International Monetary and Financial Committee

Thirty-Sixth Meeting
October 13–14, 2017

Statement No. 36-33

Statement by Mr. Van Overtveldt
Belgium

On behalf of
Republic of Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Republic of Croatia, Cyprus, Georgia, Israel, Luxembourg, Former Yugoslav Republic of Macedonia, Republic of Moldova, Montenegro, Kingdom of the Netherlands—Netherlands, Romania, and Ukraine

Statement by Mr. Johan Van Overtveldt
Minister of Finance, Belgium
on behalf of
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine
at the 35th International Monetary and Financial Committee
Washington DC, October 13-14, 2017

1. Global economic context

Global economy and risks

The recovery continues and is broad-based, with global economic activity projected to gather pace in 2017 and 2018 in both advanced economies and emerging markets, although there are substantial differences in growth performance at the country level. In advanced economies, growth projections have been revised upwards, on account of *inter alia*. stronger than expected growth in the euro area and Japan in the first half of this year, and domestic demand continues to firm. Growth in emerging market and developing economies is picking up as conditions in commodity exporters are gradually improving. Strong growth in China is being supported by robust investments in infrastructure and housing, on the back of an expansionary fiscal policy and strong credit growth.

Conditions on financial markets remain favorable; equities are still at record highs, while bond yields remain at very low levels and volatility is low across markets. Emerging markets are benefiting from this environment with capital inflows at high levels.

However, risks to the medium-term outlook for the global economy remain skewed to the downside. Continued accommodative monetary conditions pose vulnerabilities over the medium term through risks associated with higher asset valuations and higher leverage ratios, which need to be monitored and to be addressed in the first instance by macroprudential policy. Moreover, the apparent calm on financial markets stands in contrast with elevated levels of uncertainty, including about the United States administration's policy plans, and the build-up of underlying vulnerabilities as described in the flagship reports. In China, financial stability risks arising from rapid credit expansion continue to be a major source of uncertainty and a downside risk for the Chinese growth outlook in the medium term. Other risks, including geopolitical risks and the trend toward more inward-looking policies, remain salient. The normalization of monetary policy in advanced economies will also pose challenges, including for sovereigns, corporates and households facing high debt levels. Productivity growth and demographic developments, climate change and digitalization constitute important additional challenges to ensuring strong and sustainable growth.

Euro Area

Growth in the euro area is gaining momentum, driven by a stronger than expected outturn for the first half of the year and a robust momentum since then, reflecting primarily continued strength in domestic demand and an acceleration in exports in the context of the broader pickup in global trade. Inflation is expected to rise in 2017, although slow wage grow, low oil prices and the euro's appreciation will likely hold inflation back. While the unemployment rate is now at its lowest level in more than eight years, with a sharp decline in youth unemployment, it remains high in some countries, in particular in those that have suffered most from the consequences of the global financial crisis. Furthermore, even though public finances are improving as a result of lower interest payments, past consolidation efforts and the return of supportive cyclical conditions, important consolidation challenges remain, particularly in those countries where public debt is still at very high levels.

Policy mix

Given the risks ahead, policymakers should take advantage of the prevailing tailwinds to build greater economic resilience. Measures should be country-specific, while exploiting synergies between monetary, fiscal and structural policies.

Monetary policy alone cannot ensure sustainable growth. Monetary policy risks to be overburdened and it is time to tilt the policy mix. While also employing macroprudential policy to contain financial stability risk, more weight should be given to structural reforms and sustainable fiscal policies. Fiscal policy should remain firmly anchored within a strong policy framework safeguarding public finances' sustainability over the longer term. In euro area countries, fiscal policy should respect the rules of the Stability and Growth Pact. With countries facing important challenges such as the budgetary cost of an ageing population, there is a need to build sufficient buffers to better withstand possible future recessions. In this regard, there may be scope for fiscal policy through shifts in its composition, rather than in its size, in order to facilitate public investments in certain key structural areas, such as innovation/R&D, productive public infrastructure and education, which will contribute to higher productivity growth and economic welfare in the medium and long term.

Countries need to use the current window of opportunity to implement ambitious, well-sequenced structural reforms. With productivity growth advancing too slowly, declining total factor productivity (TFP) and rising demographic pressures weighing on advanced economies' potential growth prospects, structural reforms can lift potential growth by creating new economic and investment opportunities, boosting the labor supply and increasing confidence. To sustain high and inclusive growth in the longer term, structural reforms also need to actively support those affected by shifts in technology and trade and narrow the gender and immigrant labor force participation gap.

Multilateral policy response

We support the IMF's call for strengthening international policy cooperation within a strong multilateral framework, which includes resisting tendencies towards protectionist measures. In the past, globalization and technological change have contributed significantly to economic growth and to raising living standards around the world. A turn toward more inward-looking policies would hence entail significant risks. Nevertheless, it should be recognized that the benefits of globalization have not been distributed equally across workers and regions. We therefore support the IMF's increased focus on inclusive growth. We should reaffirm the benefits of free trade and our commitment to an open world trade system, supported by domestic policies to facilitate the adjustment to rapid technological change and trade.

Finally, the multitude of non-economic shocks weighing on the outlook – geopolitical conflicts, migration, climate change, terrorism and epidemics – further underline the need for close cooperation between countries and international institutions.

Financial stability

Against the backdrop of improving macroeconomic conditions, near-term risks to financial stability have decreased and volatility is low. At the same time asset prices have remained richly valued due to low interest rates and investors' search for yield. A rapid repricing in global fixed income markets remains one of the key risks for financial stability. As investors continue to extend the duration of their fixed income portfolios, they are exposed to increased market risk. Given the still very low risk premia in many financial asset prices and the improved prospects for economic growth, policy-makers will have to tune policies carefully in order to balance the need for further support for the recovery on the one hand and make way towards the exit from crisis-mode policy stances on the other hand.

Despite significant improvement in the health of the financial sector, pockets of vulnerabilities remain in certain euro area banks. In some regions, profitability prospects are still dampened by large stocks of non-performing loans (NPLs). A number of structural challenges also weigh on profitability prospects in several banking sectors, including overcapacity, a limited degree of income diversification and cost-inefficiencies. Low interest rates can also hinder banks' profitability if they lead to lower net interest income. Financial sector risks are also rotating away from the banking system towards non-banking institutions, with low interest rates also affecting non-bank financial institutions, such as insurance companies and pension funds. The role of cryptocurrencies and its implication for financial stability and the wider economy should also be taken into account.

A decade has passed since the start of the most severe global financial crisis since the Great Depression and the regulatory and supervisory framework has been reviewed in a fundamental way in order to avoid a repetition of the build-up of similar vulnerabilities in the future. Finalizing the regulatory reform agenda should therefore remain a high policy priority, including the completion of Basel III, and calls to revisit and revise the regulatory framework put in place should be resisted.

2. The Fund's role and institutional issues

IMF Resources and quota

We stand ready to work towards the completion of the 15th General Review of quotas. The IMF is and should remain a quota-based institution. Consequently, quota resources should be sufficient to cover future IMF lending in non-tail scenarios and borrowed resources could serve as a backstop to address tail risks. The discussion about the 15th Review should be sequenced in a proper way: before discussing the quota formula and the composition of the resources, the prospects for a possible quota increase and the adequate size of the overall lending capacity of the Fund should be clarified. A possible renewal of the bilateral credit lines should not be presumed as these resources are a temporary solution to an exceptional situation and serve as a third line of defense (after the quota and NAB resources). We also underline that the Fund resources are intended to play a catalytical role with regard to the mobilization of other sources of finance, including private ones.

The 15th General Review of Quotas and the review of the quota formula should continue to be treated as an integrated package. The discussions on quota should seek to find a distribution that is broadly acceptable to the membership as a whole and appropriately balances the needs of larger and smaller countries, to preserve the multilateral character of the Fund. The main variables of the quota formula should remain both GDP and openness, as these capture best the role and mandate of the Fund. In particular, openness reflects the stake countries have in the global economy, in line with the Fund's mandate to promote international cooperation, economic integration and the increased focus on the effects of spillovers.

Surveillance

We welcome the Debt Sustainability Framework review, which will enhance low-income countries' ability to monitor the build-up of debt vulnerabilities. We also look forward to the comprehensive surveillance and FSAP reviews. These will be important reviews further bolstering the IMF's surveillance framework to prevent risks from materializing. Specifically, we call on the Fund to continue to analyze the macroeconomic and financial stability impact of climate change and assist countries in devising appropriate policies and instruments to address it.

Globalization and inclusiveness

The benefits of globalization should be widely shared. A lack of inclusiveness can have disruptive effects on social cohesion, and consequently a negative impact on the economy. Therefore, inclusiveness is a macro-critical issue for the Fund's membership and the IMF should treat this topic within the limits of its mandate and in cooperation with other IFIs. The IMF should thus focus its advice and monitoring on this issue from a macroeconomic perspective instead of directing its advice to domestic redistribution policies.

Governance issues

As there is a growing consensus about the macro-critical impact of corruption, undermining economic growth and stability in many countries, the Fund should further address this issue, within its mandate and expertise. Recognizing that the responsibility for governance issues lies first and foremost with the national authorities, we concur with staff that there is scope to further strengthen the messages and specific actions to adequately evaluate and tackle corruption, where relevant, through the main modes of Fund engagement (programs, surveillance and technical assistance). We support any follow-up work on forward-looking principles or operational guidance for Fund engagement in governance and corruption.

Financial support for IMF members

In our Constituency, Bosnia and Herzegovina, Georgia, Moldova and Ukraine currently benefit from Fund support. The authorities of these countries are showing strong commitment and ownership to implement the ambitious reforms needed. We believe that these countries deserve continued support from the Fund and the international community in achieving their goals.