# International Monetary and Financial Committee

Thirty-First Meeting
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**IMFC Statement by Joe Hockey**
**Treasurer, Australia**

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

**Statement by Joe Hockey, Treasurer of Australia**
**to the International Monetary and Financial Committee**

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

## GLOBAL OUTLOOK AND POLICY PRIORITIES

The global economy continues to recover at a moderate but uneven pace, as declining commodity prices and adjustments in exchange rates have had very different impacts across countries and regions. While the recovery has gained momentum in the United States, the United Kingdom, and India, growth elsewhere is falling short of expectations. China has slowed to more sustainable growth rates while still making a strong contribution to world growth, and ASEAN economies have continued to perform solidly. Elsewhere growth has slowed in a number of larger emerging market economies. Japan and a number of advanced economies in Europe continue to face the challenge of low growth and very low inflation. While the outlook for the Asian region shares some of the heterogeneity of the global outlook, it remains a bright spot overall.

The medium-term global outlook suggests moderate growth lies ahead, reflecting legacies of the crisis, as well as underlying demographic and productivity challenges. This highlights the need for decisive policy action to lift growth.

Overall risks now appear more balanced, though a number of downside risks remain which need to be carefully monitored. Several economies are seeing payoffs for more flexible economic structures and concerted policy action, including the United States, the United Kingdom, Spain and India, and this may translate into stronger growth and produce positive spillovers to trading partners. China will continue to perform strongly, with the authorities committed to supporting growth. Persistently lower oil prices will present both opportunities and challenges with low oil prices potentially boosting global growth more than expected as the impacts are transmitted through the economy, while some oil and commodity exporters face slower growth. Substantial exchange rate movements and/or a market misjudgment about the path of monetary normalisation in the United States pose risks to the stability of the financial markets, with volatility potentially being amplified through low levels of liquidity. Geopolitical tensions remain a concern in Russia and Ukraine, have heightened in the Middle East and still pose some risks to European growth. At the same time, core financial institutions are better capitalised and have more liquidity and several emerging economies have made steps towards strengthening resilience.

We have made considerable progress towards a more sound and robust global economy since the global financial crisis, but decisive actions are needed to boost growth both now and in the medium term as well as to build further resilience against the downside risks.

It is imperative that we maintain our resolve to undertake the bold structural reforms needed to boost potential growth. Structural reforms are needed in advanced economies to boost investment and productivity, and to build much needed business confidence and unleash private sector innovation. Quality investments in infrastructure can make a powerful contribution to growth both in the short term and in the longer run. Reforms to product and labor markets will also be crucial to boosting productivity in the longer-term, which will be needed to counteract the impact of population aging.

Accommodative monetary policy continues to be needed across much of the world, and especially in Europe and Japan. In the United States, continuing clear communication with markets will be essential as monetary policy is gradually normalised. The potential risks to financial stability arising from prolonged accommodative financial conditions will need to be closely monitored and addressed in order to limit potential adverse spillovers from the normalisation of policy rates.

Fiscal policy should be calibrated to be sensitive to the economic cycle, rebuild fiscal buffers, and ensure long term debt sustainability in the face of demographic challenges. Credible medium-term fiscal plans are needed in a number of countries to underpin a sustainable path for growth.

The prospect of slower growth in emerging markets and tightening financial conditions associated with monetary policy normalisation in the United States underscores the need to build policy buffers and reduce vulnerability to adverse shocks. With these buffers in place, shocks to external financing should continue to be managed through flexible exchange rates and sound macroeconomic policy. Prudential regulation should be implemented in a way that ensures the health of individual institutions, while macroprudential policy should be employed where warranted to deal with emerging systemic risks. Structural reforms, tailored to individual circumstances, are required to address infrastructure needs, improve business conditions and boost productivity.

Low-income countries should focus on sound policies and reducing vulnerability to external shocks, including by strengthening fiscal positions and frameworks, improving infrastructure, structural reforms and diversification. This is also true of small developing states, where we note vulnerabilities have increased.

**SUPPORTING THE NEEDS OF MEMBERS**

Policies that contribute to both short term demand and supply potential are critical, given that action on both fronts will be essential for the world economy to avoid lapsing into a 'new mediocre'. The intended focus of the IMF on investment in infrastructure and ensuring sound fiscal policy pathways are as growth friendly as possible can make important contributions to this. At the same time, it is appropriate that we remain mindful of the sustainability of macroeconomic policies and particularly the need to credibly reduce public debt over the medium term. Given the limitations of macroeconomic policy instruments, we welcome the IMF's focus on supporting macro-critical structural reforms in relation to tax, labor and product markets, complementing the expertise of other international organisations where it exists.

Working within its mandate and in close collaboration with other international organisations, the IMF is also well placed to make an important contribution to the global frameworks for sustainable development that will be negotiated in 2015. In this regard, we welcome the IMF's planned examination of how to efficiently utilise its lending facilities and deploy its technical assistance to best meet the needs of its poorest and most vulnerable members. Capacity building efforts should emphasise the need for development to be underpinned by good fundamentals, including strong governance of fiscal institutions, better public financial management, and sound domestic resource mobilisation strategies. It needs to be appropriate to the context and support members to build, piece by piece, better institutions, frameworks and policies.

Small island economies face a large range of obstacles to their long-term development. The combination of their small size and remoteness means that diversification and capacity is limited, affecting their economic depth, capacity to implement policies, ability to draw on external policy advice, general level of costs, and their exposure and resilience to shocks. This latter point has been especially apparent again this year with natural disasters severely affecting a number of Pacific Island nations, including the devastating impact and loss of life from Cyclone Pam and Typhoon Maysak.

Given these challenges, the IMF's work is critically important. As such, we welcome the resources the IMF has invested in understanding the issues facing these countries, an important output of which is the recent paper on Small States. The key is to now translate these analytical insights into country-specific policy advice, and ensure good engagement between the authorities and the IMF. Here, the IMF's plans to reach out through various regional fora and publications, provide more training to staff, and arrange more technical assistance, will be critical. In this regard, we look forward to a forthcoming workshop and high-level dialogue on *Strengthening Fiscal Frameworks in the Pacific Islands*, which the IMF is arranging with the support of the Australian government.

Ultimately, the ability of the IMF to fulfill its mandate rests on its credibility and legitimacy. In this regard, we remain deeply disappointed that the 2010 IMF Quota and Governance reforms have yet to be ratified. The full implementation of the 2010 reforms remains our central goal and aspiration. The United States should do all that is possible to ratify these reforms as a matter of urgency. In the meantime, given these reforms are long overdue it is important that we deliver on our commitment to progress interim steps on quota and governance reform by end-June 2015. These interim steps should meaningfully give effect to the spirit of the 2010 reforms, pending the full implementation of that package. This should not substitute for the full implementation of the 2010 reforms.

We are all served by a strong and well resourced IMF. A full increase in quotas as part of the 2010 reforms would be the best basis for assuring the necessary resources. However, pending the full implementation of that package we should lend our strong political support for continued access to borrowed resources, as part of an overall package of interim measures, while reiterating our ongoing commitment to full delivery of the 2010 reforms and ensuring the IMF remains a quota-based institution.

The conclusion of the 15$^{th}$ General Review of Quotas by December 2015 should build on the outcomes agreed in 2010 and move forward in the direction of adjusting the shares of members in line with their economic weight. More broadly, we welcome that the IMF will take stock of the challenges facing the wider international monetary system, including the performance of the global financial safety net, and how the composition of Special Drawing Rights can better reflect the operation of the international monetary system.