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Statement by Mr. Giorgetti Italy

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

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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 loss of lives and human suffering and to increase insecurity worldwide. We continue to 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 the UN Charter. We reiterate our unequivocal condemnation of Hamas attacks in Israel on October 7, we express deep concern about the humanitarian situation in Gaza and call for an immediate humanitarian pause leading to a sustainable ceasefire, the unconditional release of all hostages, and the provision of humanitarian assistance. Russia's war of aggression against Ukraine, the conflict in Gaza, and the tensions in the Red Sea are a major source of uncertainty and risks to the global economy.

Global economic activity continues to be resilient, despite the cumulative impact of adverse shocks in recent years and restrictive monetary policies aimed at reining in inflation. Though not yet at target levels, inflation is on a downward trend and financial conditions have recently eased, helping to weather the shocks to the global economy. Going forward, real incomes are projected to increase, supported by expected lower inflation and policy interest rates and favorable labor markets dynamics. Robust employment growth and increased labor force participation in most regions have continued to support consumption. The current context remains challenging given continuing headwinds to economic activity and limited fiscal policy space. In the short run, the key policy priorities remain to secure a soft landing, while gradually rebuilding fiscal buffers, and safeguarding financial stability.

Medium-term growth is held back by ongoing conflicts and geopolitical uncertainty. Russia's ongoing war against Ukraine remains a major headwind for the global economy. The geopolitical tensions in the Middle East and the terrorist attacks in the Red Sea add pressures on transportation costs and test the resilience of supply chains. Decisive and strong policy action is needed, both at the national and international levels. In the medium run, policymakers should endeavor to boost potential growth through well-prioritized investments and structural reforms, including education and active labor market policies, as well as green and digital transition policies and, importantly, redistributive policies to protect the most vulnerable. Multilateral institutions should foster dialogue and collective actions to combat climate change and promote fair trade, in line with the principles of the World Trade Organization.

Countries in our constituency are expected to continue growing, although at different pace.

Strong labor markets and, in some cases, external demand for services continue to buttress activity in some of our countries. On average, inflation has come down more quickly than anticipated and is expected to move close to target already in 2024, as risks of a wage-price spiral remain contained. The financial systems have been resilient amid several shocks, benefitting from the implementation of the post-Global Financial Crisis regulatory framework, with stronger capital and liquidity positions, as well as improved efficiency. More recently, high levels of profitability, driven by higher interest rates, facilitated organic capital growth, which can help cushion against possible lagged effects from past shocks as well as the impact from higher rates on borrowers.

The European Union has agreed on a comprehensive reform of the economic governance framework, aiming at strengthening debt sustainability and promoting sustainable and inclusive growth. Member countries will be implementing the revised framework while contending with additional spending pressures to address medium-term challenges stemming, *inter alia*, from the green transition and security.

While fiscal and monetary policies need to maintain macroeconomic stability, countries in our constituency remain committed to implementing robust structural agendas. Monetary policies in our countries, in and outside the euro area, will maintain a data-dependent approach. Fiscal policies will strive to rebuild buffers while promoting public investment and structural reforms. This may need to be accompanied by non-inflationary support measures as economies contend with lagged effects from previous shocks and renewed challenges, including the green transition, digitalization, and artificial intelligence. European Union countries are making steadfast progress in the implementation of National Recovery and Resilience Plans to help boost productivity and potential growth. In this context, completing and advancing the European banking and capital markets unions should remain a policy priority.

The Fund's bilateral and multilateral surveillance remains a key pillar of the international financial system. Given the diversity in inflation and growth patterns, and, thus, policy paths across the globe, the Fund's multilateral surveillance should focus on the implications of these differences on capital flows, exchange rates, inflation and debt dynamics, as well as possible spillovers and spillbacks from national policies and shocks. In addition, the Fund should continue to examine the economic impact from conflicts, geoeconomic fragmentation and climate change. We welcome and support Fund's work to explore the impact of digitalization, including digital money and artificial intelligence, on labor markets, productivity, and the financial sector. While these secular trends have the potential to increase productivity, they entail risks of increased social divides, skills mismatches and labor income inequality, both within and across countries.

High levels of public debt in low-income countries put a premium on the Fund's support to related global efforts. First and foremost, the Fund should continue to advocate the enhancement of public debt data coverage and quality, and promote transparency, including through reconciliation of creditor and debtor data. Furthermore, the joint IMF-World Bank review of the Debt Sustainability Framework for Low-Income Countries provides an opportunity to improve the methodology to assess debt sustainability, namely by strengthening realism tools, and expand longer term assessments, including through the analysis of the implications from climate change. The Fund should also continue to support the fora that directly deal with debt restructurings. In this context, the G20 Common Framework (CF) for Debt Treatments has started to deliver but it is important to make further improvements to provide countries with a swifter and more efficient platform for debt restructuring. In addition, further efforts are needed to establish workable platforms for countries not covered by the CF. We appreciate the role of the Global Sovereign Debt Roundtable in fostering a better common understanding of concepts and principles behind debt restructuring.

We welcome the agreement to increase the quotas of Fund's member by 50 percent, under the 16th General Review of Quotas (GRQ) while preserving the Fund's lending capacity, which is particularly relevant in the current context of high uncertainty and repeated shocks and ensures that the Fund has robust resources to support its members with financing, when needed. This decision demonstrates the membership's commitment to maintaining a well-resourced Fund at the center of the Global Financial Safety Net, and appropriately strengthens the quota-based nature of the Fund. Moving ahead, we encourage all members to finalize domestic procedures and provide timely consent to their quota increases and, where relevant, rollbacks of New Arrangements to Borrow (NAB) credit lines and the possible extension of Bilateral Borrowing Agreements (BBA).

We remain committed to strengthening the Fund's concessional facilities that add to the Fund's General Resources for eligible members. Countries in our constituency have contributed to the Poverty Reduction and Growth Trust (PRGT) and to the Resilience and Sustainability Trust (RST). We continue to urge other members with strong external positions to contribute to these trusts, including by delivering on their commitments to channel Special Drawing Rights. At the same time, we recognize the pressure on members to respond to multiple fundraising calls, also beyond the Fund, and are mindful of members' budget constraints. Therefore, we remain open to consider viable options for using a limited amount of Fund's internal resources to strengthen the PRGT finances, also considering a potentially higher demand for concessional financing in the future.

We look forward to a comprehensive review of Fund's lending policies, frameworks, and instruments. In the last few years, the Fund had to adjust some policies and instruments to better support the membership through compounded exogenous shocks. In addition, some of the Fund's

policies and instruments are set to undergo regular reviews in the near future. Hence, we believe the time is ripe for a more holistic approach in reviewing the Fund's gamut of tools to support countries with financing or precautionary arrangements. We would like to consider the reviews of normal access limits and surcharges, including in the context of the quota increase under the 16th GRQ, the exceptional access framework, and program design and conditionality, in an integrated fashion. We would also appreciate reviewing the adequacy of the current financing tools and arrangements. Except for surcharges, which are exclusive of GRA borrowing, these issues should be considered both for the GRA and the PRGT. We look forward to the first interim review of the operationalization of the RST.

We expect the rapid establishment of the 25th chair on the Executive Board for Sub-Saharan Africa. We welcome the operationalization of the Fund's gender strategy to promote inclusion, we reiterate our support for increasing gender diversity in the Executive Board. We look forward to the continued implementation of the recommendations from the Institutional Safeguards Review.