



# **International Monetary and Financial Committee**

Thirty-Sixth Meeting  
October 14, 2017

**IMFC Statement by Jiří Rusnok  
Governor of the Czech National Bank  
Czech Republic**

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

**IMFC Statement by Jiří Rusnok  
Governor of the Czech National Bank  
on behalf of Austria, Belarus, Czech Republic, Hungary,  
Kosovo, Slovakia, Slovenia, and Turkey  
at the 36<sup>th</sup> Meeting of the International Monetary and Financial Committee  
Washington, DC, October 14, 2017**

**Economic Outlook**

The economic recovery has broadened and the Fund's global growth projections have been revised upwards for the second consecutive time. The Managing Director's 'window of opportunity' captures the policy making environment of the current juncture adroitly. It may be tempting to relax and enjoy the more favorable outlook, but the risks did not disappear, new ones may arise and the window could close sooner than one might think. Policymakers should thus enhance the resilience of their economies while the good times last. Rebuilding or reinforcing fiscal and prudential buffers and pressing ahead with the necessary structural reforms will ideally create more policy space when the next phase of the business cycle arrives.

The global recovery has benefitted from an unprecedented amount of monetary stimulus. The inflationary pressures in major economies remain mostly muted to date, but the continuing recovery does push inflation close to or above targets in a growing number of emerging, as well as some advanced economies. In these uncharted waters, it is important to get the timing and pace of monetary policy normalization right. The risks to financial stability continue to build up in an environment of extremely low yields and depressed volatility. We see merit in the well-targeted application of macro-prudential measures where the financial cycle is particularly buoyant. Policymakers should be cognizant, though, that most of the toolkit has been created only recently. In many countries, it has not withstood the test of the full cycle and its effectiveness is uncertain.

The accommodative monetary policy was supposed to buy time for deleveraging the private and public balance sheets and for implementing structural reforms which would allow countries to grow out of their debt burden. While 14 out of 19 euro area countries reduced their debt burden between 2014 and 2016, the debt levels have continued to inch up or have stagnated at best in many advanced and emerging economies. Fiscal buffers should be boosted without hesitation when the economic upturn creates an enabling environment. Except for a few countries, the recent pace of structural reforms has slowed compared to the years immediately following the Global Financial Crisis. More ambitious reform packages need to be implemented to tackle the longer-term challenges, including low productivity and population ageing.

Significant progress has been made since the Global Financial Crisis to build more resilient financial institutions. However, several important building blocks are still incomplete, such as finalization of the remaining elements of Basel III and the strengthened prudential framework for insurance companies, implementation of measures to support effective, resolution and recovery frameworks for banks and central counterparties, full application of the agreed-on policies to strengthen the derivatives market and further steps to raise robustness of market-based finances. It is important that the global regulatory reform is completed in a full and timely manner to provide regulatory certainty to the market participants and to secure a level playing field.

Flexible exchange rates should continue to play a key role as shock absorbers. They provide policymakers with time and space for adjusting macroeconomic policies to the new fundamentals if an economic shock hits. We support the ongoing effective and consistent implementation of the Fund's Institutional View on capital flows. The advantages of open capital markets and free flow of capital have been time tested and demonstrably contributed to economic development through integrating many countries into the global supply chains, diversifying their risks and disciplining the macroeconomic policymaking.

The short-term economic outlook for Europe is the most optimistic since the global financial crisis. At the same time, longer-term prospects continue to be constrained by structural impediments, adverse demographic trends and still weak banking sectors in several important economies. The recovery has broadened and the acceleration was supported both by exports in the context of a broader pickup in trade and by domestic demand growth. The policy uncertainty has declined somewhat. However, the Brexit negotiations are still at early stages and could potentially have a negative impact on the real economy and financial markets, given the status of the City of London as a global financial center.

Notwithstanding notable variations across individual countries, emerging market economies continue to be the main driver of global growth against the backdrop of the more favorable external outlook as well as stronger fundamentals. Emerging Europe, including Turkey, has contributed to this improved outlook. Going forward, sustaining this growth performance hinges on sound macroeconomic policies and structural reforms that aim to increase policy buffers, reduce imbalances, mitigate balance sheet vulnerabilities and address infrastructure gaps.

## **Fund Issues**

We support an efficient and effective Fund which concentrates on its core responsibilities in promoting stability of the international monetary system, global economic cooperation, and resilience. The scope of IMF's activities should remain limited to macro-critical issues. We note that the Fund work continues to expand into new policy areas that potentially overlap with the competencies of other international organizations. Taking into consideration the Managing Director's commitment to an unchanged administrative budget envelope in real

terms, the Fund's expertise would have to be gradually built up without compromising the quality of surveillance and capacity development in traditional areas, if its contributions and advice are to gain traction and bring added value to the membership. We support continued focus on the IMF's core mandate and on those areas where the Fund has an advantage of deep cross-country understanding, mandate and a long history of engagement, including monetary, fiscal, exchange rate and prudential policies.

The Fund should remain a quota-based and adequately resourced institution at the center of the international monetary system and should preserve its legitimacy by adequately reflecting the changes in the global economy. The discussion about adequacy of resources should reflect the Fund's key role in preventing, as well as resolving crises. We are prepared to engage in a constructive manner in the complex discussions towards the completion of the Fifteenth General Review of Quotas and remain committed to the agreed milestones and deadlines. We continue to see the discussions on the distribution of quotas and on the Fund resources and their composition as intimately related and stress the importance of keeping the two elements in an integrated package to maximize the chance of reaching a widely acceptable compromise. The discussion should be well sequenced with a clarification on the prospects for a possible quota increase at an early stage.

We take note of the intention to develop new capacity development partners and create more flexible funding arrangements mentioned in the Managing Director's Global Policy Agenda. We urge staff to carefully assess the potential costs for the IMF against the undisputed benefits of securing new sources of financing for capacity development. The Fund's complete independence in design and delivery of its products or the areas of its activities is paramount for its relevance and traction.