International Monetary and Financial Committee

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Statement by Mr. Hans Joerg Schelling
Minister of Finance, Austria

On behalf of
Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo,
Slovak Republic, Republic of Slovenia, and Turkey

Statement by Hans Joerg Schelling,
Minister of Finance, Austria
On behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo,
Slovak Republic, Slovenia, Turkey
at the 30th Meeting of the International Monetary and Financial Committee
Washington DC, October 11, 2014

The countries of our Constituency are concerned that the progress we have made since the transition, the rise in living standards and prosperity as well as peace are at stake. We have a vital interest in the stability of Ukraine/Russia and the Middle East. Those conflicts have increased uncertainty and dent the tepid recovery further. We therefore see the Fund's continued engagement in Ukraine as an important contribution to help stabilize the region. The IMF's work in the Middle East equally needs to continue with a focus on generating jobs and fostering inclusion. We welcome the Fund's decisive action in the countries affected most by the outbreak of the Ebola virus, which threatens to derail progress in the economic development of those countries. We call on the Fund to work closely together with the World Bank and other international institutions to support the countries affected by the humanitarian crisis in the Middle East, in order to mitigate the adverse effects on the economies in the region and spillovers to the global economy.

We welcome the recent decisions by the ECB, which confirm its commitment to fight deflationary risks, in line with its mandate. Its actions should thus support economic recovery. Fiscal consolidation has also eased its drag on economic growth. However, no dosage of monetary and fiscal accommodation can compensate for the necessary supply-side reforms in the euro area. Progress on structural reforms is necessary to boost demand and to restore higher and sustainable economic growth. The Managing Director's Global Policy Agenda expresses appropriate concerns about the lagging focus in that context.

The European banking sector is undergoing a critical health-check in the form of the Comprehensive Balance Sheet Assessment. Its completion should enhance the capacity of banks to support the recovery and strengthen the resilience of the euro area's financial system. At the same time, corporate balances sheets need to be repaired, so that credit supply can meet viable demand.

The record-low borrowing costs reinforce the illusion of declining fiscal pressure. However, public debt ratios, though generally stabilizing, remain elevated in most advanced economies and some emerging market countries, which warrant the continuous focus on consolidation.

However, the eventual reversal of the declining yield path can put the consolidation achievements at risk. The tightening of monetary conditions in the US could have sizeable spillovers to financing costs globally and emerging markets in particular. Low secondary market liquidity in some segments of global fixed income markets creates risks of sharper than expected spikes in global bond yields once the monetary policy normalizations fully takes over. Furthermore, the low inflation-low growth environment in advanced economies makes debt reduction efforts even more difficult.

We are mindful of the concerns that the monetary policy normalization in some advanced economies might result in significant spillovers to the global economy. Nevertheless, it is important to prepare for the eventual exit in time. Economies with vulnerabilities need to further improve their fundamentals and strengthen policy buffers.

The IMF has made some progress in advancing its policy agenda over the past months. We welcome the conclusion of the Triennial Surveillance Review and agree with the main findings. We believe that the Fund's engagement in structural policies that have macrocritical importance is essential in supporting the objectives of many IMF members. As open economies, we support the Fund's continued focus on spillovers but also spillbacks. We hope that the revived balance sheet approach will give profound insights into the interconnections of our economies. Therefore, we regret that a thorough discussion of the Fund's mandate is stalling. We see an extension of the Fund's mandate to cover the capital account as essential to safeguard the future relevance of the Fund.

We appreciate the IMF's central role in advancing the work on sovereign debt restructuring. The positive response by the Fund to the proposed reforms to the contractual framework for international sovereign bonds will facilitate the agreement on the design of such provisions. We encourage the Fund to promote their use in an advisory capacity and as part of its bilateral surveillance. However, this will not be sufficient to make restructurings of sovereign debt timelier and more orderly. The IMF should advance its work on all areas of sovereign debt restructuring which includes the reform of the Fund's lending framework, the framework for official sector involvement and the Fund's lending-into-arrears policy.

We regret that the ratification of the 2010 quota and governance reform continues to be delayed. We continue to hope that the US Congress will pass the necessary legislation before the end of 2014; not least because the standstill on governance reform has also led to the appearance of a standstill on the Fund's policy work. It seems to be getting increasingly difficult to arrive at a consensus even on less controversial policy topics. If the 2010 reforms are not ratified by year-end, we look forward to the work by the IMF on options for next steps.

We remain committed to the Fund having adequate resources. We welcome the extension of the bilateral loan agreements. The participants of the New Arrangements to Borrow (NAB) in our Constituency will continue to support an activation of the NAB. However, this situation is also increasingly untenable as the automaticity as well as the almost permanent reliance of the Fund on borrowed resources has an adverse impact on the Fund's governance and undermines its character as a quota-based institution.