INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Sigrid Kaag
Deputy Prime Minister and Minister of Finance
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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Deputy Prime Minister and 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

Washington DC, October 11, 2022

First and foremost, we want to reiterate that we stand firmly by Ukraine and its people in this ongoing war of Russia against Ukraine. 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 ceases 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 and financial impact on Ukraine, its neighboring countries, and the global economy. We therefore deem it of utmost importance that the Fund assists Ukraine with the highest priority. A full-fledged UCT-quality program to Ukraine should start as soon as possible. In parallel, we will continue to work very 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. In that regard, we welcome donor contributions to the Fund's Multi-Donor Administered Account (AA) for Ukraine.

Economic outlook and record-high inflation

We welcome the Fund's focus on the regional and global spillovers of Russia's war against Ukraine. Countries that have strong trade linkages to Ukraine and the Russian Federation are particularly affected by the impact of the war. We welcome the Fund's continued engagement on financial support and policy advice with other members of our Constituency as well, including the current programs for Georgia and Moldova.

Higher food and energy prices have threatened energy and food security across the membership and exacerbate already high inflationary pressures. The IMF plays a key role in providing financial assistance to those countries that are most heavily affected by the food price and trade shock. We therefore support the new food shock window under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). We encourage the IMF to work together and cooperate with other international institutions to coordinate and foster international actions on food security.

Inflation has reached record levels and has become more persistent in many countries. Forceful monetary tightening is required to prevent inflation from becoming entrenched in expectations, at which point reducing inflation would involve an even higher economic cost. Central bank independence is key here. Fiscal policies to mitigate the socio-economic impact of higher prices should primarily strive to target the most vulnerable groups, including the lower to middle-income category of the population, while safeguarding fiscal sustainability and avoiding additional inflationary pressures in the medium term. Ensuring fiscal sustainability also requires the necessary adjustment of primary fiscal balances to the changing interest rate environment. Temporary support measures should maintain incentives for investments in renewable energy, energy demand reductions and the necessary, structural transition in economic sectors.

High inflation and rising interest rates may also expose risks to the financial sector. Banks need to ensure adequate buffers for potential quality deteriorations in their loan portfolios as the financial pressure on the non-financial corporate and household sector (mortgage debts) increases. Banks should also be encouraged to retain available capital resources as to be able to keep up the provision of credit to the real economy in more adverse scenarios. We find it important to extend macro-prudential policy frameworks towards non-bank financial institutions as well.

Climate change

The adverse macro-financial effects of climate change have started to materialize, following unprecedented heatwaves, droughts and devastating floods across the globe. In order to ensure global macroeconomic and financial stability in the medium and longer term, the IMF has an important role to play in the field of climate change. We look forward to the full implementation of the IMF climate change strategy within its different fields of activities (surveillance, lending and capacity building). Effectively mitigating climate change and adapting to its consequences requires stepping up investments in the green transition, adequate pricing of carbon emissions, adapting regulatory and supervisory policies, and ensuring a just transition. We strongly encourage the Fund to support its membership in this challenge.

In this context, we expect that the Resilience and Sustainability Trust (RST) will be operationalized soon and encourage countries to pledge SDRs or equivalent contributions to the RST. The RST has the potential to contribute to making countries more resilient to climate-related shocks and pandemics through carefully designed policy reforms and to catalyze other forms of highly needed private and public sector financing. We strongly encourage the Fund to work in close cooperation with the World Bank and other MDBs for the implementation and operations of the RST, benefitting from each institution's technical expertise and comparative advantage.

Debt vulnerabilities, treatment and transparency

In addition, we have seen debt vulnerabilities rise in many low- and middle-income countries, while a large number of countries is already in debt distress. Tighter global financial conditions are aggravating existing fiscal and financial vulnerabilities. The increase in interest rates reduces fiscal space and affects corporate and household balance sheets against the backdrop of historically high debt levels. Emerging markets and developing economies experience capital outflows as a result of tightening global financial conditions, a strong dollar and global recession fears. The resulting depreciation of domestic currencies may further add to inflation and increase debt servicing costs of foreign currency denominated debt in these countries. The IMF should take up a central role in monitoring and tackling the evolution and impact of these risks on global financial stability through its surveillance activities. This role remains critical outside crisis time, as it can help the membership to build resilience and absorb the impact of exogenous shocks.

Furthermore, our Constituency reiterates the importance of stepping up efforts to ensure a timely, orderly, and coordinated debt treatment under the G20/Paris Club Common Framework for Debt Treatments beyond the DSSI for eligible countries. Promoting and strengthening debt transparency remains critical in this respect. Our Constituency therefore looks forward to the discussions on debt transparency, including possible reform options. 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. In addition, we encourage strengthening the coordination of debt treatments among official bilateral creditors for lower-middle-income countries that are currently outside the scope of the Common Framework.

It is crucial that countries adopt appropriate fiscal frameworks to safeguard fiscal sustainability and build fiscal buffers over the medium-term. Our Constituency considers Fund monitoring to be of great importance to signal any debt vulnerabilities in time and would welcome more regular updates. In addition, we encourage the Fund and its members to move towards UCT-quality IMF programs where possible as they include necessary policy adjustments to foster resilience, economic stability and could catalyze additional public and private financing.

16th General Review of Quotas

We remain committed to a strong, quota-based and adequately resourced IMF to preserve its role at the center of the Global Financial Safety Net. We support the commitment to conclude the 16th General Review of Quotas by December 15, 2023. We believe that the current quota formula delivers on the objective of a realignment of quota shares to emerging markets and developing economies.

Mainstreaming gender

Lastly, we want to commend the Fund on the adoption of the first-ever IMF Strategy Toward Mainstreaming Gender. Only by deploying the full capacity of all its citizens can economies thrive. We therefore support this strategy and look forward to its implementation, and encourage member countries to voluntarily request coverage in their respective Article IV consultations. This also includes working towards a more balanced gender representation within the Fund, including at the Executive Board.