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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.