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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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Let me at the outset warmly welcome Mr. de Rato, as Managing Director of the IMF and ensure him of my full cooperation in his important mission.

**Crisis prevention and surveillance**

Transparency lies at the heart of crisis prevention. It is encouraging that the Fund and its membership are continuing their efforts in this field, most recently by the decision that the publication of all country staff reports will be presumed. At present 76 percent of these reports are published, but this proportion needs to increase. Therefore, we urge all members to agree to the publication of their reports.

Further improvements in transparency inevitably focus on the decision making process within the Fund. Increasingly, governments are responding to this call and are taking steps, in accordance with national conditions, to engage with parliament, civil society and other relevant actors to address this issue.

Regular surveillance is an essential element of the Fund mandate. The recent biennial review of surveillance has proposed measures to increase its effectiveness and reorient its priorities. We welcome the tighter integration of regional and global surveillance in country analysis and the increased emphasis on financial sector vulnerabilities. A clear and candid review of the choice of exchange rate regime also remains central to Fund surveillance.

The present surveillance process often identifies vulnerabilities and country analysis reports regularly contain balanced and well-argued remedies. However, an adequate policy response can be lacking even after successive rounds of surveillance. Article IV consultations need to explicitly monitor the implementation of previous recommendations and the findings of such monitoring should be an integral part of any country analysis report. A lack of policy response over several rounds of surveillance should lead to escalated signaling to the authorities concerned.

**Crisis Resolution**

The widespread adoption of collective action clauses (CAC's) in recent sovereign bond issues promises to make the crisis resolution process more orderly. Moreover, the inclusion of CAC's has not had a perceptible impact on the risk premium that investors charge for these bonds. However, CAC's in themselves are unlikely to guarantee an orderly resolution of financial

crises. We, therefore, support existing initiatives on a code of good conduct between sovereign debtors and their private creditors.

A purely voluntary approach to the resolution of financial crises might not provide adequate guidance when a crisis is complex, involving many creditors and/or debt instruments. Under such conditions, communication between debtors and creditors could break down. The Fund should, therefore, continue working out a more rules-based approach to crisis resolution, e.g. in the short run, in the field of the aggregation of claims.

### **Fund instruments**

A reorientation of surveillance priorities needs to be matched by the use of appropriate instruments. Debt sustainability analysis (DSA) plays a central role in identifying vulnerabilities and its use in Fund surveillance should be generalized. The conclusions of a DSA should form an integral part of all country analysis reports.

Belgium is currently participating in a financial sector assessment program (FSAP) and we strongly urge countries that have not yet done so to do likewise. The universal adoption of such programs is an important instrument minimizing risks to global financial stability. We fully support the widespread adoption of internationally recognized standards and codes. Implementation of existing standards and codes will be a key issue in the years to come.

Recently, the Executive Board discussed a proposed new instrument for intensive non-financial engagement by the Fund with member countries, tentatively called a Policy Monitoring Arrangement. This new instrument would have a pure signaling role, as no financing would be available. The Fund already provides frequent signals through its surveillance process and initiatives such as FSAP and reports on standards and codes. Members wanting a high frequency, non-financial engagement with the Fund can enter into a precautionary arrangement or a low-access arrangement where the financial assistance provided would be largely symbolic. The creation of an additional signaling instrument would certainly overlap with existing Fund instruments. Moreover, a recent paper by Fund staff has shown that numerous problems have plagued similar proposals previously made. However, the issue is an important one and we are willing to continue discussing it.

For the Fund to execute its lending operations smoothly, a liquid SDR market is essential. The Fund relies on arrangements with members in order to match demand and supply in this managed market. Belgium is in the process of reactivating its two-way SDR agreement, thereby deepening our continued engagement with the Fund.

### **The role of the IMF in Low Income Countries (LICs)**

The IMF must continue to play a major role in helping the LICs to face the challenges of stabilization, growth and development. The Fund should concentrate on the creation of an environment of macro-economic stability, conducive to economic growth and poverty reduction. I invite the Fund to strengthen its capacity to deliver strong policy advice and technical assistance to these countries. At the same time, the Fund must also continue to be able to deliver financial assistance to LICs whenever appropriate, through the PRGF. Therefore, I support the creation of a so-called self sustained PRGF after 2005, augmented if needed.

I encourage the countries concerned to further develop their own poverty reduction strategies which should provide a clear and solid framework to tackle poverty through well-defined strategies and help channel external assistance efficiently.

Reaching and preserving debt sustainability is of crucial importance for developing countries. In order to allow all eligible countries to come forward for debt relief, I welcome the limited extension of the sunset clause of the HIPC initiative.

With respect to debt sustainability in LICs, I fully endorse the development of a framework allowing assessments that take into consideration the specific circumstances of the country concerned. International institutions, creditors and donors should take fully into account the results of these Debt Sustainability Analyses. However, the system should not be applied in a mechanical way, in order to avoid perverse effects on the availability of financing for development.

The joint work on the framework for debt sustainability analysis in LICs is a good example of the close cooperation needed between the IMF and the World Bank in order to arrive at an objective and undisputed assessment of the situation. More generally, I call on both institutions to constantly seek ways to improve their cooperation, with respect for each other's core responsibilities and competencies, to the benefit of the developing countries, in order especially to reconcile the twin objectives of short term stabilization and longer term developments.

Against this background, let me now turn to the World Bank and its development agenda.

### **Financing for development**

My country is committed to achieving the objective of allocating 0.7 percent of its gross national income to development assistance. Already in 2003, we had increased our total contribution to 0.61 percent. Belgium is following closely the efforts of the international community and the various proposals to mobilize additional resources for the financing of the Millennium Development Goals. Our national parliament has supported the introduction of a Tobin like tax on financial flows, while making its implementation conditional on broad international support. Against this background one has to recognize that the clock is ticking and that all of the specific proposals need time to muster sufficient support to reach the implementation stage. This is why Belgium remains convinced that the best solution so far remains that all the parties involved do their utmost to fulfill their commitments: the donor countries to provide the resources they have pledged and the recipient countries to mobilize domestic resources and improve their absorptive and institutional capacity.

### **Trade**

Trade can play a central role in fostering growth and development.

Much remains to be done for a successful conclusion of the Doha Development Round (DDR). The Bank should continue providing advice in order to help bring the process to an outcome that would benefit both the developing countries and the world as a whole.

Trade is still not fully integrated within PRSPs. Given their comparative advantage in agriculture, developing countries have much to gain in that field. It is, therefore, important that they get the needed support from our institutions, to seize the opportunities offered, to face the challenges of competition and undertake the needed internal adjustments.

Belgium welcomes the Bank's efforts to work increasingly through strong partnerships with local and regional institutions, to deepen country ownership and help build capacity in critical areas. However, good coordination between donors and a division of labor are necessary to avoid duplication and contradictions in advice, particularly with the regional development banks, which have regional integration and trade as a key priority.

### **World Bank strategy on investment climate, growth and infrastructure**

Belgium welcomes the work done on improving the investment climate. Its findings are most valuable and the initiative worth being pursued. We are particularly convinced that the investment climate can improve substantially, sometimes at a very low cost, through a series of micro-reforms in the relations between the administration and the private sector. Simultaneously, the Bank should increase its efforts to help member countries set up a global framework, and policies conducive to fostering clarity and confidence in close cooperation with other institutions also involved in this field. The reliability of the statistical system is of particular importance.

Belgium also welcomes the new pragmatic approach of the Bank to the financing of infrastructure in an effort to promote a balanced and holistic approach among the various policy actions and strategies required to foster development. We invite the Bank to exercise prudence in its innovative approaches since most of the ones that have been proposed would need substantial improvement in institutions, regulations and transparency before they can be successfully implemented. Again, close cooperation with the other institutions involved is essential.

### **Decision making**

On the issue of voice, we welcome the progress that has been made so far to enable mainly Sub-Sahara African countries to be involved more efficiently in important decisions.

Of particular relevance are strengthened capacity of African ED offices, improvement in communication, the funding of independent advice and program for capacity building as well as strengthened political dialogue in preparation of Poverty Reduction Strategy Papers and Country Assistance Strategies.

Belgium has earmarked 100,000 euros to help finance the strengthening of African ED's offices.

Moreover, we remain open to examining in a broad multilateral framework other suggestions that would have a meaningful impact on the situation of the poor countries, and rally the necessary degree of support.

Let me conclude by stressing the need to continue to rely on our unique institutions in order to foster macroeconomic stability, economic growth and development in a cooperative manner and in a true multilateral framework.