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Statement by Mr. Reynders

Statement by Mr. Didier Reynders
Minister of Finance of Belgium
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We congratulate Mr. de Rato on his appointment as Managing Director of the International Monetary Fund. We are confident that he will provide strong leadership to the institution. In this task he can draw on the support of the full membership of the Fund, the Board of Governors, this Committee, the Executive Board, and the Fund's dedicated and competent staff.

It is symbolic that in the year in which the Bretton Woods institutions celebrate the 60th anniversary of their birth, the global economy is experiencing the fastest growth in several decades. In line with the strong recovery, world trade volume has picked up again, after a somewhat subdued growth in the previous years. Equally encouraging, private capital flows to emerging markets remain strong, reflecting to an important degree reduced vulnerabilities and improved economic policies and policy frameworks in those countries. Maintaining this positive stance should be policy makers' paramount objective.

But our task is not to celebrate but to be aware of the risks that we are facing and to meet the still innumerable policy challenges.

Recently, as demand increased and concerns rose about oil supply disruptions and the low level of oil reserves, oil prices have again risen. So far, the global economy seems to be able to absorb these high oil prices without any significant damage to economic growth and inflation. However, were the present elevated level of oil prices here to stay, the effects on global economic growth and inflation could be less benign. Such an outcome would be in the interest of neither oil producers, nor oil consumers.

Another important and new challenge to policy makers is how to manage the transition from exceptionally low interest rates, particularly in the United States. The increase in interest rates thus far has proceeded without any notable disruption. Such disruption could indeed be particularly harmful to those emerging market countries that still depend on large external borrowing. In this context, emerging market countries that have large public debts and financing needs should use the present favorable global conditions to take further steps to reduce their vulnerabilities.

Also fiscal deficits and high public debt remain a challenge not only to emerging market countries, but also to many developed economies. In Europe, future demographic pressures pose important challenges for public finances, which should be tackled in the years to come. However, improving public finances will be difficult in the absence of stronger economic growth, which in turn requires making more progress in increasing employment, in particular by pursuing structural reforms. It is therefore a concern that progress under the Lisbon agenda has been less than satisfactory until now. The increased political attention to this issue and the efforts to put in place a more focused and streamlined strategy are therefore welcome. The U.S. fiscal deficit is also a matter of concern. While the pace of deficit reduction envisaged for FY 2005 and 2006 appears appropriate, a more ambitious medium-term fiscal consolidation plan than currently envisaged would be advisable. With rapidly growing public debt, fiscal consolidation becomes a progressively more urgent task for Japan. The improving economic conditions should allow the Japanese authorities to pursue a more active fiscal consolidation policy.

Global external imbalances remain a risk to the international financial system and to the global economy. Despite robust economic growth in most U.S. trading partners, the U.S. current account deficit remains very large. The fact that thus far, the financing of this deficit has been easy should not lead to complacency. An abrupt adjustment of global imbalances that would involve large swings in currency values and other asset prices would be in no ones interest.

Following the accession to the European Union on May 1, economic growth remains brisk in the new member countries in central and eastern Europe. However, in most of these countries fiscal problems represent the main challenge to policy makers.

The significant progress that Turkey is making toward starting the discussion on the EU entry is welcome. The new Fund arrangement with Turkey, to be discussed soon, should help to further solidify the positive results achieved under the existing arrangement and should contribute to a further reduction of financial vulnerability. At the same time, in order to preserve the revolving nature of the Fund's finances, it should aim at a gradual but substantial reduction of the Fund's exposure to the country

The remarkable growth performance, supported by high oil prices, should provide a favorable environment for tackling many structural problems remaining in Russia and other CIS countries. Greater diversification of production should be actively pursued in order to make the countries exporting energy less vulnerable to volatility in energy prices and also to facilitate macroeconomic management.

In 2004, economic performance has so far been very encouraging in Argentina as well. However, output still remains below the pre-crisis level. Sustaining strong growth would require the completion of the structural reform agenda to which the authorities committed themselves in the 2003 program supported by the Fund. It is also imperative that the authorities quickly normalize the relationship with private creditors.

It is encouraging to note the improved growth performance of many African countries. It shows that solid economic policies, debt relief and the absence of wars and conflicts, , can have a salutary effect on economic growth. Further progress in improving the access of African exporters to markets in developed countries could provide further important impetus to growth.

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Over the years the Fund's activities have changed significantly. In fulfilling its mandate the Fund must strike a balance between, for example, its role as a confidential advisor to its member countries and a provider of information to markets; between countries' ownership of their economic policies and conditionality of Fund financial support; and between rules based and case by case decision making .

In today's meeting, we should reflect on a number of issues which are at the core of our policy discussions: the adequacy of Fund surveillance and financial arrangements in carrying out the Fund's permanent mission in an evolving environment; the role of public action and private sector responsibilities in resolving macro financial crises; how the Fund can best contribute to helping low income countries better integrate in the world economy and reach their goal of more prosperity for their people; and how to ensure that the governance of the Fund as an institution continues to adjust to fundamental long term changes in the international financial system.

Surveillance is the Fund's primary task. We agree with the Board's recent conclusion that surveillance should be focused on exchange rate policies, financial sector stability, and external and fiscal sustainability. Surveillance promotes orderly international financial relations. Quite naturally, the Fund and member countries should pay due attention to the regional and global spillovers of economic developments and policies in individual countries. Countries should address their specific vulnerabilities to global and financial developments.

The quality of surveillance has improved significantly over the last seven years. This has strengthened the effectiveness of surveillance. When the Fund's analysis and advice is of high quality, policy makers will –albeit with sometimes with delay- make good use of it.

Those low-income and emerging market economies whose balance of payments will become stronger, will be less in need of Fund financial support. For countries without a financial arrangement with the Fund, but wanting to strengthen the credibility of their policies, the best way to do this is to engage in frequent high quality consultations with the Fund, and to be transparent.

In our opinion, and notwithstanding our willingness to further discuss the development of a similar instrument, the Fund should avoid to create specific instruments for signaling the quality of a country's policy. Further proliferation of devices at the disposal of the Fund would risk confusing the public. Therefore, if gaps were to be identified in the IMF toolkit, we would rather argue in favour of using the existing IMF instruments, and notably Article IV Consultations, better and more flexibly instead of creating new instruments.

A financial arrangement will remain the most intensive form of cooperation between a country and the Fund. Countries should be encouraged to seek a financial arrangement well before adverse developments become a crisis. When a country undertakes strong adjustment, or is committed to continue adequate policies that preserve macrofinancial stability, the Fund should be ready to use the existing options to extend credit lines as a precaution against adverse developments in financial markets. Amounts of credit must be determined with great caution and with due regard to the country's capacity to repay. For countries with large potential balance of payments needs, when fully justified, access should not be necessarily limited to 100 percent of quota. The Fund should review the adequacy of its access limits. It should avoid creating specific financial arrangements for situations that can be addressed with a Stand-By Arrangement or any other existing facility.

Argentina's case shows that finding a good equilibrium between public intervention and private sector involvement in the resolution of crises remains a difficult process. Experience in this connection could well prove the usefulness of at least some constitutive elements of a statutory mechanism for the rescheduling of public debt. The Fund should continue to monitor developments in this field and as appropriate participate in the ongoing discussion.

The Fund has an important role to play in helping low-income countries achieve macrofinancial stability and implement structural reforms that are essential for growth and poverty reduction. We continue to support the implementation of the critically important initiative designed to provide debt relief to the heavily indebted poor countries. The international community should develop an authoritative analysis of the sustainability of public debt in low-income countries that gives clear advice to debtor countries, donors and creditors, when they should avoid contracting new debt and substitute loans by grants. We strongly favor a single debt sustainability analysis done by the Fund, as part of its surveillance mandate, relying to the greatest extent possible on a common assessment with the World Bank. Good governance then implies that the membership gives the Fund the resources needed to implement its tasks in low-income countries. More generally, advanced countries should live up to their promises to low-income countries with respect to aid and trade.

We welcome the Managing Director's initiative to assess the strategic directions of the Fund and how it should adjust to fundamental, long term developments in the international financial system.

As far as the discussion on the governance of the IMF is concerned, much progress has already been made thanks to for instance the good and interesting work of the Independent Evaluation Office. However, we support further work on this subject, particularly in the field of the accountability of the institution.