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GRAY/21/3023

November 18, 2021

**Statement by Mr. Ronicle and Ms. Campbell on Australia
(Preliminary)
Executive Board Meeting
November 22, 2021**

We thank staff for their well-written report, and Ms. Grant, Ms. Johnson and Mr. Becker for the informative Buff statement.

We commend the authorities for their strong and effective health and economic policy response to the Covid-19 pandemic. This response successfully suppressed infection rates and allowed for fast containment in the early stages of the pandemic which protected lives. Large-scale fiscal and monetary policy support enabled a faster economic recovery than most other advanced economies with output returning to well above pre-Covid levels the second quarter of this year. The authorities reacted swiftly to new outbreaks this year with fiscal and monetary support alongside health measures and a successful vaccination program. It is appropriate that the authorities rebuild fiscal buffers only once the economic recovery is well secured. This exemplary response is an important lesson for other countries; a combined effective health and economic response is good for health *and* economic outcomes.

We agree that the authorities have made commendable efforts in advancing financial sector reforms in line with the FSAP recommendations and the Hayne Royal Commission Inquiry, despite the pandemic. We support the proposed bank capital framework reform to mitigate banks' concentration in housing loans and promote SME lending. We also support the financial market infrastructure reform to strengthen regulation, supervision and crisis management of the sector. We welcome measures taken in recent years to strengthen the AML/CFT regime and agree with staff's recommendation that action is needed to further expand coverage to include non-financial and business professionals, such as accountants, lawyers and real estate agents, in line with FATF recommendations.

We commend the authorities' action to mitigate risks in home lending through macroprudential tightening. We agree with staff's assessment that macroprudential policy should continue to focus on financial risks from surging house prices and elevated household debt. We note the different views between staff and the authorities of the role of tax reform in

discouraging leveraged housing investment by households to dampen investor demand in residential real estate. We are sympathetic to the authorities' position that macroprudential tools are likely to be more appropriate, not least given the states and territories, rather than the Federal government, have responsibility for taxes in many of these areas.

We welcome the authorities' recent commitment to net zero emissions by 2050, recently published Long-Term Emissions Reduction Plan and acknowledgement that increasing efforts will be needed to address rising risks from climate change – against a challenging political backdrop. We welcome the coverage of climate issues in this report, particularly given Australia is one of the top ten largest greenhouse emitters in the OECD and is exposed to significant climate risk. As the world's largest coal exporter and a major exporter of natural gas, climate risks are extremely relevant from a macroeconomic perspective. We agree that a broad-based carbon price strategy would be the most efficient approach for Australia. However, we also acknowledge that whilst a regulatory approach may be less efficient, it may be more deliverable from a political economy perspective. Either way, we urge the authorities to quickly agree a comprehensive policy framework that will deliver the commitment to net zero emissions by 2050. We look forward to a broader and deeper assessment of the steps Australia is taking to de-carbonize their economy in future staff reports.

We are concerned that diplomatic relations with Australia's largest trading partner have deteriorated in recent years and we note the import restrictions placed by China on selected Australian exports. Whilst the macroeconomic impact has been limited so far, we agree with staff that further deterioration of economic relations poses downside risks. We closely monitor reports of China's trade actions being deliberately targeted against goods of some countries for political reasons. We encourage China to live up to their stated aspiration to play a full and responsible role in upholding the open, rules-based, transparent and non-discriminatory global trading system.