INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fifth Meeting
April 21, 2022

Statement No. 45-11

Statement by Mr. Matolcsy
Hungary

On behalf of
Central and Eastern European Constituency

Statement by György Matolcsy,
Governor of the Central Bank of Hungary
on Behalf of the Central and Eastern European Constituency
at the 45th Meeting of the International Monetary and Financial Committee
Washington D.C., April 21, 2022

The global economy faces an unprecedented set of challenges that require well-calibrated policy responses from both national authorities and international institutions. Russia's unacceptable invasion of Ukraine and intensifying geopolitical tensions have severely exacerbated stability risks and dealt a heavy blow to the global economy's already weak and uneven recovery. We call on the global community to deepen policy dialogue and revive multilateralism. The IMF's support to its members in their efforts to safeguard macrofinancial stability and overcome sustainability challenges through well-tailored policy advice and financial assistance remains pivotal.

World Economic Outlook

Russia's invasion of Ukraine and the following escalation of sanctions weigh on the global economic outlook. In addition to the severe humanitarian and refugee crises, the largest that Europe has faced for decades, the war has added to pre-existing challenges and poses new ones through multiple channels which are aggravated by the geographic proximity, trade linkages, and the exposure to commodity prices. The insufficient supply of energy and food on top of already elevated price levels can add to social pressures and pose existential threats; therefore, these issues need to be addressed with a sense of urgency. Global value chains, which were severely disrupted in both the acute phase of the pandemic and the subsequent period, are now confronted with an additional stress which will risk an increasing fragmentation of the global economy. Strengthening the global trade architecture and finding a better balance between efficiency and resilience in global value chains are also essential.

A series of adverse supply-side shocks generate output losses, exacerbate risks to debt sustainability and put additional upward pressure on inflation. Many of the pandemic support measures have driven debt levels to records in both the public and private sectors, economic actors have also become more susceptible to shocks and the rapid tightening of financial conditions further heightens these debt risks. A wide range of countries with only limited room to address the scarring effects of the pandemic, while navigating debt legacies and putting their economies on a more sustainable growth path, now face even more difficult challenges. Meanwhile, intensifying inflationary pressures, while growth is softening, add to the complexity for policy makers. With more persistent effects of supply shocks, global inflation will likely remain elevated for longer than previously expected. Furthermore, inflation is becoming more broad based which suggests that the second-round effects are likely to start materializing.

On the fiscal front, the authorities are facing the delicate task of balancing the need for supporting the economy and maintaining fiscal sustainability. While policymakers need to resume their crisis management efforts, debt overhangs and rising fiscal vulnerabilities call for more targeted fiscal measures than during the pandemic and also for more growth-friendly adjustments. We are particularly concerned that a larger part of low-income countries is already in or at risk of debt distress. In this regard, the authorities' efforts to tackle deep-seated structural problems also need to be supported by more efficient debt resolution frameworks. To restore fiscal sustainability, greater debt transparency is also essential. In countries where the state of the economy allows, efforts to rebuild fiscal buffers should continue.

Intensifying price pressures require more vigilance from policymakers; appropriate monetary policies, however, also differ based on country- and regional circumstances. The pace of tightening needs to be carefully calibrated paying due attention to the transmission of pervasive supply shocks, the likelihood and the size of further second-round effects, as well as the risks of de-anchoring of inflation expectations, while avoiding financial conditions that would stifle the recovery. As the global tightening cycle puts more pressure on emerging markets and developing countries, close monitoring of international spillovers from monetary policy actions is needed. Central banks should continue to take a data-dependent approach to monetary policy decisions, accompanied by clear communication.

Financial stability risks need to be carefully monitored and addressed proactively to preserve the soundness of the financial sector. Tightening financial conditions paired with heightened market volatility, as well as risks of cross-sectoral and cross-border contagion and spillovers particularly call for supervisory vigilance and a greater understanding of financial interconnectedness. The pace of withdrawal of remaining regulatory forbearance measures and of rebuilding macroprudential buffers, however, requires careful consideration. In addition, the authorities also need to find the way how increased risks surrounding capital flows can be best managed.

Despite the immediate challenges, the membership should also devote special attention to building a more resilient future. A more pragmatic approach is needed to take full advantage of structural transformations. Although labor markets have been increasingly characterized by tight conditions, further measures are needed to break down employment barriers for disadvantaged groups. Strengthening upskilling and re-skilling is of key importance to mitigate scarring effects of the pandemic, reduce inequalities and develop the growth potential. Although the pandemic has accelerated digital transformation in a range of sectors, digital technologies continue to provide a wide array of possibilities for further efficiency gains. A coordinated approach to digital currencies is warranted to keep the development of the associated projects on a sustainable path and manage emerging risks appropriately. The recent IPCC reports are a strong reminder that the membership's ambitious climate goals need to translate into concrete actions to prevent irreversible impacts from global warming. The green transition has to be effectively managed and further efforts are needed to make the transition just. At the current juncture, the authorities should also give a greater scope for exploiting the untapped potential of sustainable finance and green investments.

Strengthening global cooperation is of key importance. The increasing fragmentation of the global economy carries considerable costs worldwide and can give rise to further unintended consequences, while threatening to derail progress towards sustainable development goals. In order to find a sustainable way out of the complex set of global challenges, we see a pressing need to reinvigorate multilateral cooperation and strengthen policy dialogue in the international community. International institutions continue to provide key platforms for moving forward discussions on critical global issues.

IMF priorities

The Global Policy Agenda rightly lays out the priorities of the IMF which are needed to continue to fulfill its vital role at the center of the global financial safety net. There is great need for the Fund to retain its enhanced surveillance activity, provide well-tailored advice to its membership to navigate difficult policy trade-offs in a sustainable manner as well as to improve the catalytic function of its own operations.

Strengthened surveillance is critical to provide the membership with real-time and well-calibrated policy advice, tailored to country-specific circumstances, thus the Fund's commitment to deepening macrofinancial surveillance is welcome. The financial and economic implications of the current geopolitical tensions require particularly close monitoring, with due attention to both direct and indirect effects as well as the further risks of spillovers. Policy dialogue with national authorities is essential to better understand country-specific circumstances and make policy advice more granular. In view of the aggravating fiscal risks, we also welcome the IMF's commitment to strengthen its work on debt sustainability. On the climate front, we invite the IMF to take a more pragmatic approach – in line with its mandate – to climate recommendations and place greater emphasis on the co-operation with relevant international institutions. On the digital front, the IMF should focus its work on exploring in more detail the feasibility of central bank digital currency projects, the risks associated with crypto-asset markets and further aspects of digitalization, as well as implications for the international monetary system, where macrocritical.

Further strengthening of the catalytic function of the IMF's lending should take priority going forward. We welcome that the IMF quickly provided financial assistance to Ukraine under the Rapid Financing Instrument. While current developments can give rise to further emergency financing in several countries, a continued shift to medium-term operations would better serve the vulnerable members' interests, where underlying challenges also call for policy adjustment and a series of structural reforms. In view of the looming debt crisis, we are concerned about the slower-than-expected implementation of the Common Framework for debt treatments and call on traditional and non-traditional official lenders to adhere to the set of best practices on debt resolution, while on comparable terms, broad involvement of private sector creditors is also essential. In countries with significant super senior debt levels, more systemic debt relief may also be required. The newly established Resilience and Sustainability Trust can help strengthen the resilience of economies to longer-term macro-critical challenges and reduce prospective balance of payment needs. However, the operationalization of this trust, including the specification of conditionalities, still requires careful consideration.

There is a critical need for a strong, quota-based and adequately resourced IMF, and its active contribution to strengthen multilateral cooperation. With its near-universal membership, the IMF provides a tested platform to move forward the discussions on pressing global issues. The Fund's mandate has stood the test of time, and now it is in the best interest of the membership to refocus again on its core activities. To ensure that the Fund remains at the center of the global financial safety net for advanced, emerging market and low-income countries alike, the membership should use this year as effectively as possible to narrow the issues under discussion and lay the basis for the timely completion of the 16th General Review of Quotas, including making further progress on IMF governance reforms.