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Statement by Jan Kees de Jager
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On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, The 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, Montenegro, The Netherlands, Romania and Ukraine

International financial and economic situation

1. The world economy grew energetically in 2010, by some 5%. The latest projections suggest continued global economic recovery in 2011 and 2012, but large regional differences already evidenced in 2010 will remain. Most notably, the 'two-speed recovery' will continue with growth in advanced countries lagging growth in emerging and developing economies. Growth differences also remain within the group of advanced economies, while some emerging economies show signs of overheating.
2. Global inflation rose on average in 2010 and particularly rapidly in emerging economies. Increasing inflationary pressures were primarily explained by the rise in energy and food prices. Global commodity price hikes are caused by increasing demand for commodities in emerging economies on the back of strong growth and rising levels of wellbeing. Prices of agricultural commodities and food have also shot up in recent months, caused by several factors, among which poor harvests as a result of extreme weather events played a major role. In the Middle East and Northern Africa, price rises have added to widespread political unrest, which may in turn lead to continued commodity price increases.
3. The two-speed recovery has led to diverging monetary conditions, where the central banks of some emerging economies have begun to tighten while their counterparts in most developed countries have continued accommodating policies. In parallel, capital flows towards emerging economies have picked up. Although most countries have been able to absorb these capital flows efficiently, concerns over their potential adverse effects are growing.
4. Healthy public finances are essential for sustained economic recovery. Insufficient budgetary consolidation may spark off further escalation of debt sustainability issues, with repercussions on confidence and the still fragile financial sector. Although important steps have been taken in the euro area to promote budgetary consolidation, concerns over public finances have not subsided and cyclical recovery has shown wide dispersion across Europe. In addition, debt dynamics in other advanced economies, including the United States, are of concern. Clearly, the crisis in public finances

has shown that there are limits to budgetary stimulation and fiscal authorities in especially advanced economies should speed up public finance consolidation. A strong message from the IMFC on this matter would be welcome.

International Monetary System

5. The current crisis has put in evidence the need to strengthen the International Monetary System (IMS). We support ongoing efforts that contribute to global financial stability and reduce imbalances. Indeed, these should be our primary objectives going forward.
6. We welcome the IMF's work to develop a policy framework with respect to capital accounts and capital account policies. The framework should assist policymakers in recipient and originator countries in designing policies that limit cross-border spillovers. Sound macroeconomic and financial sector policies should always be the first line of defense. Capital controls should only be temporary and seen as last resort. Moreover, we look forward to an analysis of the spillover effects of potential capital flow management measures across members.
7. The changing financial and monetary system has also given rise to the need to enhance the preventive capacity of the global financial system as a whole in order to limit contagion effects resulting from systemic shocks. The IMF has a natural role to play here. With the enhancement of the FCL and the introduction of the PCL, global financial safety nets have been considerably strengthened. We consider that the focus of our discussion going forward should be on how the Fund's existing lending framework could be made even more effective, while containing moral hazard. Possible reforms in the IMF lending framework should come from a clear demand of countries. In addition, ways to improve collaboration and consistency between regional arrangements and the IMF should be further explored.
8. We welcome the discussion on the role of the SDR in the IMS. For its significant beneficial effect on the functioning of system, we see high practical, political and legal hurdles that deserve further attention. We are open to exploring the possibility of adding currencies of systemically important countries to the SDR basket in order to reflect economic realities. However, adequate preconditions, in particular regarding the usability and marketability of such currencies, need to be set with a view of ensuring the stability and credibility of the basket.

Lessons from the crisis: strengthening the IMF

9. We welcome the recent assessment by the IMF's Independent Evaluation Office (IEO) on the performance of the Fund's surveillance in the run-up to the global financial and economic crisis. The critical report concludes that the IMF failed to provide clear warnings through its bilateral and multilateral surveillance on the risks and vulnerabilities that were building-up across the globe, and in advanced economies in particular. Among the shortcomings identified are the insufficient attention

paid to spillover and contagion risks, the Fund's high degree of group-think, and the lack of candor and evenhandedness in Fund advice. The Fund generally had a relatively optimistic view on the global economic and financial conditions as well as a relatively biased belief in the ability of advanced economies and markets to withstand - or mitigate - a severe shock.

10. Overall, we share the analysis and endorse the IEO recommendations for more effective IMF surveillance, which in fact can also easily be applied to relevant national and regional authorities around the globe. We recognize the need to create an environment within the Fund where diverging views can be put forward and where the IMF gives clear and timely warnings to its membership. Moreover, departments within the IMF need to work more closely together in order to integrate bilateral and multilateral surveillance effectively. In this regard, we look forward to the forthcoming Triennial Surveillance Review which we hope will incorporate as much as possible the recommendations put forward by the IEO. In particular, we emphasize that the review should focus on how to improve traction in Fund advice.
11. At the same time, we recognize that promising changes have already been made to the Fund's surveillance framework, including the proposal to carry out spillover reports and regular assessments of the financial sectors of the 25 most systemically relevant members.
12. Strengthening the cooperation and collaboration between the IMF – with its global membership - and the FSB could also serve as a channel for involving non-members of the FSB.
13. We also look forward to the regular evaluation of the conditionality in IMF-supported programs and in particular to its consideration of the design of recent instruments such as the FCL. Looking forward, we would see merits for an examination of the role of conditionality in IMF-arrangements co-financed with regional safety nets. This is of great importance, given the central role of these arrangements within the ongoing crisis prevention and management efforts.

IMF governance

14. The 2010 governance reforms constitute an important step to enhance the Fund's legitimacy. However, the effectiveness of the institution should also be further improved. We would like to see more Governors' and Ministers' engagement in the strategic direction of the IMF and better accountability of staff, management and the Board. The Fund should benefit from greater political traction and ownership of its members. In our view, an important element would be a clearer delineation of responsibilities between Governors and Ministers, the Executive Board and IMF management. Being a truly multilateral forum and anchored in the institutional framework, the IMFC is uniquely positioned to give more strategic direction and be a forum to critically discuss identified global economic and financial risks and policy measures to mitigate those risks. We also see a role for the IMFC in applying peer review and pressure among members and addressing cross border

spillovers of domestic policies. We welcome the new IMFC chairman and look forward to his contribution to strengthen the IMFC.