

June 2, 1981 - 81/97

The Acting Chairman's Summing Up at the Conclusion of the
1981 Article IV Consultation with Australia
Executive Board Meeting 81/82 - May 29, 1981

Directors generally commended the policy record of the Australian authorities over the past several years. They noted that the recovery in economic activity, the decline in unemployment, the containment of inflation, and the strengthening of the external position owed much to the gradual but steady and determined restraint on public expenditure, monetary expansion and labor costs. The most disappointing aspect of the present economic picture was found to be the acceleration of wage inflation which, if unchecked, risks making the current pace of economic activity unsustainable. It was hoped that arrangements for wage determination would be improved. The authorities were thus encouraged to continue to give priority to the reduction of inflation so as to continue recent successes.

In order to assure room for the present investment boom Directors counseled continued restraint on other components of demand and, in particular, on expenditure by the public sector at all levels. In this regard the measures of fiscal restraint announced recently were warmly welcomed, though the effects of the particular features of the federal structure of the country for the control of overall public sector outlays were noted.

Directors agreed that it was important to shift some of the burden of fighting inflation from monetary policy to fiscal policy in order to avoid the risk of undesirably high interest rates and higher capital inflows. They also suggested that more active labor market pressures such as encouragement of immigration and the training of skilled workers would further contribute to improving the supply performance of the economy over time.

Directors, while recognizing the difficulties involved, emphasized the desirability of a significant reduction in the still relatively high level of protection for Australian industry. Such a move would be helpful from an international perspective and would contribute to the containment of inflation and wages. Directors stressed that present circumstances, with both the labor market and the overall balance of payments stronger than they had been in some years, were particularly favorable to a reduction of import barriers, and it was generally agreed that this would be the most desirable form of adjustment to the expected continued strengthening of the balance of payments. In this context the hope was also expressed that protection in Australia's foreign markets would be reduced.

In the light of these considerations most Directors commended the Australian authorities for their exchange rate management which, in recent years, had avoided wide fluctuations in the exchange rate while

helping to achieve overall balance in the external accounts. Recent and prospective current account deficits appeared quite sustainable in view of the inflows of capital, including, in particular, direct investment. Several Directors expressed interest in the present inquiry into the Australian financial markets, including the exchange market.

Finally, several Directors praised Australia's record on official development assistance.