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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

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Statement by the Hon. **GUY QUADEN,**
Governor of the Fund for **BELGIUM,**
at the Joint Annual Discussion

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I would like to warmly thank the Government of Singapore for its hospitality shown during this Joint Annual Meeting.

Economic prospects and policy issues

The European economies have performed markedly better than expected so far in 2006, with the pace of growth well above potential. The world economy is expected to continue its strong growth this year and the next. If the WEO projection for 2007 materializes, the world economy will have grown by more than a fifth in just four years. An unprecedented performance indeed, made possible largely by continued robust growth in the United States, China, India and a number of other emerging market economies.

IMF issues

Quota and voice

We voted in favour of the Board of Governors' resolution on quota and voice reform in the IMF, including its timetable. We therefore agree with the **first round of ad hoc increases** for China, Korea, Mexico and Turkey. The IMF, as the foremost institution to promote international financial co-operation, must remain relevant to all its members. This implies adapting members' quota and voice as their weight and role in the global economy changes.

We are open to discussing how the present **quota formulae** can be made more transparent and simple, reflecting the Fund's mission. A new formula should be based on economic and financial openness, GDP, and other relevant variables. Indeed, the role and participation of countries in the international economy and financial system is determined by several variables. The Fund's mandate is primarily promoting international cooperation and international trade. It is the Fund's mandate which justifies the present weight of openness in the existing formulas.

Once the review of the quota formulae has been brought to a successful conclusion, we agree that **a second round of limited ad hoc increases** should follow to adjust the situation of the most under-represented members.

We agree that better alignment of members' quotas to their weight and role in the world economy should be considered in the context of future general reviews of quota. But the present rules governing general quota increases must continue to apply, meaning that an established need for additional Fund liquidity is an essential precondition for any general increase in quotas.

We strongly support to at least double the number of **basic votes**, to be implemented in line with the timetable in the resolution. We also support introducing a mechanism to safeguard the share of basic votes in total voting power. Similarly, we support steps to increase the number of Senior staff of particularly large constituencies.

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As part of the reform programme, we support a review of the method of **selection of top management** of all international financial institutions.

Review of surveillance

Surveillance is the core mission of the Fund. It has been proposed to modernise the **1977 decision on surveillance of exchange rates** in order to clarify a number of aspects of surveillance, including the place of exchange rate surveillance within the broader context of surveillance. In a world of open capital accounts, it is the Fund's task to closely scrutinize whether each member is conducting policies consistent with its exchange rate regime. The 1977 decision already explicitly allows for this possibility.

In addition, given the diversity and rapid development in the global economy, the legal framework for IMF surveillance should remain sufficiently broad and flexible. The non-prescriptive nature of the 1977 decision has allowed to adapt surveillance to the changing needs of the Fund and its members. We are open to discussing how surveillance can be better implemented, including better coverage of multilateral issues and a more substantial treatment of exchange rate policies, but do not see the need to fundamentally revise the 1977 surveillance decision.

The Fund's estimates of long-term equilibrium **exchange rates** and the methodology used in computing these exchange rates should not be published. The interpretation of such computed exchange rates is complex and could easily trigger unwarranted volatility.

We support the setting of a **remit** for IMF surveillance to clarify medium term objectives and operational priorities of surveillance, subject to further work on the issues involved and in the context of the surveillance package as a whole. The remit should respect the role of the Executive Board as the Fund's central body in charge of conducting the Fund's work on surveillance, as well as the role of the IMFC.

We welcome the launch of the first multilateral consultation and hope that it will prove effective in generating the necessary policy momentum.

Financing of the Fund

The reduced volume of members' outstanding obligations to the Fund has produced an income shortfall, necessitating strict expenditure control. However, budgetary considerations should not compromise the quality of surveillance, which is the Fund's primary mandate. In order to make informed choices about where expenditure cuts can take place, the Fund should be more transparent about the full cost of each of its activities.

The establishment of an investment account is a welcome step in the direction of a more robust, predictable, and less volatile and credit-linked income position but more measures are needed. We look forward to the conclusions of the External Committee on the Financing of the Fund, which should help identify other sources for financing the activities of the Fund, with fair burden sharing among all member countries.

Role in emerging market economies

The Fund should continue to provide meaningful financial assistance to countries that need and deserve it. The Fund should in that respect maintain its proven record of being able to act swiftly if a crisis strikes.

The Fund should explore further how to respond to the need of emerging market countries for high precautionary access to Fund financing. We note that small, pragmatic and common sense changes in the Fund's practice of precautionary Stand-By Arrangements could make them better adapted to emerging market countries' needs in the face of potential capital account crises. An approach based on existing and well-known Fund instruments guarantees the predictability of access to Fund resources, while limiting the financial risks to the Fund.

Low-Income Countries

The role of the Bretton Woods Institutions in reducing poverty remains as important as ever, even in the light of increasing private finance flows to the developing countries. Both institutions have to step up their efforts, together with their multilateral and bilateral partners to accelerate progress towards achieving the Millennium Development Goals. Increased financing and technical advice will have to be secured both to the low income and middle income countries, home to the majority of the poor in the world. The Gleneagles Summit of last year has been instrumental in raising awareness among all development partners that action is needed if the international community is to reduce poverty in a substantive manner, in particular in Africa where the challenges are the biggest.

Donors have increased their aid flows, albeit a large part through debt relief, and recipient countries have strengthened their macro-economic and social frameworks allowing them to absorb more efficiently this additional financing. But more work is needed. From the perspective of the donor community, more predictable aid flows should be ensured, keeping in mind that official development assistance remains one of the most prominent avenues to help countries meet the MDGs. In this respect, Belgium remains committed to reach the agreed UN target on ODA by 2010 and we are pleased to announce that we are on track to reach that goal. As IDA is in many low income countries the cornerstone of the aid architecture, We call upon all donors to agree upon a robust IDA-15 replenishment on which negotiations will start shortly. As the President rightly states in his note: “this will be the final opportunity for making further progress towards the MDGs”. On the receiving end, countries need to further strengthen their institutions to permit development monies to be allocated for the benefit of the poor and to solidify their growth perspectives. Indeed, both sides have to assume their responsibility.

Long-term debt sustainability has now become one of the cornerstones of the Fund and the Bank’s assistance to low income countries. We believe this is the right approach as we don’t want to see indebted poor countries, having benefited from debt relief, returning to situations where a new debt overhang hampers the implementation of their structural reforms. In this regard, we look forward to the scheduled review of the DSF framework the coming months, in which particular attention should be paid to the so-called “free riders” issue. All creditors, be it official, commercial, including export promotion agencies, should be brought on board to persuade them to refrain from extending lending on inappropriate terms.

We welcome the progress achieved since the Spring Meetings on laying out a broad strategy on governance and anti-corruption. It is to the credit of Mr. Wolfowitz that good governance has become more than a buzz word in international development. We support wholeheartedly the principles on which the strategy is based upon, but would expect that further refinements will be made in full collaboration with other stakeholders and not the least with the countries themselves. Establishing and respecting good governance principles is a long term and complex endeavor and should be gradually introduced rather than imposed. Belgium has already undertaken considerable efforts to integrate good governance in its development policy, but we are also learning as we move along. That is why my Government has planned an International conference on governance in the spring of next year in Brussels and we would like to take the opportunity to extend an invitation to Mr. Wolfowitz to attend this brainstorming session.

Finally a word on Bank-Fund collaboration. Being sister organizations, we can not expect that the relation is always a smooth one, but we encourage both of them to clarify further their role and mandate, in particular in low-income countries. We look especially forward to the conclusions by the external expert panel and hope that their findings will help in strengthening even further the relation between both institutions.