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**Statement by Mr. Rusnok
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, Republic of Kosovo, Slovak
Republic, Slovenia and Turkey
at the 37th Meeting of the International Monetary and Financial Committee
Washington, DC, April 21, 2018**

Global Outlook

Global economic growth has accelerated and broadened further, and the near-term economic outlook is the most optimistic since the sharp and short recovery in the immediate aftermath of the Global Financial Crisis. The growth forecasts have been moderately revised upwards for both 2018 and 2019, with investments encouragingly playing a more prominent role in driving the expansion.

The escalating protectionist measures pose a grave, near-term threat to the global economy. History lessons are often ambiguous and prone to conflicting interpretations, but if there is one that is crystal clear, then it is that trade wars have no winners and many losers. We value the voice of the Fund in support of an open and rules-based trade system, and a multilateral approach to solving disputes. We expect it to continue at this precarious time, stronger than ever, to prevent a spiraling of retaliatory steps which could suffocate the economic upswing.

We welcome and support the Managing Director’s message of the “window of opportunity” and note that it has not been used to its full potential over the past several quarters of healthy economic growth. The Fund has an important signaling role, but it is ultimately up to the member countries to carry out the necessary and difficult policy adjustments. Structural reforms are overdue in many countries facing demographic challenges, and slowdowns in total factor productivity after the global financial crisis. Their design and the sequencing of reforms should be carefully targeted to country-specific needs, but countries across the Fund membership have ample room for measures that raise the potential output and enhance resilience, while supporting sustainable and inclusive growth.

There is a similar, if not higher, urgency to rebuild fiscal buffers. Global debt is at a record high, and public debt in advanced and emerging economies is at levels that were previously reached only in war times. Now is the opportune time to pursue consolidation to re-create the fiscal space needed for tackling the next possible downturn.

Low inflation in a number of countries, despite closing or fully closed output gaps, continues to puzzle policy makers. Normally, wage developments do respond strongly to tightening conditions in the labor market but in some countries inflation does not seem to respond to this development at this stage. Central banks should observe the unemployment-wage-

inflation nexus with caution. A gradual normalization of monetary policies is likely to create the necessary room for maneuver as the cyclical recovery matures.

Unconventional monetary policies have successfully avoided deflation and have sustained the economic upswing. However, medium-term risks to financial stability remain challenging. The recent financial market turmoil was a timely reminder of the advanced phase of the financial cycle. Furthermore, it illustrated the news-sensitivity of investors with respect to pricing-in monetary policy tightening in the US as well as the concerns that markets could react in a disorderly way to economic surprises. Equity valuations seem stretched in a number of advanced economies, credit spreads are tight, and volatility across a range of asset classes had been depressed for a long time until the early February wobbles. The monetary normalization will be a delicate balancing act, and gradualism, accompanied by well-designed communication strategies, is warranted. Attention to the risks of policy normalization spillovers is necessary and flexible exchange rates could serve as effective shock absorbers.

In economic terms, the Euro area continues to expand robustly, benefitting countries that are strongly embedded in its supply chains. However, progress with respect to resolving crisis legacy issues, i.e. the high stock of non-performing loans, remains uneven across jurisdictions. While we welcome the recent progress in the Brexit negotiations, the process, however, remains a challenge.

China's credit growth has decelerated and the authorities' measures to address financial stability risks are welcome. However, the complexity and opaqueness of interlinkages between the financial sector, public enterprises, and local governments, combined with the growing size of China's economy on a global scale, need to be tackled in a balanced manner so as to safeguard global financial stability.

Fund Issues

The Fund should remain a quota-based and adequately resourced institution at the center of the global financial safety net (GFSN), which should preserve its legitimacy by adequately reflecting the changes in the global economy. We stress the importance of the progress towards a timely completion of the 15th General Review of Quotas, including a possible new quota formula in line with the agreed principles. Work should intensify in order to complete the discussions by the 2019 Spring Meetings and no later than the 2019 Annual Meetings, as tasked by the IMFC. We stand ready to engage in a constructive dialogue to contribute to this end. We appreciate staff's significant and substantive analytical work, and note that it is high time to seek political compromise. Discussions on the Fund resources, their composition, and the quota formula should continue to be treated as an integrated package. They should be well-sequenced and fully anchored in the relevant IMF bodies, with prospects for a possible quota increase clarified as soon as possible. Available resources from other elements of the

GFSN, especially the Regional Financing Arrangements, should be duly taken into consideration in the discussion on the appropriate size of the Fund.

We support an efficient Fund which concentrates on its core responsibilities in promoting economic cooperation, resilience, and stability. We welcome the progress on strengthening surveillance, reaffirmed in the recently concluded Interim Surveillance Review, and look forward to several important policy reviews, including on the Financial Sector Assessment Program, program conditionality, concessional lending tools, debt sustainability analysis, external assessment methodologies, and capacity development. We expect these reviews to contribute to enhancing the effectiveness of the Fund's crisis prevention role. Improving the traction of the Fund's policy advice, better integration of macro-financial analysis, a stronger focus on outward spillovers, and an improved external sector assessment framework, as well as taking full advantage of synergies between the technical assistance and surveillance, are priorities which we fully associate ourselves with. Caution is warranted when expanding the scope of the Fund's surveillance beyond its traditional areas of expertise. The macro-criticality test should be strictly applied, and cooperation with the relevant international institutions is necessary whenever possible to avoid duplicities and to serve our members with granular and country-specific policy analyses. We are looking forward to discussing the results of the Euro area Financial Sector Assessment Program 2018 and call for avoiding duplicities with future Financial Sector Assessment Programs of Euro area member states.

We are concerned by the macroeconomic developments in low-income developing countries and the rising risks of debt distress. There is an urgent need to put in place a comprehensive strategy to address rising debt vulnerabilities, including through promoting fiscal prudence, improving debt management, closing data gaps, ensuring greater data transparency, as well as including non-traditional lenders to address possible debt restructuring challenges. More generally, the Fund's fiscal advice should keep pace with the evolving priorities of the membership and strongly support re-building fiscal buffers.

We welcome the outcome of the discussion on program design for members of currency unions. We believe that the resulting policy will ensure a flexible case-by-case approach, taking into account legal, institutional, and policy frameworks of diverse monetary unions. We also look forward to the upcoming review of conditionality and design of Fund supported programs. In this regard we reiterate our support for prudent and consistent IMF policies vis-à-vis all program countries. Setting appropriate conditionality is a basic prerequisite for ensuring a program's success and for safeguarding the IMF's resources.

The growth of the digital economy has broad implications for the members', as well as the Fund's work. The Fund could be well-placed to serve as a knowledge-sharing and exchange platform for emerging best practices and regulatory approaches. In line with its mandate the Fund should first build up expertise across a range of complex and fast-developing phenomena, including areas such as the future of work or financial technology innovations

(e.g. crypto assets, distributed ledger technologies, big data utilization), before formulating policy advice.

We welcome the adoption of the revised Framework for Enhanced Fund Engagement in issues of economic governance, including corruption. We welcome that the Fund's involvement is guided by the existing standards, such as the Integrated Surveillance Decision and the Guidelines on Conditionality, with the scoping conditional on macro-criticality. The operationalization of the framework will require staff's careful and evenhanded judgment.

Several recent episodes underscore that money laundering remains a serious concern, also in advanced economies or involving their financial institutions. The Fund has an important role to play in providing analysis, policy advice, and assistance where needed. We look forward to the upcoming review of the Fund's AML/CFT framework with a focus on effectiveness.