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IMFC Statement by Johan Van Overtveldt
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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

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Minister of Finance, Belgium
on behalf of
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1. Global Economic and Financial Prospects and Policies

Global economy

Global growth is gaining momentum, with economic activity projected to accelerate from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. Overall growth is starting to pick up in emerging markets and developing countries, albeit with big divergences between countries. Global inflation has started to increase in parallel with rising commodity prices but core inflation remains weak, in line with limited wage growth.

In spite of an increase in risks and uncertainties, economic growth in advanced economies remained resilient. Growth accelerated in the second half of 2016. However, some countries are still facing the legacies of the economic and financial crisis resulting in moderate demand and debt issues. Uncertainty about the outlook has risen due to political risks and possible policy changes, like the impact of the Brexit vote and possible policy changes by the new US administration. Globalization, trade openness and technological innovation are important sources of productivity gains and wealth creation. Economic policy should make sure that gains are durable and distributed evenly to mitigate potential side effects.

Capital flows to emerging markets picked up again, while the increase in oil prices supports a recovery from deep recessions in commodity exporters such as Brazil and Russia. Despite their tightening, in particular as a result of the November presidential election in the United States, financial conditions in emerging markets still remain favorable. China continues to rebalance its economy towards domestic demand without significant disruptions for the time being.

The long-term outlook for the global economy could be affected by risks related to geopolitical tensions and tightening financial conditions which could hurt vulnerable emerging markets with high foreign currency debt exposures. Demographic developments and climate change should be considered as important additional challenges.

Advanced economies should direct policies towards avoiding a low growth trap. In some emerging markets, financial stability risks arise from rapid credit expansion and overheated property markets. Low commodity prices, though picking up recently, continue to weigh on growth in many commodity exporters.

Euro Area

The euro area recovery continues with growth above potential. Accommodative monetary policy and fiscal stimulus in some countries, as well as the implementation of structural reforms, particularly in the labor market, have helped to underpin the recovery. Domestic demand, especially private consumption, has

been the driver of growth, sustained by low oil prices, moderate inflation and the job-rich recovery that resulted from previous reforms.

Policy mix

A well balanced policy mix is needed to ensure stronger economic growth and productivity. The gains of technology and globalization should be widely shared. A country-specific approach is needed that exploits policy synergies between monetary, fiscal and structural policies.

Accommodative monetary policy supports borrowing conditions and credit flows, which favors the economic recovery to gain further traction. At the same time, there are risks involved with a low interest rate environment. With monetary policy in the euro area close to its lower bound, low interest rates, also reflecting a low equilibrium real interest rate and inflation expectations, which remain below the central bank's inflation aim, put pressure on some parts of financial sector profitability and may contribute to an ever-greening of non-performing loans and excessive risk-taking by investors. In that respect, it's important to note that monetary policy alone cannot provide a solution to all current challenges. Therefore, it should be sustained by fiscal policies as well as structural reforms, increasing productivity growth and the overall growth potential.

In the euro area, fiscal macroeconomic stabilization must respect the Stability and Growth Pact. Fiscal policy should remain anchored within a strong policy framework safeguarding the sustainability of public finances over the medium to long term. Public finances should be sustainable to meet the budgetary cost of the ageing population and to build buffers for the future. There may also be important scope for fiscal policy in its composition, rather than its size. Taking advantage of the current low interest rate environment, growth enhancing investment could be material to break through the low-growth-low-investment equilibrium. Emphasis must be put on mobilizing private investment, while well-targeted and efficient public investment can also create opportunities for productivity growth and new demand. If public investment is targeted in an efficient way towards key aspects such as transport and mobility, education and health care, it could provide a strong support for long-term growth potential and confidence.

Structural reforms can lift potential growth by creating new economic and investment opportunities and increasing confidence. Hence, we strongly support the IMF's increased focus on structural reform issues while we note that the Fund should also continue to play its role in support of the regulatory reform agenda. We agree that structural reforms will work best when they are well aligned with a country's macroeconomic conditions. Weak productivity growth and rising demographic pressures are slow-moving trends that weigh on economies' long term growth prospects. Increasing productivity and employment must therefore be key issues for structural reforms. Growth-enhancing structural measures would not only raise growth potential in the medium and long run, but can also be tailored to lift demand in the short run. For example, policies to improve the tax system, increase labor force participation, reduce red tape and lower regulatory barriers can spur investment and job creation in the short term. In addition, higher spending on research and development, better education, on-the-job training and productive infrastructure investment where needed, can elevate potential output.

Financial stability

A legacy of high non-performing loans (NPLs) and persistently weak profitability in a number of European countries points towards weak efficiency levels. Structural reforms and the cleaning up of bank's balance

sheets are important to improve monetary transmission and boost potential growth, while maintaining financial stability

Finalizing the financial regulatory reform agenda should be made a priority. Important work still needs to be done to finalize the international agenda e.g. Basel 3.5, TLAC/MREL, a recovery and resolution framework for the insurance sector. A dilution of financial regulation should be avoided as it may raise the risk of financial instability and financial crises ahead. Financial stability remains crucial for long run sustainable growth.

2. The Fund's role and Institutional issues

International Cooperation and Surveillance

All members of the IMF should remain committed to cooperate with the Fund and each other to promote orderly international financial relations by implementing policies that support balanced sustainable growth across the world and contribute to a strong and inclusive global economy.

The world faces new economic challenges as there are calls for an increase in protectionism and a reversal of economic integration. We believe the Fund has a crucial role to play in this debate in multiple ways: through its key messages the Fund should keep stressing that globalization, trade liberalization, openness and technological innovation are important sources of productivity gains and wealth creation. In parallel, we believe the Fund should provide sound policy advice on how the benefits of globalization and technological transformations can be more broadly shared. This can be done by enriching policy advice with aspects that focus on durable and even distribution of gains and welfare-increasing policies.

We fully endorse the cooperation of the Fund with other international (financial) institutions. We encourage deepening this cooperation where needed, respecting each institution's mandate and core expertise. A clear division of labor could mitigate mission creep and limit unnecessary strain on the Fund's resources.

A clearer framework for enhancing coordination and cooperation between the Fund and regional financial arrangements (RFAs) is warranted, also outside of crisis periods. The existing G20 principles might serve as a good starting point for the Fund to develop its own principles, with procedural agreements tailored to each RFA. These could be especially useful for RFAs that link financial assistance to IMF involvement. The IMF should balance the need for evenhandedness, on the one hand, and the respect for the unique characteristics of each RFA, on the other hand.

Lending

The Fund should have a simple and focused lending toolkit at its disposal in order to fulfill its mandate in the best possible way. The toolkit should consist of a limited number of flexible financial facilities for programs that are mutually aligned and consistently implemented. Efforts to create new instruments should preferably take place in the framework of an overall review of the current toolkit.

We see some merit in the proposed Liquidity Support Instrument. The creation of this new facility would however need to coincide with a thorough review of the existing precautionary facilities, more specifically the Flexible Credit Line and the Precautionary and Liquidity Line. The Fund should clarify request, use and

exit of the proposed Liquidity Support Instrument. The IMF should also address the potential large impact of the precautionary facilities on the Fund's resources. The new Policy Monitoring Instrument could play a useful role in catalyzing financing from other actors such as RFAs or even private creditors. We do ask the Fund to address concerns that it would no longer have 'skin in the game', and to consider how it can best maintain its catalytic function vis-à-vis other creditors.

It is paramount that IMF program design and conditionality should take into account the specificities of the EU/EA institutional and legal framework, in particular the Treaty obligations and the acquis communautaire. We attach particular importance to the general principle that the Fund should set conditionalities within the control of a member state, as such conditionalities should not have negative spill-over effects on other members of the currency union.

Governance and resources of the Fund

The Fund should remain a quota-based institution with quota resources sufficient to cover IMF lending in normal scenarios. Borrowed resources can serve as a backstop to address tail risks. In our view the resources available through the extension of the bilateral borrowing agreements are a temporary solution for an exceptional situation. They should not be seen as a standing part of the Fund's current total amount of resources.

We support the ongoing work to complete the 15th review of quota by the Spring/Annual Meetings of 2019 and would like to stress that this review should continue to be treated as an integrated package with the review of the quota formula. In that respect, and in accordance with the outcome of the 2013 review, we reiterate that both GDP and openness should remain the main variables of the formula as those capture the role and mandate of the Fund in a very adequate way. 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. Hence, we oppose any lowering of the weight of the openness variable and neither should a cap be introduced. The results of the latest quota database update underline clearly that the current quota formula captures dynamic developments in the world economy.

Financial Support for IMF Members

In our Constituency, Armenia, 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 continuous support from the Fund and the international community in achieving their goals.