INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-1

Statement by Mr. Lindner
Germany

Statement by Mr Christian Lindner

Minister of Finance of the Federal Republic of Germany

to the International Monetary and Financial Committee

Washington, April 14, 2023

Germany continues to strongly condemn Russia's illegal, unprovoked and unjustifiable war of aggression against Ukraine and calls on Russia to cease its brutal attacks immediately.

I. Global Economy and Financial Markets

Global Economy, Europe and Germany

Although global growth prospects have improved slightly, the war of Russia in Ukraine still weighs heavily on the global economic outlook and risks remain elevated. Russia ending its war would be the single-most important measure to improve the prospects for the global economy. Given ongoing price pressures, an appropriately tight monetary stance to fight inflation remains of the essence. Moreover, fiscal policy should be in line with fiscal rules and not thwart the stance of monetary policy.

Despite challenging circumstances, GDP in Germany grew by 1.8 % in 2022. This can be attributed to the swift adjustment of companies and households to higher energy prices, economizing on energy consumption, and our fiscal stabilization efforts that are designed to cap energy prices and still maintain energy saving incentives. High energy prices and inflation did, however, increasingly weigh on economic activity towards the end of last year. Leading research institutes forecast GDP growth in the range of –0.1 % and 0.5 % for 2023 (and in the range of 1.4 % and 1.9 % for next year). We expect inflation to decline over the course of this year, but still to remain around 6 % as the yearly average. Uncertainty about the outlook remains rather high.

The federal budget for 2023 marks the first step in the transition to the normalization of our fiscal policy. The return to the regular upper net borrowing limit of the German debt brake from 2023 onwards is an important signal regarding the prudence and sustainability of German fiscal policy and public finances. With record investments planned in the federal budget for 2023, the federal government is opening a decade of investments in a modern, digital and climate-neutral German economy through consistent and ongoing prioritization of expenditure.

Given a strong labor market and fully utilized capacities, a continued expansionary fiscal policy would trigger inflationary competition for scarce resources, counteracting restrictive monetary measures. It could also crowd out private investment. After the successful short-term stabilization measures, the federal government is pursuing supply-oriented fiscal and

economic policies with the aim to mobilize private investment, strengthen the labor market, increase productivity growth, and thereby also reduce inflationary pressures. Above all, it is important to create an even more attractive environment for innovative companies and to strengthen Germany as a business location in general. The federal government has therefore set itself the goal of ensuring a competitive tax system and a modern government with accelerated and digitized procedures.

In the EU and the Euro Area, the economy has recovered strongly following the pandemic and so far, has weathered the economic consequences of Russia's war of aggression against Ukraine, in particular regarding the energy price shock. The economy entered 2023 on a healthier footing than previously expected despite high inflation. Labor markets are performing strongly, with the unemployment rate at low levels. Growth is nevertheless expected to remain subdued in 2023 and to pick up gradually in 2024. While uncertainty surrounding the outlook remains elevated, notably in relation to geopolitical and energy related factors, risks to growth appear more balanced than previously. Prudent fiscal policies should aim to ensure medium-term debt sustainability, while raising potential growth in a sustainable manner and forcefully addressing the green and digital transition and resilience objectives through investment and reforms while also facilitating the effective transmission of monetary policy in a high inflation environment.

For the EU, now is the time to embrace structural policies that safeguard our future by establishing an environment that sets the stage for the green and digital transition of our economies. Germany and the EU pursue an ambitious climate policy with the goal of transition to carbon neutrality by mid-century. To meet this objective, a mix of instruments is being used. Key pillars are carbon pricing, regulatory instruments as well as targeted support measures such as a marked ramp-up of green technologies. Germany has created the climate and transformation special fund (KTF) to provide funding for climate protection and environmentally friendly, reliable and affordable energy supplies. For this purpose, around 178.1 billion euros have been budgeted for the period between 2023 and 2026, with 36.0 billion euros available for 2023 alone.

Financial Markets

Latest developments in the banking sector have highlighted the potential risks that must be anticipated in global financial markets when moving from an ultra-low to a rising interest rate environment, especially in the current macroeconomic environment. The events have markedly increased uncertainty and led to increased volatility in financial markets.

Overall, the global financial system has proven its resilience. However, authorities must continue to closely monitor the financial system as a whole, at the global, regional and national level. Recent events underline the importance of high regulatory standards and the availability and use of macroprudential toolkits.

Concerning the euro area banking sector, we fully agree with the recent ECB statement that the sector is resilient, with strong capital and liquidity positions. In any case, the policy toolkit

is fully equipped to provide liquidity support to the Euro Area financial system if needed and to preserve the smooth transmission of monetary policy.

The same applies to the German banking sector. German banks have strong capital and liquidity positions, the sector is resilient, not least due to its diversity. Furthermore, Germany took preventive action about a year ago by raising macroprudential capital buffers for banks. These buffers are an additional safeguard which further strengthens the German banking sector. German and European authorities are in close contact and remain vigilant regarding further developments.

II. International Financial Architecture and IMF Policies

The IMF deserves high recognition for the support it provides to its members facing challenging macroeconomic circumstances in the wake of severe shocks to the world economy. In this environment, the Fund's high-quality policy advice in its surveillance and efficient deployment of capacity development continue to play a critical role. Within its mandate, the Fund should continue to make full use of its tried and tested lending instruments and policies to help members requesting support.

We welcome and support the ongoing work and discussions on the 16th General Review of Quotas, with the aim to reach a conclusion by December 15, 2023. We reiterate our commitment to a strong, quota-based and adequately resourced IMF at the centre of the Global Financial Safety Net. In this context, we note that the current General Resources Account resource envelope has continued to prove its adequacy even in a phase of multiple severe global economic challenges. We commend the IMF staff's tireless efforts to reach out to the membership in order to support a broad consensus. As in the past, decisions related to all elements of the quota review have to be considered as an integrated package. The process and outcome of the quota review should be fully anchored in the relevant IMF bodies and need to take into account the interests of the entire membership of the Fund.

We consider the Fund's lending architecture as broadly adequate and the Fund well set up to respond effectively and swiftly to potential future crises. We look forward to upcoming reviews of the lending toolkit including the use of precautionary instruments with a view to having a parsimonious, transparent and effective toolkit to help solving a member's balance of payments problem and achieving medium-term external viability while fostering sustainable economic growth. In addition, structural reform needs must be swiftly and decisively addressed also in the context of precautionary arrangements. Moreover, the core principles of IMF lending have to be safeguarded also with the use of precautionary instruments. This puts a constraint on the level and the duration of use of precautionary instruments that the Fund can shoulder while maintaining its catalytic role, the revolving nature of its resources, and its financial integrity. We also look forward to deeper ex-post analyses of the IMF's crisis lending and its other support measures (including the Catastrophe Containment and Relief Trust) in the context of the COVID pandemic, in order to distil useful lessons on how to best support members going forward. Such lessons need to appropriately account for the rise in debt vulnerabilities, in many

countries, recognizing that Fund lending cannot be regarded as a substitute for necessary debt restructuring or financing from non-super senior sources.

We are concerned about rising debt vulnerabilities, especially in low-income countries. Successful sovereign debt restructurings require effective cooperation between all stakeholders, including agreement on key principles and timelines. We commend the IMF for its proposals to accelerate the implementation of the G20 Common Framework for Debt Resolution and its efforts to build consensus among key creditors through the complementary Global Sovereign Debt Roundtable. We also emphasize the importance of IMF debt sustainability analyses (DSAs). Not only do prudent DSAs constitute a key safeguard for IMF resources, they also provide an important public good by independently assessing the potential need for and scope of a debt restructuring. The key challenge is to achieve sustainability through a prudent approach which avoids an optimism bias, and thus addresses the longstanding issue that debt restructurings tend to happen "too little, too late". Where debt is unsustainable, adequate financing assurances from creditors need to remain a precondition for IMF financial support to uphold key principles of Fund lending and to protect its resources, but also to avoid distorting creditors' incentives. In addition, we strongly support international efforts to strengthen debt transparency by debtors and creditors, and encourage the IMF to make full use of available tools in this regard.

As a multilateral institution, the IMF plays an important part in addressing, within its mandate, the immense global policy challenges posed by climate change. Thus, we strongly welcome the ongoing implementation of the Fund's climate strategy. We encourage the Fund to make further progress in considering climate change as a macro-critical issue in a more systematic manner in the Fund's core activities. Regarding the Fund's surveillance, an in-depth coverage of mitigation policies of the largest greenhouse gas emitters should become a mandatory part of Article IV consultations. In addition, we welcome the operationalization of the IMF-administered Resilience and Sustainability Trust (RST). Going forward, a prudent and efficient use of limited RST resources is key. Close cooperation with international organizations, especially the World Bank, to identify effective reform measures accompanying financing from the RST is crucial to leverage expertise and avoid duplication of work.

It remains critical, for the Fund as an institution and for borrowing members, to ensure that financial assistance by the Fund is used for its intended purpose. Good governance, transparency and anti-corruption are macro-critical. They are essential conditions for sustainable economic development especially benefiting the most vulnerable. They mitigate risks to the Fund's resources and its reputation and help donors with regard to providing financial assistance. The Fund should therefore continue to require specific governance commitments as part of IMF-supported programs and closely monitor their implementation.

We endorse continued strong support especially for low-income countries in the coming years, in line with the Fund's lending policies, debt sustainability requirements and resource envelope. To this end, and for a financially robust and self-sustained Poverty Reduction and Growth Trust (PRGT) financing framework, it is vital to mobilize substantial additional donor contributions

for the PRGT. This can be achieved through a broadened donor base, without focussing too narrowly on specific financing modalities. We thus encourage a broad participation and a fair burden sharing among the Fund's members in the ongoing fundraising round, within members' means, choice of contributions and legal frameworks. The same holds true for the RST. Germany has already made very substantial contributions to the PRGT and RST from the federal budget. We see no scope for using additional internal resources of the Fund, to support the IMF-administered Trust Funds. As shareholders, we need to ensure continued trust in the Fund's financial integrity, given the extraordinarily high financial risks to the Fund. Meanwhile, elevated credit risks and resource constraints require a prudent and judicious implementation of lending policies.

Effective risk management is fundamental for the Fund, especially in the current environment of elevated global economic risks. We call for continued efforts to deepen the Fund's risk management capacity and to refine the risk tolerance framework in a timely manner, to support responsible risk-based decision making in fulfilling the Fund's mandate. We emphasize the importance of adequate financial risk buffers, with the agreed continued steady build-up of precautionary balances being a key priority, given increased lending risks.

We welcome the Fund's continued work on diversity and inclusion. We support advancing the work of the Working Group on Gender Diversity towards enhancing gender diversity in the IMF Executive Board.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
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Statement No. 47-2

Statement by Mr. Al Ghais
OPEC

Statement by the

Organization of the Petroleum Exporting Countries (OPEC)

to the

International Monetary and Financial Committee (IMFC)

Meeting of Ministers and Governors

April 2023

The Organization of the Petroleum Exporting Countries (OPEC) would like to provide the distinguished delegates to the **International Monetary and Finance Committee (IMFC)** an update on **current oil market conditions and developments**.

Global oil market remains **well supplied** by OPEC and the non-OPEC countries participating in the **Declaration of Cooperation (DoC).** Regular monitoring of oil market fundamentals has repeatedly provided **clarity and assurance to the market**, and hence **reduced market volatility**, which in turns has **benefited both producers and consumers**. Moreover, the DoC joint efforts contribute to **global energy security**, which is a key enabler for economic activity, an essential element of **energy access**, and a cornerstone of **stability in energy markets.** Indeed, the world oil demand is expected to grow firmly in **2023** by **2.3 mb/d**, following a solid growth in **2022**, amid sustained global economic and oil demand growth that was consolidated by China's reopening of its economy.

However, monetary policies from leading central banks and recent **sell-offs in major financial markets** caused by the banking system turmoil have clouded the global economic and energy demand outlook. This has amplified **volatility in the futures markets**, including crude oil. Unfortunately, **liquidity** in oil futures markets remains relatively low, despite the recent slight recovery, and is a concern for the efficiency of **price discovery**, as well as for the overall functioning of the oil market.

While multiple challenges are expected to dampen global economic growth in **2023** when compared to **2022**, the **1Q23** dynamic has been solid. Steady US growth – in particular the services sector; the positive effects from China's reopening; and better-than-expected growth in the Euro-zone were all supportive developments. India is also likely to perform relatively well in **2023**, supported by government spending plans that include a rise in infrastructure spending, income tax cuts and other measures. Brazil and Russia are forecast to face challenges in 2023, but are likely to be supported by structural reforms, fiscal support measures and commodity income.

Although global GDP growth was better than expected in **1Q23**, it is forecast to slow in **2023** to **2.6%** from **3.2%** in **2022**. This deceleration comes amid elevated global inflation, continued monetary tightening by major central banks, and increasingly limited fiscal room to counterbalance the deceleration. The recent turbulence in the banking sector adds to the expectation of further economic challenges in **2023**.

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The US economy is forecast to slow considerably. Following growth of **2.1%** in **2022**, the economy is forecast to grow by **1.2%** in **2023**. Similarly, the Euro-zone's economic growth is anticipated to decline significantly from **3.5%** in **2022** to **0.8%** in **2023**. Japan's economic growth estimate for **2022** stands at **1%**, and the economy is forecast to expand by **1.2%** in **2023**. China's economic growth stood at **3%** in **2022**, largely impacted by COVID-19 lockdown measures, but the economy is forecast to rebound sharply following the country's reopening efforts and grow by **5.2%** in **2023**. India's 2022 economic growth stood at **6.7%** on a calendar year basis, and is forecast to slow to **5.6%** in **2023**. Brazil's economic growth was reported at **2.9%** for **2022**, and is forecast so decelerate to **1%** in **2023**. Russia's statistical office reported a contraction of **2.1%** in **2022** and is expected to contract by **0.5%** in **2023**.

In **2022**, **global oil demand** is estimated to have increased by **2.5 mb/d** to average **99.6 mb/d**, supported by the economic recovery. With the exception of China, whose strict zero-COVID-19 policy led to reduced economic output and mobility, demand was driven by improvements in jet/kerosene, diesel and gasoline. In the OECD region, OECD Americas drove demand growth by **0.7 mb/d** y-o-y, and Europe saw a healthy y-o-y increase of **0.4 mb/d**. OECD Asia Pacific lagged behind, impacted by the negative developments in the region's major trading partner, China. Overall, oil demand in the OECD increased by **1.2 mb/d**, y-o-y. Oil demand in the non-OECD is estimated to have increased by a **1.3 mb/d**, y-o-y, despite a y-o-y contraction, mainly in China. China's oil demand contracted due to the extension of the zero-COVID-19 policy.

Despite the apparent slowdown in economic growth in several regions towards the end of the previous year, world oil demand growth in **2023** is forecast to increase by around **2.3 mb/d** to average **101.9 mb/d**. This will be largely due to China, where the abandonment of the zero-COVID-19 policy in **December 2022** and subsequent reopening is expected to considerably boost demand for transportation and industrial fuels.

Despite some macro-economic headwinds, oil demand in the **OECD** is anticipated to rise by around **0.2 mb/d**, with most of the increase occurring in OECD Americas and some pick-up is expected in OECD Asia Pacific. However, oil demand in OECD Europe is expected to stagnate due to the anticipated slowdown in economic activity and supply-chain-related as well as geopolitical developments. In terms of products, jet/kerosene is projected to be the driver of oil demand, with road transportation fuels – diesel and gasoline – also growing.

In the **non-OECD** region, oil demand is expected to soar by around **2.1 mb/d**, with the re-opening of China having a substantial impact on the region's

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oil demand, followed by Other Asia and the Middle East. However, this forecast remains subject to many uncertainties, including the pace of global economic activity given the current challenges and geopolitical developments.

Non-OPEC liquids supply in **2022** is estimated to grow by **1.9 mb/d** from the previous year. The main drivers for growth were the US, Russia, Canada, Guyana, China and Brazil. Crude and product exports from Russia have proved more resilient than expected. US production is estimated to increase by **1.2 mb/d y-o-y**. Estimations show **global E&P capex spending** for **2022** rising by about **18%** y-o-y to average $500 billion, much lower than the $886 billion recorded in 2014, but 27% more than in 2020.

For **2023**, the **non-OPEC liquids supply** is expected to grow by **1.4 mb/d**. The main growth contributors are expected to be the US, Brazil, Norway, Canada and Kazakhstan. Global E&P capex spending for **2023** is forecast to grow by around **13%** y-o-y to average $566 billion, just over pre-pandemic levels. More upstream investment is still required to meet the demand outlook and strengthen spare capacity.

Amid supply chain issues and inflation in the US, public operators and the oil majors are still expected to focus on paying down debt and increasing returns to investors. Nonetheless, given the ongoing geopolitical developments in

Eastern Europe and US shale liquids production prospects, there is a great deal of uncertainty surrounding the **non-OPEC supply forecast** for **2023**.

Meanwhile, **OPEC NGLs and non-conventional liquids** production in **2022** is estimated to have grown by **0.1 mb/d** to average **5.4 mb/d**, and is expected to grow by **50 tb/d** to average about **5.4 mb/d** in **2023**. In February 2023, **OPEC crude oil** production rose by **117 tb/d** m-o-m in February to average **28.92 mb/d**, according to secondary sources.

In February, **refinery margins** reversed course and underwent a counter-seasonal downturn to show solid losses in all main trading hubs. This occurred despite rising offline capacities as maintenance works intensified. In the **US Gulf Coast, Rotterdam and Singapore**, margins declined by **$13.06/b** vs WTI, **$7.64/b** vs Brent, and **$5.45/b** vs Oman m-o-m, to average **$30.40/b, $12.86/b,** and **$6.76/b** respectively. Most of the weakness stemmed from the middle section of the barrel as a result of high middle distillate volume arrivals in Europe, mainly from the East. The high product availability in Europe, amid weaker US product exports and strong refinery output levels in Asia, led to considerable stock builds and caused jet fuel and gasoil margins to experience massive losses across regions.

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Global refinery offline capacities in February rose by **1.7 mb/d** to average **8.7 mb/d**, according to preliminary data. Accordingly, **global refinery** runs extended their downward trend and fell by **646 tb/d** to average **79.5 mb/d** compared to 80.1 mb/d registered in the previous month. However, y-o-y, intakes were **94 tb/d** higher. **Going forward, global** refinery intakes are expected to drop further as offline capacities rise during heavy maintenance, which is projected to peak around April. Consequently, product balances are set to contract, which should improve product performance and refinery economics in the coming month.

US crude imports in February declined from a three-year high the month before to average **6.4 mb/d**, according to weekly data. In contrast, preliminary data shows **US crude exports** reached a record high of **4.3 mb/d** in February. **US product imports** fell from an 11-month high the month before to average **2.2 mb/d**. Gains in gasoline and jet fuel were outpaced by declines in other products. In **Japan**, the latest data shows crude imports fell from a four-month high to average **2.7 mb/d** in January. Product imports, including LPG, were little changed after reaching an 11-month high the month before. Japan's product exports recovered further, averaging **562 tb/d**. Gasoil, gasoline and fuel oil saw gains, while kerosene and jet fuel declined.

Estimates based on secondary sources showed crude imports into the **OECD Europe** region were ample in February, with supplies coming in from South America, West Africa, North America and the Middle East. Crude imports into the region from Russia have been focused on Turkey and countries along the southern leg of the Druzhba pipeline.

China's crude imports declined from the highs seen at the end of 2022, averaging **10.2 mb/d** in January, then picked up again to **10.6 mb/d** in February. Product exports remained at elevated levels in February, averaging **1.7 mb/d**. Although down from the almost three-year high at the end of last year, product outflows were sharply higher compared to the same month last year. **India**'s crude imports rose 2% in January to average **4.7 mb/d** as refiners returned from maintenance and continued to increase inflows of discounted Russian grades. India's product exports erased much of the previous month's gains, averaging **1.1 mb/d**, with declines across the barrel.

Total OECD commercial oil stocks rose by **14.1 mb** m-o-m in February for the sixth consecutive month. At **2,865 mb**, they were **237 mb** higher than the same time one year ago, **18 mb** above the latest five-year average, but **54 mb** lower than the 2015-2019 average. Within the components, crude stocks rose m-o-m by 28.9 mb, while product stocks fell m-o-m by 14.8 mb.

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At **1,442 mb**, **OECD commercial crude stocks** were **180 mb** higher in February than the same time a year ago, **57 mb** above the latest five-year average but **6 mb** lower than the 2015-2019 average. **OECD product stocks** stood at **1,424 mb, 57 mb** higher than the same time a year ago, **38 mb** lower than the latest five-year average and **48 mb** below the 2015-2019 average.

In terms of **days of forward cover**, OECD commercial stocks rose by **1.0 days** m-o-m in February to **62.9 days.** This is **4.9 days** above February 2022 levels, **1.8 days** below the latest five-year average but **0.3 days** higher than the 2015- 2019 average. All three OECD regions were below the latest five-year average: the Americas by **1.1 days** at **62.3 days**; Asia Pacific by **3.1 days** at **47.2 days**; and Europe by **2.9 days** at **72.4 days**.

In closing, **OPEC** would like to reaffirm its **long-standing commitment to supporting oil market stability** for the mutual benefit of consuming and producing nations, as well as the global economy. Given the current level of economic uncertainty, and the increased volatility observed in the oil market, OPEC and the non-OPEC countries in the DoC will continue to closely monitor market developments and remain poised to make adjustments within its existing mechanisms in order to support oil market stability.

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-3

Statement by Mr. Dombrovskis
European Commission

Statement of Executive Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni to the International Monetary and Financial Committee on behalf of the European Commission

Washington, 14 April 2022

1. Russia's unprovoked aggression against Ukraine grossly violates international law and the principles of the UN Charter. Its ongoing unjustified and unjustifiable attacks are exacting a tragic human cost on the people of Ukraine. Russia is undermining European and global security, the international rules-based order, and stability and prosperity. The EU stands firmly by Ukraine and its people and will do so for as long as it takes. The EU will continue to work very closely with its international partners to support Ukraine and further increase collective pressure on Russia to end its war of aggression and to withdraw its troops from within Ukraine's internationally recognised borders. Since February 2022, the EU has been implementing far-reaching sanctions on Russia and its accomplices, notably Belarus, and stands ready to reinforce them and implement anti-circumvention measures through sanctions that relate inter alia to individual persons and entities and have a significant impact on the Russian economy and its financing capacity. The EU is also implementing the price caps on oil and petroleum products agreed by the G7, designed to reduce Russian revenues and the ability to fund its war whilst limiting the impact of Russia's military aggression on global energy prices.

2. The EU has reiterated its commitment to continue providing strong support to Ukraine and its people for as long as it takes. We strongly welcome the adoption of the upper credit tranche-quality programme for Ukraine. The EU is coordinating closely with international partners to help close Ukraine's financing gap and to advance with the implementation of the programme. In 2022 alone, the EU provided an emergency and exceptional macro-financial assistance (MFA) operation of EUR 7.2 billion. To ensure the predictability and reliability of this sizable support to Ukraine for 2023, the EU set up a new financial instrument - "MFA+" - in the form of highly concessional loans of up to EUR 18 billion, that also includes an additional interest rate subsidy. Payments of EUR 4.5 billion have already taken place, to be followed by disbursements of EUR 1.5 billion on a monthly basis. Team Europe (i.e. the European Union and its Member States and European Financial institutions) has provided more than EUR 67 billion in financial assistance to Ukraine since the outbreak of the war. This includes EUR 17 billion made available to host Ukrainians who have found shelter in the European Union. The EU and its Member States are also crucial providers of military aid, and equipment as well as material for the civilian population (e.g. medications, food, and fuel).

3. The EU economy continues to display resilience. Stronger-than expected growth in the second half of 2022 together with significantly lower wholesale gas prices and continued strong labour markets improved the near-term growth outlook for the EU economy. The latest Commission forecast, issued in February, lifted the outlook for growth this year and slightly lowered the inflation projections. Since then, economic developments have not warranted a substantial revision of the growth outlook for 2023 and 2024. Energy commodity prices have continued to fall, the unemployment rate has remained at an all-time low, amid persistent signs of labour market tightness. Headline inflation has continued declining, whilst core inflation increased further. Monetary policy normalisation is thus set to continue. The EU banking sector is resilient. EU banks have solid capital positions, robust asset quality, high liquidity buffers and rely upon well-functioning supervision market infrastructures that have withstood market volatility shocks and declines in asset valuations.

4. The effective implementation of the EU's Recovery and Resilience Facility (RRF) is at the top of our priorities. It is the centrepiece of the EU's efforts to achieve a sustainable and transformative recovery after the pandemic, making available EUR 723.8 billion (in current prices) in loans (EUR 385.8 billion) and grants (EUR 338 billion). The implementation of

national reform and investment agendas - Recovery and Resilience Plans (RRPs) - is in full swing, with more than EUR 150 billion having been disbursed to Member States by 31 March 2023. At least 37% of expenditure in each national RRP has to be targeted towards green measures, ensuring that the EU is aligned with the longer-term climate and environmental sustainability goals. In fact, around 40% of RRF funds has been allocated to climate-related measures.

5. On 8 March 2023, the European Commission set out its guidance for EU Member States on the conduct and coordination of fiscal policy. In 2023-24, fiscal policies should aim at ensuring medium-term debt sustainability and raising potential growth in a sustainable manner. Prudent fiscal policy will help to ensure the stability of the European economy and facilitate the effective transmission of monetary policy in a high inflation environment, by ensuring the respect of the 3% of GDP deficit reference value as well as plausible and continuous public debt reduction. Fiscal measures that have mitigated the impact of the energy crisis on businesses and consumers should be phased out. If an extension of support were necessary, Member States should target their measures, refraining from generalised support and only protecting vulnerable households and firms in order to limit fiscal costs and ensure price signals to limit energy consumption and increase energy efficiency.

6. The environment of recurring large shocks, cyclical fluctuations and ongoing investment needs for the green and digital transitions while keeping debt sustainable, demonstrates the need for a robust EU economic governance framework. The European Commission published its orientations for a reform of the economic governance framework in November 2022. Discussions amongst EU Member States on the revised fiscal framework are progressing. The Commission intends to publish its legislative proposals in the coming weeks. The Council of the European Union has set out the aim of concluding legislative work in 2023.

7. Russia's war against Ukraine has aggravated the global food crisis. Supply chain disruptions are driving high food prices that are straining the budgets of households and states. They are also causing difficulties in accessing agricultural inputs. The total EU support for food security, as part of the Team Europe response to the global crisis reaches more than EUR 8.3 billion from 2021 to 2024. We strongly welcome the good implementation of the food shock window under the IMF's emergency financing toolkit which aims to enhance the IMF's support to members facing urgent balance of payment needs related to the global food shock.

8. Although the energy market outlook for 2023 remains challenging because of uncertainty, it has improved thanks to extensive and timely policy measures undertaken by the EU and its Member States and close cooperation with international partners. The EU set a strategic framework for rapidly reducing its dependence on Russian fossil fuels in the form of the REPowerEU plan and the European strategy for external energy engagement, by fast-forwarding the clean transition through energy efficiency measures, accelerating the renewable energy roll-out and joining forces to achieve a more resilient energy system and a true Energy Union. The RRF is the main instrument to channel financial support from EU funds for REPowerEU objectives, and InvestEU, through its sustainable infrastructure window, is supporting clean investments that would help in accelerating the phasing out of Russian fossil fuels. The European measures have been successfully implemented in all key areas of energy policy and reduced uncertainty in European and global markets: security of supply and storage, gas demand reduction, supply side measures (the EU Energy Platform and international outreach), introduction of a market correction mechanism to avoid excessive prices in gas markets, reduction in electricity peak demand, faster deployment of renewables, and targeted upgrades of the infrastructure for diversification.

9. Close coordination of the health and economic responses remains necessary. It is critical to reinforce national health systems, as well as to improve surveillance. As a founding member

and one of the biggest founding donors (with a pledge of USD 450 million), the European Commission welcomes the first call for proposals by the Pandemic Fund and calls for further donations to support it. Moreover, we fully support the work undertaken by the G20 Joint Health and Finance Task Force. Further work should focus on developing a G20 framework for economic vulnerabilities and risks arising from pandemics and on enhancing response tools to tackle future pandemics. It is crucial that this work is conducted in coordination with relevant International Financial Institutions (IFIs), including the IMF. We welcome the discussion on how surge financing can be rapidly mobilised and allocated to support countries' response to a pandemic.

10. We believe that the Fund has an important role to play to help the membership address macroeconomic and financial stability risks related to the twin crisis of climate change and biodiversity loss. We welcome the proposal by the IMF for an International Carbon Price Floor among large emitters, which has the potential to curb emissions, and the work on Integrating Adaptation to Climate Change into Fiscal Policy, to minimize losses and maximize benefits from climate change while facilitating the green transition.

11. The EU continues to support the commitment by the IMFC to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. The EU is committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded no later than 15 December 2023. We support at least maintaining the size of the Fund, as part of a package approach.

12. The EU has made significant voluntary contributions to reach the global ambition of USD 100 billion of Special Drawing Rights (SDR) to help vulnerable countries, notably through the IMF Poverty Reduction and Growth Trust (PRGT) and the IMF Resilience and Sustainability Trust (RST). The EU welcomes the USD 87 billion that have been pledged so far, of which USD 27.7 billion are from EU Member States. We moreover welcome the total USD 1381 million pledged so far to the PRGT Subsidy Account, of which USD 482 million by EU Member States and, in addition, EUR 100 million by the European Commission. We call for additional countries to consider voluntary contributions to the PRGT and to the RST.

13. We remain very concerned about the global debt dynamics. We need to step up the implementation of the G20 Common Framework for Debt Treatments and progress with the ongoing country cases. We call for the swift formation of the Creditor Committee for Ghana in order to provide the necessary financing assurances, and we stress the importance of cooperation among all bilateral creditors. We also stress the need to swiftly proceed with the technical work for Zambia and Ethiopia in the respective Creditor Committees. We firmly consider that the MDBs' role in the Common Framework consists of ensuring net positive concessional financing flows. We also need effective multilateral creditor coordination for middle-income countries that need debt restructuring. In this respect, we welcome the recent agreement on an IMF programme for Sri Lanka.

14. We stress that debt transparency is essential. We fully support the international efforts aimed at strengthening debt data transparency. We look forward to further guidance from the IFIs on the use of collateral in sovereign borrowing. We encourage all private sector lenders to contribute to the joint Institute of International Finance/OECD Data Repository Portal.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-4

Statement by Mr. Houngbo
International Labour Organization

Statement by Mr Gilbert Houngbo, Director-General, International Labour Organization, to the International Monetary and Financial Committee

Washington D.C., April 14, 2023

Summary

- Global employment growth stands to be only 1.0 per cent in 2023, less than half the level in 2022.
- Global unemployment is projected by the ILO to rise slightly in 2023, by around 3 million, to 208 million (corresponding to a global unemployment rate of 5.8 per cent). It means that global unemployment will remain 16 million above the 2019 pre-crisis benchmark.
- Women and young people are faring significantly worse than men and adults, respectively, in labour markets. For every economically inactive man there are two such women. More than one-in-five of young people are not in employment, education or training (NEET).
- The gap between wage growth and labour productivity growth is widening further – there is room for real wages to increase, not just to catch up with inflation but also to become aligned with productivity growth.
- One of the main forms of wage inequality is the pay gap between women and men and greater efforts are required to further reduce gender pay inequalities. Platforms such as the Equal Pay International Coalition can guide countries in that regard.
- A revival of development finance, combined with a reshape of business incentive structures to encourage long-term investments in the real economy are needed to address the interlinked crises in purchasing power, ecological sustainability and human well-being.
- Countries must now prioritize long-term, sustainable investments that both favour human development and protect the planet. Major investment and innovation opportunities await in renewable energy and environmentally sustainable construction and retrofitting, with significant employment creation and reskilling impacts.
- It is critical that finance is mobilized to create productive employment, extend social protection coverage, and protect the chronically poor and those who are most affected by the multiple and overlapping crises. The Global Accelerator on Jobs and Social Protection for Just Transitions is a key part of this effort.
- Given its central importance to inclusive and sustainable socio-economic development, social justice constitutes one of the cornerstones of the renewed multilateralism that is required to overcome current challenges – a rallying point as well as an organizing principle. The Global Coalition for Social Justice will provide the platform for an effective and coherent multilateral effort to strengthen the social dimension of sustainable development and economic growth.

Economic and social outlook

According to the IMF, uncertainties in the world economy remain exceptionally high, with global economic growth expected to fall below 3 per cent this year because of the war in Ukraine, scarring from the Covid-19 pandemic and monetary tightening.[1]

This global economic slowdown is likely to force more workers to accept lower quality, poorly paid jobs which lack employment security and social protection, accentuating inequalities that were already exacerbated by the COVID-19 crisis.

Global employment growth stands to be only 1.0 per cent in 2023, less than half the level in 2022. Global unemployment is projected by the ILO to rise slightly in 2023, by around 3 million, to 208 million (corresponding to a global unemployment rate of 5.8 per cent). The moderate size of this projected increase is largely due to tight labour supply in high-income countries. This would, however, mark a reversal of the decline in global unemployment seen between 2020-2022. It means that global unemployment will remain 16 million above the pre-crisis benchmark (set in 2019).[2]

Women and young people are faring significantly worse in labour markets. Globally, the labour force participation rate of women stood at 47.4 per cent in 2022, compared with 72.3 per cent for men. This 24.9 percentage point gap means that for every economically inactive man there are two such women.

Young people (aged 15–24) face severe difficulties in finding and keeping decent employment. Their unemployment rate is three times that of adults. More than one-in-five – 23.5 per cent – of young people are not in employment, education or training (NEET).

Due to the slowdown in global employment growth, the ILO does not forecast the losses incurred during the COVID-19 crisis to be recovered before 2025. The slowdown in productivity growth is also a significant concern, given its essential role in addressing the interlinked crises we face in purchasing power, ecological sustainability and human well-being.

Addressing the interlinked crises in purchasing power, ecological sustainability and human well-being

Wages and purchasing power

The severe rise in inflation, combined with a global slowdown in economic growth, are causing a striking fall in real monthly wages in many countries. The crisis is reducing the purchasing power of the middle classes and hitting low-income households particularly hard. The current inflationary context is biting into real wage growth in most regions in the world.

Global monthly wages fell in real terms to minus 0.9 per cent in the first half of 2022. For the first time in the twenty-first century, real wage growth has fallen to negative values while, at the same time, the gap between real productivity growth and real wage growth continues to widen. In 2022, the gap between productivity growth and wage growth reached its widest point since the start of the twenty-first century, with productivity growth outstripping wage growth by 12.6 percentage points. [3]

The cost-of-living crisis comes on top of significant wage losses for workers and their families during the COVID-19 crisis. Rising inflation has a greater cost-of-living impact on lower-income earners. This is because they spend most of their disposable income on essential goods and services, which generally experience greater price increases than non-essential items.

[1] IMF 2023. Work Economic Outlook Update, January 2023.

[2] ILO. 2023. World Economic and Social Outlook: Trends 2023. Geneva: International Labour Office.

[3] ILO. 2022. Global Wage Report 2022-23: The impact of inflation and COVID-19 on wages and purchasing power. Geneva: International Labour Office.

Inflation is also biting into the purchasing power of minimum wages. Estimates show that despite nominal adjustments taking place, accelerating price inflation is quickly eroding the real value of minimum wages in many countries.[4]

From the second quarter of 2022 onwards, central banks and monetary authorities across the globe have responded to the current inflation crisis by, in particular, raising interest rates to stop inflation from soaring further. However, the tight monetary policy could lead to adverse outcomes for certain segments of the population and trigger a period of recession. Although central banks are aware of this risk, the alternative scenario of continued price inflation is considered even more undesirable. One key question in this regard is whether a wage–price spiral is likely to set in. ILO research shows that nominal wages are not catching up with inflation as measured by the CPI, and that the gap between wage growth and labour productivity growth in high-income countries is continuing to widen, with labour productivity increasing in the first half of 2022 and wages falling in real terms. Hence, there would appear to be scope in many countries for increasing wages without fear of generating a wage–price spiral.[5]

Impacts on inequalities, and the necessary policy responses

Income inequality and poverty will rise if the purchasing power of the lowest paid is not maintained. In addition, a much-needed post pandemic recovery could be put at risk. This could fuel further social unrest across the world and undermine the goal of achieving prosperity and peace for all. There is an urgent need to apply well-designed policy measures to help maintain the purchasing power and living standards of wage workers and their families.

Adequate adjustment of minimum wage rates could be an effective tool, given that 90 per cent of countries have minimum wage systems in place. Strong tripartite social dialogue and collective bargaining can also help to achieve adequate wage adjustments during a crisis. The bargaining process for future nominal wage adjustments should embrace a sufficiently large but prudent price expectation. This could contribute to safeguarding the standard of living of households – particularly low-income households – against unexpected future inflation hikes, while avoiding an undesirable wage-inflation spiral.

It is also important to ensure the adjustment of social protection benefits to the rising cost of living if we are to protect the purchasing power of households, especially those on low-incomes, and prevent an even greater number of persons from falling into poverty. More than half of all social protection schemes for which the ILO has data do not have any specific rules to adjust benefit levels to changes in the cost of living, while the remaining schemes have rules that adjust the amount of benefit to inflation, real wages or a mix of the two.

Other policies that can ease the impact of the cost-of-living crisis on households include measures targeting specific groups, such as giving vouchers to low-income households to help them buy essential goods, or cutting Value Added Tax on these goods to reduce the burden inflation places on households while also helping to bring down inflation.

Particular attention is needed to workers at the middle and lower end of the pay scale. Fighting against the deterioration of real wages can help maintain economic growth, which in turn can help to restore the employment levels observed before the pandemic. This can be an effective way to lessen the probability or depth of recessions in all countries and regions.

The pay gap between women and men continues to be an important factor behind wage inequality. Given that the gender pay gap remains persistently high across countries and regions, greater efforts are required to further reduce gender pay inequalities. This includes improving the educational situation of women and striving for a more equitable distribution of women and men across occupations and industries. It also includes reducing the motherhood pay gap, increasing pay in undervalued, highly feminized sectors and industries, and implementing legal frameworks and policies to increase pay transparency at the enterprise level with a view to eliminating pay discrimination. Countries across the world should make use of platforms like the Equal Pay International Coalition to learn from successful examples of how to measure and monitor pay gaps at the national level, and to familiarize themselves with the tools that some major economies are applying and understand which are most effective in reducing pay discrimination between women and men.

[4] Ibid.

[5] Ibid. IMF 2022. World Economic Outlook: Countering the Cost-of-Living Crisis [October 2022].

Just green transitions and ecological sustainability

The major transformations under way, involving new technologies, demographic shifts and climate change, are having both disruptive and transformative effects on our economies and on work. A human-centred agenda requires major investments that shape and guide these transformations to create decent work and promote social justice.

Countries need to now prioritize long-term, sustainable investments that favour human development and protect the planet. New rules, business incentives and economic policy targets can better direct investments towards areas of the economy that advance decent work, gender equality and sustainable development, at the same time providing a foundation for high value-added activities.

The action needed to mitigate climate change will necessarily have a transformative impact on the world of work. We do not underestimate the scale of disruption to businesses and workers that this transformation will cause. But carefully designed adaptation strategies hold the potential for a net positive employment impact through a just transition for all actors in the world of work, in line with the ILO Guidelines for a just transition towards environmentally sustainable economies and societies for all[6]. Investing more in the green economy can advance an inclusive future of work, because environmental degradation disproportionately affects vulnerable populations and low-income countries. Major investment and innovation opportunities await in renewable energy and environmentally sustainable construction and retrofitting, with significant employment creation and reskilling impacts. Micro-, small and medium-sized enterprises are especially important partners in designing local adaptations to climate change.

International measures to support just transitions

A revival of development financing would support strategic investments in priority sectors. Public development banks (PDBs), including multilateral development banks (MDBs), are uniquely positioned to play a more important role in accelerating this investment. PDBs can scale up long-term financing that is "non-concessional" but still significantly below the market rates currently paid by developing countries, including to meet investment needs in middle-income countries. Reinforcing collaboration and strengthening practices through platforms such as the *Finance in Common Initiative*, which gathers many PDBs, can ensure a strong alignment of investments for social and climate action, thus multiplying their impact.

The international community should also continue to explore or accelerate the implementation of other mechanisms that can increase liquidity and boost available resources for sustainable development. The recent operationalization of the IMF Resilience and Sustainability Trust (RST) is a welcome development. It is expected to support countries in building resilience to external shocks such as climate change and pandemics, while contributing to sustainable growth and long-term balance of payments stability. But the scale and ambition are not commensurate with the challenges faced by the world and the growing demand for resources. The idea of a Green Fund based on SDRs contributed as capital has been revived under the Bridgetown Agenda. Debt for climate swaps, which have attracted growing interest, can be helpful for countries that do not yet have unsustainable debt burdens but do have limited fiscal space for green investment. Such swaps allow countries to redirect debt service payments toward investments in sustainable development and climate action.

This investment agenda needs to be underpinned by a supportive business climate and incentives for long-term financing. There is a need to explore innovative measures that require enterprises to account for the impact – positive and negative – of their activities on the environment and on the communities in which they operate. However, financial market conditions place strong pressure on businesses to meet short-term financial targets and shareholder expectations. With incentives geared heavily to the delivery of short-term benefits, enterprises can find it difficult to engage in longer-term planning and investment strategies that would ultimately be more conducive to their competitiveness, growth and success and the alignment of their activities with the human-centred agenda. There is therefore strong need for the development of market-based incentives to help promote such alignment.

Many companies have already embraced this approach. Two types of change are needed in corporate governance and conduct. The first change is to extend stakeholder representation, making corporations more accountable to wider social and community interests. This can involve instituting advisory stakeholder councils, or establishing stakeholder representation on financial regulatory bodies, among other measures. The second change is to establish incentives for long-term success. This may, for example, involve ending the requirement for quarterly

[6] ILO. 2016. Guidelines for a just transition towards environmentally sustainable economies and societies for all. International Labour Organisation: Geneva.

financial reporting. Other ideas discussed include incentives for long-term shareholders and a more inclusive bottom line reporting.[7]

Social protection floors for all and human well-being

Universal social protection is a human right and a State responsibility. In addition, there is increased recognition that social protection is fundamental in reducing poverty and inequality, in improving human capital and productivity and in supporting decent work and economic dynamism. The ILO is committed, therefore, to contributing to the development of sustainable and resilient social protection systems and extending their coverage, comprehensiveness, and adequacy.[8]

The COVID-19 crisis highlighted how crucial national social protection systems are to protect people from both routine life-cycle risks as well as systemic crises and shocks. In addition to claiming more than 6 million lives, the COVID-19 pandemic has caused an unprecedented loss of jobs and livelihoods. This has exacerbated income insecurity around the world, particularly for the more than half of the global population without any access to social protection, including the 2 billion workers in the informal economy. However, the pandemic has contributed to increasing the financing gaps for social protection by at least 30 per cent, as countries have sought to mitigate the health and economic effects of the crisis, at the same time as revenues were falling due to lower growth and trade.

Constrained by higher debt burdens, many countries now face a difficult trade-off between on the one hand, increasing much-needed public investments to overcome the multiple crises they face, achieve a human-centred recovery and facilitate the structural transformations and just transitions that are necessary to achieve the SDGs and beyond, and, on the other hand, containing debt vulnerabilities.

Mobilizing financing on the scale required to address the financing gaps and overcome the devastating socio-economic hardship and job losses caused by the current multiple crises and the growing climate emergency is vital. It is critical that finance is mobilized to create productive employment, extend social protection coverage, and protect the chronically poor and those who have been most affected, including women, children, persons with disabilities, migrants, and workers in the informal economy, among others.

Boosting international support for social protection

The international community must support existing or new financing strategies which can mobilize additional resources, support better use of existing resources, and enhance coordination between multiple domestic and international sources of finance including development, climate, and humanitarian finance. Harnessing Integrated National Financing Frameworks (INFFs) and sustainable budgeting is key to support and guide policy decisions. Multilateral partnerships need to focus on complementary streams of work: domestic public resources, domestic and international private financing and international development cooperation. These actions will contribute to addressing debt sustainability and increase fiscal space for the implementation of the integrated policy actions prioritized by the UN Global Accelerator on Jobs and Social Protection for Just Transitions (described in more detail below).

The collaboration between the International Monetary Fund and the ILO on social protection and fiscal space has been strengthened since 2021, building on the IMF strategy to deepen engagement on social spending and the request by ILO constituents to engage with the international financial institutions in building social protection floors. Based on a jointly conducted self-assessment that was completed in March 2023, collaboration needs to be expanded and deepened based on the complementarity of mandates and expertise of the two institutions. This collaboration has so far spanned a range of policy issues, including pension reform considering not only the criteria of fiscal sustainability but also adequacy of benefits and equity; undertaking actuarial valuation for universal access to health care; extending fiscal space for social assistance; and exploring different financing options for investment in social protection.

[7] ILO. 2022. Greening Enterprises: Transforming processes and workplaces. Geneva: International Labour Office.

[8] Social Security (Minimum Standards) Convention, 1952 (No. 102) and Social Protection Floors Recommendation, 2012 (No. 102).

▶ Conclusion: A Global Coalition for Social Justice

Social justice makes societies and economies function more cohesively and productively, by reducing poverty and hunger, inequalities, and social tensions. Given its central importance to inclusive and sustainable socio-economic development, social justice should be seen as one of the cornerstones of the renewed multilateralism that is required to overcome current challenges – a rallying point as well as an organizing principle for a more efficient and coherent multilateral system that supports national efforts across a range of policy areas and interventions.

The quest for social justice goes beyond the world of work and requires the involvement of the multilateral system as a whole. Failure to act on social justice in one domain undermines progress in others. This has been particularly evident during the recent COVID-19 crisis and the subsequent energy and food crises.

Accordingly, the ILO is forging a Global Coalition for Social Justice that will act as a platform to elevate the political debate on social justice, strengthen understanding of the urgent need for social justice and the economic case for increased investment in it. The joint efforts under this initiative will aim to generate more social investments that can act as a catalyst for the mobilization of funds and strengthen domestic and international support for on-the-ground actions. The Global Coalition for Social Justice will provide the platform for an effective and coherent multilateral effort to strengthen the social dimension of sustainable development and economic growth.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-5

Statement by Mr. Cormann
OECD

OECD

Written Statement to the International Monetary Fund Committee: 2023 IMF and World Bank Spring Meetings

The Global Economic Outlook

1. **Global growth in 2022 slowed to 3.2%, some 1.3 percentage points weaker than expected in late 2021, reflecting the effects of Russia's war of aggression against Ukraine, the cost-of-living crisis, rising interest rates and continued COVID-related disruptions in China**. The war in Ukraine increased inflationary pressure, driving up energy and food prices in the first half of 2022. More positive signs regarding activity and inflation have appeared in early 2023, with business and consumer sentiment improving, food and energy prices falling back, and China having ended its zero-COVID policy. Nonetheless, the improvement in the outlook remains fragile. Risks are still tilted to the downside and significant policy challenges persist.

2. **Global GDP is projected to grow at 2.6% in 2023 and 2.9% in 2024 according to the OECD's March 2023 Interim Economic Outlook**. This would be the weakest global growth outcome over a two-year period since the global financial crisis, excluding the slump at the beginning of the pandemic. The quick and widespread monetary policy tightening over the past year is a key factor moderating growth.

3. **Annual GDP growth in the United States is projected to slow to 1.5% in 2023 and 0.9% in 2024** as monetary policy moderates demand pressures. However, quarter-on-quarter growth rates are expected to bottom out in the latter half of 2023 and improve thereafter. **Growth in the euro area will also be subdued in 2023, but the benefits of lower energy prices and declining inflation should help growth pick up to 1.5% in 2024 from 0.8% in 2023.** The United Kingdom is also expected to have a mild rebound in 2024, with output rising by 0.9% after contracting slightly in 2023. Japan, which will have additional fiscal stimulus this year, is projected to grow between 1 and 1½ per cent per annum in 2023 and 2024.

4. **Outcomes in the major emerging-market economies in Asia are projected to remain relatively strong, helped by the full reopening of China and less acute inflation pressures**. Growth in China is projected to rebound to 5.3% this year and 4.9% in 2024. India's growth is projected to slow to around 6% in FY 2023-24, amidst tighter financial conditions, before picking up to around 7% in FY 2024-25, while Indonesia's economy will continue to expand by around 5% per annum over 2023-24. Growth in many other emerging-market economies, including Brazil and South Africa, is projected to be sluggish over the next two years, at about 1% per year on average. Activity in Türkiye is likely to have been held back significantly in early 2023 by the consequences of the recent earthquakes, but to recover helped by reconstruction spending. Output in Russia is expected to decline this year and next, as the drag from economic and financial sanctions starts to build.

5. **While headline inflation has declined in most economies in recent months, core inflation remains persistently high**, with cost pressures from tight labour markets being reinforced by higher margins in some sectors. As monetary tightening by most of the major central banks increasingly takes effect, consumer price inflation is generally expected to moderate gradually: headline inflation is projected to fall in 2023 and 2024 in almost all G20 economies. Even so, annual inflation will remain well above target almost everywhere through most of 2024. Headline inflation in the G20 economies is expected to decline to 4.5% in 2024 from 8.1% in 2022. Core inflation in the G20 advanced economies is projected to average 4.0% in 2023 and 2.5% in 2024.

6. **Significant uncertainty about economic prospects persists, and risks remain tilted to the downside**. In particular, uncertainty remains high due to the fraught geopolitical situation, including the course of Russia's war of aggression against Ukraine and its consequences for the global economy. An important related risk is a renewed worsening of food security in emerging-market and developing economies. Despite recent declines, food and fertiliser prices remain well above the levels seen prior to the pandemic and food markets remain vulnerable both to renewed disruption in grain shipments from Ukraine as well as extreme weather events, which have become more common. Pressures in global gas and oil markets could also reappear, leading to renewed price spikes and higher inflation.

7. **Trade-related tensions also remain a concern**, with the cumulative coverage of import restrictions imposed by the G20 economies remaining high, and several non-G7 countries having introduced new export restrictions on food, feed and fertilisers in the past year. Medium-term risks to growth and prices are also rising from growing fragmentation of global-value chains and, in some cases, a shift to higher-cost but less distant locations from parent companies.

8. **Another key concern is that the strength of the impact from monetary policy tightening is difficult to gauge**, particularly after an extended period of very low interest rates. While a cooling of overheated markets and moderation of credit growth are standard channels through which monetary policy takes effect, higher interest rates could have stronger effects on economic growth than expected, particularly if they expose underlying financial vulnerabilities from high debt and elevated asset prices. Increased stress on households and companies, and the greater potential for loan defaults, raise risks of potential losses at banks and non-bank financial institutions, and an abrupt tightening of lending standards. In addition, sharp changes in market interest rates and in the current market value of bond portfolios could also further expose liquidity risks and duration risks in the business models of financial institutions, as highlighted by the failure of Silicon Valley Bank and the takeover of Credit Suisse in March. House prices have already begun to adjust to policy tightening, with nominal price declines now under way in many economies and real house prices falling even faster, given high inflation. Past experience suggests that slumps in housing markets can exert a substantial drag on economic activity, and significantly heighten financial risks. A sizeable disconnect also remains between market expectations of interest rate declines later in 2023 and the stated intention of many central banks to maintain rates at their current level into 2024, which could potentially trigger renewed volatility in financial markets.

9. **Many emerging-market economies could also face increasing difficulties in servicing elevated debt and deficits as global interest rates rise**, especially commodity-importing economies and countries with high foreign currency denominated debt. Low-income economies are particularly at risk of debt distress. IMF debt-sustainability analyses for low-income countries suggest that, as of January 2023, over half of the 69 economies assessed were either experiencing debt distress or at high risk of distress.

Policy requirements

10. **Policy makers generally continue to face a difficult balancing act, with a need to restrain demand to get inflation under control without tipping the economy into a deep recession**, while at the same time attempting to mitigate the impact of high inflation on household incomes and advancing key longer-term objectives such as net zero emissions and higher productivity growth. These challenges are exacerbated by worsening geopolitical tensions.

11. **Monetary policy needs to remain restrictive until there are clear signs that underlying inflationary pressures are durably reduced.** Several quarters of below-trend growth and positive (forward-looking) real interest rates will likely be needed to achieve this outcome. Central banks have become increasingly data-dependent, reflecting the uncertainty that they currently face about financial market developments and the need to take stock of the cumulated impact of past interest rate increases. Nonetheless, some additional interest rate increases may still be needed in economies in which high core inflation is projected to otherwise prove persistent. In most major economies, policy rates are likely to remain high until well into 2024 given the current economic outlook. The OECD sees policy interest rates peaking at 5¼-5½ per cent in the United States and 4¼ per cent in the euro area (the main refinancing rate) and the United Kingdom in 2023. In Japan, underlying price pressures remain relatively modest, allowing an accommodative policy stance to be maintained but with further gradual adjustments to the yield curve control framework to allow a steeper yield curve.

12. **Tighter global financial conditions, the continued rise in policy rates in the advanced economies and persisting inflation pressures limit the room for policy manoeuvre in most emerging-market economies**. The differential between domestic and US policy rates is likely to remain an important policy consideration, especially in countries with sizeable foreign currency denominated debt and where inflation expectations are particularly sensitive to the domestic currency price of food and energy. The frontloading of policy tightening in Brazil could allow some easing in policy interest rates from the latter half of 2023, with other major economies starting to lower policy rates only in 2024.

13. **Some central banks have also been tightening financial conditions by contracting their balance sheets**, unwinding part of the quantitative easing conducted when policy makers were constrained by the effective lower bound on interest rates. If significant financial vulnerabilities materialise, as in the United Kingdom last autumn and the United States in March of this year, clear communication will be essential if quantitative tightening is to continue as planned alongside temporary policy measures designed to improve market liquidity and minimise the risk of contagion.

14. **Ensuring the sustainability of the public finances has become more challenging due to the multiple impacts of the pandemic, the war and energy shocks**. Almost all countries have higher budget deficits and debt levels than before the pandemic, and many face rising future spending pressures, including from the growing burden of servicing debt levels if higher interest rates persist. Credible fiscal frameworks setting out future expenditure and tax plans would help to provide clear guidance about the medium-term trajectory of the public finances and mitigate concerns about debt sustainability.

15. **Over the past year, many countries have introduced new fiscal policy measures or extended existing ones to cushion the impact of higher food and energy prices on households and businesses**. In the absence of such support there would almost certainly have been sizeable real income declines in many countries and widespread hardship amongst poorer households. Support to energy consumers was about 0.7% of GDP in the median OECD economy in 2022, but above 2% of GDP in some countries, especially in Europe. For the OECD as a whole, similar levels of support are foreseen for 2023, though the eventual fiscal costs will heavily depend on the evolution of energy prices. Policy support has so far been predominantly untargeted, reflecting the need for swift implementation as prices surged.

16. **With food and energy prices having recently declined, fiscal support to mitigate the impact of higher food and energy prices should become more focused on those most in need.** Better targeting and a timely reduction in overall support would help to ensure fiscal sustainability, preserve incentives to lower energy use and improve energy efficiency, and limit additional demand stimulus at a time of persistent inflation. More broadly, support should seek to avoid hampering reallocation by preserving energy-intensive activities that are not sustainable in the medium term. Effective targeting requires the accurate identification of the households and firms most in need of support. Households already receiving low-income-related assistance are one indicator, but others could include the inability to renovate an energy-inefficient dwelling or high energy needs. Where possible, advantage should be taken of digitalisation, both for timely data collection on energy use and faster payment delivery.

17. **Both the immediate conjuncture and the long-term decline in underlying growth rates point to the important role for supply-boosting structural reforms**, in advanced and emerging economies alike. Rekindling reform efforts to reduce constraints in labour and product markets and strengthen productivity growth would both improve sustainable living standards and reinforce the recovery from the current slowdown by mitigating supply shortages that contribute to inflation pressures. Enhancing business dynamism, lowering barriers to cross-border trade and economic migration, and fostering flexible and inclusive labour markets, including through skill improvements and reductions in gender gaps, are all key policy areas where well-designed reforms would help to boost competition, revive investment, mitigate supply shortages and strengthen gains from digitalisation.

18. **Enhanced international cooperation is needed to help overcome food and energy insecurity, assist low-income countries service their debts, and achieve a better co-ordinated approach to carbon mitigation efforts**. In this context, the launching in February 2023 of a new OECD forum, the Inclusive Forum on Carbon Mitigation Approaches (IFCMA), is intended to help its members achieve the common global net zero objective through data sharing, mutual learning and dialogue. The first actions of the IFCMA are to take stock of the policy instruments in use across members of the Forum and measure their emission-reducing effects.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-6

Statement by Mr. Osman Ali
Djibouti

On behalf of
Benin, Burkina Faso, Cameroon, Central African Republic, Chad,
Union of the Comoros, Democratic Republic of the Congo,
Republic of Congo, Côte d’Ivoire, Djibouti, Republic of Equatorial Guinea, Gabon,
Guinea, Guinea-Bissau, Republic of Madagascar, Mali,
Islamic Republic of Mauritania, Mauritius, Niger, Rwanda,
Democratic Republic of São Tomé and Príncipe, Senegal, and Togo

IMFC Statement by Mr. Ahmed OSMAN ALI
Governor of the Central Bank of Djibouti
April 14, 2023

We would like to express our deepest sympathies to the people of Turkey, Syria, Mozambique, Malawi, and Madagascar for the loss of life and profound suffering caused by recent natural disasters. We also express our deepest compassion to the human victims of the war in Ukraine and all conflicts around the globe.

Global Outlook and Policy Priorities

The risks of deterioration in the global growth outlook have risen sharply in recent weeks, despite positive signs in some key areas. While strong labor markets in advanced economies, unravelling of supply bottlenecks, and stronger activity in China gave reasons to be optimistic about a stronger recovery, the threat that the worst prospects unfold is becoming more prominent. The recent bank failures and troubles in the USA and Europe have sent alarming signals, notably in emerging markets and developing economies (EMDEs)—and more acutely in low-income countries (LICs)—on which turmoil in financial sectors in advanced economies usually have large negative spillovers. For instance, one consequence has been the increase in the sovereign spreads of bond issuers in Sub-Saharan Africa, which have had limited access—if any—to international markets in the past 12 months, thereby further tightening financial conditions and increasing debt vulnerabilities. These developments come on top of multiple other shocks, notably the pandemic and the war in Ukraine, which have significantly impacted global stability and reduced policy buffers. We, therefore, welcome the timely policy actions taken so far to contain the turbulence and restore stability and confidence in financial markets. Prudential regulation and supervision frameworks should be strengthened further, including to address interest rate risks, to ensure financial sector resilience and stability.

We are also concerned by the persistent challenges facing the global economy which resolution calls for renewed multilateralism and collective actions. We regret the continuing geopolitical tensions and heightened fragmentation within and across countries, which accentuate inequalities, food insecurity, and uneven progress towards sustainable and inclusive growth. We call for reducing geopolitical tensions through diplomatic means and efforts to end the Russia-Ukraine war. Climate change continues to have devastating effects around the globe and in LICs in particular, including the severe drought in the Horn of Africa. Increased debt vulnerabilities add to the challenges. We should not also lose track of the difficulties posed by insecurity in the regions of Sahel, Great Lakes, and Horn of Africa, with daunting growth, budgetary and humanitarian impacts. While the economic prospects for LICs are relatively positive, their growth rates are not sufficiently strong to offset the increasing risk that a significant number of the world population will fall back into poverty and extreme poverty, derailing achievement of the Sustainable

Development Goals (SDGs) and further aggravating divergence in standards of living with middle-income countries (MICs).

With downside risks to the global outlook remaining elevated, policymakers should pursue strong and well-calibrated domestic macroeconomic policies to contain inflationary pressures and safeguard economic and financial stability while supporting the recovery and protecting the most vulnerable populations. Continuing to bring inflation down towards targets and ensuring that inflation expectations remain well-anchored through sufficiently positive real interest rates should remain the priority for most central banks. We concur on the need for the necessary fiscal consolidation to support monetary policy and prevent the burden of the fight against inflation to lie excessively on central banks out of concern for preserving growth. Fiscal policy should aim at preserving fiscal and debt sustainability in a growth-friendly manner to the extent possible while putting in place or enhancing social protection programs.

The external funding squeeze already experienced by some Sub-Saharan African (SSA) countries calls for stepped up efforts to mobilize domestic revenue. Also critical are the actions to address the security challenges facing many countries in SSA, which threaten their fiscal sustainability, create humanitarian crises, and delay their progress towards achieving the SDGs. Support measures to help populations cope with the elevated inflation should be adapted to country circumstances and preserve price signals to the extent possible, to help maintain or increase fiscal space to address more structural social and development needs. However, where such measures have been in the form of price freeze or generalized price subsidies, notably for food and energy, it is critical that their removal be gradual to preserve social cohesion in such trying times while maintaining well-targeted direct support to vulnerable groups.

We are particularly concerned by the adverse spillovers risks on EMDEs of the policy decisions in advanced economies. The tighter monetary policies in those countries are having negative effects on financial stability, financing conditions, and debt sustainability in EMDEs. We call for close monitoring of these risks and greater consideration of measures to appropriately mitigate their potential impact while EMDEs continue to address the lingering effects from multiple shocks and strengthen their economic resilience.

Structural reforms are also important for strengthening the resilience to shocks and spur strong and inclusive growth. The efforts by LICs in Sub-Saharan Africa to address the effects of climate change and preserve the planet as a global public good, through mitigation and adaptation strategies, should be supported more effectively by the international community. Moreover, diversifying the sources of growth and advancing the structural transformation of their economies in a manner that achieves sustainable and inclusive development—including job creation for their youth—should remain a priority for these countries.

The Global Policy Agenda

We support the Managing Director's Global Policy Agenda, including its emphasis on the institution's Integrated Policy Framework and its work on governance, trade, digital money, and climate change issues, and appreciate that critical issues for LICs such as food insecurity and rising poverty have been highlighted. We commend the Fund for the creation of a dedicated Food Shock Window under its emergency facilities to address the urgent balance of payments pressures stemming from the global food crisis. It is imperative that such an initiative be supported by the efforts of the international community to ease the supply constraints on food and fertilizers and help LICs invest to increase their agricultural productive and storage capacities. Moreover, considering the extremely challenging environment facing LICs, especially those facing increasing food insecurity, we call on the Fund to be bolder and more flexible concerning the Food Shock Window to enable greater number of countries to access this important and timely financing instrument.

We welcome the emphasis on supporting vulnerable countries, notably low-income countries and fragile and conflict-affected States. Many of these countries are facing security-related shocks which have a bearing on their fiscal position. The management costs of refugee flows and internally displaced populations, as well as the pressure of these movements on socio-economic infrastructure, constitute additional pressures on the public finances. This requires an integration of security challenges in the IMF surveillance. This could be done through in-depth analyses of their fiscal and growth impact and spillovers, as well as increased capacity development assistance and financial support as needed. We welcome the Fund's Strategy for Fragile and Conflict-Affected States (FCS), which should provide operational advice and resources to better support those countries.

Addressing debt vulnerabilities through debt restructurings remains of the essence. For vulnerable low- and middle-income countries facing debt distress, it is urgent to accelerate progress in the implementation of the G20's Common Framework. We welcome that Chad's debt restructuring has advanced well and call for its speedy completion. This case shows that with the will of all stakeholders, the G20 Common Framework can deliver. We also call for rapid progress on the processes for Sri Lanka, Zambia, Ghana, and Ethiopia, and consideration of debt treatment for other countries facing debt distress. We encourage the Fund in its efforts to facilitate complex debt restructuring processes and coordination, notably among traditional, new official, and private creditors. In this respect, we welcome the launch of the Global Sovereign Debt Roundtable, which will be helpful in addressing the shortcomings in debt restructuring processes, both within and outside the Common Framework.

We welcome the recent decision by the Executive Board to raise annual and cumulative limits of access under the General Resource Account (GRA) and call for a swift alignment of similar limits under the Poverty Reduction and Growth Trust (PRGT). The decision to increase access limits under the GRA will allow members, especially those among LICs that can benefit from GRA-PRGT blended arrangements, to access additional non-concessional Fund resources as needed. We expect access under the PRGT to be raised also, with a view to safeguarding uniformity of treatment and evenhandedness between members. The Fund should ensure that it maintains its capacity to meet the growing balance of payments needs of low-income members. In this regard, we call for greater fundraising efforts and encourage additional voluntary SDR channeling to the PRGT—especially its subsidy resources—and to the Resilience and Sustainability Trust (RST). We also call for consideration of IMF internal resources to this end, including gold sales. We support a voluntary SDR channeling to multilateral development banks to increase their capacity to assist LICs. Attention should also be paid to replenishing the Catastrophe Containment and Relief Trust (CCRT) which remains underfunded and would be unable to meet the needs of members in the event of a qualifying catastrophe. Therefore, we call on the IMF to explore all options for an adequate replenishment of its various trust funds.

Completing swiftly reforms under the 16th General Review of Quotas (GRQ), with a meaningful outcome for Fund's permanent resources, is key to strengthen Fund's effectiveness and unique role in the global financial safety net. Quotas are central to the Fund's permanent lending capacity and governance, and therefore, we continue to call for the acceleration of discussions on the different elements of GRQ for a timely conclusion by December 15, 2023, the cut-off date, with a desirable outcome to increase quotas and protection of the shares of all PRGT-eligible and small developing countries. We also continue to support and call for further progress in IMF staff diversity, including at managerial levels.

We recognize the importance of international trade as an engine for inclusive growth. It is critical to ensure a rules-based, transparent, and equitable multilateral trading system. The IMF's role remains critical in promoting international economic cooperation and creating an environment that encourages global trade and investment. In this regard, enhancing Sub-Saharan Africa's equitable participation in global trade flows, especially in the areas of agriculture, emergent manufacturing, and value chain creation, will benefit both the region and the global economy. Regional integration is a right step in that direction. We, therefore, call for a more active role of the IMF in supporting the nascent Africa Continental Free Trade Area (AfCFTA).

Continuous focus by the IMF on macro-critical structural issues such as climate change, and ensuring long-term financing remain of the essence. More collective action is needed to mobilize resources—including private financing--for climate vulnerable developing countries that lack fiscal space to meet climate mitigation and adaptation needs. Sub-Saharan Africa must

prioritize adaptation and resilience and invest massively in “green” activities, notably through programs such as the Africa Adaptation Acceleration Program. We urge the international community to provide financial and technical support and promote technology transfer to the continent in its climate efforts as a global public good. More than ever, multilateral cooperation needs to be strengthened if we are to address complex common challenges in an effective manner.

COMITÉ MONÉTAIRE ET FINANCIER INTERNATIONAL

Quarante-septième réunion
13–14 avril 2023

Déclaration n° 47-6(F)

Déclaration de M. Osman Ali
Djibouti

au nom de
Bénin, Burkina Faso, Cameroun, République centrafricaine,
Comores, République du Congo, République Démocratique du Congo,
Côte d'Ivoire, Djibouti, Gabon, Guinée, Guinée-Bissao,
Guinée équatoriale, République de Madagascar, Mali, Maurice,
Mauritanie, Niger, Rwanda, São Tomé et Príncipe, Sénégal,
Tchad, et Togo

Comité Monétaire et Financier International (CMFI)
Déclaration de M. Ahmed OSMAN ALI
Gouverneur de la Banque Centrale de Djibouti
14 avril 2023

Nous tenons à exprimer nos plus sincères condoléances aux peuples de Turquie, de Syrie, du Mozambique, du Malawi et de Madagascar pour les pertes en vies humaines et les profondes souffrances causées par les récentes catastrophes naturelles. Nous exprimons également notre profonde compassion aux victimes humaines de la guerre en Ukraine et de tous les conflits dans le monde.

PERSPECTIVES ECONOMIQUES MONDIALES ET PRIORITES EN MATIERE DE POLITIQUES

Les risques de détérioration des perspectives de croissance mondiale se sont fortement accrus ces dernières semaines, malgré des signes positifs dans certains domaines clés. Alors que la vigueur des marchés du travail dans les économies avancées, l'élimination des goulots d'étranglement au niveau de l'offre et le renforcement de l'activité en Chine donnaient des raisons d'être optimistes quant à une reprise plus soutenue, la menace que les perspectives les plus défavorables se concrétisent devient de plus en plus évidente. Les faillites et troubles bancaires récents aux États-Unis et en Europe ont envoyé des signaux alarmants, notamment dans les marchés émergents et les économies en développement (MEED) – et plus encore dans les pays à faible revenu (PFR) – sur lesquels les turbulences des secteurs financiers dans les économies avancées ont généralement de fortes retombées négatives. A titre d’exemple, l'une des conséquences a été l'augmentation des écarts de taux d’intérêt pour les émetteurs d'obligations en Afrique subsaharienne qui ont eu un accès limité, voire inexistant, aux marchés internationaux de capitaux au cours des 12 derniers mois, ce qui a davantage durci les conditions financières et accru les vulnérabilités en matière de dette.

A ces développements s'ajoute de multiples autres chocs, notamment la pandémie et la guerre en Ukraine, qui ont eu un impact significatif sur la stabilité mondiale et réduit les marges de manœuvre. Nous saluons donc les mesures de politiques économiques opportunes qui ont été prises jusqu'à présent pour contenir les turbulences et rétablir la stabilité et la confiance dans les marchés financiers. Les cadres de réglementation et de surveillance prudentielles devraient être davantage renforcés, notamment pour faire face aux risques sur les taux d'intérêt afin de garantir la résilience et la stabilité du secteur financier.

Nous sommes également préoccupés par les défis persistants auxquels est confrontée l'économie mondiale, dont la résolution appelle au multilatéralisme et à des actions collectives renouvelées. Nous regrettons la persistance des tensions géopolitiques et la fragmentation accrue au sein des pays et entre eux, qui accentuent les inégalités, l'insécurité alimentaire et des progrès inégaux vers une croissance durable et inclusive. Nous appelons à réduire les tensions géopolitiques par des moyens diplomatiques et à intensifier les efforts pour mettre fin à la guerre russo-ukrainienne. Le changement climatique continue d'avoir des effets dévastateurs dans le monde entier et dans les PFR en particulier, y compris la grave sécheresse

dans la Corne de l'Afrique. Les vulnérabilités accrues en matière de dette s'ajoutent aux défis. Nous ne devons pas non plus perdre de vue les difficultés posées par l'insécurité dans les régions du Sahel, des Grands Lacs et de la Corne de l'Afrique, avec des impacts considérables sur la croissance, les finances publiques et la situation humanitaire. Bien que les perspectives économiques des PFR soient relativement positives, leurs taux de croissance ne sont pas suffisamment élevés pour compenser le risque croissant qu'un nombre important de la population mondiale retombe dans la pauvreté et l'extrême pauvreté, entravant ainsi la réalisation des Objectifs de développement durable (ODD) et aggravant la divergence des niveaux de vie avec les pays à revenu intermédiaire (PRI).

Les risques de détérioration des perspectives mondiales restant élevés, les décideurs devraient poursuivre des politiques macroéconomiques domestiques solides et bien calibrées pour contenir les pressions inflationnistes et préserver la stabilité économique et financière, tout en soutenant la reprise et en protégeant les populations les plus vulnérables. La priorité de la plupart des banques centrales devrait être de continuer à ramener l'inflation dans les cibles et veiller à ce que les anticipations d'inflation restent bien ancrées grâce à des taux d'intérêt réels suffisamment positifs. Nous souscrivons à la nécessaire consolidation budgétaire pour soutenir la politique monétaire et éviter que le poids de la lutte contre l'inflation ne pèse trop lourdement sur les banques centrales afin de préserver la croissance. La politique budgétaire devrait viser à préserver la viabilité des finances publiques et de la dette d'une manière favorable à la croissance, dans la mesure du possible, tout en mettant en place ou en renforçant les programmes de protection sociale.

La pénurie de financements externes que subissent déjà certains pays d'Afrique subsaharienne appelle à intensifier les efforts de mobilisation des recettes intérieures. Les actions visant à relever les défis sécuritaires auxquels sont confrontés de nombreux pays d'Afrique subsaharienne sont également essentielles car ces défis menacent leur viabilité budgétaire, créent des crises humanitaires et retardent leurs progrès vers la réalisation des ODD. Les mesures de soutien visant à aider les populations à faire face à l'inflation élevée doivent être adaptées à la situation des pays et préserver la vérité des prix dans la mesure du possible. Ceci favorisera le maintien ou le renforcement de la marge de manœuvre budgétaire pour répondre à des besoins sociaux et de développements plus structurels. Cependant, lorsque de telles mesures prennent la forme d'un gel des prix ou de subventions généralisées, notamment pour l'alimentation et l'énergie, il est essentiel que leur suppression soit progressive afin de préserver la cohésion sociale en ces temps difficiles, tout en maintenant un soutien direct bien ciblé aux groupes vulnérables.

Nous sommes particulièrement préoccupés par les risques de retombées négatives sur les MEED du resserrement des politiques économiques dans les économies avancées. Le resserrement des politiques monétaires dans ces pays a des effets négatifs sur la stabilité financière, les conditions de financement et la viabilité de la dette dans les pays émergents. Nous appelons à une surveillance étroite de ces risques et à une considération plus approfondie des mesures visant à atténuer de manière appropriée leur impact potentiel, tandis que les MEED continuent à traiter les effets persistants des chocs multiples et à renforcer leur résilience économique.

Les réformes structurelles sont également importantes pour renforcer la résistance aux chocs et stimuler une croissance forte et inclusive. Les efforts déployés par les PFR d'Afrique subsaharienne pour faire face aux effets du changement climatique et préserver la planète en tant que bien public mondial, grâce à des stratégies d'atténuation et d'adaptation, devraient être soutenus plus efficacement par la communauté internationale. En outre, la diversification des sources de croissance et l'avancement de la transformation structurelle de leurs économies de manière à parvenir à un développement durable et inclusif - y compris la création d'emplois pour les jeunes - devraient rester une priorité pour ces pays.

LE PROGRAMME D'ACTION MONDIAL

Nous soutenons le programme d'action mondial de la Directrice générale, notamment l'accent mis sur le Cadre stratégique intégré de l'institution et ses travaux sur la gouvernance, le commerce international, la monnaie numérique et les questions liées au changement climatique, et nous saluons la mise en exergue des questions essentielles pour les PFR, telles que l'insécurité alimentaire et l'aggravation de la pauvreté. Nous félicitons le FMI pour la création d'un guichet dédié aux chocs alimentaires dans le cadre de ses facilités d'urgence afin de répondre aux pressions urgentes sur la balance des paiements découlant de la crise alimentaire mondiale. Il est impératif qu'une telle initiative soit soutenue par les efforts de la communauté internationale pour alléger les contraintes d'approvisionnement en denrées alimentaires et en engrais et aider les PFR à investir pour accroître leurs capacités de production et de stockage agricoles. En outre, compte tenu de l'environnement extrêmement difficile auquel font face les PFR, en particulier ceux qui sont confrontés à une insécurité alimentaire croissante, nous appelons le FMI à faire preuve de plus d'audace et de flexibilité en ce qui concerne le guichet "choc alimentaire" afin de permettre à un plus grand nombre de pays d'accéder à cet instrument de financement important et opportun.

Nous accueillons favorablement l'accent mis sur le soutien aux pays vulnérables, notamment les pays à faible revenu et les États fragiles et touchés par un conflit. Nombre de ces pays sont confrontés à des chocs sécuritaires qui ont une incidence sur leur situation budgétaire. Les coûts de gestion des flux de réfugiés et des populations déplacées à l'intérieur d'un pays, ainsi que la pression exercée par ces mouvements sur les infrastructures socio-économiques, constituent des contraintes supplémentaires sur les finances publiques. Cela nécessite une intégration des questions sécuritaires dans la surveillance du FMI. Ceci pourrait se faire par le biais d'analyses approfondies de leur impact et de leurs retombées sur le budget et la croissance, ainsi qu'une augmentation de l'aide au renforcement des capacités et du soutien financier, le cas échéant. Nous saluons la stratégie du FMI pour les États fragiles et touchés par un conflit devant fournir des conseils opérationnels et des ressources pour mieux soutenir ces Etats.

L'éradication des vulnérabilités de la dette à travers des plans de restructuration reste essentielle. Pour les pays vulnérables à revenu faible ou intermédiaire confrontés au surendettement, il est urgent d'accélérer les progrès dans la mise en œuvre du Cadre commun du G20. Nous accueillons favorablement les avancées dans la restructuration de la dette du Tchad et appelons à son achèvement rapide. Ce cas démontre bien qu'avec la volonté de toutes les parties prenantes, le Cadre commun du G20 peut tenir ses promesses. Nous appelons

également à des progrès rapides concernant les processus pour le Sri Lanka, la Zambie, le Ghana et l'Éthiopie, et à l'examen du traitement de la dette des autres pays surendettés. Nous encourageons le FMI dans ses efforts de facilitation des processus complexes de restructuration de dette et leur coordination, notamment entre les créanciers traditionnels, les nouveaux créanciers officiels et les créanciers privés. À cet égard, nous saluons le lancement de la Table-ronde mondiale sur la dette souveraine, qui sera utile pour remédier aux lacunes des processus de restructuration de dette, tant à l'intérieur qu'à l'extérieur du Cadre commun.

Nous saluons la récente décision du Conseil d'administration du FMI de relever les limites d'accès annuelles et cumulées au titre du Compte des ressources générales (CRG) et appelons à un alignement rapide des limites similaires au titre du Fonds fiduciaire pour la réduction de la pauvreté et pour la croissance (FRPC). La décision d'augmenter les limites d'accès dans le cadre du CRG permettra aux pays membres, en particulier ceux parmi les PFR qui peuvent bénéficier des combinaisons des facilités CRG-FRPC, d'accéder à des ressources non-concessionnelles supplémentaires du FMI selon les besoins. Nous espérons que l'accès aux ressources du FRPC sera également rehaussé en vue de sauvegarder le principe d'uniformité de traitement et d'impartialité entre les membres. Le FMI devra veiller à maintenir sa capacité de réponse aux besoins croissants de balance des paiements des membres à faible revenu. À cet égard, nous appelons à davantage d'efforts de mobilisation de ressources et, à ce titre, encourageons la mise à disposition volontaire de DTS supplémentaires en faveur du FRPC - en particulier ses ressources destinées à subventionner les prêts - et vers le Fonds fiduciaire pour la résilience et la durabilité (FFRD). Nous appelons également à la prise en compte des ressources internes du FMI à cette fin, y compris les ventes d'or. Nous soutenons la mise à disposition volontaire de DTS au profit des banques multilatérales de développement pour accroitre leur capacité d'assistance aux pays à faible revenu. Une attention doit également être accordée au réapprovisionnement du Fonds fiduciaire d'assistance et de riposte aux catastrophes (ARC) qui demeure sous-financé et ne pourra pas répondre aux besoins des pays membres dans l'éventualité d'une catastrophe éligible. C'est pourquoi, nous appelons le FMI à explorer toutes les options pour un approvisionnement adéquat de ses différents fonds fiduciaires.

L'achèvement rapide des réformes dans le cadre de la 16ème Révision générale des quotes-parts, avec un impact significatif sur les ressources permanentes du FMI, est essentiel pour renforcer l'efficacité de l'institution et son rôle unique dans le filet de sécurité financière mondial. Les quotes-parts sont au cœur de la capacité permanente de prêt et de la gouvernance du FMI, et par conséquent, nous continuons d'appeler à l'accélération des discussions sur les différents éléments de la Révision pour une conclusion rapide, d'ici le 15 décembre 2023, date buttoir. Nous souhaitons ardemment voir cette révision aboutir à une augmentation des quotes-parts totales et à la protection des parts de tous les pays éligibles au FRPC et des petits pays en développement. Nous continuons également de soutenir et appeler à plus de progrès en matière de diversité du personnel du FMI, y compris au niveau de la direction générale.

Nous reconnaissons l'importance du commerce international en tant que moteur d'une croissance inclusive. Il est essentiel de garantir un système commercial multilatéral fondé sur des règles transparentes et équitables. Le rôle du FMI reste essentiel dans la promotion de la

coopération économique internationale et la création d'un environnement qui encourage le commerce et les investissements mondiaux. À cet égard, le renforcement d'une participation équitable de l'Afrique subsaharienne aux flux commerciaux mondiaux, en particulier dans les domaines de l'agriculture, des industries émergentes et de la création de chaînes de valeur, profitera à la fois à la région et à l'économie mondiale. L'intégration régionale est un pas important dans cette direction. Nous appelons donc à un rôle plus actif du FMI dans le soutien à la Zone de libre-échange continentale africaine (ZLECAF) naissante.

Une attention continue et soutenue du FMI sur les problèmes structurels d'importance macro-critique tels que le changement climatique et la garantie de financements à long terme reste essentielle. Une action plus collective est nécessaire pour mobiliser des ressources, y compris des financements privés, pour les pays en développement vulnérables au changement climatique qui manquent d'espace budgétaire pour répondre aux besoins d'atténuation et d'adaptation. L'Afrique subsaharienne doit donner la priorité à l'adaptation et à la résilience et investir massivement dans des activités « vertes », notamment à travers des plans tels que le Programme d'accélération de l'adaptation en Afrique. Nous exhortons la communauté internationale à fournir un soutien financier et technique et à promouvoir le transfert de technologies vers le continent à travers des efforts pour protéger le climat qui est un bien public mondial. Plus que jamais, la coopération multilatérale doit être renforcée si nous voulons relever efficacement des défis communs complexes.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-7

Statement by Ms. Svantesson
Sweden

On behalf of
Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia,
Republic of Lithuania, Norway, and Sweden

Statement by Finance Minister Elisabeth Svantesson on behalf of Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia, Republic of Lithuania, Norway, and Sweden

The Nordic and Baltic countries stand united in their unwavering solidarity with the Ukrainian people

1. The Nordic and Baltic countries condemn in the strongest possible terms Russia's continued unprovoked and unjustified war of aggression against Ukraine, which has caused unimaginable suffering, death, and destruction and grossly violates international law, including the UN Charter. We call on Russia to immediately, completely and unconditionally withdraw all of its military forces from the territory of Ukraine within its internationally recognized borders. We reiterate our steadfast support to Ukraine with political, military, humanitarian, and economic assistance for as long as it takes. We reaffirm the sovereignty, independence, unity, and territorial integrity of Ukraine within its internationally recognized borders. We are committed together with our allies to enforce far-reaching sanctions on Russia and its accomplice Belarus.

The global community is facing multiple challenges that will require global solutions

2. Preserving the rules-based international economic order is critical in the context of risks of geopolitical fragmentation. The Nordic and Baltic countries are committed to multilateralism, open trade and strongly support the role of the IMF at the center of the global financial safety net.

3. The war has undermined food, energy, nuclear, and the environmental security and caused financial disruptions. Many of today's global challenges would be alleviated by Russia stopping its war against Ukraine. Many low-income countries face acute food insecurity and debt sustainability challenges. Strengthening the global food system, its adaptation to climate change and avoiding restrictions in food trade are vital.

4. The recent report from the IPCC makes it increasingly clear that mitigating climate change and adapting to its consequences should remain at top of the policy agenda. The energy crisis underscores the urgency of transitioning away from fossil fuels thus investments in renewable and emission-free energy production as well as energy efficiency are needed. Agreeing on internationally coordinated carbon pricing would provide a cost-effective and efficient way to curb emissions. Global and domestic ambitions must be raised, and action should be substantially accelerated to achieve net-zero emission targets by 2050. We stress the importance of the Fund's consistent implementation of its Climate strategy to support members in accelerating the green transition and mitigating climate risks.

Policies need to be decisive and agile amid exceptional uncertainty

5. Tackling the persistence of too high inflation should remain a top priority for policy makers. Data-dependent and well-communicated decision-making is key in reducing inflation and ensuring well-anchored inflation expectations. Preserving central bank independence is of utmost importance. Fiscal policy should be anchored by credible medium-term fiscal frameworks and be carefully calibrated not to add to inflationary pressures, while protecting the most vulnerable. Sustainability of public finances should be supported by structural reforms to enhance growth potential and increase employment.

6. Recent financial turmoil has underlined the importance of effective prudential regulation and supervision. Any emerging financial vulnerabilities, including in banks and non-banks, should be carefully monitored and addressed, where needed. The authorities should stand ready to act to support financial stability if needed.

7. As technological advancements and the climate transition are reshaping the economic landscape, societies need to be equipped to take advantage of the digital transformation and climate transition by developing technological skills. Additionally, the challenges of labour market mismatches require investments in human capital and life-long learning as well as increased female labour force participation. We underscore the importance of advancing gender equality and promoting women's rights globally. We fully support the Fund's Strategy toward Mainstreaming Gender into the IMF's core activities and efforts towards increasing gender diversity in the Executive Board.

IMF advice is vital to calibrate global policies benefiting all

8. We stress the importance of the IMF surveillance and capacity development activities to safeguard economic and financial stability and foster a sustainable long-term growth path. We look forward to the Review of the Fund's Capacity Development (CD) Strategy and support the review of the Framework for Enhanced Fund Engagement on Governance, which reaffirms the macro criticality of strengthening governance. We continue to stress the importance of following-up of emergency lending governance safeguards. We also stress the importance of the recent review of the Role of Trade in the Work of the Fund to guide policy advice on increasing supply-chain resilience and yet avoiding distortive protectionist measures.

9. Enhanced efforts are needed to facilitate timely, orderly, and coordinated debt treatments. We welcome the conclusion of the first case of debt treatment under the Common Framework. We encourage the IMF and World Bank Group to work closely with the G20 and Paris Club in supporting the implementation of the Common Framework to make it more effective.

10. We welcome the establishment of the Global Sovereign Debt Roundtable in strengthening the global framework for debt treatments and facilitate consensus building. Further, we stress the importance of improved debt transparency to ensure sound foundations for assessment of debt sustainability and to enable informed decisions on debt relief.

Fund should prioritize high-quality multi-year programs with strong policy content

11. The Fund's strong lending toolkit with adequate conditionality, safeguards and debt sustainability assessments serves members well also in a more shock-prone world. We strongly welcome the Fund's multiyear program for Ukraine to support macro-financial stability and underpin economic reforms. We welcome the Ukrainian authorities' strong performance under the Program Monitoring with Executive Board Involvement demonstrating resolute ownership and sufficient capacities to implement a reform agenda under very difficult circumstances. We encourage the Fund to consider how Fund financing and broader assistance efforts to Ukraine will fit into the longer-term reconstruction needs.

12. We welcome the ongoing efforts towards vulnerable members, supporting the IMF's work in ensuring resilient and sustainable economic paths. We highlight the importance of securing and delivering on sufficient subsidy resources to the Poverty Reduction and Growth Trust (PRGT). We welcome the launch of the Resilience and Sustainability Trust (RST), which helps qualified

countries strengthen climate resilience and make progress in the green transition. It is important to carefully calibrate access levels to RST resources and learn from experiences on the first pilot cases. Countries in our constituency are substantial contributors to the IMF's work in low-income and vulnerable countries through the PRGT and the RST.

We support a strong, quota-based, and adequately resourced IMF

13. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th Quota Review within the agreed timetable. We see the current size of the IMF resource envelope as adequate in the short and medium term. We are willing to support a quota increase in the 16th Quota Review that will both reinforce the primary role of quotas in IMF resources and address underrepresentation as determined by the quota formula. Such a quota increase should rest on a fair, rules-based, and transparent distribution of quotas. The current formula is working well, reflects a careful balance of different objectives and delivers on the aim of realigning quota shares.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-8

Statement by Ms. Svantesson
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Elisabeth Svantesson in her capacity as Chair of the EU Council of Economic and Finance Ministers, at the 2023 IMF Spring Meetings,

Washington, DC, April 2023

1. On 24 February last year, Russia launched its illegal, unprovoked and unjustified military aggression against Ukraine, violating international law and the principles of the UN Charter that include the right of Ukraine to choose its own destiny. The EU stands, and will continue to stand, firmly by Ukraine and its people for as long as it takes. The EU also continues to work very closely with its international partners to support Ukraine directly and indirectly and further increase collective pressure on Russia to end its war of aggression and to withdraw its troops and military equipment from Ukraine within its internationally recognised borders. The EU, together with international partners, is implementing far-reaching sanctions on Russia and its accomplice Belarus, and is continuously working to reinforce them and implement anti-circumvention measures. The Russian economy has been significantly set back and its financing capacity is increasingly hit through sanctions related to the financial, energy and transport sectors, export controls and the ban of export financing, and visa policy.
2. Food shortages and high food and fertiliser prices exacerbated by the war threaten food security and overall stability across the world. This situation is aggravated by the actions taken by Russia. The UN-backed deal to resume Ukrainian food exports through the Black Sea, signed in July 2022, helped to reduce grain prices to levels prevailing before the war, demonstrating that the Russian war of aggression is at the root of food price increases. Therefore, the EU welcomes the recent renewal of the Black Sea Grain Initiative and stresses the importance of its further extension. The EU strongly rejects the Russian propaganda, and especially the claim that sanctions have contributed to the food crisis. We support stepping up and coordinating international collective actions on food security, building, inter alia, on the G7, G20 and UN initiatives, the EU Solidarity Lanes, as well as the IMF food shock window.
3. The EU has provided emergency and exceptional macro-financial assistance (MFA) to Ukraine for a total of EUR 7.2 billion in 2022. In 2023, the EU set up a new Macro-financial Assistance "+" instrument in the form of highly concessional loans of up to EUR 18 billion, that also include an additional interest rate subsidy. The first payments have already taken place. Disbursements to the tune of EUR 1.5 billion are envisaged on a monthly basis, pending satisfactory progress toward implementing the agreed policy conditionality, which was designed also with a view of advancing on Ukraine's path towards the EU, having become a candidate country in 2022. The assistance provided by the EU and bilaterally by Member States since the start of the Russian aggression has made a substantial contribution to addressing Ukraine's funding gap, demonstrating the strong commitment to securing Ukraine's financing. The overall level of assistance to Ukraine and its people provided by the European Union and its Member States so far amounts to at least EUR 67 billion, including EUR 17 billion that have been made available from the EU budget for Members States, which are hosting around 4 million people under temporary protection. In 2022, the European

Investment Bank disbursed EUR 1.7 billion in emergency relief to Ukraine, with the support of the European Commission, helping the Government of Ukraine meet most immediate and urgent financial needs. Over the same period, the European Bank for Reconstruction and Development deployed EUR 1.7 billion to support the real economy and vital infrastructure in Ukraine. Ukraine's remaining funding needs in 2023 will be met through a continued coordinated effort by the international community. Looking ahead, the EU-G7 multi-donor platform and Ukraine's EU-accession path will accelerate the recovery and transform long-term growth prospects.

4. A critical role in this global challenge falls on the IMF. We reiterate in particular our strong support for the IMF's close engagement with and continued support for Ukraine. We welcome the approval of a 48-month Extended Fund Facility for Ukraine. This programme will contribute towards addressing the financing gap of Ukraine in the coming years and help to restore external viability in the medium term, while enhancing the policy framework and fostering sustainable economic growth. Importantly, it should also have a strong catalytic effect on other donors and creditors. The EU will continue its financial support over the IMF program horizon.

5. The shocks unleashed by the Russian invasion of Ukraine triggered an increase in inflation and a deceleration of economic growth in the EU. Intensifying and broadening inflationary pressures have prompted the ongoing normalisation of monetary policy. Growth in the EU should be supported going forward by public investment on energy security and renewables and the measures to contain the social and economic impact of high energy costs, as well as productivity enhancing structural reforms. Coordination of fiscal and economic policy remains key. Prudent fiscal policies should aim at ensuring medium-term debt sustainability, while raising potential growth in a sustainable manner and addressing the green and digital transitions and resilience objectives through investment and reforms. Fiscal policy should remain agile going forward. Whilst broad-based fiscal stimulus to aggregate demand is not warranted, we are gradually transitioning towards more targeted measures. Reforms to reduce bottlenecks to private investment are a necessary complement to public investments for the green and digital transitions and energy security. The EU financial sector has shown resilience, thanks to the regulatory reform agenda implemented since the great financial crisis in 2008. EU banks now have solid bank capital positions, robust asset quality and high bank liquidity buffers that have withstood market volatility. The recent banking sector stress illustrates the importance of a robust and operational crisis management framework that includes appropriate tools for dealing with banks in trouble decisively and in a timely fashion. The EU is well prepared in this regard.

6. The EU has agreed on a comprehensive package for EU Member States covering the years 2021-27, amounting to more than EUR 2 trillion in current prices. It combines a reinforced Multiannual Financial Framework (MFF) and the extraordinary recovery effort funded through the temporary "Next Generation EU" (NGEU) instrument. The total amount of grants and loans disbursed so far, including pre-financing, stands at EUR 144.1 billion. To ensure the EU alignment with its longer-term climate goals, at least 37% of expenditure in each national RRP has to be targeted towards the green transition. The 27 plans approved have gone even beyond this target and, on average, will spend around 40% on climate-related measures. Looking ahead, the RRF instrument will be aligned

to REPowerEU priorities, the EU plan to diversify energy sources, reduce demand and accelerate the clean energy transition launched in May 2022. Overall, close to €270 billion REPowerEU funds will be available for Member States. Further, the EU also aims to catalyze private investments towards EU policy priority areas through the InvestEU Programme, which intends to mobilise over EUR 372 billion of financing through the backing of an EU budget guarantee.

7. To advance the transition towards a climate-neutral and environmentally sustainable economy, the European Commission put forward in 2021 the "Fit for 55" package to reinforce the EU's main climate, energy and transport legislation. This entails a WTO-compliant Carbon Border Adjustment Mechanism, strengthening of the EU Emission Trading System, and the establishment of a Social Climate Fund to compensate vulnerable energy and transport users. Russia's war against Ukraine has led to high and volatile energy prices and has increased the urgency of reducing the dependence of our energy systems, while fostering the green transition. The EU responded by accelerating the transition to a decarbonised energy system, also thanks to the REPowerEU plan, providing a toolbox of measures that Member States can use to protect consumers and businesses, coupled with energy saving measures, and accelerating the preparations for the impact of potential further gas supply disruptions from Russia.

8. It is important to seize the opportunities of the net-zero industrial transformation, whilst avoiding a subsidy race to the bottom. Europe is determined to lead the clean tech revolution. To this aim, the European Commission presented a comprehensive strategy through the European Green Deal Industrial Plan in February 2023 and already proposed a Net-Zero Industry Act as part of a broader package. The plan outlines ways to fully mobilise, in a more flexible manner, all relevant national and EU tools, so as to provide timely and targeted support in strategic sectors, and improve framework conditions for clean tech investment, with a view to ensuring EU's resilience and competitiveness without affecting the cohesion policy objectives. The full potential of the European Investment Bank should be exploited. It remains a key priority to step up joint efforts to avoid fragmentation by strengthening multilateralism and foster the rules-based international system. International cooperation is essential also to support and accelerate the green and digital transition. Beside the Green Deal Industrial Plan, it remains important to focus on the long-term competitiveness and productivity of the entire economy.

9. The EU continued providing macro-financial assistance (MFA) to partner countries experiencing a balance of payment crisis. In particular, the remaining MFA operation for Tunisia provided under the EU's global response to the COVID-19 pandemic was successfully completed in 2022. In light of a gas crisis that started in October 2021, the EU provided a new MFA to Moldova, the first two instalments under which were already disbursed. The EU will continue to provide support to Moldova, including by helping strengthening the country's resilience, security, stability, economy and energy supply. In January 2023, in view of the severe consequences of Russia's war against Ukraine, the European Commission adopted a proposal to further increase the ongoing MFA operation to Moldova, and proposed in February 2023 a new MFA operation for North Macedonia.

The implementation of the third regular MFA for Jordan was also taken forward.

IMF Policy Issues

10. We reiterate the IMF's critical role in providing financial support, with adequate safeguards to help members deal with balance of payments problems, notably for countries destabilised by the economic and financial impact of the Russian war against Ukraine. We strongly support IMF's engagement with Members with sound policies facing exogenous shocks, to maintain the relevance and effectiveness of the IMF, as well as to limit spillovers and financial risks to the Fund. We welcome the operationalization of the Resilience and Sustainability Trust (RST) in October 2022 to assist eligible countries in addressing balance of payments needs related to broader long-term structural challenges such as climate change and pandemic preparedness. In this context, we welcome the pilot programmes already approved and note the demand prospects in 2023. We look forward to the review of precautionary arrangements (FCL, PLL and SLL). We agree with further deepening the Fund's engagement, in line with its mandate, on macro-critical climate change related issues across its activities, including through climate-related surveillance, lending through the RST, and policy advice and capacity development. Further, the IMF's proposals for an International Carbon Price Floor among large emitters and the work on Integrating Adaptation to Climate Change into Fiscal Policy have the potential to curb emissions and contribute to reaching climate objectives.

11. EU Member States continue to support the commitment by the IMFC 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, to be concluded no later than December 15, 2023. EU Member States support at least maintaining the size of the Fund, as part of a package approach.

12. Many EU Member States have made large voluntary contributions to help reach the global ambition of USD 100 billion of Special Drawing Rights (SDR) or freely usable currencies to help vulnerable countries, notably through the IMF Poverty Reduction and Growth Trust (PRGT) and the IMF RST. The EU welcomes the USD 87 billion that have been pledged so far, of which USD 28 billion have been pledged from EU Member States. On top of that, the EU welcomes the total USD 1381 million pledged so far to the PRGT Subsidy Account, of which USD 482 million have been pledged by EU Member States and, in addition, 100 million by the European Union. We call for G20 members and other countries, especially those that have not contributed yet, to consider new voluntary contributions to bolster to the PRGT's loan and subsidy resources, and to ensure adequate financing for the full operationalization of the RST. To maximize its impact, the RST should help catalyse private sector finance through strong RSF-supported reforms.

13. Efforts need to be further stepped up to implement the G20/Paris Club Common Framework (CF) for Debt Treatments in a predictable, timely, orderly and coordinated manner, in a context of increasing debt vulnerabilities for developing countries, also driven by energy and food insecurity.

We welcome the conclusion of the debt treatment to Chad and encourage the timely conclusion of the debt treatment for Zambia on the first semester 2023, the resumption of technical work on Ethiopia, as well as the swift formation of a Creditor Committee for Ghana. We also welcome the approval of the EFF program and look forward to a swift resolution to Sri Lanka's debt situation and welcome the provision of financing assurances by main creditors. We encourage all members of the G20 and the Paris Club, together with the IMF and the World Bank and other stakeholders, to review and improve the functioning of the CF and develop a user manual for its implementation based on the lessons learned from the first country cases, providing additional clarity to debtor countries on the process and timelines. We stress the need for effective coordination of debt restructuring in middle-income countries, where needed, and support exploring how to extend the CF to these countries facing debt vulnerabilities, and we support at least a form of ad hoc coordination between official creditors as it has been the case for the provision of financing assurances for Sri Lanka. We welcome the IMF and WB initiative to establish a Global Sovereign Debt Roundtable, and stress the need for good coordination and complementarity with existing Paris Club outreach events and constructive engagement by all official bilateral and private creditors.

14. We stress that debt transparency is essential to ensure a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We reiterate our support for strengthening the international efforts aimed at enhancing debt transparency, in both debtor and creditor countries including the IMF and WB efforts to promote debt data reconciliation and disclosure and the debt transparency pillar of the IMF-WB Multi-pronged approach to address debt vulnerabilities. We look forward to further guidance on collateralised financing practices. We encourage all private sector lenders to contribute to the joint Institute of International Finance/OECD Data Repository Portal.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-9

Statement by Ms. Keller-Sutter
Switzerland

On behalf of
Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic,
Republic of Poland, Republic of Serbia, Switzerland, Republic of Tajikistan,
Turkmenistan, and Republic of Uzbekistan

International Monetary and Financial Committee, April 14, 2023

Statement by Ms. Karin Keller-Sutter, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

In the current, challenging environment, we need the Fund in its capacity as a center of competence in macroeconomic policy, as an integral part of the global financial safety net, and as a platform for cooperation. Fund policy advice and capacity development remain critical to help members navigate difficult trade-offs. Fund lending should support vulnerable members in their macroeconomic policy making and adjustment. Maintaining high standards for lending and strong conditionality are critical, not least to ensure that the financial solidity of the Fund and its trusts remains indisputable. Furthermore, the Fund should act as facilitator and advocate of multilateral cooperation, which remains essential to tackle global challenges.

Global setting and policy priorities

Global growth prospects remain subdued. Risks are high and remain tilted to the downside, also due to financial vulnerabilities. Fiscal policy space is constrained in many countries. High debt levels coupled with tighter financial conditions create additional risks for sovereigns and corporates. These risks could materialize and hamper activity before inflationary pressures abate. In the medium term, an increase in geopolitical tensions and a reversal of global integration would further weigh on growth and inflation dynamics.

An end to Russia's war against Ukraine would be the single most important contribution to improving the global outlook. In addition to the unspeakable human toll, the war is imposing enormous economic costs.

An adequate tightening of policy stances and strong reform efforts are necessary. Policymakers must stay the course to (i) achieve price stability and keep inflation expectations firmly anchored, in line with central banks' mandates, (ii) preserve financial stability, as well as (iii) reduce deficits and debt vulnerabilities, while providing targeted support to the most vulnerable, and (iv) bolster potential growth through structural reforms. Policymakers need to act carefully and adjust their stance, should economic conditions deteriorate faster than anticipated.

Given the still high level and persistence of inflation, central banks need to maintain appropriately tight monetary policy until there are clear signs that price stability is achieved. Failure to do so would undermine the credibility of central banks and lead to higher and more volatile inflation, as well as more frequent disruptions in financial markets. While monetary tightening by major central banks can induce international spillovers, ensuring price stability is the best service that they can render for the stability of the international monetary system.

The preservation of financial stability requires effective, risk-based financial regulation and supervision and the decisive use of available tools when financial stability risks materialize. In recent weeks, financial stability risks in the banking sector came to the fore. Confronted with the severe risks from an impending failure of a global systemically important bank (G-SIB), the Swiss authorities acted quickly and decisively. They facilitated a private takeover, while

providing strong support, notably to ensure sufficient liquidity. The action taken strengthened confidence and helped preserve financial stability, both in Switzerland and globally. Looking ahead, aside from continued vigilance and monitoring, it will be important to draw lessons. A review of the effectiveness and appropriateness of the existing regulatory framework is necessary. In addition, risks in non-traditional financial sectors, including non-bank financial institutions and the crypto sector, should be carefully monitored and appropriately addressed.

In most countries, fiscal policy needs to be tightened. The rapid rise in public debt and increasing borrowing costs leave public finances vulnerable. Governments need to scale back the fiscal stimulus of past years and better target support to the most vulnerable. Sustained expansionary fiscal policy would add to inflationary pressure and force monetary policy to tighten more and faster. Rebuilding fiscal buffers is also critical to be able to address future crises. Structural fiscal reforms and credible medium-term fiscal frameworks are more important than ever. They help to promote consistent macroeconomic policies and build up room to handle future shocks.

Structural reforms remain necessary to strengthen the potential for growth. Labor market policies should focus on improving skills and reducing frictions. These efforts are particularly important to boost sustainable employment. Product market reforms, as well as measures to strengthen governance and transparency, also remain central to fostering a business environment that is conducive to private sector development and investment.

It is critical to protect the open, rules-based, and transparent international trading system. More resilient supply chains are warranted, but should not come at the cost of unwinding many of the benefits of globalization. A clear commitment to open global systems and predictable rules, including reforms of the World Trade Organization and its dispute settlement system, is urgently needed.

Climate policies need to be credible, timely, and predictable to support the green transition. They should set the right incentives to boost innovation and private sector investment. Determined efforts to reduce carbon emissions should be resumed and accelerated, while meeting the immediate challenges of energy security. Delaying necessary action will only increase future costs. Energy production must shift to cleaner sources, but the transition will also require economic activity to become less energy intensive. Carbon pricing is the most effective and efficient way to transition to a low-carbon economy.

The Fund's role at the current juncture

Fund policy advice and surveillance, including top quality economic analysis and knowledge sharing, remain key, for instance in the context of the necessary monetary normalization and rising financial sector risks. We welcome ongoing work on the operationalization of the Integrated Policy Framework. Further work will also be important on the External Balance Assessment (EBA) to better reflect the links between the current account, demographics, and pension systems. The EBA methodology should be extended to include improved exchange rate models and a module for the analysis of stock imbalances.

Capacity development (CD) remains important in providing tailored and hands-on advice and assisting reform implementation. We support further enhancing CD by ensuring it is sequenced and well-prioritized, closely integrated with surveillance and lending, results-based, transparently

monitored, and geared toward fostering ownership. CD delivery should continue to be focused on the Fund's core areas of expertise, including debt-related issues. We underscore the crucial role of regional capacity development centers and resident advisors. The Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) makes a valuable and much appreciated contribution to helping the members of our Constituency address their unique challenges.

Fund lending remains important to support members in achieving macroeconomic adjustment and addressing balance-of-payments needs, particularly in the current, challenging environment. Access limits were recently raised on a temporary basis, responding to their partial erosion against standard metrics, while the Fund also adapted its lending framework to enable support in cases of exceptionally high uncertainty. That said, the Fund's financial solidity must remain unquestionable. High lending standards and effective and strong conditionality are a *conditio sine qua non* for maintaining confidence in the Fund's ability to carry out its mandate, to reassure lenders and donors to the Fund, and to catalyze other funding to members. Permanent changes in access limits would need to be consistent with available Fund resources and can thus only be considered once there is clarity about the outcome of the 16th General Review of Quotas.

The Fund's lending toolkit has proven flexible enough to provide prompt, adequate, and tailored support in the face of major shocks. As part of multilateral support efforts, the Fund should focus on lending through existing instruments, particularly UCT-quality programs, and providing a coherent macro policy framework.

Ensuring the financial soundness of the Poverty Reduction and Growth Trust (PRGT)

We are concerned about the challenging financial situation of the PRGT. While low-income countries (LICs) are particularly affected by the spillovers from Russia's war against Ukraine, adequate reserve buffers and subsidy resources remain key premises for sustainable concessional Fund lending to LICs. The low reserve coverage ratio constrains the Fund's ability to assume risk in its concessional lending operations and the overall credit capacity of the PRGT. In this context, the reserve asset character of central banks' claims on the loan and deposit accounts of the PRGT must not be put at risk. Additionally, the shortfall in subsidy resources to enable a certain level of lending has become larger. Apart from PRGT sustainability considerations, lending to PRGT-eligible countries is in many cases constrained by high debt levels and significant risks to debt sustainability. PRGT lending requires effective conditionality and also needs to be consistent with recipient countries' absorptive capacities.

We support fundraising efforts with a focus on fair burden sharing, and we strongly encourage all countries that have made pledges to turn them into actual contributions. Switzerland provided a loan to the PRGT in the amount of SDR 500 million during the 2020 loan mobilization round and is providing about SDR 40 million in subsidy resources over the next five years starting from 2023. Looking ahead, the Fund needs to devise a comprehensive strategy to address the challenging financial situation of the PRGT. Lending capacity and the terms for concessional lending must be assessed jointly. We advocate a prudent strategy that also reflects the role of the Fund, including the catalytic role of its financing, within the global system of multilateral and bilateral providers of financing to LICs. In light of the recent sharp rise of the SDR interest rate

and the need to carefully manage limited subsidy resources, updating the interest rate structure for PRGT lending should be considered.

Operationalizing the Resilience and Sustainability Trust (RST)

The operationalization of the RST will help eligible countries address risks stemming from longer-term structural challenges, in particular climate change. In the context of high estimated demand, available lending resources will need to be carefully managed. For the RST to achieve its purpose, RSF-arrangements will need to feature substantive reforms guided by the Fund's specific expertise. Access to RST resources should be closely aligned with the strength and quality of reforms underlying RSF-arrangements. To garner other essential information and knowledge, close and effective cooperation with the World Bank—and, where appropriate, other international organizations—is critical. Switzerland is preparing a contribution to the RST to support countries' macroeconomic policy efforts focused on climate change challenges.

Tackling debt vulnerabilities

Addressing debt sustainability concerns is imperative. Debt vulnerabilities are high and rising in many countries, with some countries in urgent need of debt restructuring. While we welcome the recent progress made with debt treatments under the G-20 Common Framework, enhancing the efficiency of such debt treatments is a priority. Expanding the scope of coordinated case-by-case debt treatments in line with the principles of G-20 Common Framework to a broader group of countries is also essential. The Global Sovereign Debt Roundtable (GSDR) could be helpful, notably in improving coordination. At the same time, the GSDR needs to be complementary to, and not preempt decisions by, key institutions, such as the IMF, the World Bank, and the Paris Club. Their roles and competences must be preserved. Aside from that, we continue to support efforts to enhance debt transparency by both debtors and creditors, including with respect to collateralized debt, and call on creditors to adhere to prudent and sustainable lending practices. We remain strongly supportive of the Fund's and the World Bank's multipronged approach to address debt vulnerabilities.

Cross-cutting issues

The Fund, together with other relevant institutions, should advocate global coordination and policies to address climate change. In line with its mandate and expertise, the Fund should concentrate on macroeconomic policies. We agree on the importance of the private sector in climate finance and support work to facilitate the climate alignment of private financial flows, including by strengthening the comprehensiveness, comparability, and accessibility of the climate-information architecture. In addition, work to help central banks and supervisors better evaluate the exposures of the financial system to climate-related risks is highly appreciated.

The Fund rightly highlights the opportunities and challenges associated with digital finance. Its analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other financial innovations will help members design digital strategies that enhance growth

and financial inclusion without weakening financial stability and integrity. The recently developed framework for effective policies for crypto assets will be useful in this regard.

Promoting open trade is part of the Fund's mandate, and its role in this policy area should be reinvigorated. In its work on trade, the Fund should emphasize the role of diversification, buffers, and domestic policies to strengthen resilience. Also, the Fund should advocate the merits of an open, rules-based, and transparent multilateral trading system, and it should foster dialogue and cooperation.

In all cross-cutting areas, close collaboration with other relevant institutions and bodies will be crucial to make best use of its expertise and enable complementarity.

IMF resources and governance

We remain committed to a constructive discussion on the 16th General Review of Quotas within the Fund's decision-making bodies. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We strongly support progress on quota realignments for the currently most underrepresented members, while protecting the position of the Fund's poorest ones. Quota realignments cannot abstract from the formula for the calculation of quota shares. The current quota formula reflects a compromise that continues to serve the Fund well and, hence, provides an appropriate basis for a quota allocation. The adequate size of the Fund should be based on realistic assumptions and balanced arguments. Considering the different elements of the 16th Review as an integrated package will help build a broad consensus.

We underscore that the Fund must be exemplary with respect to internal governance, prudent budgeting, and maintaining balance sheet strength. The continuous search for efficiencies and reallocation of resources to reflect evolving priorities and needs, in line with the Fund's core mandate and fields of expertise, should remain core elements of the budget process. With respect to strong finances, we stress the need for a further build-up of precautionary balances.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-10

Statement by Mr. Haddad
Brazil

On behalf of
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Democratic Republic of Timor-Leste, and Trinidad and Tobago

Statement by Fernando Haddad
Minister of Finance, Brazil

On behalf of the Constituency comprising Brazil, Cabo Verde Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

International Monetary and Financial Committee
April 2023

Brazil deeply regrets the continuation of the war in Ukraine. It is cause of humanitarian suffering, and a source of disruption in the global economy, affecting disproportionately the poor and vulnerable populations. We renew our call for an immediate ceasefire to allow for a peaceful solution of the conflict.

Greater uncertainty clouds the horizon and calls for firm and nimble policies

Financial stability episodes in advanced economies exacerbate uncertainty in a slowing global economy. Greater uncertainty leaves policymakers with a narrower path to restore price stability while avoiding a recession and maintaining financial stability. In times of high uncertainty and market volatility, the premium for policy actions that restore confidence and anchor expectations enhances exponentially. The recent financial events in the U.S. have shown that, despite strong policy actions in support of the banking sector, bank equity and liquidity have come under extreme pressure. For these reasons, it is paramount that policymakers closely monitor the situation and proactively manage risks. The Fund must continue to provide agile and tailored policy advice and be available to step in with financial assistance when required.

Central banks in advanced economies must continue to calibrate their monetary policy stance to fight persistently high inflation. A relatively tight labor market in some key economies, together with high and broad-based headline and core inflation, suggest a protracted period of inflationary pressures, particularly in the services sector. Under these circumstances, we agree that reaching price stability will likely be a multiyear process. Having said that, higher interest rates for longer will increase financial sector vulnerabilities, requiring stronger frameworks and resolve from financial sector regulators and supervisors. Central banks and financial supervision authorities should continue observing the principle of separation of objectives and instruments in implementing monetary and macroprudential policies, while paying due attention to their interactions.

Fiscal policy should ensure debt sustainability and support monetary policy in taming inflation, while protecting the most vulnerable and avoiding stifling essential investments. Private and public debt have reached levels not seen in decades in most economies, increasing the risks of banking sector turmoil and sovereign debt distress as monetary policy normalizes. Accordingly, governments have announced further withdraws of fiscal stimulus in 2023 and 2024, including by scaling back measures designed to alleviate the effects of energy price spikes in 2022. Most countries have very limited fiscal space and are striving to prioritize spending and find efficient sources of additional revenue. Fiscal space is particularly constrained in many low-income countries that are estimated to be either in debt distress or at a high risk of debt distress. A responsible fiscal policy everywhere will be important to use wisely existing policy space and reduce the likelihood of disruptive events.

Economic fragmentation is an important risk, which must be faced with resolve. The increasing concentration of trade and investment flows among geopolitically aligned countries, especially in strategic sectors, is extremely concerning. National industrial and technological policies in central economies further contributes to this process. This could lead to welfare losses for emerging market and developing economies (EMDEs) in need of diversification and integration with high value-added production chains. Reduced global activity, less vertical integration of firms, open or disguised protectionism and diversion of investment could aggravate the situation. We are convinced that ensuring a rules-based international economic order that fosters economic integration, diversification of production, knowledge sharing and less poverty and inequality is the best way to avoid further fragmentation.

Fighting climate change, and its already devastating effects on more vulnerable countries and communities, requires close international cooperation. The pandemic has shown the potential and shortcomings of global cooperation in the face of an overwhelming global challenge. The authorities all over the world reacted promptly, following different strategies and approaches. The Fund played a particularly constructive role in that period. However, we are convinced that closer international cooperation would have yielded a much better result, particularly for poorer countries and more vulnerable populations. Climate change poses a similar challenge, which requires steadfast commitment and contributions from every country. Progress in implementing the Paris Agreement agenda requires that advanced economies step up climate finance to support the mitigation, adaptation, and transition efforts of EMDEs. This is in line with the principle of common but differentiated responsibilities.

Brazil: reconciling the economic, social, and environmental agendas

Brazil's new administration is determined to demonstrate that responsible macroeconomic management is compatible with social justice and environmental sustainability. After one

hundred days, the government has proven its firm commitment to ensure macroeconomic stability in a challenging environment, while creating room to deliver on a broad agenda. At the outset, the main priority is to maintain fiscal and debt sustainability, while strengthening social programs and support for the poorest. The administration is dealing with important repressed social demands that need to be addressed in a fiscally responsible manner. Moreover, the pressing challenges posed by climate change require bold and resolute actions. Therefore, sound economic management must, at any point in time, be consistent with social and environmental requirements, while being politically viable.

We are committed to fiscal and debt sustainability within a credible rules-based framework. In these first three months, we have started prioritizing immediate spending needs, and have reverted some tax exemptions, including on fuel, which had been granted last year. The overarching goal is to bring the poor into the budget and the wealthy into the tax system. Primary fiscal balance outturns surprised on the upside in the first two months this year, and, with the new fiscal framework, we are on track to a significantly lower primary deficit than what was projected in the budget at the beginning of the year. Furthermore, we have presented to congress and the society a new fiscal framework that can credibly stabilize the public debt over time and subsequently put it on a clear downward path. Expenditures will be constrained to grow below revenues and primary fiscal balance targets will be set in a way consistent with the objective of maintaining debt sustainability. Within this new framework, the central government will be able to post a primary fiscal surplus of one percent of GDP in 2026, the last year of the administration's term.

Reforming the tax system to make it simpler and fairer is another immediate priority. The new administration is fully engaged with congress to enable the approval of a long-overdue tax reform to establish a VAT, simplify procedures, avoid tax wars among subnational entities, and increase transparency and fairness in the system. The main objective is not to increase revenue but to improve the quality of revenue mobilization. Brazil's tax system is overly complex, regressive, distortive, and cumbersome. It unduly burdens businesses and accentuates regional and social inequalities. The envisaged tax reform includes a comprehensive review of tax expenditures to address perverse and regressive features of our tax regime and tackle state capture. While not a panacea, tax reform will be a major step forward to establish a simpler and fairer system that will bolster efficiency in the economy. Recently, all the 27 state governors expressed their support to the proposed tax reform under consideration in congress, and we expect to have it enacted by the end of this year.

A tight monetary policy stance has started to bring inflation down. Brazil was the first large economy to start tightening monetary policy early in 2021, when it became clear that inflationary pressures were broad-based and persistent. After peaking at above 12 percent in early 2022, the

inflation rate has halved and is comparatively lower than in most advanced economies. In the meantime, credit contracted, and economic activity continues to soften, with the labor market showing signs of moderation. Moderate growth is expected next year, as the overall macroeconomic scenario improves. According to market expectations, inflation would gradually fall to around 4% in 2024, within the tolerance band, but still above the inflation target. With increased confidence in the fiscal framework and a fiscal consolidation path consistently affecting inflation expectations and anchoring them closer to the target within the relevant horizon, there will be space for accommodation in the policy rate.

We are committed to structural reforms that further a growth model that is socially just and environmentally sustainable. We are revisiting the programs and policies to steer economic development to resolutely reduce poverty and inequality and make our energy matrix even greener, contributing to a new reindustrialization cycle in the context of the environmental transition. Moreover, we are fully conscious of our global responsibility to halt deforestation and restore degraded land in Brazil and are taking steps towards this goal. While we are working to recover the capacity of the public sector to invest, we understand that a significant share of the needed investments will be met by enhancing the participation of the private sector. Regional integration mechanisms and international partnerships will play an important role to advance those objectives.

IMF engagement with our constituency members

The engagement of our constituency members with the Fund has been very constructive since October. In **Cabo Verde**, the first ECF review was concluded in January, with very strong performance, and the preparatory work for the Article IV consultation, the second ECF review, and a possible RSF arrangement is currently underway. The **Dominican Republic**, which continues to display very strong economic performance, completed a staff visit in October and will receive the Article IV mission in May. In the case of **Ecuador**, the Executive Board approved in December the final review of the 27-month EFF-supported program, which was instrumental in helping the country overcome one of its most difficult economic moments in history. **Guyana** received IMF technical assistance to strengthen revenue collections and hosted an IMF workshop on AML/CFT issues. Despite an extremely challenging situation, **Haiti** completed successfully the first SMP review in December and is poised to successfully conclude the second SMP review shortly. Also, it was one of the first countries to benefit from the newly-created Food Shock Window under the RCF. In **Nicaragua**, the economy has resumed growth, and, despite downside risks, the outlook remains broadly favorable; the Article IV consultation was successfully concluded in January. **Panama**’s Article IV consultation was completed in February, following the successful conclusion of its PLL; the authorities are currently implementing the few remaining measures to exit FATF’s gray list. The EFF-supported program with **Suriname** faced significant challenges last year, due to severe shocks to the economy; however, the authorities are committed

to implementing the program and achieving the primary fiscal balance that is required to put the country on a sustainable fiscal adjustment path. In the case of **Timor-Leste**, there was a staff visit in February to reach out to key stakeholders on possible ways of strengthening further the engagement with the Fund. Finally, **Trinidad and Tobago** received a staff visit in November and the Article IV consultation mission in March; the Article IV consultation, for approval on a lapse-of-time basis, is scheduled for May.

The IMF must continue to deliver on its mandate

The Fund's role in supporting sound policies and reform efforts in member countries is invaluable. This is even more so in the current juncture, as countries around the globe struggle to bring high and persistent inflation down in a context of heightened uncertainty, including on the financial stability front. In this regard, we expect the Fund to play its role as a steady reference in macroeconomic and financial policies, as well as a global lender of last resort. IMF's surveillance, capacity development, and lending should be directed to meet the needs of our membership. While we acknowledge the importance of some emerging issues, we call on the Fund not to get distracted from focusing on its core mandate, where it is unique and has a clear comparative advantage and can deliver better results.

We underscore the importance of precautionary arrangements and look forward to the forthcoming review of IMF policy in this area. Precautionary arrangements have played a critical role in fostering macroeconomic and financial stability not only in the direct beneficiaries, but also regionally and globally. Providing support on a precautionary basis for countries to keep robust policies and frameworks is the one of the best ways for the Fund to preempt the occurrence of crises. We welcome the recent increase in the number of countries engaging in precautionary arrangements but believe that a much larger network of such arrangements would be highly beneficiary to the global economy. Hence, we expect that the forthcoming review of the IMF policy on precautionary arrangements will address the shortcomings that may have prevented further use of these instruments by the membership.

We call on the Fund to continue playing a constructive role in the dialogue among stakeholders to cope with rising debt. After a long period of low interest rates and abundant liquidity, rising public debt has pushed several vulnerable countries to the brink. Debt treatments may be needed to restore sustainability for those countries in which the required level of adjustment would be excessively costly or not feasible at all. In these cases, debt restructuring should proceed as smoothly and swiftly as possible, preferably under an IMF-supported program. The G20 Common Framework is a promising attempt to lay the ground for a more harmonized action among stakeholders but with limited results so far. Unfortunately, what we have seen up to now is insufficient coordination leading to lengthier than warranted processes and posing a heavier

burden in already strapped debtor countries. We hope the recently launched Global Sovereign Debt Roundtable—in which Brazil, Ecuador and Suriname in our constituency participate—will constitute an effective forum to build understanding, including on the perspective of debtor countries, so that every part can contribute to faster debt treatment where needed.

Mobilizing additional resources for the IMF concessional windows remains a high priority. In a moment of elevated uncertainty, in which global growth is decelerating and financial conditions tightening, and many of our poorest members are facing rising debt vulnerabilities, lending under the PRGT should not be constrained by lack of resources. We encourage those members with strong external positions that have not yet contributed to the PRGT to step up. Rationing PRGT resources or increasing the costs for low-income countries should not be an option. Furthermore, given the emergency of the climate agenda for our developing member countries, the RST must be fully funded to properly address its already strong demand. In this spirit, Brazil remains open to consider further contributing to the PRGT, as well as to the RST. That notwithstanding, we urge the Fund to explore alternative ways of mobilizing internal resources, including through the sale of a small fraction of its gold holdings, to address more urgent needs.

An extremely challenging global environment requires a successful and timely conclusion of the 16th General Review of Quotas (GRQ), moving the governance agenda forward. The Fund has a unique role at the center of the Global Financial Safety Net. It has shown over its long history remarkable effectiveness in fulfilling its mandate. Indeed, having an IMF that is well-resourced, quota-based, and truly representative of its diverse membership would be an important step to mitigate the risk of geoeconomic fragmentation. The global economy today is highly interconnected and has evolved profoundly over the last several decades, with greater relative weight of EMDEs. Regrettably, there has been no significant corresponding change in the IMF balance of power. We continue to favor a significant increase in quotas, to reestablish the predominance of quotas in funding the IMF's lending capacity, while making progress in rebalancing the IMF governance structure towards EMDEs. We are willing to play a pragmatic and constructive role to help build the necessary consensus. If no new quota formula that effectively represents the relative economic weight of members can be agreed upon, we favor an equiproportional increase, with a smaller *ad hoc* allocation to reduce out-of-lineness of underrepresented EMDEs. We call on the Committee of the Whole to redouble its efforts to reach a timely and successful conclusion of the 16th GRQ.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-11

Statement by Ms. Costa
Chile

On behalf of
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

Statement by Governor Rosanna Costa, President of the Central Bank of Chile

On behalf of the Southern Cone Constituency

(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)

Global outlook, economic policies, and multilateral cooperation

The recent upheaval in the banking industry has increased uncertainty and complexity regarding global economic prospects. Although global activity had performed better than anticipated since last October, the recent strain on the banking sector of some advanced economies could have broader implications for the world economy and global financial conditions. Additionally, core inflation rates continue to exceed previous projections. Global economic growth is expected to experience a further decline, while international interest rates remain relatively high amid increased debt levels, making it a challenging landscape for all members to navigate.

Countries need to implement appropriate domestic policies that support macroeconomic and financial stability, boost potential growth, strengthen social cohesion, and build resilience in a world that is increasingly prone to shocks. It is critical that monetary and fiscal policies work hand in hand, with central banks maintaining their focus to restore price stability and anchor inflation expectations. To support monetary policy and ensure debt sustainability, normalizing fiscal policy while safeguarding the most vulnerable should remain a top priority. For highly-indebted countries experiencing distress, timely restructuring should be considered. Targeted liquidity and prudential actions should be the primary tools to address focused financial stability concerns, promptly addressing risk management gaps and monitoring the consequences of market stress on the broader economy and financial system. Policymakers must also tackle the secular decline in medium-term global prospects. Structural transformations and supply-side policies towards more dynamic, greener, and more inclusive economies must remain at the heart of the policy response to the current challenges.

Multilateral action is vital to address shared challenges, support the most vulnerable members, and overcome the increasing geopolitical fragmentation. To provide timely and adequate support to vulnerable countries navigating a complex global landscape, it is necessary to have a strong, well-resourced, and readily accessible Global Financial Safety Net. It is also crucial to establish comprehensive collaboration between official creditors and the private sector to strengthen the debt resolution framework and extend its reach to vulnerable middle-income countries. Moreover, addressing long-term challenges such as climate change, pandemic management, migration, and digitalization, and reviving trade as a key engine of development requires global cooperation.

IMF priorities

The IMF must continue in its role as trusted advisor and supporter of its members during these challenging times, while also promoting the transition to a more resilient future. The world economy needs a nimble and well-resourced Fund capable of providing real-time support to its members through tailored policy guidance, catalytic financial assistance, and integrated capacity building.

Surveillance

We appreciate the IMF's focus on critical issues, such as achieving a well-balanced policy mix that is tailored to country-specific circumstances, addressing emerging macro-financial vulnerabilities, and responding to economic and financial shocks. The Integrated Policy Framework will provide guidance on effectively using multiple tools to address shocks, while considering the long-term benefits of financial integration and exchange rate flexibility, in line with the Institutional View. The integration of new strategies, including climate change, governance, trade, digital, and fragile and conflict states, into surveillance is welcomed. It is essential to maintain a disciplined focus on macro-critical aspects that complement the Fund's core mandate and skills while working closely with other international organizations.

We endorse the emphasis on multilateral surveillance and analytical work on key issues, including inflation, interactions between monetary and fiscal policies, financial vulnerabilities, and the interplay between capital flows, capital flow management measures (CFMs), and crises. A clear and balanced policy adjustment across systemically important economies can help limit adverse spillovers across the global economy and financial system. It is important to monitor the spillover effects of geopolitical fragmentation and raise awareness of the macroeconomic consequences of detrimental unilateral actions.

Lending and debt

We applaud the increased support provided by the Fund to emerging market and developing economies during a period of heightened uncertainty. This includes the availability of rapid financing instruments and the transition to upper-credit tranche quality programs. The Resiliency and Sustainability Trust (RST) has already assisted five members, and there is considerable interest in this initiative across the membership. We encourage the Fund to expand its coverage to encompass a broader range of long-term structural issues with macroeconomic implications. Additionally, urgently addressing the funding gaps in the Poverty Reduction and Growth Trust (PRGT) and RST is necessary to ensure that they can fulfill their important mandates in a timely manner and with adequate terms.

We recognize the importance of the Fund, as a critical part of the Global Financial Safety Net, to continuously adapt and expand its lending toolkit to ensure a stable international monetary system and world economy. Recent measures, such as the Food Shock Window, Program monitoring with Board involvement, temporary increase in normal access limits in the General Resources Account (GRA), and changes in financing assurances policy, have created new tools to support member countries. However, we urge the Fund to continue developing initiatives that can reach a broader group of countries affected by other difficult problems, such as protracted debt restructuring processes, significant exposure to climate change, fragile and conflict-affected states, and countries facing large waves of emergency migration. As we look ahead, we support a broad, ambitious, and holistic medium-term review of the Fund’s lending toolkit and policies to help countries cope with global shocks, including precautionary arrangements.

We recognize the growing number of low-income and middle-income countries that are facing debt distress. Therefore, we support the efforts to strengthen and accelerate the implementation of the common framework for debt resolution and other initiatives aimed at enhancing debt transparency and improving the contractual approach for debt restructuring. We also hope that the Global Sovereign Debt

Roundtable will promote a common understanding that can facilitate the swift resolution of individual cases and improve the effectiveness, predictability, and coverage of the common framework.

Capacity development

We support strengthening the integration of capacity development (CD) with lending and surveillance. The focus should be on building strong macroeconomic and financial policy institutions to ensure sustainable and resilient policies that support prosperity in the long term. We look forward to the CD strategy review and the implementation of the Independent Evaluation Office recommendations.

IMF resources

We strongly support a timely and successful completion of the 16th General Review of Quotas. In this time of unprecedented challenges and the risk of global fragmentation, it is imperative to have a representative, well-resourced, and quota-based IMF at the center of the international financial safety net. Under plausible stress scenarios, the Fund's current lending capacity may be inadequate to ensure a stable global financial system. Therefore, we consider it a priority to increase the Fund's lending capacity and rebalance the role of quotas and borrowed resources. The Fund must remain adequately resourced and at the forefront of the Global Financial Safety Net.

We welcome the strengthening of the Fund’s Enterprise Risk Management (ERM) framework and the implementation of the recommendations of the Institutional Safeguards Review.

Economic and Policy Outlook for the Southern Cone Economies

Argentina

Argentina's 2022 IMF´s Extended Fund Facility has gone through the 3rd and 4th reviews

On March 25, 2022, the IMF Executive Board unanimously approved an EFF program for Argentina. This new program was carefully calibrated to meet Argentina's specific circumstances, notably to address large balance-of-payment needs –which mostly reflect the schedule of payments of the 2018 SBA–, and to address the challenging economic and social situation caused by the two-year recession of 2018-2019 and the COVID-19 pandemic. The 3rd quarterly review was approved by the IMF Executive Board on December 22, 2022, and the 4th quarterly review on March 31, 2023.

An increasingly complex scenario

Against the backdrop of the already severe consequences of the war in Ukraine, notably the sharp increase in the cost of imported energy in 2022, the Argentine economy is facing–particularly during last summer– a major hardship stemming from an unprecedented drought. Not only is this drought having a strong impact on our external position –which calls for the modified Program NIR target path–, but it also has significant repercussions on the economy more broadly and in the social fabric, with effects as wide as straining the fiscal position and building inflationary pressures.

Notwithstanding an ever-increasing complex scenario, we continue to take the necessary steps to ensure program implementation and adapt to changing and challenging circumstances. Despite the increased difficulties and against all the odds, the program remains on track, and we remain confident that we will be able to take the necessary steps to attain a strong, inclusive, resilient, and sustainable economy. We emphasize again that the Program policies are a key anchor for our economy.

Macroeconomic framework

Economic activity remained robust throughout 2022 and GDP grew at an annual rate of 5.2 percent, taking real GDP well above pre-pandemic levels, while unemployment fell to 6.3 percent –a record low–, with employment levels standing at 44.6 percent. Capacity utilization is currently at 63.8 percent.

While inflation reached an annual rate of 102 percent in February due to a set of supply shocks, we continue to take all action to tackle it decisively. Our policy mix of curbing the fiscal deficit, the limit on the monetary financing, and the interest rate and exchange rate policy, show a relentless commitment to addressing this problem. We are confident that a path of gradual but consistent disinflation will ensue.

On the fiscal front, our authorities remain committed to consolidation through measures to ensure an appropriate targeting and prioritization of the benefits of the pension moratorium, improving the effectiveness and targeting of energy subsidies and social assistance, while maintaining space to prioritize social and infrastructure spending.

As to the fiscal challenges posed by the pension moratorium, it is important to bear in mind that this year's cost is estimated at 0.2 percent of GDP. The Government is fully prepared to address this challenge both through regulation, in order to have a fair targeting of beneficiaries and compensatory measures, ranging from transfers to energy subsidies.

As for the energy effectiveness, we are hastily improving the progressivity of the subsidies scheme by removing the most regressive components. By May we will have eliminated subsidies for high-income residential consumers, ending a process that started in February 2022. Also, the boosting of domestic energy production, transportation, and distribution, remain on schedule and one of the main priorities, as is the reduction of reliance on imports.

On the financing front, we will continue to undertake proactive domestic debt management schemes to extend peso maturities, while continuing to mobilize domestic net financing and improving local debt and FX markets stability.

We have been successful both in our domestic liability operations, including the recent domestic debt swap to extend maturities beyond the elections –currently, non-bank private holders of short-term maturities stand at a very manageable 1.5 percent of GDP–, as well as in ensuring net financing from external official sources (in December and January it amounted to more than USD 1.5 billion in the aggregate).

Ensuring that real interest rates remain in positive terrain continues to be key and keeps being thoroughly implemented. This key factor joins the fiscal commitments, the financing strategy, and the well-calibrated wage price coordination in being the elements that underscore what we see as the path of inflation reduction and lessened need for the central bank's financing assistance to the Treasury.

As for the reserve coverage, we are facing an unprecedented challenge due to the most severe drought Argentina has ever suffered. To face such challenge, we are implementing a multi-pronged strategy to mitigate, halt and reverse, as much as possible, the effects on reserves accumulation that mostly stem from the drought. This includes mobilization of international reserves through international financing, the reaffirmation of a strong macro-economic framework, the enhancement of the effectiveness of our FX control schemes, and the improvement of the incentive's alignment.

Final considerations

It is important to realize that the current unprecedented challenges we are facing stem from a climate change related issue; such is the case of the drought. Droughts pose a challenge for global food security, and we firmly believe that addressing this issue is a global public good.

In the current circumstances, commitment and implementation capabilities require that the Program itself, and as per its own design, also adapts to the reality we face. This in turn will help us renew and strengthen our own capabilities of execution.

Bolivia

The Bolivian economy remains resilient despite the complex global economic scenario. During 2022 and so far in 2023, the country has shown significant dynamism in economic activity, along with price stability. The national government continues to be committed and working to consolidate the recovery of the economy and guarantee macroeconomic stability, having as one of its priorities the protection of the population's livelihoods, in a context of external pressures on prices, the threat of a severe slowdown in the global economy, tighter financial conditions, and recent signs of fragility in global financial stability.

Recent developments of the economy

The Bolivian economy continued with important growth in 2022. Economic activity recorded a cumulative expansion of 4.3 percent in the third quarter of 2022, driven mainly by transportation and storage, agriculture, other services, industry, and financial establishments sectors, which persisted in recovering after their sharp drop in 2020. Domestic demand played a significant role in this result and the contribution of external demand was also noteworthy in the year. Furthermore, in line with economic activity dynamism, unemployment continued to decline, reaching a rate of 4.5 percent at the end of 2022, well below the peak of close to 12 percent recorded in July 2020.

Price stability was one of the most outstanding features of the Bolivian economy in 2022, which remains in the first months of 2023. At the end of last year, inflation reached 3.1 percent, the lowest rate in the South American region and one of the smallest in the world. The national government made the necessary efforts to preserve price stability and mitigate an impact on the population, especially the most vulnerable. In this vein, supply support and fuel and food subsidy policies continued, while exchange rate stability maintained its role as a nominal anchor for inflationary expectations and attenuated imported inflationary pressures.

The external sector indicators showed strong momentum last year. On the one hand, exports reached a record level in 2022, with an increase of 23 percent and a significant contribution from sales of the manufacturing and agricultural sectors, not only in terms of value but also in volume. On the other hand, imports grew by 36 percent driven by purchases of raw materials and intermediate and capital goods, reflecting domestic output dynamics and the increase in imported good prices. As a result, a trade surplus was recorded for a new year, totaling US$ 626 million. Similarly, as of the third quarter of 2022, the current account balance was positive, reflecting the continued improvement in the country's external position.

Financial activity was more dynamic. Deposits increased by 6 percent in 2022, highlighting the rise in the number of deposit accounts by 9 percent. Loans expanded by 8 percent, above the rate recorded in 2021. The growth of productive and social-interest-housing loans was relevant in the positive performance of total loans. These credits, prioritized by the Bolivian economic policy, allow to improve productive capacity, and facilitate the population's access to housing. Non-performing loans remained contained at 2.2 percent, among the lowest rates in South America. In addition, the level of Bolivianization of the financial system, that is, the share of operations in local currency, was also highlighted, with 99 percent of loans and 86 percent of deposits in local currency. The commitment to exchange rate stability, the strength of the economy, and a set of measures contributed to the government's effective response to the speculative outbreak at end-February of this year, which caused an unusual demand for foreign currency. The situation is currently being addressed.

Regarding fiscal accounts, the fiscal deficit continued the downward path. After a deficit of 12.7 percent of GDP in 2020 and 9.3 percent in 2021, this decreased to 7.2 percent of GDP in 2022. Similarly, the current fiscal balance showed a relevant improvement, by reducing the deficit observed in previous years to a balanced result in 2022. The significant increase in revenues contributed to the lower deficit. They expanded by 20 percent in the year, in line with the dynamism of economic activity, reaching levels close to the records achieved in 2013-2015. On spending, public investment remained promoted in 2022 and the country was among those with the highest public investment as a percentage of GDP in the region. Moreover, the government continued to guarantee social transfer payments to vulnerable sectors of the population. Furthermore, the strong increase in international oil prices generated a higher cost of fuel subsidies that weighed on fiscal accounts. However, it is important to note that despite this impact, the country managed to preserve the downward trend of fiscal deficit.

Economic policy to consolidate the recovery

The economic policy implemented under the Economic Social Communitarian Productive Model contributed significantly to the positive performance of the economy and to contain the external pressures. One of the government's priorities in 2022, within the framework of income redistribution and enhancement of the population's quality of life, was the fight against international price pressures. In this vein, all efforts were made to preserve price stability and mitigate its impact on Bolivian households' real income. Furthermore, actions against the COVID-19 pandemic continued in 2022, which remained instrumental in the process of economic recovery and in protecting the lives and health of the population.

Similarly, efforts to boost demand and supply continued. Regarding the measures to reinforce demand, stimulating public investment and supporting subnational governments with funds to ensure local public investment projects financing were important.

Policies to strengthen the country's productive capacity were also essential. Therefore, within the framework of the import substitution strategy, which represents one of the pillars of the Bolivian economic policy for productive reinforcement, efforts persisted to grant loans to sectors related to import substitution under the SIBOLIVIA program, with a preferential interest rate of 0.5 percent. Additionally, industrialization projects remained critical for the economy, such as the zinc refining plant, Mutún steel plant, biodiesel plants, and industrialization of lithium, whose process was underpinned with the recent agreement with a foreign company recognized in the area. Some of these projects will start operations this year. Tax exemptions for capital goods imports and sales, and financing programs for microenterprises and other sectors were also relevant measures to help boost the productive sector.

Economic outlook

Despite the challenging international environment, the Bolivian economy is expected to continue its recovery process and preserve macroeconomic stability. Hence, a growth rate of 4.9 percent and end-of-period inflation of 3.3 percent are estimated for 2023. International organizations' forecasts place the country among those with the highest growth rates in the region in 2023. As in previous years, a relevant level of public investment is expected, especially directed at the productive and infrastructure sectors, which will keep contributing to country's growth and employment. Furthermore, the productive sector will continue to be supported through accessible credits and low interest rates, preserving the financial system stability. The significant investment projects underway and a swift start of operations of several of them, within the import substitution industrialization strategy and the national government's set of policies, will allow to continue strengthening the resilience of the Bolivian economy, guarantee sustainable growth and price stability, and improve the population's well-being.

Chile

In the context of lower external demand, more restrictive financial conditions, and high degrees of uncertainty, Chile's monetary and fiscal policies are focused on closing macroeconomic imbalances accumulated during the pandemic, stabilizing inflation, and restoring buffers. In the near term, tight monetary and fiscal policies are necessary to safeguard macroeconomic stability, while structural reforms have been introduced to improve growth prospects and strengthen fiscal, social, financial and climate resilience. The recent financial turmoil had a limited impact on local financial markets. To date, local banks have shown no signs of stress. Initially the peso depreciated against the dollar and dollar financing conditions tightened; however, movements were limited and rapidly reversed.

Recent economic developments and projections

The Chilean economy continues the process of correcting the macroeconomic imbalances that built up during the pandemic. Nevertheless, the adjustment has been more gradual than anticipated as private demand has proven more resilient, amid a stronger labor market and a reduction in domestic political and economic uncertainty. After peaking in 2021Q3, economic activity has gradually slowed down in line with more sustainable demand levels, but further adjustments are needed to close the remaining positive output gap. Moving forward, GDP is expected to grow between -0.5 and 0.5 percent in 2023, and between 1.0 and 2.0 percent in 2024. Towards 2025, once macroeconomic imbalances are resolved, expectations are that activity will resume growth rates between 2.0 and 3.0 percent. After reaching a deficit of 9.0 percent of GDP in 2022, the current account started to show signs of consolidation in 20224Q. Moving forward, it is expected to continue narrowing, reaching 4 percent of GDP by the end of this year, reflecting the decline of domestic demand and the depreciated level of the real exchange rate.

The banking sector in Chile remains liquid, solvent, and well capitalized, supported by an effective regulatory and supervisory framework that aligns with Basel III standards for capital and liquidity, without distinctions based on bank size. Currently 17 banks operate in the Chilean market, six of them are classified as domestic systemically important banks accounting for almost 87 percent of the system's total assets. It is worth noting that in Chile banks are less exposed to held-to-maturity securities, as most of the banking sector follows a traditional business model focused on granting credit based on diversified financing sources and adequate management of maturity and currency mismatches. Additionally, the Central Bank of Chile (CBC) and the Financial Market Commission (CMF) regularly conduct and publish stress tests. According to the latest Financial Stability Report, the banking system in Chile has sufficient provisions and capital to withstand severe stress scenarios. Nevertheless, the authorities remain vigilant to developments in the global and local financial sectors that could pose risks to financial stability and the macroeconomic outlook.

Macroeconomic policies

The monetary stance has remained tight as inflation remain high and above the 3 percent target. Since mid-2021 to October 2022, the CBC has increased its monetary policy rate (MPR) from 0.5 to 11.25 percent, well above its neutral rate. The benchmark yield curve has shifted upward and credit conditions for firms and households have become more restrictive. Although headline inflation has receded in recent months, core inflation has remained persistently high. Against this backdrop, the CBC has revised upward its inflation forecast. Headline inflation is expected to continue declining in the coming quarters, to converge to 3 percent in 20244Q and core inflation to decline more gradually, reaching 3 percent at the beginning of 2025. In the latest monetary policy report, the CBC reinforced that it would maintain a tight policy stance until macroeconomic conditions indicate that the process of inflation convergence to the 3 percent inflation target consolidates, while acting with flexibility in case internal or external risks materialize.

After the exceptional foreign exchange intervention (FXI) last year, the peso stabilized and since October it has appreciated around 15 percent, as domestic uncertainty receded from last year's peak. The authorities remain firmly committed to a flexible exchange rate, as it is a key shock absorber for the Chilean economy.

The authorities are fully committed to fiscal responsibility and maintaining macroeconomic stability. In 2022, the extraordinary universal support programs implemented during the pandemic were gradually wound down while targeted support was provided to lagged sectors and the most vulnerable to cushion

the increase in the cost of living. The overall headline position resulted in a fiscal surplus of 1.1 percent of GDP, representing the first surplus since 2012 and one of the largest post-COVID fiscal consolidations in the world.

In line with this, the government committed to a multi-year consolidation plan in 2021 to achieve a structural equilibrium position by 2026 (-0.3 percent of GDP) and keep public debt below 45 percent of GDP. The 2023 budget envisions a 2.4 percent of GDP deficit, consistent with a structural fiscal deficit of 2.1 percent of GDP, and a 1.2 percent increase in expenditures from 2022 levels. Expenditure increases will be focused on public investment, social spending, and productivity. Permanent expenditure proposals will only be financed by permanent income in compliance with the fiscal rule.

Gross public debt is projected to rise to 38.7 percent of GDP by the end of 2023 and peak at 41.7 percent in 2025 before declining to 40.4 percent in 2027. To continue strengthening the fiscal framework, a bill to improve the Fiscal Responsibility Law was presented to congress last year. The bill leverages the lessons learned from Chile's experience with the fiscal rule and includes a well-defined debt ceiling, escape clauses, convergence paths, and an insurance framework against natural disasters. The bill is now under discussion in Congress.

Paraguay

The current projection of GDP growth by the end of 2023 stands at around 4.5 percent, in line with the recovery of the agricultural sector, following a meager performance in 2022. In addition, greater dynamism is foreseen for the electricity and water sector and moderate expansions are expected for the services and manufacturing sectors. On the expenditure side, greater dynamism of net external demand and, to a lesser extent, of domestic demand is foreseen.

In the fourth quarter of 2022, GDP verified 1.7 percent y/y growth, driven mainly by the rebound effect in agriculture (with the beginning of the new 2022/2023 campaign in the second semester of the year), and the upswing in the production of electrical energy at the bi-national hydro-electric entities, and to a lesser extent, services and livestock sectors. However, the negative result of manufacturing and construction attenuated the rebound in economic activity. On the expenditure side, private consumption continued to expand and there was also a rebound in net external demand due to the more favorable dynamics of exports of goods and services and a contraction in imports. Nevertheless, gross capital formation and government consumption had a negative impact, the latter in line with the fiscal convergence plan. In cumulative terms, GDP grew 0.1 percent at the end of 2022.

At the beginning of this year (January 2023), the Monthly Indicator of Economic Activity (IMAEP) presented a 4.5 percent y/y variation, driven mainly by the positive performances registered for the agriculture and electricity and water sectors, and to a lesser extent by the services and livestock sectors, which was mitigated by the negative results of the construction and manufacturing sectors. These results are in line with projections.

As regards the labor market, the results in terms of employment and unemployment were slightly favorable in the fourth quarter 2022. In this period, employment grew by 11,959 positions as compared to the same period in 2021, representing an increase of 0.3 percent y/y. By economic sector, the increase of the percentage of the population employed within the tertiary sector (particularly communal, social, and personal services, and other services) stood out, while a reduction was observed in the primary and secondary sectors. By occupational category, there was an improvement in the number of salaried employees and domestic workers, although this was offset by the decrease in self-employment. On the

other hand, the number of unemployed persons decreased by 44,595, whereby the unemployment rate dropped from 6.8 percent registered in the fourth quarter of 2021 to 5.7 percent in the same period of 2022.

Total inflation has continued to decrease, in accordance with lesser pressures of external prices, the moderate dynamism of domestic demand (negative product gap), and the transmission of monetary policy rate adjustments to key macroeconomic variables that contributed to contain the acceleration of domestic inflation in the last few months. The annual inflation rate stood at 6.9 percent in February, below the rate observed in the previous year (9.3 percent). As regards inflation forecasts, a rate of 4.1 percent is foreseen for the year 2023, converging gradually to the target (4 percent).

Regarding monetary policy, the Central Bank of Paraguay (BCP) has decided to maintain the reference rate at 8.50 percent annually since September 2022, considering that the main inflation measures have continued above the range and given that a high degree of uncertainty persists. This uncertainty stems mainly from the external environment and has been exacerbated by the recent shocks in the international financial market, although, in general, such events have not had repercussions within the domestic financial system.

As regards the financial system, in the domestic market, it has remained stable, with capital adequacy indicators that easily surpass the minimum requirements at the local and international levels. The system's profitability has continued to recover during the post pandemic period and both the Non-Performing Loan ratio and liquidity of the system remain at adequate levels. Total credit presented a deceleration in its pace of annual expansion in the last semester of 2022 and has remained stable so far this year. Meanwhile, deposits have registered moderate growth.

Peru

Recent economic developments and projections

Peru grew 2.7 percent in 2022. Growth in primary sectors slowed down to 0.6 percent due to lower fishing and mining production. Non-primary sectors, mainly commerce and services, grew 3.2 percent in a context of improved health conditions relative to 2021. Continued momentum in private consumption reflected favorable labor market developments and pension fund withdrawals (although inflation and political unrest affected household confidence). Export volumes and public investment also expanded; but private investment fell 0.5 percent due to the impact of political uncertainty on business expectations.

Growth is expected to be somewhat lower (2.6 percent) in 2023, mainly in connection with political disturbances and adverse climate events affecting agriculture and fishing. However, economic activity is expected to pick up as political tensions recede. By 2024 the economy is forecast to expand by 3.0 percent, with domestic demand as the main engine; and growth is expected to remain close to potential over the medium term.

Inflation in Peru has been one of the lowest and less volatile in LAC since 2001 (3.0 percent on average in 2001-2022). However, under the current scenario of high global inflation, annual inflation stood at 8.4 percent in March 2023, below the 8.8 percent peak in June 2022; and inflation excluding food and energy was 5.9 percent, above the 1-3 percent band targeted by the Central Reserve Bank of Peru (BCRP). Twelve-month inflation expectations reached 4.29 percent in February, down from 4.62 percent in January. Inflation is expected to return within the target band at the end of 2023, assuming a reversal of transitory factors (international food and fuel price increases), with growth close to potential.

Credit to the private sector increased 2.8 percent y/y in February 2023 due to higher household loans. After a significant increase in the credit-to-GDP ratio in 2020 (mainly driven by a large government-guaranteed loan program launched in response to the pandemic), credit demand growth is expected to moderate to 4.5 percent in 2023.

As a percentage of GDP, the current account deficit increased from 2.3 percent in 2021 to 4.3 percent in 2022, resulting from a terms-of-trade deterioration; but is forecast to decrease to 1.4 percent of GDP in 2023 due to higher mining export volumes, a correction in transportation costs, and a recovery in the terms of trade (the current account deficit already declined to 2.8 percent in the last quarter of 2022). The balance of payments will continue to be sustainable and financed by long-term capital inflows.

Macroeconomic policies

The cumulative fiscal deficit over the last twelve months increased from 1.6 percent to 1.8 percent of GDP between December 2022 and February 2023, reflecting lower current revenues and higher capital expenditure, although it remains below the cap established by the fiscal rule (2.4 percent for 2023). Public debt as of end-2023 is expected at 32.8 percent of GDP, one of the lowest in LAC. Going forward, fiscal consolidation will continue as the economy recovers from the pandemic shock.

Starting in August 2021, the BCRP began to raise its policy rate from a historic low of 0.25 percent in July 2021 to 7.75 percent in January 2023 (18 rate hikes). Between February and March, the BCRP decided to keep the policy rate unchanged. This pause does not necessarily imply an end to the BCRP's monetary tightening cycle, as the Board will continue to take the necessary steps to ensure that inflation returns within the target band over the forecast horizon.

Additionally, the BCRP maintains an FX buffer of around five times the country's short-term obligations and 30 percent of GDP due to a precautionary accumulation of international reserves. Additionally, Peru has access to contingent funds, notably USD 5.4 billion from a successor Flexible Credit Line arrangement with the Fund. With sound fundamentals and high FX reserves, Peru's external position is one of the strongest among emerging market economies. This enables the authorities to considerably limit the risks from exogenous financial shocks.

Peru's strong and coordinated fiscal and monetary response under the pandemic was possible due to solid macroeconomic fundamentals, including low debt ratios, one the largest fiscal spaces in LAC, and significant external buffers. In a context of unprecedented challenges, the country's solid policy management over the past three decades is being validated.

Uruguay

Recent economic developments and projections

After expanding 5.3 percent in 2021, Uruguay's economy grew by 4.9 percent in 2022 led by exports, private consumption, and investment. In the fourth quarter of 2022, the Gross Domestic Product (GDP) fell 0.1 percent compared to the same period in 2021 and contracted by 1.3 percent compared to the third quarter. The fourth quarter contraction reflects the impact of the severe drought on some sectors of the Uruguayan economy, particularly agricultural activities. Slower growth is foreseen for 2023 as a consequence of the drought.

The labor market improved on average during 2022. The unemployment rate for the year stood at 7.9 percent, down 1.5 percentage points from 2021. The improvement in the labor market was also

reflected in the ongoing reduction of workers in the unemployment insurance system. Meanwhile, real wages recovered.

Macroeconomic and financial policies

In February 2023, the Monetary Policy Committee of the Central Bank of Uruguay (BCU) maintained the policy rate unchanged at 11.50 percent as inflation expectations had begun a convergence process. The monetary policy rate had had a cumulative rise of 700 basis points since August 2021 when the BCU started a tightening stance. The BCU's survey shows that the median of inflation expectations within the monetary policy horizon (next 24 months) declined to 6.7 percent in March 2023. Going forward the BCU remains committed to continue advancing its de-dollarization strategy and rebuilding the Uruguayan peso markets, aiming to enhance monetary policy transmission.

The financial sector remains sound, resilient, and profitable. The solvency situation of the banking system continued to exhibit a remarkable strength as of the third quarter of 2022. The aggregate capital buffer reached 1.9 times the minimum regulatory requirement. Regarding liquidity risk of the banking system, the ratio of liquid assets to total assets remained at a healthy 58.1 percent. The profitability of banks (measured in nominal pesos) represented a return on assets of 1.2 percent and a return on equity of 12.7 percent as of September 2022. The general delinquency of credit stood at 1.62 percent, slightly above the record low of 1.5 percent. Stress tests of the banking system carried out by the Superintendence of Financial Services (SFS) of the Central Bank, showed that the banking system would withstand a severe recession scenario, and the regulatory capital of the banking system on average would remain above the minimum requirement.

The authorities remain fully committed to fiscal discipline. Underpinning fiscal credibility, all three pillars of the fiscal rule were met in 2022 for the third year in a row: the structural deficit was 2.5 percent of GDP, below the 2.6 percent GDP target; real primary spending growth was 0.5 percent lower than the 2.1 percent target cap, in line with estimated potential real GDP growth; the Central Government's net indebtedness was USD 1.8 billion below the legally binding limit of USD 2.1 billion for 2022. The responsible and prudent fiscal management facilitated the implementation of well targeted and effective measures in support of vulnerable groups. Moreover, the authorities advanced a series of adjustments in personal income tax (IRPF) and social security assistance tax (IASS) that benefits lower-income taxpayers and workers with dependent children. Likewise, several tax measures changes deepened the support to micro and small firms.

The steady improvement in public finances is reflected in declining fiscal deficit and indebtedness. The fiscal deficit of the Central Government stood at 3.2 percent of GDP (excluding the overall effect of inflows to the Social Security Trust Fund of 0.2 percent of GDP, improving 0.9 percentage point of GDP relative to 2021. In turn, gross debt of the Central Government stood at 57.3 percent of GDP as of December 2022, while net debt was 53.2 percent of GDP, implying a reduction of 2.6 percentage points and 2.1 percentage points of GDP respectively relative to 2021.

The authorities have continued pursuing proactive debt management strategies aiming to de-risk the debt portfolio while keeping borrowing costs contained. Liability management transactions, conducted in domestic and international markets, have sustained a robust debt maturing profile, thus reducing the rollover risk. By the end of 2022, the share of debt coming due during 2023 represented 4.4 percent of the total debt stock and the average time to maturity of the debt portfolio was 12.3 years. Moreover, the authorities continue to align the country's national financing strategy with its climate and nature commitments as established under the Paris Agreement. In 2022, Uruguay issued a new dollar-

denominated Sovereign Sustainability-Linked Bond (SSLB) maturing in 2034, linking the bond's coupon interest rate to the achievement of climate and nature conservation performance targets: reduction of the intensity of greenhouse gas emissions as a share of GDP and preservation of the native forest area in the country. The financial instrument introduced an innovative two-way step-up/step-down interest rate structure.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-12

Statement by Mr. El Abassi
Tunisia

On behalf of
Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, Tunisia

Statement by Mr. El-Abassi
On behalf of Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

After showing promising signs of stabilization in early 2023, the world economic activity has slowed down, against a backdrop of renewed high uncertainty and recent financial sector turmoil, compounding the daunting challenges to global economic prospects. While the global economy is still struggling with the recent crisis, dominated by the lingering supply-demand imbalances created by the pandemic, the war in Ukraine, high and rising consumer prices, we are encouraged to note a gradual restauration of the supply-chain. In parallel, we note that the labor markets are generally strong, inflation is decelerating moderately but remains stubbornly high, compelling central banks to further raise interest rates and keep them high for long. Spillovers from sustained tight policies in AEs are putting pressure on EMDEs, and especially highly indebted countries, in the form of currency depreciation, increase in debt servicing, and restricted access to capital markets.

We support the GPA's emphasis on "safeguarding economic stability, supporting vulnerable countries and sustaining our future prosperity". Under the current gloomy environment, it is critical for policymakers to establish clear priorities and have in place well-calibrated policies to achieve them. We believe that ensuring a sustained decline in inflation while safeguarding financial stability is paramount. Another policy imperative is the protection of low-income households through targeted support. There is an even more immediate need to address the incidence of acute food insecurity in vulnerable countries. We commend the Fund for the flexibility and nimbleness it has shown during the recent crises by adjusting its toolkit, in particular the establishment and operationalization of the Food Shock Window (FSW) and the Resilience and Sustainability Trust (RST) and increasing access limits on GRA financing. Additionally, we call for maintaining the uniformity of access limits between the GRA and PRGT facilities by increasing the PRGT access limits, even on a temporary basis as in the GRA, and further reinforcing precautionary facilities, including by increasing the SLL access limit.

The recent financial market turbulence, following a period of swift interest rate hikes, has created another layer of uncertainty, warranting close monitoring and timely response to the shortcomings in banking supervisory and oversight. Although its impact on EMDEs has been limited so far, we are concerned by the potential risk of increase of sovereign spreads should global financial conditions tighten further. Fiscal policy has a complementary role to play with respect to monetary policy where and to the extent possible, while protecting the vulnerable population. We reiterate our concern about the very difficult debt situation and the limited debt service capacity of LICs and EMDEs, with

many of them already in debt distress or at high risk of debt distress. The cost-of-living crisis and limited fiscal space, especially in the LICs, calls for decisive global response to protect the vulnerable population, including by lifting bans on exports of food and fertilizers. We, therefore, endorse the recent joint statement made by the FAO, IMF, WB, WTO and WFP on the Global Food and Nutrition Security Crisis, calling on governments and donors to support country-level efforts to address the needs in hotspots, share information, strengthen crisis preparedness and response, and repurpose harmful subsidies with careful targeting and efficiency.

We support the call for greater multilateral cooperation in areas of common interest, including addressing fragmentation of the global economy, fostering global trade, and accelerating the green transition to build resilience to climate change. We welcome the ongoing Fund's work towards pragmatic multilateral solutions, including on cross-border multilateral currency exchange and contracting platforms, that are critical for safely integrating crypto assets and digital money in the IMS.

We are pleased to note that the Fund's CD continues to support members' efforts to build macro-financial resilience and call on further integration of CD with bilateral surveillance and programs supported by the Fund.

We commend the Fund's efforts to support members' debt restructuring and strengthening the global debt architecture, including through the Common Framework, the Global Sovereign Debt Roundtable, and debt sustainability and transparency initiatives. We welcome the recent completion of the Framework for Enhanced Fund Engagement on Governance and the Role of Trade in the Work of the Fund.

We are concerned by the intensification of global economic and financial fragmentation, which potentially carries significant and lasting macro-financial stability risks. Policymakers should guard against these critical threats and properly assess geopolitical shock transmission to financial institutions as highlighted in the April 2023 Fund Flagship reports.

Finally, we reiterate our call for a well-resourced, quota-based IMF at the center of the global financial safety net. We call on all members to work collaboratively to ensure a successful 16th General Review of Quotas by the end of the year, with quota share realignments reflecting recognition of the growing contribution of certain EMDEs in the global economy, but not at the expense of other EMDEs.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-13

Statement by Mr. Al Hussaini
United Arab Emirates

On behalf of
Kingdom of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Republic of Yemen

Statement by His Excellency Mohammed bin Hadi Al Hussaini,
Minister of State for Financial Affairs for the United Arab Emirates
On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Yemen
International Monetary and Financial Committee
April 2023

I. THE GLOBAL ECONOMY, THE MIDDLE EAST AND NORTH AFRICA (MENA) REGION, AND OUR CONSTITUENCY

The Global Economy

1. **The global economy has stabilized since last October. Nonetheless, adverse implications from successive shocks weigh heavily on the global recovery, exacerbating concerns about the deep divide within and across countries.** The challenges facing the global economy are particularly acute for Emerging Markets and Developing Countries (EMDCs). These countries are faced with the simultaneous challenges of tackling inflation, addressing food insecurity, and preserving fiscal and debt sustainability. At the same time, continued tight monetary policies in advanced economies could trigger widespread emerging market debt distress, while geopolitical fragmentation could further hinder their trade and capital flows. Many EMDCs in the Middle East region face the additional challenges of fragility and hosting large refugee flows.

2. At this juncture, time is of the essence to achieve **deeper global cooperation** to avoid fragmentation that could reverse the gains from thirty years of economic integration. **On the monetary front**, the priority must remain the fight against inflation, with careful consideration to spillovers to EMDCs. Adverse consequences for EMDCs include pressure to their financial conditions, delaying their economic recoveries. We, therefore, emphasize the need for data-dependent careful calibration as well as clear guidance and communication from advanced economy Central banks, which are essential to avoid unwarranted market volatility and mitigate spillovers. As for **fiscal policy**, it needs to continue to reduce elevated debt levels while protecting vulnerable groups, which increasingly include middle-income households. **Financial and macroprudential policies**, including capital flow measures and foreign exchange intervention, as needed, can help strengthen resilience to shocks and manage pockets of vulnerability. With regards to **supply-side policies**, measures to ease supply side bottlenecks are necessary, while strengthening social safety net programs to cushion the shocks from soaring prices on vulnerable households. Moreover, policies with longer-term benefits need to address the priorities of the entire membership. These include employment, especially youth and women employment, more equal opportunities, as well as economic diversification, which are major challenges facing the Middle East region and EMDCs more broadly.

The MENA Region and Our Constituency

3. **Despite a challenging global environment, economic activity in the MENA region proved more resilient than expected in 2022**, supported by a rebound in oil production, tourism, and robust remittances. Activity is expected to moderate in 2023 GDP, with variations among countries, owing to tight macroeconomic policies, curbs on oil production, and the impact of the global slowdown. In the region's oil exporting countries, economic activity is expected to moderate to about 3.1 percent due to lower oil production in line with the April 2023 OPEC+ agreement, while non-oil growth is expected to be the main driver of growth ahead. In the MENA region's middle-income oil importers, tighter monetary and fiscal policies aimed at restoring macroeconomic stability are expected to dampen domestic demand and bring growth to about 3.4 percent in 2023. Growth in the region's low-income countries is forecast to rebound slightly from a contraction of 0.6 percent in 2022 to a modest 1.3 percent expansion in 2023, reflecting the persistent cost-of-living crisis and marked fragilities. Risks to the region's outlook are large, with recent financial sector stress in advanced economies increasing the risk of more adverse global credit conditions. The moderate growth in the region is also expected to be accompanied by more persistent inflationary pressures than envisaged in our last meetings six months ago. **The Maldives'** economy, driven by robust tourism growth, is projected to grow, in real terms, by 12.4 and 8.1 percent in 2022 and 2023, respectively. Average inflation for 2023 is expected to be higher than in 2022 due to policy changes, notably the general Goods and Services Taxes rate increase, although lower than the initial forecast of 5.4 percent for the 2023 Budget.

4. **Against this background, restoring price stability remains a high priority on our policymakers' agenda, with the aim to alleviate the cost of rising prices on households and businesses.** In the region's emerging markets, the response has been forceful and financial conditions have tightened across the board. Countries with pegs to the USD raised interest rates with or closely following the US Federal Reserve's rate increases. Policymakers are also closely monitoring financial system vulnerabilities that could arise from continued monetary tightening. Policymakers realize that their monetary policy stance may need to be further tightened and are carefully assessing the resulting policy tradeoffs, namely the implications of further monetary tightening for fiscal policy—especially where debt levels are elevated—as well as for economic growth.

5. Policymakers in our region are also carefully monitoring the global banking sector stress that can adversely affect the region through several channels. These include depressed global growth including on oil prices, increased borrowing costs and associated sovereign debt sustainability concerns, the tight bank-sovereign nexus that could exacerbate domestic financial stability risks, as well as a weakening in banks' ability to issue credit, which would weaken the recovery.

6. **Fiscal policy in the region is striving to preserve debt sustainability, build buffers, and support monetary tightening. Our oil exporters** have witnessed a large increase in their fiscal and external balances in 2022, owing to the rise in hydrocarbon prices. Most of them will continue to witness positive balances despite the projected decline in oil prices in 2023. Oil importers in our constituency do not have similar fiscal space. Moreover, in some of our **middle-income oil importing countries**, the fiscal effort is expected to be partly offset by higher interest expenses. Despite large cumulative primary balance improvements, the increased interest burden would overwhelm the fiscal effort, resulting in a deterioration of overall fiscal balances. This is a pressing dilemma for many Ministers of Finance, especially that they are faced with rising social pressures amidst high and persisting inflation. A key vulnerability for the **low-income countries and fragile and conflict-affected states (FCS)** in our region is their persistent lack of fiscal space to protect their vulnerable populations and continued dependence on food and energy imports. In these countries, any news shocks that renew food security concerns would stoke social tensions and weigh further on growth. Such vulnerabilities require the support of the international community and global cooperation to prevent a humanitarian crisis in many countries where acute food insecurity and poverty persist. **The Maldives** authorities are well aware of the need for prudent and well-coordinated fiscal and monetary policies to safeguard macroeconomic stability, restore debt sustainability and sustain the current exchange rate peg, while supporting sustainable growth. To that effect, they have increased the Tourism and domestic Goods and Services Taxes and are also envisaging subsidy reform in 2023.

7. All the members of our Constituency are striving to **strengthen resilience and growth prospects** by pressing ahead with structural reforms for inclusive and resilient growth. As part of their efforts to achieve the Sustainable Development Goals (SDGs) and their commitment to addressing global challenges, several members of our constituency are accelerating investments in renewable energy, promoting sustainable finance, and supporting climate resilience in vulnerable nations. Our region is also keenly aware of the importance of regional integration and cooperation. This includes promoting trade and investment, harmonising regulatory frameworks, and enhancing regional financial safety nets.

8. The Middle East region will be hosting a series of **high-level international events** in the coming year. Notably, t**he United Arab Emirates will host COP28**, which will focus on positive disruption of current trajectories to 2030 in order to keep global temperature rise below 1.5 degrees while sharply increasing the response to and prevention of climate impacts.

II. OUR EXPECTATIONS FOR THE IMF

9. We welcome the Managing Director's Global Policy Agenda (GPA). We also appreciate the responsiveness and flexibility of the IMF's Middle East and Central Asia and other departments to our region's needs. In the context of current stress in the macroeconomic and financial sector circumstances and outlook, we look forward to the IMF's nimble support to members, particularly **middle-income countries, low-income countries, and FCS**, through

tailored policy advice, timely and adequate financial support, flexible conditionality and understanding of political-economy considerations. as well as targeted capacity development. The IMF is our member countries' trusted advisor and lender of last resort; it also has an exceptional convening power. Our priorities for the coming period are the following:

10. **The GPA, and IMF more broadly, could enhance their focus on EMDCs.** The challenges facing the global economy are particularly acute for EMDCs. These countries are faced with the simultaneous challenges of tackling inflation, addressing food insecurity, and preserving fiscal and debt sustainability. At the same time, continued tight monetary policies in advanced economies could trigger widespread emerging market debt distress, while geopolitical fragmentation could further hinder their trade and capital flows. Many EMDCs in our region face the additional challenges of fragility and hosting large refugee flows. Supporting the needs of EMDCs thus requires agile and coordinated capacity development, policy advice, and financial assistance from the IMF and other development partners. It is essential that the IMF's toolkit includes policies aimed at enhancing social protection system, creating jobs, particularly for the young and female workforce.

11. **Debt vulnerabilities are increasing in EMDCs due to the impact of the pandemic mitigation and the repercussions of geopolitical tensions**. We are concerned that 60 percent of LICs and 25 percent of emerging markets or at risk of debt distress. Many FCS are also either in debt distress or at high risk of debt distress at a time when debt restructuring processes have been sluggish, as noted in the report. We, therefore, look forward to further progress on the IMF's debt agenda. We commend efforts to bolster and **accelerate the implementation of the common framework**, including improving the provision of information to creditors. We encourage the IMF to step-up its efforts in coordination with partners and stakeholders to help improve creditors' coordination mechanisms inside and outside the common framework and **call for extending the common framework to middle-income countries**.

12. **The difficult global economic environment calls for a review of the IMF's surcharges policy**. Against the background of the lingering pandemic, geopolitical developments, and increasing global interest rates, the surcharges risk more than ever to disproportionately affect vulnerable EMDCs that require large amounts of IMF financing. The surcharges also unduly penalize those countries at a time when they need IMF financing most. We, therefore, fully support **consideration of a temporary suspension in surcharges and encourage a more comprehensive review of the policy**.

13. **We encourage IMF staff to carry out country-specific analyses of the implications of refugee flows.** This includes detailed assessments of the direct and indirect economic costs for hosting communities. Geopolitical tensions have brought attention to challenges related to refugee flows, an issue that Jordan and Lebanon in our constituency have been faced with since the onset of the Syrian crisis about twelve years ago. Such work would be instrumental to the effort to mobilize adequate and timely donor support.

14. **On the structural front, the GPA should be more balanced in its presentation of structural challenges facing the membership**. Job creation, more equal opportunities, and economic diversification are key challenges facing EMDCs, in addition to climate change and digitalization, and they deserve more careful consideration.

15. **Enhancements in IMF lending need to benefit the large membership**. We welcome the focus on **FCS** in the GPA as these countries are particularly vulnerable to rising food and oil prices. Many **FCS** also face debt sustainability constraints. It is, therefore, disappointing that these countries are unable to benefit from the proposed **food shock window**. We encourage IMF staff to continue to explore innovative financing solutions that benefit all member countries. We also welcome **the increase in GRA access limits** and stress that the IMF should be evenhanded and should ensures that members eligible to this higher access and interested in it do indeed benefit from the increased access with the coming 12-month period. We also believe that an increase in **access limits for both the GRA and PRGT windows** is warranted to ensure uniformity of treatment, ensure evenhandedness, and avoid leaving the IMF's vulnerable members behind. The IMF's **new policy for lending under exceptional uncertainty** should also apply evenhandedly to the institution's member counties.

16. The **Resilience and Sustainability Trust** (RST) is an important and innovative complement to the IMF's lending toolkit. The current crisis is a reminder that, in addition to climate change and pandemic preparedness, the RST should cover the structural challenges that affect EMDCs most. These include job creation, more equal opportunities, and economic diversification, as mentioned above. Based on the experience of the five countries that benefited from the RST, we would welcome the IMF's support in ensuring that the RST is able to catalyze financing from other sources, notably with private sector participation

17. **The GPA rightly focuses on stepping up climate finance to support adaptation and transition efforts that affect a large portion after membership.** Climate adaptation and climate just transition were central themes in the **COP27 that was hosted by Egypt** and will remain important priorities—alongside lost and damage, finance, and mitigation for 1.5 degrees—for the **COP28 that will be hosted by the United Arab Emirates**. These themes require both policies and scaled-up financing for efficient green public investment, including from private sources. We look forward to further details on the way the proposals on climate adaptation and transition will translate in the IMF's operational work. We also encourage the IMF to further strengthen its engagement and partnerships with the region in relation with the forthcoming COP28, including supporting the transition from COP27 to COP28.

18. **IMF policies should aim to leverage on the benefits of new digital technologies while mitigating risks and promoting financial inclusion**. The IMF's work with relevant institutions on modalities to improving cross-border payments, including through new payment infrastructures, and developing a framework for effective policy responses to crypto assets, is

helpful. We encourage additional work on assessments of crypto assets and Central Bank Digital Currency (CBDC) risks to financial stability and integrity, as well as potential benefits of and suitable framework for CBDC. Adequate budgetary resources are needed if the IMF is to support the membership meaningfully in the area of digitalization. We support the IMF's work on informing a comprehensive, consistent, and coordinated policy framework for crypto assets and support its use to guide staff's policy dialogue with country authorities and capacity development activities. We also support the IMF's participation in discussions with standard-setting organizations. We emphasize the importance of financial inclusion and the role digital technologies can play in achieving this objective. This includes supporting fintech innovation, enhancing digital infrastructure, and implementing regulatory frameworks that promote financial inclusion and consumer protection.

19. **Human Resources and Diversity**. The IMF relies on the exceptional dedication and professional strength of IMF staff to serve the member countries in a complex and highly uncertain environment. IMF staff are facing increasing pressures, and this could be better recognized in the IMF HRD policies. In particular, the *2022 Risk Report* made a concerning assessment of human resources risks that warrant attention and mitigation. The IMF's decreasing competitiveness and staff wellbeing and safety are concerning matters that need to be addressed seriously. The *2022 Diversity and Inclusion Update* of February 2023 pointed to continued under-representation of MENA staff, as well as to below target recruitment levels from the region. We, therefore, call for continued commitment by management to strengthen the recruitment and enhance the career progression and promotion of staff from under-represented regions, notably MENA. Accountability of heads of departments is essential in making meaningful progress on representation.

20. **A strong, quota-based, and adequately resourced IMF, at the center of the global financial safety net, is more essential than ever in the current global environment**. Given the critical role the IMF will play in the future shock-prone global economy, the timely and successful completion of the 16th General Review of Quotas for an adequately resourced, quota-based IMF at the center of the global financial safety net, is essential. The principles underpinning the 2008 quota reform remain valid and should continue to underpin the quota formula review in the context of the 16th Review. The current quota formula works well as it continues to reflect dynamic developments in the world economy and could allow a meaningful realignment of quota shares. We, therefore, support keeping the current quota formula unchanged under the 16th Review. It is essential for the 16th Review to avoid an outcome in which shifts in quota shares to dynamic EMDCs are made largely at the expense of other EMDCs and shifts to large economies are made largely at the expense of smaller ones, as was the case in past quota reforms. This is critical to ensure the IMF's legitimacy and its efficiency. **We support a large increase in quota resources under the 16th General Review of Quotas** and reiterate our **support for selective increases combined with ad hoc increases to protect the shares of the poorest members**.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-14

Statement by Mr. Steiner
United Nations

United Nations Statement to the

International Monetary and Financial Committee (IMFC) of the Board of Governors

April 14, 2023

> "We need to massively scale up affordable long-term financing by aligning all financing flows to the SDGs and improving the terms of lending of multilateral development banks. The high cost of debt and increasing risks of debt distress demand decisive action to make at least $500 billion dollars available annually to developing countries and convert short term lending into long term debt at lower interest rates."[1]
>
> United Nations Secretary-General Mr. António Guterres

Three years after the start of the COVID-19 pandemic our world looks much different. Scarring effects from the pandemic combined with the war in Ukraine, high inflation and monetary tightening have created a challenging financial and macroeconomic situation.

The historic allocation of $650 in Special Drawing Rights by the International Monetary Fund, boosted liquidity at the height of the crisis. However, this allocation demonstrated the inequality built into the global financial system. Based on current quotas, developed countries received 26 times more than Least Developed Countries, and 13 times more than all the countries of Africa combined. Emergency financing should automatically go to the neediest countries. Under the current system, it is widening inequalities.

At the same time, uncertainties and risks remain exceptionally high and are exacerbated by growing geopolitical and economic fragmentation.

The reversal of monetary policy in advanced economies has begun to expose weaknesses in the banking sector fueling fears that the price of taming inflation could be financial sector instability accompanied by a global recession. Policymakers have acted swiftly to quell fears with liquidity measures. As so often is

[1] https://news.un.org/en/story/2023/02/1133637

the case when uncertainty is high, international financial markets tighten disproportionately for many developing economies thereby exacerbating issues of already heavy debt-burdens and overhangs. The number of low- and middle-income economies suffering from severe debt problems has risen sharply since 2020 and remains highly elevated, --and international debt relief efforts continue to be inadequate.

Financial and fiscal pressures are in many of the poorest countries accompanied by depreciating currencies, a cost-of-living crisis, sociopolitical tension, and a rising cost of dealing with the impacts from climate change. The UN and the World Bank have warned that per capita growth is set to slow significantly in emerging markets and developing economies in 2023-2024, especially hurting the poorest where poverty rates could go up.[2] Similarly, the IMF has revised their growth projections for low-income countries showing that the current outlook threatens to reverse a decades-long trend of converging living standards, and that reestablishing convergence will require an estimated $440 billion through 2026.[3] The poorest and most vulnerable countries face the heaviest development impacts associated with high levels of global economic and financial uncertainty.

The climate crisis poses the greatest international coordination challenge of our lifetimes. As the IPCC has made crystal clear in their latest report, actions are not commensurate with agreed global targets to limit warming to 1.5°C, as end-of-century warming is on course for 3.2°C under implemented policies, and 2.8°C under Nationally Determined Contributions (NDC) targets. Climate transitions will require significant additional sums of climate finance for mitigation and adaptation for countries to make the necessary investments, without having to compromise on other fronts of sustainable development. Adaptation funding is especially needed in many of our poorest and most vulnerable countries as they are low emitters, but among the worst affected by the impacts of climate change.

The United Nation's SDG Stimulus Plan to Deliver the 2030 Agenda (the SDG Stimulus)'[4] calls for a target of $500 bn in additional financing per year, aimed at mitigating the effects of cumulative shocks and providing developing economies with better access to long-term and affordable finance for sustainable

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[2] The World Bank estimates that income per capita from 2023-2024 is expected to average just 1.2%, a rate that could cause poverty rates to raise. See World Bank Global Economic Prospects Report 2023 and the UN World Economic Situation and Prospects Report 2023.

[3] https://www.imf.org/en/Blogs/Articles/2023/03/31/the-time-is-now-we-must-step-up-support-for-the-poorest-countries

[4] https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf

development, including dealing with climate change. Implementing the SDG Stimulus will require urgent action from the G7 and G20 countries and the multilateral system at large.

More specifically, the SDG Stimulus puts forward three action areas for the international community: 1) tackle the high cost of debt and risks of debt distress; 2) massively scale up affordable long-term financing for development; and 3) expand contingency financing to countries in need.

Action area 1: Tackle the rising risks of debt distress and high cost of debt

Sovereign debt has reached critical levels with more than a dozen countries in technical default or on the brink of default. Policy makers are in many countries facing stark choices between paying creditors and fulfilling obligations to their citizens, postponing the long-term investments necessary for continued progress on sustainable development.

According to the IMF, about 15 percent of low-income countries are already in debt distress and another 45 percent face high debt vulnerabilities. And about a quarter of emerging economies are at high risk and facing "default-like" borrowing spreads.[5] For many countries key debt-burden indicators are back at, or approaching, levels last seen during the start of the last major international debt relief, the heavily indebted poor countries initiative.[6]

The G20 Common Framework for Debt Treatments (CF) has been slow in addressing debt restructuring, foremost on the issue of creditor coordination amongst and between official and commercial creditors. Despite broad agreement on the shortcomings of the CF, the G20 has not yet found a consensus on the way forward and additional steps are needed to speed up debt resolution. The SDG Stimulus calls for both immediate and longer-term debt actions.

Immediately, the G20 should conduct an independent review of the Debt Service Suspension Initiative (DSSI) and the CF with the aim of putting in place an improved multilateral debt relief initiative to support debt payment suspensions, debt exchanges and/or haircuts, including a clear mechanism to include private creditors in official debt relief efforts. Among possible debt relief instruments considered should be debt for SDG and climate swaps and greater use of risk-sharing debt instruments such as state-contingency clauses. At the same time, the international community must work towards developing long-

[5] https://www.imf.org/en/News/Articles/2023/04/06/sp040623-SM23-CurtainRaiser
[6] It is estimated that in 2022 total debt service on public external debt alone is higher than 20 percent of total government revenue for 25 developing economies (see details in Box 1 of the SDG Stimulus). This has not been the case since the year 2000 which also marked the early years of the HIPC initiative.

term comprehensive and structural solutions to sovereign debt challenges. In addition, debt sustainability analysis should distinguish better between liquidity and solvency risk and should also include scenarios of better access to long term affordable finance and SDG spending needs. At the same time, concrete steps must be taken toward a permanent mechanism to address sovereign debt distress as called for in the Addis Ababa Action Agenda.

Action area 2: Massively scale up affordable and long-term financing for development

In conjunction with improved debt management, the SDG Stimulus calls for a massive boost in investment on SDGs in developing countries, including financing climate action. Here, public development banks (PDBs), including multilateral development banks (MDBs), are uniquely positioned to play a more important role.

MDBs could, with stronger capital bases and better use of existing capital, increase lending from $100 billion per year to at least $500 billion per year. Special drawing rights (SDR) () rechanneling should feature as part of the discussion on MDB reform. Several promising proposals have been put forward on how to leverage SDRs (or other reserves) -- for instance by using them as MDB hybrid capital -- without compromising their reserve asset function.

MDB reform, including capital infusions, should aim at improving lending terms. First, by offering ultra long-term funding with significant grace periods to allow time for large scale SDG-related investments to yields results in terms of contributing to growth, wellbeing and productivity from human capital investments, and savings from investing in resilience to shocks. Second, by offering low interest rates which is especially important during periods of global financial tightening to act counter-cyclically. Third, by making use of state-contingent debt clauses that automatically provide fiscal breathing space when hit by exogenous shocks. Fourth, by providing a greater share of lending in local currency as this would contribute to lowering the borrower's debt risk profile.

Similarly, there is also scope for many national development banks to increase lending. The SDG Stimulus also calls for strengthening the system of public development banks, including greater cooperation between MDBs, as well as between MDBs and PDBs.

Many developing economies will still need grants to support financing of the SDGs. Official development assistance (ODA) has failed to keep pace with rising needs and demands from the COVID-19 crisis and the impacts of the war in Ukraine. ODA remains at less than half the agreed target of 0.7 per cent of donor

country gross national income. Meeting ODA commitments would provide over $150 billion per year in stimulus for the SDGs.

Finally, a new approach to blended finance is needed to draw in more private funding for sustainable investments. This includes a focus on development impact rather than bankability, use of non-concessional loans, and structures where the public sector can share both risks and rewards fairly.

Action area 3: Expand contingency financing to countries in need

The current international monetary and financial system exposes developing countries to sudden changes in financial market sentiment and high volatility of capital flows. The SDG Stimulus includes steps to strengthen the global financial safety net and address immediate liquidity needs to help countries improve their crisis response.

Developing countries drew down an estimated $379 billion in reserves in 2022, almost double of the amount of SDRs they received in the 2021 allocation. The SDG Stimulus calls for more ambitious international efforts in rechanneling SDRs at scale and ambition.

The international community should also continue to explore or accelerate the implementation of other mechanisms that can increase liquidity and boost available resources for sustainable development. Initiatives such as the IMF's Resilience and Sustainability Trust, the Food Shock Window and the Loss and Damage Fund agreed to at COP27 are promising initiatives --keeping in mind that new instruments should be quick disbursing, with low interest rates, and parsimonious conditionality. Regional mechanism can be explored to enhance liquidity and increased global access to Central Bank swap lines could help calm markets in periods of volatility.

In the long-term, the international financial architecture could also be made more shock-absorbent and resilient by ensuring that financial resources can automatically be provided to countries during periods of shocks where capital often rush into assets denominated in hard currencies. This could include integration of state-contingent and disaster clauses into loan contracts, as well as mechanisms to enable countercyclical issuance of SDRs in a more automatic or timely manner.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-15

Statement by Mr. Shanmugaratnam
Singapore

On behalf of
Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia,
Lao People's Democratic Republic, Malaysia, Nepal, Philippines, Singapore, Thailand,
Tonga, and Vietnam

Statement by Senior Minister Tharman Shanmugaratnam

Chairman, Monetary Authority of Singapore

On behalf of the constituency representing Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Nepal, the Philippines, Singapore, Thailand, Tonga and Vietnam

International Monetary and Financial Committee, April 14 2023

Global and Regional Outlook

1. The global outlook remains highly uncertain. Inflation remains elevated around the world, amid labour market tightness in a number of economies and strong consumer demand. Efforts to safeguard macroeconomic stability are complicated by renewed risks to financial stability, sovereign debt vulnerabilities, and recurring shocks induced by climate change.

2. Recent bank failures, necessitating drastic measures to restore confidence to the system, have put the spotlight squarely back on vulnerabilities in the financial sector. The risk of a systemic sovereign debt crisis, while low, is growing amid elevated debt levels, high interest rates, and the global slowdown and growing risk aversion. Meanwhile, climate events are becoming more frequent and acute, imposing growing economic costs.

3. Growth in the Southeast Asian region is resilient, providing a positive impulse to the global economy. However, as the region comprises economies with strong links to markets around the world, it remains vulnerable to downside global risks. In particular, the recent further tightening in US dollar funding markets requires close attention as episodes of thin liquidity could result in a pull-back of capital. In this regard, we welcome the Fund's continued work and close engagement with our constituency to operationalize the Integrated Policy Framework.

Macro-economic and financial surveillance

4. Following a long period of low and negative interest rates, sharp and synchronized interest rate hikes around the world are exposing vulnerabilities in the financial system, and heightening financial stability risks in some countries. While policymakers have been quick to react and to restore market confidence following the failures of Silicon Valley Bank and Signature Bank in the US, and Credit Suisse in Switzerland, financial stability concerns downside risks remain. Underlying inflation remains sticky thereby leaving the possibility of a longer period of monetary policy tightness, with implications for financial sector vulnerabilities. Interlinkages across sectors, such as the nexus of the banking and non-bank sectors to the technology sector, as well as cross-border spillovers and spillbacks will need to be carefully monitored and assessed.

5. Fund advice to help policymakers navigate this uncertain environment must be nimble and responsive to the ever-changing situation. Most importantly, advice must be delivered in a practical and timely manner with due consideration to country specificities. It is also critical to ensure coherence in the Fund's policy advice to avoid any unintended consequences that could limit policy effectiveness and affect authorities' credibility. The Fund also needs to move beyond traditional macroeconomic policy objectives, to address the implications of longer-term shifts and challenges in the global economic system, some of

which arising from non-economic developments. Here, the Fund must leverage its convening power and deep macroeconomic expertise to push for multilateral dialogue and seek global solutioning. We welcome the Fund's agenda of reinvigorating its role in the field of trade, to help country authorities address key trade-related challenges. We also support the Fund's efforts in including thematic studies on the impact of geoeconomic fragmentation across the various flagship reports. We have to guard against the growth and normalisation of protectionist industrial policies, and ensure that the global economy retains the openness that it needs to deliver long-term innovation and productivity growth.

Fund Resources and Governance

6. With individual members having to walk a tight rope, the case for a strong financial safety net cannot be overstated. The Fund must restore its role at the core of the global financial safety net. The Fund's lending capacity has stagnated since the 14th General Review of Quotas (GRQ), and faces considerable uncertainty as existing Bilateral Borrowing Agreements and New Arrangements to Borrow expire in end-2023 and end-2024 respectively. The Fund's continued, uninterrupted access to adequate borrowed resources cannot be taken for granted.

7. The successful completion of the 16th GRQ – that leaves the Fund adequately resourced and the primary role of quotas preserved – is hence critical. Apart from delivering adequate resourcing for the Fund, the 16th GRQ must address the issue of member representation to safeguard its legitimacy, and ensure protection of the poorest and most vulnerable members. The current quota shares have not been reviewed since the 14th GRQ (2010) and hence, are not reflective of economic and financial markets developments over more than a decade. A repeat of the failure of the 15th GRQ would have a significant impact to the Fund's legitimacy, credibility and the broader state of multilateralism. We have to avoid this outcome. We call on members to commit to the successful conclusion of the 16th GRQ by upholding a spirit of compromise and taking a pragmatic approach to an overall package of recommendations. We urge the IMFC to provide clear, call-to-action guidance to accelerate progress of discussions on the 16th GRQ.

Sovereign Debt Concerns

8. The Fund should pay close attention to emerging sovereign debt concerns and expedite work on strengthening the global debt architecture. While private and public debt levels have receded from their highs during the pandemic, they remain elevated and are projected to increase (relative to GDP) over the medium term. About 60% of low-income countries are already in debt distress or face high debt vulnerabilities. In this regard, the Fund must focus its efforts to strengthening the global debt architecture – a key ingredient to enhance members' resilience to future crises. More immediately, successful operationalization of the Common Framework (CF) and an enhanced debt treatment mechanism for middle-income countries, are paramount. The Fund must leverage its convening powers to bring this to fruition.

9. Low-income countries are particularly vulnerable amid lower global growth, high inflation, continued heightened interest rates and tight financial conditions. In an increasingly shock-prone world, demand for concessional financing is expected to increase. It is thus imperative to ensure the self-sustainability of the Poverty Reduction and Growth Trust (PRGT). To this end, we underscore the need for the PRGT to have sufficient loan and subsidy resources and call for stepped up efforts to meet the agreed fundraising target by the 2023 Annual Meetings in Morocco. Fundraising aside, the Fund must also be ready to consider a range of options, including various modes of internal resource mobilization, to deliver longer-term financial sustainability for the PRGT.

10. We support proactive efforts by the Fund to review its lending toolkit to provide assistance to members in need, and in so doing help catalyze funding for members. We welcome the Food Shock Window and operationalization of the Resilience and Sustainability Trust, as well as efforts to facilitate members' transition towards upper credit tranche (UCT) programs. We emphasize the importance for the Fund to be seen as even-handed in its application of the existing toolkit, and upcoming reviews.

Strengthening resilience

11. We welcome the Fund's continued efforts, leveraging its macroeconomic frameworks, to advocate for climate reforms and increased climate financing. Fund analysis on climate mitigation and adaptation tools will help galvanize call to action. Policy advice should be suitably calibrated to avoid any unintended consequences on financial intermediation and inclusion, taking into account vulnerabilities of members to climate change, capacity to adopt relevant tools, as well as the socio-environmental impact of recommended policies.

12. The world is still nowhere near investing what is required to get to net zero by 2050. Here, we welcome the Fund's establishment of the Climate Finance Taskforce to proactively engage other sources of capital and to step-up the catalytic effect of the Resilience and Sustainability Facility financing. Of significance, exploration of alternative financing mechanisms, including through better risk sharing mechanisms such as blended finance, would be critical to scale up the solutions needed for members to achieve an equitable and just transition.

13. At the same time, the Fund must be cognizant of the interrelated nature of the three major shifts in the global environment, namely global warming, an out-of-balance global hydrological cycle and the loss of biodiversity, with each reinforcing risks to the other. This interaction warrants careful monitoring and coherent and integrated policy responses.

14. We call on the Fund to continue with its efforts in promoting inclusive growth (gender and diversity) and addressing the risks posed by digitalization. The Covid-19 pandemic reversed significant progress made in addressing gender gaps. This was made worse by spillovers from recent shocks such as the food crisis and higher inflation. Promoting inclusive growth remains central to countries' economic and social wellbeing and stability. We also welcome the Fund's work on digitalization. Given the rise of financial scams, there is a need for greater collaboration between the Fund and FATF in ensuring the relevant Anti-Money Laundering/Counter Financing of Terrorism requirements and standards related to crypto assets and digital financial services are implemented effectively globally.

15. We also commend the Fund for its efforts in ensuring that issued guidance is fully aligned with and undertaken in close cooperation with other international standard-setting bodies, such as the Financial Stability Board. The Fund would also have an important downstream role in propagating the implementation of standards, across its near-universal membership, through its surveillance and capacity development mandates.

16. Finally, the Fund's role in promoting capacity development (CD) will be critical in helping its member countries build resilience and cope with potential shocks and disruptions in an uncertain economic environment. We support the Fund's recent work on calibrating CD priorities over the medium term including the focus on new transformation areas such as digital money and climate change and the scaling up of CD delivery in the Asia and Pacific region.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-16

Statement by Mr. Aljadaan
Saudi Arabia

Statement to The International Monetary and Financial Committee
By Mohammed Aljadaan
Minister of Finance, Saudi Arabia
April 14, 2023

The Global Economy and Policy Priorities

The Spring Meetings provide a timely opportunity to reinforce confidence in the global financial system following the recent banking turmoil in some economies. These financial developments come at a time when the global economy continues to face increasing uncertainty stemming from the adjustment to a series of massive shocks since 2020. While the recent global financial market turbulence has been contained, continued vigilance remains essential to safeguard the global economy against the elevated financial stability risks in light of tighter monetary and financial conditions. This raises the need to reinforce the commitment to continue the implementation of internationally agreed upon regulatory and supervisory reforms. The IMF can play a unique role using its comparative advantage to facilitate a coordinated policy response to mitigate spillover risks from volatile cross-border financial flows while anchoring macroeconomic and financial stability.

We are mindful that the global economic recovery is still facing significant headwinds from lingering trade disruptions, growing economic fragmentation risks, and tightening financial conditions. At this juncture, policymakers will have to carefully manage competing objectives to ensure price and financial stability. The heterogenous impact of the external shocks across countries and regions may entail different domestic policy responses, which can have spillover effects and further complicate the global macroeconomic landscape. The main macroeconomic priority remains the containment of inflation while also forestalling emerging financial stability risks. Fiscal prudence and agility are vital to promoting sustainable and inclusive growth without undermining price stability or debt sustainability. The structural agenda should also prioritize supply-side reforms in the labor and product markets to help further ease price pressures while unlocking potential growth.

Stronger multilateral cooperation is warranted to avert fragmentation and effectively address the risks and trade-offs facing policymakers, given the nature and magnitude of these risks. Moreover, strengthening the multilateral trading system in coordination with the WTO to

ensure an open, fair, and mutually beneficial international trading system will be particularly important to reduce the risks to the growth outlook and to strengthen resilience of the global economy. Ensuring more effective multilateral cooperation to enhance the resilience of the global economy against emerging global challenges, including climate change, can be achieved by directing more efforts towards building consensus around policies to address global challenges through more inclusive discussions from the wider membership. In particular, the IMF approach to climate change should adopt a flexible bottom-up approach that allows governments to determine their own domestic targets and mitigation paths.

The Saudi Economy

The solid reform progress since the inception of Vision 2030 has created the fiscal space and the capacity for the Saudi government to press ahead with the implementation of more comprehensive structural reforms at an even more advanced pace despite the challenging global environment. The ambitious reforms continue to focus on: unlocking potential growth that is sustainable and more inclusive; enabling the private sector to thrive and create more jobs; improving the quality of the public goods and services; and strengthening the fiscal and external positions. The positive economic performance on the back of the structural reforms have indeed yielded positive economic and social returns. Here, we welcome Saudi Arabia's improved credit ratings, which recognize the government's impressive track record of fiscal policy effectiveness and the comprehensive regulatory and economic reforms that will support the sustainability of economic diversification.

In fact, the Saudi economy's performance has exceeded expectations, growing at 8.7 percent in 2022, making it the fastest growing economy among the G20 countries, and bringing the overall unemployment rate down from 6.9 percent in 2021 Q4 to 4.8 percent in 2022 Q4, and among Saudi nationals from 11 percent to 8 percent, respectively. Among Saudi females, the unemployment rate decreased by 7.1 percentage points from 22.5 percent in 2021 Q4 to 15.4 percent in 2022 Q4. This is despite the massive increase in the women's participation in the labor force from 17 percent in 2017, the baseline under vision 2030, to 36 percent in 2022, overshooting the official target of 31.4 percent in 2025 by 4.6 percentage points. Here, it is worth noting that the Saudi employment has sharply increased while the wage bill remains contained. Furthermore, the robust growth that is accompanied by a strong labor market and contained inflation reflects a stronger non-oil sector.

The Saudi banking system remains strong, liquid, and well-regulated. We are closely monitoring the developments in the global financial system, and have the tools and the resolve to safeguard the stability of our financial system.

A great deal of progress is underway in the Giga projects and the announced initiatives under the Vision2030 programs. Meanwhile, we remain committed to achieving our net-zero target by 2060 by deploying all available technologies within the Circular Carbon Economy framework as well as the Saudi Green Initiative to increase vegetation cover and planting 10 billion trees, combating pollution and preserving marine life. Furthermore, Saudi Arabia is playing a leading role in coordinating regional efforts to combat climate change through the Middle East Green Initiative.

Tackling the Sovereign Debt Vulnerabilities

Many emerging markets and developing economies (EMDEs) are still facing growing concerns about debt vulnerabilities. In the MENA region, some middle-income countries with limited fiscal space to absorb shocks have been under pressure of high debt levels in light of tightening monetary and global financial conditions. The IMF's timely financial support, underpinned by tailored policy advice and technical assistance, will be vital to overcome the compounding challenges. Saudi Arabia has continued its bilateral engagement with countries in the region and beyond to provide substantial financial support to help anchor macroeconomic and financial stability during these turbulent times. Meanwhile, Saudi Arabia has also continued to work in coordination with the IMF to help revive several IMF-supported programs. **Here, I am pleased to announce that Saudi Arabia will provide a loan in the amount of SDR 2.025 billion to the loan resource account at the Poverty Reduction and Growth Trust, which should cover 57 percent of the funding gap in the loan account.** The Saudi financial contributions to vulnerable members, since the recent SDR allocation, has amounted to around US$28 billion, equivalent to about 217 percent of our share of the recent SDR allocation.

That said, rising debt levels have restricted vulnerable countries' access to much-needed financing, including the IMF's resources, which brings into sharp focus the need to address debt vulnerabilities in a timely manner before it morphs into a full-fledged sovereign debt crisis. In this regard, we look forward to further advancing collective efforts to strengthen the global architecture for debt restructuring by building on the important progress made under the Common Framework (CF) and addressing the challenges to further accelerate its

implementation. To this end, we expect that the newly created Global Sovereign Debt Roundtable will help identify key impediments to debt restructuring and support the ongoing efforts to institutionalize the CF, while ensuring the focus remains on the CF as a platform for debt treatments.

The IMF's Policy Agenda

We welcome the focus on macro-financial stability in surveillance activities following the recent financial turbulence. The IMF has a critical role to play in coordination with other relevant partners to provide clear guidance and recommendations on the appropriate policy response as well as to allow early identification of pressure points in the financial system including in the areas of crypto assets and NBFIs that are in need of remedial actions.

We also welcome the agenda to address debt sustainability concerns with reference to vulnerable Middle-Income Countries (MICs). This should, in turn, help facilitate timely access of vulnerable member countries to IMF resources to meet urgent financing needs. Here, we emphasise the importance of the catalytic role of IMF lending to unlock further financing and stimulate private capital flows. In this regard, we support prioritizing the Fund's debt agenda to continue working with its partners to support members' debt restructuring efforts and strengthen the global debt architecture, including through accelerating the implementation of the CF.

The IMF agenda on climate change should be guided by its mandate and in line with the Paris Agreement. While the analytical work on energy security and climate mitigation is welcome, the motives of the analysis should be reviewed to align recommended climate policies with the Paris Agreement. Recommendations on energy security should be carefully designed to be commensurate with the reality of the energy market and the economic conditions. Policy advice should therefore focus on targeting emissions reduction rather than recommending the phasing out of conventional sources of energy. We stress that the latter will not reinforce energy security, but rather undermine the stability of energy markets. Here, when conducting analytical work, staff must pay due attention to the broader responsibility of the IMF in promoting the exchange of international goods and services. Moreover, we stress the importance of addressing equity concerns when referring to "large emitters" by considering historical contributions to the stock of GHG emissions.

We remain of the view that the IMF resources are adequate and that the current envelope has proven resilient even during the recent shocks with significant unutilized resources, and borrowed resources (including BBA) remain a more efficient means to cover tail risks in the future. We welcome the growing consensus thus far toward keeping the current quota formula unchanged in the spirit of pragmatism to conclude the 16th Quota Review (GRQ) by end-2023.

We see scope for further emphasis of management's commitment to the longstanding issue of underrepresentation in the IMF. In particular, the MENA region has been one of the most underrepresented regions since the 2000 Annual Diversity Report. We therefore stress the importance of stepping up efforts to take concrete and timely actions to improve staff diversity and inclusion, responding to the specific challenges identified in the FY 2020 - FY 2021 Diversity and Inclusion Report.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-17

Statement by Mr. Holzmann
Austria

On behalf of
Central and Eastern European Constituency

Statement by Robert Holzmann,
Governor of the Austrian National Bank
on Behalf of the Central and Eastern European Constituency
at the 47th Meeting of the International Monetary and Financial Committee
Washington D.C., April 14, 2023

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.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-18

Statement by Mr. Van Peteghem
Belgium

On behalf of
Principality of Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Republic of Croatia, Cyprus, Georgia, Israel, Luxembourg, Republic of North Macedonia, Republic of Moldova, Montenegro, Kingdom of the Netherlands–The Netherlands, Romania, and Ukraine

Statement by Mr. Vincent Van Peteghem Deputy Prime Minister and Minister of Finance, Belgium

On behalf of Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Republic of North Macedonia, Romania, the Netherlands and Ukraine, Washington DC, April 14, 2023

More than one year after the start of Russia's full-scale war against Ukraine, we continue to stand firmly by Ukraine and its people. We recall that the United Nations General Assembly deplores in the strongest terms the aggression by the Russian Federation against Ukraine and demands that the Russian Federation immediately ceases its use of force against Ukraine. With thousands of lives lost, millions of refugees and a large part of the country's economy being destroyed, the war has had a massive humanitarian and financial impact on Ukraine, its neighbouring countries, and the global economy. We therefore deem it of utmost importance that the Fund continues to assist Ukraine with the highest priority. After a successful review of the Program Monitored with Board Involvement, we welcome the recently agreed UCT-quality program to Ukraine. In parallel, we will continue to work closely with international partners, including the EU, to support Ukraine in meeting its immediate external financing needs and substantial financing needs for post-war reconstruction.

We reiterate the importance of global order and multilateral cooperation and condemn any violation of sovereignty and territorial integrity.

Global economic context, prospects and policies

Financial markets have recently observed significant banking turmoil, creating stress in the financial system, even though the banking sector is clearly in a better position, thanks to the regulatory reforms following the global financial crisis. This volatility can be partially attributed to a necessary adjustment to the reality of tighter financial conditions after a decade of prolonged low-interest rates. The current situation calls for strong vigilance and the affirmation of important regulatory reforms in order to ensure financial stability across the globe. Relatedly, the uncertain situation on financial markets weighs negatively on the outlook for global economic growth, which had modestly improved in recent months. Most major economies are currently expected to avoid a recession in 2023. The recent drop in headline inflation due to decreasing energy prices and the reopening of the Chinese economy have provided the world economy with some breathing space. Advanced economies will nevertheless still see a significant growth slowdown as the effects of monetary policy tightening work their way through to the real economy. Monetary authorities should continue to focus on maintaining price stability, as inflationary risks continue to be persistent.

It is time to gradually scale back some of the broad fiscal support measures introduced at the height of the energy crisis and transition towards measures that are more targeted to vulnerable households. Governments resorted to a broad range of measures to protect households and firms against the sudden spike in energy prices. Such measures are costly for governments, may undermine fiscal sustainability and can further exacerbate inflationary pressures in the medium term. Additionally, they may decelerate the desired reduction in fossil fuel consumption. The recent softening of energy prices presents an opportunity to better align support measures with the three general guiding principles proposed by the IMF: (i) use price signals to induce demand and supply adjustments, (ii) reduce the burden on poor and vulnerable households, and (iii) ensure consistency with other policy objectives including the need for macroeconomic stability.

A refocusing of fiscal support is also important in order to support central banks in their efforts to bring down inflation. Central banks worldwide have drastically tightened their monetary policy in the course of 2022. As inflation remains high and core inflation is persistent, further gradual monetary tightening is required. Central bank independence is key here.

The globalized world and its benefits are under pressure due to fragmentation, thereby increasing risks to the world economy. The benefits of globalization in terms of higher productivity, lower prices and more choice for consumers have been large. The increased use of tariffs, export controls and foreign direct investment screening mechanisms are all indications of rising barriers to

international trade and technology diffusion. In strategically important sectors, it has become more difficult to organize global value chains on purely economic grounds and that override systemic rivalries and political tensions between nations. It is therefore important to protect the benefits of the rules-based multilateral trade system. While some interventions can be justified on strategic grounds, the risk of impeding multilateral cooperation on tackling urgent global problems in areas such as climate change mitigation is worrisome. A decrease of multilateral cooperation would hit low-income countries and some highly indebted emerging economies the hardest. These countries are typically also the ones that are most vulnerable to climate change and recurrent imported food and energy price shocks.

Aside from climate change, the world economy is also undergoing the impact of other structural transformations, such as digitalisation and a rapidly aging population in certain countries. This implies that the businesses and jobs of tomorrow will be different to those of today, with possibly fewer available workers. Reforms to accelerate the smooth transition between jobs and to keep older people in the labour market are therefore more important than before. In addition, an enabling environment for innovation and entrepreneurship is indispensable to bring about the productivity gains made possible by new technologies such as robotics, automation and artificial intelligence.

Climate change

The current energy crisis appears to have accelerated the pace of investment in renewable energy and green technologies, although a substantial investment gap remains. Public authorities have an important role to play in accelerating the energy transition and have a range of policy instruments at their disposal. The current energy crisis illustrates that price incentives can influence consumption choices. A dedicated carbon tax would be the best tool to encourage consumption change. Corresponding revenue can be used for green investments and redistribution. A balanced package of measures is needed including taxes and subsidies as well as regulations and green investments, taking into account political constraints and redistribution considerations.

We welcome the expanding role of the IMF in the field of climate change and are looking forward to the further implementation of the Fund's climate change strategy. The Fund is well-positioned to support its membership to take the necessary measures to adapt and to mitigate these risks. We encourage the Fund to collaborate closely with other international financial institutions and organizations in order to leverage their expertise, in accordance with their respective mandates. We welcome the operationalization of the Resilience and Sustainability Trust (RST) which is an important tool to improve members' resilience to climate change and pandemics and we support the importance given by the IMF to climate in its surveillance. Given the long-term perspective of the RST and its limited resources, access levels should be well-underpinned. Ambitious reforms are essential in order to catalyze other sources of financing.

Fund resources / 16th General Review of Quotas

We reiterate our support for an adequately resourced, quota-based IMF at the center of the global financial safety net and remain committed to conclude the 16th General Review of Quotas by December 15, 2023. We believe that the current quota formula delivers on the objective of a realignment of quota shares to emerging markets and developing economies.

Lending strategy

We supported the IMF in stepping up its efforts to support vulnerable countries through emergency financing during the Covid-19 pandemic, as well as through extended food shock window RFI. We also welcome the approval of changes to the Fund's financing assurances policy to enable the fund to support countries in situations of exceptionally high uncertainty, involving exogenous shocks that are beyond the control of authorities and the reach of their economic policies. We strongly believe that the strength of IMF lending lies in the conditionality that comes with standard (UCT-quality)

programs. The implementation of reforms strengthens macroeconomic policies in countries and will catalyze external resources from both the public and private sector.

In these times of increased financing needs, the IMF plays a critical role in supporting vulnerable countries, including through the Poverty Reduction and Growth Trust (PRGT). We have a joint responsibility in maintaining an adequate level of PRGT resources.

We welcome the forthcoming review of precautionary instruments and invite staff to consider clearer exit strategies from those instruments, as a prolonged use of IMF resources in precautionary loans affects the availability and efficient use of resources.

Debt vulnerabilities and treatment

It is worrying that an increasing number of low- and middle-income countries are experiencing (high risk of) debt distress and this situation may worsen as financing conditions are tightening. In this context, we strongly support the Fund's ambitious work program and collaboration with the World Bank to reduce public debt vulnerabilities in low- and middle-income countries. We also underline the role of IMF UCT-quality programs in restoring debt sustainability.

The Common Framework for Debt Treatment (CF) has not fully delivered on its promises yet. This is mostly at the cost of the debtor country, and also negatively affects the Fund's ability to provide financial support to its members in a timely manner. We encourage all parties involved in the process to cooperate to achieve a predictable, swift and coordinated implementation of the CF. In this context, we hope that the recent creation of the Global Sovereign Debt Roundtable (GSDR) will help in building a greater common understanding amongst key stakeholders. We see merit in the GSDR as a forum to discuss technicalities of debt restructuring and emphasize that its activities should be complementary to those of existing debt fora.

Support for members

Several members of our Constituency merit continued support from the IMF. Within our Constituency, Armenia, Georgia, Moldova and Ukraine are currently engaged in emergency financing, SBA or EFF engagements with the Fund, while North Macedonia benefits from a PLL.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-19

Revised

Statement by Ms. Yellen
United States

Secretary Yellen IMFC-DC Statement
April 2023

Notwithstanding a difficult global economic environment, our collective efforts in addressing today's challenges provide me with a sense of optimism. More than a year since the invasion, Russia's war against Ukraine remains the biggest impediment to global economic growth, and we continue to grapple with the aftermath of the COVID-19 pandemic, worsening impacts of climate change, and the consequences of fragility, conflict, and violence. These challenges inflict the highest relative cost on low- and middle-income countries, which are already burdened by heightened debt vulnerabilities. In such trying times, we rely on the IMF and World Bank to help countries respond to shocks through sound policy advice, technical assistance, and financing. This is why the multilateral development bank (MDB) evolution agenda is one of my top priorities. Change at the MDBs, starting with the World Bank, is needed to equip these institutions to respond to the increasing frequency, scope, and complexity of global challenges with sufficient speed and scale.

Collaboration between the World Bank and IMF on Ukraine demonstrates the critical role these institutions play in anchoring the international community's response to shocks. The World Bank Group has provided a platform through which the international community, including the United States, has mobilized donor financial support of over $20 billion in emergency financing for the public and private sector in Ukraine. And, we welcome the IMF moving forward with a $15.6 billion program to bolster economic and financial stability and strengthen structural reforms, including on economic governance and anti-corruption. The United States stands by the people and the government of Ukraine as they bravely defend their country against Russia's unjust, unlawful, and immoral war. We are committed to continuing to provide bilateral and multilateral economic support to Ukraine to keep its government running, and, eventually, to help it rebuild. We call on the international community to stay resolute in its support for Ukraine, and to increase and accelerate assistance to the country.

In the United States, our economy remains sound. In response to recent stresses at a few American depository institutions, the United States took actions to stabilize the U.S. financial system and protect depositors. The U.S. banking system is far more resilient and has a stronger foundation than before the Global Financial Crisis, and we will continue to take steps so that our financial system remains strong. We are working with international counterparts, including the IMF and the Financial Stability Board, to monitor disruptions to global financial stability and will work with partners as warranted to prevent spillovers to the global financial system.

Heightened uncertainty in the global economic environment underscores the importance of IMF macroeconomic and financial sector surveillance, policy advice, and capacity building—activities at the heart of the IMF's core mandate. We will look to the IMF to provide timely economic advice, as countries calibrate difficult policy choices and tradeoffs, and as they contend with elevated inflation, tighter financial conditions, and fiscal pressures. It is also critical that the Fund execute on its core mandate with regard to assessing external imbalances and exchange rate practices.

No issue better illustrates the central role played by the IMF in responding to global challenges than addressing debt vulnerabilities in low-income and middle-income countries. Heightened debt vulnerabilities reinforce the urgent necessity of all bilateral creditors in taking tangible actions to support debt sustainability. To do so, we must complete the long overdue sovereign

debt restructuring for Zambia and quickly provide financing assurances to Ghana. I welcome the provision of financing assurances for Sri Lanka that allowed the IMF program to move forward, and I urge all creditors to now complete the process of debt restructuring by the first review. I remain concerned that the Common Framework is taking too long to provide debt relief to low-income countries, and that we lack a robust process for international coordination of debt relief for middle-income countries.

I call on the IMF, with appropriate support from the World Bank, to advance ongoing work to enhance debt transparency, develop guidelines on the use of collateralized debt, assist countries in improving debt management, promote more timely information-sharing of debt sustainability analyses, and develop process improvements to the Common Framework and debt restructuring for low- and middle-income countries. I encourage the World Bank to continue to support countries in debt distress or with high risk of debt distress through its Sustainable Development Finance Policy. I look forward to the meeting of the Global Sovereign Debt Roundtable this week to make progress on these issues. The long established and respected principle of preferred creditor status is critical to the MDBs' ability to provide counter-cyclical support to countries, in highly concessional or grant terms, during times of crisis. All shareholders must respect this principle.

Recent shocks to the global economy have necessitated a number of important reforms to the IMF's toolkit, including policies to temporarily raise access limits and enable the IMF to support countries facing exceptionally high uncertainty. Support for low-income countries in the context of these shocks will be critically important, and I therefore welcome continued efforts to increase resources for the IMF's Poverty Reduction and Growth Trust (PRGT). The Biden Administration continues to work with our Congress to lend up to $21 billion to the PRGT and the Resilience and Sustainability Trust (RST). I am encouraged by the operationalization of the RST and support continued collaboration with the World Bank on the careful design of macro-critical reforms supported by the RST. I also welcome the recent review of the IMF's enhanced governance framework and support measures to strengthen IMF engagement on governance and anti-corruption measures, particularly with regard to the Fund's emergency financing. I view the upcoming review on precautionary lending instruments as an important step toward better supporting members facing actual or potential balance of payments difficulties, and an opportunity to better incorporate political risk and governance considerations.

With regard to IMF resources, I continue to believe that overall resources remain adequate. At the same time, the IMF needs to follow through on its commitment to a new quota formula that is both fair and simple and primarily reflects the economic size of its member countries. The IMF should remain a quota-based institution so that it has a consistent, predictable level of resources, which facilitates its role at the center of the global financial safety net.

As global challenges threaten to reverse past development gains, the need for bold action to address them has only become clearer. In the last six months, we have made important progress in our efforts to evolve the World Bank Group to better address 21st century threats with a refreshed mission that reflects the need to build resilience in the face of global challenges to achieve our goals to end extreme poverty and build shared prosperity. I also welcome the efforts to incorporate global challenges into the Country Engagement Model and corporate scorecard. I

strongly support efforts to responsibly stretch the Bank's balance sheet by lowering the equity to loan ratio and introducing a market hybrid capital pilot that would jointly generate up to $50 billion over the next ten years, as well as starting a process to remove the Statutory Lending Limit.

We have come a long way since we started this journey six months ago. And we have more work still to do. We must build on this important momentum with the World Bank Group preparing an ambitious workplan following the Spring Meetings, taking a staged implementation approach in which reforms are adopted and implemented on a rolling basis through to the Annual Meetings in Marrakesh. I will leverage key forums like the G7 and the G20 and other key convenings to drive progress at the World Bank and regional development banks. We look forward to a strong, active role from Ajay Banga to lead the World Bank during this critical moment in its history and thank David Malpass for his service and leadership during the past four years.

As we look to the IMF and World Bank to better address these challenges, it is imperative that this work continue to support low-income countries. Low-income countries continue to face strains resulting from rising global food insecurity driven by climate change, conflict, and COVID-19-related economic disruptions that have been only exacerbated by Russia's illegal war against Ukraine. We welcome the IFIs scaling their efforts to address food security through the Action Plan to Address Food Insecurity, alongside the IMF's Food Shock Window, which complement the United States' own leading role in committing more than $13 billion since the outbreak of Russia's war to address humanitarian and longer-term food security needs. The Global Agriculture and Food Security Program, an important part of this food security architecture, recently allocated $220 million in agricultural investment grants for projects in Africa, the Middle East, Latin America, and Asia.

Protecting the resources that go to these countries, including through the International Development Association (IDA), is a critical priority for the United States. Judicious stewardship of its existing resources must be prioritized if IDA is to be well-equipped in its capacity to address current and future challenges. IDA Management and donors should explore further measures to responsibly add to IDA's capacity over the short and medium term, while recognizing the constraints on both IDA countries and donors.

Similarly, we must sustain our achievements to improve health security and response, especially the Pandemic Fund, which launched last year and issued its first call for proposals last month. We must continue the important work on finance-health collaboration in the G20 with the IFIs to be better prepared for future, cross-border health threats.

To enhance our resilience to shocks and smooth the economic transition to a net-zero global economy, we must build on our efforts to address climate change adaptation and mitigation. If we do not take strong action this decade to meet our climate goals, climate-vulnerable countries like those in the Caribbean and Pacific Islands, low-lying states, as well as a growing number of vulnerable middle-income countries, will face existential risks, as will the global economy. This is why we must continue to mainstream climate science into economic policy. The United States is doing its part. We are committed to meeting our climate goals using tools such as the Inflation

Reduction Act and Bipartisan Infrastructure Law. These measures are working to shift the U.S. economy along the energy transition and toward President Biden's goal to reduce emissions 50-52 percent by 2030. These laws, when paired with sustainable infrastructure investment in new climate-forward technologies, will promote equitable growth, the delivery of basic services, wellbeing, and resilience. Our investments in climate-forward technologies will also bring down global prices, which will have a positive impact for all countries to meet their global climate goals.

The IFIs are key partners in the effort by national governments to address climate change, and we look forward to the public release of the Joint MDB Approach on Paris Alignment. I welcome the World Bank Group's work on climate, particularly climate adaptation and resilience, highlighting that helping the most vulnerable prepare for, and recover from, natural disasters is a priority. I also welcome the World Bank's successful launch of the Country Climate and Development Reports, which provides an avenue for collaboration with the IMF's RST as well as other parts of the IFI system. Climate diagnostics such as these underscore the importance of consultation as the IFIs align financial flows with the goals of the Paris Agreement and close coordination between the IMF and World Bank on climate issues. We reaffirm the important role of the World Bank Group as a lead financier, convenor, and source of knowledge on climate change.

The Partnership for Global Infrastructure and Investment, including the Just Energy Transition Partnerships (JETPs), strive to increase investment in infrastructure sectors critical to equitable growth and support countries' clean energy and digital transitions. These targeted initiatives have the potential for significant impact in supporting countries to achieve their climate goals, shore up sustainable infrastructure stock, and boost productivity and economic growth. If we are to make transformative gains towards global climate goals, public sector investment must be paired with and help mobilize private sector investment. I call on the World Bank Group to step up its support for quality infrastructure and the energy transition, including by engaging actively in the JETPs.

For the IMF and World Bank to deliver on all these priorities, we call for maintaining focus on governance and accountability within these institutions. The IMF's implementation of its Institutional Safeguards Review will be critical to bolstering the Fund's dispute resolution processes and bolstering staff's voice. In addition, diversity and inclusion at the IMF and the World Bank remain vital to these institutions' effectiveness and sustainability. Diversity is equally as important for the Executive Boards, and I call for greater action on promoting diversity in representation on both Boards, including through greater use of targets to help address weak gender diversity at the IMF Executive Board.

I thank staff and management of both institutions for their tireless work at a time when expectations and needs are high.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-20

Statement by Mr. Le Maire
France

International Monetary and Financial Committee – Washington DC, 13-14 April 2023

Statement by Bruno LE MAIRE, Minister of the Economy, Finance and the Industrial and Digital Sovereignty, FRANCE

While proving resilient, the world economy continues to face significant downside risks.

Russia's unprovoked and unjustified war of aggression against Ukraine still takes a toll on global energy and food security. It also fuels already existing risks of geo-economic and geo-political fragmentation. Inflationary pressures persist and have forced a sharp tightening of monetary policy. Although many economies are much more prepared to shocks than before the Global Financial Crisis, recent developments in some parts of the banking sector have also put pressures on financial stability.

We must then, at the same time: keep fighting against inflation; maintain the financial sector under close scrutiny; rebuild sufficient fiscal space and invest in long-term priorities such as climate change, digitalisation and ageing, along with the enactment of structural reforms that cannot be delayed; support Ukraine and support multilateral initiatives designed to cushion the adverse effects of war on vulnerable economies.

This is why I warmly welcome the priorities laid out in the Global Policy Agenda released by the Managing Director of the International Monetary Fund: safeguard economic stability, support vulnerable countries, sustain future prosperity.

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In times of economic and financial uncertainties, multilateralism and coordinated solutions are more relevant than ever.

The role of the IMF at the centre of the Global Financial Safety Net is crucial. To make sure that the IMF is fit for purpose, I support a timely and successful completion of the 16th General Review of Quotas of the IMF by December 15, 2023. The 16th General Review of Quotas should be handled as a package. The IMF is and should remain an adequately resourced, quota-based institution; and we believe that the overall lending capacity of the Fund should at least be maintained.

The IMF has demonstrated its ability to use the full range of its lending instruments to address its membership's needs, especially through the Covid-19 pandemic and the aftermaths of the Russian invasion of Ukraine. In this very challenging outlook, the launch of the temporary Food Shock Window and the temporary increase of access limits of the facilities under the General Resources Account are sound examples of the Fund's adaptability. In this context, I look forward to the reviews of precautionary and emergency facilities. In particular, I am convinced of the relevance of precautionary facilities in a shock-prone environment and of their ability to cushion external shocks in countries with good macroeconomic fundamentals.

Risk of debt distress in emerging and developing countries is another challenge that must be tackled in a coordinated manner. With the G20 Common Framework for Debt Treatments, also endorsed by the Paris Club, we have the appropriate tool to do so for low-income countries: it is high time to speed up its implementation, in a predictable, timely and orderly manner. For lower middle-income countries, which are not eligible to the Common Framework, I suggest to continue to develop *ad hoc* coordination among official creditors, building on what has been done for the provision of financing assurances to Sri Lanka.
I welcome the IMF and World Bank's ongoing work to improve information sharing with

creditors, notably on debt sustainability. This additional information early in the process is essential to ensure a timely formation of the official creditor committee and the provision of financing assurances. I hope it could pave the way for a consensus on indicative timeline. The launch of the *Global Sovereign Debt Roundtable* is an important milestone to contribute to the dialogue between all stakeholders. It can complement decision-making bodies, such as the Paris Club and creditor committees under the Common Framework, and foster constructive engagement from official creditors into debt-related discussions.

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Through surveillance, lending and capacity development, the International Monetary Fund has an essential role to play to support vulnerable countries. The enhanced Poverty Reduction and Growth Trust (PRGT) and the recently created Resilience and Sustainability Trust (RST) are key tools which need to be appropriately funded.

The global ambition of USD 100 billion of SDR channelling or equivalent contributions must be met as soon as possible. Pledges amount to USD 87 billion. Additional pledges of USD 13 billion are therefore needed, and I call on countries with strong external positions to make new commitments. I expect these countries to channel at least 20% and up to 30% of their SDR allocated in 2021. This 30% ratio echoes France's own pledge: France has lent SDR 1 billion and SDR 3 billion to the PRGT and the RST, it has also committed to channelling another SDR 1.8 billion, reaching a rechannelling of 30% of SDR allocated to France in 2021. Besides, pending pledges must be translated rapidly into resources available to the IMF, so that SDR channelling means actual support to low-income countries and developing countries.

However, channelling SDR will not be enough, as the PRGT is facing an imminent subsidy gap that we must bridge. As the current global economic and financial situation puts low-income countries under serious pressure, all options should be investigated thoroughly. I therefore support the Fund management's relentless efforts vis-a-vis potential contributor countries. France intends to speed up the disbursement of its EUR 130 million commitment, and EUR 40 million are already transferred. There are diverse options at the disposal of potential contributors to generate subsidy resources for the PRGT, in particular budgetary grants or SDR loans to the *Deposit and Investment Account*. In addition to such fundraising efforts, I also call the IMF to launch technical analyses on the mobilisation of the Fund's internal resources, including gold sales and distribution of the General Resources Account reserves.

Capacity development is a core dimension of the IMF's support to the membership. The Institute for Capacity Development and the regional capacity development centres provide valuable assistance, especially to fragile and conflict-affected countries. While traditional areas of expertise remain of course relevant, such as macroeconomic policies and public financial management (particularly the mobilisation of domestic resources), we witness a growing demand for climate, gender, and digital issues. I therefore welcome the launch of the 2023 review of the Fund's capacity development strategy, which takes all these dimensions into account, and insist on the importance of field-presence and cooperation with other providers of technical assistance as a key to success.

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The transition to a net-zero and resilient economy is one of the most acute challenges of this decade for the international financial community. We need an IMF that is fit for climate action.

The Resilience and Sustainability Trust (RST) highlights the integration of climate action into the Fund's lending activity. In this regard, I want to welcome the first arrangements concluded under the RST and call for further implementation of the RST, especially in LICs. I will pay special attention on the policy reforms supported by the RST and hope they will be relevant for both climate action and development, and able to crowd-in climate finance from other sources, including private finance. On these matters, a close coordination between the Fund, the World Bank and other relevant International Financial Institutions will be paramount.

The integration of climate action into our economic and financial policies will rely on the IMF policy advice, and no country should be left behind in this transition. We can facilitate the transition to a green economy if we enact policies able to catalyse private finance to support these aims. In this light, I want to praise the IMF work on carbon pricing as a key enabler of the decarbonisation of the economy. We also need to avoid that massive investments required by the green transition lead to an economic divergence among countries, and IMF guidance will be essential in that regard.

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Multilateralism is confronted with unprecedented challenges: downwards economic prospects, geo-political fragmentation, financial instability, climate change. That is why we must step up our efforts to support it.

To support decisive action, a Summit for a new Global Financing Pact will be organised in Paris on June 22-23, in close partnership with the G20 and COP28, with the support of IMF and the World Bank.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-21

Statement by Ms. Ahmed
Nigeria

On behalf of
Angola, Botswana, Burundi, The State of Eritrea, Kingdom of Eswatini,
The Federal Democratic Republic of Ethiopia, The Gambia, Kenya,
Kingdom of Lesotho, Liberia, Malawi, Republic of Mozambique,
Namibia, Nigeria, Sierra Leone, South Africa,
Republic of South Sudan, Sudan, United Republic of Tanzania,
Uganda, Zambia, and Zimbabwe

International Monetary and Financial Committee

Forty-Seventh Meeting

April 14, 2023

Statement by Ms. Zainab S. Ahmed, Nigerian Minister of Finance, Budget, and Planning
On behalf of Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Republic of South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

We express our deepest sympathies for the loss of lives and destruction of properties resulting from the floods in Malawi, Mozambique, and Madagascar, as well as the devastating earthquakes in Turkey and Syria.

We note the projected slowdown in global growth in 2023, reflecting the lingering pandemic effects, conflict spillovers, and monetary tightening to combat inflation. Emerging Market and Developing Economies (EMDEs) remain vulnerable to growth weaknesses in Advanced Economies (AEs), as well as domestic challenges attributed to limited fiscal space, constrained labor markets, supply-side constraints, and subdued domestic demand. Moreover, EMDEs are facing rising borrowing costs that have amplified debt vulnerabilities and increased budget outlays. The sustained interest rate hikes by major central banks have implied capital flow reversals, exerted currency pressures, and generated adverse feedback loops on inflation. Although food prices have moderated, they are still elevated even after retreating from record highs in early 2022 and many vulnerable countries still face heightened food insecurity. We, therefore, remain highly concerned about the risk of food insecurity in low-income countries (LICs), alongside rising poverty and inequality levels amidst heighted global uncertainties. Further, the growing geo-economic fragmentation poses risks to the cross-border allocation of capital, and international payment systems with negative implications for the stability of the global financial system. Nevertheless, we positively note that the re-opening of the Chinese economy and the strengthening of consumer demand in AEs, is expected to moderate the global slowdown in 2023.

Growth in Sub-Saharan Africa (SSA) continue to mask the differential terms of trade effects on commodity exporters and importers, and the lagged scarring effects of the COVID-19 pandemic. Persistent inflation, tight global financial conditions, and declining external demand continue to constrain the post-pandemic recovery in SSA. Further, the still elevated food and energy prices occasioned by the war in Ukraine, culminated in a high cost of living that pushed millions into poverty. We remain concerned with the widening income divergence between the SSA and AEs, which calls for deliberate efforts to support countries in the region. The financing required to support post-pandemic recovery remains substantial, amidst emerging risks to global growth. Moreover, fiscal space to cushion vulnerable households has diminished in the context of muted growth rising borrowing costs, and elevated debt vulnerabilities. In addition, the intensity and frequency of climate shocks pose significant risks to food security, with dampening effects on growth and poverty reduction efforts.

We reiterate our strong call for global cooperative efforts to promote a robust, open, and rules-based multilateral trading system to consolidate the hard-won gains from decades of economic integration. We encourage decisive actions to reverse the recent increase in export restrictions and allow the free flow of essential supplies, including vaccines, grains, and fertilizers to avoid food insecurity in SSA from becoming entrenched. We, therefore, support the IMF workstream on the Role of Trade in the Work of the Fund, which would be instrumental in providing policy guidance on enhancing the resilience of supply-chains and eliminating distortive protectionist measures. We urge the IMF to keep providing financial support through new or existing programs, with a focus on strengthening social safety nets and addressing the impact of the food crisis. Further, we urge the Fund to address the effects of geo-economic fragmentation (GEF) to safeguard the stability of the International Monetary System and mitigate risks from the dislocation of the cross-border payments system, and possible weakening of the Global Financial Safety Net (GFSN). Collaboration among relevant institutions to leverage the IMF's expertise, near universal membership, and convening powers, would be vital to mitigate GEF risks.

We welcome the Managing Director's Global Policy Agenda (GPA), which rightly focuses on the criticality of safeguarding economic stability to lay the foundation for stronger growth, meaningful support for the most vulnerable, and cooperative efforts to tackle shared global challenges. Specifically, we support the GPA's thrust on the need to focus fiscal policy on protecting the vulnerable, while staying the course in the fight against inflation. That said, the IMF's timely policy guidance on the appropriate monetary and fiscal policy mix to achieve disinflation objectives, while preserving the recovery and supporting the vulnerable, remains critical. In this vein, we look forward to the operationalization of the Integrated Policy Framework (IPF), consistent with the revised Institutional View, to help manage spillover risks, volatile capital flows, and exchange rates. We also look forward to further work on tackling the supply-side sources of inflation, and welcome related IMF work on rebuilding supply chain resilience to alleviate price pressures. Nevertheless, greater prominence should be attached on strengthening financial surveillance and supervision, given the emerging vulnerabilities in the US banking sector. To this end, we call for a renewed focus on completing outstanding global financial regulatory reforms across all banks and non-banks irrespective of their sizes.

We appreciate the GPA's dedicated focus on scaling up support to the Fund's most vulnerable members. We welcome the support provided to LICs to address the food crisis through the Food Shock Window (FSW) but stress the need to ensure increased access for the most vulnerable countries facing food insecurity. We, therefore, look forward to the upcoming review of emergency financing facilities, and call for the relaxation of exclusion clauses on related policies, to ensure that countries most in need, are not left behind. We welcome the recent review of the GRA access limits but underline the need to replenish PRGT loan and subsidy resources to ensure the normalization of access limits and uniformity of treatment. In this context, we encourage intensified fundraising efforts ahead of the 2023 Annual Meetings in Marrakech to enable the timely normalization of access. That said, we are encouraged by the RST pilots, and urge fulfillment of SDR rechanneling pledges, to enable the rollout of the RST. Further, we look forward to continued implementation of the Fragile and Conflict-affected States (FCS) strategy

and expect the associated Staff Guidance Note to provide further impetus to this work. We also look forward to further work to optimize excess SDRs by re-channeling them through Multilateral Development Banks (MDBs) to support developing countries in making progress towards achieving the 2030 Sustainable Development Goals (SDGs).

Faster and effective debt resolution has become more urgent to pave the way for deeper reforms under upper credit tranche (UCT)-quality programs. The lack of progress on debt restructuring for Zambia and Ethiopia remains concerning, considering the authorities' efforts to undertake ambitious reforms. We, therefore, reiterate our call for the effective implementation of the G20 Common Framework through enhanced creditor coordination, as well as ensuring timebound, orderly, and predictable processes. We welcome the launch of the Global Sovereign Debt Roundtable (GSDR) and look forward to tangible outcomes on common principles to facilitate debt restructuring and strengthen the global debt architecture. We also support the IMF's efforts, in close collaboration with the World Bank, to improve information sharing with creditors, including the Debt Sustainability Analysis (DSA). Priority should also be accorded to reviewing internal Fund policies on debt, and lending into arrears, to further explore ways to enable the IMF to support its vulnerable members.

We view the finalization and implementation of the IMF's Enterprise Risk Management (ERM) Framework as timely, to support the Fund in taking calculated risks, including in its new areas of work. We, therefore, look forward to a full progress report on the implementation of the ERM and the application of risk tolerance levels. We also endorse the robust recommendations of the Institutional Safeguards Review, which remain vital to bolster the IMF's governance structure and urge their speedy implementation. Further, we welcome completion of the review of the Framework for Enhanced Fund Engagement on Governance.

We urge accelerated climate action by honoring commitments made under the Paris Agreement, and UNFCC to ensure a just, timely, and fair transition to net zero. To this end, we commend the international community for the recent wins resulting from COP27 in Egypt, particularly the establishment of the fund to help EMDCs with adaptation and mitigation. We, however, note with concern the recent reversal of climate commitments, particularly from systemic emitters in AEs. Intensified support for mitigation and adaptation remains essential to achieve emissions standards considering the devastating effects of climate change in SSA, as evidenced by recent floods in Malawi and Mozambique. Specifically, increased support through technical assistance, speeding up investments in green energy technologies to bolster energy security, and adequate climate financing would be essential to advance the green transition. In this vein, an appropriate calibration of effective policy tools to reduce emissions and decarbonize in a cost-effective way would be critical to protecting the most vulnerable segments of the population. The IMF's role in catalyzing additional climate financing from MDBs and other relevant institutions remain important.

Accelerated progress towards achieving diversity benchmarks remains important to preserve the credibility of the Fund. The IMF should continue to ensure that underrepresented regions are considered in all staffing decisions. Specifically, we stress the need for enhanced diversity throughout the career ladder, including for senior management positions. Therefore, removing glass ceilings above lower grades should be prioritized if the diversity agenda is to deliver timely and meaningful results. The Fund should also capitalize on the emerging areas of climate, gender, digitalization, and FCS to close attendant diversity gaps. To this end, we urge the Fund to attract, retain, and develop diverse talent to better reflect its near-universal membership, cement its position as a trusted advisor, and enhance the traction of its policy advice.

Finally, we view the timely completion of the 16th General Review of Quotas (GRQ) as essential to help preserve the Fund's role at the center of the GFSN. We underscore the need for a strong quota-based IMF with sufficient resources to adequately respond to the membership's rapidly evolving financing needs, amplified by the overlapping shocks. While we acknowledge the important role played by borrowed resources as an effective backstop, the need to adequately resource the Fund to re-establish the primary role of quotas and preserve its legitimacy and relevance as a crisis management institution and a lender of last resort, cannot be overemphasized. We, therefore, urge the Fund to complete the 16th GRQ by December 15, 2023, in a manner that preserves the voice and representation of poor members. In addition, we reiterate our call for a third chair for SSA to improve the region's representation on the IMF Executive Board, consistent with the 2010 governance reforms.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-22

Statement by Mr. Chalmers
Australia

On behalf of
Australia, Kiribati, Republic of Korea, Republic of the Marshall Islands,
Federated States of Micronesia, Mongolia, Republic of Nauru,
New Zealand, Republic of Palau, Papua New Guinea, Samoa,
Seychelles, Solomon Islands, Tuvalu, and Vanuatu

STATEMENT BY THE HON. JIM CHALMERS
TREASURER (AUSTRALIA)

ON BEHALF OF ASIA AND THE PACIFIC CONSTITUENCY

We condemn Russia's invasion of Ukraine as a violation of international law and the principles of the UN Charter. Russia's aggression has led not only to a direct humanitarian toll but has also contributed to food and energy insecurity and to economic instability in poor and vulnerable countries. We express our sympathy for the loss of life from this unprovoked and unjustified war and full solidarity with the people of Ukraine. We reiterate our call for a comprehensive, just, and lasting peace in Ukraine through diplomatic efforts and for greater international cooperation and strengthened multilateralism to prevent fragmentation and safeguard global peace and prosperity.

GLOBAL OUTLOOK AND RISK

While for many economies the outcomes for 2022 and the near-term outlook are stronger than projected in October 2022, the overall outlook remains dominated by risks to the downside. The current baseline projections for global output anticipate lower medium-term growth rates and levels than in pre-pandemic forecasts. This outlook takes account of China's economy reopening, tight labour markets and historic low rates of unemployment around the world, and supply chain pressures easing. Yet core inflation remains high and central banks are generally not projected to achieve inflation targets within the next two years. Risks associated with geoeconomic fragmentation, debt vulnerabilities and Russia's ongoing aggression in Ukraine persist and in some cases are further deteriorating. Recent bank failures in the USA and Europe have raised concerns about global financial sector stability and risks to the global non-banking financial sector remain.

POLICY RESPONSE

Policy-makers must navigate an increasingly narrow and uncertain path through recovery while also addressing structural challenges to support sustained growth. In the near term, achieving price stability remains the clear priority. The IMF has emphasized the need for central banks to continue to maintain data dependent and clearly communicated monetary policy adjustments to ease inflationary pressures and to keep expectations anchored around inflation targets. Balancing considerations between price and financial market stability can and should be managed through the appropriate uses of macroprudential measures and emergency liquidity provision, and by urgently addressing supervisory and regulatory lapses. Fiscal policy should complement monetary policy and reflect the need to target protection to vulnerable households and to rebuild fiscal buffers. Creating fiscal space will be necessary to respond to future shocks, and to facilitate the implementation of longer-term structural reforms aimed at improving productivity and lifting labor force participation. Over the medium-term, fiscal actions also need to focus on restoring debt sustainability.

Most economies will continue to rely heavily on a rules-based system of open, free and transparent international trade; and this is particularly true for countries in the Asia and the Pacific constituency. Considered and consistent multilateral cooperation will be needed to reduce the risks associated with further geoeconomic fragmentation and to sustain the transition towards an inclusive, green, and

resilient global economy. The WTO's dispute settlement system needs to be restored and its rules need to be strengthened. Continued global cooperation through the Paris Club, the Common Framework and the new Global Sovereign Debt Roundtable will be critical to formalizing and standardizing debt-restructuring mechanisms and improving sovereign debt transparency. Decarbonization efforts will be more effective with greater international policy and research coordination. For many members of the Asia and the Pacific constituency, the impacts of climate change are already clearly present, and are building. Coordinated global efforts to address the significant challenges of achieving net zero carbon emissions targets by 2050, while adapting to the ongoing impacts of changes already in process, has an outsized relevance to the smaller members of our constituency.

ROLE OF THE IMF IN SUPPORTING MEMBERS

We support the Fund's efforts to support vulnerable countries and sustain future prosperity while safeguarding global economic stability. Continued confidence in the Fund's ability to safeguard the International Monetary System and ongoing ability to fulfill its role at the center of the Global Financial Safety Net requires that the Fund prioritizes its work program to match the needs of the membership; continues to be adequately resourced; and ensures that its internal governance is well-established and trusted.

Members of the Asia and the Pacific constituency have different needs to one another as our constituency includes advanced economies, emerging market and developing economies, small developing states, micro-states and fragile and conflict-affected states. It is crucial that the Fund provides well-tailored support to all members in the context of their specific challenges. Small developing states, including many Pacific countries, must also contend with limited technical and administrative capacity and experience, and their vulnerability to external shocks and natural disasters, including the building effects of climate change. The policy tools they have available are often also more limited, as they face greater challenges in managing sovereign debt levels, monetary policy transmission, and targeting social security support.

The Fund's implementation of its response to the Independent Evaluation Office recommendations regarding engagement with small developing states will better support our members as in-person bilateral surveillance resumes. We greatly value the Fund's provision of capacity development, reflected in strong demand for technical assistance from many of our members. Contributions to the Fund's capacity development resources from other development partners remain important, and we will engage constructively on the coming review of the Fund's Capacity Development Strategy. We look forward to the Fund's upcoming work with partners on options to mobilize additional financing to support climate change related initiatives. The need for strong integration between the Fund's surveillance, lending and capacity development activities for small developing states cannot be overstated.

The Fund continues to excel in its core analytical and surveillance work on monetary, fiscal and macroprudential policies, which is critical to help members navigate these difficult times. The Fund's analytical work on macrocritical elements of trade and financial digitization also supports multilateral

cooperation. Here we welcome the Fund's updated analysis of the role of trade and on elements of effective policies for crypto assets and look forward to the coming reviews of the Fund's Climate Macroeconomic Assessment Program and of the implications of digital money for the International Monetary System.

The Fund has adapted its lending toolkit to better support the membership including through timely changes to General Reserve Account access limits and to the financing assurances policy for members facing exceptionally high uncertainty. We also welcome the operationalization of the Resilience and Sustainability Trust to support members in enhancing their resilience to climate-related shocks and pandemic preparedness. We urge the Fund to now include analysis of how the toolkit and related policies may be adapted to better suit the specific circumstances and capacity constraints of small island developing states in upcoming reviews of different elements of the lending toolkit.

We remain committed to the successful completion of the 16th General Review of Quota by the end of the year. We will engage constructively as we seek an outcome where the Fund is largely quota-based, its resources are adequate, and its lending capacity meets reasonable expectations of the potential challenges ahead. We also support members' quota shares better reflecting their position in the global economy, and representation of the poorest and most vulnerable members being protected in any changes to quota arrangements. Two of our members have pledged contributions to both the Poverty Reduction and Growth Trust and the Resilience Sustainability Trust. We call on all countries that are well placed to do so to pledge contributions and make good on existing pledges so that estimated funding shortfalls can be met as soon as possible, especially given the critical role of these programs and the rapidly building demand to access them.

We strongly support the Fund's efforts to ensure that its governance structure remains robust. To this end, we welcome the implementation of agreed recommendations from the Institutional Safeguards Review and the implementation of an Enterprise Risk Management framework, and we look forward to the upcoming reviews of the Fund's Transparency Policy and of members' use of SDRs. We urge further progress in fostering diversity, equity and inclusion at the Fund, including gender diversity on the Executive Board.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-23

Statement by Mr. Suzuki
Japan

Statement by the Honorable SUZUKI Shunichi
Governor of the IMF for Japan
at the Forty-Seventh Meeting of the International Monetary and Financial Committee
(April 14th, 2023)

1. The Global Economy and the Japanese Economy

Japan reiterates its strongest condemnation against Russia, which has continued its war of aggression for over a year. We again stress that this war goes squarely against the principle of the rule of law in the international community and is absolutely intolerable.

Global Economy

Russia's war of aggression against Ukraine continues to cause severe price increases, energy supply constraints, and supply chain disruptions, amid the global economy facing downside risks and uncertainties. Ending this war is the most important factor for global economic recovery and international cooperation. As the international community unites and continues its economic assistance to Ukraine, we call on the IMF to continue to play a central role. We welcome the approval by the IMF Executive Board of the Extended Fund Facility (EFF) at the end of last month, which will provide $15.6 billion to Ukraine.

With recent developments in financial markets, we should continue to pay closer attention to global financial stability. In addition, the debt situation in low- and middle-income countries remains challenging, as many countries have significantly tightened monetary policies to address inflation, and global financial conditions have become increasingly tight.

These circumstances call for member countries to flexibly respond to the current crisis by addressing inflation through appropriate policy responses while ensuring policy space under credible fiscal rules and supporting vulnerable groups through temporary and targeted fiscal policies. Once the recovery is firmly established, taking concrete steps to preserve long-term fiscal sustainability is also essential. Given the current financial situation, authorities need to continue to monitor the situation closely and prepare to take the necessary actions to maintain the resilience of the global financial system.

Japanese Economy

The Japanese economy is expected to keep recovering with the effects of the policy supports, under the “with corona” phase. However, amid ongoing global economic developments, particularly monetary tightening, we need to be vigilant against the risk of a downturn in overseas economies putting downward pressure on the Japanese economy. The Government endeavors to realize a virtuous cycle of growth and distribution by accelerating labor market reforms, such as reskilling support to promote structural wage increases, while appropriately responding to the ongoing price increases, and promoting investment and reforms focusing on green, digital, and start-up support.

Despite the recent financial situation, Japanese financial institutions generally have sufficient capital and liquidity buffers, and we assess that Japan's current financial system is sound and stable as a whole. We are mindful of various possible risks and will continue to carefully monitor developments in the domestic and international economy as well as financial markets along with their impact on the stability of the financial

system, with a strong sense of vigilance.

2. Our Expectations to the IMF: Responding to Challenges Member Countries are Facing

As challenges toward global economic stability and development continue, we expect the IMF to play a central role in multilateral cooperation based on rule of law and trust, and make further contributions to address the adversities of member counties.

SDR Channeling

Japan raises its pledge from 20% (USD 8.4 billion) to 40% (USD 16.7 billion) of its newly allocated SDRs toward the total global ambition of USD 100 billion. This will further strengthen our support for low-income and vulnerable countries when IMF support for these countries has become even more important. As the largest contributor to the Poverty Reduction and Growth Trust (PRGT), Japan will completely fulfill the IMF's request for subsidy resources (USD 230 million contribution in total) with additional contributions by channeling a portion of the additional SDRs to the Deposit and Investment Account (DIA). We support the IMF to strengthen its efforts in securing needed subsidy resources and request the IMF to make steadfast progress in preparing options for the use of internal resources toward a comprehensive review of Concessional Financing and Policies that will discuss the PRGT funding strategy beyond 2025. In addition, we would consider further contributions to the loan resources of the PRGT or the Resilience and Sustainability Trust (RST) at an appropriate time, reflecting the contributions from other members. If conditions such as ensuring the liquidity and safety of SDR as a foreign reserve asset are fulfilled, we would also consider the option of SDR channeling through MDBs. We continue to call for further pledges and their timely delivery from all willing and able countries.

Debt Issues

The risks of debt vulnerabilities are elevated not only in low-income countries (LICs) but also in some middle-income countries (MICs).

For LICs, it is crucial that the creditor committees implement debt treatments under the Common Framework in a swift and predictable manner. For vulnerable MICs, such as Sri Lanka, all creditors should work together to restore debt sustainability in a coordinated manner.

It is essential to improve debt data transparency and accuracy in order to prevent future debt crises. Japan has long promoted these efforts, and this year as the G7 President, Japan leads the Data Sharing Exercise where creditor countries share their lending data with the World Bank. We expect this exercise will become an established practice, and more creditor countries will start sharing their data. We also encourage the IMF to present reform options on debt transparency. Given the growing concerns on some opaque collateralized debts, we request the IMF, together with the World Bank, to conduct analysis on and promote best practices in using this type of financing. We also look forward to constructive discussions among all participants of the Global Sovereign Debt Roundtable led by the IMF and the World Bank, which will help promote mutual understanding and find ways to swiftly move the process forward.

Capacity Development and Digital Money

Many countries, especially EMDEs, are making progress toward the introduction of Central Bank Digital

Currencies (CBDCs). It is critical to design institutional and regulatory frameworks with due consideration to the potential impacts of CBDCs on financial stability and capital flows, and to reduce associated spillover effects on other countries' monetary policy and the international monetary system.

Japan supports the IMF's work to develop the CBDC Handbook, which gives practical guidance to address related risks. We expect the IMF to help member countries explore the introduction of CBDCs and assess their risks through its capacity development, drawing on the Handbook. Given the wide-ranging policy issues and the rapid progress in technologies pertaining to CBDCs, the IMF should draw on the expertise of other international organizations, national authorities and a wide range of stakeholders.

Japan supports the IMF's efforts to further integrate its capacity development with surveillance and lending activities. Appropriate prioritization and ensuring ownership of the various needs of recipient countries remain critical to improving the effectiveness of capacity development. With the aim of further improvement of capacity development activities, Japan, in the upcoming review of the Capacity Development Strategy scheduled for later this year, also encourages the IMF to analyze and assess the effectiveness of its activities to date and challenges going forward, including through strengthening project monitoring by utilizing the Results-Based Management (RBM) framework.

Furthermore, the IMF should continue providing capacity development in traditional areas such as debt management and revenue mobilization of which fragile and conflict-affected states (FCS) and low-income countries are most in need. Japan, as a leading donor of the IMF's capacity development for many years, stands ready to proactively provide support.

3. Our Expectations to the IMF: Other Important Policy Matters

The 16th General Review of Quotas (GRQ)

In the discussions of the 16th GRQ, Japan will continue to contribute constructively and pragmatically. To this end, we emphasize the following points.

Even in the emergency situations since the pandemic, thanks to activation of various layers of the global financial safety net (GFSN) and strong policy responses, the current amount of total lending commitments is only slightly above a quarter of the GRA lending capacity, and even the New Arrangements of Borrow (NAB) has not been activated. This clearly demonstrates the sufficiency of current Fund resources.

Amid the significant fluctuation in the global economy, if the Fund were to cover tail risk exclusively through quota, member countries would need to allocate valuable funds to the Fund even under ordinary conditions, which is quite inefficient. In this regard, borrowed resources should continue to play an important role.

The current quota formula has many shortcomings, and we need to keep exploring its reform. In order to secure financial resources for the IMF to support member countries, in particular for LICs, we urge to institutionalize incentive mechanisms for these contributions by adding a variable of voluntary financial contributions in the quota formula.

If agreement on the formula is not eventually reached, selective increases should not be an option. An equiproportional increase could be considered as a pragmatic way towards facilitating consensus. Here, in

case a limited share alignment is necessary, we should use ad hoc methods based on VFCs.

Cooperation with Regional Financing Arrangements (RFAs)

In order for the GFSN to function effectively, it is also important to further strengthen RFAs. Japan, as the co-chair of the ASEAN+3 finance track this year, is promoting further enhancement of the regional financial safety net through ASEAN+3 financial cooperation. More specifically, we have commenced a full-fledged discussion on strengthening the RFAs including creation of a possible new lending facility under the Chiang Mai Initiative Multilateralization (CMIM), which can be readily available to member countries in the event of external shocks such as natural disasters and pandemics.

Staff Diversity

Lastly, Japan has been contributing to the IMF not only through financial resources and policy inputs but also well-qualified Fund staff. The IMF's global coverage warrants its staff composition to be more diversified with appropriate regional balance, which is key to promoting more effective operations. Japan will continue to cooperate with and contribute to the IMF in this regard.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-24

Statement by Ms. Sitharaman
India

On behalf of
Bangladesh, Bhutan, India, and Sri Lanka

Statement by Ms. NIRMALA SITHARAMAN, Minister of Finance and Corporate Affairs, India, and Member, International Monetary and Financial Committee (IMFC) representing the Constituency consisting of Bangladesh, Bhutan, India, and Sri Lanka, to the 47th Meeting of the IMFC at the Spring Meetings 2023

April 2023

GLOBAL ECONOMY

Let me begin by sharing my concern about multiple downside risks that continue to overshadow the global economic outlook. Not only do the risks prominent at the time of the 2022 Annual Meetings continue to persist, but additional risks have also become evident with the recent bank failures in some advanced economies (AEs). Even though major central banks have shown their determination to act decisively by providing liquidity backstop to ease stress in global funding markets, the global economic outlook remains fragile, and the policy trade-offs have become even more complex for policymakers.

Despite some moderation in recent months, inflation continues to remain elevated amid stickiness in core inflation. Therefore, it may take more time to bring headline inflation within the target range of central banks. With major central banks going ahead with policy rate hikes to contain inflation expectations durably, the chances of the world economy achieving a soft landing have further dimmed, as can be ascertained from the downward revision of global growth by the IMF. Emerging markets and developing

economies (EMDEs) also face external demand shocks from lower growth prospects in AEs. Exports face greater risk, and tightening global financial conditions make the external financing environment more challenging for several EMDEs. This is discernible in several EMDEs facing sovereign debt distress in recent periods.

Given that monetary policy actions, especially in AEs, have implications for inflation and financial stability, clear communication highlighting central banks' policy actions' rationale and scope is important. As in the past, EMDEs should be vigilant against global monetary policy shocks. They would need to focus on strengthening their macroeconomic policy frameworks and remain prepared with adequate policy instruments to ease pressure and mitigate the spillovers in domestic financial markets.

In this era of high risks and uncertainty, policymakers must rely on credible risk-based fiscal frameworks to rebuild their fiscal buffers and strengthen the resilience to absorb economic shocks that may arise as they navigate the turbulence ahead. Fiscal policy must be in harmony with monetary policy. There would be social and political consequences of macroeconomic policies. We need strong leadership in this crisis and need to support multilateralism. In all this, however, our support to extend the social safety nets and our commitment to fight food insecurity, malnutrition, and hunger should not falter for want of resources.

Elevated global debt and its unsustainability might entail serious ramifications for the public finances of many Low-Income Countries (LICs) and some Middle-Income Countries (MICs). The G20-endorsed Common Framework is yet to deliver the expected results, although we have seen a successful round in the case of Chad. Under the G20 Presidency, India has sponsored the Global Sovereign Debt Round Table with the IMF and

the World Bank to foster a common understanding of debt issues among all stakeholders to strengthen the common framework. Enhanced creditor coordination with a strong commitment to transparency is the key to debt treatment, as we have seen in the case of Sri Lanka. In the days ahead, a successful conclusion of the debt treatment in the case of Zambia, Ethiopia and Ghana would certainly inspire greater confidence in the common framework.

INDIA

India has reasons to be pleased with the overall macroeconomic picture in a world of extreme uncertainty. Growth prospects are reasonably bright; inflation is not out of control, and the external sector is stable. Fiscal consolidation is gaining traction. Forex reserves are improving, and the banking sector remains healthy. Overall, macroeconomic stability is a matter of satisfaction, although now is scarcely a time to sit back on laurels.

According to India's National Statistical Office (NSO), India's GDP growth is 7% for 2022-23. As per the January update of WEO, India's contribution to global growth stood at 15% in 2022. The high GDP growth of 7% was attained on top of the high base of 9.1% growth in 2021-22, notwithstanding the monetary/liquidity normalisation in 2022-23.

The real GDP for 2022-23 has now exceeded the pre-pandemic level of 2019-20 by almost 10%. The growth performance was contributed mainly by the sharp increase of 13.2% in Q1:2022-23, followed by an average growth of 5.2% in the subsequent two quarters. The quarterly headline numbers, however, hide the fact that the growth momentum has steadily

increased from quarter to quarter. Hiring in the organised sector has also remained in the expansion zone month after month, per the PMI Composite employment sub-indices for 2022-23.

The Central Government adhered to the budgeted gross fiscal deficit target of 6.4% of GDP in 2022-23, now set lower at 5.9% for 2023-24, in line with the medium-term target below 4.5% by 2025-26. As in 2022-23, the focus now continues to be on infrastructure development and capital expenditure, which are expected to crowd in private investment and strengthen job creation and demand.

India has withdrawn lockdowns since April 2022. Total vaccination has crossed 2.20 billion. While precautionary doses, including for eligible children, are on, the number of persons vaccinated with more than one dose now exceeds 68%. The country's total number of active COVID cases stood at around 23,000 on 31st March 2023.

While private consumption has shot up by 9.5% during April-December 2022, its growth is estimated to decelerate to 7.3% in 2022-23 from 11.2% in 2021-22. Nonetheless, private consumption growth remains higher than in the pre-COVID years.

Gross fixed capital formation has sustained its double-digit growth tempo at 12.6% during April-December 2022, drawing strength from the government's thrust on infrastructure. This is also reflected in proximate indicators like cement production and steel consumption. Capacity utilisation in manufacturing is also above its long-term average. On the supply side, agriculture and services offered a silver lining against some moderation in the growth in industrial production amidst the intensification of input cost pressures.

While inflation at 6.4% in February is far lower than its recent peak, it remains above the upper tolerance limit of 6%. Undoubtedly, India is better placed than many other advanced economies or EMEs in this regard. However, core inflation remains sticky at around 6% even though it declined marginally in February. There have been successive rate hikes in every meeting of the Monetary Policy Committee of the Reserve Bank of India since May 2022, with a pause in the latest policy last week, the real policy rate is already in positive territory, and the surplus banking system liquidity has moderated. While it takes time for the past policy actions to work through the system, the central bank remains focused on withdrawing accommodation.

India recorded a current account deficit (CAD) of 2.7% of GDP during April-December 2022 compared with 1.1% during April-December 2021, mainly because of an increase in the merchandise trade deficit. With the surge in services exports and remittances far above the World Bank's projection, the CAD situation remains eminently manageable and within the parameters of viability. Given high growth in services exports, India is set to exceed its $750 billion goods and services export target for 2022-23, up from actual exports of $683.7 billion in 2021-22, notwithstanding the global headwinds.

The Indian rupee remained one of the least volatile currencies among its Asian peers in 2022-23. Similarly, the depreciation and the volatility of the Indian rupee during the current phase of multiple shocks is far lower than during the global financial crisis and the taper tantrum. In a fundamental sense, the movements of the rupee reflect the resilience of the Indian economy. Foreign exchange reserves have rebounded from US$ 524.5 billion on October 21, 2022, to US$ 578.8 billion on March 24, 2023,

covering around 9.8 months of projected imports for 2022-23. India's external debt ratios are low by international standards.

An EME like India typically runs a current account deficit (CAD) so that domestic saving is supplemented by foreign resources to achieve desired levels of investment. During the pandemic, the gap between investment and saving reversed from a deficit of 0.8% of GDP in 2019-20 to a surplus of 1.0% in 2020-21. It again flipped to a deficit of 1.2% in 2021-22. If this indicates the beginning of a new trend, as indicators for 2022-23 point, India's growth prospects are poised to improve.

While external demand is likely to be dented by a slowdown in global activity, the robust prospects for agricultural and allied activities are likely to boost rural demand. The rebound in contact-intensive sectors and discretionary spending is expected to support urban consumption. Given the sound health of corporates and banks, strong credit growth, resilient financial markets, and the government's continued thrust on capital spending and infrastructure, real GDP growth is expected at around 6.5% for 2023-24. While inflation is projected at 6.5% in 2022-23, it's expected to lie between 5.0% and 5.6% for 2023-24 on the assumption of a normal Monsoon.

India's per capita GDP in real terms grew by 5.9% in 2022-23, as against an average of 4.4% over the last decade (during 2012-13 to 2021-22). As a result, India's per capita GDP is estimated to cross US$2,450, representing a step towards becoming a middle-income country.

SRI LANKA

1. In 2022, Sri Lanka experienced the worst socio-economic and political crisis in its post-independent history. Multiple external shocks, including the COVID-19 pandemic, considerably weakened the Sri Lankan economy, along with grave policy missteps. Sri Lanka had lost access to the conventional international financial markets with the onset of the pandemic, and had exhausted all fiscal, monetary, external sector and financial sector buffers by early 2022. Rising inflation and shortages of essentials resulted in a collapse of business confidence, severely affected the ongoing recovery in tourism, and triggered widespread public protests of an unprecedented scale that resulted in a change of key positions of the government over the next few months. The government made a request for a Fund-supported stabilization program and announced a debt service standstill in April 2022. The government commenced introducing necessary stabilization measures and embarked on discussions with creditors to seek support for an IMF-backed program to regain debt sustainability and restore macroeconomic stability. The government reached a Staff-Level Agreement with the IMF on September 1, 2022, and continued to introduce policy adjustments and reforms to stabilize the economy, while meeting the pre-requisites needed for program approval. Following the securing of financing assurances from major creditors, Sri Lanka's request for a US$ 3 billion 4-year Extended Fund Facility arrangement was approved by the IMF Executive Board on March 20, 2023.

Real Sector developments and inflation

The Sri Lankan economy contracted by an unprecedented 7.8 percent in 2022, reflecting the magnitude of the crisis it faced during the year. All

three sectors of the economy, namely, Agriculture, Industry, and Services, were severely affected in 2022, and the impact of corrective policy measures is also having a dampening effect on economic activity in the near term. While the recovery in some agricultural sub-sectors, the rebound in tourism, and the gradual return of business confidence are expected to aid economic recovery, the economy is projected to contract by around 3 percent in 2023. Meanwhile, the unemployment rate in the first three quarters of 2022 remained at 4.6 percent on average, although poverty levels are expected to have increased. The immediate priority of the government remains stabilizing the economy, while pursuing growth-supportive reforms, and assisting the poor and the vulnerable through strengthened social safety net measures.

2. Inflation (Colombo Consumer Price Index (CCPI) based, year-on-year) accelerated from 5.7 percent in September 2021 to 69.8 percent in September 2022. Causes for this acceleration included the depreciation of the Sri Lanka rupee, disruptions to domestic food production, global fuel and food price shocks, price revisions of domestic fuel, electricity, and cooking gas supplies along with the associated increases in other prices, and unsustainable monetary financing of the fiscal deficits that de-anchored inflation expectations. Inflation has decelerated thereafter in response to policy tightening, measuring 50.6 percent in February 2023. A sharper deceleration is projected over the next few months. The behavior of inflation as measured by the movements of the National Consumer Price Index (NCPI) was similar, although the higher weight to food in the NCPI reflected higher overall inflation at the national level.

Monetary Policy, Monetary and Financial Sectors

3. The policy interest rate corridor of the Central Bank of Sri Lanka (CBSL) was increased from 5.00-6.00 percent at end 2021 to 15.50-16.50 percent by March 2023, with a decisive seven percentage-point hike in April 2022. The CBSL remains committed to a data-driven monetary policy-making process, and is confident of bringing down inflation to single digit levels by end-2023, and subsequently to the target range of 4-6 percent by 2024.

4. Most market interest rates increased, with the prime lending rate and yields on Sri Lanka Rupee-denominated Government securities peaking at 29.67 percent and 33.14 percent, respectively. The year-on-year growth of credit to the private sector by commercial banks decelerated from 20.3 percent in April 2022 to 6.2 percent at end 2022. Credit to the private sector, after adjusting its foreign currency-denominated component for exchange rate depreciation, contracted by 3.3 in 2022. In the absence of required foreign financing flows to the government, domestic financing has continued to expand. Within domestic financing, financing by the CBSL still accounts for a significant portion. Monetary financing of the fiscal deficit shall be prohibited under the new Central Bank bill. The enactment of the new Central Bank bill will also assist in firmly anchoring inflation expectations by prohibiting monetary financing, introducing institutional reforms that would enhance the independence of the CBSL, institutionalizing the flexible inflation targeting monetary policy framework with exchange rate flexibility, and increasing accountability of the CBSL in relation to price stability.

5. The impact of the economic crisis had severe implications on the financial system through various channels. Subdued economic activity, reduced disposable income, and lack of demand for credit resulted in a deceleration in asset growth in the banking sector and a deterioration in

the asset quality and profitability of the sector in 2022. The rest of the regulated financial sector is also experiencing similar developments. Amidst these risks, the government and the CBSL remain committed to ensuring the stability of the financial system by addressing any vulnerabilities in the system. The government is mindful of the significant impact on financial sector activity arising from the macroeconomic stabilization measures that have been put in place, as ensuring financial system stability is vitally important in facilitating economic recovery, and for effective monetary policy transmission.

External Sector

6. Sri Lanka faced severe balance of payments pressures over the past few years, with catastrophic effects in 2022. The Easter Sunday attacks, the COVID-pandemic and the uncertainties in 2022 significantly affected earnings from tourism. Worker remittances declined considerably in 2021 and 2022. While merchandise exports remained resilient, the expectation of an imminent exchange rate depreciation increased imports in late 2021, resulting in a large trade deficit of US$ 8.1 billion in 2021, despite the imposition of import controls. After Sri Lanka lost access to the international conventional capital market, flows to the financial account dried up. This loss, combined with sizable debt service payments that were made until mid-April 2022, caused a significant loss of gross official reserves (GOR) in 2020, 2021 and 2022, and exhausted the usable reserves.

7. The sharp depreciation of the Sri Lanka Rupee in early 2022, the tight monetary policy stance, decline in real incomes and purchasing power, and tighter controls on imports resulted in a narrower trade deficit of US$ 5.2 billion in 2022. Worker remittances are on an upward trend

while tourist arrivals have also begun to show signs of sustained recovery. The stability of the foreign exchange market also benefitted from the debt service standstill that is in place and the capital flow measures (CFM), as well as the quota system for fuel distribution. With positive sentiments in the domestic foreign exchange market rising, the CBSL eliminated the guidance given to the market on the exchange rate and allowed the exchange rate to be determined by market forces. The Sri Lanka Rupee has appreciated significantly thus far in 2023, with the CBSL purchasing foreign exchange from the market to bolster reserves.

Fiscal Policy

8. Sri Lanka recorded an overall fiscal deficit of 10.2 percent of GDP in 2022. At 8.3 percent of GDP in 2022, Sri Lanka's central government revenue collection is one of the lowest in the world. On the other hand, the rigid government expenditure, including wages and salaries, subsidies and transfers and interest payments, prevents any effective developmental activity without increasing the fiscal deficit and debt levels. To raise revenue collection to 15.0 percent of GDP by 2026, reduce the overall fiscal deficit to below 5.0 percent of GDP by 2025, and register a primary surplus of 2.3 percent of GDP by 2025, the government has introduced a series of decisive fiscal measures. In the near term, the primary balance is projected to improve to -0.7 percent of GDP in 2023 from -5.7 percent in 2021.

9. Key revenue measures implemented over the past few months include a) increasing the schedule of rates for marginal personal income tax (PIT), raising the top marginal rate, reducing tax-free threshold, and rationalizing incremental tax slabs, b) increasing the standard rate for corporate income tax (CIT), removing tax holidays as well as sector-

specific CIT exemptions, and unifying the rate structure for CIT, c) reinstating the value added tax (VAT) rate at 15 percent from 8 percent, lowering the VAT registration threshold, and removing some VAT exemptions, d) reinstating the mandatory withholding tax, and e) increasing rates for excise tax on alcohol and tobacco products, and on fuel. Going forward, the government expects to further revamp the VAT system to minimize exemptions, speed up valid VAT refunds, and abolish the Simplified VAT system that has created distortions. In addition, in 2024, the government plans to implement automatic indexation of excise taxes to inflation. In 2025, the government plans to revamp the property tax system and introduce a wealth transfer tax. The above measures are expected to make Sri Lanka's tax system more progressive, and gradually shift the focus of taxation from indirect to direct sources. The government has also embarked on revenue administration reforms to strengthen tax compliance, keeping in mind the relatively large size of the informal sector of the country.

10. Expenditure containment measures would complement the government's efforts towards fiscal consolidation. Measures have been introduced to reduce operational expenses of the government and increase accountability of spending. The government has proposed to limit the expansion of the wage and public sector pension bill, while ruling out pay cuts. Public investment, which has declined to unsustainably low levels, is expected to be raised over the medium term, with measures to enhance its efficiency and transparency. Expenditure rationalization is not expected to compromise spending on health, education, and social protection. The ongoing social safety net reforms are expected to improve coverage and targeting, thereby supporting the poor and the vulnerable, particularly during the ongoing adjustment phase. In the meantime,

measures are being introduced to mitigate fiscal risks arising from state-owned business enterprises (SOBEs) and to reform the SOBE sector.

11. The central government debt-to-GDP ratio remained high at 96.5 percent at end-2022. The government is expected to announce its proposed comprehensive debt restructuring framework by end-April 2023 and continue to engage with creditors with a view to regaining debt sustainability.

BANGLADESH

Bangladesh economy witnessed considerable external pressure in recent times, primarily due to shocks arising from the escalating Russia-Ukraine war, aggressive policy rate hikes by the US Fed and other advanced economies, and the lasting impact of the COVID-19 pandemic and global supply chain disruptions. These have led to a rapid depletion of foreign exchange reserves recently. High inflationary pressures were also observed due to high inflation in most trading partner countries, currency depreciation, and upward adjustments of fuel, gas, and electricity prices in the domestic market.

Despite these challenges, there has been a broad-based growth momentum across the economy during the first two-quarters of FY23, mainly driven by the agriculture and service-related sectors, and aided by supportive monetary and government measures. However, based on recent macroeconomic developments, the government has revised the GDP growth target downward from 7.50 percent to 6.50 percent for FY23. The Government and Bangladesh Bank have been extending the necessary policy measures to control demand while promoting supply-

and production-enhancing initiatives to address ongoing inflationary and exchange rate pressures.

Prudent fiscal and monetary policy measures helped the real GDP of Bangladesh grow by 7.10 percent in FY22 compared to 6.94 percent in the previous fiscal year. Bangladesh Bank (BB) has pursued a cautious policy stance with a tightening bias to contain inflation and exchange rate pressures while assisting the economic recovery process, ensuring the required flow of funds to the economy's productive and employment-generating activities for long-term economic growth. BB has resumed releasing its monetary policy statement on a half-yearly basis from the second half of FY23 (H2FY23), which was a regular practice of BB before June 2019.

Following the global trend, headline CPI inflation (p-t-p) rose to 8.78 percent (y-o-y) in February 2023, after falling since the peak of August 2022. This increase was mainly due to the global impact of commodity and fuel prices and exchange rate pass-through effects on the domestic market. Similarly, the twelve-month average CPI inflation rose to 8.14 percent (y-o-y) in February 2023 from 7.92 percent in January 2023, remaining above the revised budgetary target of 7.50 percent for FY23. The rise in inflation could be attributed to the non-food component, which kept mounting gradually, reflecting rising import costs impacted partly by the significant depreciation of the Bangladeshi Taka (BDT) against the US Dollar (USD).

The overall fiscal stance exhibited a slow momentum in Q2:FY23, as reflected in weak revenue mobilization and lower government expenditure compared to Q2:FY22. The budget deficit narrowed down in Q2:FY23 compared to the same quarter of the previous year, mainly due to the

government's spending cuts in the face of COVID-19 and the Russia-Ukraine war-led global economic crisis. Total revenue collection increased by 6.1 percent, while government expenditure decreased by 1.4 percent in Q2:FY23 compared to the same quarter of FY22. The fiscal deficit narrowed in Q2:FY23 compared to Q2:FY22 due to faster revenue collection growth over expenditure.

In addition to other challenges, Bangladesh faces significant resource constraints as it strives to attain its sustainable development goals and transition from its status as a least developed country (LDC). Realizing these goals will necessitate substantial financial resources, which may be difficult to obtain given the current economic challenges. Therefore, external funding from development partners and other sources is necessary to help bridge these funding gaps, and facilitate sustainable and environmentally friendly economic growth in Bangladesh. Consistent and continuous support from development partners and their subsidiaries will be crucial in mobilizing these resources and enabling Bangladesh to overcome these obstacles and achieve its development objectives.

BHUTAN

1. Macroeconomic Review

Growth rebounded moderately in 2021 as economic activities picked up, supported by expansionary fiscal policy, monetary support and progressive relaxation of containment measures. The economy grew at 4 percent in 2021, an increase of 14.1 percentage points compared to a decline of (-)10.0 percent in 2020. All the sectors exhibited a robust growth due to strong domestic demand, and in tandem with the global economic recovery. Industrial output grew by 1.9 percent after an all-time

low of -12.9 percent in 2020. The sub-sectors contributing to the industrial growth were mining & quarrying, and construction sector. Manufacturing production (cement, food, chemical and metal industries) also improved buoyed by government's countercyclical programs and monetary relief measures.

With the gradual easing of mobility restrictions and resumption of economic activities, service sector recorded a positive growth of 6.3 percent in 2021. Despite tourism industry being on a standstill, the revival in retail trade and other domestic businesses, steered the growth of the service sector, contributing around 44.0 percent to the GDP in 2021. Agriculture growth decelerated to 2.1 percent in 2021 compared to 4.6 percent in 2020 attributable to reduced production in livestock and forestry sector.

Economic growth of 4.9 percent anticipated in 2022, despite the two prolonged lockdowns from mid-January to March to contain the spread of the virus. With the nation achieving mass vaccination (almost 90 percent of its adult total population has received a booster dose by early March 2022) backed by robust policy measures and gradual opening up of tourism by September 2022, the economy is projected to sustain a growth of 4.9 percent. The growth trajectory is based on the assumption that there will be no emergence of new variants or mobility restrictions while government spending continues to boost aggregate demand and investments are implemented on time.

Inflation peaked at 8.2 percent by the end of FY 2021-22 mainly driven by increase in nonfood prices. For the last two years, inflation was mainly driven by increased food prices, which was on a higher end compared to non-food prices. However, starting from July 2021, increase

in non-food prices added to the inflationary pressure. Sudden hike in the fuel prices (petrol and diesel) due to limited supply and geopolitical tensions in the region caused drastic increase in the overall commodity prices. As of June 2022, inflation increased to 6.5 percent compared to June 2021 due to increase in both food prices by 5.1 percent and non-food prices by 7.8 percent.

Inflationary pressure will persist in the medium-term with the surge in both food and nonfood prices. Overall inflation for FY 2021-22 was recorded at 5.9 percent, a decrease of 2.3 percentage points compared to FY 2020-21. It was mainly attributable to slowdown in food inflation (primarily vegetables and meat) as prices were regulated by the concerned authority, and also due to rationalization of customs duties for the imports from COTI. Under the baseline scenario, annual inflation is estimated at 7.0 percent in current FY 2022-23 and 6.7 percent in FY 2023-24. However, as 80 percent of Bhutan's import is associated with India, any inflationary pressure in India is expected to transmit to domestic inflation, though with a time lag. Thus, estimates of inflation remains highly uncertain.

For the current FY 2022-23, fiscal deficit is estimated at 9.0 percent of GDP as government spending continues to accelerate economic recovery. The total expenditure is estimated to increase by 8.0 percent with capital budget of (Bhutanese Ngultrum) Nu. 38.5 billion, which is one of the highest, constituting 51.5 percent of the total outlay. Domestic revenue is revised from an estimated Nu. 36.4 billion to Nu. 41.3 billion, with the inclusion of royalty from tourism industry and broad-based improvement in the collection from both direct and indirect taxes. In terms of grant mobilization, residual amount of 12th Five Year Plan (FYP) amounting to Nu. 14.8 billion is estimated to be received in the current FY.

Total public debt is estimated to increase, although the overall risk is deemed manageable as the risk of debt distress is considered moderate. As major portion of external debt is in hydropower projects, which are commercially viable and deemed self-liquidating, increase in debt ratio may not be a cause of concern. For FY 2021-22, total public debt stock stood at Nu. 257.6 billion, accounting for 132.9 percent of GDP, of which external debt stock comprised of Nu. 229.6 billion. While the domestic debt stock stood at Nu. 28.1 billion, an increase of 64.4 percent due to issuance of government bonds of Nu.8.5 billion.

The current account balance (CAB) is expected to deteriorate from negative 12.1 percent of GDP in FY 2020-21 to negative 28.0 percent in the FY 2021-22, as a result of widening trade deficit. With the normalization in situation and resumption of economic activities, trade flows picked up surpassing the pre-pandemic threshold. However, the increase in imports were much higher compared to the exports leading to a huge trade deficit of 19.3 percent in the FY 2021-22 from 6.9 percent in the FY 2020-21. As a result, CAB is expected to remain elevated in the medium-term, with imports increasing exponentially and exports remaining subdued.

The recovery in trade performance has been immediate and widespread across all the sectors of the economy after a significant drop in 2020. The overall import in 2022 (January- June) increased by 52.0 percent as compared to the same period in the previous year, whereas exports increased by 24.3 percent only. If similar trade pattern continues in the upcoming months, the baseline scenario projects that by the end of 2022, overall import value will stand at Nu. 111.3 billion and export at Nu. 60.4 billion. As the magnitude of increase in imports is much higher compared to the export, trade deficit is expected to widen further.

The balance of payment situation is expected to worsen as current account balance deteriorates in the medium term. The net financial inflows which is used to finance the current account deficits over the period has been decreasing due to lower inflow of official grants, thereby impacting the gross international reserves. The gross international reserves stood at US$ 839.6 million as on June 2022, and are estimated to remain around US$ 845.2 million, sufficient to finance 12 months of essential imports.

Despite slowdown in the economy and high inflation, the monetary and credit situation remained favorable, supported by accommodative monetary and expansionary fiscal policies. Money supply (M2), measured by broad money, is estimated to grow at 7.5 percent in the FY 2021-22, owing to an increase in total deposits (7.2 %) held by the commercial banks, accounting for 93.1 percent of money supply components. On the asset side, growth in M2 is driven by improved performance in both net foreign assets (NFA) and net domestic assets (NDA). The money supply in FY 2022-23 is projected to grow by 10.1 percent.

Domestic credit growth is estimated to have slowed down to 4.8 percent in the FY 2021-22 compared to 6.5 percent in FY 2020-21. The slower growth was most accentuated in the manufacturing, construction, and service & tourism sector, reflecting an adverse impact of the pandemic, including delays in government spending on capital projects. Going forward, domestic credit is projected to grow at 10.8 percent in FY 2022-23 and 12.3 percent in FY 2023-24, in tandem with economic growth and supportive monetary measures.

In terms of soundness of the financial sector, the overall asset quality of the financial institutions weakened with the marginal increase in non-performing loans (NPL) by 2.1 percent in the FY 2021-22. In terms of sectoral NPL, the highest was recorded in the service & tourism sector at 29.3 percent, followed by trade & commerce sector at 19.5 percent, and manufacturing sector at 19.2 percent, as these sectors were severely affected by the pandemic.

Supported by various policy measures, overall banking liquidity remains adequate to facilitate credit growth in FY 2022-23. The excess liquidity in banking sector for FY 2021-22 was estimated at Nu. 19.9 billion (equivalent to 10.3 percent of money supply) compared to Nu. 32.2 billion in the FY 2020-21. The reduction was mainly on account of economic activities picking up and gradual fall in term deposits. However, the liquidity position in FY 2022-23 is expected to remain just adequate to meet the government's domestic borrowing. While continuity of expansionary monetary stance in the medium term is expected to pose risks in meeting the fiscal obligations, with crowding out of private credit.

2. Risks and Challenges

With the recent, on-going geopolitical conflict and high degree of uncertainty of the pandemic situation, risks to economic growth and recovery could emanate from both external and domestic environments. Besides the broad macroeconomic challenges, such as economic diversification, vulnerabilities from climate change, and unemployment, some of the possible risks and challenges to economic recovery based on the current update are listed below:

Widening current account deficit will put further strain on the overall reserve of the economy. As the economy returned to normalcy with the

relaxation of containment measures, economic activities including public infrastructure as well as hydropower projects resumed resulting in significant imports. The growth in imports were much stronger than exports, leading to deterioration of the trade balance and the current account balance.

As the financial inflows are not adequate to meet the current account deficit, the negative balance of payments will lead to depletion of overall reserve assets, posing risk to the constitutional mandate of meeting 12 months of essential imports. The macroeconomic imbalance emanating from the external sector is likely to spillover to other sectors of the economy eventually impacting growth prospects.

The rising geopolitical tension will aggravate the already existing inflationary pressure. Against the already turbulent backdrop of global inflationary pressures following the COVID-19 pandemic, the war between Russia and Ukraine has exacerbated supply chain disruptions leading to a spike in commodity prices, and broadening price pressures. The geopolitical conflict is likely to have a prolonged impact, especially on food and energy prices, leading to demand-supply imbalances.

With the war-induced commodity price increase, the impact will be felt mostly through higher cost-push inflation weighing on all the economic sectors including households, businesses and government. As an import dependent economy, higher energy and food prices will increase the import prices resulting in an increase in prices of domestic production. Therefore, surge in prices combined with low growth and high unemployment may lead to stagflation crippling the economy.

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-25

Statement by Mr. Siluanov
Russian Federation

On behalf of
Russian Federation and Syrian Arab Republic

STATEMENT
by the Minister of Finance of the Russian Federation,
IMF Governor for the Russian Federation
Anton Siluanov
at the IMFC Meeting
Washington DC, April 13-14, 2023

Many of the risks we have warned about in recent years have materialized. Inflation remains persistently high in both developed and developing economies. Despite the fact that central banks of the major economies continue to tighten monetary policy, inflationary pressures do not subside. An adverse side effect of restrictive monetary policy after a multi-year period of ultra-accommodative unconventional monetary policy has been the realization of interest rate risks in the banking sector of the US and Europe, which required significant injections of liquidity to prevent panic in financial markets. The ongoing escalation of the sanction campaign against Russia and the practice of trade restrictions against China undermine global food, energy, and commodity markets, disrupting supply chains built over decades and slowing down the recovery of the global economy, including exerting upward inflationary pressure. The side effects of unilateral sanctions and trade restrictions primarily affect low-income countries, jeopardizing their food and energy security. To reduce global risks, it is important to mitigate the process of geoeconomic fragmentation and ensure the creation of new international economic ties.

The recent crisis episode in the financial sector of the US and Switzerland points to significant problems that have accumulated over a prolonged period of low interest rates. These shocks were caused by shortcomings in the existing practices of banking supervision and stress testing. For all major economies, the priority should be to improve the quality of banking supervision, regulate interest rate risks, and refine macroprudential measures to ensure the stability of the banking systems and prevent a crisis.

We believe that monetary policy of central banks should remain committed to its primary objective of price stability. The belated start of a new tightening cycle, combined with supply chain disruptions, has led to inflation becoming more persistent than expected. The inflationary impact of the delayed winding down of fiscal stimulus in developed economies should also be noted. In the medium term, fiscal sustainability must remain a priority for the fiscal authorities. At the same time, we are confident that budget consolidation can and should be combined with maintaining targeted support for the most vulnerable.

Growing levels of the public debt in both developed and developing economies, combined with tightening global financial conditions, increase the likelihood of a full-scale debt crisis over the medium term. The situation with public debt sustainability remains particularly difficult in many low-income countries, which may face a "perfect storm" scenario. These developments undermine the resilience of the global economy to new crises, as many countries

will not have fiscal space to support their national economies in the event of a negative scenario. Restoring fiscal space is also important for addressing long-term challenges, such as population ageing and climate change.

Geoeconomic fragmentation is becoming one of the main risks for the potential rate of growth of the global economy over the medium term. Politically motivated unilateral financial sanctions and trade restrictions introduced under the pretext of protecting national security led to the division of the global economy into trading blocks. At the same time, the increased vulnerability of the current international financial architecture and the rapid spread of shocks related to excessive reliance on the US dollar cannot be ignored. After their blatant weaponization, some major global reserve currencies are becoming toxic for use in international payment transactions. If dollar settlements become impossible, Russian companies will switch to the currencies of friendly countries for transactions with its counterparties. We believe that expanding the use of other reserve currencies, including the Chinese renminbi, will lead to the creation of a new and more stable international monetary system.

The Developments in Russia

Despite unprecedented international sanctions, the Russian economy remains resilient. A growing number of enterprises are adapting to work under the conditions of unilateral sanctions, restructuring production chains. As of today, the Russian economy has successfully restructured without a significant decline in economic activity in 2022. Risks to macroeconomic and financial stability have been avoided. We already expect a return to positive economic growth rates this year. At the same time, unilateral sanctions and trade restrictions have significantly reduced the potential of those economies that have imposed them against Russia. In the current conditions, the main objectives of Russian economic policy are import substitution and reorientation of foreign trade.

Russia continues to pursue responsible fiscal policy to prevent the emergence of risks to macroeconomic stability. From 2023, a new budget rule framework is being implemented. Fiscal policy for the next three years is set to achieve the primary budget balance by 2025. This approach, on the one hand, will support the economy during the adaptation and restructuring of economic ties, and on the other hand, will strengthen confidence in economic policy, ensure the stability of the financial system, and the availability of credit as a source for economic development.

In mid-March this year, the Bank of Russia maintained the key interest rate at an unchanged level of 7.5 percent. Among the stable components of inflation, current price growth rates remain moderate. Inflation expectations of the population have significantly decreased but remain at a somewhat elevated level. In March, due to base effects year-on-year rate of inflation fell to only 3.3 percent. According to the Bank of Russia's forecast, given the current monetary

policy stance, annual inflation is expected to be 5.0-7.0 percent in 2023 and return to the 4 percent target in 2024.

The Role of the IMF

In the context of growing uncertainty regarding the trajectory of the global economy, the role of the IMF as the center of the global financial safety net becomes critical. At the same time, the demands on the IMF are also increasing. In particular, the IMF should assist its members based on the principle of even-handedness. The fact that the IMF did not provide support to some of its members during the acute phase of the pandemic creates reputational risks and may, in the future, lead to a weakening of the IMF's role in favor of regional financing mechanisms and development banks, which will contribute to the fragmentation of the global financial safety net and may undermine its resilience. At the same time, significant concerns arise about the recent change in the IMF policies aimed at providing financial assistance under UCT-quality programs to borrowing countries facing exceptionally high uncertainty, which increases the risks to the IMF and its creditor countries.

The timely completion of the 16th general review of quotas should lead to a fair reflection of countries' weights in the global economy, taking into account the interests of the most underrepresented developing countries and vulnerable low-income countries. Without progress in quota realignment and governance reform, confidence in the institution by its members and the legitimacy of its decisions will diminish.

Solving the food crisis requires the immediate lifting of all restrictions on the transportation of food and fertilizers, which will help address a range of problems experienced by poor and fragile countries. We also support the efforts to enhance approaches to sovereign debt restructuring, including through the G20 Common Framework for Debt Treatments beyond the DSSI.

Furthermore, we call on the IMF to intensify its work on international trade issues. The role of the Fund is growing amid intensifying fragmentation of the global economy, worsening conditions for global trade, and weakening international cooperation on trade policy issues. A serious issue is the growing use of trade restrictions to achieve non-trade objectives, including those related to geopolitical conflicts. Achieving climate change and food and energy security objectives is often used as a pretext for protectionist measures. We urge the Fund to assess the damage that protectionist measures and restrictions on trade and capital flows inflict on the global economy.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-26

Statement by Mr. Hunt
United Kingdom

IMFC Statement by Jeremy Hunt

Chancellor of the Exchequer, H.M Treasury, United Kingdom

On behalf of the United Kingdom

I would like to express my unequivocal condemnation of Russia's illegal, unjustified, and unprovoked invasion of Ukraine which undermines the core foundations of an international rules-based system. I reaffirm the United Kingdom's unwavering support for Ukraine and full solidarity with its people. We will always be on the side of freedom, democracy, and the rule of law.

Global Economy

Russia's intolerable war and its weaponization of energy and food supplies continue to weigh heavily on the global economy. Advanced Economies are recovering from a series of shocks and are progressing towards stable growth, but the process will be slow. Core inflation remains high, with interest rates also rising. There are significant downside risks to the outlook: higher-than expected and persistent inflation; the global economy stalling; further escalation of the war in Ukraine; increased food insecurity and poverty; and acceleration of global fragmentation trends.

In addition, whilst the UK banking system remains safe and sound, recent difficulties experienced by a small number of banks internationally have highlighted some volatility in the global financial system. We must ensure that enhanced international standards introduced after the global financial crisis are maintained, both for prudential regulation and resolution, and we must remain vigilant to financial market conditions and be prepared to use the appropriate policy tools to keep banking systems safe and robust. In this regard, the IMF's expert surveillance is pivotal in monitoring the health of the international monetary system. We also welcome continued international work to address risks in the non-bank sector, including developing and implementing regulatory reforms to enhance resilience.

Through this period, the UK's banking system has proven resilient, with robust capital and strong liquidity positions, and is well placed to continue supporting the economy in a wide range of economic scenarios, including through a period of higher interest rates.

I would also underscore the criticality of robust multilateralism in preserving the health of the global economy. Together we must steadfastly work to maintain macroeconomic and financial stability whilst navigating our economies to a path of sustainable growth. We must bring down inflation, we must reduce elevated debt levels with credible fiscal frameworks that are well-aligned with monetary policy objectives, and we must be ambitious in pursuing higher long-term growth: implementing policies that target the broader structural challenges our economies face, such as removing barriers to work, expanding the labour supply, and promoting investment. While it is right for us to take measures to strengthen the resilience of the global economy to future shocks, including to supply chains for critical goods, we should preserve openness in global markets, and work together on diversification rather than protectionist measures.

International action on climate change is also critical. By working together, we can manage the risks of climate change and pursue a pro-growth transition that works for consumers, strengthens industry, and supports energy security and resilience. We must be resolute in our support for developing countries in mitigating and adapting to the effect of climate change through just transitions, recognising the need for

unique pathways in pursuit of individual countries' climate goals. The global volatility in energy prices underscores the importance of doubling down on our energy transition efforts; reducing reliance on fossil fuels in favour of clean, affordable energy that can support countries' energy security objectives as well as the global transition to net zero.

I would also like to reiterate that the single most important action to safeguard the global economy and support strong, sustainable growth would be an end to Russia's intolerable war and the full withdrawal of Russian forces from Ukrainian territory.

UK Economy and Policies

Amidst these challenges, the UK government is taking the actions necessary to deliver stability and responsible economic policy. Supported by government decisions taken at Autumn Statement 2022, the economy and public finances have proved more resilient than expected in the Office for Budget Responsibility's (OBR) November 2022 forecast. Spring Budget 2023 takes further action to deliver on three of the Prime Minister's five priorities: halving inflation, growing the economy, and getting debt falling. The independent OBR's latest forecast shows that inflation will more than halve this year, the economy is on track to avoid recession with gross domestic product (GDP) higher, and debt falling in the medium term. Measures in the Spring Budget deliver the largest permanent increase in potential GDP the OBR have ever scored in a medium-term forecast as a result of government policy.

The government have protected households in the face of a cost-of-living crisis with a support package that averages £3,300 per household, including by capping household energy prices for a typical household at around £2,500 per year. The UK's strong fundamentals and the government's plan – built on the four pillars of employment, education, enterprise and everywhere – should promote stronger, sustainable growth. The measures introduced included:

- A number of measures to address inactivity in the labour market, centred around four cohorts: the long-term sick and disabled, older workers, welfare recipients and parents. This included expanding 30 hours free childcare for children over the age of nine months, alongside boosts to subsidized childcare for parents on Universal Credit.
- The full expensing capital allowance announced in the Spring Budget aims to incentivise firms to bring forward investment and thereby boost the level of business investment in the next few years. The government wants to ensure the tax regime remains competitive longer term, and will make this measure permanent as soon as it is economically responsible to do so.
- Temporary fiscal measures to support households with the cost-of-living, some of which will also reduce inflation in 2023/24, including an extension of the household guarantee on energy prices and a freeze on fuel duties.

Through these measures the Spring Budget builds on the action taken at Autumn Statement 2022 to halve inflation, grow the economy and get debt falling; to support businesses and households with the cost of living; and underpin the UK's long-term prosperity.

We are also taking bold steps to secure the UK's supply of cheap, abundant, and reliable energy. 'Powering up Britain' is an ambitious strategy to secure our energy system by ensuring resilient and reliable supply, increasing our energy efficiency, and reducing reliance on fossil fuels. This strategy uses science, innovation, and a pro-growth regulatory regime, powered by private capital from our global financial centre, to fund a green industrial revolution.

The Role of the IMF

I welcome the direction of the IMF's work agenda to support its mission, and fully support the Managing Director's Global Policy Agenda. Safeguarding economic and financial stability, supporting vulnerable countries, and sustaining the path to future prosperity are priorities that resonate deeply with the objectives of the UK. The Fund and its members must work together diligently and cooperatively to achieve each.

The Fund needs to be proactive and vigilant in support of its membership, with a stronger and more flexible lending toolkit. To that end, the operationalization of the Resilience and Sustainability Trust (RST) has been a welcome step. The Poverty Reduction and Growth Trust (PRGT) must also continue to play a pivotal role in supporting the Fund's most vulnerable members. Both Trusts are in urgent need of further financing, including through ambitious SDR channelling commitments towards the $100 billion global ambition. The UK is playing its part here and I am delighted to be signing contributions of SDR 2.5bn to the RST and SDR 1.5bn to PRGT at this Spring Meetings. The UK's SDR 1.5bn loan to the PRGT is expected to generate at least SDR 250m in implicit subsidy resources according to IMF staff, which will help shore up upcoming and future lending to LICs.

I warmly welcome work undertaken at the IMF Executive Board to sharpen the Fund's lending toolkit. This includes the approval of increased access limits for regular (GRA) IMF lending, and an important change to the Fund's policies for lending into exceptional uncertainty. However, it was disappointing that PRGT access limits were not increased at the same time as GRA access. The Fund must be able to offer full and timely support to its poorest members when needed, in accordance with its mandate. I am pleased the Board will revisit the issue of PRGT access limits should further fundraising to the PRGT materialize. We need to go further and faster in delivering contributions to the PRGT, including through SDR channelling. The UK is a leading donor to the PRGT; with our new loan coming into force our total commitment to the PRGT is SDR 5.5bn, and we have gone beyond our fair share in meeting PRGT subsidy requirements through the implicit subsidy mechanism within our loan contributions. I urge other members to be equally ambitious.

If further fundraising doesn't materialize, the IMF must expedite consideration of using internal resources to support the PRGT's critical subsidy needs. Proposals must be brought before the IMF Executive Board in a timely fashion to consider a transfer of GRA lending income or a targeted sale of IMF gold to ensure the PRGT has a sustainable resource envelope in the long-term.

IMF precautionary facilities are also an integral part of the Fund's lending toolkit, bringing significant benefits both to the countries that take them and the global economy more broadly. The upcoming review of these facilities should ambitiously examine how to make them more nimble and more desirable for prospective users. It is in all our interests for this part of the toolkit to be used more widely by qualifying countries. Not least because those countries' commitment to sound policy, combined with the signaling effect of an IMF precautionary credit line, can ultimately reduce calls on IMF resources.

We need to work together to urgently address growing global debt vulnerabilities; this means accelerating the implementation of the Common Framework and making swift progress on non-Common Framework cases such as Sri Lanka. I fully support the Fund's new Global Sovereign Debt Roundtable; it is essential we have a forum where a broad range of creditors and debtors, including the private sector, can discuss debt issues. The UK has led reforms to the wider debt architecture,

specifically on Climate Resilient Debt Clauses (CRDCs) and Majority Voting Provisions (MVPs). I thank the Fund for their support on this and encourage International Financial Institutions (IFIs), other Export Credit Agencies and the private sector to offer CRDCs, while it is also my expectation that private creditors will include MVPs in all future syndicated loan contracts.

I commend the IMF's dedicated support to Ukraine, culminating in the approval of a $15.6 billion Extended Fund Facility (EFF). I would like to thank IMF officials for their exceptional efforts and the Government of Ukraine for the excellent progress made under the Board Monitored Programme to pave the way for an EFF. This is a crucial milestone that demonstrates the international community's deep commitment to support Ukraine in the years to come. The UK will do what is necessary to support Ukraine and the IMF in the implementation of this programme. With our international partners we will continue our efforts to support and contribute to Ukraine's repair, recovery, and reconstruction.

The UK remains firmly committed to multilateralism and recognises the vital significance of economic cooperation across IFIs. IFIs must be strong, resilient, and appropriately resourced to serve their members and the Fund is no exception. Concluding the 16th General Review of Quotas by December 2023 is pivotal. The IMF and its members must work collaboratively at pace to secure an agreement for a strong, well-resourced IMF to address current and future challenges.

COMITÉ MONÉTAIRE ET FINANCIER INTERNATIONAL

Quarante-septième réunion
13–14 avril 2023

Déclaration n° 47-27(F)

Révision

Déclaration de Mme Freeland
Canada

au nom de
Antigua-et-Barbuda, des Bahamas, Barbade, Belize, Canada, Dominique, Grenade, Irlande, Jamaïque, Saint-Kitts-et-Nevis, Sainte-Lucie, et Saint-Vincent-et-les-Grenadines

Déclaration de l’honorable Chrystia Freeland
Vice-première ministre et ministre des Finances, Canada

Au nom
d’Antigua-et-Barbuda, des Bahamas, de la Barbade, du Belize, du Canada, de la Dominique, de la Grenade,
de l’Irlande, de la Jamaïque, de Saint-Kitts-et-Nevis, de Sainte-Lucie et de Saint-Vincent-et-les Grenadines

Comité monétaire et financier international

Le 14 avril 2023

La menace la plus importante pour la reprise économique mondiale demeure l’invasion illégale à grande échelle de l’Ukraine par la Russie. En plus des effets directs et déplorables sur des millions d’Ukrainiens, les actions que mène la Russie aggravent les défis économiques pour les plus vulnérables du monde, en exacerbant les problèmes de longue date de pauvreté, d’inégalité des revenus et d’insécurité alimentaire.

Face à cela, le Canada a fourni à l’Ukraine une importante aide financière, militaire, humanitaire et autre, et a imposé des sanctions sévères à la Russie et au Bélarus. Le compte administré par le FMI pour l’Ukraine, dont le Canada s’est fait le champion, a facilité plus de 6 milliards de dollars d’aide financière à l’Ukraine de la part du Canada et de ses partenaires internationaux. Le 11 avril 2023, le Canada a annoncé un versement supplémentaire de 2,4 milliards de dollars canadiens à l’Ukraine par le biais du compte administré. L’aide totale du Canada à l’Ukraine, de nature économique et humanitaire et pour la défense, dépasse maintenant 8 milliards de dollars canadiens, dont 5 milliards de dollars canadiens en soutien financier direct, ce qui aide le gouvernement ukrainien à continuer de fonctionner, notamment en versant les pensions, en fournissant les services gouvernementaux essentiels aux Ukrainiens, et en restaurant les infrastructures énergétiques endommagées. Le Canada encourage les autres pays à soutenir l’Ukraine par le biais du compte administré.

Le FMI et ses membres se sont mobilisés pour soutenir l’Ukraine et d’autres pays vulnérables qui subissent les contrecoups de la guerre illégale de la Russie. En particulier, le Canada accueille favorablement le nouveau programme de financement de 15,6 milliards de dollars américains au titre du mécanisme élargi de crédit (MEDC) en faveur de l’Ukraine, qui contribuera à maintenir sa stabilité économique et financière, ainsi que sa reprise économique, sa croissance à long terme et ses efforts de reconstruction. Le MEDC soutiendra également l’Ukraine dans la poursuite de sa progression des réformes requises pour adhérer à l’Union européenne. Cela s’ajoute au financement d’urgence de 2,7 milliards de dollars américains que le FMI a fourni à l’Ukraine en 2022. Cependant, compte tenu de l’ampleur des besoins financiers actuels de l’Ukraine, d’autres institutions financières internationales et créanciers bilatéraux devront apporter un soutien supplémentaire pour que l’Ukraine puisse continuer à défendre sa souveraineté.

Nous saluons également le succès du nouveau guichet « chocs alimentaires » du FMI. Depuis sa création en octobre 2022, des financements concessionnels supplémentaires ont été fournis par le biais de ce guichet à des pays vulnérables sur trois continents, pour lutter contre l’insécurité alimentaire qu’aggrave la guerre illégale de la Russie en Ukraine. Comme l’a déclaré Madame Georgieva, directrice générale du FMI, dans son dernier programme politique mondial,

« mettre fin à la guerre de la Russie en Ukraine demeure la seule action la plus percutante » pour aider les pays vulnérables à faire face à la crise de l'insécurité alimentaire, et assurer leur stabilité macroéconomique ainsi que celle de l'économie mondiale.

Dans ce contexte d'inégalités et d'insécurité alimentaire croissantes, et marqué par une inflation qui demeure élevée à l'échelle mondiale, nous encourageons le FMI et ses membres à veiller à ce que des financements concessionnels suffisants soient disponibles pour les pays qui en ont le plus besoin. À cet égard, nous nous réjouissons de la récente augmentation temporaire des limites d'accès au Compte des ressources générales. Pour aider à combler le déficit croissant de ressources du fonds fiduciaire pour la réduction de la pauvreté et pour la croissance (fonds fiduciaire RPC), le Canada a accru ses contributions à ce fonds d'un milliard de dollars canadiens l'an dernier. L'Irlande a aussi annoncé une contribution sous forme de subvention au fonds fiduciaire RPC, au montant demandé par le FMI.

Les crises mondiales ont des effets disproportionnés sur les femmes et d'autres groupes vulnérables. Les changements climatiques mettent de plus en plus en danger les plus vulnérables de la planète, et des catastrophes naturelles plus fréquentes causent des dommages coûteux aux infrastructures essentielles. Le succès précoce du fonds fiduciaire pour la résilience et la durabilité (fonds fiduciaire RD) témoigne de la capacité du FMI à contribuer à la lutte contre les changements climatiques, cinq pays bénéficiant déjà du fonds fiduciaire RD pour renforcer leur résilience aux chocs liés au climat, et des dizaines d'autres pays ayant exprimé leur intérêt à en bénéficier. Nous sommes fiers que des membres de notre groupe aient été parmi les premiers pays à recevoir un soutien sous le régime du fonds fiduciaire RD. La contribution du Canada de 2,44 milliards de dollars canadiens au fonds fiduciaire RD a été entièrement mise en œuvre. L'exécution en temps voulu des engagements existants, et des nouveaux engagements, est nécessaire pour garantir que la demande peut être satisfaite.

Les pays en position extérieure forte doivent donner suite à l'engagement d'acheminer les droits de tirage spéciaux (DTS) nouvellement alloués vers les pays qui en ont besoin. Nous sommes fiers que le Canada ait dépassé l'engagement de nos dirigeants en acheminant près de 40 pour cent de ses DTS, y compris par le biais de ses contributions au fonds fiduciaire RPC et au fonds fiduciaire RD.

Nous accueillons favorablement la nouvelle stratégie du FMI relative à l'égalité des genres et soulignons l'importance de sa mise en œuvre rapide dans tous les programmes de surveillance, de prêt et de renforcement des capacités. Le Canada et I'Irlande possèdent une expertise approfondie en matière de politique sur l'égalité des genres et de budgétisation, et ils se tiennent prêts à aider le FMI dans la mise en œuvre de sa stratégie.

Le solide programme de réforme inclus dans le récent programme du FMI pour le Sri Lanka et le cadre de réforme qu'il définit sont encourageants. Nous sommes particulièrement soucieux de veiller à ce que les éléments visant à renforcer le cadre juridique pour la lutte contre la corruption soient respectés et à ce que le programme global de la responsabilisation progresse. Nous resterons attentifs à la mise en œuvre du programme et nous demandons au FMI d'utiliser pleinement le processus d'examen pour s'assurer que les engagements sont mis à exécution.

Les vulnérabilités associées à la dette mondiale restent élevées. Le traitement opportun, coordonné et ordonné de la dette des pays confrontés à un fardeau de la dette insoutenable reste essentiel pour soutenir le développement et la croissance économiques à long terme. Nous

saluons les récents programmes de financement du FMI pour le Sri Lanka et l'Ukraine, et nous appelons tous les créanciers publics bilatéraux et privés à fournir des traitements de la dette comparables et en temps opportun. Le Canada et les membres de notre groupe de pays continuent également d'appuyer les efforts de transparence et de viabilité de la dette.

Le travail de renforcement des capacités et d'assistance technique du FMI reste essentiel pour s'assurer que les pays peuvent non seulement réagir aux crises, mais aussi se redresser de façon plus forte. Notre groupe attache une grande valeur au renforcement des capacités, et nous espérons que l'examen de 2023 de la stratégie du Fonds relative au renforcement des capacités fera en sorte que les pays qui en ont le plus besoin obtiennent l'assistance technique dont ils ont besoin.

Pour s'assurer que le FMI conserve sa position centrale dans le filet de sécurité financière mondial, les membres devront se rassembler pour mener à bien en temps voulu le 16e examen général des quotes-parts et veiller à ce que le résultat protège la voix et l'accès des membres les plus pauvres et les plus petits.

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Vice-première ministre et ministre des Finances, Canada

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-28

Statement by Mr. Ramirez de la O
Mexico

On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

Statement by Mr. Rogelio Ramírez de la O

Secretary of Finance of México

On behalf of

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, México and Spain

In the context of additional challenges to the world economy, such as the historically high levels of public and private debt, the increasing geopolitical tensions, or the recent developments in the banking systems of some advanced economies, macroeconomic policies must work decisively together to fight inflation, maintain fiscal sustainability and financial stability, and ensure social cohesion.

The IMF should persist in strongly advocating international cooperation to address global challenges and avoid the negative consequences of increasing geopolitical fragmentation. The Fund should also stand ready to support its member countries with their financial needs, including a more proactive use of precautionary facilities, well-tailored policy advice, and capacity development. We are jointly responsible for ensuring that the IMF remains the global financial safety net pillar. The challenges to the international monetary system will not diminish, and the role of the IMF will be even more relevant. The IMF needs to retain at least the current financing envelope when risks to the international monetary system are increasing with one shock after another. Our constituency will continue to contribute its part through quota resources, the New Agreements to Borrow, and the Bilateral Agreements. We reiterate our call for pragmatism to reach a consensus on the different elements of the 16th General Review of Quotas in a timely manner. We will support a quota increase that allows the IMF to remain a quota-based institution.

The IMF has to adequate its lending toolkit to recognize the changing financial landscape and its membership´s demand for a more inclusive social agenda. Since its inception, our constituency has supported the Resilience and Sustainability Trust (RST). Costa Rica was the first user of the instrument, and Spain was the first to contribute to the Trust. Undoubtedly, the RST has been a significant and timely addition, and we need to complement its green objective with a social agenda, including by supporting the gender equality policy objectives. Also, the IMF needs to give more prominence to its precautionary instruments. Therefore, we encourage strengthening the precautionary facilities toolkit, including increasing the access limit of the SLL. We look forward to the review of these instruments to further expand their supportive role within our membership.

We join the Managing Director in the call to ensure that the PRGT is adequately resourced to continue to meet the needs of low-income countries and support a multi-pronged strategy to increase resources. Given the high demand for the instrument, we also call for an increased effort to complete the financing of the RST. We must recognize that the inability to help members in need represents a reputational risk to the Fund.

The historical debt burden levels represent one of the most urgent challenges. An effective strategy for debt sustainability requires an active approach through liability management. The IMF should further emphasize reducing financing rollover risks in developing economies in a timelier manner. A continued policy strategy through active liability management can lower the impact on debt servicing costs in increasingly tight global financial conditions. We must build more resilience to financial shocks by developing domestic financial markets in low-income and middle-income economies. The IMF's

integrated policy framework (IPF) should always include this domestic development dimension in its recommendations.

The economic analysis presented during these meetings points to the need to act on a broad set of policy fronts. In Mexico, we have built resilience by taking a prudent fiscal and monetary stance. These policies have paid dividends during these uncertain times of cumulative shocks. On the fiscal front, we have been increasing revenues without augmenting taxes, keeping public debt under control and public finances healthy. This has allowed for additional budgetary space to keep social spending and investment in public infrastructure up.

We must stay focused on combating inflation because it has a pervasive effect on the well-being of the most vulnerable population. The Bank of Mexico, like other Latin American central banks, began increasing interest rates in an orderly and timely manner, thus anchoring inflationary expectations. Our financial stability framework is resilient, and we apply state-of-the-art stress tests to our banking system, as reported in our recent FSAP. We have made important updates to our regulatory and supervisory frameworks. An additional policy is to keep markets open and flexible. We have to let the exchange rate play its part and be the first line of defense against these more frequent swings in global liquidity.

Even before the COVID-19 pandemic, there was a clear trend toward a weakened multilateral trading system, so our constituency had been calling for increased attention from the IMF on the worsened trade policy landscape. The IMF should step up its analysis of the costs of trade restrictions on growth and prosperity. A strong multilateral system is central to open, stable, and transparent trade policies. The IMF can be essential in bringing analytical work to major global trade policy debates. The analysis should also include the effects that open markets can have in supporting growth in middle-income and low-income countries and their impact on reducing migration and social pressures. In this regard, Mexico and other Latin American countries recently reached an agreement in a new initiative to secure access to food and basic products at better prices for the most vulnerable population by removing import tariffs and other trade barriers. These concerted policy actions will complement supply measures to increase agricultural productivity by securing access to fertilizers and facilitating access to credit.

Given the reduced medium-term prospects for global growth, we have to invest in setting the basis for a more flexible, green, and socially responsible economic structure. In coordination with the private sector, Mexico is developing a strategy to take advantage of changes in global trade and production patterns. These investments, including in public infrastructure, will potentially significantly increase our production capacity. In this regard, of strategic importance is our recently announced Sustainable Finance Taxonomy. In addition to the mitigation and adaptation climate objectives, the Taxonomy is a first by including in an integral manner social development objectives with a major focus on gender equality. The green financing agenda can only be compelling if it considers the social dimension.

Finally, we express our full appreciation to the management and staff of the IMF for their effective support to our constituency during these challenging times.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-29

Statement by Ms. Lagarde
European Central Bank

EUROPEAN CENTRAL BANK

EUROSYSTEM

Speech

IMF Spring Meetings, 14 April 2023

IMFC Statement

Statement by Christine Lagarde, President of the ECB, at the forty-seventh meeting of the International Monetary and Financial Committee

Introduction

Since the October meeting, the global economic outlook has improved on the back of a gradual easing of global supply bottlenecks, declining energy prices, and the recovery of the Chinese economy following the lifting of pandemic-related containment measures. Global inflation has also been declining since it peaked in summer 2022, supported by easing supply constraints, as well as by the tightening of monetary policy among advanced economies. However, the recovery prospects for the global economy remain fragile amid continued uncertainty, fuelled by Russia's unjustified war against Ukraine, and the possibility that pressures in global energy and food markets may reappear, leading to renewed price spikes and higher inflation. Resilient labour markets and strong wage growth, especially in advanced economies, suggest that underlying inflationary pressures remain strong. At the same time, other factors that may accelerate disinflation include: persistently elevated financial market tensions, falling energy prices, and a weakening of demand, owing also in part to a stronger deceleration of bank credit or a stronger than projected transmission of monetary policy.

As inflation is projected to remain too high for too long, the Governing Council of the ECB decided in March to raise the key ECB interest rates by 50 basis points, bringing the total increase since July 2022 to 350 basis points. These increases underline our determination to ensure the timely return of inflation to our two per cent medium-term target. The elevated level of uncertainty reinforces the importance of a data-dependant approach to our policy rate decisions, which will be determined by our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. The asset purchase programme portfolio has been declining at a measured and predictable pace since March 2023, as the

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Eurosystem is no longer reinvesting all of the principal payments from maturing securities. Regarding the pandemic emergency purchase programme, the Governing Council intends to reinvest all principal payments from maturing securities purchased under it until at least the end of 2024 and will continue applying flexibility in reinvesting redemptions.

We are monitoring current market tensions closely and stand ready to respond as necessary to preserve price stability and financial stability in the euro area. The euro area banking sector is resilient, with strong capital and liquidity positions. In any case, our policy toolkit fully equips us to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy.

Economic activity

Growth in euro area GDP slowed progressively over the course of last year and stagnated in the fourth quarter. Employment growth also slowed in 2022, but remained resilient in the fourth quarter despite the moderation in economic activity, while the unemployment rate remained at a record low level. Survey data into the first quarter of this year suggested some improvement in activity and confidence in the first quarter of 2023. Under the baseline scenario in the ECB staff projections (which were finalised before the emergence of financial market tensions in mid-March 2023), the euro area economy looks set to recover over the coming quarters as the labour market remains strong, supply bottlenecks are resolved, and inflation moderates.

Risks to the growth outlook are tilted to the downside. Persistently elevated financial market tensions could tighten broader credit conditions more strongly than expected and dampen confidence. Russia's unjustified war against Ukraine and its people continues to be a significant downside risk to the economy and could again push up the costs of energy and food. Euro area growth could also be dragged down if the world economy weakened more sharply than expected. However, if companies can adapt more quickly to the challenging international environment, this, coupled with the fading-out of the energy shock, could support higher growth than currently expected.

Government support measures to shield the economy from the impact of high energy prices should be temporary, targeted, and tailored to preserving incentives to consume less energy. As energy prices fall and risks around the energy supply recede, it is important to start rolling back these measures promptly and concertedly. Falling short of these principles can drive up medium-term inflationary pressures, which would call for a stronger monetary policy response. Moreover, fiscal policies should be oriented towards making economies more productive and gradually reducing high public debt. Finally, countries should implement structural policies for intensifying their efforts to green and digitalise their economies.

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Inflation

Euro area headline inflation declined from its October peak, reflecting a drop in energy inflation. Downward base effects, an easing of energy commodity prices, and the impact of government measures to shield consumers from high energy prices all contributed to this decline. By contrast, food and core inflation rates continued to rise, partly as a result of the past surge in energy and other input costs still feeding through to consumer prices. Pent-up demand related to the reopening of the economy and the lagged impact of supply bottlenecks also continue to push prices up. At the same time, employees demanding compensation for the loss in purchasing power amid tight labour markets has translated into higher wage growth, while many firms in sectors facing constrained supply and resurgent demand raised their profit margins.

We expect euro area inflation to continue to fall, as lagged price pressures fade out and tighter monetary policy increasingly dampens demand. However, historically high wage growth, related to tight labour markets and compensation for high inflation, will support core inflation over the projection horizon, as it gradually returns to rates around our target. This outlook remains surrounded by considerable uncertainty, with both upside and downside risks. Stronger than expected pipeline pressures or higher than anticipated increases in wages or profits could drive up inflation, while financial market tensions and falling energy prices could lead to faster disinflation. At the same time, most measures of longer-term inflation expectations currently stand at around two per cent, although they warrant continued monitoring.

Euro area banking sector, non-bank financial sector and financial stability

Euro area banks remain resilient in the current market environment thanks to strong capital and liquidity positions. Since the start of the ECB’s policy rate hiking cycle, euro area bank profitability has been boosted by higher interest margins, while the change in impairments and provisions has been rather muted so far. However, in the current environment of tightening financing conditions including for banks, credit risks have increased, and lending dynamics have substantially weakened, which may weigh on future bank profitability.

The decrease in bank lending to firms has, in general, not been offset by an increased recourse of firms to market-based financing, despite a bout of corporate bond issuance in the fourth quarter of 2022. Looking ahead, the decline in the asset purchase programme portfolio will increase the share of debt issuance that needs to be absorbed by investors. Based on their past behaviour, investment funds appear able to absorb part of such an increase. At the same time, in spite of some reduction in

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exposure to higher-risk assets, structural vulnerabilities in the non-bank financial sector remain elevated. Risks in that sector may arise especially from liquidity mismatch and leverage, which could adversely affect market conditions should risks materialise. Priority should be given to policies that help build resilience by reducing liquidity mismatch, mitigating risk from non-bank financial sector leverage, and enhancing liquidity preparedness in the broader non-bank financial sector.

International support for Ukraine and most vulnerable countries

We welcome the IMF's continued support for Ukraine, including the recently approved fully fledged lending arrangement. Together with strong international support, the arrangement will be essential for addressing Ukraine's immediate financial needs and in catalysing additional financial assistance. We note that all adjustments to the IMF's lending policies and toolkit are uniformly applicable to those meeting the relevant criteria from the Fund's broad membership.

In view of rising debt vulnerabilities, support for vulnerable countries remains high on the international agenda. We welcome the first successful conclusion of debt restructuring under the G20-Paris Club Common Framework last year and encourage debt treatments of other applicant countries to be finalised promptly. Efficient creditor coordination and debt transparency remain key.

We note strong demand for Resilience and Sustainability Trust (RST) financing, following its successful launch in late 2022, and welcome the good progress achieved. Initiatives to ensure the resource adequacy of the RST and the Poverty Reduction and Growth Trust should maintain the reserve asset character of claims on the loan and deposit accounts of these trusts. This is essential for contributions made by EU national central banks. However, we note that the channelling of special drawing rights by EU national central banks to multilateral development banks or individual countries would not be compatible with the EU's legal framework.

Supporting international cooperation and strengthening the global economy

Recent global shocks and geopolitical tensions have advanced the debate about reconfiguring global supply chains. While the increased resilience associated with less complex supply chains is desirable, a less integrated world economy also entails costs. It weakens the diversification of global production and, in particular, the efficient allocation of resources globally, which has an adverse impact on welfare across the world. Geopolitical fragmentation may also affect the global economy via financial channels. The availability of external financing may be impeded, and lower foreign direct investment would hinder the diffusion of technology and thus productivity growth.

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All of these developments require our immediate attention; however, we are not losing sight of longer-term challenges and are keeping up our efforts to address the existential crisis of climate change. As part of our action plan to incorporate climate change considerations in our monetary policy framework, we decided to tilt corporate bond holdings towards issuers with better climate performance, through the reinvestment of redemptions starting in October 2022. Our climate-related financial disclosures showed last month that this effort was helping reduce the carbon footprint of our corporate sector portfolios. In addition, we are adjusting the collateral framework, introducing climate-related disclosure requirements, and enhancing risk management practices. Recently, we have also issued statistical indicators for climate-related analysis. Moreover, tackling climate-related and environmental risks is one of the ECB's key supervisory priorities for 2023-25. Supervisors have set institution-specific remediation timelines for achieving full alignment with supervisory expectations by the end of 2024 and will follow up on the deficiencies identified in stress tests and thematic reviews performed in 2022.

The investigation phase of the digital euro project is on track. In the autumn, we expect to decide on the next project phase, in which the appropriate technical solutions and business arrangements necessary to provide a digital euro would be developed and tested. While a digital euro would focus first on the domestic retail payments market in Europe, we are already discussing at the international level the potential of cross-currency and cross-border payments made in retail central bank digital currency (CBDC). There is agreement that CBDC should eventually contribute to improving cross-border payments. As global work on CBDC accelerates, international cooperation in this field will become even more important.

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INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
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Statement No. 47-30

Statement by Mr. Yi
People's Republic of China

Statement at the Ministerial Meeting of the 47th Meeting of the International Monetary and Financial Committee (IMFC)

YI Gang, Governor of the People's Bank of China

Given the complex and volatile global economic and financial conditions, this statement focuses on global and Chinese economic and financial developments, as well as the IMF's Global Policy Agenda.

I. Global Economic and Financial Developments

The global economy is facing a complex and challenging environment, and the recovery is lacking momentum. Inflation has moderated recently but remains at historically high levels. Major advanced economies continue to raise interest rates and unwind central bank balance sheets, leading to stress and failures of some banks in the US and Europe and turmoil in the global financial markets. The cumulative effect of the current rate hikes is yet to be seen, and its impact on global economic growth, capital flows, and financial markets should be closely monitored.

Several issues and trends in the global economy deserve close attention. First, there is uncertainty about the extent and speed with which the high inflation can be contained. In particular, core inflation has remained stubbornly high, making it difficult to predict future price levels. Currently, global commodity prices, such as energy products, are still being disrupted by geopolitical conflicts. Despite an overall easing of supply chain tensions, they continue to be challenged by protectionist measures such as onshoring, nearshoring, and friend-shoring.

Second, the global economy is facing increasing downward pressures. Since the beginning of the year, major international organizations have lowered their forecasts for global growth in 2023. In addition to geopolitical conflicts, energy shortages, and high inflation, monetary policy tightening is also weighing on the economy. The rapid pace of interest rate hikes in major advanced economies could have a greater impact on global growth than expected, given the time lag before their full impact is felt and the potential for their contractionary effects to accumulate.

Third, financial risks may unfold more quickly in some areas. Liquidity tightening has intensified the financial market adjustment, leading to asset price volatility. Banks and non-bank financial institutions (NBFIs) are coming under increasing pressures as those with weaker financial positions are bearing the brunt. The risks associated with recent bank failures, such as the Silicon Valley Bank (SVB), require our attention. Meanwhile, the rate hikes by central banks in advanced economies have accelerated the capital flows back to safe havens, adding to outflow pressures elsewhere, especially in developing countries. As the dollar strengthens and their domestic economic outlook deteriorates, some emerging market and developing economies with higher dollar-denominated debt are being tested on their ability to service it.

Consensus and cooperation are needed to promote global economic recovery. The international community should work together for an open world economy and ensure safe, robust, and smooth global industrial and supply chains, so as to promote a steady recovery of the world economy. **First,** we need to strengthen international macroeconomic policy coordination to prevent negative spillovers from hasty policy adjustments and safeguard the stability of the international financial system. **Second,** we must adhere to multilateralism to support the global recovery and provide more stability and certainty. **Third,** we need to deepen international exchanges and cooperation in science and technology, and promote an open, inclusive, fair, equitable, and non-discriminatory environment for the development of science and technology. **Fourth,** we need to build green partnerships, avoid new "climate protectionist" measures, and strengthen cooperation on clean energy, decarbonization, environmental protection, and pollution prevention. **Fifth,** we must strive to promote common development, actively implement the Global Development Initiatives (GDIs), and forge a united, equitable, balanced, and inclusive global development partnership.

II. Economic and Financial Developments in China

Since the beginning of the year, as China's response to COVID-19 has steadily moved into a new phase, the economy has been operating more smoothly, with supply and demand clearly improving, employment and overall prices remaining generally stable, and the economy showing a steady recovery. **The GDP growth forecast for 2023 has been set at around 5 percent. More specifically, recovery in industrial production has accelerated, and business sentiment has**

improved. In the first two months of 2023, the total value added of the industrial enterprises above the designated size grew by 2.4 percent year on year, 1.1 percentage points faster than that of December 2022. In March, the Manufacturing Purchasing Managers' Index stood at 51.9 percent, and the Production and Operation Expectation Index registered 55.5 percent. **The services sector rebounded strongly.** In March, the Services Business Activity Index stood at 56.9 percent, 1.3 percentage points higher than in the previous month. In terms of market expectations, the Business Activity Expectation Index for the Services Sector stood at 63.2 percent. **Market sales bottomed up, and fixed asset investment grew steadily, with investment in high-tech industries increasing rapidly.** In the first two months, total retail sales of consumer goods grew by 3.5 percent year on year. Fixed asset investment went up by 5.5 percent year on year, 0.4 percentage point higher than in 2022. Investment in high-tech industries grew by 15.1 percent. **Imports and exports of goods increased steadily, and the trade structure continued to improve.** In the first quarter, the total value of imports and exports of goods increased by 4.8 percent year on year, with exports growing by 8.4 percent and imports by 0.2 percent. In the first two months, the actual utilized FDI increased by 6.1 percent year on year (all in RMB). **Consumer prices rose moderately, and industrial producer prices fell year on year.** In March, the CPI increased by 0.7 percent year on year, whereas the PPI decreased by 2.5 percent. **Employment remained generally stable.** In the first two months, the urban surveyed unemployment rate averaged 5.6 percent. **There were positive developments in the real estate market**. The financial situation of leading real estate companies has improved significantly. Housing demand in first- and second-tier cities has started to increase, as reflected in the rapid growth of mortgage loans.

On monetary policy, sound monetary policy has been implemented in a well-calculated and faithful manner, creating a benign monetary and financial environment conducive to high-quality growth. Structural monetary policy has played an appropriate role, focusing its support on micro and small businesses (MSBs), the private sector, and green finance. The People's Bank of China (PBC) cut the required reserve ratio for financial institutions by 0.25 percentage point on March 27. It continued to deepen the market-based interest rate reforms and lower real interest rates of loans. In December 2022, the weighted average interest rate of corporate loans was 3.97 percent, 0.6 percentage point lower than a year earlier, the lowest since the figure has been published. The RMB exchange rate has remained generally stable at an adaptive and equilibrium level.

On financial stability, China's financial sector remains resilient, and risks are well under control. The banking sector, which holds more than 90 percent of financial system assets, remains generally robust, with large banks continuing to enjoy high credit ratings. Important progress has been achieved in reforming and de-risking in a small number of distressed small- and medium-sized financial institutions. Illegal financial activities have been effectively addressed, and financial markets are functioning smoothly. In 2023, China will continue to deepen financial system reform, improve supervision and regulation, and effectively prevent and resolve major economic and financial risks.

Regarding fiscal policy, proactive fiscal policy has become more effective and efficient, and efforts have been made to make it more targeted and sustainable. China has continued the policy support through a mix of tax and fee measures, accelerated the implementation of the VAT credit refund policy, and provided more support to SMBs and key sectors through tax cuts and fee reductions. In 2022, new fiscal support in the form of tax cuts, fee reductions, tax rebates, and tax/fee deferrals totaled more than RMB 4.2 trillion. China has properly determined the size of special local government bonds and accelerated their issuance and the use of the proceeds. In 2022, China issued more than RMB 4 trillion of such bonds to strengthen weak areas, enhance growth potential, and improve people's livelihoods. In 2023, proactive fiscal policy will be strengthened, and its effectiveness will be improved. The deficit ratio is planned to be 3 percent. Government investment and policy incentives should aim at effectively catalyzing investment from all circles of society. In addition, a total of RMB 3.8 trillion of special local government bonds will be issued this year as planned, of which RMB 826.9 billion were newly issued in the first two months of the year.

In terms of economic developments in the Hong Kong and Macao SARs, Hong Kong SAR's economy is expected to recover in 2023, benefiting from the reopening of the mainland and the SAR. Its GDP is expected to grow by 3.5 to 5.5 percent this year, mainly driven by the expected pick-up in the mainland's economic growth and a rebound of the inbound tourism. The recovery of economic activities post COVID-19 should also boost private consumption. Further improvements in the labor market and business climate will provide additional impetus. As for the Macao SAR, its GDP has contracted by 26.8 percent in 2022, mainly due to the decline in external

demand in and around the region caused by COVID-19. With the easing of entry restrictions since January 2023, Macao SAR's economy is expected to rebound with double-digit growth in 2023 due to the low base effect and positive outlook for services exports.

III. About the work of the IMF

China highly appreciates the IMF's efforts to support its members, especially the developing and low-income countries in responding to the ongoing COVID-19, inflation, climate change, and energy and food crises. China also commends the Fund for its efforts in promoting global multilateral cooperation and reducing the risk of economic and financial fragmentation.

To fundamentally enhance the Fund's legitimacy, effectiveness, and representativeness, and strengthen its ability to support its membership, the IMF should advance its quota and governance reforms. China supports a strong, quota-based, and adequately resourced IMF to maintain its central role in the global financial safety net. We look forward to the timely completion of the Sixteenth General Review of Quotas by December 2023 with positive results, so as to realize quota increase and quota share realignment that reflect the relative share of members in the global economy and strengthen the voice and representation of dynamic emerging market and developing economies. With just over eight months remaining, all parties should adopt a pragmatic approach and narrow down the reform options and the relevant approaches to ensure the timely completion of the review.

China supports the IMF's efforts to promote the channeling of Special Drawing Rights (SDRs) to countries in need. We hope that relevant work will be accelerated to provide tangible support to vulnerable countries. China has channeled a large proportion of its newly allocated SDRs in 2021 to support low-income and vulnerable middle-income countries, especially those in Africa, including through the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST).

China supports the multilateral efforts to address the global challenges of debt distress. China has implemented the G20 Debt Service Suspension Initiative (DSSI) in a responsible manner. 45 percent of the debt service suspension comes from China. We will also honor our commitment to

the Common Framework, join creditor committees, and make our contributions. According to the World Bank statistics, by the end of 2021, private sector and multilateral creditors hold 63 percent and 23 percent respectively of developing countries' external public debt. Collective action and fair burden sharing are required for a timely solution. The private sector creditors should participate in a comparable manner. We support exploring how comparability of treatment could be assessed and implemented. It is also important for the Multilateral Development Banks (MDBs) to make their contributions to debt restructuring, including by providing sufficient pure grants. We note that Zambia will receive additional grants from the World Bank starting from July. We welcome the IMF and World Bank's efforts to share necessary information on the macroeconomic projections and Debt Sustainability Analysis (DSA) at an early stage. Besides, there is room for improving the DSA methodology, such as introducing a balance sheet approach to count the assets created by debt financing.

The IMF should continue to play a central role in the global financial safety net and ensure to provide fair support to its members. The IMF should continue to play an active role in mitigating the negative impact on the global economy of COVID-19, the crisis in Ukraine, the food and energy crises, the persistently high inflation, the rapid tightening of financial conditions, and the turmoil in the US and European financial markets. The IMF should closely monitor the recent crisis in the US and European banking sectors and provide professional analysis and advice to countries.

Given the many challenges facing the global economy at this juncture, the IMF, as a key multilateral institution, should continue to enhance the effectiveness of its bilateral and multilateral surveillance, call for the removal of artificial restrictions on trade, investment, and supply chains as soon as possible, prevent global economic and financial fragmentation, and promote the development of fair and equitable global governance. At the same time, we welcome the IMF's efforts as it continues to focus on new trends and issues, such as digitalization and climate change, with greater attention to the needs of developing countries, to promote digital transformation of the economy, and to support inclusive global growth. We support the IMF in implementing the findings of its recent review of Institutional Views on Capital Flows, and in helping member countries make appropriate use of their full range of policy tools to properly address risks in the

foreign exchange markets and from disorderly capital flows, in particular those arising from the sharp monetary tightening in developed countries and the increasing spillovers from financial market turbulence to emerging market and developing economies.