INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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Statement by Mr. Heinen
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

Statement by Mr. Eelco Heinen, Minister of Finance, the Netherlands

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

We continue to stand firmly by Ukraine and its people and recall the United Nations General Assembly's strong condemnation of the aggression by the Russian Federation against Ukraine. The Russian Federation continues to ignore the UNGA's demand that it must 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 destroyed, the war has had a massive humanitarian, economic, and financial impact on Ukraine, its neighboring countries, and the global economy. We therefore welcome the Fund's ongoing assistance to Ukraine with the highest priority and welcome the progress made by Ukraine under the EFF arrangement and the launch of a capacity development fund for Ukraine in February 2024. 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.

The conflict in the Middle East that ensued Hamas' terror attack on Israel on October 7, 2023, continues to take a terrible toll. We are gravely concerned about the prolonged, humanitarian crisis in Gaza. Further regional escalation of the conflict may have a severe impact on the world economy. The immediate and unconditional release of all the hostages, access to humanitarian aid, and an end to civilian suffering and loss of life are an absolute priority.

The massive influx of more than 100,000 refugees from Nagorno-Karabakh continues to place a significant strain on Armenia's economy. We welcome the Fund's support for Armenia and welcome the progress made by Armenia under the precautionary SBA arrangement.

We welcome the Fund's continued engagement with members of our Constituency through financial support and policy advice, including the Fund-supported programs in Armenia, Georgia, Moldova, North Macedonia, and Ukraine.

Rebuilding economic resilience in the context of structural and geopolitical challenges

The global economy has continued to show resilience and modest economic growth following a series of supply-side shocks. Central banks acted decisively to counteract rising inflationary pressures brought on by the Covid-19 pandemic and the consequences of Russia's war against Ukraine resulting in tighter monetary policy stances. Debt levels, further geopolitical tensions, geo-economic fragmentation, and persistent inflationary pressures present key risks to the outlook. Moreover, the global economy's growth prospects continue to lag behind pre-pandemic growth rates in part due to weak productivity growth, highlighting the need for structural reforms to improve resource allocation and foster innovation.

Persistent wage growth, reinforced by tight labor markets, contributes to a risk of enduring core inflation in advanced economies. While wage increases help restore purchasing power, they also contribute to significant services inflation. Central banks need to carefully monitor inflation developments and remain vigilant.

Public deficits and debt have risen in response to consecutive and unprecedented shocks. These shocks have contributed to fiscal vulnerabilities, particularly in countries with already high debt levels. At the same time, structural challenges such as the climate transition, weak productivity growth, and an aging population cause further fiscal pressures. Careful policy prioritization and significant fiscal consolidation efforts are needed to restore fiscal buffers and safeguard the sustainability of public finances. Reforms that increase productivity and boost potential growth will also generate room for fiscal policy to respond to these long-term challenges.

Climate change will cause significant fiscal pressures in the future. The cost of inaction exceeds the costs of an orderly and just climate transition to achieve net zero emissions by 2050. Relying solely on spending measures to meet the climate goals would impose a significant fiscal burden on already high levels of debt. An effective and robust climate strategy requires a strong focus on pricing, regulation, and catalyzing private investment. Addressing the distributional impact of these climate policies is essential to protect the most vulnerable and to strengthen social acceptability.

Geopolitical tensions and growing fragmentation continue to pose significant risks to the global economy and financial stability. Geo-economic fragmentation exacerbates price pressures, hampers productivity growth, and limits the efficient allocation of resources as well as the diffusion of ideas and technologies, thereby hindering innovation. It therefore remains a priority to foster a rules-based international system and strengthen multilateralism for the benefit of all.

The IMF plays a key role in strengthening members' economic resilience

Since their creation in 1944, the IMF and the World Bank have contributed to a more stable and prosperous global economy. 80 years after the Bretton Woods conference, both institutions continue to play a key role in addressing global challenges.

A high number of low-income countries currently face liquidity pressures, often driven by high debt servicing costs. In this context, we support ongoing work by the IMF and World Bank to address liquidity constraints where debt is still sustainable. Structural reforms, increased debt transparency, stronger domestic resource mobilization, external financing, and sound debt management frameworks can help prevent debt vulnerabilities. We re-emphasize the importance of timely, orderly, predictable, and coordinated debt treatments in countries with unsustainable debt. We welcome the recent advances made in debt treatments under the G20 Common Framework, but we see scope for further improvement. In addition, we emphasize the need for incorporating climate change, local currency financing, and subnational debt in the ongoing review of the Debt Sustainability Framework for low-income countries.

An increasing number of low-income countries are seeking policy advice and concessional financing through the IMF's *Poverty Reduction and Growth Trust (PRGT).* We recognize the challenging economic and social conditions and severe financing pressures these countries face. PRGT programs should be robust and include adequate safeguards to catalyze additional financing and help strengthen domestic policy frameworks. We emphasize the importance of restoring the long-term self-sustainable financing model for the PRGT and ensuring that sufficient resources are available to continue providing concessional finance to eligible countries. We welcome the agreement reached ahead of the Annual Meetings that balances adjustments to lending modalities to reduce the subsidy gap while utilizing IMF's internal resources on an exceptional basis to address the remaining shortfall.

Given the elevated risks to the Fund's balance sheet (including credit and investment risks), we emphasize the importance of preserving a prudent level of precautionary balances. Strong program design helps reduce risks to the Fund's balance sheet. Therefore, we look forward to the forthcoming review of conditionality and program design.

Following the surge in global interest rates, which has led to significantly higher charges for debtor countries at the IMF, we welcome the agreement reached on the review of surcharges. Now that the current target size of the IMF's precautionary balances has been met, it is both timely and appropriate to provide some relief from charges and surcharges, conditional upon precautionary balances remaining at a prudent level.

The *Resilience and Sustainability Trust* (RST) is now successfully integrated into the IMF toolkit to support countries in improving their resilience to future climate-related shocks. We reiterate the importance of ambitious reforms to ensure the RST's signaling and catalytic function. We call for closely monitoring these reform measures to assess their long-term effectiveness in improving the enabling environment for climate-related investment from development finance institutions and private investors. We welcome the recommendations of the RST interim review and look forward to their implementation, in close collaboration with the World Bank.

We look forward to the implementation of the 16th general review of quotas to strengthen the role of the IMF at the center of the global financial safety net. We welcome the 25th Chair in the IMF Executive Board for Sub-Saharan African countries, thereby improving the representation of the African continent. We look forward to continuing the discussion in the Executive Board on possible approaches towards quota realignment. Any realignment is a shared responsibility among all members and should thus be supported through broad burden-sharing among all overrepresented members according to the quota formula. The current formula delivers on the objective of realignment. At the same time, it is important to protect the share of the poorest members.

Finally, a diverse and inclusive IMF, where every individual can contribute to their full potential, is best equipped to meet the needs of its diverse membership. Therefore, we encourage additional efforts to achieve the FY25 diversity targets for staff, while also working towards broader diversity targets for FY30, including enhancing diversity in the Executive Board. This involves building a staff base with a broad range of skills and academic backgrounds, with employees trained at various universities worldwide.