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Statement by **THE HON. WAYNE SWAN MP,**
Governor of the Fund and the Bank for **AUSTRALIA,**
at the Joint Annual Discussion

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Global financial crisis

We are facing a global crisis which requires a global solution. Australia has been participating fully in the international response so far — through our membership of bodies such as the IMF, the Financial Stability Forum and the G-20.

Progress this weekend represents a significant step forward in the response to the challenges we all face.

Australia is very supportive of efforts in the United States and elsewhere to manage immediate risks to financial stability and restore market confidence, and of the US Treasury Blueprint for domestic financial regulatory reform. Our central bank is an active participant in cross-border initiatives to provide markets with liquidity.

For its part, Australia's banking system remains resilient, with stable profits, good balance sheets and few non-performing loans. Our strong prudential and macroeconomic frameworks have also enabled us to withstand the turmoil well so far.

However, Australia's financial system is being affected by global events, in particular developments in international wholesale funding markets. As a pre-emptive move to guard against risks, we have decided to guarantee bank deposits for a period of three years and to guarantee, for a fee, wholesale term funding of banks and other authorised deposit-taking institutions to enable these institutions to continue to raise funds overseas in the current tight conditions.

These steps are in line with action taken in other countries and with the G-7 agreement on Friday that the current situation calls for urgent and exceptional action to stabilise financial markets and restore the flow of credit to support global economic growth.

It is vital that the international community capture the lessons of the current global financial crisis and translate them into action. In the wake of the financial crises of the late 1990s, major players acknowledged the need to improve domestic regulation and strengthen the global financial architecture. Some useful things were done, but not enough.

We support the FSF recommendations and are working within the FSF and international standard setting bodies to ensure their full implementation domestically and internationally. This is essential to improving standards of disclosure, transparency and prudential regulation of financial markets, and to rebuilding longer-term confidence in the system.

However, Australia believes the FSF recommendations should be enhanced by the inclusion of additional measures in support of conservative and consistent prudential standards that apply to all financial institutions of systemic importance. And we need to strengthen the global financial architecture through the existing forums of the IMF, the FSF and the G-20.

Australia has proposed a five point plan.

- First, all systemically important financial institutions, not just commercial banks, should be licensed — with licensing subject to full disclosure and analysis of on- and off-balance sheet exposures.
 - This should be imbedded in globally agreed best practice standards of financial regulation whose implementation would be facilitated by the IMF and become an integrated part of the IMF's surveillance activities. Central banks in each country would have responsibility for financial system stability.
- Second, counter-cyclical regulatory frameworks should ensure banks and other financial institutions build up capital in good times as a buffer for bad times, using predictable rules.

- Third, financial institutions need to have clear internal incentives to promote responsible behaviour. There should be higher capital requirements for firms with remuneration arrangements that reward short term returns or excessive risk taking.
- Fourth, supervisory systems must be more compatible with accounting principles that reflect reasonable assessments of the value of assets over time, so that accounting rules foster a more medium term perspective.
- And finally, the G-20 would strengthen its input into shaping the work of the IMF and FSF and the implementation of agreed outcomes. The IMF would have a stronger mandate for prudential analysis. And the IMF and FSF would develop their capabilities for early warning of impending institutional vulnerabilities and provide timely advice on remedial policies.

Systemically important emerging market economies must have a role in strengthening the financial architecture. Indeed, while the epicentre of today's financial crisis is the major advanced economies, it is disrupting the flow of capital across the globe and therefore all systemically important countries must be part of the solution.

That is why Australia also sees a central role for the G-20 — with its unique membership of systemically important countries — in providing political authority for reforms to the architecture. This will mean the G-20 placing financial stability at the centre of its work program.

Under our proposals, the G-20 would monitor implementation of FSF recommendations, encourage their wide adoption, and engage on the risks facing the global financial system based on regular scenario analysis provided by the IMF and FSF. The communication of these risks must also be significantly improved by combining the IMF's *World Economic Outlook* and *Global Financial Stability Report* into a single, more concise and better targeted report that clearly identifies vulnerabilities and recommends policy responses in a form that demands attention by global policy makers.

In addition, given their systemic importance, individual G-20 members would provide the IMF and FSF with better information on the stability of their domestic financial systems and cross-border exposures.

These proposals would, I believe, build constructively on the work undertaken to date to try to prevent future crises.

Australia has been active in the IMF's work to strengthen its financial sector surveillance and related policy advice, and ultimately its capacity to help prevent future crises. The IMFC has endorsed a strengthened IMF role in these areas, as part of the process of rebuilding the international financial architecture:

- The Fund will strengthen its early warning capabilities in relation to identifying and reporting on risks to global financial stability.
- The Fund will play a key facilitation, analytical and assessment role in helping build a more robust and coherent financial policy framework and advise members on policies to address the weaknesses revealed by the current financial turmoil.
- The Fund is strengthening its watchdog role in overseeing the implementation of policy reforms. With its wide membership and mandate, the Fund is uniquely placed to tailor, monitor and evaluate the implementation of policy recommendations through its bilateral and multilateral surveillance activities.

To perform these roles effectively, the Fund will collaborate with the other multilateral forums to exploit complementarities and build international consensus.

Australia has been a key supporter of these reforms and welcomes their adoption.

We also fully support the use of the Fund's emergency procedures to make available substantial resources where necessary to help member countries cover financing needs, and the accelerated work on the possible establishment of a new IMF liquidity instrument.

Development challenges

Many developing countries are likely to face a dual challenge: slower global growth and increased difficulty in accessing credit and investment, combined with inflationary pressures driven by high commodity prices.

The IMF and World Bank will need to work collaboratively and urgently to respond to these issues, recognising their respective mandates and comparative advantages.

Countries must also continue to work together to meet shared challenges and be engaged in discussions on global problems such as high food and energy prices and climate change. These problems will also require considered policy responses at the national level, with input and advice from organisations like the IMF and World Bank.

Open trade and investment policies, including reduced subsidies and tariffs, can strengthen developing countries' economies, improving their resilience to respond to higher global food and fuel prices. Concluding the Doha round is one of the most important collective steps the world can take now to boost global food supplies and improve long-term food security.

I commend the World Bank for its efforts in helping break the cycle of food insecurity. Australia is committed to doing its share in the current fight against global food insecurity and was pleased to be able to commit A\$50 million to the World Bank's multi-donor trust fund.

Climate Change

For a long-term effective solution to climate change, all countries — both developed and developing — will need to be involved. Institutions such as the World Bank and the United Nations will also be required to work together to ease the challenges that climate change presents for developing countries, with the IMF also playing an important role in advising on macroeconomic impacts.

The Australian Government is committed to tackling climate change and is pursuing policies on energy efficiency, low emissions technologies and domestic and international adaptation. Discussions at the Bali breakfast highlight the important role of market-based mechanisms in tackling climate change. The central element of Australia's climate change policy framework is a national emissions trading scheme, the Carbon Pollution Reduction Scheme. Australia is also pleased to be able to support the UK as G-20 host in 2009, by co-hosting a G-20 climate change workshop in February 2009.

International financial institutions have an important role in complementing the work of the United Nations Framework Convention on Climate Change. The World Bank's Strategic Framework for Development and Climate Change presents a balanced approach for the World Bank in addressing climate change, while recognising the core mandate of the Bank in supporting development outcomes in partner countries. Australia was pleased to be able to announce an Australian contribution of A\$150 million to the Climate Investment Funds.

Governance reforms

Today's world is very different from the world when the IMF and World Bank were conceived and it is important that these changes are reflected in institutional arrangements. Australia strongly supports efforts by the Fund and Bank to pursue governance reforms. All members will benefit from a Fund and Bank that have greater legitimacy and relevance, and are therefore more effective in fulfilling their respective mandates for international financial stability and poverty reduction.

The proposed voice and participation reforms considered by the Development Committee represent a good step forward, following the substantial quota and voice reforms agreed at the Fund. The Bank reforms will see an increase in the votes of developing and transition countries and a third chair for Sub-Saharan Africa — providing opportunity for the region to strengthen its voice in decision making at the Bank.

It will be important to build on this reform package to further strengthen the governance and policy framework of the Bank. Realigning voting interests in the Bank to reflect the increased economic weight of emerging economies will be fundamentally important to the long-term relevance of the Bank. Australia looks forward to working constructively with members on the challenging reforms that lie ahead.

At the IMF, Australia thanks the Independent Evaluation Office (IEO) for their comprehensive *Report on the Evaluation of Aspects of IMF Corporate Governance — including the role of the Executive Board* and looks forward to further work on these issues, including through the agreed work plan of the Executive Board and the independent assessment of the Committee of IMF Governance Reform, chaired by South African Finance Minister Trevor Manuel. Australia will continue to engage on proposals to strengthen the roles and accountabilities of the IMF Board of Governors, IMFC, Executive Board and Management.

Sovereign Wealth Funds

Australia welcomes efforts to accommodate the growth of sovereign wealth funds which are becoming increasingly important in global financial markets and have demonstrated that they can have a stabilising influence in these markets.

We thank the IMF for their work in facilitating and coordinating the work of the International Working Group of sovereign wealth funds. We welcome the release of the Santiago Principles. If widely subscribed to, the Principles will build transparency and strengthen confidence in the independence and commerciality of sovereign wealth funds, supporting an open and stable international investment climate.

IMF refocusing and budget reform

Finally, Australia would like to thank the IMF Managing Director for his work, supported by the Executive Board, in achieving significant refocusing of the Fund's work program on areas of comparative advantage, and budget reform involving substantial expenditure savings and the establishment of a new income model. These are difficult reforms not often seen in multilateral bodies and should not be underestimated.

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Australia values its close working partnership with the Fund and Bank and we look forward to further ongoing productive dialogue with both institutions to promote global stability and sustainable development.