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

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It is a great pleasure for me to address the Annual Meetings of the IMF and the World Bank today. As Belgium's new Minister of Finance, I have had my first opportunity over the past several days to follow the deliberations at the various meetings of the two institutions, and I have done so with great interest. I have taken due note of the major role which the Bretton Woods institutions play in the pursuit of sustainable development, and of their constant and determined efforts to combat poverty and underdevelopment. Both of these missions make the two institutions crucial participants in the work of analyzing and resolving the major economic problems of our era.

Belgium's implementation of essential structural adjustments

This year again, the United States will experience significantly greater economic growth than the European Union, particularly the euro zone. This gap, which has been discernible over most of the past decade, suggests that there is a genuine "output gap" between the United States and Europe. One explanation for this may lie in the rigidities of the European labor market, elimination of which has been the focus of a number of economic policy measures. Belgium has always advocated a coordinated approach to the issue.

The policy of the new Belgian Government, which took office in July 1999, has resolutely reflected this approach. The Government is therefore determined to develop an active welfare state through a training and employment policy designed to increase the labor-force participation rate, which is low in Belgium compared to the other European countries.

Various measures are planned, including a significant reduction in employer social-security contributions and payroll taxes, introduction of a youth employment program to enable all young persons to enter the labor market within six months of leaving school, steps to increase participation in the labor force by persons over 50 years of age, and similar measures.

The Government of Belgium will introduce far-reaching reforms to reduce taxes on earned income. The reforms will reduce the number of tax brackets, raise the minimum taxable income, and regroup deductions in a limited number of flat-rate categories. The Government has already confirmed the redefinition of all personal-income tax brackets, and plans to eliminate the emergency surtax.

The Government also wishes to alter the income tax structure so that it will be possible to pursue our national objectives with respect to employment and sustainable development more effectively. This shift will depend on progress on the European tax harmonization front. All these reforms will be the subject of legislation introduced during this Government's term of office, in a move toward ongoing reductions in tax and parafiscal pressures.

By implementing this policy, the Belgian Government expects to achieve the following two objectives, which it was advised to pursue by the Fund during their last series of consultation discussions:

- Tax reform will make it possible to reduce the tax wedge existing between individuals' gross and net income. In Belgium, the difference between these two is very large, and this will eventually become a serious competitive handicap within the euro zone.
- The Government's policy will also serve to eliminate employment traps. In the case of the lowest levels of earned income, net disposable income will be higher, with the result that the differential between this and replacement income will increase. This will inevitably increase incentives to seek employment.

Some might fear that an innovative policy such as this could jeopardize Belgium's recent macroeconomic achievements; in particular, its improved fiscal position. However, this is by no means the case. Belgium will comply with the budget objectives set forth in its 1999-2002 stabilization program. Over the medium term, the planned measures for reducing employer social-security contributions and payroll taxes should produce favorable effects on employment, and this in turn will improve the budgetary position.

Belgium's new economic policy is therefore moving close to the optimum mix of measures advocated by the Fund during the most recent Article IV consultation discussions. Long-term simulations have indicated that strict control of public spending, combined with structural reform, including reduction of the tax wedge and introduction of employment incentives, should provide the most rapid means by which Belgium's indebtedness can be reduced.

Strengthening of the international monetary and financial system

The debate on the future role of the International Financial and Monetary Committee should continue. It would be wrong to believe that the international monetary and financial architecture is an unimportant matter, and that the main focus should be on dealing with more substantive issues, rather than on determining in what forums they are to be discussed.

We consider the following to be fundamental objectives:

- preservation of the multilateral approach, as embodied by institutions such as the IMF;
- acknowledgement of democratic legitimacy in decision-making, and increased emphasis on the need to provide justification for decisions;
- the need to reconcile flexibility in examining certain types of problem with the absolute need for an overall coordinating body to deal with financial and monetary issues.

Consequently, the International Financial and Monetary Committee should – ideally – become a forum for decision-making on IMF matters, and for coordination and consultation on

related financial issues. The preparatory meetings of Alternates should continue, so that the Committee's plenary sessions can be more effective. Systematic use should be made of working groups, so that the Committee's central role will be preserved, and particular issues can be dealt with by groups with the necessary ad hoc membership.

I would also emphasize that the International Financial and Monetary Committee should be given an enhanced role in the auditing of operations. This would be a way of ensuring that all financing provided was being properly used, monitoring which would go beyond mere enforcement of the macroeconomic criteria normally applied.

Initiatives for poverty reduction and the promotion of sustained growth

I am pleased to note that the policies of the Bretton Woods institutions have been modified so as to meet the need for finding lasting solutions to the debt problems of the poorest countries.

The Belgian Government has always been receptive to the wishes of civil society, including the call for an intensification of the struggle against poverty. Consequently, I wish to indicate here today that the Government will support the initiatives for promoting goods manufactured by socially equitable methods, its purpose being to promote balanced global trade. I therefore advocate the establishment of links between programs such as ESAF/HIPC and efforts to reduce poverty in the poorest countries.

At present, the most important consideration is to ensure that these programs receive the necessary financing. Belgium's contribution to this financing is substantial, and the country stands ready to participate in any additional joint efforts, provided that the costs are shared equitably. In addition, the use of IMF-based approaches – and in particular the revaluing of a portion of the Fund's gold reserves – seem fully justified in the present circumstances.

While focusing on the heavily indebted poor countries, we cannot forget the specific problems that other countries face, and so we particularly support the program of assistance for Turkey, which suffered a devastating earthquake on August 17.

Central Africa

Belgium has historic links with Central Africa, and believes that the time has come to take the political initiative in this part of the world, promoting peace and restoring trade and economic activity. This will open the way to a renewal of economic assistance for the region, made available through a number of different channels. Such assistance should be provided through procedures that are flexible, adaptable over time, and tailored to meet the needs of the individual countries in the region. I call upon the Bretton Woods institutions to increase their assistance for these countries in the very near future by contributing to an in-depth study of their problems and proposing special technical assistance programs. Such initiatives will confirm that the vocation of these institutions is truly universal.

Conclusion

In conclusion, I believe that the phase we have just passed through, during which we enhanced our initiatives for providing debt relief for the poorest countries, has been most

important. We must now strengthen the activities of the Bretton Woods institutions by giving them a more clearly defined social focus, and by incorporating education and health programs into these activities, since these have a considerable impact on the poorest communities.

Finally, we must ensure that, over the coming years, development remains a prime concern when the new rules governing world trade are formulated, and that there is closer coordination of the activities of organizations as different as WTO, the UN, the IMF, and the World Bank.