International Monetary and Financial Committee

Twenty-Fifth Meeting
April 21, 2012

Statement by Mr. Wayne Swan
Deputy Prime Minister and Treasurer of Australia

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

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19 April 2012

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GLOBAL OUTLOOK AND POLICY PRIORITIES

While the global economy has improved since we met last October, reflecting in particular a number of significant policy measures, the recovery is fragile and many vulnerabilities remain. More needs to be done to support growth, boost job creation, restore public finances, repair banking systems, and strengthen the European and global financial firewalls. There is clearly no room for complacency and the global community must take active policy steps to reduce downside risks and consolidate the recovery.

It is essential that **the Fund has adequate resources** to fulfil its role in managing systemic crises for the benefit of all its members. An appropriately resourced Fund, along with a strengthened European firewall, will be critical to restoring market confidence and stemming the tide of financial and economic contagion. We welcome the contributions that have been announced to date and call for decisive and timely action from the membership as a whole to boost the lending capacity of the Fund, so that it can meet the potential needs of all its members.

We must also fulfil our collective responsibility for **addressing the root causes of the turmoil and strengthening the recovery**:

- Advanced economies continue to face vulnerabilities and headwinds to growth associated with the difficult process of deleveraging. The policy imperatives are to support demand and job creation in the short term while addressing longer-term imbalances and establishing the conditions for self-sustaining economic growth. Monetary policy should remain accommodative while inflationary pressures are muted, until the recovery strengthens. Fiscal sustainability must be restored in a way that minimises the drag on growth and protects the most vulnerable members of society. Structural reforms must be advanced in order to support growth prospects. Weakened financial system balance sheets must be resolved without choking the flow of credit. The US must also more decisively restructure household balance sheets to remove the drag on consumption. And Europe must remain ready to deal with any further signs of instability, and implement more ambitious institutional reforms to ensure the effective operation of the monetary union.

- Emerging markets and developing countries face continued economic and financial volatility, including a potential resurgence of oil price pressures, and more muted prospects for growth. The policy imperatives are to manage short-term volatility while adapting to lower external demand from advanced economies. Stronger prudential regulation, more market oriented exchange rate systems and exchange rate flexibility are needed to absorb shocks. Monetary and fiscal buffers must be rebuilt, including by reducing the cost of expensive and inefficient fuel subsidies. Emerging surplus economies must continue the transition from external to domestic demand and, in some cases, investment to consumption. Commodity exporters need to be ready to adapt to lower potential output growth as commodity price inflation slows.

- Creating jobs and improving living standards for all must be at the core of the recovery. In particular, many advanced, emerging and developing economies must make a special effort to reduce unemployment, especially among the young and long-term unemployed. Structural reforms will play an important role in promoting a more job-intensive recovery.

THE FUND'S ACTION PLAN

The Fund's immediate focus must be on assisting all members to address remaining vulnerabilities and consolidate the recovery. For the Fund to be effective, it will require further investments in the Fund's resources, implementation of governance reform, and stronger surveillance frameworks and lending instruments.

For the Fund to remain credible, legitimate and relevant, **we must look beyond our individual short term interests to maintain the momentum of IMF governance reform.** We must complete the 2010 quota and governance reforms by the annual meetings in October. We must deliver on our commitment to revise the quota formula by January 2013, by introducing a new formula that is credible, robust and broadly accepted, and that better captures the changing global economic dynamics. This will lay the foundation for the 15th review of Fund quotas, which will provide the opportunity to respond to the Fund's longer-term financing needs in a manner that ensures the Fund remains a quota-based institution. And we must continue to strengthen ministerial engagement through the IMFC to facilitate collective responsibility for the global economy and strategic oversight of the Fund's operations.

To ensure the quality and effectiveness of Fund advice, **we must consolidate and build upon recent efforts to improve Fund surveillance.** We welcome work underway to sharpen our analytical focus on spillovers, including the unified spillover report for the five systemic economies, and underscore the importance of a rigorous and balanced approach to the development of the proposed external sector report. We also welcome further efforts to capture the implications of capital flows in the Fund's surveillance framework. We look forward to bridging the gap between bilateral and multilateral surveillance, including work on a possible integrated surveillance decision that reflects our shared commitment to open and frank policy discussions. The other outstanding recommendations from the 2011 Triennial Surveillance Review and the Independent Evaluation Office's 2010 assessment of IMF performance leading up to the global financial crisis must also be delivered, including strengthening the Fund's internal institutional environment and analytical capacity.

We must continue reviewing the Fund's lending instruments, to ensure we have the right tools available to meet members' evolving needs. We continue to emphasise the importance of robust program design, appropriate conditionality, and objective access criteria as a way to manage the inherent risks for creditors and debtors alike. We look forward to the upcoming reviews of the conditionality of Fund lending, concessional facilities and debt limit policies. We must also strengthen collaboration with regional financial arrangements and reach a shared understanding of the respective roles of global and regional safety nets, drawing on the Fund's recent experience in peripheral European countries.

DEVELOPMENTS IN THE PACIFIC ISLANDS

The Fund's recent High Level Conference on Pacific Island Countries provided a valuable opportunity to look again at the unique set of challenges facing small island states. The conference highlights the important contribution of the Fund's Pacific Islands Unit in raising awareness and in coordinating work. The Fund is making a welcomed contribution to the region through high-quality surveillance, a regional resident representative, and technical assistance provided by the Pacific Financial Technical Assistance Center (PFTAC). We thank the Fund and third-party donors for their assistance to PFTAC and continue to support an increase in PFTAC's capacity.

Progress has been made and some success stories are emerging as the Pacific islands seek to integrate themselves into the global economy. Economic frameworks are improving and structural reforms aimed at delivering growth are underway. Smaller states are working to strengthen institutions and improve governance. Larger, faster growing states are striving to illustrate how traditional community ties can complement economic growth that is both inclusive and sustainable.

However, while growth rates vary across the region, they remain moderate and subject to significant risk. Pacific countries face the constant threat of natural disasters and are among the most highly exposed to the effects of global warming. Low per capita incomes and small populations complicate preventative action as the high fixed costs of government must be spread over a narrow population base. While island economies are making progress, geographic isolation, limited economies of scale, and economic dependence all point to a continuing need for external support.

Fund technical assistance and surveillance are likely to continue to provide the backbone for engagement in the region. However, there is a need to look again at the Fund's concessional facilities to ensure that access criteria adequately reflect the challenges facing small island states. We welcome the decision to bring a review of the Poverty Reduction and Growth Trust eligibility criteria forward to 2013.