International Monetary and Financial Committee

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Statement by Steven Vanackere
Deputy Prime Minister and Minister of Finance, Belgium

On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kosovo, Luxembourg, Slovak Republic, Slovenia, Turkey

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Deputy Prime Minister and Minister of Finance of Belgium
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Austria, Belarus, Belgium, Czech Republic, Hungary,
Republic of Kosovo, Luxembourg, Slovakia, Slovenia and Turkey
At the 26th International Monetary and Financial Committee
Tokyo, Japan, October 13, 2012

We have all come to Tokyo to agree on how we can better manage the increasingly interdependent global economy, achieve more balanced economic growth, and reverse rising inequalities and unemployment in both advanced and developing economies.

We are constantly witnessing the growing interdependence in international trade and finance, in demographic developments and migration, in environment, science and technology, and, more largely, with regard to international safety, security and human rights. Each of these fields affects the wellbeing and prospects of our populations. Successfully confronting the accompanying challenges requires more effective cooperation among countries and within multilateral institutions.

It is fitting that we meet today in Tokyo. Japan is a country that has even recently been suffering from natural disasters and nuclear accidents; a country deeply immersed in the international trading and financial systems; a reliable partner in multilateral cooperation and a generous contributor as a creditor and donor to the International Monetary Fund. We are grateful to the Japanese authorities for their hospitality in hosting our meetings.

Global Economic and Financial Prospects and Policies

Since our last meeting in April 2012, countries and regional authorities have taken commendable policy actions in line with what we have agreed.

In the European Union, decisions have been taken and are being implemented to address the shortcomings in the design and the functioning of its economic and financial integration, in order to strengthen the EMU. The strategy is to secure a more balanced and deeper integration, more solidarity and more accountability. The targets of the Euro 2020 strategy are to increase the Union’s growth potential by increasing productivity through technological progress and improved education levels, and by raising the employment rate to 75 percent. EU2020 also aims at improved environmental standards and reduced poverty. The goals of EU2020 are reflected in the Annual Growth Survey, the basis of the new economic policy coordination process of the European Semester

Economic governance and policy coordination in the EU and the Euro area have been strengthened both at the level of fiscal coordination and of the prevention of other macro-economic disequilibria.

The fiscal rules of the reinforced Stability and Growth Pact - part of the "Six Pack" - include more gradual and therefore more effective sanctions, closer monitoring and more precise targets as well as now minimum standards for fiscal frameworks. The so-called “Fiscal Compact” treaty, signed on March 2, 2012, by 25 EU member states might enter into force by the end of this year, depending on progress made in the ratification. The treaty requires countries to include in the constitution or equivalent legislation binding rules for balanced budgets and gradually reducing public debt to 60 percent of GDP. The EU Commission now has strengthened procedures and powers to help prevent and correct both excessive fiscal deficits and other macro-economic imbalances.

The current fiscal consolidation strategy for the Euro area is for achieving a deficit of 3 percent – or slightly higher in light of the current forecast - in 2012, and of 1 percent in 2015, with the public debt ratio to decline from 2014 onwards.

The Sixpack further refines budgetary coordination and fiscal discipline, but, of crucial importance, includes for the first time a process to prevent other macro-economic imbalances than budgetary ones, such as current account positions and the sustainability of private debt. Also in this field, we bypass pure recommendations and can enforce compliance via sanctions.

Financial solidarity within the Euro area is being enhanced. The effective lending capacity of the EFSF has been increased to 440 billion euro and its instruments for interventions broadened. The permanent successor of the EFSF, the ESM has been ratified by all 17 Euro area member countries and became effective on September 22, 2012; it has a lending capacity of 500 billion euro. It is now the main instrument for financing adjustment programs of Euro area countries.

In July, the EU leaders agreed to establish a banking union, a crucial pillar of a viable monetary union. Systemically important banks, or even all banks, in EU countries (or in the Euro area) would be supervised by a European authority involving the ECB. Moreover, an EU bank resolution scheme, with the financial backing of the ESM and other fiscal instrument later on, will be established. I believe that the future member states of the euro zone should be able to participate in the Supervisory Mechanism which is now being discussed by the Council and the European Parliament. With European supervision effectively operational, the ESM may provide direct financial support to ailing banks under EU supervision. Such operations should protect overall financial stability, comply with fair competition rules and require, if needed, the bail-in of creditors not protected under the deposit guarantee scheme. The banking union will halt the adverse feed-back loop between the financial strength of banks and of national sovereigns. Banks operating in an environment of macro-financial stability, under effective financial sector supervision and with credible financial backstops will better contribute to sound credit allocation within the monetary union and contribute to growth and job creation.

The Outright Monetary Transactions Program (OMT) of the ECB, decided last month, will help stabilize financial markets by securing a correct functioning of the monetary transmission mechanism and combating the fragmentation in Euro area financial markets.

The OMT will provide credible backstopping for sovereign bond markets and help removing unfounded fears and tail risks in the financial markets. It will help stabilising conditions in other markets, such as those for corporate and bank bonds. This will feed into more equal borrowing costs for the real economy across the euro area..It is well understood that this new instrument of the ECB, the OMT, will only be successful if countries vigorously and credibly address the underlying economic and financial imbalances, if banks are put on a sound footing and adopt viable business models and when reforms provide confidence about regaining external competitiveness, output growth and employment.

Experience in Europe and elsewhere allows to formulate some recommendations which are also relevant for countries outside the euro zone. To last, growth must avoid to be driven by foreign capital inflows that fuel domestic consumption and inflate the non-tradable sectors including construction. Macro-prudential and supervisory measures must prevent excessive credit growth that fuels imbalanced growth and undermines bank soundness. Borrowing in foreign currency is a potential source of economic fragility. Fiscal policy must contain expenditure growth, particularly when revenue buoyancy is cyclical. Lasting income convergence for emerging market countries rests on a sound balance between domestic consumption growth and domestic savings; attracting foreign capital through direct investment rather than in the form of volatile foreign debt; and a competitive environment which promotes value added creation, innovation, training and better education rather than rent seeking.

It will take time to overcome the severe imbalances in the world economy. The generalized slowing of the recovery shows how interconnected the global economy is. We agree with the Fund's analysis that uncertainty about future policy implementation weighs on confidence and economic prospects. Consistent and sustained implementation of credible policy strategies by all actors is needed to dispel market scepticism and instil confidence. The Managing Director's Global Policy Agenda is a good summary of how the Fund's diverse membership can collectively and in cooperation with the Fund secure the recovery.

Today we would like to express solidarity with the people of the countries in transition in the Maghreb and the Middle East. The political transitions come with a severe economic cost. Fiscal and balance of payments developments must be urgently stabilized and reversed. The Fund, other International Financial Institutions and partner countries in the region and beyond should provide financial support for credible growth and employment creating programs and assistance for much needed capacity building.

We call for more cooperation among multilateral financial institutions. The World Bank's 2013 World Development Report on Jobs deals with a topic on which such cooperation is essential. It is a most timely report which we will discuss in the Development Committee. It addresses the other major crisis in the world: 200 million people formally unemployed globally, many more people in fragile jobs and the need to create another 400 million jobs by 2020, mainly for young men and women that want to enter the labour market.

Two years ago, at the Oslo conference, the IMF, the ILO and government labour and business leaders agreed to better cooperate and to make employment creation a key macro-economic objective alongside low inflation and sustainable budgets, and to develop a concept of a social floor consistent with sustainable macro-economic policies. We call on the Fund to continue pursuing this agenda in cooperation with ILO, the World Bank, the OECD, social partners and the Fund members.

The Fund's Role in the Global Policy Agenda

Fund Surveillance

Since our last meeting in April, the Fund has taken commendable decisions that will significantly adjust Fund surveillance to the reality of the highly interdependent world economy.

The approval of the "Integrated Surveillance Decision" on July 18, 2012, calls for a significant upgrading of Fund surveillance over both countries' economies and the global economic and financial developments. The Fund may now discuss the impact of countries' economic monetary and financial sectors policies on other members' situation and on the effective operation of the international monetary system (IMS). Moreover, the Fund may suggest alternative policies that, while promoting the members' own stability, would better promote the effective operation of the IMS.

We agree that under the existing Articles of Agreement the Fund may not require a member to adjust its policies solely in the interest of the effective operation of the IMS or because of the adverse spillover effects of other members. The new decision is nonetheless very valuable under a long-standing practice, whereby traction of surveillance is based on persuasion and highly professional independent analysis by the Fund. The capacity of the Fund to engage in the discussions on the spillover effects on other members in the IMS should greatly advance our cooperation. We call on the Fund and members to engage in this dialogue constructively with candor and evenhandedness.

Fully in line with the objectives of the "Integrated Surveillance Decision", the Fund has now issued spillover reports about the external effects of policies in five systemic economies. We note in particular the importance of financial channels in the propagation of global shocks and the need for strong, coordinated regulation of the core financial systems in the world. We encourage the Fund and countries to further refine the methodologies and data needed for in-depth analysis of spillovers and policy conclusions.

We welcome the adoption of the Fund's strategy for surveillance over financial sectors. The strategy spells out the priorities, objectives and the scope of Fund surveillance over countries' financial sectors and its integration in bilateral surveillance.
The decision that in-depth surveillance over financial systems is an integral part of Article IV consultations and mandatory at least for the 25 countries with systemically important financial centers, is significant progress.

Fund Resources

We welcome that the Fund has now received pledges for bilateral loans in the order of US 460 billion which will greatly increase the Fund's capacity to give financial assistance to member countries.

The countries of our constituency have contributed a total amount of US $ 34.3 billion.

We call on countries that have not yet finalized their internal procedures to formally sign the loan agreements, to do so expeditiously.

We call on the remaining countries that have not yet ratified the amendment of the Articles of Agreement on the all-elected Board to do so expeditiously. This will enable the entry into force of the doubling of Fund quotas resulting from the 14th General Review of Quotas.

Low-Income Countries

We welcome that more than 130 countries, representing almost 90 percent of the proposed distribution of SDR 700 million Fund reserves, have pledged to use their portion to subsidize PRGT lending. We are confident that most, if not all remaining countries will soon follow.

We encourage all members to similarly pledge their portion in the second distribution of SDR 1.75 billion Fund reserves, decided by the Board on September 28, 2012, for the same purpose of subsidizing PRGT lending. Yet, we regret that the gold endowment, by far the most important remaining component of the new income model to finance the Fund's activities, other than lending, is not yet established.

We welcome the Board decision to resume the reimbursement of the Fund for its costs of administering the PRGT.

The Board should pursue a PRGT lending policy that responds to low-income countries' financing needs within the given resource envelope of the PRGT. We must promote the self-sustainability of the PRGT.

The Fund should review the PRGT lending policy regularly with close involvement of the PRGT donors. On the same occasion, donors should review the long-term financial position of the Trust and its capacity to continue meeting the financial needs of low-income countries.

Capacity Building Assistance

In our constituency, Austria, through the Joint Vienna Institute, Belgium, as a donor to the Fund for its technical assistance and training in Central Africa, and Slovenia, through the Center for Excellence in Finance, greatly contribute to capacity building. The Fund should expand its capacity building assistance for its members, particularly for low-income countries.

Governance of the Fund

All the countries in our constituency have or will soon confirm their consent to the doubling of the quotas and have ratified the Articles of Agreement on the all-elected Board.

The resolution of the Board of Governors on the 14th General Review of Quotas and the Reform of the Executive Board calls for two Executive Directors less from advanced European countries. On the occasion of the 2012 General Election of Executive Directors, a new constituency including Belgium, Luxembourg and the Netherlands is formed, based on the constituency currently chaired by the Netherlands. Belgium and the Netherlands will nominate the Executive Director on an equal rotation basis. Belgium and the Netherlands, thus, each renounce 0.5 Executive Director position, thereby reducing by one the number of Executive Directors nominated by an advanced European country.

The eight other countries of our current constituency have established a new Central and Eastern European Constituency. For this group, Austria will nominate the Executive Director for the period 2012-2014, while in the period 2014 – 2022, Turkey will nominate the Executive Director for four years and the Czech Republic and Hungary each for two years. The quota formula should be based on economic criteria that are relevant for the mandate of the Fund. Openness reflects a member's involvement in the global economy, which lies at the core of the Fund's mandate.

Quotas should not only reflect members' relative positions in the world economy but also their stake in promoting global economic and financial stability, and their ability to contribute usable resources. Therefore, most members of our constituency believe that GDP and openness should remain the main variables and consider that openness should carry an increased weight in the formula.

The quota formula review process must be fully anchored within the IMF bodies in order to engage the entire IMF membership.