International Monetary and Financial Committee

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Statement by Didier Reynders
Minister of Finance, Belgium
On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

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Deputy Prime Minister and Minister of Finance of Belgium
On behalf of
Austria, Belarus, Belgium, Czech Republic, Hungary,
Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
At the 14th International Monetary and Financial Committee
Singapore
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We are grateful to the Singapore authorities for their hospitality in our meetings.
We would also like to thank Anne Krueger for her outstanding work as the Fund's First Deputy Managing Director during the past five years. As she now leaves the Fund, we would like to wish her best in her future endeavors.

The Global Economy and Financial Markets

The world economy is expected to continue its strong growth this year and the next. If the WEO projection for 2007 materializes, the world economy will have grown by more than a fifth in just four years. An unprecedented performance indeed, made possible largely by continued robust growth in the United States, China, India and a number of other emerging market economies. Japan's expansion is gaining momentum as domestic demand is being supported by buoyant investment underpinned by robust profits and a turnaround in bank credit. The growth outlook in the Euro area suggests a firm recovery.

During the past few years, we have had a unique combination of strong global growth and low inflation despite surging energy and commodity prices. In addition, exchange rates were relatively stable despite record current account imbalances. However, the continuation of this favorable environment requires a joint global effort to implement mutually supporting policies to reduce imbalances and risks.

Excess global liquidity, large global imbalances and volatile energy markets are the main sources of risks.

With higher interest rates, global liquidity is being reduced. The ongoing monetary tightening is justified to forestall inflationary pressures, whether they come from capacity constraints, increased energy prices or commodity prices. Clear communication of policy intentions supported by structural reforms would help keep inflation expectations low and well anchored.

With sustained investor confidence in the soundness of the United States economy, financial markets are likely to continue covering the financing need for the U.S. current account deficit. In the longer run, however, these imbalances would be unsustainable. Correcting them would sustain global growth. This task requires more than adjusting trade flows.

Protectionist measures must be avoided. Resolving global imbalances is a shared responsibility.

The U.S. economy continues to be an engine of global growth even if the economy would slow as projected. The United States has a key role to play in supporting the cooperative strategy for an orderly resolution of global imbalances. Delaying the inevitable adjustment would increase the risk of a sharp disruption in exchange rates, financial markets, and growth. Both the United States and the world economy would obviously benefit from a sustainable high growth rate in the United States. This outcome would be promoted if more ambitious fiscal targets were reached, together with measures to increase household savings in the United States.

In the Euro area the prospects for a more robust expansion have consolidated. The ongoing reforms to promote greater competition, more flexible labor markets, and increased cross-border financial integration will help make the current cyclical upswing a sustained expansion. The credibility of medium-term budget targets must be strengthened by welfare, pension, and healthcare reforms, as well as other current expenditure reforms that would provide room to cut taxes on labor and finance the expenditure needed for an aging population.

In China, gradually allowing greater flexibility in the exchange rate, improving the banking system, and strengthening the social safety net will help rebalance the economy away from heavy dependence on investment and exports towards growth in consumption.

Most oil exporting countries have rightly started to use higher revenues to finance capacity enhancing reforms, and improve their infrastructure and social services. Allowing real exchange flexibility in oil-exporting countries will contribute to the desirable rebalancing of domestic demand in the world. Expanding oil production and refining capacity, improving energy efficiency and enhancing market transparency will all contribute to a better balanced and more stable energy market.

The recovery that followed the market correction in spring has demonstrated the remarkable resilience of financial markets. This shows that investors increasingly differentiate among countries based on their vulnerabilities to external shocks and the strength of their policy frameworks. Emerging market countries should address weaknesses in their policies.

Emerging Europe has been experiencing its strongest growth since the beginning of the transition. The recent developments in the current and capital accounts indicate a catching up process in most countries of the region. Many of them have been experiencing a dynamic increase in exports to the EU. At the same time, available foreign savings have smoothed consumption. This is associated with rapid credit growth and deepening of local financial markets. By themselves, these developments are positive. However, managing risks from heavy reliance on foreign savings requires an adequate regulatory and supervisory framework to ensure prudent and safe progress with deeper financial integration and a more leveraged economy.

Slovenia's joining of the Euro area on January 1, 2007 is a reward for successful policies that have resulted in a high level of convergence with the economies of other EU member states. Hungary's new convergence program is built around a substantial fiscal adjustment. In most new EU member countries, long-term fiscal sustainability requires more ambitious adjustment than implied by the fiscal convergence criteria for Euro adoption.

Turkey continues to implement successfully its program of establishing a well functioning, fast growing economy with a solid fiscal position, price stability and an attractive environment for investment and employment creation. The fiscal deficit of the general government in 2006 is expected to be less than 1 percent of GNP, with net public debt having fallen to about 55 percent of GNP.

Sub-Saharan Africa's strongest economic expansion since the early 1970s continues to improve living conditions, although it still falls short of the 7 percent annual growth needed to meet the Millennium Development Goal of halving poverty by 2015. Adequate donor assistance is needed, but to be effective the absorption capacity of the recipient countries must be enhanced by improved governance and better institutions. Stability-oriented macroeconomic policies and good implementation of structural reforms will help attract the much needed private investment.

Further multilateral trade liberalization is important to sustain high growth of the world economy and continued reduction of poverty in low income countries. WTO members must resume the Doha Round negotiations as soon as possible. Well-targeted and coordinated aid for trade is an important program which would enable developing countries to take full benefit of international trade by helping them identify and remove logistical and regulatory constraints. Countries should integrate trade issues into their development strategies. The Fund should help facilitate this integration.

Globalization requires adjustment, both at the national level and at the level of economic agents. Reducing the costs of these adjustments by forward-looking policies and improving flexibility will enhance the benefits of globalization. Today's excellent economic environment offers a unique opportunity to implement this policy agenda with truly multilateral cooperation.

Governance of the Fund

A fair representation of countries in decision making is essential for good governance of the IMF. We thank the Managing Director for his strenuous efforts to find a common platform that will allow the Fund to move forward. We welcome the Resolution of the Board of Governors on Quota and Voice Reform. We support the proposed two-stage approach, including ad hoc quota increases for China, Korea, Mexico and Turkey and further reforms on which the Board should start working immediately after the Annual Meetings.

The Executive Board should aim for a simpler and more transparent formula that captures well countries' relative weight and role in the world economy as guidance for future quota allocations. The Board should work with an open mind to adopt a balanced formula, consistent with the Fund's mission and based on openness, GDP, and other relevant variables. For countries whose quota would be significantly out of line with the results of the new formula, an ad hoc quota increase would be justified. Further adjustments in quota shares should be considered as part of future general quota increases that are needed to ensure that the Fund has adequate liquidity to achieve its purposes.

The number of basic votes should be at least doubled and then automatically adjusted to keep the ratio of basic votes to total quotas constant.

We support a transparent procedure for selecting top management of all international financial institutions.

Surveillance

Surveillance should be adapted to help countries benefit from and cope with the risks of integrated financial markets and large private capital flows.

The Fund must promote evenhandedly and impartially countries' compliance with their commitments to conduct policies that promote harmonious international financial relations, essential for the expansion of international trade and high rates of growth and employment. The Fund should monitor closely whether countries conduct policies consistent with their announced exchange rate regime and the Fund's guidance of members' exchange rate policies. Whatever the high quality of the Fund's surveillance is, its effectiveness will also depend on each country's willingness to adhere to the principles of multilateral cooperation.

The Fund should finalize its work on a framework for assessing the effectiveness of surveillance; on the review of the 1977 Decision on the Surveillance of Exchange Rates; on independence and accountability for surveillance; and on a surveillance remit by the Executive Board, which identifies in a comprehensive and clear manner the objectives and operational priorities of surveillance and the rules for accountability.

The Fund's estimates of long-term equilibrium exchange rates and the methodology used in computing these exchange rates should not be published. The interpretation of such computed exchange rates is complex and could easily trigger unwarranted volatility.

The Fund should remain the main forum for international monetary and financial cooperation. We welcome the launch of multilateral consultations in which the Fund plays a role of an impartial, highly qualified advisor. In light of first experience, the Executive Board should adopt a framework for future multilateral consultations.

More focused Article IV consultations and better integration of regional and multilateral aspects would enhance the quality and effectiveness of surveillance. The Board should work on the modalities and the list of countries for streamlined Article IV consultations. Budget considerations cannot justify any deterioration in the quality of surveillance, which is the primary mandate of the Fund.

The Fund's role in emerging market countries

The Fund should continue to provide meaningful financial assistance to countries that need and deserve it. It should examine how to respond to the need of emerging market countries for high precautionary access to Fund financing. We note that small, pragmatic and common sense changes in the Fund's practice of precautionary Stand-By Arrangements could make them better adapted to emerging market countries' needs in the face of potential capital account crises. The Fund should maintain its proven record of being able to act swiftly if a crisis strikes.

The Board should conclude its review of charges for Fund financial assistance and its maturities structure. To avoid unjustified long use of Fund financing, the Fund cannot solely rely on price incentives.

The Fund must continue to make its credit dependent on progress towards the resolution of a borrowing country's external payments arrears. We look forward to the Board's review of the Fund's "lending into arrears policy".

The Fund's role in low income countries

The Fund has a critical role to play in helping low-income countries implement macroeconomic policies and build institutions that foster good governance and high sustainable growth and help reduce poverty. The Poverty Reduction and Growth Facility remains essential.

After the debt relief granted to the poorest countries, it is now critical that the Fund promotes macroeconomic policies which allow countries to benefit fully from the additional resources, as they become available. Imprudent new borrowing that could lead to the build-up of new, unsustainable debt must be avoided. We underscore the need for responsible lending by creditor countries in line with the IMF and World Bank's debt sustainability framework.

The financing of the Fund

The Fund should be more transparent about the full cost of each of its activities. We look forward to the conclusions of the External Committee on the Financing of the Fund, which should help identify in early 2007 a broad, stable and predictable base for financing the activities of the Fund, with fair burden sharing among all member countries.

Annual Meetings 2009

The Turkish authorities thank the Board of Governors for accepting their invitation to hold the 2009 Annual Meetings in Istanbul.