



# **International Monetary and Financial Committee**

Thirteenth Meeting  
April 22, 2006

**Statement by Mr. Didier Reynders**  
**Deputy Prime Minister and Minister of Finance of Belgium**  
On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary,  
Kazakhstan, Luxembourg, Slovak Republic, Slovenia and Turkey  
At the 13th International Monetary and Financial Committee

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**The Global Economy and Financial Markets**

The world economy continues to grow strongly. If the WEO projection for 2006 materializes, the world economy will have grown at an average rate of 5 percent for three years running. This would be an unprecedented performance indeed, made possible largely by continued strong growth in the United States, China, India and a number of other emerging market economies. Encouraging developments in Japan and the more positive outlook for Europe justify the conclusion that the global growth is becoming more broadly based.

Core inflation remains low. However, emerging capacity constraints and high and volatile energy and commodity prices call for vigilance in order to keep inflation and inflation expectations low and well anchored. The gradual withdrawal of global monetary stimulus is justified.

All countries should implement policies and cooperate within the IMF to sustain high and equitable growth throughout the world. For many countries, this requires implementing a challenging policy agenda, not least to reduce the significant risks for the world economy stemming from high energy prices and the unprecedented large current account imbalances.

The oil market should become more transparent and competitive. Energy saving measures should be promoted, especially in countries where the energy intensity is still high. Investment in production and refining capacities should also be encouraged. In this respect, we welcome the important investment plans announced by Saudi Arabia.

The widening of global imbalances should be reversed and progressively narrowed by a significant rebalancing of demand across countries. Government policies must ensure that this rebalancing occurs in an orderly manner by correcting, as needed, fiscal and exchange rate policies, and by stimulating adjustment in private sector behavior.

The integration of financial markets has facilitated the financing of unprecedented large imbalances. The continued resilience of financial markets is imperative to ensure an orderly correction of these imbalances as interest rates rise, liquidity shrinks, and exchange rates adjust. Effective monetary policy communication is critical to steer market expectations and enhance the self-correcting mechanisms of the financial system. Supervisors should enhance their monitoring and risk assessment of increasingly complicated financial transactions, including credit derivatives. They should cooperate

closely across borders and engage in dialogue with systemically important market participants.

The world economy will benefit from the continued high growth in the United States. However, to reduce global imbalances, policies in the US should aim at increasing public and private savings.

The 2006 outlook for the EU points to a firming recovery, approaching potential capacity. Growth is being boosted by robust private investment and strong exports that benefit from gains in competitiveness in some member countries. Increased consumer confidence has allowed a decline in the high level of private savings in some EU member states, thus boosting domestic demand. In the Euro area, countries that are losing international competitiveness because of rising relative labor costs should moderate wages and other labor costs while enhancing productivity.

Although the broad picture is improving, the EU needs more dynamic growth. The Lisbon strategy is being implemented to promote knowledge and innovation, foster competition and attract more people into the labor market. This will achieve higher rates of sustainable economic growth and employment creation. In order to improve the long-term sustainability of public finances, fiscal consolidation in many countries must be combined with reforms of pension systems and structural measures to raise employment rates.

The new members of the EU are benefiting greatly from their accession to the Union. Their economic growth is expected to remain firm. Their current account deficits are part of the catching-up process. They reflect high-return investments which are not matched by domestic savings, and/or inter-temporal consumption smoothing. Since the former are likely to increase the country's output potential and its capacity to repay external debt, current account deficits in this case should not be considered a major vulnerability. However, the rapid rise of credit to the private sector, and developments in the fiscal and current account balances must be closely monitored. Policies should react promptly to signs of overheating or loss of competitiveness.

Slovenia is expected to comply with the Maastricht criteria for Euro adoption and is well prepared to benefit from this important move. Continued responsible fiscal policies and wage moderation which preserves competitiveness will guarantee that Euro adoption will further boost the country's integration in the Euro area economy and greatly enhance Slovenia's economic outlook.

The economic performance of emerging market countries has generally improved markedly over the past several years. Their growth performance now significantly outpaces growth in advanced countries. Low inflation, high commodity prices, robust trade and improved debt management are cornerstones of this improved performance. Increased external reserves have also contributed to reduce external vulnerabilities.

The external surpluses of the oil-exporting countries and of Asia have secured a smooth financing of the large deficits elsewhere. Surplus countries in Asia need to rebalance their sources of growth towards household consumption in China and domestic investment in much of the rest of the region. Allowing the exchange rate to appreciate in the surplus countries would be helpful. It should be accompanied by corporate and financial sector reform, particularly in China. Oil exporting countries should use part of their higher oil revenues to finance carefully planned expenditures that raise potential growth and employment opportunities.

The Turkish economy is growing at a sustainable pace of over 5 percent annually and the growth in 2005 was above 7%. This year's inflation target of 5 percent is credibly within reach. The general government deficit and the net public debt to GNP ratio are expected to fall under the Fund-supported program by year end to 1.3 percent and 53 percent, respectively. Foreign direct investment is rising significantly and financing a greater part of the current account deficit. The strong fiscal stance should help contain the current account deficit which the government keeps under close review. Turkey's Fund-supported program is on track. With the recent approval by parliament of the social security reform act, a critical prior action has been taken that allows the completion of the next review of the Stand-By Arrangement. The Turkish government remains committed to further reducing the public debt to GNP ratio, enhancing financial stability and improving the investment climate. These are critical conditions for sustained high growth and employment creation which will enhance the prospects for a rapid convergence to the EU.

Sub-Saharan Africa is likely to sustain growth that is at its highest level in a decade. This proves the effectiveness of improving governance, strengthening institutions, enhancing the credibility of stability-oriented macroeconomic policies, and implementing structural reforms that boost private investment. Adequate donor assistance, government policies that focus on poverty reduction through enhanced education and health care, and a successful conclusion of the Doha trade round that will enhance trade opportunities for developing countries, all would add to a brighter outlook for low-income countries.

Today's excellent economic environment should be used to address the underlying problems. Comparative advantages among countries should be exploited through deeper integration. The Fund, which has been established to avoid the pitfalls of protectionism and absence of monetary cooperation, should be supported by all to advance our common goals.

### **Implementation of the IMF's Medium-Term Strategy**

The IMF plays an important role in advancing responsible economic policies and good governance, providing critical financial support and promoting solidarity in global development. The Report of the Managing Director on the implementation of the Fund's Medium-Term Strategy formulates many useful proposals to strengthen the Fund.

### *Surveillance*

Surveillance is the Fund's core mandate and countries will continue to benefit tremendously from it.

Fund surveillance concerns the sustainability of countries' policies and their external effects. Heeding the Fund's high quality analysis and impartial advice will greatly advance a country's own interests as well as the common economic prospects of all member countries of the Fund. The effectiveness of surveillances is foremost dependent on the compliance by countries of their broad obligations according to the Fund's Articles of Agreement.

More focused Article IV consultations and better integration of regional and multilateral aspects would enhance the quality and effectiveness of surveillance. The Fund should concentrate on exchange rate policies and large changes in foreign exchange reserves. The Fund's estimates of long-term equilibrium exchange rates should not be made public as their interpretation is complex and could easily trigger unwarranted volatility.

The Fund must remain the main forum for international monetary and financial cooperation. The proposed multilateral consultations are a novel and promising idea. Its effectiveness, however, will depend on the commitment of countries to engage in these consultations, and on the Fund being accepted as an impartial, highly qualified, advisor.

### *The Fund's evolving role in emerging market countries*

The Fund should continue to provide meaningful financial assistance to countries that need and deserve it.

Stand-By Arrangements can be tailored to the circumstances of emerging market countries that need a precautionary line of credit. If balance of payments needs are large, so should be the Fund's credit line, provided there are adequate safeguards. If policies are adequate, conditionality can be broadly limited to maintaining such adequate policies, and adjusting them as needed. There is no need to establish a new facility.

The Rules for Exceptional Access provide adequate guidance for the Board to make prudent credit decisions. The Fund should not rely solely on price incentives to avoid extended use of Fund resources that is unwarranted.

The more widespread use of collective action clauses in sovereign international bonds constitutes significant progress to which the Fund has contributed. However, a fully satisfactory mechanism for the orderly resolution of external sovereign payment problems does not yet exist.

### *Governance of the Fund*

Quotas should be adjusted to countries' evolving role in the world economy. We support a meaningful ad hoc increase for a limited number of countries whose actual quotas are significantly below their calculated quotas. We ask the Board to submit proposal by the time of the next Annual Meetings. The Board should examine how to increase the participation of many small and mostly poor countries, *inter alia*, by increasing basic votes. The broad issues of voice and representation, including the adequacy of the quota formulas, should continue to be reviewed.

The proposal to make the selection process of the Managing Director of the Fund more transparent should be part of a broader approach concerning the top management of all international financial institutions. The proposed procedure should also apply when the Managing Director appoints a Deputy Managing Director with the consent of the Board.

The Executive Board has a central role in the governance of the Fund and it must advance the common interest of the entire membership. Its role should be upheld by the country authorities, the Fund management and staff.

#### *The Financing of the Fund*

The Fund must strengthen its efforts to be cost effective. The Fund budget should be transparent and detailed. The Fund should have a detailed cost accounting of its activities. The recent sharp drop in the Fund's income cannot, by itself, justify the elimination of Fund activities.

The Fund's income should be more broad based and more stable and predictable. The structure for financing Fund activities should maintain the independence of the institution. A balanced mechanism which lays a sound basis for financing the Fund activities should be established soon giving due consideration to the cost of the Fund financing for borrowing countries.

#### **The Fund's Role in Low Income Countries – Status of the Multilateral Debt Reduction Initiative and Debt Sustainability**

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

The MDRI is an opportunity to provide extra financial assistance to the beneficiary countries. It substantially improves their external debt situation. It should also enable them to allocate more resources for reaching the MDGs and enhance the effectiveness of their policies.

It would be against the spirit of the MDRI if beneficiary countries contract more non-concessional loans, which would put their debt sustainability at risk. Neither can MDRI assistance be a substitute for donor aid. We invite the IMF staff to report regularly in a

comprehensive manner to the Board on the policies and intentions of all countries on how they are using the resources freed by MDRI.

We agree with the priorities for technical assistance mentioned in the Managing Director's report. Helping with capacity building is very effective if the Fund makes sure that countries make good use of it. Fund activities in this area depend on available budget resources.

The World Bank and the Fund have distinct, yet clearly connected mandates in the area of development. Cooperation between these two institutions should be guided by the principles of relying on each institution's specific mandates and core competences, mutual trust, and a clear division of labor. We look forward to the findings and recommendations of the recently established Advisory Committee.