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# DINNER SPEECH

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Check against delivery!

## Bretton Woods @80 and Austria's IMF Membership @75<sup>1</sup>

Ladies and gentlemen, dear friends and colleagues,

### **Introduction and wrap-up of the conference**

Welcome to the last and one of the most pleasant parts of today's conference: dinner with like-minded persons and great food and wine. I will not keep you from dinner for long, but I would like to say a few words about today's conference and share with you some brief reflections on my own work experience at the Bretton Woods Institutions, Austria's role at the institutions, Austria's constituency and some key messages for the IMF.

Today, we celebrated the important role of the Bretton Woods Institutions over the past 80 years in promoting international economic cooperation and stability – a role which cannot be overestimated. Let me quote from the inaugural address which former US Secretary of the Treasury Henry Morgenthau gave at the Bretton Woods Conference in 1944<sup>2</sup>: the Bretton Woods Institutions were designed to facilitate “...*(the) creation of a dynamic world community in which the peoples of every nation will be able to realize their potentialities in peace.*” Given the profound challenges we currently face, the Bretton Woods Institutions are more important than ever if we want to live up to this goal.

Also today, we celebrated Austria's long-standing relationship with the IMF of 75 years – and the contribution of the Bretton Woods Institutions to rebuilding Austria from a shattered post-war economy into the major donor to these institutions it is today.

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<sup>1</sup> This speech profited from important input from Eleonora Endlich and Alice Radzyner and additional input from Josef Horvath from the EU and International Affairs Division (all OeNB).

<sup>2</sup> Inaugural address by Henry Morgenthau Jr., July 1, 1944, [Inaugural address by Henry Morgenthau Jr \(1 July 1944\) - CVCE Website](#)

Thank you, Axel Weber, for the inspiring speech you gave to kick-start our conference. Thank you to my fellow panel chairs – OeNB Vice-Governor Gottfried Haber and Marc Uzan, Executive Director of the Reinventing Bretton Woods Committee – and to our excellent panelists. Let me briefly recall the three panel discussions we heard today:

- On the first panel, we discussed the role and evolving nature of the Bretton Woods Institutions.
- The second panel focused on green transition and the future patterns of capital flows and global liquidity.
- And the third panel dealt with the role of the international monetary system in a digital world.

Thanks again to Marc Uzan and the Reinventing Bretton Woods Committee for organizing this conference with us.

For those of you who missed parts of the conference or who simply do not want this day to end, do not worry: We will publish a conference report in the next couple of weeks. The report will include the keynote speech by Axel Weber, a transcript of IMF Managing Director Kristalina Georgieva's message and interviews with our Alternate Executive Director and Austrian representative at the Fund, Christian Just, and with Hans Prader, the former Executive Director and Austrian representative at the Fund for almost 30 years. In addition, the report will include a conference summary.

### **My personal experience of working at and with the Bretton Woods Institutions**

It is a special honor for me to join the celebrations of the 80<sup>th</sup> anniversary of the Bretton Woods Institutions today as I spent half my life and two-thirds of my active career working for them or interacting with them. They are, indeed, a very big part of my life.

Before my return to academia in 2011 and before I assumed my current position (as Governor of the Oesterreichische Nationalbank) in 2019, for 14 years I held various positions at the World Bank, including Senior Sector Director and Acting Senior Vice President. Before joining the World Bank in 1997, I also worked as a senior economist at the IMF in Washington, D.C. and at the OECD in Paris (where, in 1985, I got introduced to the functioning of the IMF through the wife of my OECD colleague as she was seconded to the Paris IMF office from D.C.).

Working at and with both institutions through much of my life exposed me to their communalities and differences, some of which keep influencing me to this day.

Three brief examples:

1. Recording: IMF minutes from country mission meetings are produced in a painstaking way but they are a great help in understanding and preparing for any country before going there – they are my benchmark.
2. Back to office reports (BTORs): They constitute a great way of offering a focused overview of mission work or conference participation to staff and colleagues. I introduced them for my sector at the World Bank, by example not by decree: When I left the World Bank, most staff did them. I also share BTORs on selected events with my staff and colleagues at the OeNB, and the number of staff-produced BTORs at the OeNB has been increasing steadily...

3. Mission discussions: At the IMF, only the mission chief talks in mission discussions with counterparts. At the World Bank, everybody takes the floor, including the most recently recruited junior staff. This is why, in comparisons of style, the IMF is often likened to the Prussian army and the World Bank to the Mexican army. But also the latter won battles, and the former lost battles.

I loved to work for and with both institutions. My time as an economist at the IMF's Fiscal Affairs Department in the late 1980s and early 1990s took me to the transition economies – before, during and after the political changes they experienced. As I found out later, I was withdrawn from fiscal work in Malawi and work on the first Policy Framework Paper for a stand-by agreement because the Fiscal Affairs Department's management thought that communist governments would be more open to letting an Austrian look into their budget book rather than an American. This led me to Hungary, then Poland, for fiscal work on their stand-by agreements, and thereafter to almost all countries in the CESEE region as they all had problems with their pension schemes. Once again, I got side-tracked from my macroeconomic and monetary policy ambitions and interests.

### **Austria and the Bretton Woods Institutions**

Let me briefly turn to Austria's relationship with the Bretton Woods Institutions and the history of our IMF constituency. When, in July 1944, the Bretton Woods Conference agreed on new rules for a post-war international monetary system, it aimed to overcome the devastating effects of World War II and prevent a similar economic turmoil as the one Europe had experienced in the interwar period.

Austria became a member of the World Bank Group and the IMF in August 1948.<sup>3</sup> Historical evidence shows that the road to membership was not straightforward, however. In fact, some IMF members were initially inclined to oppose granting membership to a country which, at that time, was not yet a sovereign state (Austria was still occupied by the allied forces). Little is known about how it was even possible that the Soviet Union – then a key member of the Allied Council – gave permission for a not yet sovereign state to join the Bretton Woods Institutions at a moment when it forced Czechoslovakia, as a founding member of the institutions, to leave them. Who were those far-sighted Austrian politicians and high-level civil servants who made this happen?

In the post-war years, Austria underwent a significant transformation: from a country in ruins to the stable, prosperous economy we see today. Only 13 years after Austria's accession to the IMF and the World Bank, in 1961, Vienna was able, in fact, to host the IMF / World Bank annual meetings. During these events, important discussions were held in Austria, led by Per Jacobsson, the IMF's Managing Director at the time. These talks laid the foundation for establishing the General Arrangements to Borrow (GAB) and expanded the portfolio of IMF financial resources via additional loans.<sup>4</sup> At that time, Austria was offered G10 membership, which it declined (for reasons unknown today).

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<sup>3</sup> Since Austria's accession to the IMF in 1948, the Governor (formerly President) of the OeNB has represented Austria in the IMF's decision-making bodies. According to federal law, since 1971 the OeNB has been in charge of nominating both Austria's governor and alternate governor at the IMF.

<sup>4</sup> See OeNB Annual Report 1961 and IMF Annual Report 1962.

In the early years of its membership, Austria was a beneficiary of World Bank support and was integrated into the world economy by rules set by the Bretton Woods Institutions. In the years that followed, Austria evolved from a receiving country into a significant donor country to the Bretton Woods Institutions. Today, we participate i.a. in the IMF's multilateral and bilateral borrowing arrangements.

Furthermore, the establishment of the Joint Vienna Institute (JVI) in Vienna in 1992 gave Austria another opportunity to show its strong support of the Bretton Woods Institutions. The JVI is a regional training center intended primarily for public sector officials from Central, Eastern and Southeastern Europe (CESEE) and the Commonwealth of Independent States (CIS). In addition, since the war in Ukraine started in 2022, Austria has provided offices to IMF representatives from Kiev and Moscow in Vienna. Austria is also an important partner to the World Bank Group, with the group's presence in Vienna dating back to 2007. We now host the biggest World Bank office outside Washington, D.C.

This impressive track record shows the great importance the Austrian authorities attach to the Bretton Woods Institutions and their strong commitment to them.

### **History of Austria's constituency at the IMF<sup>5</sup>**

When Austria officially joined the IMF as its 47<sup>th</sup> member on August 27, 1948<sup>6</sup>, it formed a constituency with Italy and Greece. Austria was the 16<sup>th</sup> European country to become a member of the Fund, ahead of the Federal Republic of Germany.

Ever since its accession, Austria has been represented at the IMF in mixed constituencies (i.e. groups of multiple member countries) with varying member compositions. Interestingly, Austria has established the longest partnership with Türkiye as the two countries have been working together in the same IMF constituency since 1953, for 71 years. Our second-longest partnerships were those with Belgium and Luxembourg. These two countries were in the same constituency as Austria from 1955 to 2012, for 57 years. Hungary is also a long-standing partner, having been in the same constituency with Austria since 1983, for 41 consecutive years. Perhaps surprisingly, given their geographical distance, Austria was also paired with Korea for six years (1957–1966) and with Kazakhstan for as long as 20 years (1992–2012).

Following the geopolitical upheavals of the early 1990s, Austria intensified its cooperation with five central and eastern European countries that joined the constituency in which Austria and Türkiye are represented and which continue to be members of this constituency to this day.

In 2012, our constituency took on its present form, with Belgium, Luxembourg and Kazakhstan leaving and eight members remaining. It has since been referred to as the Central and Eastern European constituency (CEE constituency). In this multi-country setting, we now closely work together with non-EU member states and one G20 country as well as with EU member states and euro area countries, and we usually speak with one common voice at the IMF's Executive Board

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<sup>5</sup> Source: OeNB, EU and International Affairs Division (Josef Horvath), History of Austria's membership in the IMF Constituencies, restricted, January 24, 2024.

<sup>6</sup> See IMF Annual Report 1949.

meetings. And currently, I have the honor of representing the constituency on the International Monetary and Finance Committee (IMFC).

Austria is represented in the constituency by our Alternate Executive Director Mr. Christian Just, who has very successfully held this position for 10 years. In the same breath, I would like to pay my respects in thanking Mr. Johann Prader, who represented Austria in constituencies of various constellations for almost 30 years. Thank you for joining us today.

### **Key messages for the IMF to retain its role at the core of the global financial safety net**

After this brief historic outline, let me turn to three issues I consider crucial for the Bretton Woods Institutions, and especially for the IMF when it comes to retaining its key role and successfully fulfilling its tasks at the core of the global financial safety net – also in the years to come.

#### **Address global power shifts and geopolitical risks**

After decades of globalization and geoeconomics, our world is changing rapidly today, and geopolitical powers are shifting. Geopolitical risks have become a major challenge, for now and for future years, and they are amplified by climate change, energy transition, shocks like the COVID-19 pandemic, by digital transformation and population aging in many societies. As a consequence, global relationships and structures are being reshuffled. At their Brazil Summit in February 2024, the G20 called for international organizations such as the Bretton Woods Institutions to be reformed to ensure that they can effectively address these geopolitical power shifts and the related challenges. This view is supported also by the UN Secretary-General António Guterres, who recently pointed out that “...nearly 80 years later, the global financial architecture is outdated...”, i.a. as more than three-quarters of the current IMF and World Bank countries had not taken part in the Bretton Woods Conference.<sup>7</sup>

In this respect, I welcome the increasing democratization of the IMF Executive Board that has been achieved by adding a twenty-fifth seat for sub-Saharan Africa. In addition, we are debating at an international level about repositioning the institutions’ leadership by strengthening underrepresented powers (China, India). This could be achieved once quota allocations and appointment mechanisms for leadership roles are adapted accordingly.

The 17<sup>th</sup> General Review of Quotas in 2028 will be the next potential opportunity since 2010 for the IMF to introduce changes to both voting shares and the quota formula. Without any visible amendments (i.e. increases of voting shares of large G20 countries such as China and India), the Bretton Woods Institutions risk losing their credibility and legitimacy.

In addition, a more unified sovereign debt restructuring framework involving both official and private sector creditors is considered necessary by some observers to speed up the process of restructuring unsustainable sovereign debt. As Maurice Obstfeld highlights in his recently published paper (“Economic multilateralism 80 years after Bretton Woods”<sup>8</sup>), this is an area where China and Western creditors should cooperate in their joint interest.

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<sup>7</sup> Quoted from: [The Debt Problem Is Enormous. Experts Say the System for Fixing It Is Broken. - The New York Times \(nytimes.com\)](https://www.nytimes.com)

<sup>8</sup> Maurice Obstfeld, Economic multilateralism 80 years after Bretton Woods, CEPR Discussion Paper, January 2024.

### **Refocus the Fund’s mandate**

We discussed the focus of the IMF’s mandate in detail in the first panel, so I do not want to repeat the arguments raised there except that the discussion was very good and offered a number of valuable suggestions (such as thinking about climate FSAPs). However, let me stress that I think that in order to remain effective, the IMF should refocus on its core mandate and its comparative advantage.

The discussion on the Fund’s evolving mandate has also been raised by several well-known proponents such as Paul Tucker and Kenneth Rogoff<sup>9</sup>. For example, Paul Tucker, Research Fellow at Harvard Kennedy School and former Deputy Governor of the Bank of England, in his book “Global Discord: Values and power in a fractured world order”<sup>10</sup> calls for a self-restrained IMF that needs to pursue global stability with legitimacy. The IMF should not primarily focus on issues other than addressing balance-of-payment problems, such as fighting climate change and inequality, although they are of course highly important and need international action. While such emerging topics may help the Fund become popular with public opinion or activist nongovernmental organizations (NGOs), it distracts Fund staff from its core tasks.

The Fund has long-standing experience, adequate tools and the financial means to support countries in crises situations. It can be seen as a “lender of last resort” and plays a catalytic role for countries to access private financing; thus, it can be seen as critical for countries which do not have the means to get back on their feet on their own. This is the primary mandate that the IMF should continue focusing on.

### **Secure high qualification of staff**

My last point concerns one lesson I learned in my active time at the Bretton Woods Institutions over the decades: It is key to have highly knowledgeable, experienced and loyal staff and senior managers – the latter of the highly trained bureaucrats’ type who are politically astute but who are not former politicians without jobs. This is particularly true for the decision-making bodies, where former politicians seem to have gained more prevalence in recent years. It is conjectured that interest of former policymakers in such jobs has increased dramatically as former alternatives of better paid jobs have become fewer in line with the privatization of public enterprises. However, an institution can strengthen and increase its credibility and the quality of its work only through the work of highly qualified and independent staff.

### **Conclusion**

Let me summarize: We have come a long way from founding the Bretton Woods Institutions at the end of World War II and from Austria’s admission in 1948. The success and impact of the Bretton Woods Institutions cannot be overestimated, and their role is becoming more important than ever in a world facing global power shifts, wars, geopolitical threats and profound challenges

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<sup>9</sup> Kenneth Rogoff wrote a highly critical commentary in early January 2022 in reaction to rising inflation and its potential impact particularly on emerging markets. He argued that the IMF seemed to be “disenchanted with the job” because “rather than embracing its traditional role of helping troubled debtor countries help themselves, the IMF has been attempting to morph into an aid agency” (Rogoff, 2022). In this later statement, Rogoff criticizes the fact that the IMF is offering increasingly more financial support than in the past with too little conditionality.

<sup>10</sup> Paul Tucker, *Global Discord: Values and Power in a Fractured World Order*, Princeton University Press, 2023.

such as climate change and digital transformation. From my point of view, addressing geopolitical shifts, refocusing the IMF's mandate and employing experienced bureaucrats and academics in decision-making positions are key for the Fund to be able to continue playing a key role at the core of the global financial safety net.

Let me conclude by quoting Henry Morgenthau once again, this time from his closing speech at the Bretton Woods Conference<sup>11</sup> – and I believe his words are still as relevant today as they were back in 1944: *“We are at a crossroads, and we must go one way or the other. The Conference at Bretton Woods has erected a signpost — a signpost pointing down a highway broad enough for all to walk in step and side by side. If they will set out together, there is nothing on earth that need stop them.”*

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<sup>11</sup> Closing address by Henry Morgenthau Jr., July 22, 1944, [Closing address by Henry Morgenthau, Jr \(22 July 1944\) - CVCE Website](#)