

SU/20/27

February 21, 2020

**The Acting Chair's Summing Up  
Australia—2019 Article IV Consultation  
Executive Board Meeting 20/19  
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Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the sound macroeconomic management and strong policy frameworks, which have underpinned the resilience of Australia's economy. Nevertheless, Directors noted that downside risks to the near-term economic outlook remain elevated and have recently increased amid the coronavirus outbreak. Directors expressed sympathy for the devastating effects of the droughts and bushfires.

Directors highlighted that the near-term macroeconomic policy mix should remain accommodative. They welcomed the expansionary fiscal policy stance in FY2019/20, driven by tax cuts and additional infrastructure spending. Considering Australia's output gap and substantial fiscal space, Directors generally recommended that a contractionary fiscal stance expected in FY2020/21 should be avoided, including by maintaining state-level infrastructure spending at current levels. However, some Directors underscored the need to preserve fiscal buffers to guard against potential downside risks.

Directors supported the current monetary policy stance. They highlighted that maintaining data-dependent accommodative monetary policy will be helpful to support the recovery of domestic demand. Directors agreed that, should downside risks materialize, the authorities should be ready for a coordinated response, including using fiscal stimulus jointly with both conventional and unconventional monetary policy measures.

Directors agreed that the current macroprudential policy stance remains appropriate. Given the risk of renewed overheating of housing markets in a low-interest-rate environment, they encouraged the authorities to continue improving the readiness of their macroprudential toolkit.

Directors welcomed that Australian banks remain adequately capitalized and profitable. They supported the authorities' plans to further enhance banks' loss-absorbing capacity and implement the recommendations made by the Hayne Royal Commission. Directors emphasized that reform priorities should include encouraging a further lengthening of the maturity of banks' wholesale funding, implementing the APRA Capability Review's recommendations, reinforcing financial crisis management arrangements as highlighted in the 2018 FSAP, and strengthening the AML/CFT regime.

Directors underscored that housing supply reforms remain critical for restoring affordability. They highlighted the importance of more efficient long-term planning, zoning, and local government reform, along with a focus on infrastructure development.

Directors encouraged the authorities to step up structural reforms to support strong and inclusive growth. Reform efforts should focus on strengthening business investment, supporting SMEs' access to finance, pursuing product market deregulation, and introducing well-targeted tax incentives. Further increasing infrastructure spending, while focusing on the quality of investment, would also help boost potential growth. Directors recommended steps to promote innovation, increase full-time female employment, and reduce youth underemployment. They welcomed the authorities' efforts to support cooperation in international trade and investment. Directors generally encouraged the authorities to develop an ambitious, national, integrated approach to energy policy and climate change taking into account domestic political economy considerations. This would help reduce policy uncertainty and catalyze business investment in Australia.

It is expected that the next Article IV consultation with Australia will be held on the standard 12-month cycle.