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Statement by Koen Geens, Minister of Finance, Ministere des Finances, Belgium

On behalf of Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania, Ukraine

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Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania and Ukraine
At the 27th International Monetary and Financial Committee
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Our meeting should aim at strengthening cooperation among our countries, the Fund and other international institutions to make the growing economic and financial interdependence a force for improving the wellbeing and prospects of our populations.

Global Economic and Financial Prospects and Policies

Since our last meeting in October 2012, many countries have taken further policy actions at a national and regional level in line with the understandings reached in Tokyo.

In the European Union, the agreed elements of a banking union represent a major breakthrough that will be implemented within an ambitious timeline. The banking union is an essential component of a genuine economic and monetary union. The agreement to enhance coordination and surveillance of budgetary processes for EU Member States will further strengthen the credibility of fiscal strategies consistent with the rules of the Treaty on Stability, Coordination and Governance, the so-called “Fiscal Compact”.

In recent months, these policy actions and developments, and credible policy commitments of the ECB to prevent fragmentation in the transmission of monetary policy, have yielded significant improvements in financial market conditions, both in the euro area and beyond. Confidence is gradually being restored. Yet balance sheet fragilities remain large and the economic recovery and employment creation over the course of this year are expected to be moderate. Thus, the Fund’s World Economic Outlook (WEO) rightly warns that "*Policymakers cannot afford to relax their efforts*". In Europe, agreed policies and reforms must be implemented steadfastly. Financial sector balance sheets must be adequately assessed through asset quality reviews (AQR) in advance of the SSM. Further improvements in cost control, prudent risk management and strengthened solvency and liquidity should ensure that the financial sector can contribute to the preconditions for economic recovery. Fiscal consolidation should persist to address unsustainable dynamics in public spending, including due to aging, and enhance tax efficiency to avoid frustrating economic activity and employment creation. Above all, structural reforms should aim at increasing growth potential which is now significantly lower than was hoped for before the crisis.

While policy actions in the euro area and the wider European Union are critical for the global economy, so are policy actions in other major countries and regions. The global economy remains confronted with significant legacies from the build-up of imbalances prior to the crisis. So far, these have not been fully addressed. Public debt levels remain very elevated in many advanced economies. The Fund rightly recommends both countries to formulate comprehensive medium-term deficit reduction plans that would achieve gradual but persistent consolidation.

Cyclical turns and weak demand from advanced economies contributed to a noticeable slowdown in the emerging and developing economies last year. However, as confidence and activity strengthen in advanced economies, higher export driven growth is expected in most Asian and Sub-Sahara African countries, and in many economies in Latin America and the CIS.

Although global imbalances have declined when compared with the pre-crisis levels, the underlying structural imbalances remain significant. In deficit countries, in addition to fiscal repair, structural policies should help restore external competitiveness. In some major surplus countries, policies should rebalance the economy towards consumption driven growth. Emerging market countries with tightly managed exchange regimes and extensive capital controls should continue a strategy of allowing their exchange rate to be more determined by market forces and pursuing a prudent gradual liberalization of capital flows.

The accommodative monetary policies of the major central banks have reduced risk aversion and supported balance sheet corrections and growth. However, such policies do not provide a lasting solution to the structural problems that governments and prudential supervisors should help address. Without structural adjustments, monetary policy may become overburdened, as rightly pointed out in the WEO. Moreover, the highly integrated global financial markets facilitate spillover effects that complicate policies in other countries. Central banks should guide market expectations on an eventual reversal of the low policy rates and quantitative easing. Both mature and emerging market economies should prepare macroprudential policies to deal with the impact of such policy on asset prices, credit expansion and investors' sentiment.

A particular risk is that cyclical unemployment becomes structural in nature, particularly in countries and regions where youth unemployment has reached worrisome levels. In our open economies, the crucial points of attention are innovation, productivity, competitiveness and labor supply, the quality of which must be constantly improved by ensuring that education and training is geared to the needs of enterprises.

We welcome the enhanced cooperation of the Fund with other multilateral institutions. With its mandate to foster international financial stability, the Fund has a unique role in promoting more effective cooperation among all its members, in particular also those within the Financial Stability Board and the standard setting bodies for the financial sector. We applaud the strengthened cooperation with the World Bank and the International Labor Organization on employment creation. The Fund's research and outreach on the interaction between inclusive growth and employment is highly commendable. We encourage the Fund to enhance its analysis of employment creation challenges in order to identify the most severe constraints to inclusive growth and jobs, and provide more tailored policy recommendations. Advice on tax and expenditure policies should better integrate the targets of enhancing labor force participation, equity in income distribution and protection of the most vulnerable.

IMF Policy Issues

Since the onset of the crisis, the Fund has significantly broadened its analysis of the functioning of the International Monetary System (IMS), adopted new policies and greatly enhanced its lending capacity.

Fund Resources

In 2010, the Board of Governors agreed on a doubling of quota resources. We encourage all countries that did not yet complete the ratification of the 2010 Amendment on the Reform of the IMF Executive Board and 14th General Review of Quotas, to do so, in order to have the doubling of quotas become effective.

Last year, 38 member countries have pledged to extend bilateral loans to the Fund for a total amount of US$ 461 billion, thereby further significantly enhancing the Fund's capacity to provide financial assistance to countries. Delivering on last year's pledges, in our Constituency, Belgium and the Netherlands have signed loan agreements with the Fund for a total amount of EUR 23.6 billion (US$ 30.7 billion). We encourage all countries to finalize their envisaged loan agreements with the Fund.

Fund Governance

Once effective, the 14th General Review of Quotas will result in significant adjustments in countries' quota shares that better reflect their relative positions in the global economy.

Our Constituency has contributed to the reforms and particularly to the commitment for a reduction in advanced European Board representation.

We welcome the progress with the quota formula review and the Board's decision to integrate the further discussions on quota formula with the discussions on the 15th General Review of Quotas. We will continue to engage constructively with the members in the IMFC and the Board on a new integrated package which captures the multiple roles of quotas and respects the interests of the Fund's diverse membership. GDP and openness should remain the main variables of the quota formula, as they best reflect the role of the Fund. We stress that openness is a critical parameter for a balanced quota formula as it is a crucial indicator for global interdependence, countries' stake in international trade and financial flows and international financial markets, as well as for members' capacity to provide financial resources to the Fund. We emphasize that the current formula will already result in a meaningful shift in quota shares that reflect changing positions of members in the world economy.

It is crucial for the Fund's legitimacy that discussions on the quota formula and review are anchored in IMF bodies, where all members are represented through the Fund's constituency structure.

Cooperation with Regional Financial Arrangements

Regional initiatives, in Europe and elsewhere, play an important role in the prevention and resolution of financial crises. As was demonstrated by the experience in Europe, collaboration between the IMF and regional financial arrangements, respecting each other's mandate and relative strengths, has significant added value for all parties involved. We encourage the Fund to assess the possibilities for further improving this collaboration.

Fund Surveillance

Surveillance is the Fund's key tool of crisis prevention and thus a critical element in its mandate to protect global economic and financial stability. We welcome the recent implementation of the Integrated Surveillance Decision (ISD). The ISD calls for the Fund to discuss the impact of countries' economic and financial policies on other countries and on global stability. Under this decision, the Fund may suggest alternative policies that, while preserving the members' own stability, would better promote the effective operation of the IMS. The Fund's spillover and external sector reports are valuable new components of the Fund's multilateral surveillance. We encourage the Fund and its members to further develop the necessary analytical tools and to collect the data needed for in-depth analysis of spillovers and policy conclusions. All members should engage in this dialogue constructively.

Our Constituency supports the Fund's guidance on the Liberalization and Management of Capital Flows. Countries can benefit from the liberalization of capital flows when they deploy policies to safely absorb foreign capital. However, when capital flows threaten to destabilize an economy, macroprudential or capital flow management measures can complement macroeconomic policies to help mitigate the build-up of major internal imbalances. Fund surveillance of such measures and their spillovers is important.

Technical Assistance and Training

The Fund's technical assistance and training are critical functions and valuable tools for its members, particularly low-income countries. Our Constituency countries are active in technical assistance and training, as providers and recipients both in the bilateral and multilateral context, and stand ready to engage with the Fund to meet members' evolving needs.