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IMFC Statement by György Matolcsy
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Hungary

On behalf of

Central and Eastern European Constituency

Statement by György Matolcsy,
Governor of the Central Bank of Hungary
on Behalf of the Central and Eastern European Constituency
at the 46th Meeting of the International Monetary and Financial Committee
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The global economy is going through turbulent times, facing a complex set of challenges, including impacts of Russia's unacceptable invasion of Ukraine. Well-calibrated domestic policies and enhanced multilateral cooperation are critical to de-escalate geopolitical tensions, restore macrofinancial stability and lay the foundation for a more resilient and sustainable future. The IMF must anchor its activities to effectively help its member countries navigate immediate challenges and build resilience to shocks, while safeguarding global macroeconomic and financial stability.

World Economic Outlook

The global economic outlook is more dire than in April 2022. Russia's ongoing war in Ukraine, sanctions in reaction and geo-economic fragmentation exact a heavy toll on the global economy. The vast majority of the membership faces mounting recession fears, multi-decade high inflation, rising food and energy insecurity, heightened financial market volatility and growing debt burdens, while there is a need for moving forward with structural and climate policies. The international community must seize every opportunity to find a diplomatic solution to conflicts, to prevent fragmentation, and to revitalize multilateralism.

The intensification of geopolitical tensions has aggravated inflationary pressures which had risen from pandemic-induced supply side disruptions, mostly through soaring food and commodity prices. The energy market disruption exerts particularly high upward pressure on inflation in the CEE region, thereby also putting a significant burden on budgets. The overlapping shocks have noticeably increased the risk of second-round effects, calling for decisive monetary policy actions. Underlying inflation dynamics, pass-through to core inflation, profit-price and wage-price spiral risks as well as the (de)anchoring of inflation expectations should continue to be closely monitored. The path of monetary policy normalization needs to be carefully calibrated, with due attention to the transmission mechanism but also the spillover effects of the monetary policy decisions as one size does not fit all, and must be accompanied by clear communication.

The synchronized monetary tightening coupled with market uncertainty has already induced a sharp tightening in global financial conditions and a higher degree of volatility. Notwithstanding some progress in reducing external vulnerabilities, emerging markets and developing economies remain vulnerable to these shocks. Pursuing prudent policies continues to represent the first line of defense. The authorities also need to strengthen financial sector supervision in a targeted manner to identify vulnerabilities, and macroprudential policies remain also essential to guard against systemic risks.

The fiscal policy response should be targeted to reduce vulnerabilities to commodity shocks and support the most vulnerable, while also safeguarding long-term fiscal stability. To accommodate newly emerging spending needs, fiscal space, therefore, needs to be efficiently used along with broad-based budget reprioritization. In addition to rationalizing spending, there might also be compelling cases for temporarily taxing windfall profits realized in the current market turmoil in energy markets. Fiscal policies should also avoid further exacerbating inflation pressures. Even though runaway inflation can help erode the real value of debts in the first stage, the costs of persistent inflation clearly prevail over time.

After being hit hard by the COVID-19 pandemic, low-income countries – mostly with constrained policy space – face particularly dire conditions. The international community must take an active role in helping the most vulnerable countries navigate immediate challenges, related to, inter alia, the consequences of the global food and energy crisis, as well as put forward a well-established framework for sustainable development. To alleviate widespread food insecurity and famine, there is an imperative need for further collective actions, like in the case of the Black Sea Grain Initiative, which opened a critical humanitarian maritime corridor for vital food and fertilizer exports.

Structural policies should focus on easing supply constraints and inflation-growth trade-offs as well as on laying the foundations for sustainable development, including by reorienting investment into human capital and productivity growth and capitalizing opportunities from green and digital transformations. Since price pressures remain largely driven by supply-side factors, structural policies aiming at reducing fragmentation and addressing supply-side barriers can not only revitalize global trade but also help ease inflationary pressures. Meanwhile, public policies must be reorganized along sustainability considerations. Both climate change risks and the current energy market turmoil point out the urgency of putting energy sectors on a more sustainable footing. With the intensification of Russia's ongoing war in Ukraine, a range of countries are getting into a full-blown energy crisis, which calls for fast adaptation. Consequently, carefully calibrated and sequenced policies are needed to simultaneously maintain energy security, increase energy efficiency, and advance the green transition. To turn climate ambition into action and open a real opportunity to achieve climate goals, a complex mix of climate policy tools needs to be used, tailored to country-specific circumstances. We also see an immense potential of digital transformation to make economies more efficient, resilient, and inclusive as well as to create new growth opportunities. To this end, digitalization needs to be comprehensively integrated into public policies keeping the associated development projects in check to reap the benefits and avoid risks.

IMF's Priorities

To provide effective support to the membership amid these challenging times, the IMF needs to focus its activities. The IMF's policies, therefore, should prioritize stabilization and resilience-building measures. We broadly agree with the priorities set out in the Managing Director's Global Policy Agenda.

To deliver tailored and timely advice to the membership, high priority needs to be given to enhancing the IMF's surveillance activities in critical areas. On multilateral surveillance, we suggest greater attention to underlying inflation developments, inflation-output trade-offs, tightening financial conditions, structural vulnerabilities, as well as to the interactions of policies, especially where policy buffers are depleted. Given the unprecedented confluence of shocks as well as forecast errors that characterized the last year, we also encourage the IMF to closely monitor macrofinancial linkages, spillover effects, emerging global imbalances, and the materialization of downside risks. While overlapping global shocks pose a great deal of shared challenges to the membership, the IMF's policy advice should continue to be properly tailored to country-specific circumstances. We also see scope for deepening the IMF's engagements on macro-financial surveillance, and given the increasing fluctuations in international capital flows, we encourage further progress in operationalizing the Integrated Policy Framework. In addition, we support the IMF's continued efforts to further integrate capacity development with surveillance and lending activities. In the current context, capacity development activities should also prioritize resilience-building.

The IMF's lending toolkit has worked well and offers wide-ranging opportunities to help member countries deal with balance-of-payments difficulties, in line with the IMF's mandate. We welcome that the IMF also contributes to the international efforts to tackle the global food crisis, by creating a new channel to its emergency financing instruments. The temporary Food Shock Window can provide vital financing to a range of countries that face urgent balance-of-payment needs due to acute food insecurity, surging food prices and hurdles in food export. However, considering the unconditional nature of these instruments and their widespread use since the outset of the pandemic, we also ask for the IMF to maintain the high quality of debt sustainability and safeguards assessments. Since the recent period put constant pressures on the balance of payments in many countries, we also encourage a transition to upper credit tranche-quality programs. The newly established Program Monitoring with Board Involvement has the potential to support members under complex circumstances in designing policies and building a track record; however, the role of the Executive Board needs to be clearly communicated when using this facility. We look forward to the operationalization of the Resilience and Sustainability Trust (RST) and to discussing the takeaways from the forthcoming pilot phase. To derive maximum benefit for the membership, the catalytic role of the RST should also be further emboldened going forward, including through strengthened collaboration with partner institutions and attracting private sector climate finance. The IMF's regular reviews provide good opportunities to explore whether its lending toolkit remains fit-for-purpose. Any refinements to the lending instruments need to continue to be based on sound analytical work and discussions in the Executive Board. The catalytic role of the IMF lending instruments must also be preserved. We note that further efforts are needed from the membership to preserve the Poverty Reduction and Growth Trust's self-sustaining lending capacity, on a voluntary basis.

The IMF should continue to play a key role in fostering debt sustainability. We observe with concern the continued deterioration in debt positions, including that the majority of low-income countries are in or near debt distress and a range of emerging countries face similar risks. While pursuing prudent and sustainable public policies must continue to take priority, we also see scope for improving the international debt architecture. Building on the recent progress made in debt restructuring discussions, we support the IMF's ongoing efforts to help strengthen the implementation of the G20's Common Framework for debt treatments. To make debt restructuring initiatives a success, there is also a great need for enhancing creditor coordination and involving the private sector on comparable terms. Further progress should also be made on enhancing debt transparency. We welcome that the IMF explores further reform options on this front. We also look forward to the roll-out of the new Sovereign Risk and Debt Sustainability Framework.

The IMF's structural activities should continue to be built on the issue-specific strategies and remain focused on macro-critical aspects to provide the most effective support to the membership to advance climate action, capitalize digital transformation, and reduce inequality and fragility. Intensified multilateral cooperation remains also essential in these areas. The IMF has made good progress in moving its climate agenda forward; however, there is still scope for focusing its activities on those areas where it can add the most value to global initiatives. The IMF is well-positioned, inter alia, to deepen its analytical work on green and sustainable finance. When calibrating climate recommendations – in addition to the continued need to take a balanced approach to climate mitigation, adaptation, and green transition – we also encourage the IMF to be more attentive to energy security considerations and explore in more detail how public policies can most effectively bridge the gap between immediate challenges stemming from the global energy crisis and climate goals. Additionally, country-specific climate recommendations should continue to be tailored to country-specific circumstances. In addition to the implications of digital money for the international monetary system, the IMF should also deepen its analytical work on central bank digital currencies. We welcome that the IMF has already strengthened its cooperation with its international partners with the explicit aim of exploring modalities to improve cross-border payments. Similarly, we look forward to the IMF's assessments of the policy responses to crypto assets and encourage further work with other institutions to facilitate a coordinated and consistent regulation of crypto markets.

We welcome the third progress report to the Board of Governors on the 16th General Review of Quotas. We remain committed to a strong, quota-based, and adequately resourced IMF as well as to conclude discussions on the adequacy of Fund resources, the quota shares realignment and possible governance reforms by December 15, 2023. Since these elements of the 16th Review will need to be considered in an integrated package, we encourage the membership to step up their consensus-building efforts and – taking a pragmatic approach – focus on the most feasible scenario going forward.

With due consideration to the critical functions of the IMF and the rapidly changing risk landscape, the IMF's risk management framework needs to be underpinned as a matter of priority. The ongoing initiatives to raise the maturity of the IMF's enterprise risk management capabilities is welcome; however, we still see scope for taking a more comprehensive and forward-looking approach to risk management, paying close attention to the unique characteristics of the institution, and ensuring that the Fund's credit risk is adequately managed.

To ensure the highest standards of institutional governance and data and analytical integrity, we welcome the IMF's integrated approach to the review of institutional safeguards as well as its commitment to respond to the respective set of recommendations. In this regard, we look forward to the full action plan, which will need to be paired with an adequate monitoring system.