WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

INTERNATIONAL MONETARY FUND

Press Release No. 24

October 6-7, 2009

Statement by the Hon. **NICHOLAS SHERRY,**
Governor of the Bank and the Fund for **AUSTRALIA,**
at the Joint Annual Discussion

Statement by the Hon. Nicholas Sherry,
Governor of the Bank and the Fund for Australia,
at the Joint Annual Discussion

Global Outlook

The outlook is improving and it appears that the worst of the global recession may have passed. The global economy is now in the early stages of recovery — a recovery that has been underpinned by the unprecedented fiscal and monetary stimulus and financial support provided around the world in response to the economic crisis. This is a recovery, however, that remains fragile and one that will be slow.

The tentative signs of recovery are evident from financial markets and macroeconomic data. In recent months we have seen equity prices rebound and credit spreads narrow reflecting both a perceived decline in system-wide risks and expectations of stronger global growth. We have seen confidence improve, and production and trade are rising around the world.

Signs of the recovery are varied across regions. Emerging East Asian economies recorded the steepest falls in GDP at the onset of the recession, but are now leading the recovery. Advanced economies, while also improving, show a more sluggish recovery underway.

A return to strong economic growth is, however, not yet assured. Growth in demand is likely to be constrained by the necessary, and persistent, deleveraging by firms and households, and by rising unemployment. And while conditions in financial markets have stabilised, they are still far from normal. Significant risks to financial stability remain over both the short and medium term. Most immediately, still-increasing default rates amongst household and corporate borrowers, combined with the ongoing likelihood of write downs, will continue to place pressure on bank balance sheets in a number of countries. There is still the downside risk of a possible re-intensification of the negative feedback loop between the real economy and the financial system that could undermine the recovery.

In this environment, the near-term continuation of global stimulatory policy settings is crucial to sustain the recovery in 2010. Consistent with the G20 Leaders' commitment at Pittsburgh, Australia supports maintaining announced policy stimulus for as long as necessary to support the global economy and jobs.

While the worst may be over, there remain policy challenges. The process of withdrawing from public interventions in financial markets in the medium-term, while necessary, will entail significant risks to financial stability. Similarly, withdrawal of stimulus once global recovery is assured will be important to long-term growth. It is also important that individual countries establish credible frameworks for fiscal consolidation as growth resumes. Such challenges to the global recovery can be managed through a coordinated and timely approach to policy action by world economies.

In the longer-term, Australia believes that a key challenge to the sustainability of global growth will be the successful rebalancing of demand between advanced and emerging economies.

The recent G-20 Leaders' Statement asks the Fund to play an active role in this regard, by developing a forward-looking analysis of whether policies pursued by individual G20 countries are collectively consistent with more sustainable and balanced growth trajectories to inform a process of mutual assessment.

Australia strongly supports the continuation of coordinated work through forums such as the G20 to help ensure a sustainable recovery.

Reform of the International Financial Institutions

The recession from which the world is now emerging, the worst in the 65 years since the inception of the Bretton Woods Institutions, provides a strong reminder that we need them to be truly effective if we are to meet the challenges, and reap the benefits, of globalisation. As countries emerge from this period of economic and financial turbulence, it will be critical to strengthen these institutions to reduce the likelihood of such a crisis recurring and to mitigate the damage that future financial market fluctuations have on developing countries.

Among the first priorities must be reforming the international financial institutions' governance structures. Australia strongly supports efforts by the institutions to pursue governance reforms within the agreed accelerated timeframes. 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 promoting international financial stability and poverty reduction.

These reforms must include changes to the institutions' ownership structures. The global economy is evolving rapidly and it is important that their ownership is representative of the current global economic environment.

At the IMF, the reforms agreed by Governors in April 2008 will make an important contribution to the realignment of quotas. A simpler formula placing a higher weight on GDP was agreed to guide a realignment of quota towards under-represented countries, particularly dynamic emerging market economies. Australia has accepted this amendment and looks forward to its prompt acceptance by the membership as a whole.

The April 2008 agreement was designed as a first step in what would be a more dynamic process of quota reviews. More remains to be done as part of the review of quotas to be agreed by January 2011. Australia supports a further significant redistribution of quota shares and the G20 call that this should include a shift to dynamic emerging market and developing countries of at least 5 percentage points from over-represented to under-represented countries based on the current IMF quota formula.

A significant and fair realignment of quota shares will be easier to achieve if it is part of a substantial increase in quotas. Australia considers that the review of the size of quotas should take account of significant changes in the world economy, the increased demands on the IMF, and the importance of the IMF remaining a quota based organisation. This last point is also a key one, and one that was recognised by G20 Leaders in Pittsburgh.

At the World Bank, the timeframe is shorter and the task more complex. Australia supports a move away from reliance on historical IMF quotas as the basis for World Bank shareholding. This will require agreement to a simple, credible and transparent formula that primarily reflects countries' evolving economic weight and the World Bank's development mandate. Australia supports the G20 call for a shareholding reallocation focussed on increasing the shareholding of countries under-represented compared to such a formula and that this should result in a significant increase of at least 3 percentage points of voting power for developing and transition countries. However, the formula should also be designed to provide a fair basis for future shareholding reallocations, which may be expected to result in further increases in the shareholding of developing and transition countries as their weight in the world economy continues to grow.

Development of a new shareholding formula was considered in a first phase of reforms but agreement was not achieved in the time available. Achieving consensus by April 2010 will result from pragmatic negotiations directed to improving the long-term interests of the Bank and of the shareholders as a group.

Australia considers that an important objective of the governance reforms at both institutions will be enhancing the voice of the poorest countries and this goes beyond shareholding reforms. The previous rounds of reforms made progress. The voting power of many of the poorest countries was increased through the doubling of basic votes at the World Bank and the tripling of basic votes at the IMF. The representation of Sub-Saharan African countries was strengthened through the addition of a third chair at the World Bank and an additional alternate Executive Director for each constituency at the IMF. Australia supports further reforms to increase the voice of the poorest countries through consideration of a further increase in basic votes, restructuring of the Executive Boards and through reforms to make the institutions more responsive to their needs.

Internal governance reforms to improve the effectiveness and efficiency of the Executive Boards and their responsiveness to Governors are still needed. Changes being introduced to make the IMFC less formalistic are an important first step, but further reforms should ensure: it has a strategic agenda, owned by Governors; that Governors are more involved with surveillance, for example by giving them explicit accountability for following up on the early warning exercises; and that Governors exercise greater oversight over the collective performance of the Executive Board as a whole. The Bank's Executive Board should continue to review and implement measures to improve internal governance, including the oversight, strategy and effectiveness of the Executive Board, as outlined at the 2009 Spring Meetings.

The institutions' legitimacy has also, and for too long, been undermined by conventions that constrain selection of their heads and senior management to candidates of certain nationalities. Australia supports the development of an open, transparent and merit-based selection process.

The crisis has also made clear the need for more fundamental reform of the international financial institutions. Australia welcomes the initiatives that the institutions themselves have already begun pursuing. The IMF has implemented important reforms to its lending instruments and conditionality framework, including the introduction of the Flexible Credit Line and a more flexible range of instruments for low-income countries. Considerable progress has been made in strengthening its surveillance tools, including by improving expertise on macro financial linkages and through closer collaboration between the IMF and the Financial Stability Board. The Bank has undertaken reforms to streamline procedures and improve flexibility, enabling it to front-load and fast-track lending resources to protect the most vulnerable.

These important changes have been backed by substantial increases in resourcing—together equipping the Fund and Bank to respond rapidly and effectively to the crisis. It will be important that lending instruments and policies continue to be adapted in response to global economic circumstances and members' needs.

Deeper changes may require reconsideration of the roles, responsibilities and mandates of the institutions in the light of the crisis, particularly the IMF. Important aspects to sustain a future of balanced and sustainable growth will be reducing the pressure for countries to self-insure through the holding of large foreign currency reserves and improving the breadth, clarity and traction of surveillance. Consideration should be given to whether the lending role of the IMF should be extended beyond addressing balance of payments need, options for strengthening surveillance, the role and flexibility of the SDR system, the obligations of members under the IMF's Articles of Agreement and clarifying the roles of the IFIs with respect to each other as well as with respect to other regional organisations and the private sector. There is merit in considering a thorough and wide-ranging review of the Fund and its Articles of Agreement, taking full account of the growing integration of the global economy with respect to both international trade and capital flows.

Development Challenges

Since the onset of the food and fuel crises nearly two years ago and the subsequent financial crisis and global recession, donors and development agencies have mobilized significant additional resources for low-income countries. However, low-income developing countries have been hit hard by crises not of their making, and face daunting challenges that jeopardise years of progress in combating poverty. As a result of the global recession, 89 million more people will be living in extreme poverty, on less than US$1.25 a day, by the end of 2010.

Over four billion people remain undereducated, ill-equipped with capital and technology, and insufficiently integrated into the global economy. As G20 Leaders noted in Pittsburgh, we need to work together to make the policy and institutional changes needed to accelerate the convergence of living standards and productivity in developing and emerging economies to the levels of the advanced economies.

Australia applauds the efforts of the World Bank Group in stepping up its financial assistance to help developing countries mitigate the impact of the crisis over its past fiscal year. For the World Bank Group as whole, the result has been record levels of activity—with US$58.8 billion committed in 2009 to support countries hit by the global crisis, a 54 percent increase over the previous year.

Other multilateral development banks have also responded to the crisis by increasing lending and introducing new and flexible instruments to respond to the downturn. We commend these efforts by the multilateral development bank community.

The hard-hitting impact of the crisis on the IMF's low-income country members has emphasised the need for an effective Fund, one that can support its members in dealing with the consequences of the global recession.

Australia commends the IMF's response. It has gone beyond G20 calls at the London summit, more than doubling concessional lending capacity by mobilising new resources to boost the Fund's medium-term concessional lending to US$17 billion.

Australia wants to be a good international citizen. That reflects a key Australian characteristic: a commitment to help people less fortunate than ourselves, a belief in a fair go for all.

As such, Australia is actively seeking to support developing nations in this time of turmoil. Within the G20 we have argued for a clear focus on development issues and the implications of the global recession on the poorest of the poor. We continue to commit our resources towards development, and will increase our official development assistance program to 0.5 per cent of gross national income by 2015-16.

Australia has made major new multi-year commitments to improve food security and build community resilience through rural development (US$400 million over four years) and support high priority infrastructure needs (US$391 million over four years).

We recently committed US$216 million over 20 years to the expanded International Finance Facility for Immunisation to help the world's poorest countries to deliver better health care to their people. Many countries do not have the resources to provide even the minimum of essential health services. Poor countries need accelerated assistance to provide these health services now if we are to achieve the health Millennium Development Goals by 2015. The expanded Facility, with support from Australia and other donor countries, will help meet this need.

Australia has been a long-time contributor to the interest subsidy account of the IMF's Poverty Reduction and Growth Facility—we provided US$26 million over the past 12 years. In support of the Fund's new concessional financing facilities, Australia will shortly advise the IMF of a commitment to the general subsidy account of the new Poverty Reduction and Growth Trust.

* * *

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. Australia congratulates and thanks the IMF and the World Bank for their work in stabilising and assisting world economies through the crisis.