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**IMFC Statement by Johan Van Overtveldt**
**Minister of Finance, 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

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**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 31st International Monetary and Financial Committee**
**Washington DC, April 17-18, 2015**

We thank Minister Tharman for his inspiring leadership of our Committee during the last 4 years.

We welcome Agustin Carstens, Governor of Banco de Mexico, as our Committee's new Chairman. The Managing Director and the staff of the IMF have made a commendable analysis and formulated useful policy recommendations which document our deliberations.

The IMFC should agree on policies to better secure financial stability, durable balanced inclusive growth, and employment creation to anchor social cohesion and welfare. We shall also give guidance on how the Fund can continue improving its functioning and support of its members, including efforts to make progress on the quota and governance reforms. I will expand on both main topics in turn.

## Global Economic and Financial Prospects and Policies

### *Strengthening tomorrow's prospects is the key challenge facing the global economy*

While global economic growth is slightly picking up in 2015 and 2016, the medium-term global outlook is weaker than previously anticipated. The steps that have been taken to correct the distortions which caused the global economic and financial crisis and accommodative policies have stabilized the world economy. The opportunity should now be seized to follow up with ambitious measures that further stimulate the global economic recovery.

At the current juncture, strengthening tomorrow's prospects is the key challenge facing the global economy.

Identifying the causes of the secular decline in potential output growth helps to detect areas where country-specific policy action is most needed. The analysis by the IMF staff of the declining potential output growth in the different regions is commendable. A correct estimate of potential output can help prevent costly policy mistakes.

The decline of the long term growth potential, notably in high income countries, calls for macroeconomic policies aimed at facilitating the financing of the economy and encouraging investment. Most importantly, against a backdrop of a reduction in expected productivity growth and ageing populations, a vigorous push for structural reforms is necessary to seize the opportunity to lift potential growth and strengthen tomorrow's prospects. We fully agree with the Managing Director's Global Policy Agenda that structural reforms are lagging compared to other policy areas.

Growth-enhancing structural measures not only raise long run growth potential, but can also be tailored to lift demand in the short run. For example, policies to improve the tax system, 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.

***The recovery in the euro area is taking hold***

The euro area is emerging from a long recession and the outlook for the euro area is steadily improving. For the first time since the onset of the crisis, the IMF predicts positive growth for all euro area countries in 2015. Significant progress has been made in correcting large imbalances, lowering high levels of private debt, repairing bank balance sheets, reversing the surge in public debt and regaining external competiveness in deficit countries. In addition, the design of the economic and monetary union was strengthened, inspiring confidence that excessive fiscal and other macroeconomic imbalances will be avoided or corrected in a timely manner. With the creation of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) both the prudential supervision over significant banks and their resolution now falls directly under the responsibility respectively of the ECB and the Single Resolution Board. Moreover, the European Council will examine further options for stronger economic policy coordination. With the progressive elimination of the legacies of the crisis and the improvements of the governance framework in the euro area, the euro area is in much better shape than five years ago.

The euro area is pursuing a sustainable and comprehensive growth strategy that supports the recovery of today's growth in the euro area. Sound fiscal policy, supportive monetary policy, measures to promote private investment and growth-enhancing structural reforms are the four key elements of this policy mix.

The monetary policy of the ECB, including the recently launched expanded asset purchase program, aims at fulfilling its price stability mandate, addressing the risk of a prolonged period of low inflation, and can contribute to the recovery by improving lending conditions.

Fiscal policy is aimed at bringing public finances back in order and reducing debt levels, while taking into account the economic circumstances. The Stability and Growth Pact remains the cornerstone of fiscal policy in the euro area, as it enables the authorities to retain credibility in the eyes of financial markets, businesses and households. This fiscal framework, which sets structural and nominal targets allowing for the operation of automatic stabilizers, incorporates the economic environment and provides adequate room for growth enhancing investment and structural reforms, as recently spelled out by the European Commission.

The European Commission's Juncker Plan, with the creation of the European Fund for Strategic Investments (EFSI), is expected to give positive impetus to private investment. In turn, progress on the banking union and integration of capital markets improves access to financing for firms and households by securing adequate capitalisation and supervision for the banking sector and by removing impediments to cross-country investments, such as administrative hurdles. Repairing the lending capacity of banks and a truly pan-European capital market will facilitate the financing of promising investment projects.

Euro area economies already reaped benefits of growth enhancing structural reforms. Reform measures in the euro area crisis countries are yielding results as economic growth resumes : Countries that are trailing behind, should also urgently implement the necessary reforms.

To further strengthen tomorrow's prospects, countries in the euro area and beyond can earn a potential growth dividend from increased productivity and competitiveness as a result of structural reforms. There is a wide variety of areas in which structural measures can underpin the strengthening of tomorrow's prospects.

Governments are working on measures to ensure more efficient allocation of resources, by overhauling subsidies, preferential policies and impediments to competition. The services sector in particular, which is the largest sector in most economies, will see productivity enhanced when competition is less restricted. In addition, many countries can make tax policies more growth-friendly, as documented in the Fund's previous Fiscal Monitor.

Euro area countries are also making progress in better targeting social protection and reducing the cost of employment, by e.g. reducing harmful rigidities or excessive taxation of labor income, which can stimulate both the demand and supply of labor. In turn, countries can employ untapped growth potential by pursuing policies that support labor participation, including from women and older workers. Youth unemployment remains a priority. A durable recovery of growth offers the best guarantee to lower youth unemployment. Still, active labor market policies directed at the young are useful to avoid a more permanent loss of human capital.

***Global challenges and risks***

The main challenge facing the global economy is the implementation of structural measures to boost growth potential and to ensure mid-term fiscal consolidation, while avoiding the risks of exceptionally accommodative monetary policies.

*Risk of exceptionally accommodative monetary policy*

Low interest rates and abundant central bank liquidity ensure that adverse nominal developments do not hinder the necessary deleveraging. As intended, such policies raise the value of financial and other assets. This helps to improve private balance sheets, thereby creating room for investment and consumption. Nevertheless, we stress that non-conventional monetary policy accommodation alone cannot bring a lasting solution or achieve our objectives for growth and employment creation. There is no substitute for the structural reform policies as we have outlined before.

Importantly, the increase in financial asset prices in the wake of exceptionally low interest rates, does not come without risk to financial stability. Of special relevance are the challenges for economic agents relying on interest income. A low interest rate environment may lead to financial strains for life insurance companies and pension funds, documented in the Global Financial Stability Report. In turn, expansionary monetary policy may feed into the creation of asset bubbles.

Vigilance from macroprudential supervisors should help to prevent and better deal with asset price bubbles. IMF surveillance and prudential supervisors should monitor to minimize these risks for financial stability. Everything should be done to allow for a return of a more normal interest rate structure when price stability is assured and when growth and employment creation invigorate.

*USA and Japan*

As the recovery in the United States is solid, and so far resilient to the strengthening of the US dollar, the monetary authorities of the US will have to engineer, in due time, a smooth normalization of monetary policy. In addition, both the US and Japan require progress on a medium term fiscal consolidation plan. Japan, in addition, would benefit significantly from reforms that increase labor force participation, reduce labor market duality, raise productivity in the services sector through deregulation and support investment through corporate governance reform.

*China*

The gradual shift towards domestic demand and bringing credit and investment to more sustainable levels will mitigate financial risks and sustain growth, even if at somewhat more moderate levels than in the past decades.

*Emerging market and low-income countries*

Many emerging market countries face tighter financial conditions, making exchange rate flexibility critical and the strengthening of micro and macroprudential supervision a priority. Some have seen a build-up of high debt in US dollar, particularly by the corporate sector. This is a source of significant risk. When interest rates increase and the dollar appreciates, highly leveraged corporate borrowers may face payment difficulties, which can in turn affect their creditors and cause a wider loss of market access for specific emerging market countries.  The knock on effects of such developments for output and employment can be significant.

Low income countries also face challenges. As lower oil prices alleviate inflationary pressures and increase fiscal space in oil importing countries, addressing infrastructure bottlenecks, improving education, enhancing government services and reforming labor and product markets, including eliminating non-targeted distortive subsidies, will all help raise potential growth. For oil exporting countries, adjusting public spending will preserve sound public finances. If available, financial wealth can be used prudently to make the adjustment more gradual.

**The Role of the IMF**

All members of the Fund should remain committed to cooperate with the Fund and each other to promote orderly international financial relations by implementing policies that promote economic recovery and ensure balanced sustained growth across the world.

*Surveillance*
Surveillance is the Fund's main mandate. It includes an in-depth analysis of countries' financial sector, the effectiveness of micro- and macroprudential policies and how the real and financial sectors affect each other. Analysing global interconnectedness will sharpen awareness of how risks spread across countries and sectors. Data on international capital flows and on stocks of trans-border assets and liabilities must be upgraded, as must be the analysis of the balance sheets of broad sectors of the economy, for it to come to meaningful conclusions at this stage.

To help prevent the build-up of fragilities, most notably unsustainable debt, is a core objective of surveillance. The Fund should continue to analyse how fiscal, monetary and exchange rate policies and financial systems contribute to such build up. On the basis hereof, the Fund should advise how the economic framework can more generally be improved to increase resilience. The focus should be on both public and private debt burdens which may undermine the broader economy.

We support streamlining and further integrating IMF surveillance products and the resulting key surveillance messages. This should allow the Fund to affect the policy debate more effectively and invigorate IMF surveillance within the existing budget envelope. Surveillance must be evenhanded. All countries should benefit from the Fund's tailored policy advice, while the intensity and specific focus of surveillance is risk-based. This will ensure cost effectiveness.

We applaud the cooperation of the Fund with other international organisations, in particular the World Bank, the International Labor Organisation and the World Trade Organisation. We encourage further deepening of cooperation where this is appropriate.

*Financial Support for IMF members*
Fund lending helps prevent or correct balance of payment problems. It remains critical for mitigating the consequences of shocks. Large international capital flows have dramatically increased the amount of financial assistance needed when crises erupt. Still, the Fund's involvement must remain temporary and limited. It should focus on corrective policies which help restore robust access to financial markets. Private creditors may have to be involved when debt is unsustainable.

We support the Fund's ongoing work on Fund lending when a country's public debt may not be sustainable. We encourage the Fund's staff to continue to engage with a broad spectrum of financial institutions and investors to learn their views on which framework may best provide orderly solutions for resolving sovereign debt problems while involving financial assistance from the Fund. Staff has formulated initial considerations on the need for a debt reprofiling when regaining debt sustainability is not highly likely under an adjustment program with exceptional access to Fund resources. These initial considerations are sensible. We look forward to consider more advanced proposals, including on the elimination of the present systemic risk exemption.

The Fund should have adequate resources for its lending operations. Quota subscriptions must remain the Fund's primary lending resources. In our Constituency, Belgium, Cyprus, Israel, Luxembourg and The Netherlands provide temporary resources through the NAB and/or bilateral loans. They have supported the recent extension of the activation period of the NAB.

In our Constituency, Armenia, Bosnia and Herzegovina, Cyprus, Georgia, Romania and Ukraine currently benefit from Fund support. The Extended Fund Facility Arrangement with Ukraine is making a vital contribution to the stabilization of the country. The government of Ukraine has shown strong commitment and ownership to implement the ambitious reform agenda. The authorities have started negotiations with Ukraine's creditors on a debt operation to secure that the program is fully financed and to regain sustainability for the sovereign debt. The authorities deserve continuous strong support from the Fund as well as the international community.

We support the Fund's lending to low-income countries through the PRGT. We have supported debt relief to the Ebola-affected countries through the newly established Catastrophe Containment and Relief Trust.

We ask the Fund, in the areas of its core expertise, to help countries reach agreement on the priorities and targets for the international development agenda which will be adopted later this year, and to help them implement policies accordingly.

*Valuation of the SDR*

The Fund will later this year review the valuation of the SDR. Any change to the valuation basket should be consistent with the role and purpose of the SDR and be based on clear an objective criteria.

*Governance of the Fund*

The effectiveness of the 2010 quota review and governance reform remains the first priority of the countries of our constituency. Fourteen countries in our group have approved the quota increases and ratified the amendments of the Articles of Agreement. We call on the US to ratify as soon as possible. Belgium and The Netherlands have delivered on their share in the agreed change of the composition of the Executive Board.

As the effectiveness of the reforms is delayed, the countries of our group will continue to constructively engage in discussions on interim measures to bring, with the required broad consensus, countries' quota shares closer to the levels agreed in the 14th review of quotas. We are open to discuss the different interim options put forward by IMF staff, but consider an ad hoc increase as the most viable way forward to reach progress in the short term. Such interim measures should not weaken the incentives for the full ratification of the 2010 reforms which will remain our highest priority.

The 15th General Review of Quotas and the review of the quota formula must be an integrated process within the Executive Board and the IMFC. Our Constituency is committed to continue a constructive discussion. We reiterate that GDP and openness must remain the two main variables in the formula as they best capture the role and mandate of the Fund. The methodology of openness should remain unchanged and its weight in the formula should at least be maintained.