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Statement by Mr. Tria
Italy

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

Statement by Mr. Giovanni Tria
Minister of Economy and Finance, Italy
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Growth, Uncertainty and Globalization: Evolving Policies for an Evolving Fund

The global economic expansion has started to stutter, following a few years of steady growth. Trade tensions have contributed to the ongoing slowdown in global growth, making the global outlook quite uncertain. We cannot rule out the possibility that the slowdown becomes more acute and persistent, possibly forewarning a contraction in economic activity, at least for a substantial subset of the global economy. Moreover, even the benign scenario of a modest recovery starting in 2020 would not avoid exacerbating discontent by amplifying the undesirable effects of globalization. Thus, sustaining and enhancing growth should be our paramount priority. Weak growth complicates fiscal consolidation efforts and induce poor social outcomes that make structural policies implementation more difficult.

Both fiscal and monetary policies should be agile, state-dependent and forward looking. In any event, pro-cyclical fiscal policies should be avoided, while public investment should be bolstered. Over the medium-term policy efforts should focus on structural reforms that encourage investment, increase potential output, and engender the transformation of the economy, while reducing vulnerabilities. To further enhance the inclusiveness of our social policies, we need to place special attention on those who have felt more the adverse effects of a quickly transforming global economy.

Our economies and policy making work well when there is growth; growth needs trust; and, in turn, trust comes when the public perceives that risks are limited and under control. Instead, globalization has often raised the perception of risks and insecurity, complicating domestic policy actions in the face of global challenges and developments. Policies need to deal with this reality to ensure that risks can be well managed both individually and collectively, without overshadowing the benefits and opportunities stemming from globalization. Multilateral efforts, based on mutual trust and a strong institutional and governance framework, play a key role in mitigating and managing these risks.

Actions should focus on correcting excessive global imbalances symmetrically. The persistence of these imbalances, on the one hand, has contributed to generating trade tensions; on the other hand, it has complicated domestic adjustment efforts in deficit countries, where their fairness is questioned because of the absence of comparable efforts in surplus countries. This focus should be complemented by efforts to leverage positive spillovers, and to promote supportive institutions. Enhancing awareness of the need to protect global public goods is key. The way forward is a renewed multilateralism to achieve mutually compatible national and multilateral targets. This approach would help counter the emerging discontent toward multilateral institutions, if presented as a necessary supportive complement, rather than an alternative, to countries' national objectives.

The Fund plays a strategic role in this evolving multilateral landscape, through its high-quality analysis, capacity to provide the membership with valuable advice, as well as financial support and capacity building. These core Fund's activities also sustain its ability to raise awareness, foster dialogue, and shape the global debate across all the membership. To fulfill its mandate, the Fund needs to remain at the center of the Global Financial Safety Net. Now that we move toward the conclusion of the **15th General Review of Quotas,** we wish to stress that the Fund's resources should be maintained at least at their current level. The role of the Fund is key to prevent severe crises from occurring. However, if a crisis occurs, the Fund should be well prepared, with adequate resources to provide countries with the necessary support.

The Fund is engaged in several strategic reviews of its policies to reinforce its role both in crisis prevention and management, and in support of sustainable growth.

The **Comprehensive Surveillance Review (CSR)** aims at enhancing traction, by fostering the effectiveness of Fund's advice in a context of pervasive uncertainty, complex challenges, limited policy space, and excessive imbalances. The overarching goal is to provide members' authorities with both candid and implementable advice on the right policy mix to lift actual and potential growth on a sustainable basis, while preserving macroeconomic stability. The macro-criticality criterion should remain essential to determine whether and to what extent the so-called "emerging issues" (e.g., gender parity, inequality, climate change, as well as corruption and other financial crimes) are relevant in surveillance; such assessment should take into account both adverse and favorable spillovers. While we need to remain alert against the risk of overburdening surveillance, we welcome the Fund's continued engagement on these issues.

In this regard, **climate change** is at the forefront and constitutes a truly horizontal issue. Decarbonization is a fundamental driver of structural change, with an impact comparable only to automation. The membership will benefit from tailored advice that should include fiscal and financial instruments as well as structural reforms, within the Fund's expertise and mandate. Significant public and private investments are required to foster the technological and industrial transition from fossil fuels. Fiscal space should be used to this end, where available.

The **Financial Sector Assessment Program (FSAP)** has served well the Fund's membership. Going forward, its Review should help address a fast-evolving landscape, where financial innovations and the nonbank financial sector engender not only opportunities but also new dimensions of risks, which need to be properly mitigated. Global regulatory reforms should proceed to address remaining gaps. We believe it is important to ensure that appropriate resources are devoted to financial surveillance and that systemically important jurisdictions, subject to mandatory assessments, are adequately identified.

We concur that the case for reviewing the **Debt Sustainability Framework for Market Access Countries** stems from the high rate of false alarms and missed crises. The relatively poor predictive power of the current framework mirrors its low granularity, as the analysis insufficiently incorporates country-specific factors. We believe that a more evenhanded approach will benefit from enhancing data coverage and quality, using more sophisticated analytical tools, and extending forecasts' scenarios. However, the Fund should remain aware of the risk of triggering self-fulfilling prophecies, especially in the case of near-term risks assessments.

We call the Fund to step up its support to Low-Income Countries (LICs), and help address the root causes of economic fragility as well as its consequences, such as the impact of migration flows. The Fund should continue assisting the membership in their quest to achieve the **2030 Sustainable Development Goals,** supporting the implementation of sound macroeconomic frameworks, and the strengthening of the institutions, notably on the fiscal front. We value the Fund's expertise in assisting countries to increase domestic revenue mobilization, improve public investment efficiency, and strengthen public financial management. We support the joint Fund and World Bank multi-pronged approach to curb debt vulnerabilities in LICs, by addressing debt transparency and management issues. We reiterate our call to both public and private creditors to abide by sustainable lending practices. We also support the way forward on the **Review of Facilities for LICs,** which aims at better addressing the needs of LICs, especially those in fragile conditions and exposed to climate-related shocks. We support a generalized increase in access to accommodate LICs' growing financing needs, and enabling more countries to blend the Poverty Reduction Growth Trust (PRGT) and General Resources Account (GRA) resources. Nevertheless, the PRGT should remain self-sustainable.

Finally, the **Review of Program Design and Conditionality** offers the opportunity for a deep reflection on program success and ownership; we believe it will be important to reaffirm the importance of parsimonious and streamlined structural conditionality that takes into account country-specific factors, such as implementation capacity as well as political and social challenges. Due care should be devoted to properly designing programs with clear and measurable outcomes, including on social issues. In this regard, we look forward to thoroughly discussing the **Strategy for IMF Engagement on Social Spending**.