

Joint Ministerial Statement of the Special ASEAN Finance Ministers' Meeting, Prague, Czech Republic, 25 September 2000

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Introduction

1. We, the ASEAN Finance Ministers, met in Prague to discuss progress made in our efforts towards sustaining economic recovery in the region.

2. H.E. Pehin Dato Abdul Aziz Umar, Minister Representing the Ministry of Finance, Brunei Darussalam, presided over the meeting.

Recent Economic Developments

3. We reviewed our economic performances through the first half of this year and are pleased to note that they have continued to gather momentum from the recovery last year. For the full year 2000, we expect average growth rate for the region to rise to 4.9% compared to 3.3% in 1999.

4. For the crisis-affected ASEAN countries, in particular, the stronger growth has been achieved through a continued expansion in exports, a revival in consumer spending and a turnaround in investment. Government expenditures have shown signs of tapering off as private-led demand has played a greater role in supporting the economic recovery.

5. Monetary policies in most ASEAN countries remain geared towards achieving domestic price stability and supporting growth. Despite more volatile exchange rates in the second quarter of the year, we have been able to contain inflation at 1.3% in the first half of year 2000 from the 10.4% experienced last year. Domestic interest rates have therefore been further reduced or maintained on order to stimulate economic activity and foster investment. However, we are concerned over the potential effects of rising oil prices on price stability in oil-importing countries.

Sustaining ASEAN Economic Recovery

6. Our efforts to revitalize domestic demand through retraining programs for the unemployed, the enhancement of social safety nets and the acceleration of bank and corporate restructuring have led to a significant improvement in private consumption, which more than doubled to a 4.8% growth compared to the 1.9% expansion last year. We have continued to make steady if not spectacular progress in debt restructuring this year as well as persist with prudential and other structural reforms in the

financial sector.

7. In the light of the revival in consumer demand and the sharp increase in domestic debt in the last two years, we agreed to work towards a more balanced fiscal position over the medium term. We are confident that with the improving trend in private consumption and investment, our fiscal position will move into balance or surplus.

8. Our strong performances in exports have contributed to a continued surplus in the current account and the overall balance. We have continued to build up our reserves and at the same time reduced the region's reliance on short-term debt, resulting in a continued improvement in the ratio of official reserves to short-term external debt.

9. We have also stepped up our efforts to develop bond markets in ASEAN countries through consultations among officials, regulators, and market practitioners. A Working Committee on Capital Market Development has been set up and is working closely with the private sector in developing a framework and the necessary infrastructure for further development of the local bond markets as well as enabling the cross-border issuance of debt within the region.

10. To assist countries in meeting temporary liquidity problems, ASEAN agreed to expand the size of the ASEAN Swap Agreement to make it larger as well as include all ASEAN countries. The ASEAN Central Banks have agreed on the principles governing the expanded facility and aim to conclude the agreement before the ASEAN Summit. A network of bilateral swap arrangement among ASEAN countries, China, Japan and the Republic of Korea is also being negotiated to provide temporary financing for members which may be in balance-of-payments difficulty.

11. We have also agreed with our East Asian counterparts to exchange information on capital flows, in addition to exchanging views on economic and financial developments in our economies. This would complement and enhance our monitoring and surveillance activities.

12. Notwithstanding the strong economic recovery, we noted that the average growth is still below pre-crisis levels. In our view, the region is capable of sustaining higher rates of growth provided we address the structural weaknesses in our banking and corporate sectors. This would help to revive investor confidence and attract a higher level of capital inflow, particularly foreign direct investment. We therefore reiterate our commitment to make further progress in structural reforms in order to achieve a higher sustainable growth rate.

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