International Monetary and Financial Committee

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Statement by Wayne Swan
Deputy Prime Minister and 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 Mr Wayne Swan, Deputy Prime Minister and Treasurer of Australia to the International Monetary and Financial Committee 12 October 2012

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

Four years after the collapse of Lehman Brothers the world remains in a fragile state. The human costs of stagnating economic growth in many advanced economies are unacceptable, with persistently high joblessness swelling the ranks of the long-term unemployed.

The balance sheets of the banking sector and sovereigns in Europe remain tightly coupled and a number of advanced countries face a tangible risk of slipping back into recession. Financial headwinds emanating from the euro area threaten to further destabilise fragile financial markets and a lack of political agreement in the US and Japan on how to address fiscal sustainability is impeding confidence and investment. Meanwhile, many emerging and developing economies remain exposed to real and financial spillovers from the advanced economies.

The need for action has never been more imperative. Temporary measures have bought time but will not lead to a sustained recovery. Policy makers around the world are well aware of the issues and continue to work at building agreement as to the best course for action. Recent central bank actions are encouraging. In particular, the announcement from the ECB to aggressively act to purchase bonds is a welcome sign of policy resolve. Despite this, the challenges associated with implementing extensive and painful structural adjustment at the same time as deepening integration continue to complicate progress on deep-seated institutional issues, which act to raise the importance of focusing on what can be done immediately. Discussions about short-term responses followed by promises of future action are rapidly becoming obsolete, given, after four years, we are now well and truly in the medium term.

Policy makers in both the US and Japan could contribute substantially more to bolstering confidence at home and abroad if a definitive medium term fiscal consolidation strategy to reduce the fiscal hangovers were announced.

Spillovers affect growth and confidence in other major advanced markets, which in turn affect the economic prospects of emerging markets and developing economies. The economies in emerging Europe are most precariously placed given their close trade and financial linkages to the currency union. However, as evidenced by the global financial crisis, even the more robust and less directly integrated economies in Asia are also likely to be affected by events in advanced economies. Policymakers in emerging market economies should calibrate fiscal policy to ensure adequate policy space in the event of a further global deterioration, and make a concerted effort to implement structural reforms that foster sustainable and inclusive growth.

The smallest and most vulnerable members of the Fund are also likely to be severely affected by the pace of responses in advanced economies. Low-income countries (LICs) and island states in the Pacific have not rebounded from the 2008 downturn, and have limited flexibility to respond to shocks given institutional and capacity constraints.

IMF GOVERNANCE AND QUOTA REFORM

Governance and quota reform is a key priority for the Fund, and is central to the Fund's reputation as a legitimate, credible, and effective institution. A shift in quota towards fast growing emerging markets will ensure the organisation remains representative and legitimate. We also encourage management in the pursuit of internal governance reforms to enhance organisational effectiveness. We welcome the progress made on implementing the 14th quota review and ratifying the Seventh Amendment to the Articles of Agreement, and urge those remaining member countries which have not yet done so, to deliver on the commitment made in the 2010 Agreement.

We remain committed to completing the Quota Formula Review, with the objective of reaching agreement on a formula that adheres to the 2008 reform principles; a formulation that is simple and transparent, consistent with the multiple roles of quotas, broadly acceptable to the membership, and feasible to implement. Reaching a genuine consensus on a quota formula that better reflects the relative position of members in the world economy will require flexibility and compromise on all sides. We also support the G20 objective of protecting the voice and representation of the poorest members, and emphasise that the interests of small and vulnerable members, who face considerable capacity constraints, need to be protected as well. Successful completion of the review will be essential for the completion of the 15th General Review of Quotas and for the reaffirmation of the Fund's status as a quota based institution.

MEETING THE NEEDS OF THE IMF'S MEMBERS

Lending: The protracted global financial crisis has highlighted the importance of ensuring the adequacy of IMF resources. With a durable recovery not yet assured, members of this constituency recognised the need to move quickly at the time of our last meeting to bolster the Fund's resources, in advance of the forthcoming 15th General Review of Quotas, and we welcome the subsequent announcement of an additional US$456 billion in bilateral loans to bolster the Fund's lending capacity. I am pleased that our constituency was able to commit US$23 billion towards this total. We also continue to support the activation of the expanded New Arrangements to Borrow to allow immediate access to resources.

Surveillance: In recognition of the interconnectedness of economies and potential spillover effects of national policies, we welcome the Board's adoption of the new Integrated Surveillance Decision (ISD), which represents an important step in progressing the priorities of the 2011 Triennial Surveillance Review. The ISD provides a more solid legal framework for the conduct of the Fund's multilateral surveillance work and has the potential to increase the effectiveness of surveillance, if complemented by enhanced political ownership of the surveillance process by member countries. We should not lose sight of the fact that effective surveillance is a shared responsibility of the Fund and its members.

We also support efforts to broaden the analysis of external stability beyond exchange rates, and look forward to the further development of the methodology and approach to this analysis in light of the experience with the initial trial External Balances Assessment, including with regard to the challenge of taking appropriate account of country specific factors. Care needs to be taken in the interpretation and application of early estimates. We continue to advocate for evenhandedness and transparency in conducting these assessments.

We are also pleased to see the Fund making progress in strengthening financial surveillance. Given recent history and our relatively rudimentary understanding of financial linkages to the real economy, this work is particularly important in shaping the future direction of Fund surveillance. More recently, as an important step toward ensuring that future crises can be averted, the Fund endorsed three pillars of the financial surveillance strategy. We support their focus on improving risk identification and macrofinancial policy analysis, upgrading financial surveillance tools to foster an integrated policy response to risk, and increasing the traction and impact of financial surveillance by engaging more actively with stakeholders. Continuing efforts will be needed to build on this progress in embedding financial surveillance into core Fund surveillance activities. In a number of countries, poor and fragmented and/or inadequate supervision remains the key challenge.

Low-Income Countries: We note that the recent review of facilities for LICs found that the current set of facilities had performed fairly well, and were responsive to the needs of the LICs. Nevertheless, there is scope to improve the efficiency and operation of existing facilities by refining the implementation of the existing framework, through targeted changes. As such, we look forward to the discussion on proposals in the formal review of facilities for LICs in 2013. In particular, we attach importance to the forthcoming review of the eligibility criteria for the Poverty Reduction and Growth Trust and the need to ensure that the circumstances of highly vulnerable microstates are adequately taken into account.

We welcome the agreement on a strategy aimed at ensuring adequate resources are available to meet the financing needs of PRGT-eligible members, and support the proposal to use the windfall profits from gold sales as part of this strategy.

DEVELOPMENTS IN THE PACIFIC ISLANDS

Pacific island nations face a multitude of differing challenges to long-term sustainable economic growth and development. Extreme environmental vulnerability for many small Pacific nations, a lack of economic depth, limited diversification and limited access to the factors of production in many Pacific countries reduces the region's capacity to absorb shocks

Revenues derived from natural resources across the region remain volatile; income from seafarers has declined alongside global trade, and visitor numbers to many states heavily reliant on tourist inflows have fallen. Strong growth in Australia and Asia has provided a buffer through remittances and trade, but there is growing evidence that the Asia-Pacific region cannot remain immune should the situation in advanced economies continue to deteriorate.

The Fund has invested considerable resources into understanding the unique challenges facing the region but has further to go in fully understanding why smaller states are indeed in need of special consideration. It is important that this work continue as smallness and distance from markets call for tailored policy prescriptions. Extreme remoteness and geographical dispersion complicate trade, small populations raise the cost of governance, and limited depth in financial markets can complicate macroeconomic policy decisions. We encourage staff to be innovative in their work looking at how policy advice can be tailored to work with local institutions in an Island context.

The office of the Pacific Financial & Technical Assistance Centre (PFTAC) in Fiji continues to work closely with governments and is responsive to technical needs by providing technical assistance to develop domestic capacity and improve the governance of small states. In this regard, we thank the Fund and third-party development partners for their assistance to PFTAC and continue to support the increase in the PFTAC's capacity, particularly with respect to funding.