



International Monetary and Financial Committee

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**IMFC Statement by Wopke Hoekstra
Minister of Finance
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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The Netherlands**

On behalf of

Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Macedonia, Moldova, Montenegro, The Netherlands, Romania, and Ukraine

Global Economic Context Prospects and Policies

Global Economy

- With expected growth rates of 3.9 percent in both 2018 and 2019, the global economy is expanding strongly. However, this positive momentum is expected to fade in the medium term as growth rates converge to their potential level. The expansion is broad based with a majority of advanced and emerging economies experiencing a pick-up in growth. Expected growth in the euro area and Japan has been revised upwards due to domestic demand expansion and, in the case of the euro area, by the uplift of net exports in the second half of 2017. In the United States, the tax reform is expected to add to domestic demand in the short term while lowering growth prospects somewhat in the longer term. Growth in the UK is lower than previous years because of decelerating real household income and Brexit uncertainties. The growth forecast for China has remained stable at a still high level of 6.6 percent in 2018. Growth in EMDCs is expected to increase slightly compared to 2017 due to, amongst other, the firming of recoveries in Brazil and Russia and the positive effects of reforms in India.
- The expansion in the euro area has gained momentum in 2017 and is projected in 2018 to continue posting GDP growth amongst the highest rates in 10 years. Growth is broad-based across countries. Export growth has performed strongly despite the appreciation of the euro. Strong demand has translated in a steep decline of unemployment since the crisis though significant differences among countries remain. Strong demand has not yet translated into sustained higher inflation. The IMF expects the output gap to close this year, which could add to inflation pressures even if uncertainty about the degree of slack is still high. Despite high growth and low interest rates, public and private debt levels remain, on average and to different degrees, higher than before the crisis.
- Conditions on financial markets remain favorable, despite the recent episodes of heightened volatility on global equity markets that proved relatively short-lived. Furthermore, indicators of systemic stress remain at generally low levels and both soft- and hard economic indicators are on the up.
- Medium-term financial stability risks, however, continue to be elevated due to the vulnerabilities that have been building up during several years of easy financial conditions. In addition, protectionist trade policies may also jeopardize the outlook.

Policy mix

- Policymakers should take advantage of the prevailing tailwinds to strengthen economic resilience. The policy mix should be geared to raising sustainable growth prospects, by rebuilding fiscal buffers, implementing structural reforms and, as the path of inflation converges sustainably towards its policy objective, decreasing dependence on monetary stimulus.
- Fiscal policy should remain clearly anchored within a strong policy framework that safeguards public finances' sustainability over the long term. The current growth momentum provides the opportunity to decrease debt levels. Fiscal buffers should be strengthened without delay to improve the capacity of governments to face future shocks, including the expected rise in interest rates in the medium term. Enhanced efforts to reduce public debt would add to reducing procyclicality of policies. Furthermore, many countries face additional budgetary challenges due to the effects of ageing, which amplify the need to build buffers to better withstand shocks in the long-term. Specifically, for the euro area, fiscal policy should fully respect the rules of the EU Stability and Growth pact. There is significant scope for improving the quality of public finances across Member States. To improve the composition of public spending, investment should be directed towards areas which would raise economic growth in the medium and long term, particularly in education, innovation, infrastructure and health.

- The current juncture of high growth and low interest rates offers a good opportunity to step up structural reforms as some of the short term negative effects may be easier to confront during a period of economic expansion. Surveys such as the 2018 OECD Going for Growth show that the implementation of structural reforms has slowed since the crisis and remained modest in 2017. Structural reforms can raise potential 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 ensure that our social welfare states are sustainable.
- Well-designed reform packages which include activating labor market policies, better linking the pension age to life expectancy and product market reform to reduce entrance barriers will increase employment and potential growth in the short and the long run. Other types of reform like enhancing the efficiency of insolvency frameworks, the shift from bail-out to bail-in and facilitating risk bearing capital or equity investments and relaxation of overly rigorous dismissal legislation will increase resilience to shocks. All these, including fighting tax avoidance and evasion, promote fairness and generate inclusive sustainable economic growth.
- In the euro area specifically, the completion of the Banking Union and further progressing on the Capital Markets Union will contribute to strengthen the resilience of the euro area to economic shocks. Together with a removal of the impediments to the internal market, mainly in the services, digital and energy sectors, these measures could boost investments by improving the availability of funding and new investment opportunities, increasing competition and improving allocative efficiency.
- Regarding financial stability, it is important to remain vigilant in the build-up of financial imbalances. In that regard, we subscribe to the recommendation of the IMF that current financial regulation and supervision should be maintained and improved upon where necessary. 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.
- The underlying need for monetary stimulus is diminishing as the economy continues to expand and inflation accelerates, particularly in some regions of the world. However, the pace of normalization will differ from region to region depending on the specific economic conditions. Continued accommodative monetary conditions may pose vulnerabilities over the medium term which need to be monitored and to be addressed in the first instance by macroprudential policy.

Multilateral policy response

- Trade plays a crucial role in boosting potential growth, through a more efficient allocation of capital and labor and via the diffusion of technology. Globalization and technological change have made a significant contribution to raising living standards around the world.
- However, we may have underestimated the side effects of globalization and technology. While governments should emphasize the major benefits of free trade, they should also address the adverse effects that liberalizing trade and technological development has had in some parts of society, like the redistribution of economic activities. We have to recognize that globalization has benefitted some sectors and communities more than others. Addressing the concerns of the vulnerable might reduce support for inward-looking policies.
- Policies such as a broad access to high quality education, active labor market policies as well as efficient redistribution are needed to ensure that the benefits of increased economic integration accrue to all. Fairness, equity and prosperity should be the main goals in this respect. Increased protectionism will only result in higher costs for consumers and lower growth prospects for all countries. Unilaterally imposing trade barriers and tariffs will undo wealth gains and must be avoided. Dialogue and cooperation are key to a fair and an open trade system.
- The near-term deficit-financing risks of global imbalances have decreased as deficits now concentrate mostly in advanced economies with reserve currencies. However, stock positions are still diverging and growing external debt positions could pose a risk in the medium term. Proper incentives for both debtors and creditors to prevent overreliance on debt can help prevent the build-up of unsustainable stock positions. Proper incentives could include applying bail-in to

creditors, stimulating equity instead of debt-based finance, and promoting local currency debt where markets are adequately developed.

The Fund's role and institutional issues

IMF Resources and quota

- We support the work towards the completion of the 15th General Review of quotas. The Fund should remain a quota based institution as quotas underpin the Fund's finances, governance and risk management framework. We believe it is important that the prospect for a possible quota increase should be clarified first, before discussing the quota formula. Quota should be sufficient to cover future IMF lending in normal circumstances while borrowed resources should serve as the second line of defense if tail risk scenarios materialize. The Fund should remain at the centre in the Global Financial Safety Net. During crises, the Fund resources are intended to play a catalytic role to mobilize other sources of finance, including official lending and private lending as these are alternative sources as well. The 15th quota review and the review of the quota formula should continue to be treated as an integrated package and be fully anchored in the relevant IMF bodies. The main variables of the quota formula should remain both GDP and openness, as these capture the role and mandate of the Fund best. In particular openness reflects the integration of countries in the global economy, in line with the Fund's mandate to promote international cooperation, economic integration and the increased focus on the effects of spillovers. Its weight should thus at least be maintained and there should be no cap introduced in the quota formula.

Surveillance and emerging issues

- We welcome the interim surveillance review, which highlighted the various challenges of the Fund to further implement the 2014 recommendations. Surveillance should be holistic, evenhanded and maintain a comprehensive approach covering all key macro-economic aspects. At the same time, programs should be made country-specific as policies and institutional frameworks differ strongly across the membership. Increased interconnectedness and new technologies raises new risks that need to be thoroughly assessed. We believe the Fund needs to monitor and tackle the risk that emerges in a rapidly changing world. We therefore support the pilot-study approach of the Fund in developing expertise on emerging issues. The Fund should continue its work in the field of climate change, inequality, gender, corruption, cybercrime and Fintech.

Debt developments in Low Income Countries (LICs)

- We note with concern that debt levels in LICs have risen sharply in recent years and that debt sustainability risks have increased. Furthermore, important gaps in the available data on public and publicly-guaranteed debt have emerged. The unfavorable debt developments in LICs should be a key priority for the Fund. The IMF should broaden the coverage of debt data disclosed by debtor countries to the IMF. Borrowers and lenders, including private creditors, should adopt sustainable financing practices, including greater data transparency. In this regard, it is important that the debt limits policies of the Fund are respected by all parties. We encourage the IMF to provide a quantitative assessment of borrowing space in debt sustainability analyses for low income countries. At the same time, it is crucial to support LICs in increasing their debt management capacity. Finally, we look forward to the review of the facilities for LICs. This review should assess whether the current facilities are designed adequately to prevent LICs from building up excessive debt.

Compensation and benefits

- We strongly support transparent, comparable, cost effective and performance-based remuneration systems that use relevant parameters for compensation adjustments. We therefore support the combined benefits and compensation review presented by the Fund in February. We encourage the Fund to be comprehensive, transparent and forward looking, including considering options for possible reform. This review should ultimately contribute to improving the Fund as an agile, diverse, and inclusive employer.

Support for IMF members

- In our Constituency, Bosnia and Herzegovina, Georgia, Moldova and Ukraine currently benefit from financial support from the Fund. The authorities of these countries are showing strong commitment and ownership to implement ambitious reforms. We believe that these countries deserve continuous support from the Fund and the international community in achieving their goals.