INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Eighth Meeting
October 13–14, 2023

Statement No. 48-28

Statement by Mr. Giorgetti
Italy

On behalf of
Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

IMFC Statement by Mr. Giancarlo Giorgetti, Minister of the Economy and Finance, Italy

On behalf of Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

Russia's unprovoked and unjustified war of aggression against Ukraine continues to cause tragic losses of lives and human suffering, and to increase food and wider insecurity worldwide. We stand firmly by the Ukrainian people and remain committed to work with our international partners to support Ukraine for as long as it takes. We support a comprehensive, just, and durable peace in Ukraine that will uphold all the Purposes and Principles of the UN Charter. We express our steadfast support to the State of Israel, and our unequivocal condemnation of Hamas and its appalling acts of terrorism.

We express our condolences to the Moroccan and Libyan people facing the destructive consequences of recent catastrophes and are ready to provide help as needed.

The global economy has been remarkably resilient to compounded shocks up until earlier this year, however the growth momentum has slowed and divergences across countries are widening. Strong policy measures have helped navigate an adverse global environment, but policy trade-offs have become more challenging, as monetary policy tightening is increasingly impacting on the real economy and fiscal space is constrained. Global inflation has been declining steadily, even if at a slower pace than expected, particularly for core inflation, whereas employment has remained strong, suggesting that the likelihood of a soft landing has increased since last Spring. We are well aware of renewed pressures in energy prices and persisting labor market tightness, while the recovery from the Covid pandemic remains incomplete and uneven, and Russia's invasion of Ukraine continues to weigh on the global economy. Furthermore, climate-related natural disasters materialize with increasing frequency and severity. In this context, policymakers need to tread a fine line to restore price stability while nurturing growth and safeguarding financial stability. Against this backdrop, catalyzing public and private investments to enhance the growth potential, along with reforms to address structural weaknesses, including adapting to climate change, mitigating its impact, and accelerating the green transition, are a top priority and offer an opportunity to reverse the steady decline in medium-term growth projections.

The economic prospects for Europe are now slightly more subdued and divergent than in April. This pattern reflects differences in the structures of the economies and the impact from the Russian invasion of Ukraine. Nonetheless, the European Union (EU) overall has shown resilience and made remarkable progress towards strengthening energy security by increasing efficiency and diversifying energy supply, both externally and domestically. The Next Generation EU, the implementing national Recovery and Resilience Plans, and the REPowerEU programs are helping

EU Member States to lay the foundations for a more sustainable and inclusive growth; their importance in maintaining the level playing field and in providing useful lessons for the future should also be emphasized.

Countries in our constituency are set to grow in 2023, although the momentum of the first quarter of the year is softening. Inflation is coming down but is expected to remain elevated for longer than expected six months ago. Private consumption continues to be supported by high levels of employment and accumulated - albeit declining - savings by households and firms. Policy support, which is well targeted to the most vulnerable, remains warranted to mitigate the impact of higher prices and interest rates on the cost of living. Wages are now growing in real terms in some of our countries, but we still see no major risks of a wage-price spiral as medium-term inflation expectations remain well-anchored.

At this juncture, balancing the price stability and growth policy objectives requires careful calibration. Cognizant of the highly uncertain outlook, monetary policies in the countries in our constituency remain committed to restoring price stability by following a data-dependent approach to determining the appropriate level and duration of restriction, supported by effective communication. The most recent forecasts point to a slower deceleration of inflation in the near term, mostly on account of energy prices, but there has not been evidence of wage-price spirals and a gradual return to target is projected over the medium-term. Fiscal policies will continue to be agile: while preserving fiscal sustainability and not adding to inflationary pressures, they will continue providing targeted support to the most vulnerable. A strategy of gradual withdrawing of these measures is now appropriate, but we should acknowledge that they have not contributed to inflationary spirals. Indeed, growth is a key element to help preserve social cohesion and, at the same time, the sustainability of public finances. Fiscal policies will be increasingly geared at promoting growth-enhancing reforms and boosting public investment, including green investment, with the aim of enhancing potential growth and facilitating the climate transition. The current review of the European economic governance is a valuable opportunity to fix in a credible way fiscal rules with the dual objective of fiscal sustainability and growth, through investment and reforms. The financial system has shown remarkable resilience, benefitting from past regulatory reforms and close supervision, as also reflected in higher buffers. Nonetheless, as tighter financial conditions weigh on the financial position of households and firms, supervisory authorities continue to closely monitor risks in banks' balance sheets. In this context, completing and advancing the banking and capital markets union respectively should remain a policy priority.

In these circumstances, the role of economic policy is particularly difficult, and the Fund's surveillance is, thus, more important than ever. We count on the Fund to continue advising national and regional authorities with a consistent and tailored policy-mix focused on supporting the economy and boosting potential output, while restoring and maintaining macroeconomic stability. We also expect the Fund to continue providing the membership with well-coordinated and tailored capacity development to enable the timely and effective implementation of the Fund's policy advice and adequate home-grown policies. With increasingly diverging economic and financial cycles across countries, the Fund's multilateral surveillance needs to shed light on cross-border spillovers from domestic policies and shocks, including the impact of geoeconomic fragmentation. While some measures, which restrict trade, investment, technology transfers, and financial transactions could be justified by security and safety concerns, the Fund should continue to provide an impartial assessment of their economic costs, both domestically and across-borders.

The Fund must stand ready to lend and to provide insurance to countries in need. As many countries face actual or potential balance of payment financing needs, whereas external financing is scarcer and costlier in a context of tighter financing conditions, Fund's lending is as important as ever, particularly for Low-Income Countries and some Emerging Market Economies. We strongly welcome the adjustments to the Fund's precautionary instruments to better align them with countries' needs as they contend with a world prone to more frequent external shocks. Precautionary instruments have been effective as a form of insurance against crises and can have positive externalities beyond the direct beneficiaries, by helping contain cross-border spillovers and contributing to less volatile capital flows.

It is now time for an effective review of the Fund's toolkit. The Covid pandemic and Russia's invasion of Ukraine prompted some quick ad-hoc adjustments to the toolkit, such as the increase in normal access limits to the Fund's concessional resources, the temporary increase in normal access limits to Fund's general resources, streamlined access to emergency financing, and the new Food Shock Window. At the same time, the Special Drawing Rights (SDR) general allocation facilitated the creation of the Resilience and Sustainability Trust. As we are approaching a new normal, where novel challenges require deep structural transformations of the economies, we believe that the time has come for a comprehensive review of the whole gamut of Fund's instruments, considering, among other things, their design, the access limits policies, and their availability. This review should aim at ensuring that the Fund's toolkit is overall coherent and remains fit for purpose. The Review of Conditionality and the upcoming Independent Evaluation's Office assessment of the Exceptional Access policy can offer useful inputs to this end.

With such formidable challenges in sight amidst high uncertainty, the Fund's pivotal role at the center of the Global Financial Safety Net (GFSN) ought to be fully preserved. This requires that the Fund continues to be endowed with a robust financial envelope. We strive to, at least, maintain the Fund's overall resources, while increasing the amount of quotas to endow the Fund with a larger share of more stable and immediately deployable resources. Reaching this goal will be a key achievement of the 16th General Review of Quotas, which we remain committed to conclude by December 2023. In this endeavor, we wish to protect the voice of the poorest and the most vulnerable members. In addition, we support the creation of a 25th chair at the Fund's Executive Board, to be attributed to Sub-Saharan Africa to enhance the representation of the region.

In addition to the Fund's General Resources, we are committed to strengthening the Fund's concessional facilities. We continue to encourage members to contribute to the Poverty Reduction and Growth Trust (PRGT) and to the Resilience and Sustainability Trust (RST), including by delivering on the commitments to rechanneling SDRs. In our constituency, Italy has recently finalized a contribution of SDR 1.92 billion to the RST, including SDR channeling and budget resources, which adds to previous grant and loan contributions to the PRGT. Greece has recently disbursed an SDR 13 million grant to the Subsidy and Reserve Account of the PRGT and has pledged to rechannel SDR 150 million to PRGT/RST. Malta is set to soon contribute with a SDR 1 million grant to the PRGT subsidy accounts. Portugal has likewise contributed to the PRGT, which should make it possible to reinforce the PRGT Subsidy Accounts by approximately SDR 11 million. In addition to member countries' national contributions, we are open to discuss the use of a limited amount of Fund's internal resources to boost the PRGT finances and we look forward to the comprehensive review of concessional financing and policies in 2024/25. We welcome the introduction of an RST interest rate cap to protect the lowest income members from rising interest rates when borrowing form this Trust and look forward to the interim review of the RST.

We consider the Fund's support to the public debt global agenda a top priority. While the debt treatment agreements for Chad, Zambia and Ghana are welcome, debt restructuring processes should be faster and more effective. Much still needs to be done to ensure that the G20 Common Framework for Debt Treatments delivers on its promise; we should particularly avoid that the cost of delays in debt treatment drives countries into a worse macroeconomic situation, which would require harsher debt treatments and economic adjustments. We appreciate that the Global Sovereign Debt Roundtable is facilitating the dialogue among all relevant parties toward a better understanding of challenges and legitimate interests, with the ultimate goal of ensuring faster, fairer, and more efficient debt restructuring processes in the future. We appreciate the Fund's constructive role in the ongoing work on debt restructuring and continue to support joint Fund-World Bank ongoing initiatives to enhance debt transparency, including from a creditor perspective.

We welcome the operationalization of the Fund's gender strategy to promote gender inclusion, we support increasing gender diversity in the Executive Board and look forward to working on further proposals to facilitate this process. We look forward to the continued implementation of the recommendations from the Institutional Safeguards Review.

Multilateral institutions that provide independent policy advice and facilitate cooperation, mutual understanding, and joint solutions to global challenges are key in times of strained international relations and increased geoeconomic fragmentation. The Fund has a crucial role to play in these circumstances, by protecting the international monetary system and providing the only global financial safety net. We remain committed to modernizing and adequately endowing the Fund with resources to preserve and strengthen its capacity to respond to the members' rapidly evolving needs and challenges.