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Statement by Mr. Didier Reynders
Minister of Finance, Belgium
On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

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Deputy Prime Minister and Minister of Finance of Belgium
On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
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The Global Economy and Financial Markets

The global economy has proved remarkably resilient to high oil and other commodity prices and financial markets conditions have remained benign. The world economy has been expanding at rates well above its long-term trend, albeit with significant regional divergences. Nevertheless, worldwide inflation has been broadly contained and inflationary expectations well anchored. These positive global conditions reflect supportive national macroeconomic policies and structural and institutional changes worldwide, as well as a flexible and innovative international financial system.

Although overall growth prospects remain broadly unchanged, the balance of risks to the global outlook is slanted to the downside. The continued expansion has been accompanied by a continued increase of current account imbalances. High oil prices seem to have begun to affect consumer confidence.

To avoid potential disruptions from a further increase, the oil market should become more transparent and competitive. Investment in production and refining capacities should be encouraged and energy savings measures should be promoted more strongly, especially in countries where the energy intensity is still high.

It is a positive effect of financial globalization that imbalances in the world economy can now be financed in larger amounts and for longer periods before they must be reversed. However, annual external deficits over time add up to even larger debt and negative external investment positions that must be reversed at some point. To make this reversal gradual and not disruptive for the world economy, the coordinated policies suggested in the WEO document are a first best solution. These policies include gradual but sustained fiscal consolidation in the United States, more exchange rate flexibility in Asia, and structural reforms in Europe and Japan. They are in the interest of the countries, will facilitate orderly global rebalancing and lower the risk of disorderly adjustments due to abrupt shifts in investor sentiment.

The continued economic expansion in the United States has been an engine of strong global growth. However, very low household savings, reliance on high asset valuation, medium-term fiscal pressures and energy intensity of the economy require sustained fiscal consolidation and measures to improve energy efficiency.

In Europe, we expect the expansion to strengthen gradually in the second part of the year. The ongoing labor market reforms should enhance both flexibility and incentives to work and to recruit workers. Fiscal reforms should reduce tax burdens that are detrimental to economic activity, while maintaining fiscal soundness and ensuring that the cost of an ageing population can be met. Europe should continue implementing reforms that enhance competition in product and services markets, and create an environment that stimulates research and boosts investment in an increasingly knowledge-based economy. Such comprehensive and sustained reform efforts will heighten confidence of both investors and consumers and stimulate domestic demand.

The rebound in the Japanese economy is driven by solid private consumption growth and buoyant business investment. This is a good time to build on the progress made in addressing structural weaknesses so far and to implement a credible medium-term plan of gradual but sustained fiscal consolidation.

Asia's integration into the global economy has reached a critical mass in terms of trade, international financial flows, and world economic growth. Growth in this region has been outperforming the global rate by a substantial margin, and its share in world trade has been increasing rapidly. There is no doubt that the region's low cost structure has been curtailing global inflationary pressures. In addition, Asia's savings and accumulation of international reserves have been influencing global liquidity, the shape of yield curves and exchange rates. Asia's external surpluses, together with those of oil-exporting countries, have secured a smooth financing of growing deficits of the United States. The region needs to rebalance gradually its sources of growth towards domestic demand. In this context, the decision of the Chinese authorities to reform the renminbi's exchange rate regime is welcome. This initial step has also triggered greater flexibility in some other Asian countries.

In emerging Europe, growth has remained firm. Economic activity in these countries was boosted by the successful entry into the EU of new members, which has been associated with both intensification of trade and service exchange, and harmonization of institutional and legal frameworks. In preparing for adoption of the euro, the new EU member states should, depending on individual country circumstances, pursue fiscal adjustment, deepen structural reforms, increase efficiency of their financial systems and improve the business environment.

Turkey's policies have yielded impressive results: annual inflation is now in single digits. Output growth was almost 10 percent last year, and is projected to moderate this year to a more sustainable level of about 5 percent. Its policies under the Fund-supported program are on track. Parliament will consider in the coming weeks the social security reform act and the banking act, the adoption of which is a prior action for the completion of the next review of the Stand-by Arrangement. Turkish policies aim at further reducing the public debt and inflation, and enhancing financial sector stability, which in turn is expected to promote investment, sustained growth and job creation.

Improved macroeconomic policies and structural reforms have contributed to robust economic performance in Sub-Saharan Africa. Further reforms, including building of institutions, are necessary to strengthen the investment environment. The global community must support Africa's reform efforts with improved trade opportunities and additional resources.

Strengthening IMF support for low-income countries

Despite important progress, there is still a long way to go in achieving the Millennium Development Goals (MDGs). As macroeconomic and financial stability are necessary conditions for attaining sustainable growth and reducing poverty, the core mandate of the Fund is crucial for reaching the MDGs. The Fund has long experience in working with these countries. It should continue to help them with policy advice, focused technical assistance, and well-tailored financial support. The recent review of PRGF program design provides useful analytical tools for this purpose. The PRGF should remain the cornerstone of the IMF financial assistance to poor countries.

The Policy Support Instrument (PSI) can be a useful and complementary tool of the Fund for informing the public, investors and donors about a country's policies. PSI should remain voluntary and not replace the Fund's concessional lending to low-income countries. Multiple signaling instruments could blur the messages of the Fund. It is, therefore, important that the Fund adheres to its standards of upper-credit tranche policy when confirming that a country's policies meet the PSI standard.

In recent years, several low-income countries have achieved broad macroeconomic stability. Nevertheless, their situation remains fragile, especially because of their dependence on world commodity prices and because of their vulnerability to exogenous shocks. The recent soaring oil prices might severely affect the economic situation in many poor countries. The Fund should continue to assist them financially and be able to use its instruments flexibly according to circumstances in each case. The proposal to amend the PRGF instrument to facilitate financial assistance to low-income countries, facing temporary shocks, is a response to that need.

Debt sustainability remains an important challenge for low-income countries. The contribution of the enhanced HIPC initiative has been significant. The 10 countries that have reached the decision point but not yet the completion point and the seven pre-decision point countries should strengthen their efforts to progress quickly towards HIPC debt relief. We look forward to seeing the definitive list of HIPC eligible countries, which will be decided upon soon by the IMF and the World Bank.

We welcome the debt cancellation to the Fund, the World Bank and the African Development Fund for countries that qualify for HIPC debt relief. This initiative is an opportunity to provide extra financial assistance to those countries. It would enable them to dramatically improve their global debt situation, to allocate more resources for reaching the MDGs and enhance the effectiveness of their policies. The Fund should provide special financial assistance to poor countries respecting the uniformity of treatment principle. The Fund's share in this debt cancellation must be financed on a sound and fair basis, preserving the capacity of the Fund to lend and conduct its activities. This effort should support responsible and transparent policies, lead to a sustainable debt situation and help countries achieve the MDGs. Without imposing new conditions, the Fund should monitor the effectiveness of its debt cancellation.

IMF objectives and medium-term strategy

When reviewing the Fund's medium-term strategy, we should take into account the fact that, together with clearly positive benefits, the globalization process has brought about new challenges that have to be tackled in an integrated way. In particular protectionist pressures should be resisted and all efforts should be made in order to achieve a positive outcome in future trade negotiations.

In accordance with its core mandate, i.e. to promote orderly international financial relations among its members and macroeconomic and financial stability, the Fund has a key role to play in this context. The Fund must also concentrate on the soundness of public finances and of the financial sectors and it must remain the main forum for international monetary and financial cooperation.

A better integration of the Fund's work on surveillance, technical assistance and lending to countries will strengthen coherence and effectiveness.

Fund surveillance should focus on relevant issues and be even-handed for all its member countries. Because of growing economic integration, multilateral and regional surveillance will become more important. The Fund should strengthen its expertise about the functioning of the international financial markets, the processes for countries to successfully integrate in the global financial markets, and more broadly the challenges of economic globalization.

The Fund must continue to lend to countries based on transparent inclusive decision making, sound economic considerations, and rules that are clear but sufficiently flexible to enable the Fund to respond to specific circumstances. A Stand-By Arrangement (SBA) is the Fund's basic lending instrument. Specific lending instruments should only be established when borrowing needs of countries cannot be adequately met under an SBA.

The Fund needs a comprehensive medium-term budget process in order to identify how it can fulfill its mandate and meet its costs in the most effective way. The Fund should review its finances and consider concrete proposals for broadening its income base.

The governance of the Fund should be improved. Meetings of the IMFC must be substantive and well focused to provide guidelines for the strategic decisions of the Fund. The working procedures of the IMFC and of the Board should ensure efficiency, inclusiveness and the provision of timely comprehensive information to all its members. Countries should participate in the decision making process of the Fund according to their quotas, which should rightly reflect their relative economic and financial position in the world economy. There is a case for an ad-hoc quota increase for countries whose quotas are currently significantly out of line, such as Turkey. We also agree that an increase in basic votes will strengthen the position of the small poor countries.