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On behalf of
Central and Eastern European Countries Constituency

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on Behalf of the Central and Eastern European Constituency
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Global Economic Outlook and Risks

The global economy has been through turbulent times since the pandemic. The challenges we face take different forms, but they remain significant. Today, we are at a critical juncture. Geopolitical tensions are shifting in new directions, with trade and industrial policy measures increasing rapidly, compounded by political uncertainties. Inflationary pressures have re-emerged in many countries. Financial market volatility has increased, while financial conditions have tightened, particularly for emerging market and developing economies (EMDEs) and low-income countries (LICs). Fiscal trajectories have also deteriorated, with public debt levels and global fiscal deficits increasing once again in 2024. Nearly half of all countries reported a deterioration in their fiscal position. These dynamics are unfolding against a backdrop of already fragile fundamentals, characterized by high debt burdens and subdued growth prospects, which are now expected to slow even further. Taken together, downside risks continue to dominate the global economic outlook.

Policy Responses

In this environment, preserving price and macro-financial stability has become increasingly complex. The heavy burden falls on the shoulders of domestic policy makers to maintain price stability, to meet fiscal requirements in a prudent and sustainable manner, and to reignite inclusive and durable growth through structural reforms. Simultaneously, multilateralism must be strengthened. Transparent policy dialogue, strengthened international cooperation, and adherence to predictable, rules-based trading systems are essential to bolster global resilience.

Restoring fiscal sustainability is paramount to enhancing resilience against future shocks. The *Fiscal Monitor* highlights substantial risks to the fiscal outlook, including ongoing geoeconomic uncertainties and higher-than expected interest rates amid already elevated debt levels and reduced fiscal buffers. New spending pressures, stemming from the growing frequency of climate-related events, demographic transitions, and rising security demands, add further strain. Addressing these challenges will require growth-friendly, targeted fiscal policies. For EMDEs and LICs, credible medium-term fiscal frameworks and structural reforms that strengthen institutional and administrative capacities are essential. In advanced economies, pension system reforms may yield significant benefits, while comprehensive energy subsidy reforms can contribute meaningfully to fiscal space and efficiency across all country groups. Effective governance remains a cornerstone for ensuring public trust and buy-in for these policy adjustments.

On the monetary policy front, central banks must continue to carefully calibrate their monetary policy stances. While in our last meeting in October, we were discussing whether a soft landing was within reach with the concerted efforts towards the last mile of disinflation, we observe an uptick in goods prices today. Services inflation also remains above pre-pandemic averages. Exchange rate volatility, exacerbated by trade tensions, has heightened the risk of capital outflows, particularly for EMDEs, necessitating a re-evaluation of the pace and direction of policy normalization in some jurisdictions. Central banks should remain data-dependent, exercising prudence and flexibility in balancing inflation and output objectives. It is critical to avoid a de-anchoring of inflation expectations. Furthermore, clear, and consistent communication of monetary policy objectives, both in terms of current decisions and the anticipated policy trajectory, will be essential to preserve policy credibility and ensure market stability.

Elevated leverage among non-bank financial institutions, coupled with rising global debt levels, underscores the urgent need for vigilant monitoring and proactive supervision. We agree with the Global Financial Stability Report's main policy recommendations. Regulatory and standard-setting bodies must remain steadfast in the implementation of latest financial reforms, such as Basel III, and prioritize improvements in data availability, data-sharing frameworks, and targeted policy interventions to bolster the resilience of the non-bank financial sector. Concurrently, macroprudential policies should maintain a sharp focus on mitigating systemic risks and safeguarding financial system integrity.

The imperative for structural reforms has become increasingly evident to elevate medium-term growth potential. Considering demographic headwinds, including aging populations and the complex dynamics stemming from migration and refugee flows, advancing productivity-enhancing measures and labor market reforms is critical. Accelerating digital transformation and integrating artificial intelligence across sectors, while taking account of the potential disruptive effects and impacts of this technology, offer substantial opportunities to enhance economic efficiency and competitiveness. Furthermore, strengthening governance frameworks and enhancing institutional transparency are essential, cross-cutting priorities that support both economic performance and public trust. Finally, navigating the transition to a low-carbon economy represents a collective global responsibility. While the climate transition presents significant policy and investment challenges, it also offers long-term environmental and economic benefits that must be proactively harnessed through coordinated international action.

The Role of the IMF in Supporting Members

The Fund remains central to global efforts to ensure macroeconomic and financial stability and promote sustainable and inclusive growth as a trusted advisor and lender of last resort, with its tailored policy advice and carefully calibrated capacity development support. The Global Policy Agenda rightly places emphasis on sharpening the focus of surveillance. The Fund's policy analysis and granular advice on the impact of rising protectionism in trade and industrial policies and its spillovers in bilateral and multilateral surveillance should be a top priority. In this context, we look forward to the forthcoming Comprehensive Surveillance Review (CSR) and emphasize that the priority areas should remain consistent with the Fund's core mandate and expertise. It is important to take a longer-term perspective on the Fund's crisis prevention role in the context of the forthcoming CSR. We also welcome the Fund's efforts to make capacity development more flexible, tailored, and better integrated with the Fund's economic analysis and lending activities and well-tailored to respond to members' needs.

In LICs and highly indebted economies, rising borrowing costs and limited access to external financing are amplifying debt vulnerabilities and threatening to crowd out essential spending. The Fund should continue to help countries address debt vulnerabilities in line with its mandate. The Fund's policy advice, capacity development, and financing support will remain essential for these countries to develop credible medium-term debt strategies and debt management, anchored in sound fiscal policies, greater debt transparency, and sustained access to concessional financing. In addition, the Fund should continue its analytical work to address liquidity and debt challenges and to support international platforms such as the G20 Common Framework and the Paris Club. We look forward to seeing tangible progress on the three-pillar approach. The finalization of the debt sustainability framework for LICs will also be important to enhance the Fund's contribution to debt issues.

On monetary and financial policies, the Fund's assistance to members in managing shocks in line with the Integrated Policy Framework, as well as deeper analysis and more robust discussions on the international monetary system, especially considering changing policy priorities and preferences as well as rapid technological advances and structural changes, remain invaluable. The forthcoming review of the Financial Stability Assessment Program will play a crucial role in horizon scanning on financial sector risks.

Demand for Fund financing will likely remain high amid heightened balance of payments problems, external imbalances, and debt sustainability concerns. The Fund needs to continue to assist members in addressing these problems, considering their ever-evolving needs while keeping appropriate safeguards that take into account members' debt carrying and repayment capacities during the Comprehensive Review of Program Design and Conditionality. This review will also be one of the most important policy reforms in the coming period to strengthen the impact of Fund lending. The Fund should seek to enhance its catalytic effect. Last year's reforms on Charges and Surcharges Policy and the Poverty Reduction and Growth Trust were spot on, providing relief on the financing front.

In the face of heightened uncertainty, strengthening the Global Financial Safety Net (GFSN) is more important than ever. In this context, upcoming work on the assessment of the GFSN and the review on precautionary tools will enhance the IMF's ability to support its members. At the center of the GFSN, the enhanced coordination between the IMF and other layers will help bolster global financial resilience.

The Fund also has a key role to play in providing a platform for countries to find cooperative solutions to common economic challenges. The Fund should continue to advocate for open, stable, and transparent trade policies and a strong multilateral trading system to oversee them and use its convening power in this regard.

Finally, on IMF resources and governance, we support a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net and have provided our consent to the quota increase under the 16th General Review of Quotas (GRQ). We call on those countries, which have not yet given their consent, to secure domestic consents as soon as possible. While important progress has been made on the New Arrangements to Borrow and the transitional arrangements, what ultimately matters is the actual ratification by all member countries. We recognize the importance of realignment in quota shares to better reflect members' relative positions in the world economy, while protecting the voice of the poorest members. Given the likely lack of progress on the 17th GRQ by June 2025, we support developing a set of principles to guide future discussions towards IMF quota share realignment. We reiterate that the work on possible approaches for an IMF quota share realignment will need to ensure fair burden sharing among all major advanced economies.