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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 32nd International Monetary and Financial Committee
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We thank the Peruvian authorities for their hospitality in hosting our meetings.

It is fitting that we meet in Lima. Peru is one of the best performing economies in the Latin American region due to sound macroeconomic fundamentals, solid policy frameworks and sustained growth of the economy. Accomplishments like Peru's greatly contribute to making the entire Latin-America region more vibrant and dynamic.

Global Economic and Financial Prospects and Policies

We agree with the IMF that prospects across countries and regions remain uneven and that risks in the outlook have shifted. There is a need for a broad understanding on coherent policies in response to lower commodity prices, increased financial market volatility and asynchronous movement towards monetary policy normalization. Timely questions that the IMF has raised concern how fiscal policy can safely complement monetary policy to strengthen growth and employment in the short to medium term. Most importantly, the IMF points out that further urgency is needed in identifying structural reforms that durably lift trend growth.

Outlook and risks

In the euro area, a recovery is underway, which should gradually intensify with the support of continued and strong implementation of agreed policies. In the US & UK, economic activity continues to expand moderately and the labor market keeps improving. At the same time, economic growth remains moderate in Japan where fiscal consolidation continues to be important, as well as structural reforms to lift growth.

Commodity exporting countries are experiencing a significant drop in both export and fiscal revenues. Growth prospects and creditworthiness have deteriorated for many emerging and frontier economies (EFEs). A sustained slowdown of Chinese output growth may further negatively affect commodity prices, growth in trading partners, and financial market sentiment and volatility. Risks to the global economy should not be neglected.

Capital flows to EFEs are decelerating. Investors differentiate between countries according to varying fundamentals. Lower risk tolerance and a first step towards monetary policy normalization in the US may further reduce capital flows and increase the cost of credit, particularly for EFEs with growing domestic and external vulnerabilities. In the past years, abundant foreign liquidity and low financing costs proved a strong incentive for steady growth of credit to both public and private sectors. EFE corporate bonds have been the fastest growing segment of the global dollar credit market. Credit in US dollar and other foreign currencies add to the EFEs' vulnerabilities if foreign debt service is not covered with stable revenues in the same currency.

The reform and recovery of the euro area continues.

Members of the euro area have strengthened their fiscal positions and banking systems. Structural reforms have made product, services and labor markets more flexible and responsive, albeit to various degrees in different countries. Countries that implemented bold adjustments and reforms are rewarded in terms of renewed growth and employment creation. The recent growth performances of the Baltic countries, Ireland and Spain are particularly encouraging. Given the slowdown in productivity in many advanced countries, countries should not become complacent in the implementation of structural reforms since these are essential to increase growth and potential output.

The functioning of the euro area has been improved with enhanced frameworks for fiscal policy, avoiding excessive macroeconomic imbalances, and stabilization mechanisms providing temporary macrofinancial assistance to euro area countries hit by severe shocks. The newly established banking union, with its operational single supervision and the forthcoming single recovery and resolution mechanism is instrumental to further strengthening the banking system and protecting public finances from financial risks.

Building a genuine Capital Markets Union, based on the recently published European Commission's Action Plan, will facilitate capital allocation, diversify financing options for the real economy and make firms less bank reliant thereby increasing the euro area's ability to absorb shocks. Moreover, it will allow banks to more easily securitize their loan portfolios, creating space on their balance sheets for new loans.

The five Presidents' report on *"Completing Europe's Economic and Monetary Union"* formulates proposals to enhance policy coordination and underlines the need for real convergence. Real convergence is required in a number of areas to bolster public support and enhance the resilience of the euro area to economic and financial shocks.

Monetary Policy Normalization

Monetary policy in all major high income economies continues to be accommodative. This helps to stabilize inflation expectations. At the same time, the risks of low interest rates, especially for an extended period of time should be taken into account. The low interest rate environment should not become a disincentive for governments to implement necessary reforms. Financial risks stemming from investors taking greater risks in their search for yield and potential bubbles should also be closely watched. Low interest rates can even hamper potential growth, e.g. by facilitating evergreening of loans to technically insolvent firms. Macroprudential policies should be conducted to make the financial sector more resilient to these risks.

Monetary policy normalization should be carefully calibrated, in line with economic and financial conditions. Still, the economic outlook differs among economies. Monetary tightening justified by developments in the US economy may create strains in other countries, highly leveraged EFEs in particular. Those economies should strengthen their resilience. Excessive leverage, particularly in foreign currency, must be dealt with. Fundamentals should be enhanced. This includes both the public and financial sector balance sheets and improved external competitiveness. A flexible exchange rate should function as a shock absorber. Adequate foreign reserves, including -if deemed necessary- by means of precautionary credit lines from the IMF and other international lenders, will help forestall or offset erratic capital outflows or a sudden stop of foreign credit.

The Assets Purchase Programs will help to protect the euro area from possible adverse effects stemming from a tightening of US monetary conditions. As already shown in the April GFSR, movements in euro area long-term interest rates appear to have decoupled from rates in the US.

Monetary policy must be accompanied by fiscal policies which restore and maintain sound public finances. Lifting countries' potential growth is however primarily a goal of smart structural reforms. Let me expand on both topics in turn.

Sound Public Finances

Sound public finances contribute to vigorous sustainable growth and employment creation. Taxation should be efficient and fair. Public spending should provide, in a most efficient manner, public goods that are essential for the well-functioning of the economy and social cohesion. Both taxes and public spending should avoid incentives that are detrimental to sustainable economic activity, which include care for the environment.

Sound public finances ensure a sustainable debt. Rather than aggravating business and financial cycles, smart fiscal policy may help dampening volatility. These are the objectives in Europe of the Fiscal Compact and of the Stability and Growth Pact. Their rules must be complied with. The flexibility within the existing rules can be used to enhance potential growth and employment. We welcome the European Commission's communication of January 2015 clarifying how economic circumstances will be taken into account when assessing, under the fiscal rules, public spending to advance growth enhancing investment and implementation of structural reforms. Needless to say that such flexibility must avoid undermining the rule-based fiscal governance framework.

Many high income countries still face, sometimes large, consolidation and sustainability gaps. Low public solvency drives up the cost of financing and undermines confidence. For these countries, making progress towards robust public debt sustainability will soon pay off with renewed growth. This requires, most of the time, difficult reforms that structurally stabilise or reverse the upward trend of public current expenditures, often related to the cost of aging and the growing cost of public services that could be delivered more efficiently.

Highly productive, growth enhancing public expenditures such as research and development should be supported. In many countries such spending has been cut back significantly, often as a first avenue to the needed reduction of the budget deficit. This is harmful to long term economic potential. Fiscal consolidation must continue in a growth friendly manner, highly productive investment should be prioritized in government spending. Fiscal policy must be country specific, while smart for growth, even in a consolidation phase.

Structural reforms to lift growth potential

Analysing the causes of the lacklustre growth in high income countries and identifying remedial policies is now a primary responsibility of policymakers. We should cooperate internationally, as structural reforms are needed for both advanced economies and EFEs. We support the extra focus of the IMF attached to reforms, as we believe these are beneficial in both the short and long run.

In high income countries trend productivity growth is declining. Demographic factors may add to lower output growth. Reversing these trends requires both renewed higher productivity growth and more and better use of the production factors, not least more talented workers.

The decline in the capital stock per worker is widely seen as a contributing factor of the slowdown in productivity growth in high income countries. To break the bad *"low growth – low investment"* equilibrium, the EU Commission recently launched its "Investment Plan for Europe". In tandem with policies of Member States to remove obstacles for investment, create talent by upgrading permanent education, training and research, and more generally enhancing confidence in the future, the Investment Plan should become an important contribution to renewed, robust, sustained and inclusive growth in the European Union.

For EFEs, structural reforms are crucial to tackle bottlenecks that could also lead to catching up with high income countries in terms of productivity and in terms of the use of capital and trained labor. Rapidly growing EFEs are particularly vulnerable to financial overextension and crises. Sustained convergence requires robust institutions and policy frameworks which, in turn, guarantee adequate macroeconomic stability-oriented policies and investor confidence. Cooperation within this Committee, as part of the broader functioning of the IMF, should help the middle and low-income countries in their sustained convergence toward high income countries.

The Role of the IMF

With skillful management and talented staff, the IMF continues to provide high quality independent analysis, policy recommendations and timely financial support when needed. To safeguard the quality of its work, the Fund must remain adequately supported by all its members on the basis of quota. The Fund facilitates implementing policies for balanced sustained inclusive growth across the world and should maintain its position at the center of the global financial safety net It has an important role in ensuring the integration of bilateral, regional and multilateral safety nets . We look forward to future discussions on the International Monetary System.

Quota and Governance Reform

Legitimacy of the Fund is essential for its effectiveness and for ensuring continued strong support from all members. It is also important that the IMF has adequate financial resources to meet potential future demands and that the IMF remains a quota-based institution. That is why the effectiveness of the long-overdue 2010 Quota and Governance Reforms remains the highest priority.

In the absence of ratification of these reforms by the US, the countries in our group are committed to reaching a constructive agreement with the required broad consensus amongst the IMF membership on a package of interim measures and, if possible, seek to ensure that quota shares of any member do not fall below the levels agreed in the 14th Review. It must be emphasized that such an interim agreement should neither constitute nor be perceived as a substitute to the full implementation of the 2010 reforms. In the meantime, the Fund will have to continue to rely on the borrowed resources. In that respect, we encourage the Fund to undertake an extensive forward-looking analysis on future resource needs.

SDR basket

The Fund will soon review the valuation of the SDR. We are open to consider the inclusion of the renminbi into the SDR basket provided that it meets the relevant criteria. Any change to the SDR basket composition should safeguard the purpose and role of the SDR as an international reserve asset and contribute to the stability of the international monetary system.

Fund Financial Support

Fund staff has formulated initial considerations on the need for a debt reprofiling in the context of its exceptional access policy, when market access has been lost and public debt is assessed to be sustainable but not with high probability, in combination with the removal of the systemic exemption from the exceptional access criteria. These initial considerations are sensible. The IMF should continue its work on the lending framework and, more broadly, on the sovereign debt restructuring work program, in line with its role as the primary forum where these issues are discussed. The Executive Board should soon consider more advanced proposals and review its policy of lending to countries with arrears (lending into arrears).

In our constituency, Armenia, Cyprus, Georgia and Ukraine currently benefit from Fund support. Ukraine is implementing a comprehensive program of adjustment and reform with strong support of the IMF. In very difficult circumstances, the authorities' courageous actions and the people's determination to break with the past have started to pay off. Ukraine is building the institutions and restoring the social safety net needed to firmly bring the country on a convergence path with Europe. The debt restructuring helps regain sustainability and macroeconomic stability. Ukraine needs and deserves the continued strong support of the international community.

Fund advice and surveillance

The Managing Director is correct to keep the Fund an agile institution. This requires cooperation with the World Bank, OECD, ILO and other international organizations. Agility is shown when Fund advice and surveillance respond ahead of the rapidly changing challenges for its members.

Risks related to geopolitical tensions, tighter financing conditions, volatile exchange rates and strains for financially overextended corporate and financial sectors require particular attention. Low potential growth, demographic developments and climate change are serious threats to future prosperity. We welcome that the Fund will enhance its understanding of how structural reforms in specific country circumstances will positively affect long term economic performance.

We appreciate recent work on growing inequality and what the policy response should be. The Fund should follow-up in its daily work. Making growth more inclusive is a widely shared objective. The Fund's analysis of countries' growth performance should contribute to the debate on how to make growth more inclusive. In that respect, we stress that the IMF can make an important contribution to the development of low income countries through its mandate and the global Sustainable Development Goals (SDGs). The IMF can identify country-specific policies, which could be addressed with IMF surveillance and capacity building support, and can contribute to adequate financing for development.

Global challenges require a multilateral response. Both climate change as well as migration can have a macroeconomic impact, in particular on vulnerable countries and regions. The Fund can support the transition to a low-carbon economy through its surveillance by for example incorporating analyses on the impact of climate related risks on the financial sector and public finances. The IMF can also use its policy advice and technical assistance to provide tailored support to countries that are facing extraordinary fiscal and structural challenges as a result of irregular migration flows. We encourage the IMF to advise on a wider scope of issues, whilst remaining within its mandate and cooperating with development partners and other financial institutions.

High quality statistics are critical for informed policymaking. The Fund must steer a wide ranging review of how national accounts and statistics should evolve in this changing world of digitally performed services that increasingly replace physical manufacturing.

Administrative Budget

To function well, the Fund needs adequate administrative resources. Cost accounting will help the Fund operate with the highest standards of excellence in a cost effective manner. We believe that adequate budgeting is crucial, including prioritization of the Fund's work. The Fund should lead by example and use its budgetary resources economically to fulfill its mandate in the most effective way.