INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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Revised

Statement by Mr. Franco
Italy

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

Spring Meetings – April 18-24, 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 condemn Russia's unprovoked and unjustified military aggression against Ukraine and grieve the tragic loss of lives and massive human suffering caused by the war, in blatant violation of the fundamental principles of international peace and security. This aggression threatens the rules-based international economic and financial system, is weighing on the global recovery and can jeopardize financial stability. Furthermore, it is also fueling higher energy prices and endangering food security in many areas of the world. We will continue to work very closely with international partners to support Ukraine directly and implement far-reaching sanctions against Russia and its accomplice Belarus.

The global economy had come a long way from the trough of the pandemic crisis until Russia invaded Ukraine. After a robust, albeit uneven, recovery in 2021, the overall outlook weakened towards the end of the year on account of the spreading of new COVID-19 variants, rising energy prices, and continuing supply-side disruptions. Despite the slowdown, our economies proved remarkably resilient against the headwinds and the outlook remained positive. However, the events in Ukraine have dramatically deteriorated the global outlook by further increasing commodity prices and raising energy and food insecurity concerns. These developments also entail widespread international spillovers through trade and financial disruptions, refugee flows, tighter financial conditions, capital flows volatility, and higher uncertainty and lower household and business confidence. **The key policy priority is to protect the global recovery from the shock and heightened uncertainty.**

Coordination between fiscal and monetary policy is necessary to contain the economic and financial consequences of the war in Ukraine and the lingering

effects of the pandemic. Growth projections for 2022 and 2023 in the euro area and in the countries of our constituency have been revised downward, while inflation forecasts have been revised upward, mostly reflecting the upsurge in energy prices. The labor market has remained resilient so far, helping mitigate the impact on disposable income. Nonetheless, further increases in energy and food prices and protracted disruptions to trade and financial flows could generate significant headwinds to domestic and external demand, ultimately delaying the recovery and further affecting the most vulnerable groups of our societies. At the same time, countries in our constituency had already significantly reduced pandemic-related fiscal support on the back of improved economic prospects, with a view to rebuilding fiscal buffers and safeguarding public debt sustainability. Now, **further fiscal support to households and businesses to reduce their energy expenditures is needed. This, combined with a gradual data-dependent normalization of the monetary policy stance, can strengthen macroeconomic resilience.**

The pandemic had brought to the fore structural vulnerabilities, increasing the urgency of modernizing our economies to boost potential growth and limit scarring. The digitalization of our economies and financial systems can create new and better job opportunities, facilitating the reallocation of resources to the most productive sectors. To this end, we will work on expanding access to high-quality education and training, increasing women and youth labor force participation, and promoting reskilling and upskilling, while strengthening our social safety nets to protect the most vulnerable.

While the global economy was still on a mending path from the pandemic crisis, the events in Ukraine entail additional challenges, particularly on energy- and climate-related issues. Within the European Union (EU), the need to diversify energy sources has inevitably become prominent but has not diminished our commitment to carbon neutrality and the green transformation of the economy. In fact, the initial disbursements of Next Generation EU funds are supporting the gradual implementation of the national Recovery and Resilience Plans, which focus on investments and reforms to make the European economies and societies more sustainable, resilient, greener and more digital. **The successful issuance of the first EU common green bonds has provided funding for green investments and helped the development of green financial markets**. In addition, the issuance of EU common bonds can contribute to establishing an EU benchmark, essential to build a fully integrated European capital market.

Global and regional cooperation has proved essential for mitigating the economic fallout from the pandemic and increasing resilience. Amidst renewed and rising risks of fragmentation of the rules-based multilateral system, it is paramount to look through current geopolitical tensions and prevent exceptional restrictions to trade and financial flows from exerting lasting damages on international cooperation and multilateralism. **By leveraging its global membership and acting upon its mandate as an arbiter of the international monetary and financial system, the IMF can play a critical role in fostering macroeconomic stability and global cooperation, in coordination with other international institutions and multilateral development banks.**

In times of heightened tensions and global shocks, Fund surveillance commands a very high premium. We call on the Fund to continue shedding light on the economic consequences of global developments through its Flagship reports, as the membership faces common challenges with significant cross-border spillovers and rising inequalities. The Fund's extensive work on the impact of the pandemic on global trade and value chains is an example of useful input for policy making. **In this vein, we remain committed to strengthening the rules-based multilateral trading system, under the aegis of a reformed and modern World Trade Organization.**

In a context of more limited fiscal space – inherited from the necessary response to the pandemic – countries will have to navigate very difficult policy trade-offs in managing the challenges from slowdown in economic activity, higher inflation, tightening financial conditions, and heightened uncertainty. **The Fund should provide careful policy recommendations, tailored to countries' and regions'**

specific circumstances and challenges. We continue to rely on the Fund for technical support during the implementation of the G20-Paris Club Common Framework for Debt Treatments (CF) and to introduce analysis-based discussions on coordinating debt treatment for lower middle-income countries, as well as on devising adjustment programs for countries in debt distress requesting the use of the CF. We continue to support the Fund-World Bank ongoing initiatives to enhance debt transparency, including the proposal of a debt data reconciliation process.

The Fund rose to the challenge during the pandemic when it quickly provided emergency financing to over 70 countries to deal with sudden financing needs. We commend the Fund for quickly disbursing SDR 1 billion to help Ukraine meet urgent balance of payment needs following the Russian aggression. As the pandemic transitioned from an emergency to a more endemic phase, **the Fund appropriately shifted its financial support to Upper Credit Tranche-quality programs to help members promote macroeconomic adjustments.** As we are now hit by an additional global shock, the Fund should continue to stand ready to provide members in need with both financing and policy advice to achieve macroeconomic stabilization. We value the Fund's endowment of ample General Resources and its flexible lending toolkit to respond to this challenge. Looking forward, we remain committed to a timely completion of the 16th General Review of Quotas to continue underpinning a strong, quota-based, and adequately-resourced Fund at the center of the Global Financial Safety Net.

In addition to the Fund's General Resources, lower income countries can also benefit from subsidized funding from the Poverty Reduction and Growth Trust (PRGT). **We welcome the commitment to scale up the PRGT to serve eligible countries with more affordable financing. Countries in our constituency have generously contributed and we call on other members to help meet the fundraising targets**. **We strongly welcome the proposed establishment of the Resilience and Sustainability Trust (RST) that will complement the Fund's toolkit with a longer-term financing facility to help members deal with more structural challenges, such as transition to cleaner energies, mitigation and adaptation to**

climate change and pandemic preparedness. As we cope with high energy prices, while aiming to transition to cleaner energy sources, the RST can play a decisive role in resisting the temptation to revert to more carbon-based energy sources due to lack of financing.

We support increasing gender diversity in the Executive Board and look forward to working on further proposals to facilitate this process.

Now, when the international rules-based system has been blatantly violated and confidence in collaborative solutions has been severely shaken, **we need to deploy all our best efforts to ensure that cooperative multilateralism prevails and peace and international law abidance are restored soon.**