



BANK INDONESIA

Governor Agus D.W. Martowardojo

At the High-Level International Seminar
"Global Economic Outlook in ASEAN Perspective"

Bank Indonesia

April 28, 2017

**Learn from the Past, Seize Opportunities,
and Enhance Synergy**

Keynote Speech

Distinguished Speakers, Mr. Maurice Obstfeld, Economic Counsellor and the Director of Research of the International Monetary Fund;

Deputy Governor Diwa Guinigundo from Bangko Sentral ng Pilipinas, Deputy Managing Director Ong Chong Tee from Monetary Authority of Singapore, Deputy Governor Sukhdave Singh from Bank Negara Malaysia, Deputy Governor Mathee Supapongse from Bank of Thailand, Deputy Governor Perry Warjiyo from Bank Indonesia;

Other Members of Board of Governors of Bank Indonesia;

Mr. Chatib Basri, former Finance Minister of the Republic of Indonesia, who will be chairing the seminar;

Department Heads and Senior Officials from Bank Indonesia;

Colleagues from Ministries, Government Institutions, Embassies, International Organizations, Financial Institutions, and Academia;

Participants of Bank Indonesia International Workshop on Policy Mix;

Ladies and Gentlemen;

1. First, allow me to welcome you to Bank Indonesia and to the High Level International Seminar on “Global Economic Outlook in ASEAN Perspective.” We are very privileged with the presence of Mr. Maurice Obstfeld to share his opinion and thought on the development and prospect of the global economy, especially concerning ASEAN region, and its challenging path ahead. We are also delighted to have speakers from ASEAN central banks who will share their views on a number of key issues surrounding the economic development in ASEAN.
2. The half-day seminar we are having today serves as the regional kick-start event for a series of seminars and other activities under the Voyage to Indonesia theme designed to lead up to the 2018 IMF-World Bank Annual Meetings in Nusa Dua, Bali, Indonesia.
3. This particular seminar is aimed to showcase ASEAN as a reformed, resilient and progressive region to the world. Therefore, the discussion will touch upon how ASEAN countries have progressed in various areas especially in central banking policy making, and in furthering the ASEAN economic integration process to form what we call the ASEAN Economic Community.

[Global economy and challenges ahead]

Distinguished Guests, Ladies and Gentlemen,

4. The global economy has entered the interesting yet still challenging stage. Among the key takeaways from the recently concluded IMF-World Bank Spring Meeting is that, in the near term, the global economic recovery is better than expected for the first time after some years of downward revision, with the resurgence of commodity prices, and less pressure on

deflationary trend. The IMF has revised its assessment in April pointing to the 2017 growth of 3.5% vis-a-vis 3.4% in the previous projection, and by 3.6% in 2018. The economic recovery is happening both in Advanced Economies and Emerging Market Economies, including ASEAN region. Emerging Market Economies have remained the source of engine of growth.

5. However, the positive outlook is still facing huge challenges stemming from uncertainty in the political and economic policies, such as general election in major European economies, as well as in the policy fronts, including trends towards trade protectionism by some Advanced Economies. The downside risks would produce some degree of financial tightening, causing more volatility of capital flows while generating negative spillovers, especially to Emerging Markets Economies. In the longer term, global economy is also facing persistently low productivity in both Advanced Economies and Emerging Market Economies.
6. Clearly, we should remain vigilant on the global economy, especially its fundamental issues such as how to improve productivity and deal with aging population. Given the complex nature of the current global economic environment, it is important for policy makers to use all policy levers to ensure that growth benefits each and every layer of society.
7. In fact, the issue of inequality has been occupying the attention of policy makers, while some have been challenging the concept of multilateralism that we all have known. Debates on the inward-looking policy have come forward. The situation has definitely caused uneasiness to Emerging Market Economies who have adopted the the open economy concept, and have contributed to the improved global growth. The question is that, in the current global setting, how ASEAN would cope with such challenges.

[ASEAN during the crisis]

8. Two decades ago, Asia experienced a heavy financial crisis. A very deep economic contraction was shared by every country in the region, with Indonesia, Thailand and Korea bearing the greatest brunt. Currency depreciation, growth slump and shooting inflation were widespread.
9. The crisis also destabilized financial sector, leading to a mounting government debt from blanket guarantee and bank restructuring. It even set in motion social and political unrest as public confidence diminished. The full blow of the crisis also brought Indonesia and Thailand to enter into IMF programs.
10. With the crisis, ASEAN as a region suffered heavy losses not only in economic performance, but also in global perception. The spillover effects in the crisis was paramount and had played a massive role. Therefore at that time, ASEAN was seen as a fragile group of economies.

[ASEAN recent developments]

Distinguished Guests, Ladies, and Gentlemen,

11. In the aftermath of the crisis, ASEAN countries conducted vast restructuring towards recovery. ASEAN economy rebounded with improved economic structure. The region quickly learned from the unfortunate experience. ASEAN strived to regain domestic and international confidence. And now, the region has revived with healthy growth and stable financial sector.
12. On average, ASEAN grew at 5.5% per annum in the last 15 years, higher than the growth of the global economy of 3.9%. This higher growth rate

led to ASEAN's rising share of world GDP. In 2016, the share of ASEAN GDP is 6.1% relative to that of the global economy.

13. The ASEAN share of world trade also increased significantly. ASEAN trade value as a share of the world trade value rose to 6.9% in 2015. The growing trade value indicates an evolving structural change within the region where the economy is becoming more open. The similar improvement also happens in foreign direct investment.
14. On average, foreign direct investment in ASEAN amounted to USD121.9 billion annually within the period of 2011–2015, increased significantly from around USD 29.8 billion per annum in 2001–2005. Good economic performance with relatively high GDP growth has been a pull factor for FDI in this region. ASEAN has become once again an attractive investment destination. The confidence to the region is back.

[ASEAN integration]

Distinguished Guests, Ladies, and Gentlemen,

15. The ASEAN rapid and successful recovery is only the first main achievement of the region. With economic stability firmly gained, countries in the region have further progressed the regional economic integration to be able to play bigger roles in the future global economy, which is the second main achievement. After 20 years since the Asian financial crisis, we now proudly see ASEAN as a region of promising world power with a strong cohesion and togetherness, owing to the ASEAN economic integration agenda. The regional integration project acknowledges and takes care of different levels of preparedness by ASEAN member states. It also upholds harmony and synergy by employing ASEAN own values.

16. The initiative of ASEAN economic integration has reached an important milestone in 2015 with the establishment of ASEAN Economic Community 2015. After the 2015 graduate, the economic integration agenda in financial sector is now being pushed to be more balanced and inclusive. Indeed, ASEAN financial integration does not treat integration as a matter of liberalisation, but provides focus on stability and inclusion as its equally important pillars. The three pillars of financial integration, financial inclusion and financial stability ensure that the strength, resilience and inclusiveness of the benefits of regional integration in the financial sector are pursued and subsequently achieved.
17. A number of financial integration initiatives in the form of endorsed strategic action plans are put forward. These include the ASEAN Banking Integration Framework, the safeguard measures of capital flows, and the build-up of financial inclusion infrastructure. A more recent initiative on Local Currency Settlement is another clear contribution from central banks to advance inter-ASEAN trade and investment.
18. Under the ASEAN+3 financial cooperation, ASEAN has reached significant progress in strengthening the regional self-help mechanism, especially compared to the time of Asian financial crisis. The continuously improved Chiang Mai Initiative Multilateralisation as a regional financial safety net arrangement with the support of AMRO has made the region more ready to any risks, vulnerabilities and spillovers from the external sector.
19. Moving forward, ASEAN will consistently maintain and improve its framework as a unique economy group with strong visions. ASEAN is ready to move to the next level, that is to become a highly integrated and cohesive economy; a competitive, innovative and dynamic region; with enhanced connectivity and sectoral cooperation; as well as a resilient,

inclusive, people-oriented and people-centered orientation; and at the same time being truly a global player.

[Key takeaways]

Distinguished Guests, Ladies, and Gentlemen,

20. Global economy has been far more integrated than 20 years ago, and yet the challenges are also increasingly multifaceted. Although in the near term the outlook is promising, some downside risks remain, requiring us to live with prudence. Protectionism and anti-multilateralism are taking shape, but I believe that ASEAN have enough experiences since the 1997-98 crisis to stay strong and vigilant.
21. First, ASEAN is an agile and adaptive region and it has entered once again into a group of emerging market economies with strong macroeconomic performance, good policy formulation as well as high external confidence. In this regard, central banks are playing a crucial role in managing the stability of the economy by facilitating the recovery from the crisis, ensuring price and financial stability along the way, and preparing for the rainy days with multiple layers of defence and solid track-record of policy making.
22. Second, with ASEAN Economic Community 2025 agenda underway, the region will be increasingly integrated, stable and inclusive. Our regional integration is well-organized, and this will bring ASEAN to play greater roles in the global economy. ASEAN financial integration is now fully equipped with visions, action plans, and performance indicators, ready to be a region with responsibility and become a winning global player. ASEAN

is a region that always learns from the past, seizes opportunities ahead, and enhances synergy towards shared visions.

23. Indonesia would certainly play a part in this process, with the consistent adoption of the three-pronged approach combining monetary policy, fiscal policy and structural reform with the right mix. Despite the global economic slowdown, Indonesia's economy is able to advance by 5.02% yoy in 2016 supported by strong domestic consumption, reviving export and investment. Although this is still below our historical growth rate of 5.8% during 2005-2015, this rate of growth is still favorable compared to peer countries. Our robust economic growth is also supported by stable macroeconomic environment. In 2016, inflation was registered at 3.02%, a continued record of contained inflation period after charted an inflation hike in 2013 of 8.4% yoy and 2014 of 8.4% yoy. Our latest figure of inflation for March 2017 is 3.61% yoy, which is still within our target range of $4 \pm 1\%$.
24. On the external front, we consistently recorded smaller current account deficit over the years, moving from minus 3.19% in 2013 to minus 1.8% in 2016. We also retain an adequate level of reserve position whereby at end-March 2017 reached USD121.8 billion which can adequately cover 8.6 months of imports and servicing of government external debt repayments. Meanwhile financial system stability was maintained along with banking system resilience. In January 2017, the Capital Adequacy Ratio (CAR) was recorded at 23.0% and non-performing loans (NPL) stood at 3.1% (gross) or 1.4% (net). Moreover, our banking system is among the most capitalized and profitable in EMs, which provides strong buffers to support financial stability.

Distinguished Guests, Ladies, and gentlemen

25. To conclude, as I have mentioned in the beginning, this seminar is part of a series of activities organized as the groundwork for the IMF-World Bank Annual Meetings 2018 in Bali. These activities are interwoven under the theme "Voyage to Indonesia", a journey that will bring the world to the renewed Indonesia and ASEAN region. It is my hope that all of us will continue to be engaged in various programs of the "Voyage to Indonesia." We also hope that you will attend and experience the IMF-World Bank Annual Meetings in Bali along with its enriching back-to-back programs in October 2018. Finally, I wish you all a pleasant and fruitful seminar and let me stop here. Thank you.