



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by György Matolcsy
Governor of the Central Bank of
Hungary**

On behalf of

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

**Statement by György Matolcsy,
Governor of the Central Bank of Hungary
on Behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo,
Slovak Republic, Slovenia, and Turkey
at the 43rd Meeting of the International Monetary and Financial Committee
Washington D.C., April 8, 2021**

Global outlook

The global economy is expected to recover markedly in 2021 after the COVID-19 pandemic led to a historic economic contraction in 2020. The path of economic recovery still depends heavily on the evolution of the pandemic which has presented unprecedented challenges both for societies and economies, creating severe hardships across the world. Although the massive fiscal and monetary responses helped lessen the financial impact and prevented an even more severe economic depression, the economic situation remains fragile, surrounded by a high degree of uncertainty.

Vaccination is the primary policy tool to exit from the crisis. Thus, the international community should redouble its efforts to help enable widespread and rapid vaccination campaigns across the world in an affordable and fair manner. It is key to strengthen dialogue with the manufacturers, facilitate the scale-up of production capacity, enhance the transparency of production, bolster financing for delivery, as well as aid the wider acceptance of vaccines proven to be safe and effective.

Meanwhile, authorities should also enhance their efforts to prevent the projected divergence in the economic recovery. In this vein, there is still a need to maintain the carefully calibrated stimulus measures until the recovery is on a firmer footing. We note with concern that the convergence in per capita GDPs is expected to halt in a wide range of emerging markets and developing countries, as the crisis has resulted in substantial output losses. We stress the need for targeted policy measures, while considering that the structural characteristics and policy space of these countries, as well as their exposures to the pandemic, differ significantly. Under these circumstances, the economic prospects of middle and low-income developing countries deserve special attention. Meanwhile, policymakers should consider the different stages of the pandemic requiring different approaches to economic policy and explore how to restore livelihoods. Bold and decisive actions need to be taken to pave the way for sustainable development.

The authorities need to strike a delicate balance between further targeted fiscal stimulus in the near term and preserving debt sustainability when implementing ambitious development plans over the medium term. In this environment, restoring economic growth paths and boosting growth potential remain accorded priorities. We urge governments to use active labor market policies more widely to support job creation, paying closer attention to women, the youth, contact-intensive sectors, and low-skilled workers whose employment opportunities have been disproportionately affected by the pandemic. In addition to job retention measures,

authorities should also facilitate the reallocation of labor towards fast-growing prosperous economic sectors, such as digitalization and the green economy, with the help of trainings and other targeted labor market programs. In a low-for-long interest rate environment, we also encourage taking advantage of the high multiplier effects of public investments. In many countries, more resources have been allocated to the development plans than ever before; therefore, it is critical to ensure that these resources will be used wisely to finance projects in productive areas that serve the future. Otherwise, the risks of over-indebtedness will materialize in several countries. As the pandemic recedes and the recovery takes hold, steps should be taken to ensure medium-term fiscal sustainability in a growth-friendly manner. It is crucial that support measures increasingly focus on viable firms that are also able to sustainably restructure their activities. Tax reforms can provide a good opportunity to sustainably increase revenue mobilization, improve the effectiveness of tax collection, and reduce the size of the informal sector. Beyond that, the authorities should not lose sight of the need to transform their economies, and tackle risks stemming from the buildup of fiscal vulnerabilities. Strengthening debt management must be a priority on governments' agendas, especially after global public debt approached 100 percent of GDP in 2020.

Maintaining the accommodative monetary policy stance across a wide range of countries is also warranted, while further policy measures may be also needed to prevent the accumulation of financial vulnerabilities. It would be important to avoid an early tightening of global financial conditions; as such, central banks in major advanced economies should pay due attention to their policy decisions' spillover effects. Unconventional monetary policy tools continue to have a central role in safeguarding price and financial stability, as well as to promoting recovery, with particular attention to targeted liquidity and lending programs. The withdrawal of forbearance and other supportive measures needs to be gradual to keep emerging cliff-edge effects in check. Relatedly, the active use of macroprudential tools is also key to strengthen the resilience of the financial systems. Although the banking industry entered this crisis with stronger capital and liquidity positions, the risk management framework needs to be improved to be able to withstand potential losses from loans currently under moratoria and rebuild buffers.

Strengthening international cooperation remains vital to tackling the global health crisis, safeguarding macroeconomic stability, and laying the foundation for a sustainable recovery. Strong cooperation is also required to strengthen the international monetary and financial system, resolve trade disputes, and prepare societies for increasing the proliferation of digital money. Meanwhile, the international community must also better coordinate and scale up its efforts to tackle the most pressing challenges of today, including those posed by climate change.

Fund issues

The IMF must not only preserve its role at the center of the global financial safety net (GFSN), but also enhance its efforts to support the membership in a rapidly changing world. In this regard, the Managing Director's Global Policy Agenda appropriately reflects on the short- and medium-term challenges facing the global economy, as well as how the Fund can help its members safely exit the crisis and counter divergence risks. We also concur with the near-term goal to deploy all available tools to support the recovery efforts while recognizing that countries are navigating different stages of the crisis. We thank management and staff for delivering on the IMF's mandate during these exceptionally complex times.

The pandemic has adversely affected reserve positions and substantially raised external financing needs in most countries. We call on the IMF to make a proposal on a new general allocation of Special Drawing Rights (SDR) aimed at supplementing existing reserve

assets to preserve the stability of the international monetary system and meet long-term global needs. The new general SDR allocation will be a decisive step in the IMF's operations to alleviate the pressing external financing needs in many countries and bolster the GFSN's resilience. At the same time, it is important to improve the transparency of reporting and use of SDRs and explore the possibility of voluntary post-allocation use of SDRs, e.g. for the Poverty Reduction and Growth Trust (PRGT).

The IMF must continue to play a key role in supporting the low-income and most vulnerable countries' efforts to overcome the crisis. The Fund provided an unprecedented level of emergency assistance to its membership in 2020, and now needs to prepare for the greater use of upper credit tranche-quality arrangements. In this context, the IMF should also review the reform opportunities for the PRGT and the potential modifications to concessional financing and policies while encouraging broad-based burden-sharing and restoring the self-sustainability of the Trust. We also welcome the third tranche of debt relief provided by the Catastrophe Containment and Relief Trust. Relatedly, we underscore the importance of advancing the IMF's debt agenda with the focus on strengthening debt transparency, assessing debt sustainability and debt restructuring needs. While the potential extension of the G20's Debt Service Suspension Initiative (DSSI) could be an important step to further relieve the debt burden of low-income countries, we also stress the need for a more permanent solution to these debt issues. In this context, the extension could bridge the time until the Common Framework for debt treatments is further operationalized, to facilitate addressing the debt challenges of DSSI-eligible countries. With the aim of improving debt sustainability, we also call for the private sector's participation in the initiatives on comparable terms and encourage the countries that benefit from these initiatives to seek fully fledged IMF programs. However, we believe that the key to dealing with debt problems lies in the steadfast implementation of growth-enhancing reforms. We also encourage the Fund to pay due attention to emerging markets, especially those with larger external financing needs, considering that the pandemic has posed new obstacles to escaping the middle-income trap.

We continue to encourage the IMF to ramp up and strengthen its surveillance activity, and deepen dialogue with the authorities. This core activity of the IMF is particularly important in the current fast-changing environment to be able to deliver tailored policy advice to members navigating the pandemic's various stages. We take positive note that the IMF's capacity development delivery has adapted swiftly to the new work environment (and all members who have requested financial assistance have also received capacity development support). We continue to underscore the importance of the greater integration of capacity development with surveillance and lending, while paying increasing attention to the specific areas of growth that could help recovery efforts. Beyond that, the IMF also needs to continue its modernization efforts to build agility and resilience. We also encourage the IMF to increase collaboration with the World Bank and other multilateral organizations in line with their respective mandates.

The IMF faces crucial strategic decisions, not only in terms of how to support its members in their efforts to address the pandemic's socio-economic impacts, but also to reflect on the long-term shifts in the global economy, primarily those related to the digital and green transformations. However, before the IMF decides how to appropriately meet the current needs of the membership, a thorough assessment will be essential to define how emerging topics can be systematically integrated into the institution's core activities. In this vein, we would be cautious in reviewing the IMF's lending toolkit, including to facilitate global structural transformation, and stress that any expansion of the Fund's remit must not come at the expense of its core mandate. The IMF should put a premium on areas of macro-critical importance and strengthen its collaboration with other institutions on emerging issues. The Fund should focus on how fiscal policy can contribute to the transition to lower emissions, on the protection of those adversely

affected by decarbonization, as well as on how to prepare the international monetary system for the rise of digital money. These perspectives should be considered when determining the appropriate resource envelope without compromising adequate resources for the Fund's core activities.

In view of the unprecedented challenges and elevated uncertainty, it is essential that the IMF remains adequately resourced at the center of the GFSN, while maintaining its quota-based operation. We welcome the doubling of the New Arrangements to Borrow (NAB) and the new round of Bilateral Borrowing Agreements (BBA) which entered into force this January, maintaining the IMF's lending capacity at an appropriate level. While expanded NAB and BBAs are important backstops for Fund resources, we recognize that they are not substitutes for quota increase and hence we attach the utmost importance to the Sixteenth General Review of Quotas and the process of governance reform. Therefore, we also welcome the initial discussions on the adequacy of IMF resources and look forward to the first progress report by the time of the Annual Meetings towards concluding the Sixteenth Review end-2023.