



**International Monetary and
Financial Committee**

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Statement by Wouter Bos

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On behalf of Armenia, Bulgaria, Bosnia & Herzegovina, Cyprus, Georgia, Croatia, Israel,
Moldova, Macedonia, FYR, Montenegro, Netherlands, Romania, Ukraine

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Representing the Constituency consisting of Armenia, Bosnia and Herzegovina, Bulgaria,
Croatia, Cyprus, Georgia, Israel, Republic of Macedonia, Moldova, Republic of Montenegro,
The Netherlands, Romania and Ukraine

Introduction

The world economic outlook has improved since the last IMFC meeting. To a great extent, this is the result of swift, targeted and concerted action by its members. Much of the recovery can be attributed to these policies, which will need to be unwound at some point. For that matter, we need to focus on how to orderly unwind support measures, including those for the financial system, while ensuring enduring growth and avoiding the build up of imbalances. The IMF has also played its part by providing the necessary financing to countries with balance of payment needs, stepping up its surveillance of systemic risks, for example through the introduction of the EWE, and updating its lending framework for developed, emerging and low-income countries. Nonetheless, there is still scope for improvement, not least in the surveillance of macro and financial sector risks, including spillovers, and in the follow-up of Fund advice. Such improvements can only be attained with the willingness of all members to make further efforts in that direction, with the latter also hinging on the progress made on governance reforms.

World Economic Outlook

1. After a deep recession, the global economy has started to grow again led by a rebound in industrial production, retail sales, global trade and a sizeable inventory correction. The recovery seems particularly strong in developing Asia, notably in China, which grew by almost 15% in annualized terms in the second quarter. However, much of the global economic recovery can be attributed to massive monetary and fiscal stimuli, which will need to be wound down at some point. In addition, the financial system remains vulnerable, and, in some major advanced countries, households are adjusting their balance sheets after strong declines in net wealth. This makes it hard to predict the extent to which this recovery will be sustainable, once these measures are unwound, while levels of output

growth and financial intermediation will in any case be lower in the medium term. Moreover, low income countries show no signs of recovery yet.

2. Unemployment is likely to rise further in 2010 in many economies, which will add to the uncertainties around the global economic outlook. Developing Asia's strong recovery can impact the world economy in two different ways; if their growth leads to higher import demand, it would have positive spill-overs, the extent to which depending on a rebalancing of domestic and external demand. On the other hand, this could also push up key commodity prices and translate into a negative supply shock. The crisis and specifically lower oil prices have had a strong downward effect on inflation. In the longer term, risks to inflation and imbalances more generally could well be upward if the expansionary policies taken in many countries are not exited at the right time.

3. Now that the financial system shows signs of recovery, it is warranted to take a medium-term perspective and focus on the question how to orderly unwind the support measures. A credible and timely exit is needed to facilitate a self-sustained recovery of markets and restore markets' discipline. At the same time, we should not lose sight of the still fragile state of recovery and of lingering systemic risks to the financial system. Moreover, international cooperation will be needed to protect the level playing field, which could become an issue if countries apply different timing and conditions to their exit strategies. Having said this, each support measure requires its own exit path and a logical sequencing is required. With regard to private recapitalisation, firm-specific circumstances should be taken into account. Supervisors also have an important role in assessing the repayment of public support. Firms should meet supervisory criteria to safeguard their financial viability, while repayment of support should not lead to excessive balance sheet constraints and credit rationing at the same time.

IMF resources

4. In view of the current crisis and in accordance with the call made by the IMFC earlier this year, members are striving to supplement the available lending capacity of the Fund. The Fund is currently in the process of finalizing bilateral loan arrangements with many members in order to quickly mobilize the necessary resources in the short term. Having these bilateral loan agreements in place will serve as an important additional buffer for the Fund to absorb unexpected large shocks. The second step will be to expand the Fund's back stop credit capacity available under the existing multilateral credit facility of the New Arrangements to Borrow (NAB) as called for by the IMFC earlier this year.

5. Next to its expansion, substantial changes are being proposed to the working of the existing NAB. Similar to the current prevailing situation, it was a crisis that led to the creation of the NAB in order to provide the Fund with the necessary additional financial capacity to address financial crises that could

harm the international monetary system. We support an enhanced NAB with broad membership, on the basis of proper, multilateral burden sharing, and support its review at the time of the next quota review in order to rebalance the level of quota and back stop resources, if needed.

6. In light of the crisis, the large scaling up of resources provides confidence in the capacity of the Fund to provide temporary balance of payment assistance and to make sure the necessary adjustments continue to take place in individual countries, as to avoid a re-emergence of imbalances. Another confidence building measure was the allocation of the USD 283 billion SDR that helped bolster members' reserves.

Surveillance

8. The ongoing crisis shows scope for improving the practice of surveillance in the interest of international monetary and financial stability. The IMF should further work to sharpen financial sector surveillance and to focus on regional and group levels as well, including developing countries. In following up to the request of the G20, the Fund has, in cooperation with the FSB, introduced an Early Warning Exercise (EWE), intended to take place every six months. We welcome this initiative since we believe that this kind of exercise can contribute to a more timely identification of macroeconomic and financial risks and the actions needed to address them. As such, we view the EWE as an ongoing systemic risks' assessment that focuses both on short-term risks and long-term, potential high impact events. The insights from the exercise should also feed back into multilateral and bilateral surveillance. Such a process is only complete if members are truly receptive to surveillance. We therefore call for a better use of the surveillance instruments through transparent and clear communication of policy advice by the IMF, good follow-up, and a monitoring and peer-pressure system, including in the IMFC.

9. In addition, the crisis has also put in evidence the need to look at the interconnectedness between the macro and financial sector analyses and between the country and international levels. In this regard, we support further efforts to integrate financial sector surveillance and recommendations in Article IV reports. In addition, we welcome the commitment by G20 countries to undergo FSAPs. Nonetheless, more should be done, to increase the coverage of FSAP and FSAP updates, in particular for systemically relevant countries. While we agree with staff's arguments to keep FSAP and Article IV two separate instruments at this stage, we would like to once again stress our call to make FSAPs mandatory for systemically relevant member states and to presume publication of FSAPs. Since there is broad consensus on the importance of financial sector surveillance, such a step would signal true ambition and commitment of the membership.

Governance

10. We underline the importance of governance reforms that continue to ensure the legitimacy and efficiency of the Fund and welcome the discussion taking place. In recognizing the strengths of the Fund's decision-making structures, we should continue to work towards practical improvements to make the IMF a more effective institution. In this regard, we would like to stress that the various governance issues under consideration should be treated as much as possible together, including the discussion on quota-review scheduled for January 2011. Generally, the success of any governance reform hinges upon the political willingness to take a multilateral perspective on the rights and obligations of the membership, as stated in the Articles.

11. We especially welcome proposals to strengthen the IMFC, where we think much of the effectiveness can be achieved, as well as the suggestion that the Board should have a more strategic and less operational role. For example, limiting the number of delegates that can attend the IMFC-meeting might lead to more engagement of the IMFC-members through better interaction and more open discussions. At the same time, there is a trade-off here with involving the broader membership, particularly for large constituencies.

12. To further enhance the legitimacy of the Fund, voice and representation of the IMF should continue to reflect economic reality as well as the Fund's mandate, with due regard for small countries, including low income countries. We support bringing forward the next quota review to 2011, and support the G20 commitment to a large shift in quota share to dynamic emerging markets and developing countries from over-represented countries to under-represented countries. This upcoming review should, as the G20 put it, be based on the in 2008 agreed formula, as it appropriately reflects the economic weight of members and mandate and purpose of the IMF.

13. With regards to a size of the Board, we do not see the merit of a reduction in the number of chairs. This would not lead to a structural improvement in efficiency, while it could affect the representation and voice of emerging economies and developing countries.

14. We support reducing the threshold for qualified majority voting to 70-75 %, possibly in combination with double majorities applied to a small set of key decisions. An example of the latter could be the selection of Senior Management. Concerning this selection, we believe that it should be based on an open and transparent process, and on individual merits, regardless of nationality. On the same note, we welcome more diversity in the backgrounds of staff.

15. We support a clarification of the Fund's mandate, including in the domain of financial stability and oversight of international capital flows. Such a clarification is an important element in the governance debate and would also help to define the Fund's role vis-à-vis other institutions. As the FSB has been enhanced, clarity on the relative roles of both fora is particularly desirable. We welcome a discussion on the appropriate financial size of the IMF in the long term, which includes reviewing the relationship between quota resources and emergency credit facilities.

Support to Low Income Countries

16. We are concerned about the fact that the low income countries (LICs) are severely being affected by the current crisis, and welcome the initiatives to increase the resources aimed towards these countries. At the same time, we note that these resources need to become available on a timely basis, and with enough safeguards for the general resources of the IMF as well as its income model.

17. Moreover, we support a further refinement of the facilities available for LICs and the streamlining of conditionality. The latter should be directed towards a responsible macroeconomic policy in line with achieving the MDGs. As such, we welcome the more tailored approach of LICs by the IMF, as this will give LICs much needed space during this crisis period.

18. Although grants and concessional loans are preferable the options to extend access to less concessional loans to those LICs with good fundamentals should be considered. In this regard, we support using the flexibility within the Debt Sustainability Framework and welcome the ongoing discussion on this topic.