International Monetary and Financial Committee

Twenty-First Meeting
April 24, 2010

Statement by Maria van der Hoeven
Minister of Finance a.i., the Netherlands

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

Statement by Maria van der Hoeven

Minister of Finance a.i., the Netherlands

International Monetary and Financial Committee

Washington D.C. April 2010

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

World Economic Outlook

1. After the deepest recession since the 1930s, the world economy is recovering more rapidly than anticipated on the back of substantial fiscal stimulus, (un)conventional monetary easing, cyclical inventory corrections and support measures for the financial sector. In this context, the outlook remains subject to risks, first and foremost because the drivers behind the recovery are temporary. A sustainable economic recovery requires private spending to pick up durably, while temporary fiscal and monetary easing will need to unwind. However, high unemployment, large losses in net wealth requiring balance sheet adjustment of the private sector including households, and persistent fragility in the financial system, also weigh on domestic demand.
2. The pace of economic recovery varies between different countries. Emerging economies have rebounded strongly, due to the increase in world trade and lower levels of risk-aversion of financial markets. Especially emerging Asia is expected to experience a high growth rate in 2010 (8.4%), but other emerging market economies with high external debt and current account deficits, remain relatively vulnerable. The US enjoyed a strong upswing in the second half of 2009 due to private consumption and investment growth, but the upswing is still largely due to temporary factors. Recovery in the euro area is sluggish because of slow labour market adjustments and remaining fragilities in the banking sector which is the most important credit channel for European businesses, as well as because of government debt difficulties.
3. The quickly deteriorating fiscal position of governments worldwide entails one of the most important downside risks for global economic recovery and an important challenge ahead. Against the background of these negative fiscal outlooks the (sharply) rising risk perception of financial markets has already resulted in higher sovereign risk premia and interest rates for several countries. Especially advanced economies require large consolidation efforts to bring public finances back on a sustainable footing. Another downside risk to a sustainable recovery is the re-emergence of global imbalances. These imbalances could, on the one hand, induce slow recovery and even protectionism, while on the other hand they could also lead to excessively loose domestic conditions and the fuelling of domestic bubbles.

4. Low Income Countries were indirectly but severely hit by the crisis. A sustainable recovery of private sector led growth in Low Income Countries depends much on financial access. In this regard we call on the IMF to report on progress made in developing indicators on financial access.'

IMF Mandate

5. The crisis has revealed a surprisingly high degree of interconnectedness between countries, financial markets and the real economy. The international monetary and financial system has changed substantially over the past decades due to integration of financial markets, global liberalisation and financial innovation. The Fund must be at the forefront in protecting the benefits of global integration while mitigating macro financial risks and imbalances. Its role in fostering global economic and financial stability needs to be enhanced. The Fund's universal membership combined with its macro-economic experience and expertise, resources and instruments make it well-equipped to signal and analyse vulnerabilities of the international monetary and financial system and to provide timely policy advice - and where needed, Fund adjustment programs and financing - to obviate these risks.
6. To that effect, we need a strong and vocal IMF that monitors and assesses these vulnerabilities in a more risk-based and integrated surveillance framework. A central lesson of the crisis is that surveillance needs to be more rigorous, with greater coverage of financial sector and regulatory issues, and better appreciation of systemic risks and spill-over effects. We support a more systemic approach in surveillance, directed towards macro-financial imbalances and vulnerabilities cross sector, cross time and cross border. Key in this respect is the translation of what is observed into concrete policy recommendations, as to facilitate follow-up. In this regard, we support mandatory FSAP participation and presumed publication for all (systemically relevant) countries. Such a step would signal true ambition and commitment from the membership. In order to close the information gaps that were revealed during the crisis, we call on the Fund to explore introducing a new Financial Data Dissemination Standard.
7. The Fund should enhance its efforts in crisis prevention, stimulating countries to get to the root of the problem and implement sustainable policies, in order to contribute and safeguard the stability of the international monetary and financial system. A renewed multilateral engagement, led by the Fund, is necessary to address global imbalances. This can be done, for example, by holding open and constructive discussions, applying moral suasion and if necessary explicit naming and shaming, as long as the system's stability is safeguarded. Expanding the mandate might be a necessary condition to make the Fund more effective, yet it is not sufficient. This also requires more flexibility, receptiveness and willingness by member countries to implement policy advice.

At the end of the day, it is up to the membership to implement sustainable policies that contribute to preventing a build-up of imbalances and facilitate the orderly unwinding of global imbalances.

8. International capital flows have increased considerably in the last decades. Although beneficial for especially emerging economies, they can also make countries vulnerable to sudden stops, unsustainable credit growth and asset price bubbles. We call on the IMF to do more in-depth analysis on capital flows and provide policy guidance on this issue. In this regard, we would like to stress that care should be taken not to narrowly focus on the symptoms of imbalances, for example when contemplating the expansion of insurance instruments, while losing sight of the fundamental sources of (global) imbalances. With a clearer focus on capital account vulnerabilities, the IMF can further tailor its policy advice toward the nexus of exchange rate and financial sector policies.

IMF governance

9. By January 2011, we should complete a comprehensive reform package to increase the legitimacy and effectiveness of the Fund. This package includes: the fourteenth quota review; the size and composition of the Executive Board; greater political involvement in the strategic oversight of the IMF; ways of enhancing the Board’s effectiveness; voting procedures; and selection of IMF staff and Senior Management. Also related are the discussions on the Fund’s mandate and future (lending) role. We believe that all these discussions should deliver results within the same ambitious time frame.
10. Any shift in quota shares should reflect the economic weight of countries in the world. In this context, we support the agreement of the G20 and the IMFC to a shift in quota to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries, using the current IMF quota formula as the basis to work from. Though not perfect, the formula is a reasonable reflection of members’ economic weight, the Fund’s mandate and its purpose. Moreover, we support that the voting shares of the poorest members should be protected. The review should ensure that no country is more misaligned after the reform than it was before. In particular, no over-represented country should fall below its calculated quota shares.
11. With regard to specific proposals on the size and the composition of the Board, we do not see the merit of a reduction in the number of chairs and abolition of the appointed chairs. This would not lead to a structural improvement in efficiency, while it could affect the representation and voice of smaller members, many of which are emerging economies and developing countries, and lead to polarization in the Board.
12. We welcome proposals to enlarge Governors’ and Ministers’ engagement in the strategic oversight of the IMF and increase accountability of staff, management and the Board. We believe that the greater political traction and ownership by its members is essential for the effectiveness of the

Fund. In our view a good start could be to work on a clearer delineation of responsibilities between Governors and Ministers, the Executive Board and IMF management and a discussion on the respective roles of the G20 and the IMFC to ensure that the international system comes to decisive action with great legitimacy.

13. We could support lowering the threshold for qualified majority voting, possibly in combination with double majorities applied to a small set of key decisions. We believe that selection of Senior Management should be based on an open and transparent process, and on individual merits, regardless of nationality, in the context of similar reforms at other IFI's, most notably the World Bank. On the same note, we welcome more staff diversity.

IMF resources

14. We support the recent expansion of the resources of the IMF, to signal confidence in view of members' potential financial needs in these turbulent times. In this regard, we also support the expanded and modified New Arrangements to Borrow (NAB), which offers a balance between flexibility and a strong governance framework.
15. The Fund should remain a quota-based institution. Any quota increase should be based on the long term need of Fund's resources. We want to stress that the NAB should always function as an ultimate backstop to the general resources of the Fund. The size of the NAB should be reviewed in light of the outcome of the fourteenth quota review.

IMF lending

16. We welcome a thorough evaluation of the Fund's recent lending instruments before contemplating further modification of the IMF's lending toolkit. This includes a review of the experience with instruments like the Flexible Credit Line and High Access Precautionary Arrangements. Such an assessment with an in-depth and transparent weighing of advantages and disadvantages is fundamental for any decision on possible modifications of the instruments and potentially on the introduction of new instruments. For the future, we recommend clearer guidelines for a periodic evaluation of instruments, as this would facilitate a transparent and accountable modification process and ensures a coherent and effective Fund toolkit..
17. We believe that IMF facilities should aim to prevent crises or help countries manage crises and at the same time strengthening economic structures where needed to mitigate the risk of future crises. This can be facilitated with an accompanying programme that sets the right incentives to carry out the necessary reforms.
18. We do not regard global safety nets to be a panacea for global imbalances. The accumulation of international reserves can not solely be attributed to the desire of countries to self-insure against shocks. We believe that all drivers for reserve accumulation should be analysed before we discuss alternatives for self-insurance. Furthermore, when new insurance instruments or modifications to

existing instruments are considered, sufficient attention should be paid to concerns of moral hazard and the advantages of (ex post) policy reforms.