INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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Statement by Ms. Kaag
Kingdom of the Netherlands–The Netherlands

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, Moldova, Montenegro, Republic of North Macedonia, Romania, the Netherlands, and Ukraine
Washington DC, April 2022

We recall that on March 2, the United Nations General Assembly by a majority of countries adopted the resolution ES-11/1 "Aggression against Ukraine" that "deplores in the strongest terms the aggression by the Russian Federation against Ukraine in violation of Article 2 (4) of the Charter" and "demands that the Russian Federation immediately cease its use of force against Ukraine". We also highlight that most members strongly condemn Russia's invasion of Ukraine, which they view as unprovoked and unjustified, and express unwavering solidarity with the people of Ukraine and consider Russia responsible for the sanctions imposed as a result.

First and foremost, we stand firmly by Ukraine and its people in this unparalleled crisis stemming from the war. With thousands of lives lost, millions of refugees and a large part of the country's economy being destroyed, the war has a massive humanitarian and financial impact on the country, its neighbors, and the global economy. We therefore welcome the approval of a Rapid Financing Instrument by the Fund to help Ukraine meet its urgent balance of payment needs, the establishment of a Multi-Donor Administered Account for Ukraine that provides donors with a secure vehicle to direct financial assistance to Ukraine, as well as the support of other IFIs. We will continue to work very closely with international partners to support Ukraine directly in meeting its immediate external financing needs and substantial financing needs for the post-war reconstruction.

Countries that have strong trade and financial linkages to Ukraine and the Russian Federation will be particularly affected. This applies in particular to countries in the region, including a number of members of our Constituency, as well as more distant countries relying heavily on fuel and food imports or tourism. The IMF plays a key role in providing financial assistance to countries economically and financially most affected by the war. In this respect, we support Moldova's request for an augmentation of the EFF/ECF program. We also welcome the ongoing discussions on a new SBA for Georgia.

The escalation of geopolitical tensions undermines European and global security, stability, and prosperity. Although uncertainty surrounding the economic implications is substantial, the war inevitably entails severe consequences for the global economic outlook. In particular, elevated energy, food and other commodity price pressures, as well as trade and supply chain disruptions, add to already elevated global inflation pressures and will dampen recovery from the pandemic. Beyond the direct economic implications of the war, the fundamental uncertainties surrounding it will negatively affect consumer and business confidence, economic activity, and investment alike. Greater uncertainty may lead to more volatility on financial markets, a tightening of financial conditions, and higher external borrowing costs. We recognize that free trade has historically been an important source of growth and welfare. At the same time, we acknowledge that the war highlights strategic trade and supply chain dependencies that need to be addressed.

The upward pressure on inflation, pre-dating but reinforced by the war, has induced central banks in many advanced economies to gradually start tightening monetary policy, in line with their respective mandates. Faced with elevated uncertainties, central banks should remain flexible and agile, all the while leaving no doubt that they will react to prevent higher inflation from becoming entrenched. Inflation expectations will need to be monitored carefully to safeguard price stability. Central banks should continue to communicate their policy intentions in a clear and transparent manner. This would also help in limiting adverse spillovers resulting from tighter global financial conditions.

Persistently elevated inflation would erode households' purchasing power, especially in commodity-importing countries and with the largest burden falling on lower-income groups. This may warrant temporary, targeted support for vulnerable households in the short term, in addition to letting automatic stabilizers operate fully. Emergency support measures in response to the Covid-19 pandemic have proven effective in dampening its economic implications, both in terms of short-term growth as well as potential growth. However, emergency Covid support should be phased out in a timely manner as countries leave the pandemic behind them, especially in the current high-inflation context. Particularly in advanced economies with tight labor markets, prolonged support entails increasingly stark trade-offs, as it may contribute to an overheating of the economy and to adverse price-wage spirals. Going forward, policies should pivot to structural reforms and investments that facilitate a reallocation of resources and foster longer-term productivity growth. Against this backdrop, public debt has reached historically elevated levels and debt vulnerabilities have increased markedly. This implies increased risks to debt servicing and debt sustainability at a time when global financial conditions are likely to tighten in the near term. Therefore, it is crucial that countries adopt appropriate fiscal frameworks to safeguard fiscal sustainability and build fiscal buffers over the medium-term.

Although the implications of the war are the foremost challenge, a resurgence of the pandemic also remains a key source of risk for the global economy. Countries with the lowest vaccination rates face a subdued recovery, with the possibility of further economic divergences between and within regions. Therefore, increasing and speeding up global access to vaccines, in particular through ACT-A and its COVAX facility, remains a priority. This also lowers the risk of potentially more resistant virus mutations that threaten global health and the recovery of the world economy.

Finally, the current developments should not divert attention from much-needed efforts to address long-term structural challenges and to facilitate the green and digital transitions. It is crucial that the response to reduce negative implications of the war as well as economic recovery measures more broadly remain aligned with climate objectives. The current energy price dynamics illustrate the need to accompany climate policies, such as carbon pricing, with social policies targeted at vulnerable groups given the distributive implications of higher carbon prices.

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The general allocation of Special Drawing Rights (SDRs) was a historic multilateral accomplishment, benefitting all members by underpinning the stability of the global economy. Now is the time to magnify its impact, and for all countries able to do so to rechannel a share of their newly allocated SDRs to vulnerable low- and middle-income countries. Our Constituency is determined to play an active part in this. We believe that the Poverty Reduction and Growth Trust (PRGT) is a logical candidate, and some of our Constituency members already contributed and stand ready to further contribute to the PRGT loan account to strengthen the Fund's concessional lending capacity.

The Constituency supports the establishment and operationalization of a new Resilience and Sustainability Trust (RST) within the IMF to meet longer-term prospective balance of payment needs. The RST can play an important role in supporting inclusive, resilient, and sustainable economic recoveries for vulnerable countries, primarily focusing on climate change, as well as on pandemic preparedness. We welcome that vulnerable middle-income countries will be eligible for financial assistance under the RST. We stress the need to preserve the reserve asset status of claims on the IMF. Several countries of our Constituency, among which the Netherlands and Belgium, intend to contribute to the RST. Luxembourg is finalizing domestic procedures to operationalize its Voluntary Trading Arrangement (VTA) on top of existing long-standing VTAs with the Netherlands, Belgium, Israel, and Cyprus, which will contribute to burden-sharing in the SDR market. We strongly encourage the Fund to work in close cooperation with the World Bank and other MDBs in implementing the RST, particularly in the design of conditionality, benefitting from each institution's expertise and respecting their mandates and comparative advantages.

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The efforts to ensure timely, orderly, and coordinated debt treatment under the G20/Paris Club Common Framework for Debt Treatments beyond the DSSI (CF) for eligible countries need to be stepped up. To this end, we support the introduction of predictable timelines throughout the CF process and greater outreach to debtors. This is needed to provide debtors with the necessary clarity about and trust in the functioning of the CF. We see a key role for the IMF through its debt management capacity building engagements. These should also improve debt data reconciliation which would contribute to swifter future CF implementation. Additionally, we favor increasing the coordination of debt treatments among official bilateral creditors for vulnerable middle-income countries that are currently outside the scope of the CF.

The Constituency emphasizes that promoting and strengthening debt transparency remains paramount in the debt agenda. There is a responsibility for both debtor and creditor countries to ensure adequate transparency for sustainable debt management and debt resolution. We also call for a greater focus on the vulnerabilities stemming from contingent liabilities, collateralization of sovereign debt and the use of non-disclosure agreements. We believe the upcoming paper on debt transparency incentives by the IMF and WB is an important milestone and excellent opportunity to further push this agenda forward.

Climate change is an urgent challenge for the entire Fund membership. Now is the time to act and increase our ambitions and work on climate change. Concerted action will be crucial to mitigate and adapt to the risks related to climate change. We welcome the IMF's efforts to further embed climate change considerations in all its activities. In particular, we welcome the progress made on the integration of domestic mitigation strategies into macroeconomic surveillance (Article IV) and climate-related risk monitoring and financial policy advice in financial surveillance (FSAP). We welcome the incorporation of climate change risks and policies in assessments of debt sustainability (DSA). We are encouraged by the Fund's analytical work for an international carbon price floor (ICPF) and support further work in the area of carbon pricing. Moreover, the new RST provides an additional opportunity to support countries' efforts to strengthen their long-term resilience to climate change shocks (including through conditionality). While we believe climate should be appropriately integrated in IMF's regular lending toolkit, the RST provides a first important step to integrate climate issues into IMF programs. To increase the climate impact of the RST we urge for a strong link with capacity development.

Finally, we remain strongly supportive of the Fund's Framework for Enhanced Engagement on Governance issues. We look forward to discussing lessons learnt from Covid-19 crisis lending as part of the upcoming review of the Framework.