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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **PHILIPPE MAYSTADT**,
Governor of the Bank for **BELGIUM**,
at the Joint Annual Discussion

Statement by Mr. Philippe Maystadt
Deputy Prime Minister and
Minister of Finance and Minister of External Trade of Belgium
Governor of the World Bank for Belgium

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Over the last two years, considerable effort has been made to ensure that the IMF's activities truly reflect the process of economic globalization. Three examples will suffice:

- the establishment of a Special Data Dissemination Standard for member countries which have access or are seeking access to capital markets;

- the implementation of the New Arrangements to Borrow (NAB); the NAB is an important adjunct to the IMF's resources in the sense that it will help the Fund meet the special needs which countries face on global markets;

- The establishment of a special procedure—the emergency financing mechanism—to give the IMF a rapid response capability in the event of serious financial crises.

The three historic agreements achieved in Hong Kong

However, the three major agreements reached in Hong Kong over the last few days—namely, the agreements on Special Drawing Rights (SDRs), quotas, and liberalization of capital movements—are of equal importance for the IMF, IMF member countries, and the international financial system. In fact:

- the agreement with respect to SDRs is good news for countries in transition, which will now be able to obtain SDRs to which they had never before been entitled; moreover, the SDR agreement reaffirms the international community's commitment to maintaining an international reserve asset which could prove highly beneficial in the event of a crisis within the international monetary system;

- the agreement on raising the IMF's quotas should increase the IMF's available capital by approximately US$90 billion (Belgian francs 3400 billion approximately); that is a truly substantial sum which, while reflecting the growing power of markets, was also necessary if the IMF was to carry on performing its special role well into the next century;

- no less important is the agreement on an amendment of the Articles of Agreement of the IMF, which will enable the Fund to pursue the liberalization of capital movements. In fact, today's world is dominated less by flows of goods and services than by flows of capital. The IMF should therefore be equipped with the legal authority it needs in order to provide IMF members, to a greater extent than in the past, with sound advice on capital account liberalization and to engage in constructive dialogue with member countries in a way that reflects the contrasting circumstances encountered within each country.

  There are two additional reasons why we support the principle of an amendment.

  First, with its new mandate, the IMF may be expected to devote further resources to studying capital movements in order to enhance the credibility of its recommendations by ensuring that the latter are predicated upon the Fund's capacity to explain and anticipate the numerous factors involved in the functioning of financial markets. This mastery of the subject—which the Fund must still acquire—will in turn allow the organization to enhance its stature, strengthen its surveillance of capital movements, and thus help maximize the benefits and minimize the risks of capital account liberalization.

  Second, by allowing sovereignty over capital account restrictions to be transferred from member countries to the IMF, the amendment of the Fund agreement will strengthen the authority of what is, after all, a global institution within an area in which member countries had for practical purposes given up a good deal of their sovereignty already. This is a step in the right direction, because one way of responding to the risks of globalization is to treat official institutions accordingly, in other words, to give them a global dimension. Our goal should be to have official international institutions which are equipped to pursue the adoption and implementation of globalized strategies whenever it becomes clear, according to the principle of subsidiarity, that only global solutions will suffice to deal with such problems effectively.

One cannot overstate the importance of the challenges involved. That is why the authorities of member countries—including those responsible for supervising and regulating financial markets, such as the Commission bancaire et financière in Belgium—should seek to explore the full range of consequences liable to result from the envisaged amendment, and if necessary, to propose appropriate measures to address the various practical issues still unresolved. It is also incumbent upon the IMF to launch a campaign of education and outreach so that, in the wake of the consensus achieved within the Interim Committee, a similar consensus can be forged among all parties affected by the agreement, including the private sector.

I would now like to touch upon three issues which I am confident will continue to figure prominently within the activities of the Bretton Woods institutions; I am referring to the work performed by the IMF and the World Bank in the developing countries, the HIPC Debt Initiative, and the introduction of the euro.

Requirements for achieving meaningful poverty reduction

The challenges of development are as immense as ever; hence the need for ongoing efforts to identify ways to enhance the effectiveness of IMF and World Bank operations. It is with these thoughts in mind that I would like to make a couple of observations:

- First, I believe that growth cannot be sustained over the long term unless it is based on promoting private sector activity; this is essential if economies are to have the flexibility and dynamism they need in order to become fully integrated into the global economy. From this perspective, the Bretton Woods institutions still have much work to do if they are to stimulate foreign direct investment in the countries of sub-Saharan Africa, which continues to languish at around US$2 billion per year (compared with a figure of US$100 billion for all developing countries in 1997). I therefore welcome the renewed efforts of the IFC (International Finance Corporation) to give more support to the private sector in African countries. In light of the improving prospects for the countries of sub-Saharan Africa, it should be possible for the IFC to approve a larger number of projects than in 1996 (only 26).

- Second, we must make more of an effort to ensure that both the authorities and the general public in the countries concerned can gain a clearer understanding of the general philosophy underlying the adjustment and reform policies recommended by the World Bank and the IMF. That is particularly true of the IMF; Mr. Camdessus, you will forgive me for expressing my opinion so candidly in this matter. Such efforts are essential if we are to garner maximum support from local populations, for in the absence of such support, adjustment policies have scant prospect of success over the long term. Undoubtedly, the guidelines recently adopted by the Management and Executive Boards of the Bank and Fund, as well as by the Interim Committee, should be most helpful in facilitating dialogue with the countries concerned and forging a broad-based consensus around the required reforms. For example, I would emphasize the focus on maintaining social cohesion, respect for the rule of law and human resource development that is a notable feature of the Interim Committee Declaration on Partnership for Sustainable Global Growth. However, in order to succeed, the new guidelines adopted “at the top of the pyramid”—if I might be permitted the expression—must also become institutionalized at all levels of the Fund and the Bank.

Belgium’s support for the HIPC Initiative

I would now like to discuss the HIPC Initiative.

Encouraging progress has been achieved since the HIPC Initiative was adopted one year ago. Firm decisions have already been taken with respect to Bolivia, Burkina Faso, and Uganda, and three other countries are expected to follow suit; namely, Côte d'Ivoire, Guyana, and Mozambique. I share Chancellor Brown's view that all eligible countries should be able to join the Initiative by the year 2000 because, of course, the Initiative is open to all heavily indebted poor countries that are prepared to adopt or implement a reform and adjustment program supported by the IMF and World Bank.

This means that all creditors that have committed themselves to contributing to the funding for the Initiative should reaffirm their commitment by providing the necessary resources in a timely fashion.

Rest assured that if last year's agreement were not followed through, it would become very difficult for the Bretton Woods institutions to launch any future initiatives entailing the use of substantial resources. In fact, no agreement on such initiatives will be possible unless everyone is convinced that all member countries will participate on the basis of their capacity to contribute, in the spirit of cooperation and partnership that multilateral institutions will have to demonstrate if they are to face the challenges of the future.

It is with such thoughts in mind that I shall propose a twofold contribution from Belgium for the funding of the HIPC Initiative:

- I shall first propose a contribution of SDR 44 million (i.e., Belgian francs 2.2 billion approximately), through the continued holding of the National Bank of Belgium's existing deposits held with the IMF, and through the recycling of Belgium's reserves in the Special Contingent Account 2; this amount corresponds to 3.4 percent of the required total bilateral contributions (SDR 1.3 billion); this percentage corresponds to Belgium's share in the total quotas of the industrial countries.

- I then propose that Belgium make a contribution in 1998 to the HIPC Trust Fund, created by the World Bank to serve indebted poor countries; I will ask for this contribution to be earmarked for the African Development Bank in order to help the ADB to participate in the Initiative.

The required reforms in the wake of a new currency: the euro

In conclusion, I would like to offer some observations on the subject of Economic and Monetary Union and the establishment of the euro on January 1, 1999.

Recent doubts as to whether the euro project might have to be shelved, as encountered in last year's discussions, have been dispelled.

However, there are those who still question whether the introduction of the euro will bring about any fundamental changes in international economic relations, primarily because the insider countries are supposed to retain a good deal of autonomy in the conduct of their economic policies.

To all those who would downplay the importance of the euro, let me say that I am firmly convinced of the following:

- the introduction of the euro bids fair to become a watershed event in monetary history, the most important of its kind since the abolition of the Bretton Woods system of fixed parities;

- the advent of the euro will have an impact on the structure of international monetary relations, particularly with respect to the G-7 and the IMF itself;

- with its emergence as an international reserve currency, the euro will become a key focal point for a number of countries, and this, I am convinced, will ultimately promote further debate on the changes needed in the machinery of the international financial system.

Under the circumstances, I believe that we should move expeditiously to prepare the remaining European and international decisions required to lay the full groundwork for the introduction of the euro in view of its consequences at the internal and external level.

It is clear that these consequences will be largely dependent on the economic policies pursued within the euro zone and on the relative efficiency with which such policies are coordinated. This is true for the participating countries, but it is also true for the rest of the world (albeit to a lesser degree), inasmuch as the economic policies coordinated within the EMU framework are bound to have an impact on non-EMU countries. In this way, the implementation of the EMU may make the international monetary system more symmetrical, thereby ensuring that the benefits expected to result from the cooperation among the various “poles” can be more uniformly distributed.

As indicated recently by Governor Verplaetse, a decisive factor will be the EMU’s capacity to define a “policy mix” capable of ensuring internal stability while passing muster at the international level.

There is no reason to doubt the anti-inflationary resolve of the future European Central Bank. Indeed, I am convinced that the ECB will move swiftly to establish its credentials in this matter and to underscore its focus on price stability.

Fiscal policy will remain the prerogative of Member States, even though they have accepted a common framework pursuant to the Stability Pact, designed to ensure the maintenance of fiscal discipline. Accordingly, the recent efforts to bring down public deficits will not have been wasted.

It follows that the EMU policy mix may represent a significant departure from times past, when a comparatively strict monetary policy was supposed to compensate for the deficiencies of fiscal and/or wage policies. A more balanced policy mix ought to contribute toward enhancing the outlook for growth within the European economy.

For all of these reasons, I am convinced that the euro will be an intrinsically sound and stable currency. However, the exchange rate for the new currency will not be determined solely by the policy mix within the euro zone itself; it will also depend on its position vis-à-vis that of its major partners. Economic policies in the United States and Japan will obviously continue to be important for the overall economic system, highlighting the advisability of the tripolar cooperation which Mr. Camdessus mentioned yesterday at the end of his statement.