International Monetary and Financial Committee

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April 12, 2008

Statement by Wouter Bos
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

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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

1. Since the Annual Meetings the Fund has made substantial progress with its reform agenda. From the moment the Managing Director accepted his position, he has taken leadership over this process, taking difficult, but welcome decisions and moving forward at the desired fast pace. With these reforms the Fund's effectiveness and efficiency will improve, while its legitimacy is being reinforced, including through making the Fund's financial position sound again. In this way, the Fund remains the institution of international cooperation that it should be. The current turmoil in financial markets shows that the world needs a guardian of international financial stability, while the nature of financial shocks is changing. This development reflects the general need for greater focus on the Fund's financial sector analysis and activities.

World Economic Outlook

2. The world economy has lost pace considerably since the last meeting of the International Monetary and Financial Committee. Indeed, to a certain extent, earlier identified downside risks have materialized. Against the background of turbulence on financial markets and cooling housing markets, the projected growth of the world economy was revised downwards to 3.7 percent in 2008. Furthermore, inflation risks are growing. However, there are also some positive signs as the fundamentals of the European economy remain strong and economic growth in emerging market economies and low-income countries stays robust.

3. The problems in the subprime mortgage market in the United States have caused an abrupt change from a period of high risk tolerance to a period of strong risk aversion. This change in sentiment together with increasing losses on subprime mortgage related products and uncertainty about their distribution over market participants have decreased the liquidity in some core financial markets. The resulting turbulence has dampened economic forecasts. In this environment, the relevant authorities seek to reduce the impact of the turbulence. They are supporting the functioning of financial markets and helping to restore market confidence. This also requires that financial institutions timely and accurately report their losses, based on appropriate valuations, and ensure adequate capital buffers. Furthermore, we should ensure that incentive structures do not encourage excessive

risk-taking and that supervisors fully take into account the state and risks of financial innovation. These and other recommendations by the Financial Stability Forum should be followed up.

4. The recent turmoil shows the increasingly interlinked nature of the global economy and the financial sector, illustrating the important role for international cooperation. Our Constituency welcomes the fact that in recent months the Fund has become more vocal on international economic and financial developments. Indeed, it is important that the IMF takes an active role and speaks out clearly as to what it sees as the required policy responses based on its objective analysis. The Fund should reach out and advise member countries on their policies, especially vulnerable countries. The Fund should, moreover, provide a visible platform for cooperation on measures which would restore confidence in financial markets and address medium-term issues of financial stability.

Quota and Voice

5. Our constituency welcomes the progress made on IMF quota and voice reforms. The proposal of the Executive Board currently under consideration of the Board of Governors, would significantly realign member's quotas with their relative positions in the world economy. Our constituency – consisting of advanced, emerging and low-income countries – has supported this process and has made several concessions, including on the high weight for GDP, the size of the ad hoc increase and the exclusion of financial openness in order to reach a compromise. We are willing to accept a decrease in our combined voting share for the greater good of enhancing legitimacy of the Fund.

6. In light of the above, our constituency can accept the proposal and calls on all members to support the proposed package. As this is the result of a lengthy process of negotiation, we want to stress that the agreement should be implemented integrally and is not open for further negotiation.

Financial Sector Surveillance

7. Surveillance is at the heart of the Fund's work. The Fund should further strengthen its financial sector surveillance at the national, regional and global levels. To improve bilateral surveillance the findings and recommendations of *Financial Sector Assessment Programs* should be better integrated in regular Article IV consultations. Moreover, regional surveillance could be stepped up especially for regions that are financially integrated. On a global, the surveillance could focus simultaneously on monitoring of important cross-border or world wide phenomena and identifying best practices.

8. Our Constituency believes that the Fund should strengthen its role in helping to develop and implement standards for the financial sector. The Fund is uniquely placed to win a truly global cross sector and cross market perspective. Hence, the Fund should set out a strategy in which it would encourage best practices in supervision and regulation. Furthermore it should enhance its analysis and understanding of the linkages between financial markets and the real economy. The Fund should do this in close cooperation with other international institutions, such as the FSF, the BIS, the OECD and the World Bank.

Sovereign Wealth Funds

9. We welcome the Fund's initiative on Sovereign Wealth Funds and encourage the Fund to continue working on a set of best practices for their governance. We very much support this multilateral and global approach, where the aim should be to improve the transparency and accountability of SWF's and clarifying the motives for equity acquisitions by these funds, while at the same time preventing protectionist measures of national authorities. In our view, a (voluntary) code of conduct may prove to be a very sensible next step. Finally, also in this context, we would like to stress that it is of the highest importance to reduce the global balance of payment imbalances.

The Fund's Income and Expenditure

10. The constituency generally supports the income generating measures proposed by the Crockett commission. On the issue of reimbursement of administration costs by the PRGF-HIPC Trust, we remain to be convinced that this will not negatively affect the capacity for PRGF loans. On the expenditure side, we are pleased to see the progress that has been made since the Managing Director took office. We also support his aim to use the expenditure cuts to focus the Fund's activities on its core mandate and comparative strengths, which should include financial sector work. We support the proposed USD 100 million of annual savings in real terms.

The Fund's Work in Low and Middle Income Countries

11. Our constituency welcomes the steps taken by the Fund to streamline its work in low-income countries. In this regard, we welcome the Fund's proposals for a new program for fragile states. In our view, the Fund plays a pivotal role in helping these countries to design policy frameworks that support the macroeconomic stability needed for sustained growth and poverty reduction – of course, within its core areas. Finally, we once more would like to stress the importance of cooperation and a clear division of labor with other international financial institutions and donors, especially the World Bank.

12. Our Constituency believes that the Fund should have an instrument for countries that are in the process of integrating into the global financial system. Such an instrument could give these countries confidence in the process of opening up to international capital markets. Our Constituency has, therefore, proposed to consider setting up a financial assistance instrument in the form of a Financial Stability Line. Such a Financial Stability Line could support policies of member countries which have a sequenced program related to strengthening their regulatory and supervisory framework, developing financial markets and gradually liberalizing their capital accounts. In this way, the Fund would more explicitly include financial stability within its core mandate.