

Summary of Proceedings

The 12th Finance and Central Bank Deputies Meeting

The Manila Framework Group



Yogyakarta, 30 November - 1 December 2004



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The 12th Finance and Central Bank
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 heartfelt gratitude to all parties involved in organizing the 12th MFG meeting, particularly to my colleagues of Bank Indonesia. My special appreciation and gratitude also goes to His Royal Highness, Sultan Hamengkubuwono X, for hosting the dinner at the beautiful and

REMARKS

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.

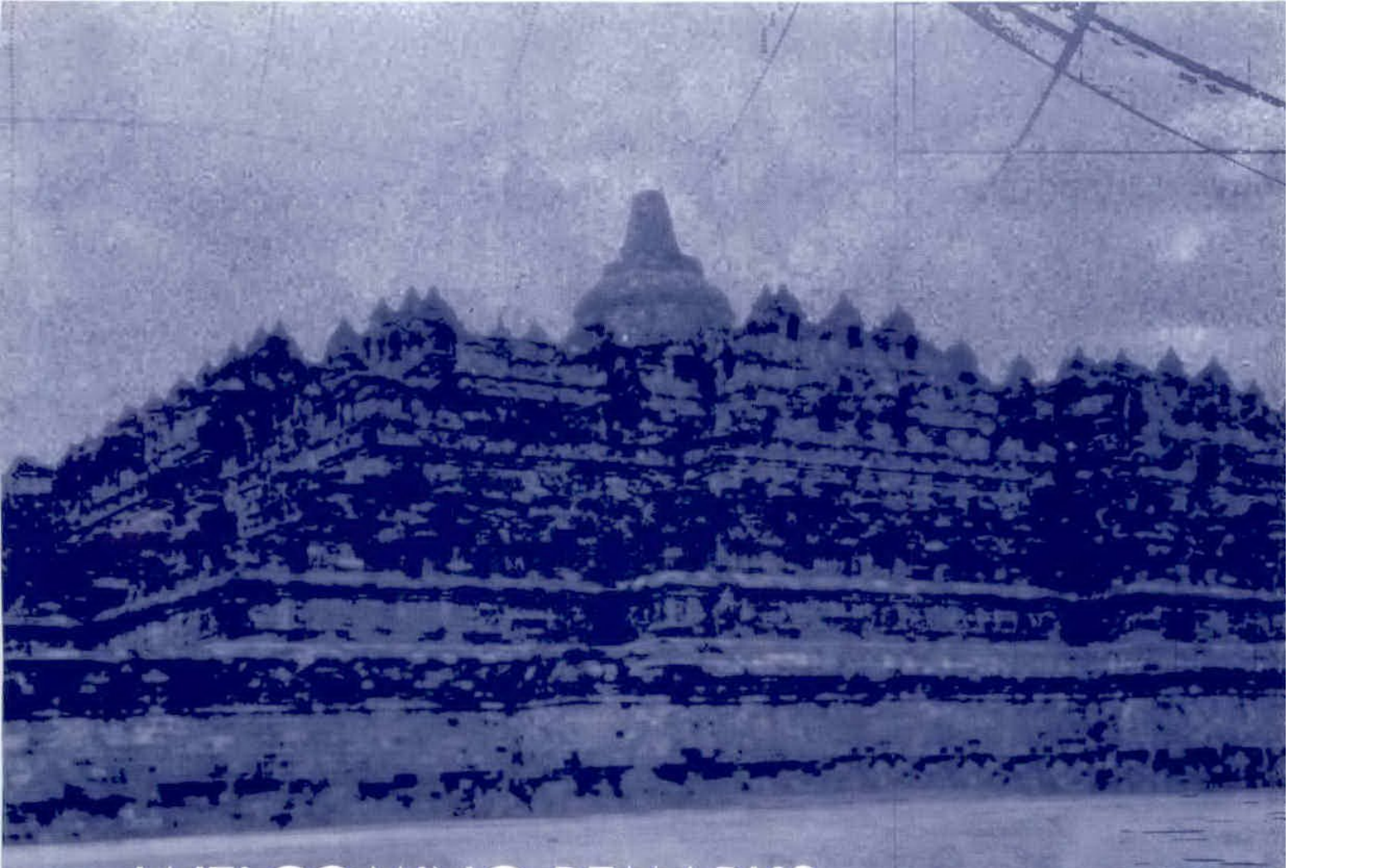
The forum has so far, conducted their meeting twelve times. During last eleven meetings, various important issues were discussed and several initiatives have been taken with a view to achieving its main objectives. At its 12th meeting, members also discussed four major issues covering (1) global and 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 distributed 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

page 1

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.



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Session I:

Global and Regional Economic Developments and Outlook: Risks and Issues | page 9

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Session IV:

Future Prospect of the Manila Framework Group

Abstract

Session IV discussed issues concerning the future prospect of the Manila Framework Group (MFG). This session considered only one paper entitled Option for the Manila Framework Group which was presented by Australia. The paper highlighting the background of the establishment of the MFG, initiatives that had been taken, the success of the MFG, and then provides four options to be considered with respect to the future of the MFG.

The MFG was established in November 1997 as a forum for finance and central bank deputies of 14 APEC economies – with the support of representatives of the International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB) and the Bank for International Settlements (BIS) — to promote financial stability in East Asia. Under the theme ‘A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability’, members agreed to set up a regional surveillance mechanism to complement the IMF’s global surveillance. MFG members agreed on four possible initiatives to be taken, namely:

- regional surveillance;
- technical assistance;
- bolstering the IMF’s ability to deal with financial crises; and
- contingent financing arrangements for Asian currency stabilisation.

MFG members initially agreed to meet twice a year with regional crisis prevention/surveillance as the key purpose of the meetings without duplicating the work of other forums and institutions. As the crisis passed, economic recovery and structural adjustment progressed, members decided that, from 2002, they only needed to meet once a year.

Having the meetings at the deputy level, MFG is particularly effective in promoting frank and open dialogue and surveillance. The dialogue has enabled participants to draw on the experience of others, which get advantages from the diversity of the group in terms of economic development and regional location that has provided a wide

range of experience to the table.

Since the crisis is over, it comes to a general understanding that the initial aim of the MFG has been achieved. Such a rationalisation of forums can be seen as an act of decisiveness and a signal to the rest of the world that it might be appropriate to suspend or close forums that have achieved their purpose. There were four options to consider for the future of the MFG, as follows :

- *Option A:* maintain existing arrangements. In this case, the MFG is retained as an active forum for dialogue and surveillance between member economies.
- *Option B:* suspend further meetings of the MFG. In this case, members have the option of reinstating meetings, including ad hoc meetings, if necessary.
- *Option C:* suspend further meetings of MFG deputies and introduce meetings at the technical level. In this case, dialogue on particular economic and financial issues can still occur between officials of MFG member economies.
- *Option D:* formally disband the MFG, acknowledging its success in addressing the key objectives proposed at its establishment.

Summary of the Session

Australia started with a presentation concerning the future options for the Manila Framework Group (MFG). Firstly, he briefed the meeting on the background of the establishment of the MFG, its main objectives, the progress that has been achieved as well as options for the future of the MFG. He explained that the main objective of the MFG is to promote the financial stability in East Asia which was of very particular in preventing the crisis. In achieving its objective further action should be taken focusing on regional surveillance with the support from international financial institutions. He further stated that the MFG has achieved its main objectives with positive benefits from its nature of a frank and open dialogue in more deputies level. Considering the recent conditions that the crisis was over, many member countries of the group had put their economic right on track and many other forums discussed similar issues as at the MFG, *Australia* offered four options for the future of the MFG, namely option A to maintain the existing arrangements, option B to suspend further forums, option C to suspend the forums on the deputies level but continue at the technical level, and *option D* to formally disband the MFG with acknowledging its success in addressing the key objectives proposed at its establishment.

The United States also highlighted the meeting on the success achieved by the MFG particularly relating to macro performance, financial performance and regional surveillance. Hence, he suggested that the discussion would be very valuable if the meeting look at the past few years of achievements on the objectives. Particular value also to roll the success of the forum to other forum. Finally, the United States was of the view to choose *option D* recognizing that the group has been very effective and

about the timing to celebrate the success and move on.

China was of the same view with American delegate's on the very success of concluding the forum. In this regard, China emphasized that it was the time to declare the success and start to look at other similar tools outside, since there were many other forums, such as APEC and ASEAN+3 which discussed similar topics/issues in which the same people from MFG's member also attending those forums. Policy dialogue which interests not only the member economies but also the region, could also be discussed in other forum. China also reminded the meeting on the needs of making a better coordination in other forum and improving the quality of economic policy dialogue in the region. In conclusion, China supported the *option D*.

Japan appreciated the presentation on the future option of the MFG and the views expressed by America and China. These made the sense of attending a meeting on timing to declare the success of the forum and start to have other forum. Japan noted that the meeting had successfully concluded and economies in the region had well shared in hosting the MFG meetings where member could play its responsibility with a success. Japan was of the view that the MFG meeting in Yogyakarta could become a symbol of successful dialogue, and then members needed to duplicate the success to strengthen ability in other focus/objectives. Japan supported the *option D*.

New Zealand noted that members could value the MFG meeting very high, so it was important to re-noted that the MFG was very success and have high quality dialogues. New Zealand chose *option D* that members have to recognize the success and the value of the meetings on placing the purposes of the MFG.

Philippines supported the views earlier expressed by other delegates on the success and the important of the forum. Philippines recognized that the MFG established for a very specific purposes and the purposes had substantially achieved. The MFG substituted generalities for more frank and more open dialogue. Since there were so many groups already established and some obligations on what things to do was quite evidence in some of these regional groups, so option D would be a good choice for the Philippines.

Singapore followed the views expressed earlier that the MFG has achieved its objectives which enabled common issues go on track. MFG also provided network of friend and contact which has been very useful for years. However, it was time to send signal to international community that the group have done what it had set out, and it would be a pragmatic approach to choose *option D*.

Thailand also supported the views of other delegations that the group have achieved the purposes of the establishment of the MFG. Recognizing that same officials of the MFG members also have many other international forums, then Thailand proposed to choose *option D* which was to formally disband the MFG and to declare the successful of the MFG.

Malaysia supported the views of other members that the group could appreciate the contribution of MFG to promote understanding and negotiation on economic policy in the crisis situation. Understanding that the issues discussed in the MFG also discussed in other forum, Malaysia supported to adopt *option D*.

Hong Kong viewed that original objectives of the MFG had been achieved and members could discuss about crisis management in other forums. Hong Kong stressed the phrase of crisis management in the MFG, instead of crisis prevention since the financial crisis was already hitting Thailand, Indonesia and Korea. Within this group members could have quick responses on the necessary policy to manage the crisis. At that time members discussed on what should be done with the support from international financial institutions. Certain purposes in managing the crisis also discussed in other forums with another issues on crisis prevention and international financial architecture. Besides, concerning economic condition of this group in recent years, member economies have managed the crisis and their economy has recovered. This led the group to less urgency and less need to have another meeting. On institutional level, Hong Kong agreed with option presented by Australia about the time to declare success and put the dialogue to an end. Additionally, in little level, Hong Kong reminded the meeting that members could take quality learning through the dialogue which should bring to other forum. Hong Kong also reminded that there were still works not completed and members needed to continue to work hard for that, but those works could be discussed in other forums. Hong Kong hoped that other forums in the region would keep up the work. Therefore, Hong Kong agreed with *option D* and suggested to carry on the discussion at other forums.

Brunei viewed that the MFG meeting, in overall, have achieved its objectives. Therefore, Brunei supported the *option D*.

Indonesia agreed that the group has achieved the purposes. On this occasion, Indonesia took the liberty of thanking all members for giving Indonesia the opportunity to host the meeting. Indonesia also supported the *option D*.

The IMF shared its perspectives as observer. The first point was recognizing that since the establishment of the MFG, international financial institutions, particularly IMF, were very useful to the group in terms of enabling the region and all members of the group to introduce financial architecture and global surveillance. While the second point, IMF delegate emphasized that in general, having original discussion in the group which including not only Asia, but Australia and America as well could reflect a global perspective in a very significant way to the group.

The BIS also expressed its views as observer. BIS was of the view that the MFG meeting has been successful because of its informal setting. Other forum could pass from here. BIS also shared the views that facing the recent situation after the crisis, a kind of dialogue become more important than ever. Therefore, the success of the MFG

should combine to other forum.

Each of all delegates above also expressed their appreciation and gratitude to Indonesian government for convening the meeting successfully.

In conclusion, the meeting agreed to choose the *option D*, namely to formally disband the MFG. Therefore, the 12th MFG in November 2004, Yogyakarta, Indonesia, was the last MFG meeting.





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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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