International Monetary and Financial Committee

Ninth Meeting
April 24, 2004

Statement by Mr. Reynders

Statement by H.E. Didier Reynders
Minister of Finance of Belgium
Speaking on behalf of Austria, Belarus, Belgium,
Czech Republic, Hungary, Kazakhstan, Luxembourg,
Slovak Republic, Slovenia and Turkey
International Monetary and Financial Committee
Washington DC, April 24, 2004

The Global Economy--Outlook and Policy Prospects

The global economy is recovering strongly--a testimony to its flexibility and resilience in the face of recent adverse shocks. The significant easing of monetary and fiscal policies in a number of advanced economies has also made a crucial contribution to the global recovery.

We must keep in mind why this substantial policy easing was possible and effective. The ground was prepared for the decisive easing of monetary policy by the advanced economies' success in maintaining or restoring price stability as well as the credibility of their central banks. And the discretionary easing of fiscal policy, especially forceful in the United States and the United Kingdom, was made possible by discipline during the 1990s that restored fiscal balance.

Looking to the future, the challenge for policymakers will be to make sure that the recovery now gathering strength is not short-lived. The timing and speed of monetary policy's return to a more neutral stance must be carefully managed. The fiscal stimulus must be reversed where needed. And the long-term structural fiscal challenges that face most of the advanced economies must be resolutely addressed.

Today's integrated global economy is increasing the interdependence of countries' economic prospects and prosperity. Efforts to address the global challenges should best be undertaken within a cooperative approach on the part of all countries.

Given the significant role of the United States in the world economy, the way U.S. policymakers address their difficult challenges is especially important to other countries. The U.S. economy is presently performing well, but faces two difficult challenges.

First is the need to reverse the sharp weakening of the fiscal position. In recent months, the U.S. recovery has gathered considerable momentum. As long as stimulus is needed to close the output gap and restore full employment, it is preferable that it be provided by monetary policy rather than by fiscal policy. With the recovery progressing and investment demand revived, a fiscal tightening and an increase in government savings would make room for increased private investment while reducing the upward pressures on global interest rates caused by the stronger investment activity. A fiscal tightening would also contribute to reducing the U.S. current account deficit.

Second, the Fed faces the unusual task of exiting from an exceptionally low interest rate environment. A premature interest rate increase may abort the recovery, but a tardy increase could awaken inflationary pressures or cause excessive increases in certain asset prices, both in the United States and abroad.

It would not be appropriate to discuss how U.S. policies can help sustain the global recovery, without also discussing the contribution that Europe should make to support the same objective. The recovery in the euro area is on its way, and all policymaking bodies should make efforts to strengthen it. The ECB should continue maintaining the lowest interest rates compatible with its inflation objective and macro financial stability. The February 2004 report by the European Commission, on the implementation of structural reforms, makes it clear that the objectives of the "Lisbon Agenda" will require further efforts to solve Europe's main structural problems. As to short-term fiscal policy, priority should be given to preserving the credibility of the fiscal framework within the euro zone. Any short-term growth stimulus obtained from a more relaxed fiscal stance could well be neutralized by the adverse effects of reduced confidence.

Recent news about a strengthening recovery and the possible end of deflation in Japan are most welcome. The monetary easing should continue until a small positive inflation is firmly in place. On the other hand, the mounting public debt is now a serious problem. The Japanese authorities should focus on gradually reducing public sector borrowing and public debt accumulation. Likewise untenable is the present accumulation rate of foreign exchange reserves. It will be vital to press ahead with the reform of the banking and corporate sectors, which will make the economy better able to withstand a possible strengthening of the yen.

In emerging Asia, a region that a few years ago was struggling with a deep crisis, the economic recovery has been remarkable. To a great extent this recovery has been supported by competitive exchange rates, which have also led to the accumulation of sizable foreign reserves. The countries in the region are now well positioned to shift to a growth strategy less dependent on a competitive exchange rate. Those among them that already have flexible exchange rate regimes should make more use of the flexibility. This would be facilitated if China would also move to a more flexible exchange rate regime. China's biggest threat now is the loss of monetary control, because short-term capital inflows attracted by expectations of a currency revaluation are fueling an unsustainable growth of liquidity.

The present global environment is also supporting faster growth in other emerging market countries. But it would be a mistake to count on a long continuation of the present unusual combination of robust global recovery, low interest rates, and ample liquidity. Emerging market countries--particularly in Latin America--that still need to borrow large amounts from the capital markets should follow the example of countries like Brazil and Mexico, by using the present favorable environment to reduce their vulnerabilities. I welcome Argentina's remarkable economic recovery, and urge the authorities to quickly reach an agreement with the country's creditors that would reflect the improved economic reality, win broad creditor support, and ensure future debt sustainability.

May 1, 2004 will be an important day for Europe, with ten accession countries becoming new members of the European Union. For these countries, the next challenge will be to successfully prepare for the adoption of the euro. Overall, the accession countries have made good progress in reducing inflation. In some of these countries, inflation has reached a level compatible with price stability. But much more must be done to reduce fiscal deficits and restore fiscal sustainability. In the period before the euro adoption, the accession countries must deal with potential hazards, and I welcome the Fund's provision of useful guidance during this challenging period.

Turkey’s economic program has continued to deliver impressive results, thanks to a strong commitment to meet a primary surplus target of 6.5 percent of GNP, success in reducing inflation and good progress with implementing comprehensive structural reforms.

Crisis Prevention and IMF Surveillance

Major progress has been made towards achieving greater transparency of the Fund's policies and of its advice to countries. This makes the Fund more accountable, improves creditors' risk assessments, and broadens countries' domestic policy debates.

The inclusion of statistical data concerning the Millennium Development Goals (MDGs) is a welcome addition to the Fund's General Data Dissemination Standard. The Fund should work closely with countries to help them subscribe to the Fund's data dissemination standards. Data requirements vary with members' circumstances and with developments necessary to keep Fund surveillance effective. There are four areas where additional data can strengthen Fund surveillance: the balance sheets of an economy's main sectors, indicators of debt sustainability, liquidity management, and fiscal soundness.

Financial Sector Assessment Programs (FSAPs) are an essential part of Fund surveillance. All countries should participate in this program.

In countries that receive Fund financial support, surveillance should not be limited to the monitoring of program implementation. At key moments an Article IV consultation should be conducted with a broader, longer-term perspective. The Fund should find pragmatic ways of ensuring that such consultations benefit from the input of staff experts other than those involved in monitoring the program. We support ex-post assessments of Fund operations in all long-term users of Fund resources, particularly in connection with an Article IV consultation or when new financial support is requested.

For low-income countries that graduate from a PRGF, Fund surveillance and its frequency should be tailored to the country's need. This could include more frequent

Article IV consultations, and the monitoring of the country's implementation of its own economic policy program. The Fund should consult with donors to learn what information they need to continue their development assistance to countries graduating from a PRGF.

Technical assistance supplements the policy advice provided during surveillance. It helps countries implement sound macroeconomic policies and establish good institutional and governance structures. Technical assistance must be well prioritized and focused. The Fund must promote country ownership, results-based evaluation, and better coordination among the providers of technical assistance within and outside the Fund.

The pricing of technical assistance should be transparent, to increase cost consciousness and wise allocation of resources. Advice to a country's authorities is a Fund service that should not be entirely gratis for the beneficiary country. Technical assistance should remain available to advanced countries as well.

The Contingent Credit Line facility expired on November 30, 2003. There was no reason to keep it alive in the absence of demand. Good policies and Fund membership are countries' fundamental protections against crises and contagion. Precautionary Stand-By Arrangements and surveillance can achieve the CCL's objectives. Precautionary arrangements should not, in principle, be barred from exceptional access when the country faces large potential balance-of-payments needs and complies with all the criteria to give the Fund adequate assurances that the credit will be repaid.

Crisis Resolution

Further work is needed on the international financial architecture, to increase the stability and size of capital flows to the developing countries, and reduce the frequency and severity of financial crises.

In the course of its surveillance and contacts with market participants, the Fund should actively promote CACs based on the G-10 model. It should continue seeking solutions for those collective action problems that cannot be addressed by introducing CACs into individual bond issues, for example, by assessing the feasibility of aggregating claims and working on SDRM issues in general. The Fund should be closely involved in establishing the Code of Good Conduct on Sovereign Debt Restructuring. The Fund should also continue to monitor developments in the financial markets.

Moreover, further substantial work on an SDRM relevant to the resolution of crises is needed.

Enhancing the IMF's Support to Low-Income Countries

Reaching the Millennium Development Goals (MDGs) by 2015 will require efforts on the part of all parties involved: developing countries, advanced countries, and multilateral institutions.

It is important that developing countries, especially in Africa, strengthen the implementation of the reforms necessary in order to achieve stronger economic growth and to translate that growth into a sizeable reduction of poverty. To help them in this effort, the Fund must continue its present small but important financing role in low-income countries. The Poverty Reduction and Growth Facility (PRGF) is still the Fund's main instrument for providing assistance to low-income countries, and its lending capacity should be maintained in the future, if necessary by adding new bilateral resources.

Those efforts by the developing countries should be matched by stronger support from the advanced countries. The macroeconomic policies of the advanced countries should not only promote their own growth, but should also lead to stronger growth elsewhere. The Fund should monitor the effects on the rest of the world of the economic and financial policies of the advanced countries.

I welcome the Fund's support for the Doha round's successful conclusion, including through its new Trade Integration Mechanism. The successful conclusion of the Doha trade round will offer major opportunities for the developing countries, and should therefore be supported by all countries.

It is unacceptable that, as aid has become more productive and donors' ability to give has grown, the amount of aid for poorer countries has decreased. The World Bank has calculated that to achieve the MDGs by 2015 will require almost doubling the 2002 level of ODA. The Fund should continue to stress the importance of providing effective aid to developing countries.

Many of the decisions taken in furtherance of the Fund's role in the low-income countries will require additional financing. Countries should now act on these decisions by providing the necessary financing for the PRGF/HIPC Trust. This will help cover the cost of debt relief for a number of countries who could become eligible in the future, of appropriate topping up of debt relief at the completion point, and of the additional PRGF financing that may be provided under the new Trade Integration Mechanism. Sufficient financing is also needed for the facilities that help low-income countries address exogenous shocks. This aid should be provided outside the PRGF/HIPC Trust, to avoid the quick depletion of its resources, and on the basis of fair burden sharing.

Generally speaking, increased aid and other actions such as further trade liberalization are part of a coherent strategy for supporting development. There must be consistency among all actions to support development. This requires good cooperation and a clear division of labor between the Fund and the World Bank.

Finally, let me thank Horst Köhler for his good work as Managing Director. Under his direction, the Fund has been very helpful to all EU-acceding countries as well as the accession candidates, including Turkey which has received generous Fund support.