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Kingdom of the Netherlands—Netherlands

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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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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Global Economic and Financial Prospects and Policies

With 3,1% and 3,4% growth in 2016 and 2017, world economic growth is near its long term average of 3,5%. Despite numerous challenges, the global economy has shown some resilience. The recovery in the euro area is broad based and proceeds steadily. Unemployment is falling in almost all euro area countries and implemented structural reforms are still bearing fruit. Growth in the US and Japan is continuing and unemployment is low. Although China experiences challenges in transforming its economy, it has so far managed to avoid a hard landing. India is growing strong and might be the fastest growing large economy for the coming years.

We should neither underestimate nor overstate the risk and challenges ahead. This calls for realistic expectations and avoiding seeing a new potential worldwide economic crisis in every event with economic impact. One of these events is the Brexit. The effects until now have proven to be moderate, although the ultimate impact of the Brexit is very unclear, which indicates that the British, the European and the world economy are resilient. Part of the macroeconomic impact of recent shocks such as the Brexit vote is likely to materialize only at a later stage, when the effects of unrealized investments will be felt and the UK will actually exit the EU. In this respect, it is important to provide clarity to markets and firms as soon as possible on the exit process.

To ensure higher and sustainable economic growth, accommodative monetary and fiscal policies need to be accompanied by structural policies and growth-friendly fiscal reforms. Maintaining accommodative monetary policy for a long while could have decreasing marginal benefits and might come with increasing adverse side effects. One of the risks is that too accommodative monetary policy may contribute to the survival of non-viable firms by making it easier to roll over the funding for non-performing assets resulting in an evergreening of bad loans. This hampers the process of creative destruction and the funding of more productive firms thereby reducing TFP-growth.

Structural reforms and focused deregulation can contribute to economic growth by creating new investment opportunities and improving confidence. Implementing reforms is not only important for stimulating growth and to make our economies more resilient to shocks but also to preserve our social welfare states. While some reforms, such as relaxation of employment protection, may be painful in the short term, others such as product market reforms, activating labor market policies and reductions of the labor tax wedge lead to lower unemployment, lower inequality and higher economic growth in the short run. This calls for well-designed and sequenced reform packages, which should be implemented swiftly. The OECD's 2016 'Going for Growth' report indicated that the biggest gains in labor productivity are achieved through educational reforms. Other socially beneficial types of reform include fighting tax avoidance, linking life expectancy to pension age and the shift from bail-out to bail-in. All these will promote fairness and equal opportunities for all and generate inclusive economic growth in the long run. Better communication on the merits of structural reforms and swift implementation will help to increase public support.

Provided that fiscal policy remains anchored within a strong policy framework that safeguards the sustainability of public finances, countries' fiscal strategies should aim to support the economy. There may be scope for changes in fiscal policy in its composition, more than in its size. In the euro area, we are currently focusing on reducing the tax wedge on labor as to increase employment and economic growth. Devoting more resources to public infrastructure investment is no panacea and should be done only when such investments are productivity enhancing and profitable. Product market reforms are quick wins as they increase economic growth in the short term and make investment more attractive.

Balance sheet reforms, especially in the financial sector, contribute to better lending facilities and a better allocation of capital. This will intensify the process of creative destruction and improve productivity. The full implementation of existing financial regulations and measures enhances credibility which increases predictability and hence decreases uncertainty for firms and markets. The still existing debt overhang hampers economic growth and decreasing this debt will give way to further economic expansion.

In the euro area, a solid implementation of the measures for completion the banking union, a better functioning capital market union and a removal of the impediments to the internal market, mainly in the services, digital and energy sectors, will contribute to risk sharing and strengthen the resilience of the Eurozone to economic shocks. Furthermore these measures could boost investment by improving the availability of funding and new investment opportunities, increasing competition and improving allocative efficiency.

Reviving world trade and reversing protectionist measures should remain high on the policy agenda. Through a more efficient allocation of capital and labour and via the diffusion of technology, trade plays a crucial role in boosting potential growth. This being said, while governments should underscore the major benefits of free trade, they should also address the adverse effects that liberalising trade has had in some parts of society. We may have underestimated these side effects of globalization. We have to face up to the fact that globalization may have benefitted some more than others, and governments have a role to play regarding those that are adversely affected by globalization. Addressing the genuine concerns and just claims of the vulnerable might reduce support for anti-free trade movements. Fairness, equity and prosperity should be the main goals in this respect.

IMF policies

The Fund, through its near-universal membership, has a central role in ensuring that the global financial safety net is both effective and consistent. In order to preserve this role the IMF should have access to adequate resources and a flexible and consistent toolkit.

We find it important that the Fund remains a quota based institution. Quotas underpin the Fund's governance by anchoring the voting power of members and ensuring that the burden of providing resources is shared. The 15th review of quotas and the review of the quota formula should continue to be treated as an integrated package. Our Constituency is of the view that in accordance with the outcome of the 2013 review, the main variables of the quota formula should remain both GDP and openness, which best capture the role and mandate of the Fund. In particular, openness captures the stake countries have in the global economy, in line with the IMF mandate to promote cooperation and facilitate international trade and with its increased focus on spillovers. A significant majority of the IMF membership benefits from the inclusion of openness in the formula. Its weight should therefore at least be maintained and the methodology should remain unchanged. Also, some form of compensation for voluntary financial contributions should be acknowledged in the distribution of quotas.

The level of resources that the Fund would need to maintain a central role in the global financial safety net is closely related to its lending toolkit. The Constituency welcomes the ongoing review of the Fund's toolkit and is of the view that the toolkit should remain simple, consistent, in line with the IMF's mandate and sufficiently flexible to target the different needs of member countries. In order to determine whether there are any gaps left, the IMF should assess the experience with the current instruments. Increased access of IMF members to RFAs can make a positive contribution to the functioning of the global financial safety net. An important objective of the Fund's toolkit is to ensure that adequate macro-economic policy incentives are in place, when member countries are faced with an external funding crisis. The Constituency is therefore of the view that precautionary as well as crisis resolution programs should continue to be tied to strong conditionalities. We support the IMF's work to explore how it could strengthen in particular the cooperation with regional financing arrangements and other international financial institutions, but note that the different mandates and legal structures of these arrangements and organizations should be duly acknowledged. The Fund should aim to enhance the effectiveness of crisis operations and consider how it can best maintain its catalytic function vis-à-vis other creditors.

An adequate global financial safety net is important as a backstop for external crises, but strong macroeconomic and financial policies should be the first line of defense in a resilient international monetary system. The adequately resourced IMF has an important role in making sure that member countries have the tools to withstand external shocks and spillovers, including those of non-economic nature.

For the IMF's surveillance to remain effective and up to date, the Fund should deepen its understanding of current trends and tailor its policy advice accordingly. Our Constituency supports the ongoing work by the Fund, in cooperation with other international institutions such as the OECD, to gain more knowledge on trends in capital flows, in particular in emerging market and developing economies, and looks forward to the upcoming review of country's experiences with the Fund's Institutional View. Refugee flows, geopolitical conflicts, global epidemics and climate change have increased the risk of spillovers in the global economy. The Constituency welcomes efforts by the Fund to deepen its knowledge of the economic impact of these shocks. We also support the IMF's intention to expand knowledge on the underlying causes of low productivity, drivers of the recent global trade slowdown and the economic impact of globalization and technological change. These developments present pressing challenges to policy makers. The Fund should work closely together with other relevant international organizations, in order to identify macro-critical structural reforms with the potential to create economic opportunities, including education, skills development and labor market reforms, while tailoring its advice to country-specific circumstances.

For low income countries, the upcoming review of the joint IMF and World Bank Debt Sustainability Framework will present an opportunity to strengthen tools to monitor external and public debt vulnerabilities. The IMF should work together with member countries and international partners to increase the quality of data and close data gaps.