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Statement by Mr. Gualtieri
Italy

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

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IMFC Statement by Mr. Roberto Gualtieri, Minister of the Economy and Finance, Italy

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

Compared to six months ago, macroeconomic conditions point to a significantly larger-than-expected slowdown. Global growth has weakened further, and the outlook has deteriorated. Inflation remains stubbornly below target in advanced economies and muted in most others. Risks have grown and skewed to the downside.

Persistent trade tensions have taken a toll on business confidence, manufacturing activity, exports, investment, and trade flows. A mix of idiosyncratic and structural factors have brought down manufacturing activity -- driven by a drop in car production -- and further weakened economic prospects, with Europe being most affected. Substantial uncertainty persists and the slight pickup in global growth expected in 2020 by the World Economic Outlook cannot be taken for granted. First, the envisaged improvement in some stressed economies that underpins these projections may not materialize and conditions could even exacerbate in those economies. Second, the resilience that the services sector and consumption growth have so far shown may fade.

Trade disputes have grown. The endeavors to address the root causes of tensions and disputes must intensify, most notably by modernizing the WTO and lowering external imbalances, which persist and have become more concentrated. Decisive action is needed to symmetrically lower these imbalances. To this end, excess surplus countries should play their part by supporting domestic demand through fiscal action.

Monetary policy has promptly reacted to the current slowdown. Cooperation should continue to avoid competitive devaluations and misalignments. Thus far, monetary policies have supported the global economy and helped to defuse risks of deflation. However, it has become clear that monetary policy has overburdened and cannot continue to act as the sole policy response. Continued easing may contribute to building up vulnerabilities in financial systems. Macro-prudential policies could help strengthen financial systems and address vulnerabilities that have emerged because of the increasing chase for yields in holding riskier assets and rising financial vulnerabilities in the corporate sector.

It has therefore become more urgent than ever to adopt a more balanced macro-economic policy mix, with a more prominent and active role for fiscal policy. This would make it easier for monetary policy to pursue its inflation target and avoid the risk that further easing stokes financial vulnerabilities.

Countries that have fiscal space should use it, **taking advantage of record-low long-term interest rates, to raise public investments, facilitate the transition toward renewable energy, and boost long-term productivity and growth.** This would also help strengthen global economic conditions, support domestic demand, reduce excess external surpluses, defuse trade tensions, lessen the burden of adjustment for deficit countries, and eventually allow long-term interest rates to edge up. At the same time, we should pay attention that a lower capacity to invest by countries with little fiscal space does not deepen regional and cross-border disparities.

High-debt countries should seek to strike the right balance between ensuring debt sustainability and supporting economic activity, paying special attention to public investment and social cohesion. At the current juncture, these countries should avoid taking a pro-cyclical fiscal stance because: a) it would further hurt economic activity; and b) it would complicate the implementation of much-needed structural reforms to raise productivity and potential output.

Policy action is urgently needed both to avoid that a downturn materializes and that low inflation morphs into deflation. We support an internationally coordinated response using the fiscal lever to dispel the risks that cloud the horizon. Action is needed sooner rather than later. To this end, pushing forward plans for establishing a central fiscal stabilization capacity remains a priority for the Euro Area. Fiscal policies would be better placed than monetary policy to generate positive externalities across countries. Europe is characterized by a balanced net external position; however, this masks deep intra-European imbalances, which, if unattended, could jeopardize stability in the region. Fiscal actions by countries enjoying significant fiscal space would generate favorable externalities, by both strengthening internal demand in the region and easing trade tensions globally.

Country-tailored structural reforms are essential in most countries to address the long-term challenges posed by slowing productivity growth, the need to enhance competition, aging population, climate change, rising inequality, and insufficient income convergence. Due consideration should be placed on political economy implications, paying attention to the fact that when economic activity slows down structural reforms become harder to implement. Moreover, it is essential to limit possible adverse impact of reforms on more vulnerable portions of the population.

We should continue to implement the financial sector reform agenda and avoid rollbacks. To guard against financial stability risks entailed by easy financial conditions, the use of macro-prudential policy remains appropriate, but we should redouble efforts to develop the macro-prudential toolkit and broaden the regulatory perimeter. As a matter of fact, macro-prudential tools are more limited in scope for the nonbank financial sector and the corporate sector, where vulnerabilities have increased the most. Furthermore, some emerging risks, such as those related to climate change, are gaining prominence and need to be appropriately integrated into corporate, banking and financial firms' business models as well as into economic and financial monitoring. In Europe and in the Euro Area, a prerequisite for a durable financial stability remains fully completing Banking Union, including the European Deposit Insurance Scheme (EDIS) pillar, accompanied by a fully-fledged Capital Markets Union (CMU). A Banking Union and a CMU are also instrumental to generate adequate funding conditions across the EU and the Euro Area.

We believe the emphasis placed by the Fund on bridging differences on multilateralism at the 2019 Annual Meetings is fully appropriate. On a broad range of issues policy makers can succeed only if multilateral action complements measures devised at the national level. The Fund has a critical role to play in identifying areas where the multilateral action is most needed and help in shaping it.

The Fund should remain at the center of the global financial safety net and, therefore, should be endowed with adequate financial resources to resolve or mitigate possible financial crises in a deeply interconnected global economy. To this aim, the current level of Fund resources should at least be maintained. In this regard, we welcome the agreement to double the resources of the New Arrangements to Borrow (NAB) and the decision of a further temporary round of bilateral borrowing beyond 2020.

Surveillance is central to the Fund's activities to prevent crises while promoting the most effective policy mix across the membership. In this regard, the Executive Board will discuss two critical reviews of Fund policies: **the Comprehensive Surveillance Review** and the **FSAP Review**. Both take on a distinctive importance at the current juncture for two reasons. First, given the increasing macro-economic relevance of topics like climate change, Fintech, governance, and social spending, a proper balance between core and emerging issues should be struck. Second, the implications of the two reviews for the Fund's financial and human resources need to be assessed, together with the impact related to the possible implementation of the Independent Evaluation Office's (IEO) recommendations.

The comprehensive perspective on surveillance and policy advice entailed by the work toward an **Integrated Policy Framework** looks interesting, as it will consider jointly the role of monetary, exchange rate, macro-prudential, and capital flow management policies, while paying attention to spillovers, macro-financial and external linkages. We also appreciate Fund's work on monetary and macro-prudential polices, and the implementation of an ambitious agenda to enhance the advice provided to member countries.

We recall the role of the Fund to support Low-Income Countries (LICs), and help address the root causes of economic fragility, rising indebtedness, and the impact of migration flows. The Fund should continue assisting LICs to achieve the **2030 Sustainable Development Goals**, supporting the implementation of sound macroeconomic frameworks, and the strengthening of institutions through its capacity building activities. We welcome the conclusion of **the Review of the LIC facilities** and the increased flexibility to deal with rising vulnerabilities and the specific challenge of fragile and conflict-affected states. Considering the Fund's analyses on rising debt levels in LICs, we highlight the initiatives aimed at increasing debt transparency, and we reiterate the importance that both public and private creditors adopt sustainable lending practices in their lending activities. While we favor concerted efforts to tackle climate change, **we believe that the IMF should continue to support LICs hit by natural disasters, even through the Catastrophe Containment and Relief (CCR) Trust.** The Fund should keep enough flexibility to adjust this facility to the needs at hand, be them food shortages, grave public health concerns or population relocation. At the same time, we welcome the ongoing efforts to address the protracted arrears problems in the heavily indebted countries.

The review of the Debt Sustainability Framework for Market-Access Countries scheduled for the coming months will provide the opportunity to improve the predictive power of the framework and incorporate country-specific factors. More efforts should be placed on broadening data coverage, improving data quality, refining analytical tools, and extending forecasts' scenarios. The DSA framework for MACs should be robust and focused on countries' economic fundamentals, while continuing to pay due attention to the risks of triggering self-fulfilling prophecies.

Finally, it is important for an institution like the Fund to continue modernizing its organization and procedures, while preserving the quality of its staff and at the same time pursuing a prudent budget discipline. In this regard, we look forward to the upcoming final stage of the Comprehensive Compensation and Benefits Review as an opportunity to improve its functioning. We are committed to act decisively in contributing to the Executive Board being a diverse body, including in terms of gender, fully reflecting the value of diversity that the Fund upholds.