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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

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Governor of the Czech National Bank
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at the 35th Meeting of the International Monetary and Financial Committee
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Global Outlook

The global economic outlook keeps gradually improving and the IMF forecasts have been revised upwards for the first time in a long period. We note, however, that risks to the base scenario remain tilted to the downside. Policies will therefore need to continue to be appropriately supportive depending on the progress with resolving crisis legacies and individual countries' positions in the economic cycle. The overall economic outlook is also clouded by a waning reform momentum, and - more alarmingly - skepticism toward the cooperative multilateral framework for trade and financial integration. What the IMF stands for, starts being questioned. We therefore welcome and support the Fund's message that without global cooperation and without respect for globally agreed rules our collective well-being is under threat. If new barriers to trade and capital flows emerge, we will all end up poorer. The countries of our Constituency benefit strongly from the level playing field the open global economic order provides. We benefit from well-regulated global financial markets and are concerned that the financial regulatory reform may not be completed or even rolled back. While policymakers face many legitimate tradeoffs, a focus on improving longer-term growth potential through well-targeted structural reforms and on broadening economic opportunities for all is needed to tackle the shared challenges. This will be easier achieved in an environment of multilateral cooperation.

The growing popular doubts about the benefits of economic integration are real and palpable. It is legitimate and prudent to reflect on the causes of these sentiments and to ponder how our members and the Fund itself should react to mitigate these misgivings, as the Managing Director's latest Global Policy Agenda notes. Indeed, while economic inequality across countries is on a downward path, within countries some have been left out of the benefits of the growing global trade. Socially aware policies are needed to tackle the growing inequality, and to take out the wind of populism's sails. There is a fine line, however, between improving the current global economic order and legitimizing its adversaries by adopting parts of their narrative. We firmly believe that a silent majority has benefitted from the global economic and financial integration and the Fund should give it voice. Our Constituency is a striking example of countries which grew increasingly integrated into the global supply chains over the past quarter of a century. Notwithstanding inevitable ups and downs of economic cycles, this development lifted the living standards of their populations in a way one could hardly imagine just a generation ago.

We should pay closer attention to the effects of the recent fast-paced technological changes. It is likely that they play a major role in these growing concerns and they obviously disrupt many aspects of our lives. They run parallel to the increasing economic interconnectedness and the two phenomena feed on each other. Our understanding of the many dimensions of this interplay should be deepened before formulating firm policy advice.

Weak productivity growth creates headwinds to stronger recovery. Fiscal policy, supported by a credible medium-term fiscal consolidation framework, can buoy economic activity without undue repercussions to sustainability. Growth friendly fiscal policies should focus on enhancing productivity, upgrading infrastructure, bolstering the efficiency of public expenditures, and improving the quality of revenues.

We are encouraged by the recent G20 Finance Ministers and Central Bank Governors Communiqué which reiterated the commitment to finalize the financial sector reform agenda. The global community invested enormous effort into the design of the global regulatory reform and many countries around the world have gone a long way towards implementing it. As any compromise, it is far from being an ideal first best outcome. It may be advisable to take a step back evaluate the effects and possible unintended consequences to ensure that the financial sector continues to support sustainable growth. It would be a costly mistake though, to stall the unfinished agenda or even roll back the reforms that have made the financial markets more resilient. The ensuing regulatory uncertainty would be harmful for the market participants, which would in turn have repercussions for the financing costs of the real economy.

The European economic recovery continues and broadens, supported by the accommodative monetary policy stance. All euro-area countries exhibited positive economic growth in 2016. With recovery firming up, supply side policies should begin to play a more prominent role. Facing elevated public indebtedness and secular demographic headwinds, European countries should reinvigorate efforts to increase their resilience, build up policy buffers and pursue unfinished structural reforms that would raise potential growth and enable smoother gradual fiscal consolidation in the longer term. Enabling productivity enhancing investments and improving labor market outcomes through retraining, support for occupational mobility and labor market flexibility should have high priority. European banks have significantly strengthened their capital over the last years, and major strides have been achieved in strengthening the regulatory and crisis management frameworks and supervisory arrangements. Addressing the remaining crisis legacies, including the still elevated non-performing loans, is key to unlock stronger and sustainable recovery in the medium term.

The risks of disorderly adjustments caused by the outcome of the British referendum last June have not materialized. We caution against complacency, especially because of the role the City of London plays in the global financial markets architecture. The negotiations triggered by invoking Article 50 of the EU Treaty will inevitably be difficult and moderation and good will is needed on both sides.

Emerging markets have managed the recent bouts of volatility well and are expected to be the main contributor to global growth in the coming years. The recovery in commodity prices has provided some relief for commodity exporting countries and the tentative signs of recovery in manufacturing and global trade have improved the outlook for non-commodity exporters. Policy makers are, however, well advised to remain alert to the risks of external shocks. Notwithstanding recent moderate adjustments in the advanced markets bond yields, a room for outsized moves with repercussions for capital flows and exchange rates remains ample. Emerging market countries need to contain vulnerabilities in public and private sector balance sheets, and to strengthen buffers and domestic sources of growth through a consistent macroeconomic policy mix and rigorous structural reforms.

Fund Issues

We support an efficient IMF which concentrates on its core responsibilities in promoting global economic cooperation, resilience and stability.

We support an adequately resourced, quota based IMF situated in the centre of the global financial safety net (GFSN). We stress the importance of progress towards the timely completion of the 15th General Review of Quotas, including a possible new quota formula by the 2019 Spring Meetings and no later than the 2019 Annual Meetings, in line with the agreed plan and as an integrated package. The current quota formula works reasonably well and sufficiently reflects the developments in the world economy as evidenced by the results of the latest quota database update. We believe that future staff work on a possible new quota formula should in principle continue to be guided by the outcome of the 2013 Quota Formula Review which has provided important building blocks for a future agreement. In our view, the four principles that underpinned the 2008 Quota Reform remain valid. Concerning additional IMF financial resources, we reiterate that the NAB and bilateral loans, as the second and third line of defence respectively, should serve only as a temporary source of the IMF's heightened financial needs, if they materialize.

The IMF's instruments should be designed with a view to prevent as well as to resolve crises. We underline the need to enhance the effectiveness of the IMF's lending toolkit which should be well targeted. We welcome further discussion on two possible new instruments, namely a Liquidity Support Instrument and a Policy Monitoring Instrument, to ensure a robust toolkit that serves the needs of the members, while preserving a prudent approach for the use of the Fund's instruments and protecting its resources. Their design should safeguard the revolving character of the IMF's resources. In the context of the debate on new instruments, we also call on the Fund to revisit the parameters of the existing precautionary facilities and address the remaining shortcomings, including the issue of exiting from these instruments.

We underscore the importance of well-targeted and effective IMF surveillance to support adequate and sustainable macroeconomic and financial policies of its member states. In this regard, we welcome the Fund´s focus on new emerging macro-critical issues. We welcome the Fund's increasingly open and honest dialogue on corruption, which is a real impediment to inclusive economic growth in many member countries. We particularly emphasize the importance of focusing on structural reforms, coupled with effective macroeconomic and macro-prudential surveillance, and of taking into account the different spill-over risks and channels in a country-specific setting. At the same time, we would like to underscore that this broader focus should not extend beyond the Fund´s expertise and mandate.

We concur with the result of the IMF's review of the experience with its institutional view on the liberalization and management of capital flows and agree that it provides a framework for clear and consistent policy advice which is broadly adequate and does not need reconsideration. There is, however, scope for improved cross-border coordination and enhanced cooperation with other international institutions on capital flows to ensure that the frameworks are consistent, complementary, and supported by sufficient data. We welcome and support the ongoing work on the interplay between capital flow measures and macroprudential measures. Their assessment merits further clarification as both could result in effects that amount to restriction on the free movement of capital.

We welcome the efforts underway to create an HR strategy with a view to make the Fund's staff more agile and member focused. Many of the new areas the Fund is focusing on will also need a thorough discussion on the right mix of skills the Fund will need to fulfill its ambitions. Diversity will have a role to play, which however should not become an objective on its own but should be grounded in meritocratic HR policies.