International Monetary and Financial Committee

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Statement by Mr. Cormann
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. Mathias Cormann
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 RISKS

The recovery in the global economy continues to be modest and uneven. The foundations of a recovery remain in place in the United States and are beginning to take hold in Europe. Positive growth has returned in Japan. The economies of emerging and developing Asia are moderating somewhat but continue to make a strong contribution to world growth. China is making its transition to a more sustainable pattern of growth, though it continues to grow solidly. India is growing strongly and ASEAN economies, while slowing, have also continued to perform solidly. Growth in most other emerging markets has softened, though declining commodity prices, tighter global financial conditions, adjustments in exchange rates, and geopolitical tensions have impacted countries and regions differently.

The global economy is undergoing challenging transitions as the United States is poised to raise interest rates in response to stronger economic performance, China is rebalancing its growth, and commodity prices have turned sharply downwards. Though there remain important upside risks to the outlook, some downside risks have become more salient and warrant close monitoring.

While some downside risks have become more prominent, both advanced and emerging market economies are now more resilient to the potential impact of these risks materialising. In particular, the core of the financial system is now stronger. Emerging markets have strengthened macroeconomic policy frameworks and many have responded to recent adverse terms of trade movements with appropriate policy flexibility, including by allowing their exchange rates to help their economies adjust.

POLICY PRIORITIES

We have continued to build a more robust and resilient global economy since the financial crisis, though decisive policy actions and cooperation are needed to lift the trajectory of growth and underpin stability. Mutually-reinforcing fiscal, monetary and structural reform policies are essential to help our economies adapt through the current transitions and to build this growth momentum.

Fiscal policy should remain effectively anchored to ensure long term debt sustainability, while being sensitive to the economic cycle. Credible medium-term fiscal plans are needed in a number of countries to underpin a sustainable path for growth. Within sound fiscal policy frameworks, countries are encouraged to continue to seek ways to improve the way they raise revenue and to target expenditure to improve its quality and effectiveness.

Accommodative monetary policy continues to be appropriate across much of the world. In the United States, continuing clear communication with markets will be essential as monetary policy is gradually normalised. Policy action across a wide front could reduce the pressure being placed on monetary policy to stimulate growth, and could also reduce the risk that very expansionary financial conditions could encourage the build-up of financial imbalances.

Complementary structural reform is urgently needed for our economies to be more adaptive, productive, competitive and innovative. The appropriate policy mix will vary between countries, though there are common needs for structural reforms to raise productivity and labor participation, address debt overhangs, lower barriers to entry in product and service markets, and ensure strong financial policies. For all members, disruptive new technologies present an opportunity for innovative industries to flourish, which will help to create jobs and stimulate growth. Members should continue to work together to reduce trade barriers, and in this context we welcome the progress that has been made on the Trans-Pacific Partnership and other trade enhancing agreements. For many members, infrastructure investment can boost both demand and supply. In that context, it remains important to address constraints holding back efficient project investment.

Commodity exporters face a challenging environment in which many will need to strengthen medium and long-term fiscal management frameworks while grappling with the short-term challenge of diminished revenues. Many frontier economies face the dual challenge of managing lower prices for their commodity exports as global financial conditions tighten. These issues also resonate for small states that are particularly vulnerable to external shocks, have a narrow economic and revenue base and are susceptible to volatile revenue and capital flows.

Safeguarding economic resilience and financial stability remains a key priority. Significant progress has been made since the global financial crisis in both advanced and emerging market economies. In particular, the core of the financial system is now stronger, as banks generally now have more and better quality capital, larger liquidity buffers and are subject to enhanced supervisory and resolution frameworks. Despite this progress, members need to continue to implement the core financial regulatory reform agenda, while also promoting financial deepening and inclusiveness in emerging and developing economies. Maintaining a strong global financial safety net is also important to underpin the stability of the international monetary system.

SUPPORTING THE NEEDS OF MEMBERS

The challenges facing the global economy bring into focus the value of the Fund's surveillance, advice and support. In particular, we welcome the Fund's efforts to promote international cooperation and coherent policies that work together to support global growth and stability.

We welcome the Fund focusing on providing agile and integrated support to better meet the needs of members. In the context of tighter and more volatile financial conditions it is imperative that the Fund can provide advice and financial assistance quickly and flexibly. Similarly, as members increasingly confront policy trade-offs we welcome the commitment of the Fund to better integrate its advice across sectors, which can highlight the mutually-reinforcing effect of policies. Strengthening the connection between the Fund's policy advice and its technical assistance is also key, which we have seen as vital in smaller member countries. At the same time, the Fund should continue to tailor its approach according to the country-specific needs, circumstances and capacity of its members to implement. In this regard, we also emphasise the importance of continuity and quality two-way engagement between the Fund and country authorities, especially with small and transition economies.

A case in point is the way the Fund can engage with its smallest and most vulnerable members. The small size and remoteness of many island economies means that diversification and capacity is often limited, affecting their economic depth, capacity to draw on advice and implement policies, 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 from Cyclone Pam in Vanuatu and Tuvalu, and Typhoon Maysak in Micronesia. Given these challenges, we welcome the attention the Fund has paid to understanding small state issues, and the way in which it has utilised these insights in the way it engages and assists these members. The Fund's timely response to Vanuatu in the wake of Cyclone Pam is an important demonstration of an agile, member-centred approach.

The Fund plays a critical role in small developing states as a key source of independent macroeconomic policy advice and provider of technical assistance. We appreciate the Fund's commitment to supporting its smallest members, and we encourage the Fund to give greater visibility to this important work, thus conveying the value it places on its work with small states. The Fund can make an important contribution on a number of issues shared by small states, in particular: financial inclusion and the specific issues of remittances and correspondent banking relationships; natural disasters and its implications for macroeconomic management and mobilising financial resources; and ensuring a small states' perspective is brought to the development and application of international standards. We urge the Fund to work closely with other international partners to ensure a coordinated approach to the advice and technical assistance offered to small states.

Against the backdrop of uncertainty as the global economy works through some complex transitions, it is imperative that the IMF's balance sheet and its credibility and legitimacy remain unquestionably strong. In this regard, we remain deeply disappointed that the 2010 IMF Quota and Governance reforms have yet to be ratified. While our priority needs to be achieving the full implementation of the 2010 reforms, we should at the same time work on interim steps that meaningfully make progress towards the benchmarks set out in the 2010 reforms. As part of this package, we should ensure that the Fund has continued access to adequate resources, while reiterating our ongoing commitment to full delivery of the 2010 reforms and ensuring the IMF remains a quota-based institution. We encourage the Fund to continue to improve diversity in its workforce, which is also critical to its legitimacy and for delivering on its global mandate.