



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Second Meeting October 15, 2020

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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 PACIFIC CONSTITUENCY

October 15, 2020

We express our sympathies for the loss of lives as a result of the COVID-19 pandemic.

We welcome Andorra as the 190th member of the International Monetary Fund.

Outlook

The COVID-19 pandemic is a once-in-a-century shock that has led to the worst global economic crisis since the Great Depression. The pandemic has had a profound impact on global health systems, communities and economies.

There are signs that a global recovery is underway, supported by extraordinary macroeconomic policy measures. Despite this policy action, most economies have recorded historic contractions in 2020.

Global growth is expected to recover in 2021, but the pathway to global recovery will be partial, uneven and uncertain. As the pandemic continues to spread with partial lockdowns being re-imposed in some places, the risk of setbacks remains high.

There is substantial uncertainty around the path to recovery, including the path of the virus, the effectiveness of containment measures and the timing of treatments and vaccines. There is also uncertainty about the potential for lasting effects on supply, potential shifts in financial market sentiment, and the extent of global spillovers. Under such an adverse scenario the impact on global growth could be significantly worse.

Policy response

The priority was, and continues to be, saving lives and ensuring an adequate global health response, maintaining financial stability, minimizing job losses, keeping businesses going, and ensuring the basic needs of the global population are met.

It is critical that policy support is sustained to protect the global economy from lasting damage from the pandemic. Strong international cooperation will be critical.

There have been significant global fiscal actions to support health systems and affected households and firms. The forceful response has saved lives and helped to cushion the blow from the economic fallout.

Central banks globally have taken unprecedented and aggressive policy actions by easing monetary policy, stabilizing key funding markets, maintaining the flow of credit to the economy, and calming abrupt and volatile capital flows.

As we move through different stages of the crisis, policy support will need to be tailored. Countries should continue to pursue fiscal actions that will stimulate a rebound in business activity and get people back to work. We must support low-income countries, including in the Pacific, to do the same so that the recovery is shared equally. Monetary policy should remain accommodative as long as necessary. Acting together means that the global economy and individual countries will recover more strongly and more quickly.

We need a robust long-term recovery plan to address new and pre-existing vulnerabilities and inefficiencies. The significant fiscal response has not been without costs; public debt is at record levels and vulnerabilities have intensified. In time, we will need credible and ambitious structural reform plans that lift productivity and participation and support a return to global economic prosperity.

Coordinated and sustained multilateral action is key to restoring global growth. Global supply chains must be kept open, particularly for vital medical supplies, treatments and vaccines, and restrictions on trade and investment due to necessary health measures need to be temporary, targeted and consistent with WTO rules.

Role of the Fund in Supporting Members

We support further strengthening of the global financial safety net to promote a resilient international monetary and financial system, including by continuing to review the effectiveness of the Fund's lending toolkit and continuing collaboration with regional financing arrangements.

We must continue to support the poorest and most vulnerable countries through the crisis, as they will face the most severe impacts. We welcome the Fund's quick and effective balance of payments support to members through financial assistance and debt service relief through the Catastrophe Containment and Relief Trust. We congratulate the Fund on its enhanced support through the Poverty Reduction and Growth Trust (PRGT) given the unprecedented surge in demand for financial assistance from low-income countries. Australia is pleased to have finalised its PRGT loan agreement of SDR500 million. We welcome the increase in the annual access limits to Fund resources and we look forward to the review of the concessional lending facilities for low-income countries.

The Fund must now shift its focus to tailoring their lending to the needs of members during the next stage of the crisis and we welcome the Fund considering the creation of a temporary Pandemic Support Facility. For small developing states, we welcome further

exploration of potential liquidity assistance in the event of shocks and to support efforts to strengthen natural disaster resilience. We also continue to welcome the possibility of a general Special Drawing Rights allocation to assist with members' liquidity needs.

In addition to providing financial support to members facing balance of payments problems, the Fund has an important role to play in advising members through ongoing surveillance, policy advice and capacity development. We support the Fund resuming bilateral surveillance. The Fund should stand ready to revise and publish its forecasts more frequently than usual, based on material changes in the global outlook. The policy tracker is a useful tool that enables sharing of information, and the Fund should continue to provide practical and tailored policy advice on the macroeconomic implications of the outbreak and policy options to stabilize economies. We look forward to a renewed capacity development strategy as the Fund navigates the changing global landscape and potential for reduced international travel.

We welcome the Fund focusing its efforts on the crisis and providing support to members to work toward a strong, sustainable, balanced and inclusive recovery. Member countries will be facing various challenges as a result of the crisis, including debt vulnerabilities, unemployment and low interest rates, and the Fund should be at the forefront of providing advice and assistance to the membership to deal with these issues. We look forward to the Fund finalizing the review of debt sustainability analysis for market access countries and analysing debt sustainability more generally given the important role this plays for access to financing. The Fund needs to heed lessons from past crises and provide timely advice to members, including on the use and implications of unconventional monetary policies, how and when to unwind fiscal stimulus measures, and the ways to navigate the potential economic impact of scarring and permanent structural changes from the pandemic. This is particularly important for small, tourism dependent members, such as those in the Pacific, who will need innovative and practical policy solutions as they face the potential for longer-than-expected international border closures.

As global risks and vulnerabilities are elevated, it is important that we ensure an adequately resourced global financial safety net with a strong and credible Fund at the centre. We are committed to revisiting the adequacy of quotas and continuing the process of Fund governance reform under the 16th General Review of Quotas.

The decision to double the New Arrangements to Borrow and secure a further round of Bilateral Borrowing Agreements beyond 2020 is welcome and will ensure that the Fund's current resource envelope will be maintained. In this constituency, Australia, Korea, and New Zealand have all consented to their Bilateral Borrowing Agreements beyond 2020 and have also doubled their New Arrangements to Borrow.

We also support ongoing assessments of the adequacy of the Fund's resources, given the potential demands in the current crisis. If more resources are required, the Fund should explore all options and approach Governors quickly.