2014 ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 32

October 10, 2014

Statement by the Hon. **LUC COENE,**
Governor of the Fund and the Bank for **BELGIUM**

Statement by the Hon. Luc Coene,
Governor of the Fund and the Bank for Belgium

The Annual Meetings of the IMF and the World Bank offer the opportunity to take a step back from the day-to-day business and to reflect on the major challenges the Bretton Woods institutions are facing, what we expect from them and what we, member states, should do to help these institutions better fulfill their mission.

IMF

A significant part of the Fund's members are still facing the consequences of the crisis: large debts, high unemployment and lackluster recoveries. The Fund's World Economic Outlook notes that growth is not yet robust across the globe and further downside risks have risen. Indeed, global policy challenges remain huge.

Like other euro area countries, Belgium faces the double challenge of improving fiscal sustainability and revitalizing the economy. Debt levels must be reduced in a growth-friendly manner. The new Belgian government intends to shift fiscal adjustment measures by reducing expenditures rather than by raising new taxes. Moreover, a tax reform should remove undue distortions. Shifting the tax burden away from labor would support employment and competitiveness, thereby supporting economic activity.

The global economy has become increasingly interconnected and its degree of integration will most likely continue to expand in the future. Though this interconnectedness has brought positive effects in terms of increased growth and prosperity, it also brings negative externalities and related spill-over effects. The recent global financial crisis has been a clear reminder that this can have dramatic consequences on the stability of the international financial system and the volatility on financial markets. National policies only do not suffice in preventing such imbalances from occurring. In addition, recent events have shown that the geopolitical situation changes permanently, which may entail additional risks.

The IMF offers the ideal forum for increased cooperation and policy coordination around the world. As economies become increasingly interconnected and interdependent, there is a compelling case for policy cooperation and coordination at the global level. The Fund should play a central role in this process.

The Fund should explore what it can do to strengthen its role and its impact on global cooperation within its existing mandate. The Fund needs to step up its efforts to encourage global policymakers to work together and be fully conscious of the spillovers of their policies. Bilateral and multilateral surveillance should do more to promote a collective process aimed at reducing the risk of global instability. Large potential benefits are to be gained from the implementation of coherent macroeconomic policies and international policy cooperation can help deliver stronger, more balanced and sustainable growth.

Better integrated macroeconomic and financial analyses are a prerequisite for effective risk and spillover analysis. Enhancing the coverage and integration of macro-financial issues in Fund's bilateral and multilateral surveillance, as laid out in the 2014 Triennial Surveillance Review, is to be recommended.

The IMF should streamline its surveillance products. In a world with numerous analyses of global macroeconomic developments and forecasts, the IMF's predominant role risks to diminish. Therefore, in order to continue to effectively influence and affect the policy debate, the Fund should clearly and candidly articulate and skillfully present its surveillance messages on the global situation and on the risks and policy implications it poses. In this context, there is a need to address the proliferation of IMF surveillance products and to streamline the resulting key surveillance messages (bilateral as well as multilateral). The Board should focus its surveillance discussions on a few issues of critical importance, so as to promote free and open discussion and identify key issues for Ministers to discuss at the IMFC meetings.

At the same time, the Fund cannot be the expert advisor in all areas. The Fund should further cooperate with other global and regional institutions in order to optimize its influence and impact in the various work domains. This is all the more true given the importance for the Fund to deliver on its recommendations within a flat real budget by suitably prioritizing and sequencing its implementation activities.

Over the past few months, the IMF took part in the ongoing global debate on one of the important challenges of today: rising inequality. The IMF was right to put this issue in the limelight. Situations in countries differ, but the challenge is largely the same everywhere: how to ensure that growing wealth is distributed more fairly. A failure to find the right solutions could undermine the fabric of our democratic societies.

The Fund needs a governance structure that is adapted to today's reality. Hence the importance of the prompt implementation of the 2010 quota and governance reforms, and completion of the 15th General Review of Quotas, essential for the Fund's continued legitimacy, relevance, financial strength and effectiveness.

World Bank Group

Fiscal year 2015 will be the year of implementing the World Bank Group change process. In particular, the newly instituted Global Practices and Cross-Cutting Solutions Areas are expected to lead to greater and more efficient collaboration within the Bank. The change process should also lead to more collaboration and coordination among the subsidiaries of the Bank Group. In addition, the Systematic Country Diagnostics need to provide data and analytic tools that help policy makers and staff in identifying the most critical constraints to opportunities for sustainable growth, poverty reduction and shared prosperity. These analyses should contribute to a better framing of the priorities for Bank Group support within the new Country Partnership Framework and to a better delivery of operations and other services. These changes cannot be accomplished without proper incentives for staff who will need to implement them. The first concrete results should be visible by the next Annual Meetings.

The ongoing change process should be clearly geared towards the realization of the World Bank Group's twin goals. In this respect the Development Committee will reflect on the issue of shared prosperity and inclusiveness, which is the result of the Bank Group's course correction initiated by the approval of the twin goals. The debate needs to focus on the main policy areas of World Bank Group support as well as its operational implications. This year's Global Monitoring Report provides adequate guidance for tomorrow's discussion and for policy makers and development partners. Its recommendations should be taken up.

This Report acknowledges the importance of economic growth (driven, inter alia, by macroeconomic stability, private sector development, infrastructure, proper regulation and legislation), as the main contributor to poverty reduction. However, it also confirms that growth alone is unlikely to achieve the extreme poverty target by 2030, and that more is needed to make it more inclusive and sustainable, and to reduce inequality. As the Report clearly states, growth needs to be complemented with greater investment in human capital with a focus on the poor and in safety nets and subsidies that are well geared towards the poor and driven by appropriate re-distributional and taxation policies. This has been demonstrated in many developed and some middle-income countries. Safety nets and subsidies should be appropriately targeted in order not to crowd out other much needed public expenditures.

Other complementary policies that contribute to achieving inclusive growth and shared prosperity include promoting good governance, fighting corruption, and promoting climate change and green growth. In addition, environmental and social safeguard policies and performance standards play a critical role in ensuring greater inclusion.

Clearly, there is a role for the World Bank Group and other development partners to help developing and emerging countries design some of the afore-mentioned policies.

The Global Monitoring Report rightly calls for complementing income data with data that measure inequality and non-income related prosperity, hence the importance of the Millennium Development Goals and, in the near future, the Sustainable Development Goals. The MDG data provide good indicators of the welfare situation of the bottom 40%.

The ongoing review of the Bank's safeguard policies provides a good opportunity to emphasize a number of important issues. The first draft Environmental and Social Framework which has been disclosed for consultation presents some important innovations such as the continuous review of risk throughout the life cycle of a project, the introduction of the Environmental and Social Commitment Plan, the inclusion of Free, Prior and Informed Consent, and the introduction of standards on labor and of protections against discrimination and child labor. However, this Framework could benefit from more clarity on the Bank's responsibility to support the implementation of the environmental and social standards. Other issues that merit particular attention are the monitoring of downstream implementation; the identification and remedying of existing policy and capacity gaps in borrower's systems; sufficient coverage of labor and working conditions, including the freedom of association, collective bargaining, contract and migrant workers and supply-chain issues; adequate protection of indigenous peoples and the coverage of sub-projects. This review is also a good opportunity for the Bank to take a closer look at the environmental and social safeguard policies in the context of Development Policy Operations.

Finally, Dr. Kim's leadership and the Bank staff's efforts in responding to the challenges of the Ebola Virus Disease in Guinea, Liberia and Sierra Leone are much appreciated. While there is a need to address emergency issues in the very short term, we also need to think about the longer term challenges, specifically the ones related to addressing the economic consequences of this disease. In this connection, cooperation with the IMF and IFC is key. The latter institution will be important in helping the financial sector to operate in the affected countries and jumpstart their affected economies.