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IMFC Statement by György Matolcsy
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Hungary

On behalf of

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

Statement by György Matolcsy,
Governor of the Central Bank of Hungary
on Behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Slovenia, and Turkey
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The global economy has rebounded strongly on the ground of unprecedented policy support and the reopening of economies, albeit the COVID-induced uncertainties remain elevated and the challenges of ensuring a resilient recovery have also intensified. At this juncture, where concerns about a stagflation-like environment are also growing, policymakers need to strike a delicate balance between the aspects of macrofinancial stability and economic growth, relying on the use of carefully calibrated and well targeted policy measures. The IMF, within its mandate, continues to play a key role to support its membership in dealing with the ongoing and newly emerging macroeconomic challenges to ensure financial stability in a rapidly evolving global environment.

Global outlook

The global economic recovery takes hold but remains uneven, which largely reflects the differences in vaccine access and policy support. Although countries' economic output has started returning to pre-pandemic levels, the accelerated divergence across and within countries is concerning and calls for further policy actions. There is a great need for strengthening multilateral cooperation, while policymakers also need to scale up their efforts to pave the way for a more sustainable, resilient and inclusive growth.

Priority should continue to be accorded to expediting COVID-19 vaccine rollouts and ensuring equitable and affordable access in developing countries. The global economic outlook remains clouded by the uncertain path of the pandemic and the emergence of new variants. However, the available means to curb the pandemic are encouraging and countries must continue to mobilize sufficient resources to address the ongoing public health emergency and bring the pandemic under control everywhere. We see scope for strengthening multilateral cooperation to tackle finance and trade obstacles with the aim of improving vaccination coverage in low- and lower middle-income countries. In this regard, we welcome the recently launched Multilateral Leaders Task Force.

A delicate balancing act is required to underpin the recovery and restore macroeconomic stability, while the overall policy mix must continue to be tailored to country circumstances. Emerging markets and developing countries with limited policy space are facing particularly difficult trade-offs between further policy support and the need for restoring macro-financial sustainability. Policy support should therefore be increasingly targeted, while countries also need to take decisive steps to develop sound, sustainable and credible medium-term fiscal frameworks, address the pockets of elevated vulnerabilities and rebuild buffers for the future. Policymakers should also put a premium on job creation and advancing re- and upskilling, with special attention to the fact that employment growth generally lags behind output recovery. While we welcome that automation is picking up in several sectors, in the absence of active labor market policies, there is a risk that COVID-related structural shifts will result in a further increase in inequality. The extended period of debt accumulation poses challenges to the sustainability of public finances, even though the related risks have been masked by benign financial conditions to date. As these conditions may change rapidly, addressing macroeconomic imbalances and safeguarding debt sustainability remain key policy issues. The most vulnerable countries facing unsustainable debt burdens need targeted support including through debt treatments with broad involvement of official and private sector creditors in line with the principle of comparability.

Inflation dynamics require close monitoring at the current stage of the recovery, and policymakers need to stand ready to take timely and decisive actions to maintain price stability. The reopening of economies, along with unleashing pent-up demand inherently led to a spike in inflation. In addition, several other factors, such as the pandemic-induced supply chain disruptions and the sharp rise in commodity and energy prices have further aggravated inflation pressures. The current surge in inflation is still assessed to be mainly driven by those temporary factors but now appears less transitory than previously expected, and upside risks to the inflation outlook in the near term are increasing in a wide range of countries. Several central banks have already taken proactive measures and started withdrawing monetary stimulus to avoid the materialization of these risks and a potential de-anchoring of inflation expectations. The future trajectory of monetary conditions should continue to be determined by underlying inflation trends, including the second-round effects of the present inflationary forces, and the developments in inflation risks. In this environment, central banks need to remain vigilant, while clear communication also remains imperative in shaping expectations and mitigating cross-country spillover effects. Special attention should also be given to the build-up of financial vulnerabilities stemming from house price increases, historically high asset prices, increased crypto asset-related activities, and the withdrawal of support measures, as well as to how to effectively mitigate the related risks going forward, using macroprudential and other financial regulatory tools.

In view of the lasting scars of the pandemic and the underlying structural trends, advancing structural reforms is critical to promote a more sustainable and inclusive development. Policymakers need to attach great importance to tackling widening inequalities, placing increased emphasis on boosting reemployment prospects, and improving targeting of social protection policies, as these divergences can potentially leave lasting imprints on medium-term performance. The pandemic-induced supply-demand mismatches have become more prevalent in many sectors, which largely influence the macroeconomic environment through multiple channels. The lingering supply chain disruptions do not only threaten the recovery but also pose new challenges for globalization, highlighting the need for making the considered supply chains more resilient in the future, and for adequately addressing trade tensions. While the pandemic has exacerbated underlying trends, there are now also new opportunities, including digital technologies and transitioning toward green economies. The accelerated technology adaptation can foster greater efficiency and thus also lay the groundwork for reviving productivity growth. Policymakers need to find solutions to the global challenge of climate change along with well-calibrated, properly timed and just strategies that duly take into account the interests of countries with different levels of development and economic structure. Financial sectors have great potential for promoting green investments and catalyzing the transitions to sustainable development provided resilience and stability of these sectors are ensured. In addition to the importance of protecting hard-won development gains made over the past decade, public investment should also place increasing emphasis on projects which raise potential growth, with special attention to enhancing human capital formation.

Fund issues

The IMF must continue to support its membership with tailored policy advice, surveillance and financing. The IMF, at the center of the global financial safety net (GFSN), has played a prominent role in safeguarding the stability of the global economy in the midst of the pandemic crisis, and continues to have an important role in helping members navigate the exit from the pandemic and underpin a resilient recovery through well calibrated policy advice tailored to country specific circumstances and the stage of the recovery.

We welcome the historic general allocation of SDRs, equivalent to US$ 650 billion, which has not only boosted global liquidity but also bolstered international economic confidence. The envisaged SDR channeling can further improve the catalytic role of the allocation. While the newly allocated SDRs benefit all members, the allocation provides vital support for vulnerable countries to cope with the impact of the pandemic. We welcome the efforts to make the use of the SDRs more efficient but caution that any channeling mechanism must be compatible with the IMF's mandate and national legal frameworks and must be strictly voluntary. While channeling SDRs to the Poverty Reduction and Growth Trust (PRGT) is a tried-and-tested method to support the poorest countries, certain PRGT-related challenges need to be addressed. We take note that the IMF has started exploring the establishment of a new trust with the aim of improving the external stability and resilience of vulnerable countries. We are of the view that the purpose, architecture and features of the potential Resilience and Sustainability Trust (RST) require further careful and thorough assessment in order to ensure that it would be in line with the IMF's mandate. In general, we also deem it important that the IMF closely cooperates with multilateral development banks; however, we see less scope for channeling SDRs through these institutions, given that a shift towards development financing would constitute a departure from the IMF's existing model.

As many low-income and vulnerable middle-income countries continue to face a fragile recovery, balance of payment difficulties and unsustainable debt burdens, we support the IMF to strengthen its engagement with these country groups. We emphasize that at the current juncture greater use of upper credit tranche-quality arrangements would be better suited than emergency financing to restoring economic stability and growth, as well as to improving the traction of the IMF's advice. The IMF should continue to put a premium on the steadfast implementation of growth-enhancing structural reforms which is key to alleviating debt issues. In order to preserve the IMF's capacity to respond flexibly to low-income countries' financing needs, which are expected to remain high in the coming years, it is also essential to preserve the long-term self-sustainability of the PRGT. To this end, we welcome the recent fundraising campaigns to mobilize new loan and subsidy resources. While we welcome the subsequent tranche of IMF debt service relief under the Catastrophe Containment and Relief Trust (CCRT), which will free up further resources in financially constrained countries to address the socio-economic impact of the pandemic, looking ahead, we also underscore the need for underpinning the sustainability of the CCRT. While we acknowledge the importance of the support that the IMF and World Bank provide to the G-20 Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) for Debt Treatments, we also encourage the relevant parties to take further steps to operationalize and improve the efficiency of the CF. In view of the high risks of debt distress in many low-income countries, there is a great need to build further confidence in the CF among both creditors and borrowers. We also see scope for advancing the IMF's broad debt agenda, with a special focus on strengthening debt transparency, assessing debt sustainability and debt restructuring needs.

We encourage the IMF to continue to deepen its dialogue with the national authorities through its enhanced surveillance activities and tailored capacity development (CD). The recent Comprehensive Surveillance Review provides a well-calibrated framework for the IMF to refine and modernize its surveillance activities and policy advice in order to further enhance their traction. In this context, we agree that greater attention needs to be accorded to identifying and managing risks, preventing spillovers, as well as to fostering economic stability, taking duly into account country-specific circumstances and constraints, and thoroughly exploring the trade-offs and complementarities of using different policy measures. Relatedly, we also support the IMF's ongoing work on operationalizing the Integrated Policy Framework. We welcome that the IMF has made further progress in monitoring and evaluating its capacity development activities; however, we also see scope for enhancing the effectiveness and efficiency of the related workstreams. The strategic integration of CD into surveillance and lending should continue to be a high priority.

While we see scope for the IMF to step up its engagement on new areas, we also underscore that these activities must remain in line with its mandate and strictly focused on macro-critical aspects. Adjusting to the structural changes which are reshaping the global economy in many aspects, the IMF should explore how it can contribute to the members' efforts to address the related risks and take advantage of the related opportunities. Although the IMF has made some progress in defining those emerging areas, related to climate change, digitalization, fragility, and inclusion, which in macro-critical cases could also fall into the Fund's remit; more analysis in these areas is needed before moving to actionable plans. In this context, we also see further scope to strengthen cooperation with international organizations to exploit synergies as well as to clarify those areas where the Fund can add value to the ongoing international efforts. We look forward to considering proposals for appropriate budget resources needed for the IMF to carry out its mandate, including savings and reprioritization.

We remain committed to revisiting the adequacy of quotas and continuing the governance reform with the view to timely conclude the 16th General Review of Quotas (GRQ), and in this context, we take note the first progress report to the Board of Governors. It is critical to ensure that the IMF remains adequately resourced and continues to play a catalytic role at the center of the GFSN. We see the 16th GRQ as a good opportunity to restore the primary role of quotas in IMF resources, as well as to realign quotas shares to better reflect countries' relative positions and integration in the world economy. We are of the view that the current quota formula works well and delivers on the set objectives, but acknowledge the importance of ad hoc adjustments, to protect the voice and representation of the poorest members and build broad consensus among the membership. Although the GRQ-related issues are closely interlinked and need to be considered as an integrated package, the outcomes of the first two Committee of the Whole meetings on the key initial considerations represent a good starting point and help clarify those issues that deserve more attention in the next semester. We look forward to further progress by the time of the Spring Meetings.