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November 18, 2021

**Statement by Ms. Lim and Ms. Wongwaisiriwat on Australia  
(Preliminary)  
Executive Board Meeting  
November 22, 2021**

We thank staff for a comprehensive report and Ms. Grant, Ms. Johnson, and Mr. Becker for their helpful Buff statement. We broadly agree with staff recommendations and would like to highlight a few issues.

**We commend the authorities for their impressive crisis management, both in terms of pandemic control and policy support.** Since the pandemic started, Australia's zero-covid strategy has proven effective in controlling the spread of the virus domestically. This would have been very costly to the economy, if not for the timely and sizeable policy support on both fiscal and monetary fronts. We take positive note of the authorities' effort in maintaining employment in the initial phase of the pandemic, in particular by introducing the JobKeeper wage subsidy program. We also support the authorities' subsequent move towards more targeted policy, to ensure adequate support for the most vulnerable segments.

**As the pandemic situation stabilizes and vaccination rate is high,** we encourage the authorities to accelerate their living-with-COVID strategy and consider relaxing border restrictions for broader groups of people conditional on their full vaccination status. We agree with staff that prolonged border restrictions could create a lasting impact on production capacity and potential output in the medium. Pushing forth with an endemic COVID-19 strategy would help resume tourism activities, bring back employment, and minimize economic scarring in the longer term.

**To facilitate a more inclusive recovery, we encourage the authorities to focus their effort in addressing structural vulnerability in the labor market.** As staff noted, while the headline unemployment rate has remained low, alternative measures pointed to more worrying symptoms, namely declining labor force participation, rising zero-hours workers, and high long-term unemployment. We therefore welcome a range of policies introduced by the authorities to assist the disadvantaged groups like casual workers, female, youth, and lower-educated workers. Staff

comments on how these labor groups and SMEs have adapted to the digital economy and the extent to which the Digital Economy Strategy has helped reduce SME bankruptcy is welcome.

**On fiscal policy, we agree with the authorities that the priority should be to ensure a solid economic recovery first, and gradually shift focus to rebuilding fiscal buffers as economic conditions improve more decisively.** In this regard, we would again encourage the authorities to continue monitoring the employment data of the fragile segments and plan adequate fiscal budget well into the medium term to address such structural vulnerability. Staff called for “the timing and pace of future consolidation... to be calibrated to the strength of the underlying economic recovery”, and authorities also flagged the need for “a comprehensive approach... by not mechanically assessing the unemployment rate alone”. *Could staff elaborate on their recommendation on how authorities can holistically monitor the strength of the underlying recovery for informed decision-making on the withdrawal of policy support?*

Adequate medium term fiscal space would also be key to facilitate investments in R&D and ICT and enhance product market competitiveness to overcome Australia’s productivity slowdown in recent years as analyzed in staff’s Selected Issues Paper. In the meantime, other kinds of fiscal support measures should readily be phased out, in line with the reopening, to preserve fiscal space for the periods ahead.

**We support the Reserve Bank of Australia’s prompt and sizeable response at the onset of the pandemic and view the current monetary policy to be sufficiently accommodative.** The combination of policy rate cuts and unconventional measures has helped secure financial lifelines for both firms and households and ensured a smooth functioning of the financial markets. In light of recent strong economic recovery, we welcome a gradual phase-out of policy support, namely the tapering of bond purchases, closure of the TFF drawdown window, and abandoning of the yield target. We encourage the RBA to continue to take a gradual and data-dependent approach to monetary policy normalization, to ensure a continued economic recovery amid uncertainty from the outbreak. *Specifically on market developments ahead of Australia’s exit from yield curve control in November, could staff comment on the ensuing implications for RBA credibility and any useful lessons that could be learned from the episode?*

**Finally, we commend the authorities’ efforts in advancing financial sector reforms despite disruptions introduced by the pandemic. In addition, we welcome authorities’ continued vigilance and efforts in mitigating financial stability risks stemming from the housing market.** Against the backdrop of prolonged low-rate environment and large fiscal support, we see the recent tightening of macroprudential policy as appropriate. Should household income growth continue to lag the overall economic recovery while lending standards show signs of relaxation, further macroprudential measures might be needed. In this regard, we positively note that other policy options, such as DTI and LVR, could be deployed if needed. *Regarding tax policy, we would like staff to elaborate more on how this could be calibrated to effectively dampen speculative behavior in the housing market, taking into account authorities’ arguments for why tax policy is not the right tool for this purpose.*