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Statement by the Hon. **TADEUSZ KOŚCIŃSKI,**
Governor of the Fund for the **REPUBLIC OF POLAND**

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Governor of the Fund for the Republic of Poland

The global recovery continues broadly in line with expectations, led mostly by the advanced and some emerging economies, while uncertainty, especially for the emerging and low-income economies remains elevated amid the continued waves of COVID cases and slow progress in vaccinations in many parts of the world.

The outlook for advanced and some emerging economies remains exceptionally favourable. Some of them are forecast to record historical fast growth rates in 2021, thanks to progress in vaccination process, high accumulated savings, decisive fiscal support and highly accommodative monetary policy. We expect pandemic-related restrictions to affect growth in most of the advanced economies only to a limited extent, given much smaller number of hospitalizations than during the previous waves of infection, as well as past adjustments to the post-pandemic "new normal" by businesses and households. On the downside, the strong pace of recovery coupled with a series of recent adverse events (inter alia re-introduction of COVID-related restrictions in some countries, transport bottlenecks, disruptions to the production of semiconductors) have already led to supply constraints in manufacturing and rise in prices of industrial goods and freight. We expect supply problems to persist until at least mid-2022 and weigh on the performance of manufacturing.

The prospects for emerging and low-income developing economies are less favourable, though. While insufficient access to vaccines poses a direct threat to the unvaccinated populations, it may also lead to an emergence of new and even more transmittable and deadly variants of the virus. Moreover, smaller potential for active fiscal policy in those economies make it difficult for the governments to protect the most vulnerable groups and support the most affected sectors of the economy.

Further evolution of the pandemic remains the main source of the risk to the global outlook. However, I would like to point also to other risks to global growth. First, the sizeable infrastructural investment packages in the US and the EU (under the Next Generation EU) are likely to be less effective in the context of prolonged shortage of materials and their high prices. Second, recent distress in the Chinese housing market points that risks to activity in construction in China and spillovers to other sectors in this economy are elevated and call for close monitoring.

For what concerns global challenges we think that debt sustainability is emerging as one of the most pressing issues to be addressed since countries are piling on record amounts of debt amid COVID crisis.

Poland's economy has withstood the pandemic-induced crisis very well. The data for the second quarter of 2021 confirmed the ongoing recovery of the Polish economy. The upturn was underpinned by a significant increase in consumer spending. As a result real GDP exceeded the pre-pandemic level GDP growth and is expected to reach 4.9% in 2021 and 4.6% in 2022. The unemployment rate is still low, at 3.4%, and one of the lowest among EU countries.

The IMF has continuously demonstrated its ability to take strong and rapid measures to support its members during the COVID-19 crisis. Accordingly Fund's support has shifted from emergency financing and debt relief at the height of the crisis towards regular lending programs with upper-credit-tranche conditionality.

We welcome the new general allocation of Special Drawing Rights. However, the SDR allocation shall not substitute for much needed macroeconomic adjustment and structural reforms, also within IMF-supported programs that go along with appropriate conditionality framework and safeguards. I support exploring options for enabling countries with strong external positions to voluntarily channel some of their allocated SDRs towards vulnerable countries. Nevertheless, it is imperative that any such contribution should be voluntary and respect the national legal requirements and procedures, including the fundamental need to preserve the reserve asset status of SDRs.

Among the options discussed the PRGT is the most straightforward one to channel part of the allocated SDRs as it is tested and well-known both for the potential clients and the Staff. Yet, some new elements recently introduced to the PRGT framework still need to be further assessed from the point of view of the liquidity and credit quality of the assets. We are open to explore the creation of a new Resilience and Sustainability Trust (RST) based on voluntary contributions. It is yet essential to ensure that any lending purposes should be within the IMF's remit of competence. RST funding should complement existing Fund arrangements alongside an upper-credit-tranche IMF program without competing with existing sources of financing. Furthermore, it is crucial for the design of the RST to preserve the reserve status of the allocated SDRs as EU national central banks are bound by the prohibition of monetary financing laid down in the Treaty on the Functioning of the European Union. We also take note that some key details regarding the credit quality and liquidity need to be further discussed and clarified by the Fund in order to have a final comprehensive assessment of the RST.

We continue to support the commitment by the IMFC and by G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas.

We welcome the Fund's Strategy to Help Members Address Climate Change Related Policy Challenges. I agree that several actions could be considered to broaden and deepen the IMF's engagement on macro-critical climate-change-related issues across its activities, to help IMF's membership prevent and address macroeconomic and financial stability risks related to climate change. I support the systematic integration of adaptation, mitigation, and transition policies into Article IV consultations, on a case-by-case basis whereas macro-economically relevant and on the basis of the appropriate methodological approaches. However, I strongly believe that the role of IMF program conditionality is not to support climate ambitions of member states but to help solve a country's balance-of-payments problems and retain macroeconomic stability. Moreover, it is vital that the IMF would not duplicate the work of other international financial institutions.

I also welcome the IMF's work on a strategy related to the digital money. I see the activities undertaken by the Fund to widen and deepen its work on digital money as the step in the right direction. I concur the Fund has a mandate to help ensure that widespread adoption of digital money fosters domestic economic and financial stability, and the stability of the international monetary system. The Fund's activities related to the digital money should primarily be based on surveillance (within the Article IV consultations and FSAP) and capacity development. As for surveillance, I strongly believe that the coverage should focus on countries and areas where implications of digital money adoption are macro-critical. I underscore that the introduction of central bank digital currencies (CBDCs) would be a sovereign decision of each country and it would be taken based on national circumstances or regional arrangements (as in the case of the euro area).

In the modern world we live in a global "open space". Collective action to achieve global access to vaccines against COVID-19, where no one is left behind, is a practical necessity. For the pandemics borders don't exist. That's why I highly commend the World Bank Group for its quick and decisive reaction, encompassing the unprecedented mobilization of finances, and the swift introduction of operational modalities aimed at facilitating countries' interventions. I strongly support the approach based on ensuring fair and affordable access to vaccines by developing countries.

At the same time I fully concur with the Bank as “an all clients Bank” which is capable of providing well targeted assistance to address the specific development needs of its individual members. The world is changing very dynamically and the international development banks need to help their client countries smoothly adapt to new circumstances. I therefore highly appreciate the extraordinary dynamism and determination in the Bank's response to contemporary challenges and tasks, including the climate agenda, strengthening resilience to shocks and inclusiveness.

I therefore express appreciation for the creativity and boldness of the new Green, Resilient and Inclusive Development strategy (GRID). The GRID strategy is an innovative approach to development, rooted in the assumption that business-as-usual recovery package that neglects interlinkages would not adequately address the complex and simultaneous challenges that confront the world. Targeting any one of the global challenges in isolation is likely to be less effective than a coordinated response to their interacting effects. I encourage the Bank to move as soon as possible “from acronyms to actions” and operationalise this approach in its client countries and at all levels of engagement. Against this background I appreciate the Bank for its continued commitment and concrete actions to assist countries in just transition, leaving no one behind, and invite it to be further active in achieving this vision.

The role of the WBG in the future crisis prevention is obvious. I appreciate the WBG expertise in the area of analytical work, advisory services and technical assistance and I believe that any WBG intervention should begin with the proper analytics and be accompanied with advisory assistance. In this context, a gradual shift from investing in response to investing in preparedness should be considered. At the same time, I invite the WBG to continue its collaboration with client countries, aimed at elaborating the most effective, credible and adequate financing solutions, to ensure a truly calibrated approach, responding to country needs and circumstances and to focus on innovative co-financing efforts with key development partners.

The pandemic crisis and the immediate actions stimulating post-COVID recovery should not deflect our attention from the importance of following a path towards implementing all Sustainable Development Goals by 2030. Although it may seem unrealistic given the current challenges we face, it is important to have them in mind while preparing and implementing development activities. In this context, I strongly encourage the WBG, and in particular the IFC, to search for innovative approaches to mobilise private sector finance for development, and be proactive in the discussions regarding financing global public goods that would not diminish financial flows to countries most in need.

Finally, let me turn to the International Development Association which has been playing a key role in the global reaction to the COVID-19 crisis by providing increased support to the poorest and most vulnerable countries. Given the unprecedented impact of the crisis on poverty, inequality and economic growth, and the increased demand for IDA resources, we actively engage in the negotiations on the advanced IDA20 replenishment. In this context, I welcome the approaching final stages of this ambitious exercise, with the hope that IDA20 will focus on building back better and contribute to a more resilient and inclusive future for the countries that need it the most.

One should not forget that in parallel with the intense efforts to respond to COVID-19 crisis, a complex and challenging process of the review of IDA voting rights framework was taking place. The compromise achieved and presented at these Annual Meetings is a result of lengthy and extremely difficult negotiations, and to arrive with the final package needed a lot of good will of all the member states, especially those whose voting power is going to be diminished as compared to the current situation. In this regard I am satisfied that the new framework respects the past agreements and I hope that it will serve well to enhance IDA’s financial strength by incentivizing contributions in future replenishments, and will protect the voice of the recipient countries.