



# **International Monetary and Financial Committee**

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**Statement by Mr. De Croo  
Belgium**

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—Netherlands, Romania, and  
Ukraine



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Deputy Prime Minister and Minister of Finance, Belgium  
on behalf of  
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia,  
Israel, Luxembourg, North Macedonia, Moldova,  
Montenegro, the Netherlands, Romania and Ukraine  
at the 38th International Monetary and Financial Committee  
Washington DC, April 12-13, 2019**

## **Global economic context, prospects and policies**

### Global outlook

After reaching a peak in the second quarter of 2018, the global expansion has moderated. Idiosyncratic factors, weakening financial market sentiment and trade tensions led to global growth losing momentum. Global growth is projected to settle at 3.3% in 2019 and 3.6% in 2020, although there are substantial differences in growth prospects at the country level. In advanced economies, financial conditions have somewhat tightened and growth projections have been revised downwards for many countries. Trade uncertainty is a major factor driving the growth slowdown. Hence, reaching agreements on trade disputes could boost sentiment and eventually increase investment and growth.

Economic growth in the euro area has moderated due to, among other factors, a dampening external demand. However, this downward revision of growth is also related to one-off effects in the euro area's two largest economies, Germany and France. Indeed, Germany's crucial automobile sector struggled to adjust production to new emission standards, while the "gilets jaunes" protests in France disrupted economic activity late 2018. Since the fundamentals for continued growth remain in place, we remain confident that the economy in the euro area will bounce back when these temporary factors fade, resulting in a growth forecast of some 1.3% in 2019 and 1.5% in 2020. In spite of this, many risks and challenges may cloud our future and forceful action is needed in many areas.

### Risks

One of the most prominent risks is an escalation of restrictive trade policy measures that could influence activity and financial markets negatively. Risks also relate to high public and private debt. Another factor that could become more pronounced in the future is a growth slowdown in China which would have a negative impact on trading partners. In Europe, Brexit could jeopardize growth prospects while concerns about fiscal policy in Member States could put fiscal sustainability and financial stability under strain. The sovereign-bank loop remains a problem in a number of Eurozone countries. The completion of the Banking Union and further progressing on the Capital Markets Union will contribute to reducing banks' exposure to home sovereign debt and strengthen the resilience of the euro area to economic shocks. In the longer term, complacency about rising inequality and about the challenges of climate change could also weigh on potential growth.

Nevertheless, some risks to the upside should also be mentioned. Indeed, in many developed countries output gaps are closed, while unemployment rates have dropped to historical lows (although youth unemployment remains high in some countries, in particular in those that have suffered most from the consequences of the global financial crisis). Against this background, wage growth might accelerate in support of domestic demand. Also, with capacity utilization rates above average, reaching an agreement on trade disputes could boost sentiment and unleash pent-up investment.

## Policy priorities

Given the risks ahead, policymakers should act to achieve sustainable medium-term growth, build resilience and enhance inclusion. Measures should be country-specific, while exploiting synergies between structural, prudential, fiscal and monetary policies.

Structural policy should be geared to fostering productivity and resilience, while ensuring that the benefits of growth are widely shared. With rising demographic pressures weighing on advanced economies' potential growth prospects, structural reforms can lift potential growth, boost labor supply and increase innovation-driven investment, while also being geared to actively support those affected by shifts in technology and trade.

Within a strong policy framework, fiscal policy should safeguard public finances' sustainability over the longer term. In euro area countries, fiscal policy must respect the rules of the Stability and Growth Pact.

Fiscal buffers should be rebuilt as soon as possible, not only to safeguard sustainable public finances over the long-term but also to create fiscal policy space for a next downturn. One of the lessons of the financial crisis was that in general countries with stronger fiscal positions and economies were able to weather the economic storm better. It should be emphasized that the scope for fiscal policy lies in its composition, rather than its size. Public investment should be prioritized and directed towards areas that contribute to productivity growth. Investing in certain key structural areas, such as health care, innovation/R&D and education, will contribute to the well-being of all in the medium and long term.

In this context it is important to stress the need to safeguard financial stability through regulatory and prudential policies. Maintaining sufficient buffers in the financial sector – especially in the banking sector – is crucial to ensure the necessary financial resilience underlying sustainable growth.

## New multilateralism

We strongly support the IMF's call for strengthening multilateral cooperation, which includes resisting tendencies towards protectionist measures, and strengthening the level playing field. Policy-related uncertainties should be reduced through multilateral dialogue and the global rules-based international trade system should be reinforced. The multitude of non-economic shocks, such as geopolitical conflicts, migration and climate change further underlines the need for close cooperation between countries and international institutions.

## **The Fund's role and institutional issues**

### IMF resources and quota

The constituency supports the work towards the completion of the 15th General Review of Quotas. The Fund should remain at the center of the Global Financial Safety Net. Indeed, we should recognize that high financial interconnectedness and amplified global financial cycles could translate into intensified demand for liquidity backstops, especially since the risks of tightening financial conditions in combination with global uncertainty could further intensify capital flow volatility.

We believe the Fund should remain a quota-based institution as quotas underpin the Fund's finances, governance and risk management framework. While quotas should cover IMF resource needs in normal circumstances, borrowed resources – NAB and bilateral loans - should be used to cover exceptional circumstances and tail risks, respectively. Besides, the Fund's resources are intended to play a catalytic role to mobilize other sources of finance in crisis times, including official lending and private lending.

The constituency would be prepared to support a quota increase. Given the importance of ensuring that the Fund is adequately resourced, a second-best solution to a quota increase would be an expansion of the New Arrangements to Borrow (NAB).

### Review of Conditionality

We look forward to the review of conditionality, as IMF lending and the design of program conditionality is one of the cornerstones of the Fund's work. In this vein, we support staff's initiative to increased attention for indicators related to program success. At the same time, we would like to stress the importance of regular Board involvement in the monitoring of program success in order to allow the Board to draw lessons from both successful and less successful program cases. Also, evenhandedness is a crucial guiding principle in program design. However, we acknowledge that there is an inherent trade-off between evenhandedness and program tailoring due to the often-specific focus of conditionality.

As for public debt, we highlight the need for an accurate assessment of a members' debt sustainability, and therefore realistic debt projections, as this is of high importance to a program's success. Clear and realistic debt sustainability analyses are therefore paramount and should be the starting point of program design. The ongoing review of the MAC DSA is very important in this regard. The constituency would like to see more options for a framework to guide the exercise of staff judgement in the MAC-DSA.

### Surveillance review

We welcome the upcoming Comprehensive Surveillance Review (CSR) and FSAP Review. Offering integrated and timely policy advice on issues most relevant to the membership is a key goal for IMF surveillance. The Fund should seize the current CSR to explore the scope to streamline further its surveillance products and make them more targeted to its clients' needs. The Fund's surveillance practice should continue to take due account of the degree of interconnectedness and the specific institutional and policy frameworks of its members participating in economic or monetary unions. The Fund should also continue enhancing its financial surveillance work. In this context, the IMF should take further the findings of the Independent Evaluations Office's (IEO) recent report on Financial Surveillance, e.g. deepening the integration of the macro-financial surveillance and strengthening financial sector competence across departments. We support a close coordination of the CSR with the FSAP review, for example by better integrating FSAP recommendations into AIV surveillance.

We encourage the Fund to further integrate new emerging areas such as risks related to Fintech, cyber, climate change, inequality and gender issues, based on the condition of macro-criticality. Macro-criticality of 'emerging risks' should be assessed by the Board on a regular basis.

### Debt vulnerabilities in low income countries

The constituency supports the joint multipronged approach of the Fund and World Bank to reduce public debt vulnerabilities in low income countries (LICs). We share the concerns of a sharp increase in public debt levels, which calls for joint action and a swift response by the Fund in close corporation with the World Bank. The constituency is concerned about debt transparency and the use of collateralization.

When looking into debt dynamics in LICs, more focus should be given to creditors, non-traditional lenders and the role the IMF can play in this diverse creditor landscape. We encourage the Fund to take this workstream further in the LICs facilities review and the debt-limits policy review and to look into the shortcomings of international standards and policies.

### Social spending

We believe the Fund's engagement on social spending is a highly relevant topic and we therefore support the development of a strategic framework in this context. We support the recommendations made by the IEO to provide 'tailored advice' to the membership and ensure that the adverse impact of program measures to the most vulnerable should be mitigated. Where macro-critical, social spending needs to be considered from a broad perspective that includes social protection and investments in education and healthcare. In that regard, if possible, we encourage the Fund to achieve social spending through changing the composition of fiscal spending, rather than increasing total outlays. We expect the upcoming framework to

allow for a well-defined and efficient integration of this topic into the Fund's programs and surveillance, while respecting the core mandate of the Fund. The Fund should leverage the expertise and knowledge present in other IFIs and institutions.

#### Support for IMF members

Bosnia and Herzegovina, Georgia, Moldova and Ukraine benefit from financial support from the Fund. The authorities continue to demonstrate strong commitment to implement ambitious reforms and country ownership. They merit continued support from the Fund and the international community in achieving their program goals.