INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

IMFC Statement by Vincent Van Peteghem
Deputy Prime Minister and Minister of Finance

Belgium

On behalf of

Principality of Andorra, 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

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, the Netherlands, North Macedonia, Romania, and Ukraine
April 8, 2021

<u>Global economic context, prospects and policies</u>

After a strong rebound in the third quarter of 2020, the recovery lost steam towards the end of the year. A resurgence of COVID-19 infections and the emergence of new, more contagious variants of the virus triggered the reintroduction or tightening of containment measures in many countries, further hampering economic activity. The subsequent economic slowdown was not as severe as during the first wave of the pandemic, owing to better preparedness, changing behavior and more targeted containment measures. Economic activity remained depressed during the early months of 2021 with containment measures still in place.

However, the fast development of vaccines has brightened the outlook beyond the near term. With vaccine roll-out in most advanced economies and some emerging economies under way, the vaccination of vulnerable populations is expected to ease pressure on health systems, enabling a gradual removal of containment measures which will give impetus to the recovery. With vaccines projected to become broadly available by the summer in most advanced economies and some emerging economies and supported by ongoing fiscal stimulus, the recovery is expected to firm up in the second half of 2021.

At the same time, the vigor of the global recovery looks to be highly uneven, depending on progress with the vaccination campaigns, future fiscal trajectories and spillover effects. Uncertainty also remains high, with risks predominantly linked to the success of the vaccination campaigns and the development of the virus. Emerging market and developing economies can provide less fiscal support and have on average been hit harder by the pandemic. Moreover, they are expected to take longer to gain access to adequate vaccines and vaccinate their populations as well as to return to pre-pandemic levels of economic activity. The prospect of such an uneven recovery would also have significant implications for developed economies due to economic interdependence and an inequitable roll-out of vaccines increases the risk of new and potentially more resistant virus mutations. Multilateral initiatives promoting more universal access to vaccines and treatments as well as access to financial assistance for the most vulnerable economies will be crucial in order to avoid a long-lasting reversal of progress towards their sustainable development goals and a new decade of debt crises.

Any premature withdrawal of support measures should be avoided, but continued support should be well-targeted towards affected businesses and households, tailored to the stage of the recovery, and take into account medium-term fiscal sustainability. Once consumption and investment opportunities are no longer hampered by the virus and confidence has been restored, the large savings buffers that have been built up during the pandemic could boost demand. As the recovery firms up, temporary support measures should give way to forward-looking measures aimed at a strong and sustainable recovery with the implementation of social and economic recovery plans. Structural reforms as well as public and private investments in infrastructure, digitalization, energy transition, healthcare and education will boost the economy, create jobs and lift productivity. **In the medium term, sustainable fiscal policies** are also warranted in view of population ageing and the need to rebuild buffers to absorb future shocks. This is particularly important for countries which entered this crisis with already high debt levels, as it cannot be assumed that interest rates will remain permanently low and in themselves ensure that debt remains on a sustainable path.

Exiting support policies in a timely manner is also imperative in order to encourage the fluid reallocation of resources. In the acute phase of the coronavirus crisis, the principal risk was that, owing to a lack of adequate support, too much of the production potential and associated employment would be lost with the disappearance of viable businesses. Once the economy is out of this danger zone, however, another risk will emerge; namely that of excessive and inefficient support to artificially ensure the survival of unviable businesses and jobs. A delay in the reallocation of capital and labor would not only entail budgetary costs, but it would also lead to a recovery that is neither vigorous nor sustainable if it relies on so-called zombie firms. However, allowing zombies to fail while ensuring a sound level of economic activity and employment requires a speedy reallocation of capital and labor between firms. Priority for policymakers is to ensure that the necessary transitions will be easier, by raising the efficiency of insolvency procedures, stimulating entrepreneurship, encouraging innovation, and improving the adaptability of the labor market.

The post-pandemic recovery provides an opportunity to accelerate the transition to a more digital and green economy. Climate change in particular is a systemic threat and measures to reduce carbon emissions as well as policies that strengthen climate adaptation and mitigation form an integral part of a sustainable and resilient economic recovery. While further unlocking the potential of the digital economy, implications for inclusion and taxation should be taken into account. Public investment has a major role to play in providing the necessary infrastructure for a green and digital economy. Governments also need to facilitate and encourage private sector involvement, as the private sector will have to be involved in the investment efforts. The best way to get the most optimal results in this respect is to ensure consistency and synergy between private and public investment projects.

The fallout of the pandemic has been very uneven for different social groups, with the most adverse impact born by women, school-going youth, the low-skilled, new entrants to the labor market, the informally employed, and those who work in contact-intensive sectors. These groups warrant special attention from policymakers so as to ensure an inclusive recovery.

Trade must play its full role in the recovery from the pandemic and in the green and digital transformations of the economy. To make globalization more sustainable and resilient to competitive distortions, adaptations to the international rulebook that governs trade are needed. A reformed and more effective World Trade Organization must remain at the heart of the multilateral rules-based trading system.

<u>The Fund's role and institutional issues</u>

Navigating its entire membership towards a safe exit from the crisis and securing a transformational recovery, the Fund continues to play a central role in supporting the membership through tailored policy advice and surveillance, lending and capacity development. We support the ambition of the IMF to recast itself, within its mandate, to keep tackling urgent challenges in an ever-changing world.

General SDR allocation

We support a new general allocation of Special Drawing Rights (SDR) by the Fund, which would provide liquidity on a global scale, while also demonstrating our strong commitment to multilateral cooperation.

We look forward to a detailed proposal that touches upon technical modalities, such as options to improve transparency around SDR transactions and guidance on the appropriate use of SDRs by all countries. We are in favor of expanding the number of participating countries in the Voluntary Trading Arrangements to ensure appropriate burden-sharing.

Debt situation in low-income countries

While many developing and emerging economies already experienced debt vulnerabilities before the start of the pandemic, the pandemic has accelerated the pervasiveness and severity of debt problems in these countries. For many developing economies debt vulnerabilities have not (yet) translated into solvency problems, in part due to easy financing conditions, the response of international financial institutions and the suspension of debt service payments by official creditors, Yet given the uncertain outlook, the risk of debt distress materializing in a number of developing economies remains high. Against this background, we very much welcome the Fund's ambitious work program on debt and in particular further progress in the implementation of the joint World Bank and IMF multipronged approach to reduce public debt vulnerabilities in low-income countries (LICs).

Effective multilateral cooperation is required to address this renewed debt challenge. We remain committed to supporting fully transparent implementation of the G20 Debt Service Suspension Initiative (DSSI). At the same time, it is of the utmost importance that the resolution of structural debt vulnerabilities is not postponed. Tailored upper credit tranche-quality lending programs can be instrumental in addressing debt vulnerabilities.

The Common Framework for Debt Treatments beyond the DSSI has a key role to play in facilitating timely and orderly debt treatment for DSSI-eligible countries. In that respect, we attach particular importance to the consistent application of time-tested rules and principles developed by the Paris Club, such as the comparability of treatment amongst creditors (private and official), debt disclosure and transparency. We call on the IMF to contribute to a swift and effective implementation of the Common Framework.

We welcome the IMF's analysis of external financing needs for low-income countries and the review of concessional financing, including a financing strategy for the Poverty Reduction and Growth Trust (PRGT), to scale up efforts to support vulnerable countries that were the hardest hit by the crisis. At the same time, we invite the IMF to keep a holistic view of all initiatives taken by the IMF and by other IFIs to support LICs and to assess their possible combined effect, thereby keeping true to its catalytic role.

Lending strategy

We commend the Fund for stepping up its efforts last year to support vulnerable countries through emergency financing. As the economic and health situation evolves, however, IMF's lending has to evolve as well towards the Fund's more standard lending programs. In this respect, we welcome the Global Policy Agenda's reference to the shift in lending to upper credit tranche-quality lending programs. These programs are in fact more suitable to the needs of countries during the recovery phase and include more governance safeguards.

Climate change

Climate change is a huge challenge for the entire Fund membership. We recognize all the IMF is already doing in this domain. We encourage the IMF to further step up its efforts to provide guidance on the macroeconomic and financial challenges related to this issue, including mitigation and adaptation policies, and transition management. We believe that these elements should further be integrated into the Fund's surveillance and all other Fund activities. We welcome the first steps taken on this front. The recovery from the current crisis needs to be sustainable, fiscally as well as environmentally friendly. The greener the recovery from this crisis, the stronger, more resilient, and more sustainable it will be.

In resetting a growth trajectory that is sustainable going forward, it is critical to properly assess the economic impact of climate risks and the measures required to adapt to and mitigate them. We are therefore convinced that the Fund, with its broad membership, has a crucial role in providing guidance towards a green recovery, while monitoring potential risks. Furthermore, the Fund should collaborate closely with other organizations in order to leverage their expertise, within their respective mandates, thereby avoiding overlaps.

Quota and Resources

We welcome the conclusion of the process that led to the doubling of the New Arrangements to Borrow (NAB) and the new round of bilateral borrowing agreements (BBA) on January 1, 2021. Our Constituency will work constructively towards the completion of the 16th general review of quota (GRQ).

We reiterate our support for an adequately resourced, quota-based IMF at the center of the global financial safety net. Our support is fortified by the shocks to the economy due to the consequences of the pandemic that remain difficult to predict. However, as IMF resources are not unlimited, the IMF should use them prudently by supporting timely debt reprofiling and/or restructuring when needed, avoiding excessively large precautionary loans for extended periods of time with no clear exit strategy, and catalyzing other (private) financing.

Social and governance issues

We continue to support the Fund's engagement on social and governance issues, including its efforts to further operationalize the framework on social spending. Acknowledging that the responsibility for governance issues lies first and foremost with the national authorities, we believe that there is scope to further strengthen the messages and specific actions to tackle corruption, where relevant, through the main modes of Fund engagement (programs, surveillance and technical assistance). The Fund can thus continue to play a key role in promoting policies that contribute to sustainable and inclusive growth.

Surveillance

We underline the importance of candid and agile, focused, and timely surveillance as a crucial contribution to crisis prevention and strengthening countries' resilience, thereby increasing the relevance and traction of the Fund's advice.

We agree that the Fund's core set of policies (i.e. exchange rate, monetary, fiscal and financial sector policies) should continue to be appropriately covered in all reports and Board discussions, while emerging issues should be selected on the basis of their macro-critical significance.

As we observe divergence between the financial sector and the real economy, we need to ensure that the health and economic crises, including the (rising) debt developments in various sectors, do not turn into a financial crisis. For this reason, we reiterate the importance of the IMF's Financial Sector Assessment Programs (FSAPs), which should be conducted frequently for countries with a systemically important financial sector. We look forward to proposals for further integration of FSAP recommendations into Article IV Consultations. In addition, we would also want to include climate-related financial risks structurally in the Fund's surveillance framework.

Support for members

Within our Constituency, Armenia, Georgia, and Ukraine are currently engaged in SBA or EFF arrangements with the Fund, while Moldova reached staff-level agreement on an ECF/EFF arrangement on July 27, 2020. 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.