International Monetary and Financial Committee

Twenty-Fourth Meeting
September 24, 2011

Statement by Didier Reynders
Deputy Prime Minister and Minister of Finance, Ministere des Finances, Belgium

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

Statement by Mr. Didier Reynders
Deputy Prime Minister and Minister of Finance of Belgium
On behalf of
Austria, Belarus, Belgium, Czech Republic, Hungary,
Republic of Kosovo, Luxembourg, Slovakia, Slovenia and Turkey
At the 24th International Monetary and Financial Committee
Washington DC, September 24, 2011

Multilateral Surveillance over the World Economy and Financial Markets

Considerable progress has been made in repairing both private and public balance sheets. Ireland's progress with implementing its ambitious program is encouraging. Portugal has successfully reached the first review of its program. In the Euro area far-reaching governance reforms have been enacted recently. Most countries in the EU are on track with their fiscal consolidation plans.

In most emerging and developing countries economic buoyancy confronts policy makers with the task to moderate and avoid that the boom becomes a bust.

The task of rebuilding a steadily growing world economy is far from complete. The Fund is right to warn that the global economy has entered a dangerous phase. In the last few months, lack of confidence steers economic and financial developments in many advanced economies. Economic agents are uncertain about the robustness of the economic recovery and how looming fiscal sustainability challenges will be addressed in a number of advanced countries. Investments are postponed, bank lending remains lackluster in the face of uncertainties, and many households are confronted with uncertain employment and large debt burdens, particularly in the US and some Euro area countries.

The Euro area member states, the ECB and the European Commission, in close cooperation with the IMF, are ready to help Greece with unprecedented financial assistance to rebuild sustainable public finances by reforming the economy, restore competitiveness and increase the growth potential. Success requires unwavering efforts by the population, social partners and political leaders in Greece to pursue and invigorate, as necessary, measures that will correct the significant imbalances that have been allowed to grow in the past years. Uncertainty about Greece's public finances should not be allowed to continue, thereby harming the credit of other Euro area members and financial institutions.

Fiscal problems are of serious concern in many countries. Clarity and credibility on how these challenges will be resolved, is urgently needed. Policy in both Europe and the US must navigate a narrow path which the Managing Director has eloquently outlined: avoiding losing credibility or undercutting recovery by adopting, without delay, measures that deliver durable savings in a timely fashion while preserving, in countries with low funding costs, as much fiscal space as possible for supporting growth. It should be stressed, fiscal consolidation measures, necessary as they are, may not be successful if not accompanied by policies that generate employment and make the economy better adapted to face the challenges of global competition.

Repairing the fiscal balance sheets is an essential component of our strategy to restore the strength of financial institutions. But shareholders will have to contribute as well in those institutions whose capital adequacy falls short of what is needed for maintaining market funding, liquidity and adequate solvency as required under the Basel III framework. Weaknesses in the European banking sector should not be allowed to become a drag on the economic recovery.

The US authorities face the complex task of restoring public finances, while households further reduce indebtedness. The external deficit must be narrowed and employment creation facilitated. The proposed American Jobs Act attempts to reconcile supporting employment and the recovery while preserving fiscal soundness. This employment plan must be accompanied with a more comprehensive medium-term fiscal consolidation framework that addresses the inefficiencies in the US tax system (including lowering the tax expenditures and considering a federal VAT), and the long-term fiscal sustainability of the social security and public health-care systems. We encourage the Fund to devote more research on the causes of and remedies for the growing wage productivity/compensation gap and the declining share of labor compensation in national income, that seem to have contributed to growing income inequalities in the US.

Accommodative monetary policy in advanced economies is justified for the time being, but authorities should remain vigilant to avoid the potentially distortive effects on asset price developments, international capital flows and longer term financial stability.

Several emerging market economies must mitigate the risk of overheating and asset bubbles fuelled by capital inflows. Enhanced exchange rate flexibility is instrumental in this regard, while also helping to rebalance global demand.

The IMF Action Plan

Global safety nets: avoiding gaps in coverage and funding

In the last few years the Fund has adopted new lending instruments, offering high amounts of precautionary credit lines with flexible conditionality. The Board should review the experience with the Fund's new lending policy and evaluate the possible gaps in the global financial safety nets.

The Fund's lending has significantly increased, and so has its credit risk. To maintain countries' reserve position in the Fund as international reserve assets of the highest quality and liquidity, the Fund must continue to build up prudent levels of precautionary reserves, commensurate with its lending capacity, and well above present levels. It was therefore a wise decision of the Board to maintain the largest part of the windfall profits from gold sales in the Fund's reserves.

The Managing Director recently raised the issue of increasing the Fund's lending resources. The adequacy of the Fund's lending resources should indeed be monitored closely.

We welcome the agreement to extend the full activation of the New Arrangements to Borrow for a further six months.

Low-income countries: effective support and vigilance

The Board intends to distribute as dividend SDR 0.7 billion, originating from gold sale profits, with the expectation that members would pay equivalent amounts to the subsidy account of the Poverty Reduction and Growth Trust (PRGT).

For the Fund to pay out the agreed amount, prior satisfactory assurances need to be obtained that contributions equal to 90 percent of the distributed dividends will be paid to the subsidy account of the PRGT.

Fund surveillance: mitigating risks

Fund surveillance must constantly adapt to the changing structure of members' economies and their inter-linkages at the regional and global level. Surveillance now includes in-depth monitoring and analyses of developments and vulnerabilities in the financial sector. How national policies affect other economies, in promoting that individual countries' policies are coherent and mutually consistent at the regional and global level should be a primary objective of Fund surveillance. The first spillover reports, discussed in the Executive Board during the past few months are a welcome first step to better understand and manage inter-linkages.

For the Fund to remain a trusted advisor, the Fund's opinion and advice should remain politically independent. Policy advice should be sufficiently tailored, focused, and include coverage of all relevant issues, including macro-social issues.

The Fund should make the necessary operational adjustments to improve its surveillance. The Fund's current legal framework has not constrained it to expand its surveillance work. Surveillance should not be limited to external stability issues that are likely to cause disruptions in exchange rate movements. It must also cover both domestic and external financial stability issues that might cause unwarranted external effects. With national economies increasingly interconnected through trade and financial linkages, surveillance must promote harmonious developments that benefit national, regional and global prosperity.

Common understandings to buttress stability

International capital flows can seriously disrupt economic developments. Structural, macroeconomic and prudential policies should remain the first line of defense against surges of capital inflows. Capital flow management could complement but not replace these policies. These measures may only be effective temporarily, as their overall effect is market distortive and uncertain.

Countries should avoid policies that generate distortive capital outflows should mitigate flows that are disruptive for recipient countries. Recipient countries of distortive capital inflows should mitigate the impact of their capital flow management measures on other countries.

The present criteria for including currencies in the SDR basket are clear and transparent and economically relevant. The functions of the SDR require that only freely usable currencies are included in the SDR basket. Freely usable currencies are widely used internationally in both trade and financial transactions and are fully convertible, also for capital account transactions. Their exchange rate regime and interest rate setting must avoid market distortions.

Reviewing the quota formula

The Board of Governors has requested that the Executive Board reviews the quota formula. The quota formula should be based on economic criteria that are relevant for the mandate of the Fund. The Fund's mandate concerns the inter-linkages between national economies.

Besides GDP, openness reflects a member's involvement in the global economy. The current international crisis has shown that financial sectors have become interconnected and a channel for rapid transmission of crises across regions and at a global level. Most economies are now integrated into world capital markets and capital flows dwarf trade flows. The current openness variable should therefore be transformed into an interconnectedness variable, by including financial openness. Trade and financial inter-linkages are also relevant indicators for countries' ability to contribute financially to the Fund and for their potential need for Fund financial assistance.

Reviews of quotas must be based on a generally fair and balanced quota formula. The quota formula should ensure a fair distribution of quotas between large and smaller countries. The compression factor in the current formula should therefore be maintained.

Negotiations should take place in a transparent inclusive manner within the Fund's institutions.

Timely implementation of the 2010 quota and governance reforms would demonstrate members' commitment to the reform of the IMF.