



# **International Monetary and Financial Committee**

Fourteenth Meeting  
September 17, 2006

**Statement by Gerrit Zalm  
Minister of Finance, Netherlands**

On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus,  
Georgia, Israel, Macedonia, former Yugoslav Republic of, Moldova, Netherlands,  
Romania, Ukraine

**Statement by Gerrit Zalm, Minister of Finance of the Netherlands**  
**International Monetary and Financial Committee**  
**Singapore, September 17, 2006**

Representing the constituency consisting of Armenia, Bosnia and Herzegovina, Bulgaria,  
Croatia, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania, and  
Ukraine.

**This statement presents the view of my constituency on the topics to be addressed at this year's IMFC meeting: the global economy, IMF governance and IMF surveillance, crisis prevention and crisis resolution. In addition, this statement gives our opinion on the Fund's income policy, Bank-Fund collaboration and debt sustainability.**

**World Economic Outlook**

1. In 2005, global economic growth remained robust. Projections for 2006 and 2007 suggest ongoing strong growth of the world economy; with the momentum for economic expansion expected to gradually shift from the US and the emerging markets towards Japan and the euro area. Despite these favorable perspectives, risks to the economic outlook remain.

2. A **disorderly unwinding of the global external imbalances** remains the key risk factor for the world economy. My constituency welcomes the multilateral consultation on global imbalances that the IMF is currently undertaking with the US, Japan, China, Saudi-Arabia and the euro area. We look forward to the outcomes of this consultation, in which the Executive Board and the IMFC should be appropriately involved. At the same time, we want to emphasize that the **multilateral consultation should not lead to complacency and that each actor should continue to take its own responsibility in helping to orderly unwind the global external imbalances**, through pursuing policies aimed at resolving domestic imbalances.

3. In that respect, policy measures should concentrate first and foremost on increasing the national savings rate in the US, both by reducing the government budgetary deficit and by increasing household savings. In addition, more balanced exchange rates in Asia are important. An improvement of the social safety net and of the effectiveness and stability of the financial sector in China could also contribute to reducing the global external imbalances,

as it would lower the need for precautionary savings and stimulate higher domestic consumption and lead to a more effective channeling of domestic savings into domestic investment. Although the role of the euro area in (reducing) the global external imbalances is relatively limited, as the current account is already balanced, further structural reforms will strengthen the resilience of the euro area member states and foster higher economic growth.

4. In the short term, **high oil prices** remain a risk factor for global growth and inflation. In the first half of 2006, the oil price reached almost \$80 dollar per barrel. When capacity utilization remains at elevated levels, producers may increasingly push through the energy costs into their sale prices. To reduce the oil price sensitivity of the global economy, energy efficiency needs to be improved and the use of alternative energy sources should be stimulated. Enhanced labor market reforms as to reduce structural unemployment and increase labor supply should prevent that tighter labor markets translate into higher wage growth and thereby pose an upward risk to inflation.

5. A **sudden rise of long-term interest rates**, which are still low from a historical perspective, would pose risks for investment and consumption in both emerging economies and industrialized countries. These risks are magnified in some industrialized countries where house prices seem overvalued. Recent data show signs of a cooling off of the US housing market with possible negative consequences for US consumption and, subsequently, world economic growth. This is a reminder of the importance of ongoing efforts to reduce vulnerabilities and strengthen debt sustainability.

6. To prepare for the **costs related to population ageing** in the medium to long run, budgetary positions should be strengthened, especially in industrialized countries. As the current world economic outlook is favorable, governments should step up their efforts to structurally improve their fiscal balances. In addition, in many countries policy measures to strengthen pension and health care systems and stimulate labor market participation are necessary. Higher productivity growth is needed as well, and will be stimulated by structural reforms to increase the flexibility of labor and product markets. The scope for improvements in this area seems especially large in the services sector.

## **IMF governance**

7. My constituency commends the leadership of Managing Director Rodrigo de Rato on safeguarding adequate governance of the IMF, and supports his efforts to foster agreement on a substantive and credible package of reforms at the Annual Meeting in Singapore. We **support ad hoc quota increases** in the short term for the most underrepresented countries, and agree that China, Korea, Mexico and Turkey meet a robust selection standard. The size of the ad hoc increases should be meaningful, and can indeed usefully be based on a uniform proportional reduction in the gap between calculated and actual quota shares. This increase should be seen as a reflection of the willingness of the Fund's member states to promote the Fund's good governance, as has happened in the past.

8. My constituency is **open to discuss possibilities for improving the quota formula**. Discussions should focus on a formula that reflects the mandate of the Fund in a changing environment, while at the same time making an effort to reduce the complexity of the current system. This means that any new **formula should as a minimum adequately capture the size of countries, as well as their openness, both in economic and in financial terms**. However, the specifics of a possible new formula cannot be prejudged at this stage and should await the subsequent work of the Executive Board. This has been the basis for my constituency countries to support the Resolution of the Board of Governors.

9. My constituency can **support a second round of ad hoc quota increases** once a new quota formula can be agreed upon, the possible size of which can of course not be prejudged. We have reservations about the apparent need to *ex ante* request certain countries to withhold or limit the possible quota increase they would be entitled to, since this prejudices an open discussion on a new formula. Instead, any possible agreement of member countries to limit their quota share should subsequently be anchored in the formula itself. If at a future point in time a general quota increase is deemed necessary in view of Fund liquidity, my constituency is open to consider achieving further quota rebalancing.

10. On the issue of voice, my constituency has **persistently called for a meaningful increase of basic votes, to be decided upon in Singapore**. It is unfortunate and disappointing that there has not been sufficient basis to come to an increase of basic votes as part of the first stage. However, the Resolution does include a firm commitment to an increase of basic votes as part of the second stage, and places a minimum of at least doubling them at the basis of the further discussion. My constituency views a substantial increase of basic votes and

subsequently safeguarding their relative share as an essential part of the package, to be implemented prior to, or at the latest concurrently with, completing the implementation of any second-round ad hoc quota increase. Such an evenhanded approach is necessary to strengthen voice and participation in their own right in view of the substantial erosion of the share of basic votes over time. In order to further increase the voice of low income countries, my constituency also **supports freeing up additional resources for chairs representing a large number of countries.**

11. My constituency agrees that the **issue of size and composition of the Board as such is not part of the reform agenda.** The size of the Board follows well-founded decisions to ensure broad participation, and given the current functioning of the Board we do not see this to be an issue in strengthening the governance of the IMF. In addition, we emphasize the advantages of a mixed constituency as a bridge-building model between borrowing and non-borrowing members of the IMF.

#### **Surveillance, crisis prevention and crisis resolution**

12. My constituency has a **constructive stance towards the possible introduction of a new liquidity instrument.** Such an instrument should minimize challenging issues such as stigmatization, the exit problem, moral hazard and compromising on the level of conditionality. In this regard, some features of the conceptual Reserve Augmentation Line (RAL) are encouraging, especially its envisaged high-quality policy standard and its relatively short duration. It is also welcoming that the conceptual RAL requests countries to subscribe to the Special Data Dissemination Standard (SDDS). This further enhances transparency and information dissemination by the Fund. My constituency looks forward to further exploration of the feasibility of a liquidity instrument.

13. My constituency welcomes efforts to align surveillance to the demands of the current international monetary system. A key element of these efforts is the **comprehensive review of the Fund's exchange rate surveillance** that is currently underway. This involves i.a. the Fund's 1977 Decision on Surveillance over Exchange Rate Policies. My constituency supports the objectives of strengthening exchange rate surveillance, containing mission creep, establishing a better focus and ensuring a consistent and evenhanded surveillance of members. Better clarity of members' obligations as well as of the Fund's assessment of these obligations could make surveillance more meaningful, focusing on the benefits for the international

monetary system, rather than attempting to provide advice on a broad range of domestic policies that may transcend the Fund's core mandate. In this respect, my constituency is open to the possible amendment of the Decision, while noting that these objectives may well be achieved through alternative routes. Indeed other important initiatives are underway. For example, the Fund should bring its coverage of financial sector and capital market developments at par with other core areas of expertise in surveillance.

14. A recent stocktaking by staff concluded that exchange rate issues are generally treated adequately in Fund surveillance, but there seems to be room for improvement in some areas, particularly regarding the analysis of the exchange rate level. In this regard, my constituency urges the Fund to refrain from statements on the level of bilateral exchange rates. In general, **the focus of Fund analyses should be on exchange rate regimes and, where useful, on real effective exchange rates.**

15. My constituency reiterates the importance of focusing surveillance, by tailoring Article IV consultations in every country on relevant and topical issues within the Fund's core mandate.

16. With respect to a possible **surveillance 'remit'**, my constituency is of the opinion that there **is always value in clearly stating the Fund's priorities**, especially as this helps in addressing them with authorities. However, determining the Fund's surveillance priorities should not be made into a complex bureaucratic process. My constituency welcomes further exploring a possible 'remit', which should be designed subject to ongoing work on the effectiveness of surveillance.

## **Other issues**

### *Fund's finances*

16. On the Fund's income position, my constituency looks forward to the conclusions of the Committee of Eminent Persons. The current financing model, based almost exclusively on margins on adjustment lending, is no longer tenable and change has been long overdue. A **new, longer-term sustainable model is necessary** that reduces the Fund's dependency on the level of outstanding credit and reduces the volatility of interest charges for debtor countries. My constituency encourages the Committee to present possible options for such a model to the Board as soon as possible, given the current sharp decline of the Fund's income.

17. The review of Fund finances by the Executive Board should **take into account both the income and expenditure side**. On the income side, my constituency welcomes the establishment of an investment account as a welcome step in the direction of a more robust income position, but more measures are needed. Modern reserve management, making a modest part of gold holdings interest-bearing, in our view is part of the solution. On the expenditure side, the introduction of a medium-term budget model offers an opportunity to set priorities and posteriorities, which should lead to expenditure savings. A general efficiency drive would also be appropriate. In the area of audit and risk management improvements are needed, including in the Board's oversight role.

*Bank-Fund collaboration*

18. My constituency welcomes the current review of Bank-Fund collaboration, performed by an External Review Committee. The Fund and the World Bank should **further strengthen and increase the effectiveness and efficiency of their collaboration, by basing this on a clear understanding of the institutions' comparative advantages and respective roles with a clear division of labor**.

*Debt sustainability*

19. My constituency attaches great importance to the **prevention of a re-accumulation of unsustainable debt** in particular also in countries which have received debt relief. We therefore welcome ongoing work on the IMF/World Bank Debt Sustainability Framework (DSF) and urge all creditors (multilateral, bilateral and commercial) to adopt and adhere to the DSF in their lending decisions. For countries with a high level of external debt distress (so-called "red light" countries), restraint should be exercised in lending, even on concessional terms. My constituency welcomes the current discussions on addressing the problem of some creditors indirectly gaining from debt forgiveness, grants and concessional financing activities, of other creditors, as a result of their unwillingness to contribute ("free riding"). In this regard, we reiterate that both recipients and creditors have a responsibility in addressing this problem. My constituency also **sees a larger role for the IMF in preventing unsustainable debt and free riding**, for example in the field of monitoring, and invites the IMF staff to present proposals to this end to the Board. We encourage further efforts at enhanced creditor coordination. Continued contacts by the Fund and the Bank with other multilateral institutions not yet applying the DSF and with non-OECD and commercial creditors are also of great importance.