International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

IMFC Statement by the Honorable Kelly O'Dwyer MP
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On behalf of Australia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Republic of Uzbekistan, Vanuatu

STATEMENT BY THE HON. KELLY O'DWYER, MP
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ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Global Outlook and Risks

The global economic recovery continues, but strong growth remains elusive and momentum is somewhat less assured than it was at the time of our Annual Meetings in Lima. Policymakers need to rise to these challenges and take advantage of all opportunities to boost growth and jobs. Reform priorities should be directed towards building agile and dynamic economies that create the right conditions for businesses to compete, innovate, trade and invest.

The global outlook reflects somewhat divergent prospects, with both risks and opportunities. The United States' economy continues to recover and despite some recent weakening in growth, positive signs in the labour market provide some cause for optimism. Growth in Europe remains subdued overall, though several countries are recording solid growth. Overall, Asia remains the global growth engine, contributing around two thirds of global growth. China continues to grow solidly, while making its transition to a more sustainable growth model. As China rebalances towards a more consumption-driven economy, this transition will provide new trade and investment opportunities for many countries. The Indian economy remains a bright spot, and ASEAN economies have also continued to perform well. However, growth in many other emerging markets has softened, with some large emerging markets adversely affected by a combination of low commodity prices, tightening financial conditions, and political challenges. Reflecting many of these same challenges, growth has also fallen short of expectations in many low income and developing countries.

While the overall balance of risks has tilted further to the downside, it is important to recognise that there remain upside risks for the global economy, including from the effects of lower oil prices for energy importers. It is also important to recognise the increased resilience in both advanced and emerging market economies. In particular, the core of the financial system is now stronger as a result of reforms that have been implemented since the crisis. Many emerging market economies have also strengthened macroeconomic policy frameworks, and those in Asia and Emerging Europe have made notable progress in structural reforms to both improve resilience and bolster potential growth.

Policy Priorities

We have continued to make progress towards a stronger and safer global economy. However, more remains to be done to implement our past commitments and identify new opportunities to boost jobs and growth. While specific policy needs vary across countries, a mix of fiscal, monetary and structural reform policies that increase both demand and supply will be essential for our economies to successfully navigate the current transitions and to build much-needed growth momentum. Countries should also remain mindful of the sustainability of macroeconomic policies, including the need to credibly reduce public debt over the medium-term and deal with longer-term demographic pressures.

In the context of widespread low growth and low inflation, accommodative monetary policy continues to be appropriate across much of the world. However, it is important that we avoid over-relying on monetary policy, given low interest rates can contribute to financial vulnerabilities. Given the very accommodative financial conditions that have existed in many countries over an extended period, countries should continue to make progress on regulatory reforms to ensure the resilience of financial systems. All major central banks should continue to clearly communicate policy stances, especially in an environment of greater volatility in financial markets.

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 more and better quality capital, larger liquidity buffers and are subject to enhanced supervisory and resolution frameworks. Building on these achievements, members need to continue to implement the core financial regulatory reform agenda.

Many economies are facing constrained fiscal positions, highlighting the need for fiscal policy to be effectively anchored to ensure debt sustainability. It is important that the Fund's advice here continues to be calibrated to the circumstances of individual members, balancing the need to support demand against longer term sustainability concerns. Credible medium-term fiscal plans are needed in a number of countries to underpin a sustainable path for growth. For the many countries with limited room for fiscal action, the focus should be on changes to the composition of budgets that can support growth in budget-neutral ways. Many commodity exporters need to strengthen fiscal management frameworks while dealing with the immediate challenge of reduced revenues. Many frontier economies also face challenges as global financial conditions tighten.

Structural reforms can contribute to both short term demand and remove growth bottlenecks, and so are essential to restore strong and sustainable growth in the global economy. While priorities will vary between countries, there are common needs for reforms to promote innovation and improve infrastructure, investment and competition. It is important that countries develop and follow through on the implementation of growth strategies (including delivering on G20 commitments).

Role of the Fund in Supporting Members

The pressures facing the global economy highlight the value 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 toolkit, building on the innovations it has developed in recent years. We also welcome the Fund's attention to providing timely, integrated and flexible policy advice to members.

We welcome the attention the Fund has paid to understanding the economic issues confronting small states, and the way it is using these insights to assist these members. In particular, we strongly support the Fund's initiative to see how it can best support growth and boost resilience in small states affected by natural disasters. We also welcome the Fund's ongoing efforts with other international institutions to identify ways to address international bank de-risking. De-risking can undermine the improvements made in financial deepening and inclusion and, in extreme circumstances, could cut countries off from international trade and financial markets. Small states are disproportionately affected given their limited markets.

We also welcome the continued attention being given to the impact on exporters of low commodity prices, and the Fund's preparedness to assist these frontier, low income and developing countries. More generally, the downward revisions of growth for low income developing countries and their need for policy upgrades highlight the key role for the Fund to provide policy and other support.

As the global economy navigates some complex transitions and global risks rise, it is important to maintain a strong and credible Fund at the centre of an effective global financial safety net. We support efforts to increase the coherence of the global financial safety net, including strengthening cooperation between the Fund and regional financial arrangements. We warmly welcome the ratification of the Fund's 2010 quota and governance reforms. This has been a crucial and overdue step forward in strengthening the effectiveness, credibility, and legitimacy of the Fund. However, more work remains to be done and we look forward to beginning work on the 15th General Review of Quotas to ensure the Fund is appropriately representative of the contributions of its members to the global economy. In the meantime, we should continue to ensure that the Fund remains adequately resourced.

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. Greater gender diversity in the Executive Board would help to support the Fund's own efforts to improve staff diversity.