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Statement by Michael Spindelegger,
Vice Chancellor and Minister of Finance, Austria

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

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Vice Chancellor and Minister of Finance of Austria
on behalf of
Austria, Belarus, Czech Republic, Hungary,
Republic of Kosovo, Slovakia, Slovenia and Turkey
at the 29th International Monetary and Financial Committee
Washington DC, April 12, 2014

The IMF continues to be the only International Financial Institution that can act at short notice and decisively at the global level. It delivers sound policy advice and is instrumental in supporting economic adjustment and reforms. The IMF's timely engagement in Ukraine over the past weeks has once again demonstrated the Fund's critical role in safeguarding international economic and financial stability. It is therefore in our utmost interest that the mandate of the IMF, its credibility, legitimacy and integrity are not undermined.

Economic Outlook

The health check of the global economy has shown some improvements since October 2013, with the recovery ongoing. At the same time, the growth drivers have somewhat moved towards advanced economies, particularly the U.S., while many emerging markets' growth engines have shifted into lower gear. Nevertheless, the world economy's recovery is still a work in progress. Risks stemming from geopolitical tensions, income inequality and reform fatigue could derail the progress we have made thus far.

United States

We welcome the recent acceleration of U.S. growth, the move towards a more energy-independent and efficient economy, as well as the progress on household deleveraging. The U.S. economy appears well-poised to maintain, and possibly enhance, recovery momentum in the short term, creating room for the continuation of an orderly and well-communicated retreat from its very accommodative monetary policy stance. However, despite the relatively positive developments in unemployment, the pick-up in economic activity is yet to generate substantial employment and wage gains.

The economic model of the U.S. economy remains largely unchanged. Wealth effects drive consumption, investment growth is slow. We fear that once monetary stimulus weakens, economic activity may register a decline and the financial markets' optimism may fade. We are thus somewhat more cautious than the Fund about the medium-term outlook for the U.S. economy, which is clouded even further by the absence of a credible medium-term fiscal consolidation framework.

Euro Area

Economic growth in the euro area is picking up, mainly thanks to export growth and more paced fiscal consolidation, but complacency about the implementation of painful medium-term structural reforms and deregulation needs to be avoided. The weakening economic activity in emerging markets poses a risk to the continuation of export gains and underlines the need to reinvigorate domestic demand.

The continued contraction of credit to the private sector is worrisome. We believe that in order to unlock credit growth to the economy, particularly in the weaker parts of the euro area, in addition to adequate demand, corporate balance sheets needs to be restructured. We emphasize the need for stronger national insolvency regimes in this regard. At the same time, national efforts need to be combined with euro area wide policies and we welcome the recent initiative by the European Commission to reform cross-border insolvencies with an emphasis on out-of-court proceedings.

We are not convinced that the Fund's advice on monetary policy easing in the euro area will address the root causes of the impaired monetary transmission mechanisms. The euro area needs to avoid a situation where banks' balance sheets will be repaired, but the real economy and the indebted corporate sector will not be ready to pick up demand. We therefore welcome the further progress the euro area has made towards the completion of the Banking Union. The ECB has launched a comprehensive assessment of the banking system, the results of which will be made public in November 2014. As of this date, the ECB will assume its new supervisory tasks under the Single Supervisory Mechanism (SSM). Furthermore, to complement the SSM, political agreement was reached on a Single Resolution Mechanism, including a Single Resolution Fund (SRF). The SSM and the new European resolution framework will contribute significantly to a strengthened ex-ante supervision of the banking sector, to the deepening of cross-border banking integration and will provide for better ex post risk-sharing arrangements, such as resolution frameworks, so as to prevent shocks from spilling over to sovereigns.

Emerging Market Economies

We welcome the Fund's analytical and policy advice focus on Emerging Market Economies (EMEs) and its more differentiated views. Many EMEs have to grapple with the consequences of the Fed's tapering, which gives them an added incentive to deliver on decreasing imbalances and stepping up structural reforms that will open up new growth potentials going forward. The awareness of many policymakers in emerging market countries about the need to act swiftly and boldly is reassuring, particularly in the context of elections in many of these countries this year.

The policy toolkit for emerging market policy makers has increased substantially. FX interventions and prudential policies can smooth the adjustment but structural reforms will need to be at the forefront of such adjustment and the Fund should stand ready to help or advise whenever needed. Capital flow management measures can be justified as temporary measures of last resort. The risks from corporate indebtedness in some EMEs, as well as weak loan loss provisioning by banks in some EMEs, are a cause for concern. On the positive side, those EMEs with less current account and fiscal imbalances will benefit more from the recovery in advanced economies and are better placed to use their policy tools in a countercyclical manner.

Fiscal Challenges

The priority of most advanced and emerging economies in Europe still remains to move forward with the implementation of credible medium-term consolidation plans backed by structural reforms, in order to bring debt ratios to sustainable levels, while supporting the long-term growth potential. Debt levels remain elevated in most countries, which warrants the continuous focus on consolidation, even though depending on countries´ fiscal situation the pace of adjustment could be slower compared to the one registered over the last couple of years.

The recent shift in the composition of fiscal adjustment toward expenditure measures in advanced economies and especially in Europe is welcome and encouraging, and it corrects the previous bias among policymakers towards revenue-side measures in the post-crisis years. Public spending reform should form the core element of structural transformations and should aim at improving spending efficiency, including through better targeted social spending, linking benefits to labor participation, as well as through well-crafted decentralization and prudent the use of public-private partnerships.

IMF policy agenda

We appreciate the IMF's renewed emphasis on policy cooperation and coherence in view of the steadily increasing interlinkages between advanced and emerging economies. The economic recovery in advanced economies can help emerging markets to grow. On the other hand, the slowdown in some major EMEs could export disinflationary pressures to advanced economies through trade linkages, thereby adding to the already low inflation environment and complicating policy choices. More dialogue and improved communication such as on unconventional monetary policies or macroprudential policies and their sometimes unintended consequences are necessary to reduce the risk of negative cross-border spillovers and spillbacks into the source countries. The IMF is one of the central platforms to facilitate the exchange of views of policy makers and to check policy coherence.

We share the disappointment by many that the ratification process of the 2010 Quota and Governance Reform continues to be stalled despite the relentless efforts of the Managing Director and IMF staff to bring this issue to a close. The implementation of this reform is crucial to safeguard the legitimacy of the IMF with its entire membership and we ask the Managing Director as well as the US authorities to continue with their efforts.

The stalled quota and voice reform blocks progress in many policy areas and may undermine the Fund's credibility over the medium term. With regard to the work on options to address governance issues, we insist that the 14th Quota Review and Board Reform Amendment is fully implemented, that the Fund’s rules and procedures are adhered to and that an inclusive process takes place.