BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 11

September 26–28, 2000

Statement by the Hon. **DIDIER REYNDERS**,
Governor of the Bank for **BELGIUM**,
at the Joint Annual Discussion

Statement by the Hon. Didier Reynders,
Governor of the Bank for Belgium,
at the Joint Annual Discussion

I should like to pay special compliments to Mr. Horst Köhler, the new IMF Managing Director, who is attending his first Annual Meetings. I am confident that Mr. Köhler will decisively address the problems currently facing the Fund.

As the IMF/World Bank Annual Meetings are being held in Prague this year, we are all able to note the achievements of the transition economies and the challenges they face. This transition, which began in Europe some ten years ago, had become an inexorable process in view of the manifest limitations of the centrally planned economies, whose conversion into market-based economies is one of the major challenges of our era; it is a conversion to which our institutions justifiably attach considerable importance, as evidenced by the fact that two chapters are devoted to the transition economies in the most recent World Economic Outlook. These analyses highlight the sacrifices these countries have had to make, including in terms of declining purchasing power. They also demonstrate that the major challenge for the transition economies is to strengthen the move toward structural and institutional reforms. This is particularly true for those countries applying for membership in the European Union (EU), and subsequently the European Monetary Union (EMU). In the interests of the applicant countries themselves, I would stress the importance of attaining the "Copenhagen criteria;" meeting the political and economic membership criteria will enable applicant countries to garner the fruits of membership.

Capital account liberalization is one of the key reforms associated with membership. The World Bank and IMF have a very useful role to play in this respect: in light of their respective skills, they are in a position to judge the extent to which the financial systems of countries applying for membership are strong enough to withstand the pressures of heightened competition and increased exposure to external shocks attributable to liberalization of capital flows.

We are encouraged by the World Bank's recent initiation of a dialogue aimed at making its loans and policy advice specific to the needs of countries requesting World Bank services. However, this dialogue needs to be deepened so that tools specifically geared toward addressing the needs of the various country categories can be developed. I am thinking in particular of the transition countries whose structural reforms need effective assistance.

Belgium, whose constituency includes several transition countries, will shoulder its responsibilities in assisting this process. It will do so particularly for those counties seeking to join the EU. I will be very pleased to welcome them as integral parts of the

European continent to which they belong. I sincerely hope that the Czech Republic, as well as other countries, will meet the criteria enabling it to join the ranks of new EU members in the near future.

World economic outlook

After some hesitation last year, economic growth in the euro zone accelerated to 3.5 percent and is likely to hold virtually steady around this level over the next year.

This growth rate accurately reflects the potential of the euro zone, whose economic fundamentals are excellent. Further structural reforms are nonetheless necessary to support this growth and maintain it at current levels. Thus, Belgium, as I indicated last month, expects to implement in-depth tax reforms. This in turn should help reduce the tax burden on income from labor, and especially on low wages, and so improve the employability of job seekers. Thus everyone will have sufficient incentive to engage in gainful employment.

The tax reforms to be implemented will considerably improve the quality of government finance without jeopardizing the restoration of Belgium's fiscal position. Modest surpluses will be recorded in the next four years, allowing Belgium to cope with the future challenge of having an aging population.

Belgium has also embarked upon in-depth goods and services market reforms.

All EU countries have initiated reforms that are expected to help them achieve sustained medium-term and long-term growth. The EU will thus contribute to maintaining high global growth even after a slowdown in the United States.

Such growth—stable and sustained over the long term—will be maintained more readily if exchange rates between the major zones are close to their equilibrium level. On this score, I wholeheartedly endorse the assessment of Fund economists who maintain that exchange rates should not deviate significantly from their equilibrium rates. Persistent deviations, even in a country with an undervalued currency, ultimately lead to distortions in resource allocation that are liable to endanger price stability and sustainable growth.

The efforts to strengthen the euro's exchange rate will undoubtedly be facilitated by the improved ability of financial market participants to assess economic policy pursued by euro zone authorities.

During Belgium's tenure over the next year, I intend to focus especially on the preparation, functioning, and communications of the Eurogroup—the meeting of ministers of euro zone member countries—while engaging in constructive and continuous dialogue with the European Central Bank (ECB).

The euro zone needs to acquire added visibility. The Fund's efforts to pursue an Article IV consultation for the euro zone will undoubtedly help achieve this goal. The upsurge in oil prices (world prices have trebled since the February 1999 OPEC meeting) is certainly in no way comparable to the price increase recorded during the two oil shocks in the 1970s and early 1980s.

Nevertheless, its size is such that it can only cause problems. Although the impact of the energy problem has been reduced, numerous countries, including mine, are still particularly vulnerable to such increases. It is in our collective interests, including those of the oil-producing countries, to prevent a slump in world growth; it is therefore essential to ensure that the market is supplied in a manner more in line with economic circumstances.

The oil-importing industrial countries should avoid repeating past errors. Inflation should be kept under control. The terms of trade loss brought about by higher oil prices should lead to an effective process of adaptation in all economic sectors. In no case should costs to the latter resulting from the rise in energy prices be passed on to the public coffers.

International financial architecture

The increase in oil prices will have repercussions on the financial markets. These markets have changed since the previous oil shocks, classic intermediation through credit institutions having been superseded by the enhanced role of the securities markets.

The Fund and all financial market participants should consider themselves partners in the flow of information and in the prevention and resolution of financial crises.

The rise in oil prices will cause substantial deterioration in the balance of payments of several countries. It is important, first of all, for the Fund, through the information gathering networks it manages, to be able to identify quickly those countries that are experiencing financing problems, quantify the problems, and inform the markets.

Communications between the Fund and financial market participants should be interactive: in this spirit, the creation of the Capital Markets Consultative Group at the initiative of the Managing Director is highly promising.

On the subject of crisis prevention, surveillance should be increased to a very great extent and the context in which economic agents take risks and manage them improved. In this spirit, Article IV surveillance could be refocused on examining members' vulnerability to financial crises. This should especially be the case for the industrial countries in which the Organization for Economic Cooperation and Development is studying structural problems. As suggested by the Office of the President of the European Union, Article IV surveillance could also address the issues of financial integrity and the fight against corruption and money laundering, subjects to which our populations are acutely sensitive.

Lastly, the private sector's role in resolving financial crises should also be spelled out. Thus, private sector involvement in the financing of Fund programs should remain a key element of efforts to strengthen the international financial architecture and should make it possible to avoid the problems of moral hazard. It would be worthwhile to specify the underlying principles of such a policy, to get beyond a strictly ad hoc approach.

In addition, I consider it quite necessary for the Fund to be given real power with respect to capital flows, so that it can be in a position to give opinions, where necessary, on unilateral payment suspensions in the external debt framework.

Cancellation of the poorest countries' debts

The Bretton Woods institutions have worked hard to make a success of the program to reduce the poorest countries' debts. Some would like more countries to benefit quickly from the advantages of this program. Nevertheless, I think the greatest factor in the success of such a program lies in the broadest possible participation of the representatives and the people of the countries in question. Without unduly delaying decisions, the World Bank and the Fund should therefore make certain that the poverty reduction plans prepared by the countries reflect the widest possible consensus.

It is also vital that debt reductions granted under this program have a significant impact on the beneficiary countries. I therefore urge the contributing countries to honor their commitments without delay, so as not to place the funding of the program in jeopardy.

It is also important that World Bank assistance programs take account of the specific needs of the countries in question. From that perspective, the Bank's initiative to establish a line of credit to finance the fight against AIDS, a scourge that is causing enormous economic and social damage in Africa, is encouraging.

Future role of our institutions

The globalization of economies and markets has prompted the Fund to rethink its role and its actions. Major efforts have already been made to reflect and take new positions, and we welcome them. Consequently, the Fund should—no doubt more so than in the past—focus on its core tasks, namely, macroeconomic and exchange rate surveillance, as well as assessing the soundness of financial systems. This is merely a matter of identifying the comparative advantages of our institutions. It is certainly not my intention to limit their role. Quite the contrary: they are more crucial than ever for making a success of globalization, and for doing so in such a way as to benefit all. It is therefore essential that our institutions evince a genuine participatory culture, attuned to the financial markets and their participants, and open to the suggestions of civil society and, more particularly, nongovernmental organizations. The Fund and the World Bank must remain at the center of the international financial system: their multilateral nature makes them the most appropriate venue for effective international cooperation.