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Statement by Mr. Holzmann
Austria

On behalf of
Central and Eastern European Constituency

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on Behalf of the Central and Eastern European Constituency

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Decisive monetary policy action supported by a more flexible supply side have brought a soft landing within reach, although salient downside risks remain. The resilience by many members, in particular emerging markets, has been remarkable and demonstrates that the strengthening of policy frameworks and institutions is paying off. The last mile of the inflation fight, however, could put this resilience to the test. Loosening too fast could increase uncertainty. Further shocks could require further tightening. A mismatch between what central banks communicate and market participants expect could trigger unwarranted volatility.

Looking ahead, the legacy of over-indebtedness and elevated debt vulnerabilities, low quality growth with weak growth prospects, and policy mistakes in combination with structural challenges from demographics, global economic fragmentation, heightened geopolitical risks and climate change, require new approaches to economic management. All of this pales, however, in comparison to the horrendous losses of lives due to ongoing conflicts and wars.

Fiscal policies need to catch up with monetary policy. In the absence of a global growth engine that would help lift the debt overhang, debt has to be dealt with and the "fiscal house" needs to be put in order as a matter of priority. Debt levels, not least in advanced economies, but also in emerging markets and developing countries, will require mobilizing revenues in some countries in addition to smart efficiency savings, all guided by credible fiscal frameworks. Reducing debt will reap benefits in terms of lower refinancing costs which is necessary to create fiscal space for growth enhancing investments in human capital, infrastructure, energy sustainability, financing the digital and green transition and national security. More frontloaded fiscal consolidation would be advisable to replenish depleted buffers.

Industrial policies, trade tensions and financial fragmentation are denting the prospects for trade as an engine for growth. Structural policies will have to come to the fore to reinvigorate growth if member countries want to meet the needs, let alone the ambitions, of their populations.

This is a challenging environment for the IMF, but also an opportunity to help the membership adapt to the changing environment, minimize the costs stemming from fragmentation and chart a way forward. We re-emphasize that the Fund's focus should be kept on its expertise and macro-critical issues. Surveillance needs to become front and center again. The Fund should channel its expertise, knowledge and analytical rigor into helping the membership achieve the objective of durable and inclusive prosperity in a sustainable manner. This requires a strong foundation, based on macro stability, good governance, flexibility of prices and strong institutions.

In keeping with its countercyclical financing role, the peak of IMF lending should be behind us. IMF programs appear to have steadily increased in size, which is only justified in the presence of strong policy conditions that will help achieve program objectives. Fragmentation could, however, undermine this due to its dampening impact on trade and overall growth which could make closing balance of payment gaps more difficult. At the same time, the increase in objectives a program is supposed to achieve could further hamper the necessary adjustment efforts. In the context of lending to LICs, the PRGT review will be critical. Current lending volumes are unsustainable and put the PRGT's self-sustainability at risk. The increasing creditor role of the Fund in LICs raises concerns which need to be addressed, such as the risks for the catalytic role of the PRGT. Financing options to replenish the PRGT are scarce and come with significant drawbacks. There is agreement that financing needs in LICs have increased and income divergence has to be reversed. However, reaching an agreement on the role of the Fund which needs to be in line with its core mandate requires further analysis and thorough discussion, also in view of finding viable financing options which would safeguard the Fund´s resources. Furthermore, several moving parts such as the LIC-debt sustainability framework, the review of conditionality or surcharges, have a bearing on the PRGT review, making the exercise even more complex.

The overarching priority for the Fund is that the 16th GRQ becomes effective without delay. Important progress on some milestones from the NAB to the transitional agreements has been made but what ultimately matters is the actual ratification in all member countries. This notwithstanding, the commitment given to advance the schedule of the 17th GRQ needs to be adhered to. We support the work to develop, by June 2025, possible approaches as a guide for a further quota realignment to better reflect members' relative positions in the world economy. The creation of a 25th Chair for Sub-Saharan Africa will improve the overall balance of regional representation at the IMF Executive Board.

Refocusing should also apply to the Fund's operations and business practices. The many new policy initiatives have not left much time and attention to make progress on modernizing the Fund. Like in member countries, having the proper frameworks in place is the first step, but they also have to be implemented. And while the Enterprise Risk Management framework has been passed, progress in its implementation has slowed down depriving the institution from reaping its benefits, chronic underinvestment in IT infrastructure and equipment is taking its toll and have increased cybersecurity risks.

We agree with the general call to improve the gender balance in the Executive Board, and take note of the recent 2024 Report on Gender Diversity in the Executive Board, but emphasize that the decisions on the appointments of Executive Directors and Alternate Executive Directors rest in the hands of the authorities.