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Statement by Mr. Van Peteghem
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

Statement by Mr. Vincent Van Peteghem Deputy Prime Minister and Minister of Finance, Belgium

On behalf of Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Republic of North Macedonia, Romania, the Netherlands and Ukraine, October 10, 2023

We stand in solidarity and express our support for Morocco, Libya, and all other nations that have recently endured the devastating impact of natural disasters. We are resolute in our commitment to provide assistance to these nations during their time of profound need.

We condemn in the strongest terms the terrorist attacks on Israel from Gaza. Our thoughts are with the victims and all those affected.

We also deeply regret the recent developments in Nagorno-Karabakh. We stand by the Armenian population of Nagorno-Karabakh and express our deepest condolences for the loss of lives from the aggression in the region.

We continue to stand firmly by Ukraine and its people. We recall that the United Nations General Assembly deplores in the strongest terms the aggression by the Russian Federation against Ukraine and demands that the Russian Federation immediately cease its use of force against Ukraine. With thousands of lives lost, millions of refugees, and a large part of the country’s economy being destroyed, the war has had a massive humanitarian, economic, and financial impact on Ukraine, its neighboring countries, and the global economy. We therefore deem it of utmost importance that the Fund continues to assist Ukraine with the highest priority and welcome the progress being made by Ukraine under the EFF arrangement and the establishment of a capacity development subaccount for Ukraine in April 2023. In parallel, we will continue to work closely with international partners, including the EU, to support Ukraine in meeting its immediate external financing needs and substantial financing needs for post-war reconstruction.

Several other members of our Constituency also merit continued support from the IMF. Within our Constituency, Ukraine, Armenia, Georgia, and Moldova are currently engaged in SBA, ECF, or EFF engagements with the Fund, while North Macedonia benefits from a PLL.

Global economic context, prospects, and policies

The world economy showed signs of resilience in the first half of the year, but leading indicators now point to an economic slowdown. After weakening activity in the manufacturing sector, the services sector is feeling the pinch, following a slowdown in consumer spending. Headline inflation has abated against the backdrop of declining energy and food prices since the IMF Spring Meetings and a normalization of supply chains. However, core inflation remains elevated in many countries, in the presence of tight labor markets with strong wage growth. Overall, macroeconomic divergences across countries have widened in recent months. Even though acute banking sector stresses have receded, for now, a cautious stance by supervisors is still warranted.

Despite the rapid and significant monetary tightening carried out by the world's major central banks, the battle against inflation is not yet over, with price growth remaining above target in many countries. Central banks should continue to address inflation as appropriate, while safeguarding financial stability with all available tools. This requires thorough monitoring and timely decision-making by central banks, as the risk of prolonging wage growth and further second-round effects remains.

Indeed, ensuring price stability is the prime responsibility of monetary policy, which can be supported by an appropriate, well-aligned fiscal stance. Against a background of tight labor markets and positive output gaps in advanced economies, countercyclical fiscal policy can help prevent a further build-up of inflation. This would also contribute to ensuring the long-term sustainability of public finances. Indeed, fiscal sustainability is important for our prosperity and that of future generations. Sound public finances are key to providing the necessary fiscal space to address future challenges.

The sustainability of public finances deserves particular attention in the current context, marked by a sharp rise in interest rates and a general level of (public) debt inflated by the pandemic and energy crisis. Transitioning to a low-carbon economy that is respectful of the environment will require important financial resources from both the private and public sectors over the coming years. Market-oriented structural reforms ease this trade-off for governments by promoting structural growth and improving fiscal sustainability over the medium-term.

Moreover, we should take note of the ongoing labor market transformations. Over the next decades, public finances will feel increased pressures from aging populations. The labor market and the nature of work are undergoing profound transformations, fostered by a high demand for labor in the wake of the pandemic and the reduction in working hours, the rise of telework and increased flexibility, and the digitalization of the economy, among other factors. This dynamism in the labor markets should catalyze reforming training systems as well as incentive frameworks for labor market participation. It is key that everyone contributes according to their skills and capacity to address the many challenges and transformations facing us, from digitalization, including the deployment of artificial intelligence, and automatization to the slowdown in productivity growth and the green transition.

Geopolitical tensions and growing fragmentation pose increasing risks to the world economy. Trade restrictions have increased substantially, while strategic management of industrial policy has made a forceful comeback. Major macroeconomic and environmental challenges affecting our economies call for more global cooperation, not less, to ensure broadly shared prosperity, for present and future generations.

Climate change

Amid global uncertainty and significant downside risks, we should not lose our focus on long-term challenges, in particular climate change. As a united international community, we must continue to cooperate and intensify our joint actions to steer the world towards a sustainable future.

We welcome the expanding role of the IMF in the field of climate change and are looking forward to the further implementation of the Fund's climate change strategy. The adverse macro-financial effects of climate change have started to materialize, following unprecedented heatwaves, droughts, and devastating floods across the globe. This highlights the need to improve resilience to deal with nature-related shocks. To ensure global macroeconomic and financial stability in the medium and longer term, the IMF has an important role to play. We welcome strong demand and first program approvals of the Resilience and Sustainability Trust (RST). After contributions from the Netherlands and Luxembourg, Belgium will also contribute to the RST to help vulnerable members tackle climate change challenges. Given the long-term perspective of the RST and its limited resources, RST programs should be highly ambitious with well-underpinned access levels and should significantly catalyze other sources of private and public financing. To complement the RST, we support the Fund to develop climate-focused capacity development programs. We encourage the Fund to collaborate closely with other international financial institutions and organizations to leverage their expertise and balance sheets, including but not limited to the Coalition of Finance Ministers for Climate Action.

We support the importance given by the IMF to climate risks in its surveillance activities, including in FSAPs. The IMF is also well-placed to advise its membership on closing the mitigation gap, in particular for the world's 20 largest greenhouse-gas emitting countries. We applaud the Fund's work in creating modeling expertise that provides for economic first-best policy advice on the mitigation of greenhouse gas emissions in bilateral and multilateral surveillance. We also commend the Fund's work on decarbonization. Further strengthening and deepening the use of such tools in IMF work is welcome. Investments in necessary mitigation technologies (such as renewable energy and the required grid investments, energy efficiency investments, electrification, and development of carbon capture and carbon removal technologies) are needed to move the world economy onto a Paris Agreement-compatible emissions path. More work on estimating the costs of the transition in more detail would be a useful addition to the Fund's climate change expertise.

16th General Review of Quotas

The IMF is positioned at the center of the Global Financial Safety Net and should have sufficient resources available to continue to adequately support its membership. We therefore reiterate our support for an adequately resourced, quota-based IMF. We call upon the membership as a whole to adopt a constructive stance and remain committed to ensuring a successful conclusion of the 16th

General Review of Quotas (GRQ) by December 15, 2023. This is critical to the Fund's legitimacy. A possible realignment is a shared responsibility among all members and should thus be supported through fair and broad burden-sharing among all members who are overrepresented based on the existing quota formula while protecting the poorest. We are open to discussing other measures on how to strengthen the representation of emerging market economies and low-income countries in the governance of the IMF, including by supporting an additional 25th chair in the IMF Executive Board to represent African countries. We are open to discussing other reforms to IMF policies but emphasize that they should be assessed on their merit, following the regular, high-quality review processes of the Fund. Each member should demonstrate their responsibility in international financial architecture issues. As the 16th GRQ is important for every member, discussions should remain anchored in the relevant IMF bodies.

Lending strategy

During recent global economic shocks, we have supported the IMF in stepping up its efforts to support vulnerable countries through emergency financing. Now, we reiterate the importance of focusing on providing UCT-quality programs that allow for conditionality to strengthen macroeconomic policies, thereby catalyzing external resources from both public and private creditors.

Low-income countries are facing severe challenges such as high inflation, food crises, and rising debt levels. The Poverty Reduction and Growth Trust (PRGT) remains an indispensable tool to assist these countries through concessional lending. We look forward to the review of the Fund's Concessional Facilities and Financing to further improve its functioning and financial self-sustainability. We have a joint responsibility in maintaining an adequate level of PRGT resources to ensure that the Fund can continue to provide adequate support to low-income countries. We are open to exploring a combination of options available to restore the self-sustainable character of the PRGT in the upcoming review while preserving a strong overall financial position of the IMF.

We welcome the completion of the review of the precautionary instruments, which have proven to be of great value in the context of increasing global economic uncertainty. Nevertheless, we continue to encourage members to leverage the positive signaling effect of the instruments to make progress toward self-reliance.

Debt vulnerabilities and treatment

Effective multilateral cooperation is essential to tackle the increasing debt challenges. Given the highly precarious debt situation in several low- and middle-income countries, we strongly welcome the IMF's efforts to reduce debt vulnerabilities and strengthen debt management and transparency. The role of IMF surveillance and of UCT-quality programs in restoring debt sustainability should not be underestimated.

Concluding debt treatments in a timely, orderly, and coordinated manner is in the interest of all. We welcome the conclusion of the second case of debt treatment under the G20 Common Framework for Debt Treatments (Common Framework) but note that further efforts remain required to enhance its efficiency. We encourage all parties involved in the process to cooperate to achieve a predictable, swift, and coordinated implementation of the Common Framework. In addition, we reiterate the importance of good coordination on debt issues for middle-income countries. In this respect, the Global Sovereign Debt Roundtable can offer a useful forum to build a greater common understanding amongst key stakeholders on technical aspects of debt restructuring, as a complement to existing debt fora.

Urgent progress is needed in the domain of debt transparency. We look forward to the Fund's continued efforts to improve debt transparency and strengthen the contractual approach to support sovereign debt restructurings.

Diversity and inclusion

We urge the IMF to step up its efforts to improve staff diversity and inclusion, responding to the challenges of the IMF. This also includes working towards a more balanced gender representation within the Fund, including at the Executive Board. Having adopted its first-ever strategy towards mainstreaming gender, we consider it important that the Fund leads by example.