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Statement by Mr. Didier Reynders
Deputy Prime Minister and Minister of Finance, Belgium

On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

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At the 17th International Monetary and Financial Committee
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The Global Economy and Financial Markets – Outlook and Policy Responses

After five years of unprecedented widespread high growth, the world economy has entered a period of slower growth. Domestic demand in the United States is affected by falling house prices, more restricted credit conditions and declining employment. Tensions in U.S. financial markets are spilling over to Europe and elsewhere. These developments and rising inflation, caused by high energy and food prices, make the outlook for the global economy more uncertain than usual. This creates significant challenges for economic policy makers and financial sector supervisors.

Central banks have reacted with adequate urgency and good judgment in providing abundant liquidity to ease tensions in credit markets. It is of paramount importance that the Fund, in cooperation with other fora such as the BIS, provides expert analysis. This should help proper decision making and promote consistency of policy measures and interventions to avoid severe disruptions in financial markets. Prompt restoration of impaired bank capital is essential for avoiding a credit squeeze, excessive fall in asset prices and destruction of employment.

Although activity in Western Europe has decelerated, domestic demand in most countries continues to be sustained. Export performance remains robust notwithstanding a further appreciation of the euro. How significant the spillover from the US to Europe will be is difficult to assess now. We observe that the WEO's forecast for the Euro Area seems to be more pessimistic than what the most recent forward-looking indicators and data reveal.

High energy and food prices have caused a spike in inflation in the Euro Area. This should be temporary. A credible policy by the ECB provides an anchor for consumers' expectations about price stability. The Stability and Growth Pact is a solid framework for proper fiscal policy in EU countries in good as well as in bad times. It allows automatic stabilizers to play while ensuring that countries continue to advance towards medium-term fiscal objectives.

The Euro Area financial sector is considered to be sound. Liquidity provided by the ECB has helped in maintaining the proper functioning of markets especially in times of increased risk aversion. While in some European countries a housing market correction is ongoing, in general the balance sheets of banks are strong enough to weather the potential strains. Mortgage credit has been relatively prudent and household savings remain strong.

Most countries in emerging Europe continue to show high growth rates. The containment of inflation in these countries requires vigilant monetary policy supported by fiscal restraint, moderate wage developments and well-functioning goods and services markets. Current account deficits in these countries are a normal phenomenon accompanying high productivity increases and rapid real convergence. The authorities in these countries are cognizant of the vulnerabilities when economic agents rely heavily on short-term debt financing. Prudent policies are critical for containing balance sheet vulnerabilities and steering towards a sustainable pace of growth.

Turkey's economic performance has continued to be solid. In 2007, GDP growth was 4.5 percent and is expected to stay at the same level in 2008. Also, inflation remained above the target due to global supply shocks. Prudent monetary policy implementation will help in bringing inflation down to its medium-term target of 4 percent in the period ahead. Fiscal policy continues to support the reduction in debt levels. Net public debt declined to below 30 percent of GDP at the end of 2007. Last year, FDI remained high and more than half of current account deficit was financed by FDI. Thus far, strengthened fundamentals have helped in limiting the impact of the global turmoil on Turkey's economy and authorities are determined to maintain rigorous policy implementation so as to weather these challenges successfully.

It is encouraging to observe how emerging market economies have become more resilient to a slowdown in advanced countries. Increased trade integration among emerging market and developing countries has contributed to this positive development. Almost half of the exports of these countries are now directed to other emerging market and developing countries. However, a number of these countries remain heavily dependent on financing from advanced economies at the time that deleveraging in these economies may result in tighter credit conditions. Also, the higher interest rate level in some emerging market countries may attract significant speculative capital that could complicate prudent macroeconomic policies.

Sub-Saharan Africa continues to experience vigorous economic growth. Improved macroeconomic management, wider trade openness and generous debt relief have enabled African countries to benefit from their integration into the world economy. Further improvement in policy frameworks and institutions of these countries is essential for their readiness to withstand a potential reversal of the world economy. Fund surveillance and Fund-supported programs are critical instruments for achieving these targets.

The financial turmoil shows the need for strengthening financial sector supervision, including better coordination among regulators. We support Fund's cooperation with other multilateral bodies in the area of financial stability. It is important that the Fund's assessments remain independent.

The IMF has an important role in contributing to the resolution of the current financial turmoil. The WEO and GFSR serve as most useful tools of multilateral surveillance and for analyzing the structural changes that affect the dynamics of the financial system. All systemically important countries should ask the Fund to analyze in depth their financial systems. The Financial Sector Assessment Program (FSAP) should be better integrated into countries' Article IV surveillance so as to enhance the Fund’s assessment of linkages between the financial sector and the real economy. The Fund should continue monitoring the implementation by countries of the strategy to reduce global imbalances, as endorsed by the IMFC during its 2007 Spring Meeting, including through exchange rate policies that are consistent with the fundamental balance of payments position of countries. The Fund should stand ready to assist countries financially if the financial turmoil results in balance of payments difficulties.

Quota and voice reform

We thank the Managing Director, the Executive Board and the staff for their work on the Reform of Quota and Voice. We welcome the agreement reached by the Executive Board.

We support the proposed resolution of the Board of Governors on the ad-hoc quota increases, the tripling of the basic votes and the possibility for Executive Directors, who are elected by large number of countries, to appoint a second Alternate Executive Director. A significant amount of quotas is allocated to dynamic economies, many of which are emerging markets. The tripling of basic votes will protect the voting share of small and low-income countries.

The agreement on the new quota formula and on the distribution of the ad-hoc quota increases is a compromise. We observe that the ratio of actual quota over calculated quota, for a few countries, including Turkey, remains almost as low as it was before Singapore. This shows that these countries continue to be highly underrepresented. In the future, the Board of Governors should consider ad hoc quota increases for the few countries that are significantly underrepresented.

A comprehensive, sustainable and efficient budget

The Fund needs an integrated budgetary framework with adequate resources to fulfill its mandate in an independent and efficient manner. The medium term budget should include a comprehensive and transparent cost accounting of all Fund activities.

We support the efficiency enhancing measures that have been recently taken to help reduce the Fund’s cost. The Fund should focus on its core mandate and cooperate with other institutions having specialized responsibilities in related fields. However, budget constraints should not justify canceling activities that are necessary for the Fund to implement its surveillance mandate in a changing global economy, particularly bilateral surveillance.

A sustainable model for the Fund's finances

We welcome the work that has been done by the IMF Board and staff to implement the proposals of the Crockett committee and create a new, more predictable and stable income model. We encourage all member countries to adopt all necessary measures for the implementation of the income model which has been agreed by the Executive Board.

We agree to invest the profits which will be generated by the sale of gold acquired by the Fund since the second amendment of its Articles of Agreement. Such gold sales should fit into the Central Bank Gold Agreement.

We support the broadening of the Fund's investment mandate. The Executive Board should set the strategic benchmarks and allow portfolio managers enough flexibility.

We also support that the broadened investment authority be expanded to include the resources held in the SDA and the PRGF-ESF Trust. Broadening the investment mandate could generate enough income to largely cover the costs of administering the PRGF-ESF Trust and maintain the capacity for concessional lending.

We welcome the Managing Director's intention to seek, for those activities that are less linked to the core mandate of the Fund but provide significant added value, donor financing, if the regular income of the Fund cannot cover their cost. We agree that the Fund should charge a cost recovering fee for capacity-building services that are not linked to Fund programs.

In addition to the components of the new income model, the Board should complete its review on charges and maturities and revisit normal access limits for Fund credit. The Board should revisit the fairness and sustainability of the present levels of the rate of charge, surcharges and the burden sharing mechanism. Access limits for Fund credit should be increased as the existing limits have become small in comparison with the potential financing needs of member countries.

Strategic directions in the medium-term budget

Bilateral surveillance over all member countries continues to be the Fund's core work. It also provides necessary information for surveillance at the regional and global level.

We support a more in-depth analysis of interactions between financial stability and macroeconomic stability, exchange rates and spillovers. Bilateral surveillance should be conducted with a more global perspective and utilizing cross-country experience. Management should collaborate with other international institutions and avoid, where possible, overlap of work.

Equal treatment of members with regard to surveillance not only serves the membership but also protects the reputation of the Fund. The Revised Guidance Note on surveillance is an essential tool in this context. Management should adopt these guidelines in consultation with the Board.

The Fund has a unique role in assisting low-income countries in creating stable macroeconomic frameworks, without becoming a development agency. Clearer division of labor with the World Bank is still needed.

Technical assistance should be demand driven. We welcome the technical assistance priorities set out by the Managing Director in line with the mandate of the Fund.