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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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The global economy has shown some signs of resilience amid a highly challenging environment, but risks remain substantial and are again starting to intensify. Although the reorientation of public policies towards macrofinancial stabilization has yielded some initial results, the confluence of still significant imbalances, including persistent inflationary pressures, together with reverberations of geoeconomic fragmentation and intensifying financial shocks, weigh heavily on the outlook. In parallel with the need to steadfastly embrace stability-oriented measures, recent financial disturbances are also a stark reminder that pockets of financial vulnerabilities need to be addressed in a proactive manner, and policy mixes should be calibrated in a more integrated way. At the current juncture, where the Fund's views on the volatile global economic landscape and the nature of financial stability risks receive particular attention, keeping the Fund's multilateral surveillance focused on its core areas is especially important. We continue to be gravely concerned about the global consequences of Russia's unacceptable invasion of Ukraine and growing geoeconomic fragmentation.

With a protracted period of feeble growth and elevated inflation, the global economic outlook has not changed markedly since we last met, but risks are more squarely to the downside, not least in view of recent financial market distress. While global growth is still expected to bottom out this year, with a slowdown in advanced economies and varying prospects in emerging markets and developing countries, it can be even more uneven across the globe. The turbulent external environment, as well as high inflation and rising interest rates, put a significant burden on the world economy. Although inflation is on a declining path, its return to central banks' targets is still a long way off due to pressure coming from higher wage settlements and profits as well as still high food and energy prices. Meanwhile, financial sector stress and risks stemming from the residential and commercial real estate sectors in some countries could further aggravate policy challenges. Looking ahead, anemic medium-term global growth prospects, the stickiness of underlying inflation, and the diverse set of long-standing structural weaknesses are also a matter of global concern.

The Fund's surveillance and policy advice needs to become again more risk-based. Policy makers must be more attentive to adverse scenarios and their possible crystallization. The Fund's policy advice should chart specific policy responses tailored to country-specific risks. We welcome that the Spring World Economic Outlook makes risk assessments an integral part of the analysis.

Stabilization efforts should continue with the explicit aim of addressing macro-financial imbalances and containing financial stability risks. Keeping stability-oriented measures on track

is also essential to lay the basis for a more sustainable and resilient growth. In an environment where policymakers face difficult trade-offs to bring down persistent high inflation, safeguard financial stability, and preserve growth prospects, there is no other choice but to put in place carefully calibrated and stability-oriented policy mixes. Even though country-specific circumstances continue to largely define opportunities for policy responses, due to very similar dilemmas facing the membership, the findings of the Fund's flagship reports can also aid the authorities' efforts to navigate through this challenging period. Since many countries have limited fiscal policy space to offset new negative shocks, contingency planning and agile policy making are also indispensable.

There is still a great need for a multipronged approach to contain inflation. Central banks must stay the course to restore price stability and safeguard financial stability, while at the same time avoid falling into financial dominance. As a result of the synchronized monetary policy tightening and fall in commodity prices, global inflation has clearly started to recede. Nevertheless, inflationary pressures are still elevated, while core inflation is only set to decline gradually. Under these circumstances, tight monetary conditions will likely be maintained for a period in some countries. The need for further tightening should be carefully assessed, with due attention to recession risk, the pass-through and spillover effects of monetary policy, and underlying inflation developments. In this context, gaining a better understanding of the drivers of the natural interest rate is also essential. Therefore, we welcome the staff's work on modelling the natural real interest rate, in particular the extensions to include the international dimension. Maintaining central bank credibility, accompanied by clear communication, is key to ensuring that monetary policy decisions are as effective as possible in bringing inflation back to the target and fending off risks emanating from the de-anchoring inflation expectations.

In parallel, fiscal policies should also be further oriented towards more targeted measures, so that those measures become more effective, do not counteract monetary policy and allow fiscal authorities to gain policy space. With public debts stabilizing at elevated levels and debt costs increasing, fiscal consolidation efforts undoubtedly need to be advanced, also embedded in a credible medium-term framework. Relatedly, the effects of fiscal adjustments can be further reinforced when accompanied by growth-enhancing structural measures and stronger institutional frameworks.

The importance of fostering multilateral cooperation cannot be overstated. The rising risks of the world's increasing fragmentation into distinct blocks is concerning. This would not only be costly for the whole membership, but also hamper the possibility of dealing with global challenges. To avoid this, we also see a need for thoroughly evaluating the costs of geopolitical tensions and the implications of slowing (or de)globalization. In this context, we consider staff's assessment of how fragmentation can reshape the landscape of FDI especially topical and pertinent. While some diversification of supply chains has rightly gained greater prominence in the past years, multilateral efforts to preserve global integration should not be undermined.

Global financial risks have become increasingly elevated, and it will be critical to speedily contain potential spillovers from recent tensions in some segments of the banking sector to other segments of the financial markets and keep adverse cross-border effects in check. The recent distress in some segments of the banking sector indicated that while the post-GFC regulatory overhaul strengthened

its overall resilience, the rapid monetary policy tightening coupled with significant regulatory shortcomings exposed some vulnerabilities. We positively note the authorities' rapid efforts to minimize the damage to depositors and to maintain financial stability. At the same time adhering to best regulatory standards and international practices in banking resolution is critical to protect taxpayers from incurring losses. In this context, to ensure market confidence in the regulation framework and to reduce moral hazard, it is pivotal to stick to the defined hierarchy of financial instruments absorbing losses in banks' resolution and avoid the use of public resources.

Going forward, more work is necessary on financial regulation of the non-bank financial sector. We do not consider it appropriate to give NBFIs access to central banks' liquidity without strengthening their regulation. Thus, the most appropriate policy response should be targeted and tailored to specific segments of the NBFIs sector, including insurance companies, pension funds, and private credit providers. In this regard, sound regulation of leverage and liquidity management as well as adequate internal risk management practices are critical to enhance the NBFIs' stability going forward. We also see merit in enhanced market conduct regulation pertaining to NBFIs' specific business models, as well as efforts to improve public disclosure and thereby increasing their operational transparency. Achieving a more decisive supervisory progress in closing data gaps is warranted in this regard.

Fund priorities

We see a clear need for true prioritization of the analytical work of the Fund and for taking stock of the initiatives that have been rolled out rather than increasing the scale and scope of the Fund's activities.

The first and foremost priority is timely, fair and successful conclusion of the 16th General Review of Quotas by no later than December 15, 2023. We support a quota-based and adequately resourced IMF to retain its central role in the GFSN and preserve its credibility.

We welcome renewed efforts by the Fund to increase the predictability and timeliness of debt restructurings with a view to reduce socio-economic hardship on citizens of affected countries. The global sovereign debt roundtable strikes us as a useful complement to foster shared understanding but should not come at the expense or supersede already existing debt restructuring fora. Furthermore, necessary attention needs to be paid to entrenching debt sustainability and improving debt transparency.

While we commend the Fund on flexibly responding to the varying needs of its membership with the introduction of the Food Shock Window and by broadening its possibilities to assist countries facing exceptional uncertainty, we should also be mindful about the catalytic role of the Fund's financing mechanisms.

We re-emphasize that the Fund's focus should be kept on its expertise and macro-critical issues. We appreciate the Fund's more balanced engagement on climate topics, also from an energy security and climate mitigation angle. We still see a risk of a too ambitious climate agenda, unless there is a common understanding that the Fund has a comparative advantage vis-à-vis other institutions. This also holds true for the digital monies and digital cross-border payment platforms

agenda where a more focused approach would appear desirable to avoid stepping into the place of standard-setting organizations.

We welcome the progress on developing the Fund's risk management framework which we expect to play a leading role on assessing the Fund's rising credit risks as well as operational risks and should help with mitigating more visible HR risks due to the current retirement wave and the concomitant loss of expertise and experience, especially in designing Fund programs and well-reasoned and calibrated policy advice.