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Statement by Mr. De Croo
Belgium

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

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Deputy Prime Minister and Minister of Finance, Belgium
on behalf of
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, North Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine
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Global economic context, prospects and policies

Global growth is expected to ease to 3% in 2019 on the back of weaker manufacturing growth. This is in part the result of persistent trade and geopolitical tensions, which is weighing on economic sentiment and global trade. The services sector, which is less directly exposed to external developments, continues to perform relatively well, as favourable labour market conditions support domestic demand. Overall, growth moderated in most advanced economies, in the second quarter, particularly in the Euro Area (1.2%), while remaining close to trend in the U.S. <u>(GDP per capita is expected to grow by 1.8% in the U.S. and 1% in the Euro area in 2019)</u>. Growth was also softer than expected in emerging markets, against the backdrop of domestic policy uncertainties and subdued external demand.

For 2020, the IMF's WEO baseline scenario foresees a pickup in growth to 3.4%. For the Euro Area, the rebound is expected to lift growth to 1.4% in 2020, assuming that transitory factors die out and external demand recovers on the back of a more accommodative monetary policy stance.

Risks to the outlook are tilted to the downside. An escalation of trade and technology tensions could further discourage investment and dislocate notoriously rigid supply chains. Trade tensions are a source of great concern and their resolution deserves the highest order of priority. In the Euro Area, a no-deal Brexit is a short-term risk that is compounded onto global uncertainties related to trade relations, geopolitical tensions and, over the longer term, increased incidence of (climate change-induced) natural disasters.

More than ever, effective risk mitigation requires resolute multilateral cooperation. From Brexit to trade disputes, and from climate change to cyber security, international cooperation is the preferable approach to bring about credible and globally beneficial solutions. A more transparent multilateral system based on a clear set of rules could reduce policy uncertainties, lift sentiment, and encourage investment.

A low-for-long interest rate environment may contribute to the build-up of financial vulnerabilities. It is important to safeguard financial stability through regulatory and prudential policies, including by maintaining sufficient buffers in the financial sector. Monetary policy should also find an appropriate balance between necessity, effectiveness and unintended consequences.

While current business cycle conditions do not appear to justify pre-emptive policy actions, policymakers should be prepared to respond in case risks materialize. Synergies between all policy instruments (structural, fiscal, monetary and prudential) should be utilized to maximize resilience while supporting inclusive and sustainable growth. Policy efforts should, however, be tailored to country-specific needs and capacities. In Europe, credible fiscal rules at the national and supranational levels should continue to target debt sustainability. If growth continues to falter, expansionary policies boosted by automatic stabilizers, could be envisaged in countries with fiscal space, if appropriate. When fiscal space is tight or absent, deficit neutral improvements in revenue and expenditure composition, could also provide welcome support. Such fiscal policies, combined with "smart" investments in R&D, infrastructure, health and education, can contribute to productivity gains and promote job creation while stimulating domestic demand. Furthermore, special emphasis should be put on structural reforms that enhance growth potential and ensure sustainable and inclusive growth against the backdrop of aging societies.

Strong domestic regulation and supervision, as well as international cooperation, are crucial to ensure effective anti-money laundering and combating the financing of terrorism (AML-CFT) frameworks. The Fund should work closely with the Financial Action Task Force (FATF) to advise and support members in their efforts and cooperation in this field.

Climate change is one of the most urgent global challenges of our time that requires strong international cooperation. The IMF can play a significant advising role in helping countries to meet the Paris pledges as well as in analysing the economic implications of policies aimed to reduce carbon emissions.

Given today's challenges related to the digitalisation of the economy and the risks of a shift towards harmful tax competition, well-functioning and fair tax systems require global cooperation. We support the OECD advancing work along the lines identified by the Inclusive Framework to reach a global consensus on further initiatives such as taxation of the digital economy. The IMF can complement these discussions by analysing the economic consequences of possible reforms.

The Fund's role and institutional issues

IMF resources and quota

The Fund should remain at the centre of the Global Financial Safety Net. We would be prepared to support a quota increase and deeply regret that this prospect will not garner the support needed for approval under the 15th GRQ. Therefore, the Constituency supports the work towards securing an adequately resourced Fund through at least a doubling of the NAB. Ensuring the Fund's resources enables it to respond to crises effectively, especially in a world with increasing financial interconnectedness.

Moreover, we believe the Fund should remain a quota-based institution as quotas underpin the Fund's finances, governance and risk management framework and contribute to a fairer burden-sharing among IMF members. While quotas should cover IMF resource needs in normal circumstances, borrowed resources should be used to cover exceptional circumstances and tail risks, respectively. Besides, the Fund's resources are intended to play a catalytic role to mobilise other sources of finance in crisis times, including official lending and private lending.

IMF-surveillance

We look forward to the forthcoming Comprehensive Surveillance Review (CSR) and FSAP Review. We believe the upcoming reviews offer an opportunity for the Fund to enhance and streamline its surveillance products to target them more precisely to the membership's needs. We support a close coordination of the CSR with the FSAP review, for example to better integrate FSAP recommendations into Article IV surveillance and reallocate resources within the overall surveillance budget. As long-term trends and risks can put pressure on sustainability, we encourage the Fund to take a long-term focus on sustainability in its surveillance work.

We encourage the Fund to use the CSR and the FSAP review to integrate emerging issues such as climate change, inequality, social spending, Fintech, cybercrime and gender issues in its surveillance framework, given that these are deemed macro-critical.

Comprehensive Compensation and Benefits Review

We look forward to the Comprehensive Compensation and Benefits Review (CCBR). We see this exercise as a way to realise significant simplifications in the CCBR framework and its administration and as a way forward to use Fund resources more productively, while remaining able to attract and retain highly skilled staff.

Debt policy

High and rising debt levels across a wide range of countries, in particular low-income countries, remains a key concern. Therefore, we continue to support the implementation of the joint IMF and World Bank Group multipronged approach and look forward to the review of the IMF Debt Limit Policy. The IMF should focus on debt issues in its surveillance, policy advice, and capacity development. Furthermore, we believe both borrowers and creditors, public as well as private, should take responsibility to ensure sustainable lending and borrowing practices and provide data in a transparent and comprehensive way.

Integrated Policy Framework

We welcome the workstream regarding the Integrated Policy Framework while stressing that policy advice should be based on solid evidence. The insights could be used to fine tune the Fund's advice to help countries pursue a balanced and effective policy mix of monetary policy, macroprudential policy, foreign exchange interventions and capital flow measures. The framework should be in line with the Fund's Institutional View on Capital Flows.

Support for IMF members

Armenia, Bosnia and Herzegovina, Georgia, Moldova and Ukraine benefit from financial support from the Fund. The authorities continue to demonstrate strong commitment to implement ambitious reforms and ensure country ownership. They merit continued support from the Fund and the international community in achieving their program goals.