INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Sixth Meeting
October 13–14, 2022

IMFC Statement by Daniele Franco
Minister of the Economy and Finance

Italy

On behalf of

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

Annual Meetings – October 10-16, 2022
IMFC Statement by Mr. Daniele Franco, Minister of the Economy and Finance, Italy
On behalf of Albania, Greece, Italy, Malta, Portugal, and Republic of San Marino

We strongly condemn Russia's unprovoked and unjustified war of aggression against Ukraine, which is causing tragic loss of lives and human suffering and endangering global security and prosperity. We continue to stand by Ukraine and its people and will work with international partners to support the country, including with ever more far-reaching sanctions against Russia. Peace and international law must be restored.

The global outlook has deteriorated markedly since last Spring. Russia's war of aggression against Ukraine has undermined confidence, exacerbated supply and demand imbalances and trade disruptions, and triggered a global energy and food crisis with a broad-based acceleration in global inflation not seen in decades. Despite the resilience demonstrated by some regions in the first half of 2022, more and more economies are now slowing down, and the outlook is clouded by high inflation, tighter financial conditions, increased capital flows volatility, and heightened uncertainty. Further large and persistent inflation surprises risk de-anchoring expectations and denting real incomes; hence, economic policies shall stick to their resolve of bringing inflation back to target. The macroeconomic outlook is particularly clouded in Low- and Lower-Middle-Income countries, where high food prices are leading to increasing food insecurity with the risk that a fully-fledged food crisis materializes.

The war has brought energy policies to the forefront of policymaking. Higher energy prices and disruptions to energy supplies have affected particularly Europe, weighing on firms and households' real incomes and confidence. European countries have made significant progress in securing alternative energy sources to mitigate the risk of rationing, while the European Union (EU) has demonstrated resolve in coming together to alleviate energy security concerns by establishing the REPowerEU to help member states diversify their energy sources, reduce demand, and accelerate the transition to cleaner energy. Nonetheless, uncertainty over energy developments remains at the core of the outlook for Europe and there is a pressing need for further steps to address disorderly conditions in international gas markets and delink overall electricity prices from the cost of gas-powered electricity.

The Fund has revised growth upward for 2022 for all countries in our constituency, mostly reflecting the strong performance of investment and exports of goods, tourism-related activities, and private consumption. However, the outlook for 2023 is far less benign because of high inflation and downside external risks. Inflation continues to be largely driven by energy and food prices, which are feeding into core inflation, reducing real incomes, particularly for the most vulnerable segments of the population. At the same time, labor markets have so far remained resilient, with low unemployment, partly mitigating the impact of inflation on households' incomes.

Policymakers should use all levers at their disposal. A well-calibrated and coordinated policy mix will be critical to a successful price stability strategy, while mitigating losses of output and employment. The European Central Bank and national central banks in our constituency have embarked on a monetary policy normalization path to bring inflation back on target. At the same time, our fiscal policies are expected not to add to inflationary pressures, by working toward more targeted measures to alleviate high energy prices for the most vulnerable, while striving for budget neutrality. Structural policies to foster the supply-side of the economy and advance the energy transition can also help contain inflation over the medium term. This is all the more important in the context of the energy crisis and the lingering effects of the pandemic. Countries in our constituency are committed to accelerating these critical structural reforms and investments, notably the transition to a greener and more digital economy, including, for our EU countries, by implementing their national Recovery and Resilience Plans. A modernized payment infrastructure and robust legal and regulatory frameworks for crypto assets should be integral to the increased digitalization of our economies.

Under these difficult circumstances, the Fund's role at the center of the Global Financial Safety Net (GFSN), and as a trusted advisor, has become even more critical for safeguarding global macroeconomic stability. The global economy is facing tremendous challenges and the Fund is well positioned to provide insights into the global and regional outlooks, help countries with policy recommendations and with financial support when needed. While these are the Fund's tasks at all times, discharging them effectively yields a higher premium because of the threats that the current exceptional uncertainty cast on the global outlook.

The Fund's bilateral and multilateral surveillance is particularly important to the membership in times of difficult policy trade-offs. We continue to rely on the Fund for thorough analysis on the global economic developments, including on the impact of policy spillovers across countries. In addition, benefiting from its global perspective and leveraging on cross-country experiences, the Fund can provide valuable advice to the authorities on the appropriate policy-mix tailored to country-specific characteristics and macroeconomic conditions.

The Fund should also continue to stand ready to help countries with financial support. While the Fund is endowed with ample general resources to face the current challenges, we remain committed to a timely completion of the 16th General Review of Quotas to preserve its strong, quota-based, and adequately-resourced position at the center of the GFSN. The Fund should continue to be equipped with a flexible lending toolkit, ranging from programs with conditionality and precautionary arrangements to emergency facilities. We believe that most members with Balance of Payment (BoP) needs are best served with Upper Credit Tranche (UCT)-quality programs, which effectively help countries achieve the needed macroeconomic adjustments, advance structural reforms, rebuild confidence and limit risks to Fund resources. At the same time, we support the newly established Food Shock Window (FSW) under the emergency financing facilities that can help members facing sudden BoP needs in the aftermath of severe shocks to food prices.

We strongly support the Fund's engagement with Ukraine. We commend the Fund for quickly disbursing emergency financing following Russia's invasion of Ukraine and making additional support available through the FSW. We encourage the Fund to engage with the Ukrainian authorities to chart a path toward an UCT-quality program that can help Ukraine restore macroeconomic stability as soon as possible.

We strongly support the Fund's concessional financing through the **Poverty Reduction and Growth Trust** (PRGT) and the new **Resilience and Sustainability Trust** (RST). We welcome the rechanneling of Special Drawings Rights (SDRs) to these Trusts. Countries in our constituency have already contributed and/or are considering contributing to these funding efforts[1] and we call

[1] In 2021, Italy has contributed with SDR 1 billion to the PRGT loan account and, in 2022, with SDR 83 million to the PRGT subsidy account; also, Italy intends to contribute to the RST in early 2023, following its domestic and budgetary procedures, thus fulfilling its commitment to re-channel 20 per cent of its new SDR allocation. Greece has pledged to contribute with SDR 13 million to the subsidy account of the PRGT. Greece is also contemplating on-lending additional SDRs to the RST and/or PRGT. Portugal is in the final stage of deciding on options to channel SDRs. Malta has now pledged to contribute to the RST the amount of 14.4% of the SDRs distributed as part of last year's general allocation.

on other members that are able to do so to help meet the fundraising targets. We are convinced that the RST will be a useful complement to the Fund's toolkit by providing eligible members with longer-term financing to deal with structural changes that may pose prospective BoP difficulties. The initial focus of the RST on climate change could not be more appropriate given the current climate and energy shocks, to help prevent severe climate-related events and accelerate the green transition. We also encourage the use of RST funds to help countries meet the challenges of pandemic preparedness. The impact of these arrangements will benefit from the coordination with the World Bank, the World Health Organization and other relevant institutions.

At the current juncture, the Fund's advice in the areas of sovereign debt and global trade is essential. We expect the Fund to continue supporting the G20-Paris Club Common Framework for Debt Treatments (CF) in achieving tangible results for country cases by the end of this year. We are confident that comprehensive debt treatment under the CF will help entrench debt sustainability. This work should go hand in hand with the Fund's advice on macroeconomic adjustments necessary for countries in debt distress. We look forward to the Fund's support for enhanced coordination in addressing cases of Middle-Income Countries in debt distress and commend staff for efforts made on this regard. We continue to support the jointly Fund-World Bank ongoing initiatives to enhance debt transparency. On the creditor side, we are ready to lead by example. Given the risks of fragmentation and the temptation to respond to the food crisis with protectionist measures, we encourage the Fund to deepen its analysis on the implication for the global economy from these developments, reflecting also on the lessons learned from the pandemic.

We support increasing gender diversity in the Executive Board and look forward to working on further proposals to facilitate this process. We welcome the efforts to strengthen the Fund's Institutional Safeguards and look forward to the implementation of the recommendations from the Institutional Safeguards Review.

The world grapples with the shocks and consequences stemming from Russia's war of aggression against Ukraine. But our resolve is strong to continue our efforts to restore macroeconomic stability, by preserving a multilateral system that is instrumental to improving global welfare. The Fund should play a lead role in this effort.