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Belgium

On behalf of
Principality of Andorra, 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–The Netherlands, Romania, and Ukraine

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on behalf of Andorra, 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

Thanks to the fast rollout of vaccines and buoyed by continued fiscal support and accommodative monetary policies, economic activity has steadily rebounded in advanced economies. In most advanced economies, real output has already surpassed its pre-pandemic levels or is expected to do so in the coming quarters. The emergence of the Delta variant of COVID-19 has slowed down the gradual re-opening of some sectors in advanced economies, such as tourism and the event sector, but so far it has not derailed the broader recovery process, in part because economic agents have learned to adjust better to the pandemic. Progress with vaccinations and greater knowledge on how to avoid contagion have therefore lessened the economic risks attached to the recent pick-up in infections.

Conversely, in most emerging and developing economies, and especially in low-income countries, the speed of vaccination campaigns and policy space are much more limited, holding back growth in hard-hit countries and translating into a more divergent recovery of the global economy, also in terms of expected output losses over the medium-term compared to the pre-crisis trend (economic scarring). Lagging vaccination rates in large parts of the world have already led to, and further increase, the risk of new surges in COVID-19 infections, hospitalisations and deaths. This is also impacting the pace of the global recovery more broadly, including for advanced economies which are faced with sub-par external demand and supply chain disruptions. Moreover, it brings increased risk of new, potentially more contagious and vaccine-resistant mutations. As such, the health of the world's population and economy can only be assured if the virus is brought under control everywhere, which necessitates a sufficient degree of vaccine coverage, adequate testing capacity and access to therapeutics worldwide. Multilateral initiatives for the procurement and distribution of vaccines, such as the Access to COVID-19 Tools Accelerator / COVAX and those of the Task Force consisting of the International Monetary Fund (IMF), World Bank Group (WBG), World Health Organisation (WHO) and the World Trade Organisation (WTO), will be crucial in this regard.

The uneven recovery process, coupled with pandemic-induced shifts in consumer behaviour, has created supply-demand mismatches and bottlenecks in sectors such as transportation, electronics, and automotives - even if most value chains have shown great resilience. These mismatches have fed into inflationary pressures, adding to the effect of commodity prices bouncing back from their low levels. The current spikes in inflation are expected to be transitory to the extent that supply chain disruptions are expected to be temporary in nature, the recovery pace in major economies such as the United States and China levels off, and provided that wage growth remains stable and inflation expectations well-anchored. That notwithstanding, risks to inflation are mostly to the upside. Central banks are advised to closely monitor the drivers of inflation, to stand ready to recalibrate their monetary policy stance if inflation turns out to be more persistent, and to communicate clearly and timely to avoid unwarranted shifts in inflation expectations and financial conditions.

Although the global recovery has gained further ground, uncertainty surrounding the outlook remains high and the pace of the recovery depends first and foremost on the spread of the virus and uncertainty surrounding the development of new mutations and vaccine effectiveness, which both entail upward and downward risks. Future developments in pandemic-induced household savings and the fiscal response going forward will be important determinants to the near-term global outlook. In that regard, larger than expected spending of excess savings forms an upside risk. Moreover, risks to financial stability are posed by the increased indebtedness of corporates, the possibility of sharp financial market corrections, and an unexpected tightening in global financial conditions on the back of a monetary policy reassessment in advanced economies. For many emerging and developing economies, in particular those that cope with increased debt vulnerabilities as a result of the pandemic, an unexpected tightening of global financial conditions could jeopardise their path to recovery.

Policy support should be agile and well-tailored to countries' stage of recovery. In economies where the recovery is already well advanced, support measures should be increasingly targeted towards remaining pockets of highly affected businesses and workers and gradually be phased-out. The focus of fiscal policy should gradually shift towards rebuilding buffers, especially where public debt levels are already elevated, so as to be able to confront the next crisis or shock and in view of longer-term challenges such as population ageing, the digital transformation and the transition towards a carbon-neutral economy. In countries where economic activity is still heavily constrained by the pandemic and the associated containment policies and where fiscal space exists, support measures should not be prematurely withdrawn - to limit scarring effects - but where feasible, they should also be targeted and time-restricted. Governments need to draw out and clearly communicate a credible medium-term trajectory for fiscal policy, which by itself may help to bolster confidence and create additional budgetary room, as well as to ensure fiscal sustainability. The most vulnerable and fiscally constrained economies may require additional multilateral financial assistance.

The COVID-19 crisis has brought about significant changes in people's behaviour and preferences, some of which may persist beyond the pandemic, such as a shift towards more telework and reduced business travel. The crisis has also reinforced longer-term trends, notably digitalisation. As a result, some sectors may be permanently smaller after the crisis, and the mix of available jobs, their location and the skills they require could look quite different from the pre-pandemic situation. A gradual, well-guided exit from the current emergency support policies will be key in facilitating the necessary reallocation of labour and capital across sectors and between firms. At the same time, public and private investments in modern physical and digital infrastructure, renewable energy, healthcare and education will help create new jobs, boost productivity and develop new engines of growth. Such investments will need to be flanked by structural reforms in areas like corporate insolvency procedures, stimulating entrepreneurship and innovation, and active labour market policies. In Europe, the implementation of Next Generation EU's Recovery and Resilience Plans will contribute to kick-starting the needed policy shift from fighting the pandemic to investments and reforms that strengthen the longer-term resilience of the EU economy.

The post-pandemic recovery provides a window of opportunity to accelerate the transition towards a greener economy, which should not go to waste. Similar to the COVID-19 crisis, addressing climate change requires global solutions and collaboration; the climate crisis will not be resolved until all large emitters take ambitious actions. Policymakers should use the momentum created by the upcoming COP26 to step up their efforts. Globally as well as nationally, we will need a policy mix of carbon pricing, emissions target, regulation and targeted subsidies to address market failures. At the same time, we need to ensure that the transition is socially just and inclusive and that those that are most adversely impacted are compensated. Moreover, the swift development of COVID-19 vaccines has demonstrated the power of concerted scientific effort, which will be a crucial ingredient in the development of technologies for renewable energy generation, carbon capture and the like. Advanced economies, which historically have contributed most to greenhouse gas emissions, should continue to scale up their contribution to climate finance, as part of the goal to collectively mobilise USD 100 billion per year through to 2025 for vulnerable lower-income countries.

While international trade has historically been an important source of growth, structural change and increased welfare, it has become the subject of intense disputes and popular backlash in recent years. There is a real risk that geopolitical and strategic considerations will lead to a forced decoupling and reshoring of value chains and a fragmentation of the world economy into different blocs with their own rules and standards, which would imply significant overall welfare losses. In order to keep the world economy open and ensure a level playing field, the international rulebook that governs trade should be modernised and better enforced, particularly with respect to subsidies, state-owned enterprises, technology transfer and digital trade. We are committed to strengthening the multilateral trading system, with a reformed WTO at its centre. The WTO could also play a key role in the discussion about trade and climate.

Institutional issues

Given the persistence of the still challenging COVID-19 pandemic and the related uncertainty with respect to the recovery of the world economy, continued efforts are needed to secure a worldwide safe exit from this health crisis. The Fund has to continue playing its key role through its lending operations, targeted policy advice and capacity building. At the same time, members' economies need to be put on a longer-term path towards a sustainable, inclusive and green recovery. We welcome the Fund's ambition to develop strategies, within its mandate, in climate, digitalisation and inclusion to facilitate members towards a resilient recovery. Guidance is needed for these structural transformations, all the more in a context of high debt vulnerabilities.

Special Drawing Rights

We welcome the approval by the IMF Board of Governors of a historically large general allocation of Special Drawing Rights (SDRs) in an amount equivalent to USD 650 billion to help meet the long-term global need for reserve assets. We support IMF work on exploring options for countries to voluntarily channel, where legally appropriate, a share of their SDRs to magnify the impact of the allocation. We believe that the Poverty Reduction and Growth Trust (PRGT) is a logical candidate to channel SDRs to, as it provides a tried and tested framework. Some of our constituency members already contribute and are ready to further contribute to the PRGT Loan Account to strengthen the concessional lending capacity in order to support LICs. In this regard, we also welcome staff's efforts on ensuring the long-term sustainability of the PRGT's financing model including well-resourced subsidy financing.

We support the idea of creating a Resilience and Sustainability Trust (RST) to meet long-term needs for vulnerable countries. We support a strong focus on climate change mitigation and adaptation, and possibly also future pandemic preparedness, with eligibility including LICs and vulnerable middle-income countries. Such a Trust should be well-designed and complementary to the existing Fund's toolkit. We stress the need to preserve the reserve asset status of claims on the IMF with an appropriate risk mitigation framework, analogous to the PRGT, and have reservations regarding the possible removal of the preferred creditor status. A more fruitful strategy to avoid overloading countries with senior debt would be to use the IMF's catalytical role by providing limited loans with linked conditionality.

Debt developments

The pandemic is contributing to an increase in public debt levels and the risk of debt distress is high in many countries. We therefore very much welcome the timely and comprehensive debt agenda of the Fund, in particular on debt transparency, addressing debt vulnerabilities and improving private sector engagement. Effective multilateral cooperation will be essential to address these debt vulnerabilities; both creditors and debtors bear responsibility. We therefore strongly support the Common Framework for Debt Treatments beyond the DSSI, and its aim to ensure that the resolution of structural debt vulnerabilities is not postponed. We stress the importance of swift implementation of the Framework for ongoing cases and invite other DSSI countries with debt vulnerabilities to apply. We also look forward to the update on the last extension of the G20 Debt Service Suspension Initiative (DSSI). We also believe it is crucial to address unsustainable debt of countries presently outside the scope of the Common Framework, ideally in a coordinated fashion. Furthermore, the joint WBG and IMF Multipronged Approach remains an important tool to reduce public debt vulnerabilities in LICs. We welcome the review of the Lending into Arrears Policy. Given that IMF surveillance has a major role to play in monitoring debt dynamics, we look forward to the roll-out of the new Debt Sustainability Framework for market-access countries. We reiterate our support for strengthening debt transparency including debt data reconciliation by the IMF and the WBG. Last but not least, we encourage vulnerable countries to move towards upper credit tranche-quality programs as they are instrumental in addressing debt vulnerabilities.

Climate change

As climate change is an urgent challenge for the entire Fund membership, we praise the Fund for significantly stepping up its ambition and work on climate change in all IMF working areas. The recovery provides a window of opportunity to accelerate the transition towards a greener economy and the Fund has a crucial role to play in providing guidance. The comprehensive strategy for the IMF's engagement on climate-related issues will be a cornerstone to help members address climate change-related policy challenges. We believe that climate mitigation, adaptation and transition management should be further integrated in surveillance, lending and capacity development. In particular, we support the ongoing integration of climate-related risks in Article IV surveillance and the Financial Sector Assessment Program. And on lending, the Fund should consider using program conditionality, where appropriate, to support borrowing countries in increasing their resilience against climate change, and mitigating future shocks resulting from climate change.

To deliver on its ambitious climate agenda, the Fund should scale up its human and budgetary resources devoted to climate work, for instance by re-prioritization and balancing against other non-core priorities or requesting additional resources as part of the overall budget exercise. Next to that, collaboration with other institutions to leverage expertise remains important.

Lending

We commend the Fund for stepping up its efforts to support vulnerable countries through emergency financing and its concessional financial support. As the economic and health situation evolves, however, IMF lending has to evolve towards the Fund's more standard lending programs, based on adequate policy conditionality. In this respect, we very much support a shift in lending to upper credit tranche-quality lending programs. These programs are more suitable to the needs of countries during the recovery phase and include structural conditionality and more governance safeguards. In this vein, we welcome the follow-up on safeguards under emergency financing and the review of the safeguards assessment policy.

Quota and resources

We support the work towards the completion of the 16th General Review of Quotas (GRQ). We reiterate our support for an adequately resourced, quota-based IMF at the centre of the global financial safety net. While quotas should cover IMF resource needs in normal circumstances, the Fund resources also include the New Arrangements to Borrow- and Bilateral Borrowing Arrangements which are meant to be used in tail risk scenarios. As IMF resources are not unlimited, the IMF should use them prudently by supporting timely debt reprofiling and/or restructuring when needed, avoiding excessively large precautionary loans for extended periods of time with no clear exit strategy, and catalysing other (private) financing. We also note that the current quota formula captures dynamic developments in the world economy and is already delivering on the aim of increasing the Fund's representativeness and preserving its legitimacy.

Social and governance issues

We continue to support the Fund's engagement on social issues, that have become more acute due to the Covid-19 crisis, and governance issues and welcome the expansion of these issues in country work, programs and research. The Fund can continue to play a key role in promoting policies that contribute to inclusive growth and good governance.

Support for members

Within our Constituency, Armenia and Ukraine are currently engaged in SBA arrangements with the Fund, while for Georgia and Moldova programme negotiations are taking place. In addition, Bosnia and Herzegovina, Moldova, Montenegro and North Macedonia, benefitted from emergency liquidity support through the RFI and RCF. The members of our Constituency merit continued support from the Fund and the international community in responding to the economic impact of COVID-19 and in achieving their broader policy goals.