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Temporary Alternate Governor of the Fund for the **REPUBLIC OF POLAND**

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The gradual recovery of the **world economy** from the global financial crisis is in progress. Major tail risks have been avoided. Despite many setbacks, for the last several months financial market conditions have been improving. However, the financial crisis has morphed into a crisis of the real economy with high unemployment in numerous countries. Parallel to the improvement in financial conditions, global growth is also recovering, while inflation remains modest and manageable. The major challenge ahead for the world economic community is to turn the still fragile recovery into a sound and permanent process.

Recovery from the global crisis has been uneven and its pattern has been, over time, evolving form a two- to a three-speed process. In recent months, Japan and the Eurozone have been showing signs of improvement whereas growth in several major emerging economies, particularly those with large current account deficits, has slowed. Therefore, the pick-up in advanced countries notwithstanding, global growth remains subdued.

The pattern of the global recovery also displays imbalances between deficit and surplus economies. To correct these imbalances it is necessary for deficit economies to undertake measures designed to enhance productivity and improve underlying competitiveness and export performance whereas surplus economies should create more favorable conditions for strengthening domestic activity.

In these circumstances, the major factor guiding macroeconomic policy in general should be the vulnerability of global growth which is still exposed to a number of risks. Therefore, in most economies it would be advisable for the monetary policy to remain accommodative and for fiscal policy to continue to be geared towards consolidation while taking into account the need to also ensure a growth-friendly environment.

Fragility of global growth can be attributed to differentiated progress across countries, in particular in the area of rebuilding strong financial sectors as well as confidence. In that regard, despite some recent improvements, **the EU economy** remains the most sensitive part of the world economy. Recent data suggests that the EU economy has entered a period of recovery, albeit very modest and gradual and exposed to elevated risks. The problem is associated with multiple challenges, including financial fragmentation, a weak banking sector with low lending volumes due to low supply and demand for credit, elevated indebtedness, distorted relative prices and limited productivity gains.

It has to be recognized that in the EU action has been taken, at both regional and national levels, to repair banks, restore confidence and move towards economic recovery. Economic governance reforms deserve particular attention. Such measures as the European Semester, the six-pack, the Euro Plus Pact and the Economic Coordination Treaty enhance the institutional framework and economic governance system of the euro area and the entire EU. International supervisory coordination as well as promotion of supervisory convergence has been strongly enhanced by the EBA. Creation of a banking union is in progress. The system of single supervision under the ECB will become fully operational in 2014 and will be followed by the single resolution mechanism, bank recovery and resolution frameworks and deposit guarantee schemes. These measures designed for bank repair, combined with monetary action by the ECB, and fiscal consolidation and structural reforms by national governments are intended to restore confidence and economic recovery in the EU on a more firm footing

We note the continuous improvements in the Fund's **surveillance.** The strategic priority has to be to complement macroeconomic surveillance with financial surveillance, and to combine macroeconomic policy with macroprudential policy. The ISD provides good guidance for surveillance and prescribes that bilateral analysis be enriched with multilateral surveillance. An Institutional View on Liberalization and Management of Capital Flows adequately reflects the Fund's understanding on cross-border capital flows. We tend to agree that liberalization of flows brings substantial potential benefits worldwide. Capital restrictions should only be applied as a last resort whereas priority should be given to macroprudential and structural measures. We emphasize the significance of comprehensive surveillance of monetary unions. We remain open to considering the streamlining of surveillance products.

The global financial crisis has strongly influenced the Fund's **financing needs** as well as **its lending policy.** The IMF responded to the global crisis by augmenting financial resources through increasing quotas, the NAB as well as attracting resources borrowed through bilateral loans and note purchase agreements. We note that the Fund, as a quota-based institution, should rely in the first place on quota resources, using NAB/bilateral loans/NPAs as a backstop in case of large unforeseen shocks. We are awaiting the discussion on the size of the Fund which is still ahead of us and will certainly imply the discussion on the role of the Fund in the post crisis world and the resources needed for carrying out this role. We continue to be of the firm opinion that the new precautionary lending instruments – FCL, PLL – are effective in providing beneficiary countries with valuable insurance, limiting financial contagion and ensuring stability.

Reforms of **IMF governance** are critical for its effectiveness, credibility and legitimacy. Currently, the progress on two major components of reforms is significant. Firstly, there is an urgent need of full and prompt ratification of the 2010 quota and governance reform. Secondly, swift agreement on a new quota formula and the completion of the 15 General Review of Quotas should be reached. The key function of quotas is to adequately reflect the position of every single Fund member in the world economy. On the process of the quota review, we favor an integrated package approach and anchoring discussion in the relevant IMF bodies where all IMF members are represented.

Poland is actively participating in the IMF's initiatives, such as the SDDS which we have joined at a very early stage, we are participating in the voluntary FSAPs as well as in the NAB programs. Poland has joined the group of countries that have signed a bilateral agreement with the Fund granting a loan to the IMF.

Poland has continuously put forward its best efforts designed to contribute to strengthening international financial stability. With the support of the IMF's surveillance recommendations and the FCL Poland has turned out to be resilient to the global financial crisis and a centre for stability in the Central and Eastern European region.

As regards the World Bank Group, we welcome the new, comprehensive **Strategy** with its overarching goals of working in partnership to help countries end extreme poverty and promote shared prosperity in a sustainable manner. We share the conviction expressed in the Strategy that economic growth is in the centerpiece of development, but it needs to be inclusive and sustainable. We are aware of the challenges ahead, as the objectives of significantly reducing global poverty and of assuring that the benefits of growth reach those that need it most, are very ambitious. Moreover, continued work is needed to make the Strategy fully operational and ensure an appropriate level of financing. We are convinced that the determination and joint efforts of the multilateral community will pave the way to a successful implementation of the goals of the new Strategy. Poland will actively participate in these efforts – in this regard the new Country Partnership Strategy for Poland for FY 2014-2017, approved last August, is a key channel to carry on with our tasks of promoting shared prosperity while implementing further reforms.