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Austria

On behalf of
Central and Eastern European Constituency

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on Behalf of the Central and Eastern European Constituency

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The global economy has evidently come closer to a soft landing, but securing this path still requires careful policy reactions. While ensuring that inflation returns sustainably to targets, the necessity of underpinning fiscal sustainability and improving growth prospects is coming to the fore. Policymakers widely face a major conundrum, where measures to bolster resilience and the structural reform agenda carry particularly heavy weight. At the same time, the longer-term outlook should not override, in any of the policy dimensions, the urgency of making stability and sustainability considerations a more integral part of policymaking. Geopolitical tensions and fragmentation bear heavily on the global economy. At its 80th anniversary, the IMF's tasks have become more complex as has the direction of its policy advice. What remains clear is the Fund's role to provide a platform to strengthen multilateral dialogue in the areas of its mandate.

World Economic Outlook

Although the growth projection has virtually remained unchanged, some major developments beneath the surface, and the weakest medium-term growth prospects in decades deserve special mention. Among others, noteworthy are the drivers of the deviations from the growth potential in some advanced economies, the foundations of resilience in a range of emerging market countries, as well as the lasting imprints that the successive shocks have left on low-income countries. Many countries have defied expectations in terms of how much growth sacrifice the disinflationary period may demand, yet recent signs of accelerated cooling in some sectors need attention. The use of fiscal policy support should remain targeted, and in view of the lackluster medium-term growth prospects, measures that boost growth potential with the greatest possible dispatch should be prioritized.

The high level of uncertainty around the outlook and the wide range of downside risks clearly necessitate a cautious approach to formulate economic policies. The balance of risks is still tilted to the downside. A great number of risks is associated with the unsustainable fiscal paths, which already necessitates robust countermeasures globally, including the need to put advanced countries' fiscal houses in order. In addition to the enormous burden of wars and the risk of escalation, the fact that economic (policy) decisions are increasingly re-formed by geopolitical lines is also worth considering.

Monetary policies continue to need to be carefully calibrated, while the differing pace in monetary policy easing is reflecting differing country circumstances. It is clear that central banks more broadly arrive at the position to transition to a more neutral monetary policy stance. However, the scope of loosening will depend among other things, on the stickiness of core inflation, and the reverberations and risks of external shocks, still call for vigilance in several jurisdictions. On the other hand, after such a massive tightening period, central banks should also be wary of the increasing risk of overtightening. Monetary policy must hence continue to be clearly communicated and explained as regards both current decisions as well as the future policy path. In the case of central banks with global weight, this is essential for managing global ripple effects.

Restoring fiscal sustainability must be put at the center of policy priorities without delay, and emerging spending pressures need to be addressed in a targeted manner across a wide range of membership. Not only are the current levels of fiscal deficits and public debt in general well above their pre-pandemic levels, but their envisioned paths, based on current policies, give rise to serious concerns. At the same time, spending pressures are increasing, including from demographics, elevated debt-service costs and the emerging needs of financing structural reforms. All things considered, the fiscal house has to be put in order to rebuild depleted buffers and to secure fiscal sustainability. In this context we appreciate the Fund's debt at risk concept as it provides policy makers with timely and more robust estimates of how much fiscal adjustment is needed to stabilize public debt. It also puts a premium on the growth-friendly motive of adjustments based on high quality measures.

As medium-term growth prospects remain weak, the structural agenda has to be reinvigorated. Not disputing that gaining public support is pivotal, proper elaboration, targeting, prioritization, and sequencing are also critical elements for bringing the considered initiatives to fruition. The social acceptability of policy reforms has to be increased in an effective way. Active communication and trust-based engagements are crucial elements of these efforts.

The impact of monetary policy tightening on financial markets has been measured to date. Bouts of volatility and financial strain have remained localized and modest. However, the cumulative effect of policy tightening could put household and corporate balances under pressure. The commercial real estate sector faces structural and cyclical headwinds. The non-bank financial institution (NBFI) sector is particularly susceptible to higher interest rates after having expanded rapidly when rates were low. Furthermore, stretched asset price valuations and the turning credit cycle could amplify any emerging financial stresses. As much of the resilience of financial markets can be attributed to the regulatory reform efforts of recent years as well as the more active use of macro prudential instruments, continuing with regulatory reforms is of the essence.

At the current juncture, where geopolitical tensions severely test multilateralism, the Fund's function to facilitate multilateral dialogue in the areas of its competence is gaining more significance. In addition to the need for an improved understanding of the costs arising from the rewiring of global trade, as well as economic, and financial relations according to geopolitical lines, the Fund should be able to present an alternative path, which confirms that multilateral cooperation can still be more rewarding. We recognize that at the current trajectory, addressing shared global challenges can be more difficult. A possible setback in achieving climate goals clearly belongs here. The shift to less openness and more interventionist economic policies in major countries comes at a cost for other countries while resulting in a proliferation of second and third best policies. It makes the Fund's surveillance and policy advice function both bilaterally and at the multilateral level more complex, but should not result in the Fund giving up on the first best principles.

On the occasion of the 80th anniversary, it is reasonable that the GPA wants to present some results from a broader perspective, while also looking to the future. Such an exercise needs to be carefully managed and appropriately delineated with a focus on the Fund's core mandate. Some understanding of possible outputs and how to process them has to be agreed upon by the main stakeholders as the agenda is densely packed. The exercise needs to be fully grounded in the understanding that over the past 80 years the Fund's mandate and the basic tenets of its legal framework have been sufficiently flexible to accommodate global shocks such as the end of the gold exchange standard as well as new activities such as financial sector surveillance or climate change. The Fund has to be cognizant of structural transformations, but their integration should be without negatively affecting its core activities. Whether or not surveillance has to be adapted remains to be seen and, therefore, should not be a deliverable. The deliberations also need to be mindful of how the Fund will reflect and incorporate the recommendations of the IEO's evaluation of the Fund's mandate. Equally important will be the Comprehensive Surveillance Review, which should evaluate the future surveillance landscape primarily from the perspective of how emerging issues could have an impact on the Fund's core activities.

Beyond surveillance, it is no less important to anchor expectations around the Fund's lending activities as well as how it can help countries with balance of payments problems. A more substantive discussion of the enabling conditions for program success may be warranted in view of the distortions from geopolitical fragmentation, discriminatory industrial policies, protectionism and the difficulties of achieving social and political consensus for reforms. This could be part of the *Review of Conditionality.* Fund debt is non-restructurable and has to be repaid before any other debt. The trend to saddle more and more countries with a high share of unrestructurable debt needs to be reversed to also preserve the de facto preferred creditor status. The Common Framework is slowly increasing its effectiveness. Recent changes to Fund policies on supporting debt restructuring processes have gone in the right direction. At the same time, debt transparency needs to be more systematically addressed across the membership while the end of low for longer will put a premium on debt management skills.

The recent agreement on the Charges and Surcharge Policy is a delicate balance of reducing costs for borrowers and preserving the strong balance sheet of the Fund. While these charges help preserve the IMF's financial strength and encourage responsible borrowing, it is crucial to recognize the potential burden they place on countries already facing economic distress. However, maintaining the IMF's financial integrity is essential for ensuring its ability to provide support to member countries in the future. The support to adapt the PRGT as well as for the Framework agreement are important steps toward securing the self-sustainability of the PRGT. Going forward, it is crucial to use the next five years to find a permanent solution. It is unfortunate that the discussions were not based on an impact assessment whether PRGT lending is delivering on its objectives. It would still be useful to have such an assessment as it could address possible weak spots in program objectives, underlying frameworks and assumptions. Such impact assessments are also not foreseen for the three-pillar approach to ease liquidity challenges. In view of scarce budgetary resources in member countries and competing funding requests from other IFIs, MDBs and RDBs, the Fund will need to focus on the outcomes of its policy initiatives and financial assistance over time to ensure continued financial contributions from donors.

We call on the membership to **secure domestic consents to the 16th Quota Review,** although we are cognizant that some countries may face time constraints in the legislative process, and that we need to be prepared for every eventuality. Starting the discussions on the 17th GRQ remains equally important to ensure further quota realignment to better reflect members' relative positions in the world economy. We also welcome the creation of a 25th Chair for Sub-Saharan Africa.

Fund staff continue to provide significant value added to the membership. We are concerned by the rising burn-out indicators, as the workload and demands on staff continue to increase. Management and the Executive Board therefore need to exercise restraint when asking for more Fund output. We are also concerned that the green card issue is still not resolved, resulting in stress and anxiety of affected staff while increasingly impairing Fund operations from clogged internal labor mobility to difficulties filling positions outside of the duty station. We call on the US authorities for urgent legislative action to resolve the green card issue.