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

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I am honored to have the opportunity to once again address our Joint Discussions to present my country's views on a number of important international cooperation matters of fundamental importance to the missions and activities of our institutions.

Before so doing, I would like to express my thanks to the authorities of the United Arab Emirates for their hospitality and their excellent organization of these meetings.

My country, which is at the heart of an expanding Europe and is embarking on its own institutional reform, maintains its keen interest in promoting international cooperation in the political as well as economic spheres.

Accordingly, I would like first to comment on the global economic environment, then to discuss surveillance and the promotion of stability, and finally to address the issue of the Millennium Development Goals.

### **Economic situation**

Following a significant slowdown in growth, and indeed recession in a number of countries, most economic indicators are now pointing toward global economic recovery. In view of the remaining uncertainties and imbalances, the major question facing policy makers is that of consolidating this recovery and ensuring its sustainability. The key to doing this is likely to be found in more balanced macroeconomic policies and strengthened structural actions.

In the euro area it is anticipated that, following a disappointing year, growth will resume in the second half of 2003 and be strengthened in 2004. The European countries have already implemented major structural reforms and remain resolved to undertake the other reforms called for under the Lisbon agenda. In these circumstances, the growth potential of the European economy should thus be expected to improve in the future.

Economic growth in the United States is robust. The fiscal stimulus that has supported economic activity has undeniably had a positive impact. However, the deficits it has engendered are unsustainable in the long term and mandate a credible consolidation program in order to ensure that they do not further push interest rates upwards and cancel out the earlier stimulative effect.

Japan's economy has recently shown signs of recovery. This is a positive development. But there are still significant challenges facing the Japanese authorities, such as combating persistent deflation and the necessary consolidation of public finances. Anchoring the economic recovery will require further structural reforms, in particular in the financial sector.

External disequilibria continue to pose a threat to the global economy and the stability of the international financial sector. Adjusting these imbalances requires both stronger growth outside the United States, based in particular on a strengthening of structural reforms, and an orderly development of exchange rates, including on the part of countries with a sizable external surpluses. In this connection, I welcome the agreement reached within the IMFC on the need for the IMF to continue its focus on exchange rate issues across the membership.

The development of world trade is of critical importance for global economic growth. Robust world trade will not only lead to greater real growth, but will also have a positive impact on general confidence in the economy and can make a critical contribution to combating poverty. It is consequently of great importance, following the troublesome failure in Cancún, that the negotiations of the Doha Round get back on track. A consensus has emerged to this effect. The IMF can help us get this process moving again, on the one hand by re-emphasizing the fact that everyone stands to gain from further trade liberalization and, on the other hand, by enabling countries experiencing transitional financing difficulties in conjunction with such liberalization to have access to its resources.

### **Surveillance and the promotion of stability**

I salute the efforts made by the IMF to further enhance its efforts in the area of surveillance and crisis prevention.

As this preventive approach is of critical importance, it should be strengthened as a fundamental pillar of IMF activities.

Belgium, which has undertaken major reforms as regards its financial sector surveillance framework, including the establishment of a Financial Stability Committee, will soon join a number of other member countries in its constituency in undergoing the IMF's review in the context of the Financial Sector Assessment Program.

Resolving the problems of the banking system has required major financial efforts, including in the industrial countries. Monitoring the observance of international standards and codes generally requires sustained attention, and the following initiatives should be undertaken:

- perfecting the analytical tool on the basis of assessing balance sheet vulnerabilities rather than flows alone. This is a method we are developing at the national level. Such an initiative may be expected, moreover, to mesh seamlessly with Article IV consultations. It concerns all of us, both emerging economies and the industrial countries;
- along the same lines, further developing the example of debt sustainability through sensitivity analyses and perhaps "stress tests" as well. The foundations of this approach are reflected in the stability and convergence programs examined at the European level. The relevance of such an approach is particularly evident as regards the policy on access to Fund resources. It would also appear necessary in view of the expansion of public indebtedness in the emerging economies and other developing countries;

- illustrating more clearly the extent to which countries have failed to observe the recommendations made during periodic surveillance exercises and taking this into account in the preparation of programs;
- further strengthening the transparency of data and information, so as to enable the market to play its role properly. It should be an assumption that Article IV consultation reports, reports on the use of Fund resources, and the IMF's Public Information Notices (PINs) will be published. The publication of information, which must remain consistent with the requirements of the Articles of Agreement, is of particular relevance in cases where the IMF itself is contemplating major financial commitments vis-à-vis a given country.

As regards crisis prevention in general, the institutional framework in place at the national level plays an essential role. In effect, supervisory, planning, and decision-making bodies should have specific mandates and clear missions, be adequately staffed, and have the ability to analyze future prospects on the basis of reliable statistics. Institution building is therefore of particular importance. It should be the object of increased surveillance and, where necessary, technical assistance efforts by the Bretton Woods institutions.

Generally, strengthened IMF surveillance is essential to the prevention of the emergence of new crises. Its interaction with other institutions, such as the Financial Stability Forum, is also necessary in order to detect residual weaknesses.

Again as regards preventive actions, the forthcoming disappearance of the Contingent Credit Lines (CCLs), which is now inevitable in view of their intrinsic flaws, does not mean that the problems they were intended to address have been resolved. Accordingly, it would be advisable to make better use of precautionary arrangements in order to achieve our objective and to reassure markets of the adequacy of the policies followed and, in so doing, prevent erratic market behavior and contagion effects.

### **Crisis resolution**

Alongside the strengthening of preventive actions, it is important to strengthen the mechanisms for crisis resolution.

To achieve this objective, a more orderly and more transparent mechanism for restructuring sovereign debt is required. In this connection, we welcome the progress made in recent months with the introduction of collective action clauses (CACs) and in the development of a Code of Conduct. We also wish to stress the importance of a strengthened IMF strategy as regards loans to countries facing payments arrears.

The inclusion of CACs in sovereign debt contracts is a component that can ensure, on the one hand, that any possible debt restructuring will be carried out in as orderly a manner as possible and, on the other hand, that a minority of creditors will no longer be able to initiate actions which might prevent the majority of creditors from preserving the value of their assets.

In keeping with the political commitment made by the European Union last June, Belgium has indicated its willingness to include majority action clauses and collective representation clauses in all international sovereign bonds.

In the last year, many emerging economies and industrial countries introduced CACs in their sovereign borrowing contracts. We are pleased by the favorable response to these clauses on the part of the financial markets: their introduction has neither increased borrowing costs nor reduced access to financial markets. With the latest issues of international sovereign bonds by Italy and the United Kingdom, the EU has implemented the commitment made at last April's meeting of the IMFC.

Last year, a G-10 working party (the Quarles group), with the assistance of representatives of the private sector and of emerging economies, examined the legal modalities underlying this contractual approach. It proposed specific wording. We encourage sovereign bond issuers to introduce CACs as espoused by the G-10. On this basis and with a view to achieving greater harmonization, the EU member states, represented by their finance ministers, have recently reached agreement on a common approach for introducing CACs in their international bond contracts. A more standard approach to CACs will, to be sure, provide the markets with greater clarity and transparency.

The work toward developing a Code of Conduct is another important step toward the effective resolution of financial crises. We encourage those working on this Code of Conduct to take into account various issues of relevance for the orderly resolution of financial crises already covered by the proposal for a Sovereign Debt Restructuring Mechanism (SDRM). In particular, these relate to questions of inter-creditor equity, improved transparency and disclosure, and the problem of aggregation. While it is perhaps not possible to establish the SDRM at the present time, we do not believe that consideration of this issue should be abandoned prematurely.

A strengthened sovereign debt restructuring mechanism will make it possible not only to resolve crises in a more orderly manner, but will also improve the observance of the rules on access to IMF resources.

## **Achievement of Millennium Development Goals (MDGs)**

Eighteen months ago in Monterrey, the international community reached agreement on an ambitious plan of action for reducing poverty and achieving the Millennium Development Goals. This important challenge can be met only if the developed countries and developing countries alike shoulder their own part of the burden. While progress has been made, in particular as regards identifying the actions to be undertaken, the MDGs can be achieved on schedule only if urgent steps are taken. Accordingly, we cannot allow ourselves to scale back our efforts if we seek to give the poor of this world the hope of a better future.

The industrial countries should honor their commitments and ensure that there is an increased and continual flow of long-term resources. In this connection, Belgium will fully assume its responsibilities. I wish in particular to refer to my country's commitment to achieve the goal of 0.7 percent of GDP by 2010. In turn, the developing countries should continue to strengthen the reform process and ensure that it is ongoing, in particular with a view to improving the investment climate, the management of the public sector, governance, and the availability of public services. This new partnership is reflected specifically in poverty reduction strategies that are formulated and implemented by countries in the most participatory manner possible.

I call upon the Bank and the Fund, as well as other multilateral and bilateral donors and lenders, to adjust their policies and procedures better to those of the developing countries so as to enhance aid effectiveness. To these ends, I also encourage the donor community to assist beneficiary countries in building their institutional capacity. Indeed, we must avoid granting development assistance in the absence of adequate governance structures. The experience of the HIPC Initiative has taught us that establishing more transparent and better performing institutions is essential for the effective use of the resources freed by debt relief operations.

This said, the international donor community must not disregard the needs of countries in post conflict situations. In this regard, Belgium, in collaboration with its partners, will continue to play a dynamic role in supporting a peace and reconstruction process in the Great Lakes region.

Finally, I wish to reiterate that increased aid and the development objectives of the Doha agenda are complementary. Given the disappointment at Cancún, I encourage both the developed countries and the developing countries to renew their dialogue so that an acceptable compromise can be achieved as rapidly as possible. A positive result in this regard is essential if we wish to achieve the Millennium goals.

Belgium will participate in the reconstruction of Iraq insofar as the United Nations and the Bretton Woods institutions are called upon to play a central role in it. Security arrangements which enable these institutions to function normally will have to be ensured. In the final analysis, it is up to the Iraqi authorities themselves to assume responsibility for the reconstruction of their country. Belgium stands ready to support the concept of the creation of a trust fund under the auspices of the Bank.

In conclusion, I wish once again to thank the authorities of the United Arab Emirates and to express the strong desire the fervent hope that the efforts of the International Monetary and Finance Committee and the Development Committee may lead to concrete actions in the year ahead.

