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Statement by the Hon. **JEAN-PIERRE ARNOLDI**,
Temporary Alternate Governor of the Bank for **BELGIUM**,
at the Joint Annual Discussion

**Statement by the Hon. Jean-Pierre Arnoldi,
Temporary Alternate Governor of the Bank for Belgium,
at the Joint Annual Discussion**

Even if the world economy has proved to be remarkably resilient in the face of recent evolutions, important regional divergences can still be observed and global imbalances remain worrying. It is of course to every country to put in place appropriate national policies in order to tackle these problems. However, individual action is not enough. Indeed globalization with its benefits but also with its challenges reinforces the necessity of an intensified and more efficient international co-operation.

IMF medium-term strategy

The Fund has a key role to play in the ongoing process of **globalisation**, which should indeed be the main focus of its action. Of course, it should be made clear that the IMF cannot solve all the challenges linked to globalisation. Other institutions, in particular the WTO, also have an important role to play.

The action of the Fund should remain focused on **surveillance** not only from a bilateral point of view but also from a regional and multilateral point of view. External imbalances and macro-financial stability issues should continue to be closely followed. In particular, we think that there remains substantial room to strengthen the coverage of financial sector issues. Indeed, given the increased importance of financial markets in our globalized economy and the differences in the surveillance of the financial sector across countries, progress in this area is essential. Where FSAP assessments have been made, their conclusions must be tightly integrated in Article IV reports. Consequently, these reports must provide clear information on progress on previously identified financial sector weaknesses. However, efforts to improve financial sector surveillance cannot rely solely on full FSAP assessments, given resource constraints and the voluntary nature of this program. In this regard, a more thorough appraisal of the soundness of the financial system in Article IV reports for countries not opting for a full FSAP would be a step in the right direction.

A profound review of the Fund's **current financial system**, considering in particular concrete proposals for broadening its income base, is critical to our shared goal of equipping the Fund for the future. During the last decades, the Fund has embraced a vast expansion of its activities and the cost of running the Fund has expanded significantly. Today, the Fund is an institution providing primarily non-financial services to its members. At the same time, however, the Fund's income comes almost exclusively from a margin applied on its lending operations. This is an issue that must be effectively addressed in an institution whose success should, over time, result in a reduction of its lending activities. Although a consensus on the establishment of an investment account is a step in the right direction, more could be done to this end.

The current discussion on **voice and representation** is an important one. We stand ready to consider alternative quota formulas that take into account members' relative position in the international financial system and the ability of members to contribute resources to the Fund.

For member countries whose **quotas** are considered out of line, given their relative importance in the world economy, we support ad hoc increases in their quotas, to be discussed on a case-by-case basis according to country specific circumstances. Equally important is the erosion of the relative importance of basic votes since 1946. These were meant to symbolise and underpin the co-operative nature of the Fund. Hence, we would welcome an increase, in such a way that basic votes would again constitute a considerable part of total votes.

I would also like to stress that the IMFC should continue to evolve towards a more strategic dimension with an important role of giving impetus to the Board.

Strategy vis-à-vis low-income countries

The Bretton Woods institutions have an important role to play in low-income countries by providing adequate policy advice and technical assistance as well as the financing that low-income countries need in order to promote growth and to fight poverty.

Belgium, as shown by the important contributions of my country to the financing of this facility, has always considered that the **PRGF** is and should remain the cornerstone of the IMF financial assistance to low-income countries and considers it important that this instrument be preserved in the future.

The proposed **Policy Support Instrument** can also be useful for more advanced countries and the new **Shock Facility** should complete the range of IMF instruments.

Despite undisputed progress, a long way remains before achieving the Millennium Development Goals (MDGs). In this context, my country remains committed to reach the agreed UN target on Official Development Assistance by 2010.

Belgium supports the recent G8 proposal on debt cancellation for countries that qualify for HIPC debt relief. It offers a major opportunity for the alleviation of the debt burden these countries are facing and for the mobilisation of additional concessional resources. This initiative, to be fully effective, must be adequately funded and not weaken the capacity of the IMF and the IDA to provide financing to the poorest. A major feature for the Fund is to be able to continue providing assistance while respecting the uniformity of treatment principle.

With respect to IDA, it is our firm view that the costs associated to the debt cancellation should be borne by all donor countries according to their shares agreed upon for IDA-13.

My country agrees that HIPC conditionality is appropriate and sufficient. We think that there is a need to close monitoring of the continuity of the eligibility of the recipients and of the use of resources so as to avoid the building up of a new unsustainable debt level.

I would like to express my appreciation of the progress achieved during the Annual Meetings; the commitments made by the G8 countries are an important contribution for a final agreement on all necessary arrangements in the IMF and in the World Bank.

Belgium also welcomes the **Bank's action plan for Africa** which focuses on results and aid efficiency. The Africa Action Plan contains the elements to make it a success story provided transparency on aid allocation and on its use is fully ensured. The proposal to track and closely monitor public expenditure is a step in the right direction. However, we do feel that a stronger focus on capacity building is warranted. Belgium firmly believes that regional integration is an important element in stimulating South-South trade and economic growth but also in restoring peace. The success of the Action Plan depends on the increase of total resources and on the willingness of other donors to support and to collaborate with the World Bank. In addition, the importance of coherence between different initiatives, namely the EU's strategic partnership with Africa, needs to be stressed.

Finally, let me stress the importance of trade for poor countries. The outcome of the **WTO Hong Kong ministerial meeting** is of great consequence for the world economy in general and for the developing world in particular and, we should all strive to make it a success. In the meantime, it is also important for political leaders to resist unavoidable protectionist pressures.