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Statement by Mr. Andrej Bajuk, Minister of Finance
In his capacity as Chairman of the EU Council of Economic and Finance Ministers

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1. I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses notably on the world economy – and in particular the outlook and policies for the European Union -, quotas and voice reform in the IMF and the implementation of the IMF's medium term strategy.

Economic Situation and Outlook

2. The global economic expansion moderated towards the end of the last year in response to the downturn in the US economy and continuing financial turbulence. The current situation is characterised by increased uncertainty and there are downside risks. In the EU, GDP growth in 2007 contributed to a strong job creation on the back of economic reform and sound economic fundamentals, but the last quarter of the year saw a deceleration of economic activity. Going forward, a reduced growth momentum is expected in 2008 on average, reflecting in part the weakening of global growth and also some dampening of domestic demand. However, the balanced external position and comparatively low public deficits have placed the EU in a relatively good position to weather the global headwinds.

3. After recording moderate rates of growth in the first half of 2007, consumer price inflation in the EU rose to above 3% in the last part of the year, driven by soaring oil and food prices, combined with base effects. At the same time, the annual rate of HICP inflation, excluding food and energy, has been broadly stable. The pass-through from oil and international agricultural prices to consumer prices varies from one Member State to the other. Together with differing degrees of demand pressures this has contributed to the dispersion in headline inflation across countries. Looking ahead, the outlook for inflation in 2008 carries upward risks, taking into account the recent sharp rises in oil and food price assumptions, but is expected to moderate gradually later in the year because of reduced inflationary impulses from commodity prices.

4. In this context, it should be ensured that inflation induced by higher prices of oil, food and other commodities does not become entrenched in inflation expectations. It is important to avoid second-round effects on wages and prices, also taking into account the high capacity utilisation and fairly tight labour markets, which would further fuel inflation. Policy interventions that distort prices and therefore prevent necessary adjustments to demand and supply should be avoided. Moreover, fostering energy efficiency and the use of alternative energy sources based on cost-effective and non-distorting measures would make a major contribution to easing the currently tight commodity markets.

5. The key challenge at the current juncture is to underpin the global economic expansion through sound economic policies, while continuing to pursue structural policies aimed at raising potential growth and employment. Sound macroeconomic policies are essential to support the realisation of the current growth potential and to create more room for manoeuvre in a downturn and reduce public debt levels before the budgetary effects of ageing set in. Moreover, concerted efforts are needed to enhance financial stability, while continuing to promote openness of markets and delivering the adequate response to energy- and climate-related challenges. In this context:

- A key priority in the international agenda should be to address the challenges raised by the financial turmoil. While the private sector has a key role to play, authorities in the EU stand ready to take the appropriate action to restore confidence or solve acute issues and to enhance the resilience of the financial system. The four priority areas for policy actions identified by the ECOFIN Council in October, and fully consistent with the Financial Stability Forum work, are:

  - enhancing transparency for investors, markets and regulators on exposure to structured products and off-balance sheet vehicles;

  - improving valuation standards, in particular for illiquid assets, including by enhancing accounting, disclosure and audit guidance for valuations;

  - reinforcing the prudential framework and risk management in the financial sector through reviewing a number of areas of the Capital Requirements Directive and enhancing the management of liquidity risk; and

  - improving market functioning and incentive structure, including the role of credit rating agencies and uses of credit ratings, including by introducing differentiated ratings and expanded information on structured products. Authorities in the EU stand ready to consider regulatory alternatives if market participants do not rapidly address these issues.

- In addition, early warning systems at the EU and international level should be enhanced, including by strengthening the role of the IMF in the oversight of global macro-financial stability and by working in close cooperation with the Financial Stability Forum and other international fora.

- On all these issues, initiatives should be taken at global level, and the EU financial authorities are committed to be actively involved in relevant fora.

  - The EU member states are also working on the improvement of its supervisory and crisis management framework, and decisions on a number of steps have been made in Spring 2008, so as to make further progress in the convergence of key supervisory rules and standards in the EU as well as in the supervision of cross-border groups (including through a wider use of the colleges of supervisors). The EU also agreed to strengthen cross-border cooperation on financial stability and crisis management. In particular, EU Finance Ministers and Governors and supervisory authorities have agreed on 4 April to sign a new Memorandum of Understanding on cross-border cooperation on financial stability.

- In spite of some easing in 2007, global imbalances remain an important challenge. All major countries and economic areas have to play their part to resolve them in a manner compatible with sustained global growth. This is a joint responsibility. Some progress have been made in the implementation of the policies agreed multilaterally, but more needs to be done - including increased savings in the US (both public and private); growth enhancing structural reforms in the EU and Japan; measures to increase domestic investment in oil exporting countries, increased consumption as well as exchange rate flexibility in some emerging economies in Asia. Action to mitigate the short term-impact of the current financial turbulence should not risk aggravating these imbalances. The IMF should continue to follow and assess developments and the implementation of the agreed strategy through its surveillance activities. We call for determined implementation of the policy plans identified in the context of the multilateral consultation.

- On international trade policy, the EU remains fully committed to constructively pursuing the Doha trade negotiations with a view to reaching an ambitious, balanced and comprehensive agreement. Maintaining and strengthening the multilateral trade system based on the WTO is of key importance for growth and employment prospects of the global economy, as well as for development. We call on key partners to act in the same spirit of constructive commitment in order to bring the negotiations to a successful close.

- An effective, efficient and equitable response to the challenges of climate change and its economic consequences require international collective action. Through an integrated and harmonised approach to climate and energy policy, based on cost-effective competition, diversification of sources, subsidiarity and cooperation between Member States, the EU is committed to transforming Europe into a highly energy-efficient and low greenhouse-gas emitting economy. We invite all countries to contribute on the basis of differentiated responsibilities and respective capacities. In most of the world energy use is much less efficient than in the EU, due to *inter alia* lack of or inappropriate oil and carbon pricing and regulation, and there is substantial scope for increasing energy efficiency and avoiding waste, thereby at the same time mitigating emissions, improving energy security and enhancing economic development. The development of emissions trading and the creation of a global carbon market can play a powerful role in achieving cost-effective emissions abatement in developed and developing countries. A key challenge in promoting environmental sustainability will be to ensure that this transition to a low-carbon economy is handled in a way that is consistent with sustainable development - especially in developing countries -, competitiveness, security of supply, as well as sound and sustainable public finances.

- The EU economic policy strategy remains oriented towards improving the conditions for non-inflationary growth and job creation. In the EU, public finances have continued to improve, with the average budget balance improving from a deficit of 1.4% in 2006 to a deficit of 1.1% of GDP in 2007. The EU member states are committed to further improving their fiscal balances in line with the Stability and Growth Pact. The EU budgetary framework and the improvement in the overall budgetary situation provides room for manoeuvre for countries with a sound budgetary situation to let automatic stabilisers, which tend to be large in Europe, to play fully if downside risks to growth were to materialise. In this context, a number of Member States have planned tax reforms in 2008, which could turn out to be counter-cyclical. Consistently implementing our fiscal policy strategy is essential, in particular in the context the challenges posed by of population ageing.

- Progress in implementing structural reforms in product, labour and financial markets is crucial to increase the growth potential and resilience to shocks of the EU economies. In 2008, revised orientations in the framework of a new cycle of Integrated Guidelines have been adopted for the period until 2010. The re-launched Lisbon strategy reinforces the Union's priorities of achieving growth and employment by promoting knowledge and innovation, unlocking business potential and attracting more people into the labour market and creating more jobs. The structural reforms have had positive effects. In particular, the overall positive labour market developments suggest that structural reforms have improved the functioning of labour markets. As regards, the services markets, the adoption of a new EU directive on services is a major step towards the deepening of the internal market. Progress is also being made in enhancing the integration of European financial markets in the context of the Financial Services Action Plan. Nevertheless, strengthened reform efforts are needed in many countries to achieve higher rates of sustainable growth and employment creation in the long run and to cope with the challenges of globalisation and of ageing.

Quotas and voice reform in the IMF

6. EU Member States welcome and support the proposed Resolution of the Board of Governors on the Reform of Quota and Voice in the IMF. The elements of the reform, as a package, will enhance the credibility, legitimacy and effectiveness of the IMF, as called for under the Singapore Resolution, and therefore we encourage its adoption by Governors. The proposed reform package aims at striking a careful balance between the differing views and priorities of IMF members. Consequently, the content of the reform is a compromise that required flexibility from all sides.

7. EU members, who have made substantial concessions in the course of the discussions, strongly believe that this is a major step in the overall IMF reform, recalling in particular that previous discussions on the reform of the quota formula did not succeed. The reform will result in a significant realignment of quota and voting shares with the largest gains going mainly to dynamic emerging market countries, while EU members are the main contributors to the reform in terms of the shift of voting shares, including through voluntary foregoing of quota shares. Moreover, low-income countries will benefit from the marked increase in basic votes, which will lead to a rise in their voting power, and from the introduction of a mechanism that maintains the share of basic votes in total voting power. Furthermore, Executive Directors elected by a large number of member countries will be enabled to appoint two Alternate Executive Directors.

8. In addition, concerning the overall governance of the IMF, EU member states support a time-limited chairmanship of the IMFC and the principle of geographic diversity.

Improving the IMF's Income and Expenditure Framework

9. EU Member States welcome the strategy for refocusing and restructuring the IMF presented by the Managing Director. A renewed orientation of the IMF's work is an essential part of the comprehensive budgetary reform underway. Developing specific measures along these lines should make the IMF more efficient and better able to pursue its mandate in a changing global environment.

10. We emphasise the need to establish an integrated budgetary framework to ensure the independence of the IMF and its ability to fulfil its mission as set out in the Medium Term Strategy. This implies a simultaneous decision on the income model and on expenditure measures within the proposed medium-term budget, and that income and expenditure decisions will continue to be taken in a coordinated manner.

11. Given that the projection of proceeds from various sources of income is subject to uncertainty, and that expenditure and financing needs may change over time, a regular review should be taken into consideration.

Income side

12. EU members welcome the decision on the new income model and support the proposed Resolution of the Board of Governors. The agreed measures will contribute to provide the IMF with an adequate income basis in a sustainable and robust way. While there was not yet sufficient support to make the investment of quota resources a part of the new framework the discussion on this measure should continue, with the aim to further diversify the IMF's financial resources.

14. We believe that the role of the PRGF is of high importance, providing both lending and a public good, as well as bilateral assistance to low-income countries. In this context, we welcome the decision to embed the reimbursement of the GRA for the PRGF-ESF Trust administrative expenses in a framework that does not limit the available resources for concessional support for low-income countries.

Expenditure side

15. EU Member States support the budget reductions envisaged by the IMF and welcome the important efforts already undertaken to decrease costs.

16. Over and above these measures, we support the view that a prioritization of activities and core competences is essential, in the context of the Medium Term Strategy and taking into account the IMF's comparative advantages. Cutting expenditures across the board may hamper the functionality of the IMF and is not desirable.

Surveillance reform

17. Surveillance is the core competence of the IMF. The 2007 reform of bilateral surveillance over member's policies is already a major step in refocusing and reinforcing the IMF's surveillance framework, and we call on the management to ensure its proper implementation.

18. EU members welcome the Managing Director's proposal to strengthen cross-country analysis and the analysis of linkages between international developments and national policies in the surveillance framework, to take into account the impact of globalisation and the increased risk of spill-overs. Bilateral and regional surveillance should be more focused, guided by a risk-based approach. In some cases, this may justify streamlining of current practices for surveillance. For example, a shift to a single annual Board review of the Euro area could be considered.

Financial sector surveillance

19. Regarding financial sector surveillance, we fully support the Managing Director's initiative to strengthen the IMF's capacities and to increasingly focus on the linkages between the financial and real sector. We share the view that further discussion on the framework will be necessary over the next months and will contribute constructively. Possible measures could include: a clarification of the IMF's mandate, for example in the triennial surveillance review and the statement of priorities and responsibilities; a sharper focus of FSAPs regarding

content, coverage and frequency; a full integration of financial sector and stability issues in surveillance activities, notably by integrating the findings of FSAPs into Article IV reports; and a redefinition of research capacities and analytical tools to provide the intellectual framework for financial sector analysis. In this perspective, the collaboration with the FSF and other international financial bodies should be strengthened to enhance early warning capabilities on financial sector risks, building on their comparative advantages and their respective mandates and roles in the international financial landscape.

Role of the IMF in LIC

20. EU members support a continuing role for the IMF, under its existing facilities, in low income countries (LIC) according to its mandate as set out in the Medium Term Strategy, and recognize that this role will evolve in response to the changing needs of LICs. The reform should aim to make the IMF's policy advice, capacity building and financial assistance in LIC more efficient and focussed.

21. The work of the IMF in LICs should be focussed on its core competences, i.e. macroeconomic stability and sustainable economic growth that support the achievement of the MDG's. A particular emphasis could be laid on debt sustainability. This should be complemented by an improved collaboration with the World Bank.

Crisis Prevention and Resolution

22. We agree that in the context of large reserves accumulation an extended demand from emerging market countries for traditional IMF programs is likely to be low, and that some resources can be redeployed. However, the current financial turbulences demonstrate that risks remain. Progress should thus be made to further clarify what kind of instruments would be appropriate for market access countries.

Other issues

Sovereign Wealth Funds

23. We are committed to an open global investment environment based on the free movement of capital and the effective functioning of global capital markets. Sovereign wealth funds (SWF) so far played a very useful role as capital and liquidity providers with a long-term perspective. Their strong growth in the last few years, together with increasing oil prices and current account imbalances, and the emergence of new players with limited transparency concerning their investment strategy and objectives, unclear governance structures and low degree of accountability have raised some concerns regarding the implications of SWF for the functioning of global financial markets.

24. In March 2008, European Heads of State and Government agreed on developing a common European approach towards SWF based on five principles, namely: commitment to an open investment environment; support to ongoing work in the IMF and the OECD; use of national and EU instruments if necessary; respect of EC Treaty obligations and international commitments; proportionality and transparency. They also expressed their support to the objective of finding a global solution by agreeing at the international level on a voluntary code of conduct for SWF and defining principles for recipient countries.

25. In this context, EU members welcome the work agenda presented by the IMF. The work should aim at drawing principles for the establishment and the operation of SWF and

identifying best practices, based on good corporate governance and transparency. To ensure a broad-based approach, the consultative process should involve the SWF, along with other relevant international institutions and agencies as well as recipient countries and regions. We stand ready to cooperate with the Fund in the coming months and provide input on the various issues identified in the work program.

AML/CFT

26. EU countries remain committed to implement strong programs against money laundering and terrorist financing and place a high value on the contributions of the IMF and the World Bank to the global AML/CFT architecture. We call on the IMF and the World Bank to closely cooperate with the FATF. We support the measures undertaken by the FATF to protect the international financial system from the risk of illicit finance including by ensuring enhanced scrutiny of transactions with countries with AML/CFT regimes' deficiencies, and issuing guidance on the implementation of relevant UNSCRs to counter the proliferation of weapons of mass destruction.

Liberia

27. Regarding Liberia, we welcome the agreement on the financing of debt relief.