Statement by Ewald Nowotny, Governor, Austrian National Bank

On behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovakia, Slovenia, Turkey
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Governor of the Austrian National Bank
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Austria, Belarus, Czech Republic, Hungary,
Republic of Kosovo, Slovakia, Slovenia and Turkey
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The recent signs of acceleration of economic growth in advanced economies are encouraging but should not lead to policy complacency. Short- and medium-term risks to the outlook are still significant.

Prolonged uncertainty about the US budget process has a potentially large disruptive impact throughout the world. The exit from the Fed’s unconventional monetary policy has been put on hold as the recovery and employment gains are yet to prove their durability. Policy uncertainty is yet again at the forefront in the US and threatens the promising private sector-led rebound in activity. Credible medium-term fiscal consolidation frameworks have still to be introduced in both the US and Japan and we urge the policy makers in both countries to put in place building blocks of such frameworks. Addressing medium- and long-run structural challenges in the U.S. and Japan in a credible and comprehensive way will be critical not only for their own prospects but for the global economy as well. We encourage the Fund to continue its dialogue with the US and Japanese authorities on the contours of their respective medium-term fiscal consolidation frameworks.

We also encourage the US Federal Reserve to engage in international dialogue in order to minimize unwarranted negative spillovers from the exit of its unconventional monetary policy measures on other countries.

The euro area needs to continue its fiscal and structural reform agenda aimed at putting the public debt on a downward trajectory, boosting productivity, competitiveness and potential growth. We ask the Fund to continue its engagement with euro area program countries in order to safeguard their sustainable recovery.

The euro area also needs to continue its institutional revamp, particularly by advancing the work towards the banking union, in particular a single supervision mechanism and an effective resolution framework. Advancing too far in one pillar without sufficient progress on the remaining two pillars is not desirable. The upcoming balance sheet assessment and stress tests done by the European Central Bank and the European Banking Authority need to be backed in advance by credible backstops. Capital gaps identified in the exercise should be filled promptly to strengthen market confidence in the banking sector’s soundness.
The revival of credit in the euro area periphery, particularly for small and medium enterprises is necessary for the region’s economic recovery. However, credit growth will not recover if the corporate sector continues to face a significant debt overhang and banks face uncertainty about their capital needs. The initiatives of the European Commission and the European Investment Bank have merit and could have signaling effects. More needs to be done to allow the corporate sector to restructure its debt. This will require that insolvency regimes in euro area countries become more flexible and efficient. Banks need to be encouraged to fully recognize loan losses and act accordingly. Success of these efforts will require still highly accommodative monetary policy of the ECB and would benefit from more direct measures to support credit to small and medium enterprises.

Macroeconomic policy frameworks and structural fundamentals have improved in many emerging market economies over the past decade. Yet, the indication of the Fed’s unconventional monetary policy tapering in May unmasked imbalances in a number of emerging market economies that have been accumulating over time. Large capital inflows fuelled credit excesses and rapid asset price increases. They also led to the erosion of public finances and competitiveness in a number of these economies. The policy makers in countries under market pressure should use the delay in the Fed’s tapering to address these imbalances in order to be better prepared for the eventual monetary tightening in the US. The build-up of a large stock of official reserves is not an appropriate answer, given that most of the imbalances are home-grown and that private sector indebtedness in foreign currencies in these economies is lower than in the past. Structural reforms and flexible policy frameworks including exchange rates will be essential, while capital flow management measures, FX interventions and prudential policies can at most smooth the adjustment process. Global financial stability is a shared responsibility. The Fed should therefore clearly communicate the path of its intended policy actions to minimize negative spillovers which could undermine the policy adjustment efforts of emerging markets.

We support the Fund’s continued engagement in MENA countries. The Fund should assist those countries with technical as well as financial assistance during a period of difficult change.

The countries in Central and Eastern Europe (CEE) have weathered the pullback of capital relatively well. Since 2008, current account and fiscal imbalances have decreased and most CEE countries have become less reliant on foreign capital. As a result, these CEE countries will most likely not be forced to abruptly raise interest rates to fight currency depreciation. For those CEE countries with well-capitalized banking sectors that do not rely on capital imports some weakening of their currencies could help gain momentum in their economic recovery. This would also be beneficial for economic growth in the CEE region.

So far, Turkey is coping well with the impact of geopolitical tensions in the region and global uncertainties. A strong banking sector and public finances in Turkey, and the use of
Macroprudential policies in combination with exchange rate flexibility have been instrumental in absorbing the shocks from capital outflows. The updated Medium-Term Program which was announced a few days ago will enhance the overall resilience of the Turkish economy.

The continuing global economic turmoil puts the Fund as a forum for multinational dialogue and its surveillance function into the spotlight. The forthcoming Triennial Surveillance Review is an opportune moment to assess whether the Integrated Surveillance Decision is implemented rigorously and to explore the reasons why the Fund may have been caught by surprises.

At the current juncture, we believe that the Fund should stand ready to provide analytical support and policy advice to its members on how to address policy spillovers. More progress is necessary to systematically include such advice in the Fund’s bilateral surveillance. Evenhandedness, tailor-made advice and the consistency of policy advice across countries are areas where the Fund also needs to make inroads as this will increase the traction of its policy advice. We have at times observed that country teams have given conflicting advice to countries in our region, in particular with respect to financial sector issues such as the recommendation in home countries for banks to reduce the size of their balance sheets while warning the authorities in host countries of potential deleveraging effects.

We welcome the Fund’s increased efforts to strengthen its surveillance of financial sectors. Progress has been made but significant gaps remain due to conceptual, methodological or data reasons. We welcome the formulation of an institutional view on macroprudential policies. We would appreciate more emphasis on spillover effects from national macroprudential measures, as inconsistencies across jurisdictions could result in more financial fragmentation.

As resources are scarce we ask the Fund to leverage the expertise of other institutions and fora for its own work. This relates for example to aspects of international taxation or the work on global liquidity.

We welcome the Managing Director’s initiative on workforce planning. This is the first time that the Fund will engage in a transparent process of aligning Fund staff with the Fund’s strategic priorities. It is also an important signal of continuity of the IMF after years of downsizing and institutional disruption.

In times of heightened economic insecurity the IMF should stand ready to provide financial support for members that face funding disruptions or require a precautionary safety net. Quota resources, the continued activation of the New Arrangements to Borrow as well as bilateral loan agreements with many countries give the Fund adequate financial resources to
assist member countries in need. Nevertheless, the activation of the NAB should not become a standard feature as the Fund is a quota based institution.

The 2010 IMF Quota and Governance Reform was a significant step forward in improving the representation of dynamic economies. We are disappointed about the slow progress of the reform and consider it important – not least for the legitimacy and credibility of the IMF – that the quota and governance reform is implemented within the agreed timeframe.