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IMFC Statement by Robert Holzmann
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Austria

On behalf of

Central and Eastern European Constituency

Statement by Robert Holzmann,

Governor of the Austrian National Bank

on Behalf of the Central and Eastern European Constituency

at the 48th Meeting of the International Monetary and Financial Committee

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We express our deepest condolences to the people and the Government of Morocco for the tragic loss of life and widespread destruction caused by the devastating earthquake in September 2023. We thank the Moroccan authorities for hosting the 2023 Annual Meetings in Marrakech and for their hospitality. We also express our deepest condolences to the people of Libya, for the tragic loss of life and devastation caused by flooding in September 2023.

World Economy

The global economy is entering a relatively new phase that is characterized by growing divergences in terms of both economic cycles as well as prospects. Albeit stabilization efforts have started to yield results, it takes time for respective measures to completely work through economies. As staff's updated forecasts also suggest, it may take longer than previously expected to restore price stability. Although the global economy has shown resilience to recent shocks, it is becoming increasingly evident that growth prospects may be stabilizing below historical averages. Even though forecasts for emerging markets and developing countries (EMDCs) remain mostly unchanged, divergences are growing. After permanently falling short of the pre-pandemic economic path, achieving convergence goals is becoming more elusive for a number of countries.

Stabilization cycles are progressing at a different pace, which must properly be considered when defining the adequate mix of policies. Communication should clearly convey that restoring macro-financial stability is a prerequisite for sustainable growth. For the time being, the range of countries where an inflection point for prioritizing growth-oriented policies can be clearly defined is still narrow. Short term fiscal activism to boost growth could prove elusive and may come at the cost of stabilization efforts and rebuilding buffers.

Central banks must remain steadfast in their commitment to restore price stability. With the end of interest rates hike cycles mostly in sight, or in some cases already behind us, attention should increasingly be focused on the next phase. Given sticky core inflation restrictive monetary conditions may need to be maintained. Shocks such as from commodity markets could occur requiring thoughtful judgment by central banks and caution on forward guidance is required.

Rebuilding fiscal buffers is of utmost importance. Higher interest rates for longer will bring into sharper focus public debt sustainability at a time when demand for spending is high. Policymakers increasingly face the conundrum that both the desire and need to spend more comes at a time of sluggish growth and higher financing conditions, which brings the goal of public debt sustainability to the fore. In addition to formulating fiscal plans that credibly stabilize the debt-to-GDP ratio in the medium-term, intensifying macrostructural reforms are necessary to reinvigorate growth. To markedly move ahead with the structural agenda, further revenue mobilization seems also essential in some countries over the medium term. In this regard staff's recent research on how to make use of untapped tax potential could also be referred to. Building on the progress made to date, we also underscore the importance of further advancing debt resolutions, where necessary, with the explicit aim of avoiding more costly debt distresses.

Deepening multilateral dialogue is of immense importance to defuse fragmentation forces and find effective solutions for global challenges. The ramifications of Russia's war against Ukraine and other geopolitical tensions impose a heavy burden on the global economy, particularly adversely impacting less developed countries and peripheral regions. Trade disruptions, higher commodity price volatility, uncertainty for FDI flows could dampen growth even further. The Fund must remain distinctly outspoken against a scenario where the global economy splinters into competing blocs and only certain corridors remain.

Global Financial Stability

While the recent **banking sector** turmoil challenged the foundations of the post-global financial crisis (GFC) regulatory overhaul, it has had a limited impact on most banks' balance sheets, and globally, banks remain profitable. At the same time, as banks' funding costs are rising and credit quality begins to deteriorate, supervisors need to stay vigilant and enhance their risk monitoring toolkit to stay abreast of near-term developments. Protecting insured depositors and public resources in periods of financial distress should remain a priority.

The **non-bank financial sector** (NBFI) continues to pose financial stability risks, owing to its growing size and interconnectedness with other segments of the financial sector, including banks, sovereigns, and the private credit market. Investment funds, insurance companies, and pension funds can experience asset-liability mismatches and may face a need to undertake fire sales in situations of liquidity shortages. Against this backdrop, monitoring NBFIs' exposure to other entities in the financial sector is critical to keep potential risks of systemic distress in check. Additionally, keeping liquidity mismatches and leveraged finance under supervisory scrutiny is instrumental to prevent financial risk management vulnerabilities in NBFIs from translating into sector-wide issues.

The price decline in both the **commercial and real estate sectors,** amid rising interest rates and changes in companies' post-pandemic modes of operation, exposes elevated credit risks for both banks and institutional investors. The lock-in effect, as described for homeowners in the US, is useful in shedding more light on the expected loan origination and residential real estate price developments in the near to medium term. A well-thought through determination on the use of borrower-based macroprudential tools is critical to prevent a potential increase in non-performing loans, while sound stress testing and enhanced data collection should facilitate making a sound judgement on the countercyclical buffers and provisioning needs for banks.

Fund policies

Fund surveillance needs to take center stage in the current environment to help countries navigate the challenging environment. This requires sound policy advice on core areas in line with its mandate and expertise in macro-critical issues factoring in the challenges posed by demographics, the green transition and the need to preserve social cohesion. A premium needs to be put on helping countries create a sound business environment and to entrench macroeconomic stability conducive to private sector investment, which is crucial to help advance the green transition. The renewed focus on structural reforms is welcome in an environment of anemic growth and with the export engine of growth stuttering.

Fund lending needs to adhere to established policies and be clearly grounded in helping countries solve balance of payments and adjustment needs. We are concerned that debt exposures, especially of LICs, are steadily increasing and that more and more resources are required to service this debt. This requires adhering to access limits for the GRA and leaves no room to increase PRGT access limits, also given concerns about the self-sustainability of the PRGT. Given higher financing costs, liquidity and solvency questions will increasingly come to the fore where quick fixes or easy solutions are in short supply. Going forward, the considerations on amendments to the Fund’s lending toolkit as well as the (long-term oriented) Resilience and Sustainability Trust (RST) will have to be thoroughly assessed against the background of the IMF’s core mandate. The Fund has an important supportive role to play in sovereign debt restructuring but ultimately it is up to the creditors and good faith efforts by debtors to ensure a smooth and timely restructuring agreement. Sticking to well established practices and concepts by all creditors would facilitate processes. Transparency on debt instruments as well as on assumptions underlying DSAs is paramount.

In the current fragile environment, where multilateralism is severely tested, the importance of successfully concluding the 16th GRQs cannot be overemphasized. We welcome the broad support for restoring the primacy of quotas. We support a 35 percent quota increase, but to build further confidence, we are ready to consider also a higher increase within the discussed range, with the aim of maintaining the Funds current resource envelope.