International Monetary and Financial Committee

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IMFC Statement by Scott Morrison
Treasurer
Australia

On behalf of
Australia, Kiribati, Republic of Korea, Republic of the Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Republic of Uzbekistan, and Vanuatu

STATEMENT BY THE HON. SCOTT MORRISON, MP
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ON BEHALF OF THE ASIA AND THE PACFIC CONSTITUENCY

Global Outlook:

The outlook for the world economy is subdued as global growth remains stubbornly low against the backdrop of low interest rates, low inflation and low wage growth. We welcome the fact that acute short term risks have receded somewhat, but agree that downside risks still predominate. In this context, policymakers must use all policy tools as appropriate but particularly undertake structural reforms that will drive broad-based and inclusive growth. Reform priorities should be directed towards policies that foster investment, trade and innovation; lift productivity; and drive jobs and growth.

There has been only a small revision to projections for world growth since we met in spring, despite sizeable downgrades in forecasts for some of the world's largest economies. Despite some weakening in US growth in the first half of 2016 it continues to recover. Positive signs in the labour market provide some cause for optimism, as does recent data on falling levels of poverty and rising median incomes. Growth in Europe remains subdued, although economic activity is now holding up even under strain from high debt and weaknesses among a number of banking systems. Encouragingly, financial markets have rebounded quickly following the Brexit vote, showing strength and resilience.

Asia remains the world's global growth engine, currently contributing around two thirds of global growth. China continues to grow, and while its continued rebalancing entails risks, it will continue to provide new trade and investment opportunities for many countries. Robust growth continues in India. Russia and Brazil are showing some signs of improvement after a period of severe contraction and the recent lift in commodity prices has provided some relief for commodity exporters. The Asia-Pacific region remains a strong point in the global economy and the advanced economies in our constituency are showing relatively strong growth compared to other advanced economies across the world. This reflects consistent records of sound policy implementation including open, integrated and flexible economies.

Key risks remain including the rapid growth in corporate credit in China and the potential for disorderly financial market adjustments and capital flows. A further medium-term risk is a more widespread sentiment questioning the benefits of integration, which if not effectively countered, could unwind some of the significant benefits that open trade and investment has brought to both our region and the global economy.

Policy Priorities:

The current economic risks and challenges mean we must continue to implement policies that build growth and ensure the benefits of this growth are shared. While priorities will vary between countries, it is critical that we follow through on the implementation of growth enhancing structural reforms that lift productivity, drive investment, increase profits and support higher real wages.

Policy makers need to use all policy levers to support demand as appropriate and to strengthen potential growth. Recognizing that monetary and fiscal policy have limited capacity in some countries, we welcome the Fund's emphasis on determined implementation of structural reforms. Structural reforms should be pursued more urgently, while being appropriately sequenced, and provide incentives to companies to grow their business and employ more people. Competition reforms should focus on reducing regulation and providing a more level playing field. Improved regulatory settings can help innovators seize new opportunities and flourish.

Structural reforms should be supported by growth friendly fiscal measures that deliver longer term growth and resilience. Fiscal measures should be anchored by a strong medium term framework that ensures debt is stabilized and on a sustainable trajectory. Priority measures should be those that efficiently secure the tax base and create the right incentives for companies and innovators to create jobs and growth. Government expenditure should be reprioritized to boost high quality investment in infrastructure while keeping a tight rein on recurrent expenditure. Ensuring disciplined expenditure restraint is particularly important as many economies are facing constrained fiscal positions. This highlights the need for fiscal policy to be anchored by strong medium term frameworks that ensure debt sustainability.

We welcome Fund advice that many countries should rebuild buffers against future shocks. This is particularly relevant for many emerging market and low income country economies but is also relevant for the advanced economies in this constituency. Fund advice should continue to be sensitive to country specific circumstances.

In the context of widespread low growth and low inflation, current accommodative monetary policy settings continue to be appropriate across much of the world. However, it is important that we avoid over-relying on monetary policy, given very low interest rates can contribute to financial vulnerabilities. Structural reforms and quality infrastructure investment have a key role to play in creating an environment for strong private investment.

Safeguarding economic resilience and financial stability remains a priority. Significant progress has been made since the global financial crisis in both advanced and emerging market economies. In particular, banks now have larger liquidity and capital buffers and are subject to enhanced supervisory frameworks. Building on these achievements, members need to continue to implement core financial regulatory reforms to build further resilience in their financial systems.

Increasing foreign investment and trade are critical to job creation, boosting wages, driving growth and increasing living standards. It is critical that we stand together as economic leaders against inward looking policies and reiterate the well-established gains that come from openness and trade. Foreign capital has allowed many of our constituency citizens to enjoy higher rates of economic growth, employment and a higher standard of living than could not have been achieved from domestic savings alone. The economic fortunes of this constituency have been enhanced by trade, foreign investment and effective migration policies which remain an important part of our future prosperity. The Fund must remain a leading advocate of policies that promote openness and ensure these policies work for all.

Role of the Fund in Supporting Members:

The risks and challenges facing the global economy underscore the importance of the Fund's surveillance, policy advice and financial support. Fund surveillance continues to make a vital contribution to the effective functioning of the international monetary system. We support the Fund's ongoing efforts to refine its surveillance and its lending toolkit and welcome the Fund's attention on providing more granular recommendations on structural reforms depending on a country's specific macroeconomic circumstances.

We welcome the high priority the Fund has given to many of the economic issues facing our constituency, including our small states. In particular, we strongly support the Fund's intention to support growth and boost resilience for those members most impacted by natural disasters and climate change. We welcome the Fund's ongoing efforts with other international institutions to identify ways to address withdrawal of banking services. We appreciate the focus on tackling the policy challenges facing commodity exporters and the priority given to reviewing the debt sustainability framework.

We welcome the recent stocktake of macroprudential policy and the review of the institutional view on capital flow management. We support the Fund's efforts to use these work streams to provide tailored and consistent policy advice to members in addressing macroeconomic and financial stability risks stemming from capital flows.

As global risks and vulnerabilities remain elevated, it is important that we ensure an adequate global financial safety net with a strong and credible Fund at the centre. We welcome efforts to maintain the level of Fund resources over the next few years by maintaining access to bilateral borrowing agreements, and the New Arrangements to Borrow. We support Fund efforts to secure broad participation by members.

It is important that the Fund remains quota based to ensure the legitimacy of its governance structure. More must be done to ensure the Fund is appropriately representative of the contributions of its members in the global economy, both by making significant progress on the 15th General Review of Quotas and by delivering on the remaining changes to board seats from the 2010 governance reforms. Progress in this area is critical to the effectiveness and credibility of the Fund's role at the centre of the global financial safety net.

We also support efforts to increase the coherence of the global financial safety net, including strengthening cooperation between the Fund and regional financial arrangements such as the Chiang Mai Initiative Multilateralization in the Asian region.

We encourage the Fund to continue to improve gender and regional diversity in its workforce, which is critical to the Fund's legitimacy and ability to deliver on its global mandate. We also support efforts to improve gender diversity at the Executive Board.