



# **International Monetary and Financial Committee**

Eleventh Meeting  
April 16, 2005

**Statement by Prime Minister Jean-Claude Juncker  
EU Council of Economic and Finance Ministers**

**Statement by Prime Minister Jean-Claude Juncker, in his capacity as  
Chairman of the EU Council of Economic and Finance Ministers  
at the IMFC Spring 2005 Meeting  
April 16, 2005**

1 - I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses on: the world economy; crisis prevention and resolution in Emerging Market Economies (EMEs); the role of the Fund in low income countries; debt relief and development financing.

**Economic situation and outlook**

2 - The recovery in global economic activity slowed down in the second half of 2004 and became less balanced: growth exceeded expectations in the US and most emerging and developing economies, while it was weaker than expected in Japan and the euro area. World trade is expected to grow at a still vigorous, albeit slower, pace in 2005 and 2006, as the global growth cycle matures. Global economic activity, which expanded at a very high rate last year, is projected to ease somewhat this year and stabilise in 2006. Still, adverse oil price developments and widening global imbalances represent non-negligible downside risks.

3 - Economic activity in the EU and the euro area, which had gathered momentum since mid-2003, decelerated in the second half of 2004 because of the effect of external factors such as high and volatile oil prices, the slowdown in world trade expansion and the appreciation of the euro. In part, lack of resilience in some European economies may also originate from persisting structural weaknesses. Within the euro area, divergences in economic performance in the latter part of the year reflect differences in drivers of growth. Real GDP growth is expected to continue at a moderate pace in 2005, but the lower than expected carry over from 2004 will inevitably affect the overall annual average. The contribution of domestic demand to the recovery has so far been uneven among Member States, but a gradual strengthening is expected during the year, supported by favourable financing conditions (including low real interest rates) and contained inflationary pressures. The return to potential growth rates in the EU depends to a large extent on increasing confidence among businesses and consumers, as well as on favourable global economic developments, including oil prices and exchange rates. Furthermore, for a sustained recovery, domestic demand has to become a solid driver of economic growth. In part this depends on the pace at which structural reform progress will translate in renewed confidence.

4 - Policy makers in all major countries and economic areas are confronted with the key challenge of supporting and consolidating the recovery through sound economic and structural policies. Addressing longstanding imbalances through rigorous and credible economic policies is a priority concern and fiscal consolidation should no longer be delayed. In this context:

- The reform of the Stability and Growth Pact, recently adopted by the Heads of State and government of the European Union, reflects a renewed consensus and ownership by the EU-Member States. By strengthening and clarifying EU fiscal rules, it will help us improve the coordination and monitoring of our budgetary policies. The Pact will continue to play a central role in the EU budgetary framework. Through a rigorous implementation of the agreement we have signed up to, we, EU Member States, are strongly committed to sound public finances as a basis for high, sustainable economic growth and increased employment.

- The EU Member States are committed to accelerate the pace of the implementation of structural reforms, with a view to raising and supporting their economic growth potential. Progress has been made, but much remains to be done. The refocused Lisbon strategy, recently adopted by the European Council, should set in place the actions needed to facilitate and speed up the pace of structural reform, notably in order to increase Europe's ability to create jobs and improve conditions for raising productivity growth through investment especially in knowledge and innovation.
- Excessive volatility and disorderly movements in exchange rates are undesirable for economic growth. In particular, sharp moves of exchange rates are unwelcome and not conducive to orderly adjustments of external imbalances. All major countries and economic areas must play their part more actively in reducing global imbalances by putting in place the appropriate economic policies. A smooth and orderly appreciation of the exchange rate of some Asian emerging countries is needed.

### **Strategic Directions**

5 - We, EU Member States, welcome the consideration of the Fund's Strategic Direction. We look forward to a first discussion at this meeting, on the basis of concrete proposals from Management; longer-term policy issues should be further elaborated at the Autumn meetings. EU members, as a major shareholder, carry a particular responsibility in furthering the IMF policies and actions to promote international macroeconomic and financial stability. This statement provides European views on different aspects of the Fund's role and tasks.

### **Crisis prevention**

6 - Effective, transparent and persuasive surveillance is an essential part of the Fund's work. We therefore welcome the progress made and ask the Fund for a continued effort in this area. Efforts to strengthen surveillance encompass improving the analytical context of surveillance, including further work on the debt sustainability framework, the refining of vulnerability assessments and measures to encourage a fresh perspective of surveillance in programme countries. They also include deeper consideration of regional surveillance. However, challenges do remain. Therefore implementation is key and the impact of the reforms should be closely monitored.

7 - In the context of the new debt sustainability framework, EU Member States consider an objective debt sustainability analysis (DSA) a crucial component of the IMF work and agree that DSA should become an integral part of all surveillance reports and programme documents. Debt sustainability analysis lies at the heart of the Fund's work. The Fund's DSA is a key contributor to the assessment of a country's financial health and its capacity to make repayments, thereby providing an effective signal to markets and donors.

8 - EU Member States also agree that an early involvement of the Board is essential both in crisis prevention and in crisis resolution. This would contribute to strengthening the role of the Board in the decision making process and thereby to an overall strengthening of the IMF. Experience in cases of financing exceeding statutory limits has shown the benefit of a greater and earlier involvement of the Board in the process. EU Member States believe there is scope for improving this involvement further, by allowing the Board immediate access to DSA, for instance through a regularly updated debt sustainability data base, and the necessary information that stands behind the judgment made by staff and management in the DSA. In addition, significant differences of view among staff, when present, should be communicated to the Board. This should apply in particular to scenarios, options and risks behind the DSA, so that the Board can make more informed decision and take responsibility to act. However, once a view is formed, ambiguity must be avoided to ensure the clarity of the Fund's message to its members.

## **Crisis resolution**

9 - The concentration of IMF credit with a limited number of large borrowers remains high and the prolonged use of Fund resources makes the catalyzing effect of Fund financing questionable. The consistent implementation of the Fund's exceptional access framework remains of the utmost importance. This will give debtor countries and market participants the right signals about the limitations of IMF financial support. EU-countries agree that, particularly in exceptional access cases, the Fund financial assistance will only support sound policies that ensure long term stability and growth of the country concerned, including the sustainability of external debt, even when this requires a significant policy adjustment by the debtor country. Given the temporary nature of IMF financial assistance, the definition of clear and sound exit strategies from Fund financing is vital to avoid prolonged use of IMF resources, to reduce the Fund's credit concentration and to preserve the Fund's financial integrity.

10 - In implementing the exceptional access framework, the Fund should strictly apply its lending into arrears (LIA) policy. Debtor countries need to make significant policy adjustments in an effort to resolve arrears and to engage in negotiations with its private creditors in good faith when borrowing under this policy. The criteria to judge "good faith" conduct should be further clarified.

11 - The EU welcomes that Collective Action Clauses are now a standard in new sovereign debt issued by EMEs and an increasing share of the existing stock of debt is already issued with these clauses. A broad acceptance of the Principles for Stable Capital Flows to Emerging Markets Economies would also be a welcome step in the debt resolution framework.

12 - The experience of sovereign debt restructurings over recent years has shown that the Fund has a key role to play, in particular by publishing regular debt sustainability analysis and setting well specified fiscal program targets. We look forward to discussing this issue in the context of the IMF Strategic Direction.

## **Role of the Fund in LICs**

13 - The IMF has an essential role to play in low income countries. This role is derived from the Fund's core mandate of supporting the institutions and policies necessary for the macroeconomic stability which is a precondition for economic growth and poverty reduction. The modalities of Fund engagement with LICs will vary with the individual circumstances of the member concerned. Recognizing the progress made in recent years by the IMF in aligning support behind country owned PRSPs, the Fund should continue to refine both program and facility design to better meet the need of developing countries in their efforts to reduce poverty and to allow the transition from Fund programs to a surveillance based relationship.

14 - We welcome Fund work on signalling mechanisms for LICs, which would improve the conditions for the provision of stable, predictable and long term flows of development finance to LICs. In the EU we have had an in depth discussion on the Fund's signalling role in LICs as perceived by EU donors based on their replies to the Fund's questionnaire. We all have agreed that regular and timely IMF signals are very important, especially when donors supply budget support. However, EU donors generally believe that - from a donor perspective - more nuanced, frequent and timely information on macroeconomic policies, including implementation of Fund's programs, is needed from the IMF. All EU donors agree that the existing Fund toolkit can be better used. More analysis is needed as to whether also new instruments, such as non-borrowing programs and precautionary PRGF, are called for to provide strong signals for countries wishing to continue a programme relation with the Fund but having no or very limited need for Fund financing. In so doing, attention must be given to crucial aspects such as the value attached by markets to signals and the trade-off between having a rich set of instruments and providing clear signals to the market.

15 - We welcome the introduction of a new single framework for debt sustainability analysis in LICs. The Fund and the Bank should now consistently apply this framework across all low income countries, make a sounder and more coordinated analysis and let the outcomes of these joint analyses feed back into their financing decisions. Donors should provide financing consistent with the new debt sustainability framework. It is also of the utmost importance to ensure the future financing of the PRGF beyond 2005. EU Member States are prepared to contribute. We welcome the decision to subsidize emergency assistance for natural disasters for PRGF-eligible countries. EU countries have provided substantial bilateral contributions to this effect, and encourage other donors to follow suit.

### **Debt relief and development financing**

16 - At the Monterrey Conference the international community agreed on a partnership through which the developing and developed world each undertook to work to deliver the MDGs. This included a commitment to increase resources for LICs. Europe is playing an increasing role in providing assistance to poor countries. As a step towards meeting the UN-target of 0.7 % ODA/GDI, the EU 15 Member States committed to reach an EU collective average of 0.39% ODA/GNI by 2006. This objective will probably be surpassed at the EU level. A large number of the EU member countries decided to provide a significant increase of their actual contributions to the recent IDA 14 and AfDF10 replenishments and, as a result, the EU countries together will provide, respectively, 55% (excluding the supplementary and incentive contributions) and 59 % of the total external resources brought to the replenishments, against a reduction of the shares of other major donors.

17 - Although ODA flows are increasing, the current pace will not guarantee the achievement of the MDG's by 2015. Additional and more effective aid is therefore needed to support the developing countries in their endeavour to achieve the MDGs by 2015. This aid could be delivered in part through additional debt relief. For HIPC countries, most bilateral creditors have already committed to the full cancellation of their ODA claims; therefore, several proposals for further debt relief are addressing multilateral claims for HIPC and IDA-only countries.

18 - EU countries are looking actively at innovative financial mechanisms, as a way to provide additional, frontloaded and predictable resources for support towards the MDGs. Among these are the proposal for an IFF - including a pilot IFF for immunization - and the proposal for a solidarity levy on air transport.

19 - EU countries are in favour of increased aid. It should be provided according to the following set of principles: it should be additional and fully financed, it should not be discriminatory, it should not weaken the financial position of the IFI's, it should be subject to clear criteria and conditionality so as to maximize the effectiveness of aid and to minimize moral hazard and it should be consistent with ongoing initiatives, such as the Poverty Reduction Strategies, HIPC and the new framework for debt sustainability analysis.

20 - EU countries support additional multilateral debt relief. Up to 100% cancellation should not be presumed but should be granted to HIPC countries, with a case by case approach. Debt sustainability should also be examined in other low-income countries.

21 - Further debt cancellation will imply the need to finance the additional costs that both the Multilateral Development Banks and the IMF would face. Additional contributions from donors, beyond those already pledged in IDA-14, will be required at least for the WB and the AfDF in order to preserve their financial integrity and to maintain adequate resources available to poor countries.

As for the IMF, the MD has been requested to examine the principle and implications of using gold or alternative sources of financing, in particular bilateral contributions.

22 - Any strategy on development cannot rely on aid only. Trade is essential. The Doha Development Agenda is an important element for reaching the MDGs. We urge all countries to maintain the commitment and flexibility they have shown so far to make significant progress at the Ministerial Conference in Hong Kong in December. The Ministerial should be an important step towards realising the significant benefits of trade liberalisation, in terms of productivity, growth and development, for all countries.

### **Voice and representation of developing countries**

23 - At the Monterrey conference, the international community stressed the need to broaden and strengthen the participation of developing and transition countries in the decision-making of the IMF and the World Bank. EU countries support this process and welcome the steps that have been taken so far by the IMF and the World Bank to strengthen the voice of developing and transition countries as well as the renewed focus from IMF management on the importance of this issue. At the same time it is important to discuss further measures, such as initiatives to further build policy capacity in developing countries, further enhancement of delegation office capacity and overall general measures such as an increase in basic votes.

### **Other issues**

24 - We welcome Argentina's strong macroeconomic recovery. After the conclusion of the debt exchange offer, Argentina needs to re-establish a continuous dialogue with the IMF. Any new program, if appropriate, must be based on an IMF assessment that the treatment of those creditors that did not accept the offered debt exchange is in line with the LIA policy of the IMF. It should also have strong conditionality, in particular concerning the primary fiscal targets and structural measures, and a clear exit strategy.

25 - We warmly welcome the continuing IMF/World Bank commitment to conduct comprehensive assessments of the entire set of anti-money laundering and terrorist financing standards in co-ordination with the FATF and the FATF's style regional bodies (FSRBs). We encourage all countries to continue their efforts to ensure the consistent application of the anti-money laundering and the anti-terrorist financing standards. This is particularly important now that the Third Round of Mutual Evaluations is underway and countries are for the first time being assessed against the revised set of recommendations.

We appreciate the IMF/World Bank initiatives to collaborate with the FATF's style regional bodies (FSRBs) and to provide technical assistance to countries in relevant areas.

In order to enhance the effectiveness of technical assistance and avoid any duplication, we suggest that co-ordination mechanisms shall be set up amongst the IMF/World Bank and donor countries involved in bilateral initiatives.

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