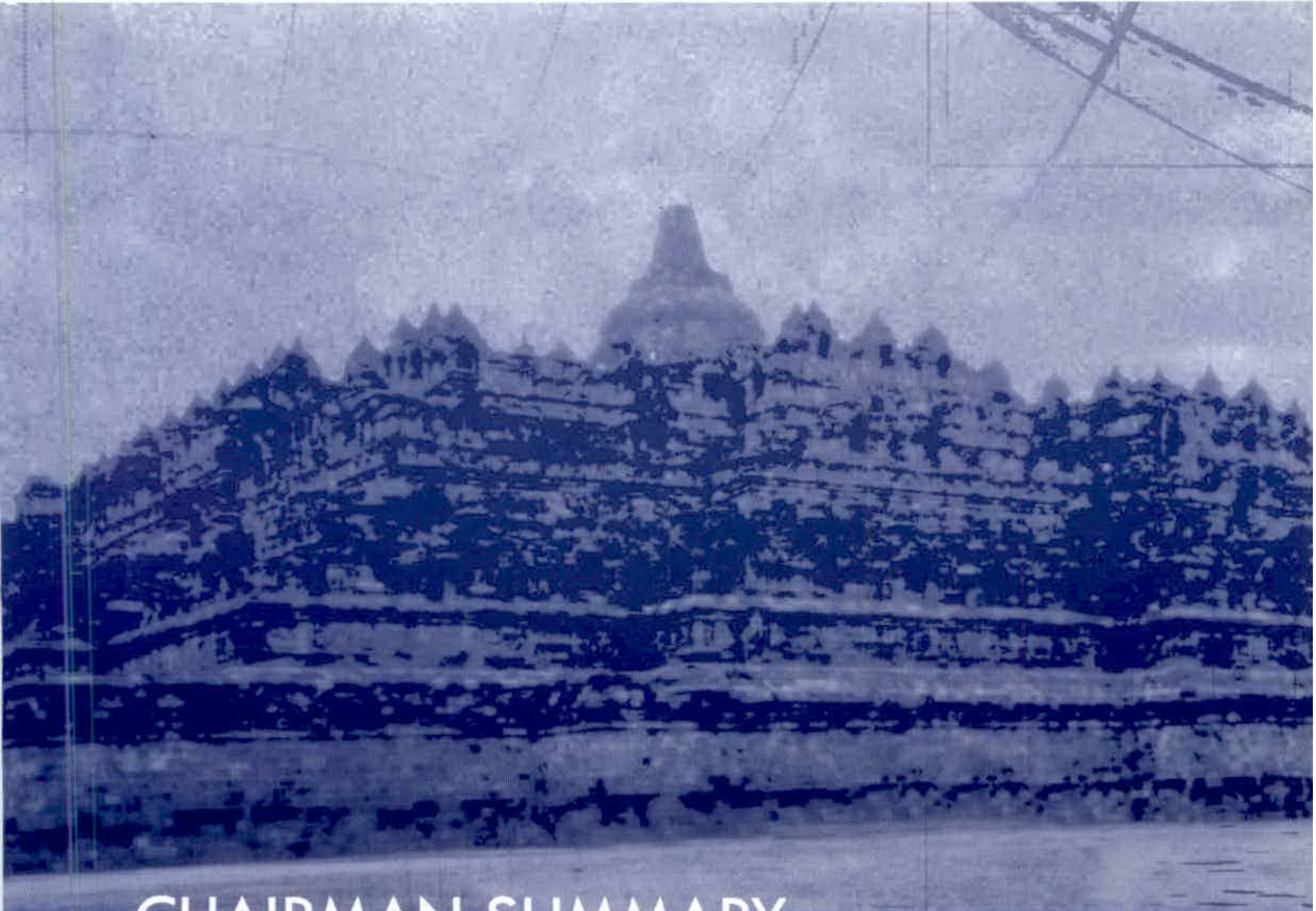
Distinguished Delegates,

Ladies and Gentlemen,

Finally, allow me to extend my heartfelt appreciation and gratitude to all parties, including the organizing committee, who has worked hard and contributed greatly to the success of the MFG meeting in Yogya.

Have a productive meeting.

Thank you.



CHAIRMAN SUMMARY

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Chairman Summary

1. The 12th Manila Framework Group representing 14 members economies and four International Financial Institutions (the IMF, the World Bank, ADB, and BIS) convened in Yogyakarta on 30 November – 1 December 2004 to discuss several issues: Global and Regional Economic Developments and Outlook: Risk and Issues, Members' Policy Responses to Sustain Growth and Facilitate Global Adjustment, Business Cycle and Private Sector, Debt Financial Sector. The meeting also discussed the roles and future prospect of the Manila Framework Group Meeting.
2. The delegates recognized that global and regional economic growth, including 14 members of Manila Framework Group, has shown a better pace since 2000. The growth rate is driven, among others, by strong development in industrial countries and rapid expansion of the Chinese economy. However, growth also faces some downside risks that could harm its momentum. The world oil price that continues to hovering around relatively high levels in recent months could threaten the recovery process of global and individual economies. Meanwhile, the dual deficits faced by the United States, would bring some impact to the world and regional growth path, as well as to other economies. Further, members need to be aware of the risks of overheating in many economies and the eventual global rise of long-term interest rates, as well as the risks associated with the volatility of exchange rate. All member economies need to be careful of these risks and should set policy accordingly. The meeting has also recognized the demographic challenges in the fiscal sustainability.
3. The meeting has recognized the need to put in place a range of appropriate policy responses that should be considered against the backdrop of a dynamic global and regional scenarios: (i) adoption of prudent fiscal and monetary policies; (ii) moving toward greater exchange rate flexibility, if and when appropriate; (iii) and establishing measures to create an environment conducive for a sustained increase domestic demand, especially private investment. Such a policy mix could keep inflation under control while at the same time enable countries to achieve robust economic growth by bringing about a better balance between

external and domestic demand.

4. The MFG meeting realized that efforts to maintain sustainable growth not only lie in the hand of the government, but also the private (financial, corporate, and household) sector. A strong private sector in facing challenges and business cycle gives a positive contribution to sustainable economic growth. Further, the region's rapidly growing real sector increasingly requires more sophisticated financial services and risk intermediation. One important aspect is how to manage the debt in order to adjust with the business cycle. It is quite understandable that there is no single strategy can be applied to all economies depending strongly on country- specific circumstances. The discussion in the forum has provided several options and measurements for policy maker to improve the private sector ability to adapt with the global economic changes. Additional understanding of household debt is a key to prudent management of the macro-economy. If the central bank calibrates policy accordingly, households can sustain a prudent level of debts and not be overly sensitive to interest rates.
5. The meeting agreed that the initial aims of the MFG have been substantially achieved. The financial crisis in East Asia is over. The economies which sought IMF-based funding to support adjustment in their economies have now all successfully graduated from their IMF programs. Yet the need for policy dialogue, surveillance, and reform remains. In recent years, new policy forums have emerged at the regional and global level, which address this need. Members reaffirmed their commitment to continue open and frank dialogue in these and other forums. Recognizing that the MFG has served its purpose and that there is a need to consolidate forums, members agreed to discontinue further meetings of the Group.

SUMMARY OF THE SESSIONS

Session I:
Global and Regional Economic Developments and Outlook: Risks and Issues

Abstract

Session I discussed the global and regional economic outlook and several issues related to the economic growth. Four speakers have shared their thoughtful views to the meeting. *The International Monetary Fund (IMF)* informed the meeting that the pick-up in the global growth that began in mid-2003 showed some moderation in the second quarter 2004, caused by the rising of oil price and some softening in several developed countries. Other risk that may challenge the global economic outlook is the twin US deficits. The IMF came up with some suggestions of appropriate policy response to face those challenges.

The United States delegates briefed the meeting on the economic recovery in the United States. After having some slow down in previous period, the economic growth seems to rebound and improving in the beginning of second half 2004. The United States also explained the causes and possible measures in facing the twin deficits issue. The government has a strong commitment to reduce the fiscal deficit and tries to address the current account deficit by improving the domestic saving level through tax reform. At the same time, the current account deficit needs to be supported by improvement of investment environment in Europe, as well as fair exchange rate realignment throughout the world.

China briefed the meeting about the recent developments in its domestic market and macroeconomic policies in order to achieve a sustainable growth. China also explained the structural reforms now underway and shared its views on the global imbalances as reflected in the sharp oil price increases and exchange rate volatility in the global economy.

Japan shared its views to the meeting on its economic developments and downside economic risks in East Asia. In general, the Japanese economy continues to recover although some weak movements have been appeared recently. As regards potential risks in East Asia, Japan shared its experiences in facing this kind of risks, i.e.; the rise of crude oil price by diversifying energy sources, overheating/asset price bubble by controlling prudently excessive investment through market mechanism and global rise

of long-term interest rates by implementing structural reform of financial system.

Summary of the Session

The IMF briefed the forum on the global and regional macroeconomic outlook and shared its views on the several risks that may disturb the global and regional economic growth.

The pick-up in global growth that began in mid-2003 showed some slowing in momentum in the second quarter of 2004, reflecting rising oil prices and some softening in the United States, the Euro area, and Japan. Nevertheless, global growth in 2004 is expected to average 5 percent, with emerging market and developing countries expected to be particularly buoyant.

In spite of higher oil prices for most of 2004, core inflation in major industrial countries has been little affected. As a result, inflationary pressures are generally subdued. However, the apparent strength of the growth momentum in the US has prompted the Fed to start raising interest rates earlier than previously expected, and it is envisaged to continue in 2005. The danger inherent in such tightening is that it could affect the momentum of world economic recovery. To maintain the pace of economic activities, therefore industrial countries, in particular, are expected to rely more on domestic consumption and strengthening of business investment.

The huge global macroeconomic imbalances, i.e. the twin US deficits and imbalances in Japan and EU, that has started before 2003 remained unsolved until 2004. These imbalances which are accompanying the current recovery cycle could threaten the sustainability of the world economic growth, due to both higher interest rates in the US and substantial depreciation of the dollar.

The upturn of the global economic activities should prompt economies in addressing more fundamental problems and furthering structural reform. These measures are considered important to lay strong basis for sustained growth and improved competitiveness.

With regard to the long-term growth strategy, regional government should focus on enhancing resilience to external shock and on fostering domestic growth for greater sustainability. The following can be considered: (i) broadening intra-regional trade; (ii) strengthening regional domestic demand; and (iii) fostering investment climate by deepening structural reforms.

The impact of an oil shock generally depends on the size and duration of the shock, as well as on the degree at economy's dependence on oil. The risk of higher oil prices arises mainly from possible aggravation of existing imbalances in the global economy. If sustained over a long period of time, it will feed inflationary pressures, possibly forcing interest rate to rise faster than expected. This could trigger a sudden reversal in consumption and saving behavior, leading to a substantial slowdown in world economic growth in particular emerging Asia non-oil export. Further, higher world interest rates could also affect the emerging financial market, reducing their attractiveness to investor.

Understandably, policy responses to higher oil prices will not be identical across countries, depending on the initial condition prevailing in the economy. If the high oil prices transmit rapidly to domestic prices and wages, stabilizing policy responses will be needed, possibly taking the form of tightening of monetary policy. In addition, in countries where oil subsidies are high, the budgetary impact of higher oil prices could be sizeable, requiring some adjustment in the short run.

The IMF also shared its views on several countries' economy conditions that may affect the regional economic growth. In Japan, the deflation remains an issue. Although the deflationary risk will gradually dissipate over time with robust economic recovery, it remains an important factor to watch with regard to strength and durability of the consumption recovery.

In case of China, a surge in fixed asset investment and concerns about overheating in some sub-sectors prompted the Government to resort to a combination of fiscal, monetary and administrative measures for damping the economy. The government will continue its macroeconomic tightening measures while inducing economic activities in lagging sectors. As China becomes more dependent on the international oil market, the government is attempting to diversify both its sources of supply for its imported energy needs, as well as its types of supply, such as liquefied natural gas. A related issue for policy makers is the energy intensiveness of the economy. Increased efforts are needed in the areas of energy conservation.

The United States briefed the forum on the US economic outlook and several issues related to the US economy, such as the twin deficits.

The United States presentation begins with the US economy outlook. It was pointed out that, after having a slight slow down in the first half of 2004, the economic activities started to rebound and it is expected that the growth will continue in the remainder of 2004 and the following years. This condition can be seen through several indicators, such as GDP growth, consumption level, employment condition and industrial production. In the mean time, although the Fed's interest rate has been raised to 2%, the monetary policy remains considered accommodative as compared to the historical background.

In regard with the policy measures, the boost from the Falderal's budget will come to an end in 2004 while the fiscal policy is expected to be a neutral influence on growth over the next year.

The United States clarified that the risks surround the outlook seems to be balanced. The uncertainty of oil price's direction could be complied by several conditions.

The aggregate supply condition remains favorable. The increase of non-farm business sectors output and the estimated structural productivity growth rate would allow the growth of potential output at around 3.5%. Despite the increase of e inflation previously driven by energy prices, the core consumer price index has been subdued on average over the recent months. Further, he also pointed out the result of the recent survey shows that the long term inflation is expected not to be climbed up. In general, the inflation outlook appears to be benign. The condition of inflation expectation seems to be sufficient to counter act the pressure from the declining of dollars and the pass-through form the high energy price to keep the core inflation rate from picking up.

On fiscal deficit issue, the United States argued that the fiscal deficit policy is needed in order to address the domestic economic condition which is colored by the weakening economy that started in 2001, the bursting of asset tax bubble and the change of the security condition after 9-11 tragedy which drove an increase of expenditure and decrease of revenue. However, the US government has strong commitment to reduce the deficit in the following years. It is reflected by the projected deficit for 2004 which is already less both in absolute amount and percentage to the GDP. The strong commitment to reduce the budget deficit will become clearer through the 2006 budget. The United States explained that the main causes of the current account deficit are a fall in domestic saving level and the attractive investment condition in the US to Europe.

In order to strengthen the domestic saving level, the taxation on return on capital (tax on dividend and capital gains) has been reduced. Further, he admitted that this kind of tax has disadvantages compared with ordinary tax income. Hence, a review on the tax system is undergoing to further reduce the disadvantages of taxation on the return on capital.

The United States also pointed out that the issue of investment flow can be solved through coordination with other economy. In this case, an improvement on economic condition, as well as structural adjustments, will make the investment condition in Europe become more attractive.

At the end, the United States also stressed on the importance of the exchange rate flexibility that will contribute to the orderly fashion of capital account deficit-adjustment.

China started the presentation by providing some updated information on its economy. Since the beginning of 2004, China has enjoyed a sound momentum of fast and steady growth. GDP growth of the first three quarters was 9.5 percent year-on-year. This growth was driven by rapid expansion of industrial production, consumption, foreign trade and foreign investment.

In regard to the macroeconomic policies, the Ministry of Finance of China has carried out the matter proper and timely towards fiscal policies adjustments. New efforts have been made to propel recovery of agricultural production and the income of farmers. Central Government provides support to promote employment, social security and SOE reform has been reinforced. On the monetary policy, the delegate informed that the Chinese authority has made efforts to curb the over-expansion of loans and money supply by raising reserve requirement and strengthening open market operations in recent months. Inflation was moderately increasing due to changes in the demand for and supply of grain, and shortage of energy resources.

Further, they explained the on going structural reform in China. In the financial reform, it started by opening up the financial sector. The financial supervision framework and financial legislation system have been improved and the reform of state-owned commercial banks into share-holding banks has been expedited. SOE reform has entered into a new stage based on state-owned capital management. Reform in the monopoly sectors is pressed ahead. Western region rejuvenation and the development of the old industrial base in the northeast are accelerating. The Chinese government has highlighted the importance of rural reform in the overall economic restructuring. Rural tax and fee reform has been strengthened. Rural credit cooperatives reform has been consolidated. Reform of grain distribution system has been implemented in full swing.

At the end of the presentation, China briefly discussed the issue of global imbalances, the oil price increase and the exchange rates volatility in the global economy. In case of the rising oil price, the possible measures to address the influence of rise crude oil price is by improving the energy efficiency, energy saving, enhancing oil stock capacity, regulating in the oil market and the transfer of technology. China also added that the volatile exchange rate is a big concern and that global economy urgently needs the exchange rate stability.

Japan takes the last turn for presentation in this session. The presentation is divided into two parts: (a) recent developments in the Japanese economy, and (b) the possible economic risks in the East Asia.

Japan's presentation was started with an overview on the recent development in the Japanese economy. In general, the Japanese economy continues to recover, lead by private demand, such as consumption, investment and export. However, some moderation is seen in second quarter and third quarter of 2004. The government sees that the slow down is only temporarily due to the impact of typhoon to the construction sector and the impact of US and Chinese economies slowdown to Japanese export. Furthermore, the fiscal deficit has forced government to reduce its expenditure. This also contributed to recent slow down of Japanese economic growth.

.In the corporate sector, the restructuring policy brought about the sharp improvement of corporates profit and an increase of business investment growth as much as 9.7 % in 2004. Export and production have maintained their upward trend, though exports are weakening and production is leveling off recently. The employment condition, which could be seen trough the job offers rate and job seekers rate, is improving. Although the indicators show an improvement, the Japanese economy still faces a mild deflationary situation where the CPI still lies below 0%. However, the government predicted that the inflation rate would be above 0% in 2005.

Japan's presentation continued with possible economic risks in the East Asia. Although the world economy has seen solid recovery, there are three factors pose increasing risks for the region, namely the rise in crude oil prices, overheating/asset bubble, and global rise of long-term interest rates.

As regards the spike of the crude oil price, Japan explained that the alternative measure to limit the impact of the higher crude oil price can be done through two sides. In the supply side is by securing sufficient and stable supply of oil, including investment in new oil field. In the demand side, possible measures was initiated on the basis of Japan's experience with energy saving, environmental standard through desulfurization, as well as improving energy efficiency, and diversification of energy sources in both regional and energy aspects and also enhancing oil stock capacity. The other measure is by providing more accurate data on oil situation, possibly in cooperation with International Energy Agency and dialogue between exporting and importing countries.

In the case of overheating economy/asset price bubble, Japan shared their experience during nineties in which they suffered long term economic stagnation as a result of price hikes spiral in the real estate, followed by huge bubble burst around 1990. The impact was that many corporates and households found themselves in serious difficulty to service their debts. Profits and cash flows were allocated virtually only for debt payments, thus preventing new investment ("debt overhang"). Meanwhile the excessive investments based on unrealistic prospects of expected return on investments (supported by excessively abundant money supply), also create an overheating economy. In this case, the balance sheet adjustment is necessary. Furthermore, the implications of the overheating is a very rapid growth, yet, not in harmony with market which might lead to a bubble and will eventually burst at some point (crash landing) and causing a serious damage to the economy.

Japan added its presentation on the possible effects of rising long-term interest rates in industrial countries. It is expected that the situation would result in restrained overspending and increasing saving, and also the eventual slowdown the economic growth. The possible cross-border effects would be the hike of the interest rate in emerging market economies.

Finally, the presenter suggested some policy measures to deal with the impact of long term interest rate issues by maintaining confidence and crisis management that includes cutting the ratio of short-term foreign debt, maintaining sufficient level of foreign reserves and Currency Swap Arrangements, and a structural reform of financial system and intermediaries function that covers channeling savings to investments and regional bond markets arrangement.

The presentations were followed by discussion and exchange views on the session's topic. *Thailand* started the discussion by expressing its appreciation to Indonesia for its hospitality. Thailand also expressed its appreciation on the IMF's report on current global economic development that has been much more moderate and balanced. It noted that the IMF has put risks in a way that fiscal consolidation and structural reform are more on long term nature and shared its view on the immediate adjustments in Asia. Further, Thailand also commented and welcomed the presentation by the United States, particularly for future policy direction on the US fiscal deficit. It hoped that more policy directions could be communicated to the market.

Hong Kong appreciated the United States' assessment on its current economic development in which it was a lot more balanced compared to that in the last year MFG meeting in Seoul, Korea. Hong Kong mentioned that the US assessment showed its shared responsibilities on the current issues. Further, Hong Kong asked the views of others regarding the points put forward on the table by the IMF about the risks of US dollars' sharp declining. The fund has explained that since the end of August 2004, the US dollar has declined by more than 10% against the Euro and 6% against the Yen. Hong Kong also pointed out that the Asian currencies' exchange rates have been more flexible in the last three months. Asian currencies have appreciated 5-10% against US dollar while the Australian and New Zealand's currencies have appreciated about 10% or more against the US dollar. In this regard, Hong Kong expressed its concern about the pace of the adjustment process, especially on how orderly the adjustment process is.

It explained that if the currency appreciation, asset prices or equity prices appreciation were included into the equation, the gain in the US dollars currency has been, on average, more than 10% across Asia. Even in Hong Kong and Malaysia, where the currencies are pegged, the equity prices have increased more than 10%. This situation shows that the adjustment process is taking place. However, the other factors in economy may be difficult to adjust with the above process and the volatility, as the result, another risk may appear. For example, the above situation might end up with a re-emergence of inflation. In general, Hong Kong argued that if the adjustment process was too fast, the impact would not be good for the market.

Hong Kong also agreed on the need for adjustment of the current account deficit. Nevertheless, if it comes too quickly, it would have a lot of implication on global market, especially to a small market like Asian market.

Indonesia shared its views with the floor by mentioning that at this moment some emerging economies are facing serious challenges in the global economy. There are three main challenges : (i) the rise of high oil price; (ii) up-trend in global inflation rates; and (iii) expectation of monetary tightening. According to Indonesia, all of them have shifted the global balance of risks to the downside. Indonesia also highlighted the current global imbalance and the risks of hard landing in China. In Indonesia's views, macroeconomic responses to address the issue must be taken in cooperation by all economies at regional level, as well as at global level. Both developed and developing countries should put serious attention to the global imbalances, and Indonesia stated that one of the adjustment processes to address the imbalances is to call for more flexible exchange rate regime.

Indonesia was in the same view of the importance of flexible exchange rate in facing external shocks. However, Indonesia stated that any decision to adopt an exchange rate system should be prepared well with careful sequencing. Indonesia also mentioned that the problem of high oil price in the international market is partly caused by problems occurred in some oil producing countries, like Venezuela, Russia, Iraq, and Nigeria. In addition, Indonesia urged advanced countries for providing more transparent information on their oil supply and demand to reduce speculative activities. Lastly Indonesia shared with the meeting that it has achieved remarkable progress in its economic development and expected to see 6% economic growth by the year 2006.

Korea shared its views by stating that it was acceptable for the US dollar to depreciate, because of its huge current account deficit. However if it is depreciated too quickly, then it would create a problem. In the case of Korean won, since 2002 the US dollar has depreciated against the Korean won more than 25%, while in one month, on average, it was depreciated for about 7% against Korean won. This was considered very high compared to other currencies. Korea argued that Japanese Yen and Euro also appreciated against the US dollar, but the monetary authorities of both Japan and European Union did not take any concrete measure to adjust the exchange rates change. Furthermore, Korea predicted that the current situation would continue until February 2005, where the US President Bush's second term would start. Korea expressed its concern that until the time, the international hedge fund will keep moving for speculative purposes. To address the issue, Korea sought a closer international cooperation to slow down the exchange rate movement. Korea also mentioned that advanced countries such as the United States, Japan, and Europe should consider actions regarding the speed of the exchange rate fluctuation.

Philippines shared a similar view with the meeting regarding a more balanced assessment put by the IMF, particularly concerning the oil price hike. In the Philippines' point of view, the oil price increase necessitated monetary tightening, but that policy depends on country specific circumstances. In other words, a monetary tightening policy cannot be considered as one size fits all. Philippines also raised a question on exchange rate policy. It asked the United States on how the country sets strong US dollar policy. Even though every country has its own assessment for the policy, it is useful to learn the experience from the United States.

Japan responded to comments raised during the discussion by mentioning the importance of the exchange rate issue. It also joined other economies by echoing that the exchange rate has been moving in more rapid pace than expected. Japan argued that the exchange rate system should reflect the economic fundamental of a country. In this regard, the exchange rate should move in certain stability. However, a fixed exchange rate is not the only solution since there is also lie imbalance issue in the global economy. At the end, all economies are responsible to make the exchange rate moving more smoothly.

China responded to questions raised on the hard-landing issues. China said that the Chinese government is currently putting hard efforts to make the cooling down process proceeding smoothly. The Chinese government has taken very effective policies to control economic overheating in some areas. Rapid increase of investment, to some extent, has been controlled. Also inflation would not be a cause of concern to the government. The current inflation pressure has been largely the result of poor in grain harvest, but the production would recover quickly.. However, China dismissed the issue of whether soft landing or hard landing. Even, it could happen that there would be no landing at all, because the economy could keep growing at high level, even though not as high as the current performance.

Regarding the questions on the monetary policy, particularly on its exchange rate system, China said that there is no doubt that flexibility of the exchange rate is needed for better dealing with external shocks, and the direction of reform currently undertaken by the Chinese government also focuses towards more flexible exchange rate system. However, China argued that it needs preparation before moving to a more flexible exchange rate of its currency, renminbi, as it cannot be done overnight. China flashed back the story to the period of 1994 – 1997, where it adopted a wider band of the exchange rate. As the financial crisis hit the regime, the authority committed to a more stable exchange rate system. Once the government has committed to a particular regime of systems, it is not easy to exit since, without appropriate preparation, this will only create disruption for the economy. China argued that financial crisis was not something of the past, but it is still fresh and will always be in memory. Lastly, China informed the meeting that the government is currently undertaking preparatory work for a more flexible exchange rate regime.

APPENDICES

Annotated Agenda

Adoption of the Agenda

Business Arrangement

Session I. Global and Regional Economic Developments and Outlook: Risks and Issues

(Lead Speaker: IMF; Speakers: USA, P.R. China, Japan)

The meeting may wish to discuss and exchange views on the recent global and regional economic development. The IFIs' representative is expected to brief the meeting with the recent global and regional economic development, and also provide some views on several issues that would affect the future global and regional economic outlook. The other speakers are invited to share their point of views, especially special issues that related to their economic situation. The other participants are welcome to share their opinions or situation in their countries.

Session II. Members' Policy Responses to Sustain Growth and Facilitate Global Adjustment

(Lead Speaker: ADB, Speakers: Indonesia, Thailand)

In this session, the participants may wish to share their views and experiences on their policies in maintaining the economic growth. The discussion will also include policies that have been taken to adjust with recent global situation, such as issues that have been mentioned in the previous session. The policies can focus on short run and medium term policies in monetary and fiscal aspects, and also the policy to speed the fiscal adjustment, or any other related policies. All participants are expected to give their comments, opinions and point of views about the presentation or to share their own experiences.

Session III. The Business Cycle and Private-sector Debt

(Lead Speaker: World Bank, Speakers: Australia, Korea)

The discussion in this session is focused on the issues surrounding factors that will affect private sector's strength in facing the business cycle. The discussion can cover the impact of the business cycle, how far the debt will affect the private sector performance and specific strategy for private sector to finance its debt. The participants will exchange views and share their experiences.

Session IV. Future Prospect of the MFG Meeting

In this session, the delegates may wish to discuss the MFG forum existence, roles, and its effectiveness in this moment and to decide the forum's future prospect. The meeting may consider several possible options and decide the best option for the forum's future.

Others

Program of Activities

Monday, 29 November 2004

	Arrival of Delegates
17.00-19.00	Registration VENUE Lobby, Hyatt Regency
19.00-21.00	Welcoming Cocktail VENUE Lower Poolside, Hyatt Regency DRESS Casual

Tuesday, 30 November 2004

08.00-09.00	Registration VENUE Ballroom, Hyatt Regency
09.00-09.15	Inaugural Session Remarks by the Chairman of the 12th Manila Framework Group Meeting VENUE Ballroom, Hyatt Regency
09.15-10.30	Session I Global and Regional Economic Developments and Outlook: Risks And Issues VENUE Ballroom, Hyatt Regency
10.30 – 10.45	Delegates' Photo VENUE Ballroom, Hyatt Regency
10.45 – 11.00	Coffee Break VENUE Lobby Court, Hyatt Regency
11.00 -12.30	Session II Members' Policy Responses to Sustain Growth and Facilitate Global Adjustment

	VENUE Ballroom, Hyatt Regency
12.30-14.15	Lunch VENUE Kemangi Bistro, Hyatt Regency
14.15 – 15.30	Session III The Business Cycle and Private Sector Debt VENUE Ballroom, Hyatt Regency
15.30 – 15.45	Coffee Break Venue: Lobby Court, Hyatt Regency

Tuesday, 30 November 2004

15.45 – 16.30	Free Time / Bilateral
17.00	Leaving for Dinner Reception at Keraton
17.30 – 18.00	Sightseeing / Visit to Museum of the Late Sultan Hamengkubuwono IX (At Keraton Complex)
18.00 -	Dinner hosted by His Royal Highness Sultan Hamengkubuwono X (Hon. Finance Minister Jusuf Anwar will attend the Dinner At Keraton) VENUE Keraton Yogyakarta DRESS CODE - for Gentlemen, Batik Shirt (to be provided) - for Ladies, Blouse Dress covered by Batik Scarf (Batik Scarf to be provided)

Wednesday, 1 December 2004

09.00 -10.30	Session IV Future Prospect of the MFG VENUE Ballroom, Hyatt Regency
10.30-10.45	Coffee Break VENUE Lobby Court, Hyatt Regency
10.45-11.15	Closing Session
11.15-12.00	Free time
12.00-13.00	Lunch VENUE Kemangi Bistro, Hyatt Regency
13.00-	Tour to Borobudur Temple DRESS Casual

Public Announcement

Conclusion of the Manila Framework Group

The Indonesian Ministry of Finance and Bank Indonesia hosted the 12th Meeting of the Manila Framework Group (MFG) in Yogyakarta on 30 November and 1 December 2004. MFG members include Deputies from the Finance Ministries and Central Banks of Australia; Brunei Darussalam; Canada; People's Republic of China; Hong Kong, China; Indonesia; Malaysia; Japan; Korea; New Zealand; the Philippines; Singapore; Thailand; and the United States; as well as representatives from the International Monetary Fund; World Bank; Asian Development Bank; and the Bank for International Settlements.

The Manila Framework Group was established in November 1997 to help manage the financial crisis engulfing the region and to promote financial stability in East Asia. It sought to achieve this through effective surveillance, cooperative policy dialogue and enhanced technical and economic cooperation.

Members agreed that the objectives of the MFG have been substantially achieved. The financial crisis in East Asia is over. The Economies which sought IMF-based funding to support adjustment in their economies have now all successfully graduated from their IMF programs. As a result, it was agreed that it was appropriate to acknowledge the success of MFG meant that further meetings were no longer required.

Yet the need for policy dialogue, surveillance, and reform remains. In recent years, new policy forums have emerged at the regional and global levels which address this need. Members reaffirmed their commitment to continue open and frank dialogue in these and other forums.

Members thanked their Indonesian hosts for their excellent hospitality and leadership.

Yogyakarta, Indonesia

1 December 2004.

Photo Sessions

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