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IMFC Statement by Meghan Quinn
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Australia

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

STATEMENT BY MEGHAN QUINN

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ON BEHALF OF THE ASIA AND THE PACFIC CONSTITUENCY

Global Outlook

We broadly share the Fund’s assessment of the global outlook and risks. Global growth has weakened more than many observers expected, reflecting a number of factors including rising trade tensions and financial tightening in the second half of 2018. We also share the judgment that many of the factors currently impacting growth appear to be temporary and to a large degree result from policy choices. At the current moment, the key message of ‘stay calm and do no harm’ is an important one.

A number of Central Banks in advanced economies have signaled a slowing of the pace of monetary policy normalisation. This should help support growth. Subdued growth in Europe appears to be partly driven by temporary factors and domestic demand remains resilient. Important reforms to the financial sector in China have progressed and projected growth remains robust. Asia continues to serve as the world’s global growth engine, contributing around two thirds of global growth.

Notwithstanding the expected improvement in conditions in 2019 and 2020, we remain alert to the precarious nature of the rebound in global growth and the delicate risks facing the global economy. Broader uncertainties remain such as high levels of debt across all groups of the membership, tensions around trade policy and a sense of unease in financial markets.

Policy Priorities

Policymakers should prioritise policies that enhance resilience and raise medium-term growth prospects. Enhancing resilience includes rebuilding fiscal buffers where possible, putting debt on a sustainable path, improving debt transparency and increasing debt management capacity. As debt levels remain elevated in many countries and policy rates remain low, there is limited policy space to respond to a crisis.

With this in mind, fiscal policies should carefully balance growth, stability and social inclusion objectives. Discretionary fiscal policy should be used judiciously to allow the build-up of sufficient buffers to enable a response to a large shock. We also strongly welcome the Fund’s advice about the important role that exchange rate flexibility can play as a buffer to shocks.

Open and free trade with lower, or no, tariffs can bring lasting benefits to all - if the right policies are in place to ensure that the gains are widely shared. This is reinforced by the Fund’s finding that higher tariffs not only have a limited impact on bilateral trade balances, but they leave the global economy worse off. Indeed, new Fund research shows that increasing tariffs is more harmful today than it was in the past due to the enhanced interconnectedness of global value chains. Progress on liberalising trade in services remains vital in unlocking productivity gains around the world. All this underscores that strong support for, and modernisation of, the multilateral, rules-based trading system should remain a key policy priority. Effective domestic policies including well-targeted social safety nets are critically important in ensuring all people benefit from economic growth, and in turn, promote support for the very policies that make growth possible.

Structural reforms remain integral to driving broad-based and inclusive growth and addressing medium-term challenges. This includes: facilitating productivity enhancing investments in infrastructure and education; supporting labour market flexibility; improving female participation; and considering the opportunities presented by migration in mitigating the impact of ageing populations. This is a necessary foundation for an improved standard of living for people around the world.

Role of the Fund in Supporting Members

The Fund's policy advice through its surveillance and lending activities is important in helping members navigate the risks facing the global economy. Sharpening the Fund's policy tools will be critical in ensuring the Fund remains relevant and effective in combating tomorrow's challenges. We support the Managing Director's 'new multilateralism' agenda and hope it assists governments to make the right policy choices.

We support the Fund's ongoing efforts to refine its surveillance capabilities including through the Comprehensive Surveillance Review and Review of the Financial Sector Assessment Program. We look forward to addressing the issues identified by the Independent Evaluation Office in its report on the Fund's financial surveillance activities. We welcome the Fund's attention on providing more granular recommendations on structural reforms depending on a country's specific macroeconomic circumstances. A multipronged approach to address debt vulnerabilities is critical. We fully support enhancing debt sustainability frameworks, encouraging prudent lending and borrowing, and increasing assistance to the membership to deal with debt transparency and debt management.

We support further strengthening of the global financial safety net to promote a resilient international monetary and financial system, including by reconsidering the possible role of a short-term liquidity instrument building on the IMF's 2017 discussions on its lending toolkit, as well as through collaboration with regional financing arrangements. We support the Fund's ongoing work to strengthen its lending practices and look forward to the conclusion of the program design and conditionality review and reforms to the lending toolkit. This should include improving access for low income countries (LICs) to the Fund's concessional lending facilities. As a part of this review we look forward to an increase in the cumulative access limit for natural disaster-related financing and to a rapid response in times of emergency.

We welcome the attention the Fund has given to economic issues facing small states. In particular, we strongly support the Fund's intention to advise small countries on how to support growth and boost resilience, especially those most impacted by natural disasters and climate change. We also welcome Fund advice about how to navigate the challenges associated with the withdrawal of correspondent banking relationships, to strengthen AML/CFT frameworks, to increase financial inclusion and to better manage the risks and opportunities associated with Fintech.

We look forward to understanding more about the Fund's new Integrated Policy Framework. While it is still early days for the project, we understand that this attempt to combine different strands of Fund advice into a cohesive framework is designed to assist policymakers to better understand the choices available to them, the associated trade-offs and the optimal sequencing for reforms. In this project, we encourage a closer examination of the Fund's advice on the appropriateness of different exchange rate regimes and the costs and benefits of different alternatives.

As global risks and vulnerabilities remain elevated, it is important that we ensure an adequately-resourced global financial safety net with a strong and credible Fund at the center. We are deeply disappointed that there is not sufficient support for a quota increase under the 15th General Review of Quotas. We firmly believe that the Fund should remain a quota-based institution and that a realignment of quota shares for dynamic economies in line with their relative positions in the world economy is necessary to ensure credibility and preserve legitimacy in the institution. The voice, representation and access of the poorest members should also be protected.

The Fund's system of allocating quota and voting power in accordance with relative weights in the world economy is a strength, but requires periodic adjustments to ensure that the distribution of voting power reflects the contemporary global economy. We regret that out-of-lineness continues to increase, exceeding levels prior to the 14th General Review of Quotas.

We strongly support at least maintaining the current resource envelope of the Fund. We are open to exploring temporary financing options through borrowed resources, including by increasing the New Arrangements to Borrow and extending Bilateral Borrowing Agreements. We expect credible assurance on governance reform to be made in order to conclude the 15th General Review of Quotas. We continue to call for full implementation of the 2010 governance reforms.

We expect the Fund to maintain a high-quality and diverse staff, including in relation to hiring staff from a range of educational backgrounds and those with practical policy experience. We expect efforts to meet 2020 diversity benchmarks to be strengthened. We look forward to the Fund's initiatives to modernise its operations, including through the timely conclusion of the comprehensive review of compensation and benefits. We support increasing gender diversity in the Executive Board.