INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

**Forty-Second Meeting**
**October 15, 2020**

**IMFC Statement by Wopke Hoekstra**
**Minister of Finance**
**Kingdom of the Netherlands—The Netherlands**

On behalf of
Republic of 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

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**Global economic context, prospects and policies**

Over the past half year, the world has been confronted by the severe health and economic consequences of the COVID-19 pandemic. Global economic activity collapsed in the second quarter of 2020 as stringent containment measures caused severe negative supply and demand shocks. With mobility restrictions having eased in most countries, the global economy is starting to show signs of a rebound and a gradual, partial recovery is expected in 2021. Despite record-level downturns in many countries, it could have been worse: the rapid and synchronized deployment of strong policy responses by governments, central banks and international financial institutions cushioned the negative impact of the pandemic on the global economy. More than $11 trillion of fiscal measures have been taken worldwide, including increased health care spending, strengthening of social safety nets and liquidity support to firms. Accommodative monetary policy has limited the tightening of financial conditions and halted the large capital outflows from emerging economies. In addition to the resolute fiscal and monetary policy response, the use of flexibility in existing regulations has enabled the financial sector to support the real economy.

Whilst our economies are starting to recover from the depths of the downturn, it will take time before we return to pre-crisis levels. Moreover, the path towards stabilisation and recovery remains precarious. Uncertainty looms large, as the speed of the recovery depends on factors that are difficult to predict, such as the future course of the virus, the shape and scale of any new containment measures, and the development and subsequent global distribution of vaccines and medical treatments.

The impact of the COVID-19 crisis has been uneven between different regions, countries, and sectors, and so will be the recovery. In China and a number of advanced economies the impact of the crisis has been smaller than initially expected. Non-contact-intensive activities are recovering somewhat quicker than anticipated. On the other hand, the picture looks bleaker for economies that are highly dependent on contact-intensive activities, such as tourism and hospitality, which are more severely affected by containment measures.

Most emerging and developing economies have been particularly hard hit by the pandemic. The synchronised global economic downturn has led to sharp declines in tourism receipts, slowing of remittances and falling (commodity) exports. Even those countries with relatively few cases of COVID-19 suffered economic damage as a result of spillovers. Lacking the resources of advanced economies, most emerging and developing economies are likely to recover more slowly. Large informal sectors and smaller social safety nets further complicate the provision of already constrained government support. Reduced growth and weakened fiscal balances exacerbate debt vulnerabilities, which were elevated in a number of countries even before the crisis.

Where possible, targeted policies need to restore confidence and reduce uncertainty through the different phases of the crisis. In the initial phase of the crisis, furlough schemes and the provision of liquidity were crucial in constraining rapid increases in unemployment and corporate bankruptcies. When extending these schemes, a careful balance should be sought between preventing the closure of distressed but otherwise viable firms and associated job losses, and facilitating a reallocation of capital and labour towards industries marked by higher productivity and future potential. This reallocation process can be enhanced using active labour market policies, such as re-training and job matching, supported by measures that safeguard income for the most vulnerable. Efficient insolvency laws are needed to ensure that non-viable firms exit the market in an orderly way. In countries where fiscal space is limited, fiscal policy will need to be carefully prioritized, implemented and monitored, to keep public debt dynamics on a sustainable path. In addition, we need to remain vigilant that the health and economic crisis does not result into a (systemic) financial or debt crisis.

Well-designed fiscal and structural reforms will contribute to increasing the growth potential and resilience of economies. Countries should not only work on improving their preparedness to health and other crises, but also invest in the health sector and make sure that social protection systems are well-designed and reach the most vulnerable. Well-targeted public investment in education, infrastructure, and research and development aimed at fostering the green and digital transition raise the return on private investments, and will support the change to a more resilient and equitable global economy. Renewed international support for the multilateral rules-based trading system and the building of resilient global supply chains can lay the foundations for global growth and recovery.

**Fund policies**

Against the backdrop of the economic shock of COVID-19, the Fund continues to play a central role in supporting the membership through well-tailored policy advice and surveillance, lending, and capacity development. Multilateral coordination and cooperation, with a central role for the IMF, remains necessary, and could be stepped up, in the next phase of the crisis.

<u>Lending Strategy</u>

We commend the IMF for deploying its broad toolkit to support its members. In a very short time span the IMF has provided emergency liquidity to a record number of emerging and developing economies. The Debt Service Suspension Initiative (DSSI) and Catastrophe Containment and Relief Trust (CCRT) provide necessary breathing space to low income countries.

As the crisis evolves, the IMF should continue to make full and flexible use of its lending toolkit and ensure that the lending strategy is tailored to the pandemic's nature. At the same time, it has to safeguard member countries' ability to repay. Financial assistance should be accompanied by policies to increase growth potential and improve the capacity to absorb future shocks. The IMF is uniquely placed to provide members with policy advice on how to secure a sustained recovery and build resilience for the future. Support has to go hand in hand with the implementation of appropriately prioritized and sequenced structural reforms, which are key to macro-economic stabilization and prosperity in the medium to long term.

Debt sustainability

The pandemic has accelerated the trend of increasing global debt levels. While the sudden stop in capital flows has partly reversed and important emergency debt relief measures like the DSSI have been implemented, the negative impact of the pandemic on financial market access and borrowing conditions has not yet disappeared. An extension of the DSSI into 2021 would provide low-income countries with additional breathing space. Moreover, it would allow for more time to re-assess debt sustainability, as the outlook becomes clearer once uncertainty subsides. An extension, however, should be limited in time, given that the standstill is only partial in the type of debt it covers, private creditors are not participating so far, and the DSSI does not address structural debt vulnerabilities. Looking ahead, there is a need to strengthen efforts towards a structural solution based on debt sustainability analyses in the context of Fund-supported programs.

Countries in or at high risk of debt distress that are unable to return to a path of sustainable debt without support will require more comprehensive debt treatment. Debt restructurings could take place on a case-by-case basis, guided by a common framework and based on the principle of comparability of treatment by all creditors. In this respect, we support the work agenda of the Fund, which explores ways to increase the efficiency of the process of sovereign debt resolution, including the involvement of private sector creditors. We also look forward to the completion of the *MAC DSA review*, the *Review of Debt Limits Policies*, as well as the upcoming review of the Fund's arrears policies.

We support the greater use of debt reprofiling for countries where debt sustainability cannot be determined with high probability. Conditionality in IMF programs can play a critical role in addressing debt vulnerabilities. Next to improving debt resolution processes, it is key that more work goes into preventing debt problems from occurring in the first place, including by enhancing debt transparency, increased debt management capacity development, and improving risk-sharing in debt contracts.

Climate change

The recovery from the crisis must be sustainable, not just fiscally but also environmentally. We encourage the Fund to advise the membership on policies that are both counter-cyclical and green. With such an approach, the major stimulus packages adopted by many of the IMF's members in response to the crisis can help with the transition towards a more sustainable global economy.

Of course, our climate ambitions go beyond the recovery from the COVID-19 pandemic. In the long run, climate change presents the entire Fund's membership with macro-critical risks to economic growth and financial stability. Therefore, the inclusion of climate-related risk in the *Financial Sector Assessment Program* is a welcome and necessary step. Analysis and advice on fiscal policies to mitigate climate change are equally important. We welcome the analysis in the *Fiscal Monitor 2019* and believe these assessments should be structurally integrated into multilateral and bilateral surveillance. We encourage the Fund to develop further expertise and ensure sufficient capacity and resources in these areas to strengthen its analytical work and policy advice, and we look forward to discussing these issues in the upcoming *Comprehensive Surveillance Review* and *FSAP Review*.

Social and governance issues

We support the Fund's engagement on social and governance issues and the efforts to further operationalize its framework on social spending. In this way, the Fund can continue to play a key role in promoting policies that contribute to sustainable and inclusive growth.

Resources

The Constituency reiterates its support for an adequately resourced, quota-based Fund. The shocks to the economy and financial markets caused by COVID-19 underscore the importance of a well-resourced IMF at the centre of the Global Financial Safety Net. The IMF should use its resources prudently by supporting timely debt reprofiling or restructuring when needed, avoiding excessively large precautionary loans for extended time periods without a clear exit strategy, and catalysing other (private) financing.

Support from the IMF to members of the Constituency

Within our Constituency, Armenia, Bosnia and Herzegovina, Georgia and Ukraine are currently engaged in SBA or EFF arrangements with the Fund, while Moldova recently reached staff-level agreement on an ECF/EFF arrangement. In addition, Bosnia and Herzegovina, North Macedonia, Moldova and Montenegro benefit from emergency liquidity support through the RFI and RCF. The members of our Constituency merit continued support from the Fund and the international community in responding to the economic impact of COVID-19 and in achieving their broader policy goals.