International Monetary and Financial Committee

Twenty-Seventh Meeting
April 20, 2013

Statement by Maria Fekter**,** Minister of Finance, Federal Ministry of Finance, Austria

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

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Minister of Finance of Austria
on behalf of
Austria, Belarus, Czech Republic, Hungary,
Republic of Kosovo, Slovakia, Slovenia and Turkey
At the 27th International Monetary and Financial Committee
Washington DC, April 20, 2013

We recognize the improvements in global financial and market conditions and the retreat of major tail risks over the past six months thanks to the recent policy actions in the euro area as well as in the United States. Nevertheless, the recovery in advanced economies is still fragile and subject to downside risks, and there is no room for complacency on either side of the Atlantic. The Fund has a critical role in providing a candid assessment of the risks of inaction and in formulating clear policy recommendations to its members.

Public debt in advanced economies has reached levels not seen since the immediate post-WWII period, while the current growth environment is much less friendly to consolidation. The combination of high debt and low growth and the challenging demographic prospects in advanced economies is a unique phenomenon in contemporary history, implying that the proper tackling of this situation may require creative solutions never seen before. Sustained and credible consolidation efforts are essential to reduce debt ratios in advanced economies to sustainable levels.

The euro area needs to continue with its fiscal consolidation efforts and structural reform agenda. In particular, euro area periphery countries under market pressure face the daunting challenge of pursuing fiscal consolidation while trying to reinvigorate economic activity and enhance competitiveness and potential growth. Flexible product and labor markets are essential in this regard.

The already weak growth outlook for the euro area is further compounded by the highly fragmented transmission of monetary policy and weak credit intermediation in the euro area periphery.

The stronger ability and willingness of banks to provide credit will require an effective resolution of the backlog of non-performing assets on their balance sheets. Bank supervisors should remain vigilant to creditors' forbearance and discourage loan ever-greening.

The process towards a banking union needs to advance on all three fronts of the architecture, including resolution schemes and deposit insurance.

The ECB's activities have substantially supported the euro area during the crisis. We welcome its OMT operation, whose announcement clearly contributed to improving financial stability in recent months.

While current account improvements will most probably be the main source of economic recovery in the euro area periphery, we believe that ultimately effective crisis resolution requires a sufficient level of solidarity.

In the United States, to sustain the ongoing recovery, policymakers need to address persisting fiscal policy uncertainty and install a credible medium-term fiscal consolidation framework including entitlement reforms and a reasonable tax increase. We believe that monetary policy has already done its main part in fighting the crisis and preventing deflationary risks.

The low interest rates and unconventional monetary policy measures in the US have been beneficial. However, the prolonged monetary easing in the US could create economic and financial distortions, understate the importance of fiscal consolidation, and spur destabilizing capital flows to other regions, while its additional effectiveness going forward may be limited. The recent crisis has taught us that stable consumer price inflation is not enough for financial stability. While consumer price inflation expectations might be anchored, asset price excesses can be harmful.

Financial regulatory reforms need to continue and international coordination in this regard is of utmost importance to avoid regulatory arbitrage and uncoordinated national initiatives. At the same time the tightening of capital and liquidity rules for banks needs to take into account the desired role of banks in the global recovery process.

We welcome the recent bold policy steps taken by the Japanese authorities and the fact that the authorities are embarking on a multi-pillar strategy centered on monetary, fiscal and structural policies. It goes without saying that the ultimate success of this policy mix to revive private sector investment will rest on disciplined implementation. Nevertheless, easy monetary policy cannot be a substitute for the much needed medium-term fiscal consolidation. The IMF should monitor the spillovers from the unconventional monetary policy in Japan on the global search-for-yield behavior of Japanese investors.

Emerging markets should take advantage of their stronger performance and rebuild eroding buffers. Policymakers should pursue prudent policies mitigating the risks of credit and asset bubbles. Countries with large current account surpluses should aim for a larger role of domestic demand in their growth model. Exchange rate flexibility and building social safety nets will be instrumental in this regard.

For countries in Central and Eastern Europe which depend on trade or finance with the euro area, it is imperative that euro area policymakers continue with their reform agenda and that the momentum of economic recovery in the euro area is at last unleashed.

We therefore strongly support the Managing Director's Global Policy Agenda and its continuing focus on sustainably rebalancing the world economy. While we agree that jobs and growth are of importance in view of the significant social costs of the current levels of unemployment we expect that the IMF will remain within its field of expertise when engaging in this debate and shaping its advice to IMF members.

We welcome that the IMF has come to an institutional view on capital flows. The new institutional view provides a solid basis for ensuring clear and consistent advice with respect to capital flows and policies to them. Taking a more cautious approach towards liberalization than in the past, the IMF recognizes that capital flows can have substantial benefits for countries but at the same time can also carry substantial macroeconomic and financial stability risks. Policy responses and corrective measures that reflect country specific circumstances should be undertaken both by countries that are recipients of capital flows and those from which flows originate. In this context, the IMF has provided a well written guidance note for the liberalization and management of capital flows which will not only guide IMF staff on the use of the Fund's institutional view but also help member countries – among others - to build resilience to large and volatile capital flows.

Over the past years, we have supported many of the reforms that have been initiated, such as of the IMF's surveillance framework as well as of its facilities. Our Constituency has contributed significantly to increase the financial resources of this institution. Taking stock, we believe that the IMF has come a long way and is in an increasingly better position to help its members in the design of appropriate macroeconomic policies. We have the foundation but the IMF faces considerable technical challenges in its work on interconnectedness, spillovers and its financial sector surveillance agenda. Now we need to progress with implementation and concern ourselves less with ever more policy initiatives.

We welcome the decision by the Executive Board to integrate the discussion on the quota formula with the discussion on the 15th General Review of Quotas, but urge to conclude the discussions within the agreed timeframe. Those discussions should be completed in line with the principles and objectives set forth by the 2010 Resolution. GDP should remain the most important variable. If such a consensus arises, we could consider a possible adjustment in the weight of PPP GDP in the GDP blend variable. Openness should continue to play an important role.

All countries in our Constituency have ratified the 2010 Quota and Voice Reform. We encourage members that have not completed their domestic ratification processes to do so expeditiously. We have also participated in the reconfiguration of the IMF's Executive Board in November 2012. Our Constituency contributed not only to fulfilling one of the objectives of the IMF governance reform to increase the representation of emerging market countries. We have also placed the region of Central and Eastern Europe firmly back on the map of the IMF's Executive Board. A common and shared representation at the IMF mirrors the strong and growing economic and financial ties of our region.