International Monetary and Financial Committee

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

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Speaking on behalf of Austria, Belarus, Belgium, Czech Republic,
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At the 11th International Monetary and Financial Committee
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1. The Global Economy and Financial Markets

Global economic expansion in 2004 was at its strongest in three decades. The impressive growth in the US and China is well-known. Particularly encouraging is the real GDP growth in Sub-Saharan Africa and emerging Europe, which rose to a decade high in 2004 due to sound macroeconomic policies and structural reforms. Still, the most important asset worldwide was low inflation.

Global growth has not become more balanced over the past year. The deepened external imbalances call for an urgent orderly adjustment through responsible macroeconomic management by individual countries and international coordination. Policy makers should not become complacent because of the ease with which today's integrated financial markets are willing to finance deficits over a prolonged period of time. Financial globalization does not make it possible for global imbalances to persist indefinitely; and if corrective measures are postponed for too long, the eventual rebalancing will not be smooth.

The present pattern of current account surpluses and deficits generates very large international capital flows. The prescription for correcting global imbalances is well-known and commonly agreed. It is now up to all parties involved to commit themselves to concrete policy actions, and to implement them fully.

The appreciation of the euro and high oil prices are among factors that have delayed the expansion in Europe. High oil prices have, moreover, introduced additional risks to the global outlook which need to be managed. The functioning of the oil market should become more transparent; impediments to investment in the energy sector should be removed; and efforts to save energy more vigorously pursued.

Emerging Europe is experiencing its strongest growth since the beginning of the transition. Although in several countries the trade balance is improving, current accounts deficits have generally widened because of a worsening of the income account, due to the effects of previous foreign direct investments. In preparing for the adoption of the euro, the new EU member states should, according to individual country circumstances, pursue fiscal consolidation, implement further structural reforms, contain credit growth and stimulate private savings.

Turkey's policies of a floating exchange rate, sustained fiscal discipline and wide ranging structural reforms have yielded impressive results: annual inflation is now in single digits, and output growth was almost 10 percent last year. Turkey is committed to continuing policies that will further reduce its public debt ratio, lower inflation, enhance financial sector stability and thereby promote investment, sustained growth and job creation. Turkey and the Fund management have reached full understanding on a program that can be supported by a new three year Stand-By Arrangement. The implementation of this program will contribute to improving the prospect for the country's entering into the European Union.

2. IMF Support for Low-Income Members' Efforts Towards Poverty Reduction and Strong Sustainable Growth

This year, the international community will measure progress in achieving the Millennium Development Goals (MDGs), and look for ways to accelerate this progress.

The most recent Global Monitoring Report of the Bank and the Fund rightly emphasizes that aid should be provided in a more coordinated manner to avoid overburdening the administration in recipient countries. The Fund should contribute to this coordination, particularly in the area of technical assistance. Better donor coordination will enhance the predictability of aid flows, make monitoring more efficient and aid more responsive to needs of recipient countries. In particular, good collaboration and proper division of labor between the Fund and the Bank will be crucial in this respect.

There is little argument about the fact that in order to reach the MDGs, more financing is needed. The main tool for this should be an increase of ODA. All donor countries should increase their ODA in line with past commitments. However, at the same time due account should be taken of the absorptive capacity of recipient countries, in which appropriate governance structures should be in place.

Recently, a number of alternative methods to finance development have been proposed. I look forward to further work on these proposals, in order to find pragmatic and effective ways to increase the resources for development.

Debt relief under the enhanced HIPC initiative has been helpful in bringing debts down to sustainable levels. This initiative should be fully implemented and financed. After HIPC assistance has been provided, debt sustainability should remain a central objective of the economic policy framework.

We welcome the new debt sustainability framework for low-income countries. It should become a major source of information for national authorities, bilateral and multilateral donors and creditors. In this framework, indicative debt thresholds based on the quality of a country's policies will signal creditors and borrowers when policy adjustment and more concessional resources are needed so as to avoid a risk of debt distress. Strict adherence to this framework for low-income countries should ensure that debt remains sustainable.

We support the Fund's work on trade. The Fund should focus on macro-relevant aspects of trade liberalization. The decline in trade-related conditionality is justified. However, trade issues should not be excluded from Fund-supported programs simply because their benefits are expected to materialize over a longer time horizon than the duration of the program. Finally, an ambitious and timely outcome of the ongoing Doha round of trade negotiations is crucial, also with a view on reaching the Millennium Development Goals.

3. Shaping the IMF's Strategic Direction

The review the Fund's medium-term strategy should result in enhancing the effectiveness of the Fund's work and increasing cooperation among the entire membership.

The Fund has been and should remain an institution that is relevant for its entire membership and for each individual country, whether it is an advanced economy, an emerging market or a low-income country, a small or a systemically more important one.

The world economy as well as the international monetary system have changed dramatically in the past decade, not least because of the vast increase in international capital flows and the dominant role of financial markets in the allocation of investment decisions. In this context, the Fund's strategic direction should be placed in a new broader framework based on the Fund's responsibilities in the field of macroeconomic, monetary and financial stability. So far, the Fund has responded to this change by enhancing the quality of information available to markets and improving the effectiveness of its surveillance, the latter primarily by broadening its scope to the soundness of financial sectors, the functioning of capital markets and financial stability. But there is need to do more.

An orderly and well-sequenced liberalization of capital movements is in the best interest of each country and of the international economy. The Fund should give countries the best possible advice in this area, as part of its surveillance mandate, in the framework of program design and as technical assistance.

We encourage the Fund to further improve the integration of its work in the areas of surveillance, technical assistance, program support, the analysis of international capital markets, its work on the financial sector, including standards and codes and statistical data dissemination. A robust debt sustainability analysis should be part of all bilateral surveillance reports.

The Fund should set its priorities consistent with its mandate and its medium-term budget should reflect these priorities. The narrow and lopsided basis of the income by which the Fund finances its administrative budget is an issue that must be addressed. To this effect, we support the establishment of an investment account which would earn additional income for the Fund and also broaden its income base. Although the present financing system has served the Fund well, and should be broadly maintained, it should be simplified and made more transparent. The management techniques and internal control systems of the Fund should fit into the medium-term financial framework.

Adequate participation of small countries in the decision-making process of the Fund and a fair distribution of quotas contribute to the legitimacy of the Fund. Therefore, we remain committed to increase basic votes and favor ad hoc quota increases for those emerging market countries whose actual quota is far below their calculated quota.

In the coming months, the Fund should intensify the discussion of its strategic direction, come forward with concrete proposals and take the organizational and operational decisions to implement the results of the review of its medium-term strategy. Longer term policy issues should be further considered at the 2005 Annual Meetings.