International Monetary and Financial Committee

Twenty-Second Meeting
October 9, 2010

Statement by Didier Reynders, Deputy Prime Minister and Minister of Finance,
Ministere des Finances, 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
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At the 22nd International Monetary and Financial Committee
Washington DC, October 8-9, 2010

Economic developments and challenges

Tens of millions of people lost their job because of the crisis. All efforts should be directed to high levels of employment creation, a key objective alongside financial stability and sustainable budgets. The IMF, the ILO, governments and social partners should work together to implement conclusions of the September 2010 Oslo Conference, including promoting a social dialogue and consensus to ensure that the causes of the crisis are addressed and its social consequences fully taken into account.

The poorest countries are severely affected by the crisis. With good policies, the right prioritization of investments, well-focused policies to upgrade the human capital, fair trade opportunities and financial assistance from international financial institutions and donors, these countries will be able to emulate the success of the many emerging market countries that are now the driving force of the recovery.

The recovery from the global recession in the first half of 2010 was driven mainly by the strong rebound in the major emerging market countries. Growth in advanced Europe was driven by surprisingly strong export-led growth in Germany, which surpassed expectations. Weak investor and consumer confidence, persisting high unemployment and the danger of the adverse feedback from the weak financial sector to the real economy all make the outlook fragile and downside risks prevail. The high public debt and unsustainable fiscal positions in many advanced economies add to the risks if credible adjustment programs would not be forthcoming soon.

Credible fiscal consolidation to secure a sustainable public debt and completion of the financial sector restructuring are preconditions for the revival of a healthy flow of credit to the private sector. All this will help reduce unemployment. Eliminating disincentives to hire workers and to join the labor market will foster employment.

The large output gap and financial deleveraging contain inflationary pressures. However, when credit to the private sector recovers, inflationary expectations might emerge if central banks would face difficulties in withdrawing crisis-related liquidity. Fear for inflation could rise if unsustainable government debt is not addressed credibly while monetary policies remain loose. Monetary authorities therefore need to be vigilant. Asset price developments

require close monitoring. Rapid credit growth may fuel asset price bubbles that might spill over in commodity and consumer price inflation, and intensify financial sector fragilities.

The policy reaction to capital inflows to emerging market economies should be carefully balanced. Structural long-term investments that anticipate rapid economic convergence of these economies will become an increasing portion of these capital inflows. Combating this type of capital flows by imposing capital controls would not be effective. Flexibility to allow currencies to reach their medium term equilibrium exchange rate helps discourage volatile short-term capital flows. Nevertheless, the effects of capital inflows on the real economy and various asset markets must be closely monitored and analyzed. Macrofinancial policies should help contain excess credit growth.

Financial market developments and challenges

Bank profits and bank capital adequacy have improved since 2009. Bank loan write-offs and provisions have declined. Nonetheless, the global financial stability is still fragile. A significant part of risk for the private financial sector has been transferred to the public sector. Concerns about sovereign solvency in advanced countries have created the threat of a feedback shock from the sovereign back to the financial sector and the real economy.

We welcome the recent agreements on bank capital adequacy requirements, known as Basel III. Timely and comprehensive implementation of these new standards will be crucial. Improved supervision and peer pressure should encourage banks to increase the quantity and quality of their capital even before the official deadlines. Results from the recent official stress tests should guide recapitalization efforts.

To fully address the legacies of the crisis, more comprehensive regulatory reforms are needed. Weaknesses and risks in funding markets must be addressed. The perimeter of regulation must be expanded to assure a level playing field for the entire financial sector, thereby reducing the incentives for credit to shift outside the banking sector. The assessment of systemic risk needs further improvement through international cooperation within the FSB and by institutions like the Fund and the BIS. The establishment of the European Systemic Risk Board is a major step in this direction.

We need better and more even regulation across segments of the financial sector without constraining the vital functions of financial markets. Transparency, simplicity and thoroughness of regulation and supervision should be the guiding principles. Regulatory loopholes and opportunity for regulatory arbitrage should be avoided or minimized.

Instable and continuously changing regulatory framework and its complexity creates regulatory uncertainty and contributes to the banks' unwillingness to restart providing credit to the real economy.

Failure to address structural weaknesses of financial markets with due diligence may prolong support measures that could become increasingly distortive.

The IMF's Crisis Response and Reform Agenda

Fund surveillance

Assessing financial sector stability is an integral part of the Fund's surveillance mandate. A few days ago the Board decided that stability assessments under the Financial Sector Assessment program will be integrated in Article IV surveillance for members with systemically important financial sectors. This is a long overdue measure. Every five years the Fund will conduct mandatory in-depth assessments within the provisions of Article IV Consultations. Four members of our constituency -Austria, Belgium, Luxembourg and Turkey- have systemically important financial sectors. Article IV surveillance should from time to time include, for each country, with the needed prioritization and according to the specificities of each country, in-depth financial stability assessments.

Given the fast pace of globalization and economic integration, surveillance at the country level alone no longer suffices. The coherence of national policies should be assessed more broadly. Further coordination of national policies is needed to avoid or minimize negative spill-over effects of national policies on other countries. The Fund should pay more attention to how economic developments and policies in one country affect other countries. The crisis has shown convincingly that unsustainable imbalances and developments in the global economy need to be diagnosed as early as possible. The underlying causes must be remedied with coordinated policy actions.

Fund lending

The Fund has decided to amend the Flexible Credit Line (FCL) to make it more flexible. In addition, the Fund has decided to establish the Precautionary Credit Line (PCL) to provide effective crisis prevention for members with sound fundamentals, policies, and institutional policy frameworks but moderate vulnerabilities that would not meet the FCL's qualification standard.

Creating too many specific Fund credit instruments that signal different levels of policy strength has significant drawbacks. It risks aggravating the stigma of Fund credit for countries without access to the instruments for the best performers. The complexities may

also confuse markets. We continue to favor one single flexible (precautionary) credit line that gives access according to the merits and the strengths of each individual case.

Fund resources

We call for the swift ratification of the expanded NAB. The NAB cannot substitute a substantial quota increase. The size of the NAB should thus be rebalanced as necessary when agreement on the quota increase is reached. We support a quota increase of up to the doubling, which should be fairly allocated.

The Fund's role in low-income countries

To meet projected demand for concessional financing, through 2014, additional loan resources of SDR 10.8 billion and additional bilateral subsidy resources of SDR 200 to 400 million are needed. We welcome the pledges made by thirteen members, including Belgium, for an amount of SDR 9.3 billion in loan resources, as well as the SDR 131.7 million in bilateral subsidy resources committed by 20 members, including Austria. The global financial crisis has hit low-income countries and the Fund's role in low-income countries remains critical.

Thirty-six out of the 40 eligible countries have reached the decision point, and 30 of them have reached the completion point under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) Initiatives. We encourage the eligible countries that have not yet reached their decision point to take all needed policy measures to qualify for debt relief.

Debt relief has substantially reduced debt levels in low-income countries. It is important that these countries do not accumulate again unsustainable debt that would undo the achievements under the HIPC and MDR Initiatives.

We welcome the establishment of the Post-Catastrophe Debt Relief (PCDR) Trust, which allows the Fund to join international debt relief efforts when low-income countries, eligible for concessional borrowing through the Poverty Reduction and Growth Trust (PRGT), are hit by the most catastrophic of natural disasters.

Fund quota and governance reform

We regret that more than half of the membership has not yet ratified the quota and voice reform agreed in April 2008. We urge countries to do so as soon as possible.

In order to reflect the changes in the global economy and to make room for dynamic emerging market and developing countries, we support a significant increase of quotas. Underrepresented countries, most of them being dynamic emerging market and development

countries should see their actual quota share increase, in accordance with the existing quota formula and the Pittsburg/Istanbul agreements.

To achieve a balanced and fair governance reform package that provides a comprehensive and stable solution, not only the EU Member States will need to contribute to an overall understanding, but other European countries with a seat on the Executive Board, other advanced economies, and also resource rich economies will need to make contributions in order to increase the quality of representation of emerging economies. No overrepresented country should become underrepresented as a result of the reform and underrepresented countries must be treated equally, on the basis of the current quota formula. The voting power of the poorest countries should be protected.

A Board of 24 Directors strikes the right balance between effectiveness and adequate representation of all 187 countries. The size of the Board should only be changed with broad consensus. Ministers from EU Member States have agreed that all members of a constituency whose quota is at least 50 percent of the largest quota in the constituency, will have the opportunity to hold the position of Executive Director on a rotating basis. This will increase the number of Executive Directors from emerging market countries. All constituencies with a sufficient number of countries should have the opportunity to appoint a second Alternate Executive Director.

The role of the IMFC should be enhanced in order to have more ministerial engagement through appropriate decision making.

We continue to support a merit-based selection of senior management without geographical preferences, and a balanced distribution of IMF staff in terms of geographical origin as well as professional and academic background.