2014
ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 33

October 10, 2014

Statement by the Hon. **MAREK BELKA,**
Governor of the Bank for **THE REPUBLIC OF POLAND**

2014 Annual Meetings
Statement by the Hon. Marek Belka
Governor of the Bank for the Republic of Poland

The current agendas of the International Monetary Fund and the World Bank Group provide clear evidence of the continued relevance of these institutions for the global economy. Bank and Fund's continuous progress in fulfilling their mandates and taking strategic policy decisions proved that they can be flexible, adapt to changing circumstances and act effectively both during the crisis and during the post-crisis recovery.

Despite the introduction of wide ranging policy and regulatory measures to address both causes and effects of the global financial crisis, the recovery is still fragile and the world economy continues to face serious challenges. Growth in most countries remains sluggish and leads to the creation of too few new jobs. In this context, the return of the US economy to more robust growth is a welcome development. The outlook for emerging markets and developing countries has somewhat improved, but the economic performance within this group is very diversified.

The European Union, and the Eurozone in particular, is still facing some serious macroeconomic problems. One of the main social and economic challenges is the unsustainably high level of unemployment. The fiscal positions of several EU member states still require further adjustment and the debt burden continues to rise. The average public debt to GDP ratio in the euro area reached 93% in 2013. This means that fiscal policy can hardly provide any further stimuli to revive internal demand while monetary policy is already ultra loose.

Europe badly needs stronger economic growth that combined with the current extremely low inflation rates would allow to bring the public debt ratios to a more sustainable level. To improve its growth performance the European Union has to introduce a different set of macroeconomic policies and focus first and foremost on increasing its competitiveness by implementing deep and comprehensive structural reforms. It will be not be possible in the long run to continue relying in the euro area on unconventional monetary policy. Financing public consumption by incurring public debt also cannot continue forever. Moreover, overgrown financial systems in the EU countries need to be reduced in order to make them more resilient and stress-resistant. The geopolitical situation, and in particular the ongoing conflict in Ukraine and the Middle East crisis, are making the task of reviving the economic activity in the EU countries even more challenging.

European policymakers are currently discussing ways to stimulate public and private investment as a way to revive anemic economic growth in the EU. Given a low propensity of private sector to invest, record low interest rates, and high investment multipliers, significant public investment stimulus seems warranted. It is particularly needed in countries in the midst of recession with still large gaps in the infrastructure sector. A concrete proposal, which fully complies with the Stability and Growth Pact and national fiscal rules, and links investment decision with structural reform conditionality, was recently presented by the Polish Minister of Finance in the form of a European Fund for Investments (EFI). We welcome very much the Fund's analytical work in this area and the Bank's increased focus on infrastructure. Its key finding published in the latest World Economic Outlook that debt-financed infrastructure investment projects would have large output effects while reducing the debt-to-GDP ratio, provides a strong support to the proposal.

The situation of Central Europe (CE) looks somewhat brighter, with continued economic recovery increasingly driven by improving domestic demand. Banks in this region managed to further improve their capital adequacy ratios and to maintain broadly stable credit quality. In this context, it is worth noting that continued activities of the Vienna 2.0 Initiative contributed to maintaining the soundness of banking sectors in the CE region. Nevertheless, the economic uncertainty persists in most CE countries due to weak growth in the euro area and in view of existing geopolitical risks accompanied by economic sanctions and trade disruptions.

The Polish economy showed its robustness during the financial crisis and after a temporary slowdown in 2012-13 has managed to re-enter the path of a relatively strong growth in spite of the still unfavorable external environment. Even though the contribution of external demand has recently turned negative, stronger private consumption and investment provided the needed support to economic activity and helped Poland remain one of the top performing EU economies. Poland continues to benefit from large inflows of EU structural funds and has made further progress in the process of catching up with average EU income levels.

We welcome the continued efforts of the International Monetary Fund to fulfil its mandate of safeguarding international financial stability and helping countries that face balance of payments pressures. The Fund has recently taken several important steps to address to key areas of surveillance, lending instruments, and adequacy of financial resources. These actions should contribute to increasing IMF's effectiveness and its ability to provide timely assistance.

The 2014 review of IMF's precautionary arrangements confirmed the continued relevance of these instruments providing valuable insurance against external shocks. As a beneficiary of the Flexible Credit Line (FCL) since its onset, Poland remains a strong supporter of this financial instrument and sees merit in maintaining it in IMF's toolkit. The precautionary arrangements proved to stand the test of time in contributing to the global financial stability and complementing countries' own efforts to build up the resilience of their economies.

We welcome the continuous efforts to strengthen IMF's bilateral and multilateral surveillance. The recently concluded Triennial Surveillance Review as well as the review of the Financial Stability Assessment Program provided a good opportunity to assess the current arrangements and define measures needed to enhance Fund's capabilities and better align its activities in these areas with the needs and expectations of individual Member States. We look forward to the successful implementation of the recommendations resulting from these reviews.

We welcome the fact that the Fund has acknowledged the importance of the Polish financial sector by adding Poland to the list of systemically important jurisdictions subject to IMF's mandatory assessments.

Although the global economic prospects and financial market conditions have improved, significant downside risks remain. In this situation, the Fund must be provided with adequate resources to be able to meet its Members' needs in case the global situation significantly worsens. With Narodowy Bank Polski as the participant of both the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Agreements, Poland has been an active supporter of strengthening the Fund's resources.

While recognizing the unique role of the Borrowing Agreements as Fund's second line of defence and supporting the recent decision on their one-year extension, we emphasize that the IMF is a quota based institution and the Membership should strive to ratify the 2010 quota reform. This would reduce Fund's reliance on extraordinary and temporary sources of financing thus providing a very much needed element of stability to the international financial system.

Strong growth in many developing countries, often underpinned by improved macroeconomic policies, has helped lift millions of people out of poverty and achieve notable progress towards reaching the Millennium Development Goals. However, the task of eliminating extreme poverty is still far from being completed. The acceleration in growth has been accompanied by unsatisfactory results in reducing income inequalities, and by environmental degradation and increased stress on natural resources. These developments make the twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner adopted by the WBG exceptionally relevant and timely.

In this context, we welcome the ongoing progress in implementing the new World Bank Group strategy, which guide and organize WBG's efforts towards reaching the "twin goals". We are confident that the new strategy will help enhance Bank's contribution to improving living standards all over the world through economic growth, social inclusion and better protection of the natural environment. While continuing its support to governments and public sector institutions, with a particular focus on expanding and improving infrastructure, the WBG should redouble its efforts aimed at supporting job creation and private sector development as these areas are of critical importance for the achievement of the "twin goals".

The World Bank Group has a lot to offer not only to low income and fragile countries, but also to more developed countries with relatively higher levels of income. In order to fully use this potential and remain relevant also in the longer term, the WBG needs to continuously improve the quality and effectiveness of its services by better tailoring the offered support to the needs and conditions of its partners, by ensuring stronger links of its lending and technical assistance with targeted development results, by reducing procedural complexities, and by better measuring social and environmental impacts of its operations. The new approach to programming WBG support to its members based on the results of Systemic Country Diagnostics offers promise of improved selectivity and more effective use of WBG's financial and human resources.

Poland's success in fundamentally transforming its economy over the last 25 years clearly shows that sound policies and strong institutions can produce impressive development results and raise living standards of the population. Throughout this whole period Poland benefitted from valuable international support, initially coming from the Bretton Woods institutions and external creditors, and in the last decade mainly from our EU partners. In spite of its achievements and the relatively high level of average incomes, Poland continues its close cooperation with the World Bank Group and benefits from IBRD's financing and knowledge services. A significant share of Bank's knowledge transfer to Poland is being provided through reimbursable advisory services, which can be taken as the recognition of the quality of these services. As stressed in the current Country Partnership Strategy, Poland's relations with the WBG can be seen as both a partnership of choice and a two-way knowledge exchange. The latter means, that the Bank can draw some valuable lessons from Poland's transition experience, and from current operations in our country, and later use this knowledge when providing support to other countries. Poland itself is also emerging as an increasingly important provider of assistance to developing and transition countries, in particular by sharing its own experience. This new status of Poland as development partner has been confirmed last year by our accession to the Development Assistance Committee of the OECD.

While we are proud of our own successes, we are also very preoccupied by ongoing conflicts and struggles in other parts of the world, and in particular by the still very difficult situation in Ukraine. We strongly believe that this country deserves full international support, and that the Bank and the Fund can and have to play an important role in helping Ukraine to stabilize its economy and to introduce the very much needed structural reforms, with a particular focus on improving governance and strengthening institutions.