INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-First Meeting
April 16, 2020

Statement No. 41-26

Statement by Mr. Hoekstra
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

The Constituency expresses its sympathy and solidarity with all countries and people affected by COVID-19 and offers its sincere condolences to all concerned.

These are exceptional times, not the least because the COVID-19 outbreak is causing a severe downturn and, if insufficiently addressed, could leave long term scars on the economy. The Constituency therefore welcomes the comprehensive policy measures taken to date on a national, European and global level in response to the pandemic's challenges, which are unfolding with unprecedented speed and size. Our first priority is preserving lives and to support health systems to the greatest extent possible. The Constituency affirms the need for strong and coordinated action and to do everything necessary to confront this extraordinary human and economic crisis, to restore overall confidence, in order to support a rapid recovery.

COVID-19 is causing strong negative supply and demand shocks to the global economy, combined with a rapid tightening of financial conditions. Policies taken at the national and European level focus on safeguarding the economy through measures such as providing liquidity support for affected firms, supporting households in avoiding unemployment income losses, and instilling confidence. Small and medium sized enterprises and firms in severely affected sectors in particular need their authorities' support through, for example, credit guarantees and tax deferrals or reductions. Governments can support employment by subsidizing short-term work schemes and extensions of paid sick leave. Ministers of Finance of the European Union agreed on a comprehensive package of measures to shield firms, workers and countries from the impact of COVID-19.

Central banks provide large-scale liquidity to banks and financial markets through refinancing operations and asset purchases, to secure the availability of low-cost financing for governments, businesses and households. Fortunately, global regulatory policies implemented since the global financial crisis have borne fruit, and the financial sector is in a stronger position today. Resolute additional fiscal and monetary measures and the use of flexibility in existing regulations can aid the financial sector in continuing its role in intermediating funds to the real economy.

That said, the policy responses to the COVID-19 crisis are to be timely, targeted and in place as long as required to support the economy. Automatic stabilizers, where available, are a natural first line of defense against shocks. They should operate to their fullest extent and be complemented with discretionary measures if warranted. The global shock also demonstrates a need for well-designed safety nets to protect citizens from income losses.

Coordinated and decisive policy action at the global and regional level help to reduce uncertainty, restore confidence and ensure financial stability. We need to continue to closely monitor the COVID-19's economic effects and to adapt our responses if needed to the evolving situation.

The rapid tightening of financial conditions as well as unprecedented capital outflows are of key concern to the Constituency. Emerging and developing countries are particularly vulnerable to the impact of COVID-19. They are strongly affected by the synchronised economic downturn, including through declines in tourism receipts and (commodity) exports, lower remittances and large capital outflows, which confronts them with rapidly declining foreign exchange reserve buffers and puts external debt sustainability at jeopardy. It is therefore of the utmost importance that a decisive and well-resourced IMF is at the centre of the global financial safety net, able to deploy its toolkit effectively and flexibly.

COVID-19 calls for a strong and targeted response by the IMF in collaboration with other IFIs, and we fully support the IMF in mobilizing all available tools to support countries in need, including full use of emergency financing, providing policy advice and technical assistance. We stand ready to enhance the IMF policy toolkit where necessary to help address the crisis.

The COVID-19 crisis will amplify the already existing trend of rising debt to GDP levels in LICs. In this light, we welcome in principle the debt relief initiative of the IMF and World Bank for official bilateral creditors to suspend debt payments from IDA-countries that request forbearance. We also support a strengthening of the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF. The Netherlands therefore contributes EUR 25 million to the CCRT. Luxembourg is ready to contribute to the CCRT.

While the focus should now be on addressing the immediate needs, it remains important not to lose sight of the medium term and prepare the economic recovery. COVID-19 illustrates the importance of resilience to enable countries to weather shocks in the economy. At the same time, additional fiscal measures may be necessary to support the recovery. Once the implications of the COVID-19 crisis recede, a growth-friendly composition of expenditures, including investments in health care, education and innovation, as well as the design and implementation of structural reforms, should be resumed to increase resilience and raise the long-term growth capacity of our economies.

Also, a strong and robust financial sector ensures continuous access to financing for households and firms. Financial sector regulation should continue to be geared towards safeguarding financial stability, while maintaining the flexibility needed to ensure that the financial sector can continue to fulfil its role in the face of potential strong shocks to the real economy, such as the COVID-19 pandemic.

Fund policies

Against the backdrop of the shock of COVID-19 to the economy, the Fund continues to play a central role in supporting the membership through well-tailored policy advice and surveillance, lending, as well as capacity development. In addition, there is a need to step up global coordination, as many of today's pressing challenges, such as climate change, requires cross border cooperation.

Surveillance

The current CSR and FSAP reviews provide an opportunity for the Fund to upgrade its surveillance work in line with the membership's evolving needs and new risks such as the implications of technological developments, climate change and ageing societies.

The incorporation of multilateral surveillance in Article IV could be improved, including through better coverage and discussion of spillovers that may impact global stability. Many cross-cutting issues are of strategic importance to a large share of the membership. The carbon pricing tool developed in the Fiscal Monitor of October 2019 could for example be structurally embedded in Article IV surveillance.

We strongly support the deepening of financial surveillance both in the form of FSAPs and Article IVs, given the importance of the financial sector for domestic and global stability. We strongly support frequent FSAPs for a sufficiently large number of systemic countries, and would emphasize the need to also conduct FSAPs for non-systemic countries. We also welcome further integration of FSAPs into Article IV surveillance, for instance through knowledge sharing and cross-mission participation.

Climate change

Risks from climate change and from the transition to clean energy are macro-critical for the full membership. Therefore, we strongly support the systemic integration of climate-related risks into IMF surveillance. We encourage the Fund to develop further expertise and ensure sufficient capacity and resources in this area to strengthen its analytical work.

It is crucial that countries take appropriate fiscal measures to mitigate climate change, strengthen resilience to climate-induced events, and allow for sufficient budgetary space to finance these mitigation and adaptation policies. The Fund is well-placed to assess climate change mitigation and adaptation policies and analyse the economic and financial consequences of potentially disruptive energy transition paths. Climate-related risks in the financial sector should be an integral part of FSAPs. The Fund should guide authorities to boost resilience of the financial system to these risks.

Debt sustainability

As mentioned, we are concerned with the overall trend of rising debt-to-GDP levels in a broad range of low income and emerging market economies, which will be, in many cases, significantly worsened by the COVID-19 crisis. Furthermore, we welcome the Fund's efforts to strengthen its monitoring of debt sustainability. We especially look forward to the Review of the Debt Limits Policy and the MAC-DSA. The ultimate goal of such frameworks should be to help countries to get and maintain access to sustainable financing to reach the development aspirations of their populations. Particular challenges remain with respect to the increasingly complex debt composition in terms of instruments and creditors, the vulnerabilities of external foreign currency denominated debt, and debt transparency.

More generally, we support the Fund in continuing its guidance and assistance in containing debt levels in low income and emerging market economies, in particular those countries that have previously been subject to debt relief through the HIPC and other initiatives. Capacity building in debt management remains an essential element of the Fund's technical assistance programs, as well as optimizing domestic revenue mobilization and improving the effectiveness of public spending.

Furthermore, we see a continued important role for the Fund in facilitating international creditor coordination and in efforts to sustain fair burden sharing in case of debt restructurings or sovereign default. This can be achieved by promoting transparency, well-designed debt contracts and continued dialogue between all sovereign borrowers and all major creditors.

Social spending

We support the Fund's engagement on social spending and the efforts to 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, remaining at the centre of the Global Financial Safety Net. As noted before, the current 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 Constituency calls for a timely implementation of the package on IMF resources as agreed on during the 2019 Annual Meetings.

Support from the IMF to members of the Constituency

Within our Constituency, Armenia, Bosnia and Herzegovina, Georgia and Ukraine currently benefit from financial support from the Fund, while Moldova recently successfully completed its ECF/EFF arrangements and intends to continue its engagement with the Fund. The members of our Constituency deserve continued support from the Fund and the international community in achieving their policy goals and responding adequately to the economic impact of COVID-19.