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Statement by Mr. Frydenberg
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 THE HON. JOSH FRYDENBERG MP

TREASURER

(AUSTRALIA)

ON BEHALF OF THE ASIA AND THE PACFIC CONSTITUENCY

October 19, 2019

Global Outlook

Global growth is expected to slow to its slowest pace since the global financial crisis, reflecting a broad-based weakening of industrial output and business confidence amid rising trade and technology tensions.

While growth is expected to pick up modestly in 2020 as the IMF has noted, the outlook is highly uncertain. Overall growth in low-income developing countries continues to be relatively resilient, although prospects for convergence toward advanced economy income levels remain challenging.

The global economy faces increased downside risks. Most notable in the near term are intensifying trade, technology and geopolitical tensions with associated increases in policy uncertainty. The impact of any economic or financial shock is likely to be amplified by heightened financial vulnerabilities, including high debt levels, across the membership.

Risks associated with policy missteps, including a further escalation of trade tensions, should be avoided. On the other hand, positive resolution of trade tensions, including on the issues underlying them, would provide a welcome relief to confidence, investment and growth.

Policy Priorities

Policymakers should prioritize policies to secure growth and enhance resilience but will need to carefully balance growth, stability and social inclusion objectives. The shift toward more accommodative monetary policy in many economies is welcomed, but fiscal policy also can play a role supporting global growth.

As debt levels are still elevated in many countries and policy rates remain low, policy space is limited to respond to a crisis. Fiscal policy should be used judiciously now to allow the build-up of fiscal buffers. Continued monetary accommodation needs to be coupled with close monitoring of financial system vulnerabilities, appropriately tailored prudential policies and continued implementation of the global financial regulatory reform agenda.

Growth-enhancing structural reforms should be pursued in all economies to raise medium-term growth, improve inclusiveness, and strengthen resilience. Structural policies can help ease adjustment to shocks and boost output over the medium term, narrow within-country income differences, and support faster convergence across countries. Such reforms are a necessary foundation for improved standards of living for people around the world.

We remain committed to the multilateral, rules-based trading system and efforts to strengthen it should remain a policy priority. Policies should focus on modernizing the rules-based multilateral trade system and acting jointly to upgrade international frameworks and global cooperation to broaden the gains from economic integration. 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. Progress on liberalizing trade in services remains vital in unlocking productivity gains 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, responsive and effective in combating future challenges.

We support further strengthening of the global financial safety net to promote a resilient international monetary and financial system, including by reconsidering elements of the IMF’s lending toolkit and enhancing collaboration with regional financing arrangements. 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 support the Fund continuing to implement the recommendations of the reviews of program design and conditionality and of concessional facilities to improve program design and outcomes in recipient countries. 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 look forward to the reviews of the debt sustainability analysis for market access countries and the debt limits policy.

We look forward to addressing the issues identified by the Independent Evaluation Office in its report on the Fund’s financial surveillance activities and support a reprioritization of Fund resources towards this area. We welcome the Fund’s attention on providing more granular recommendations on structural reforms depending on a country’s specific macroeconomic circumstances.

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 the Independent Evaluation Office evaluation on the IMF and Small States.

We look forward to progress reports on the Fund's new Integrated Policy Framework. While it is still early days for the project, we understand that this is an attempt to consider interactions between monetary, exchange rate, macroprudential and capital flow management policies and other policies, to assist policymakers to better understand the choices available to them as well as effective combinations of policies and associated trade-offs. 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 – including how policy settings can affect country characteristics.

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 support an approach that would maintain the IMF's current resource envelope, including a doubling of the New Arrangements to Borrow. We welcome the progress made in extending the 2016 Bilateral Borrowing Agreements (BBAs) by one year to end-2020 and call on the Executive Board to secure a further round of BBAs beyond 2020.

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 IMF 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 and call for ambitious 2025 targets to be set. We look forward to the IMF's initiatives to modernize its operations, including through the timely conclusion of the comprehensive review of compensation and benefits. We support increasing gender diversity in the Executive Board.

We take this opportunity to thank former Managing Director Christine Lagarde for her effective leadership of the Fund over the last 8 years, and warmly welcome Ms Kristalina Georgieva and look forward to working with her in meeting the challenges ahead.