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Statement by the Hon. **GERRIT ZALM**,  
Governor of the Bank for the Netherlands,  
at the Joint Annual Discussion



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Mr. Chairman, fellow Governors, Ladies and Gentlemen,

I would like to focus on five topics. First, the challenges for the global economy. Second, multilateral debt relief. Third, domestic resource mobilisation and trade. Fourth, microfinance. And finally, the IMF strategic review.

I am encouraged by the healthy **world economic outlook**. In many countries around the globe, growth continues to be strong. The 2006 World Development Report “Equity and Development” rightly illustrates the importance of equality of opportunities for long term economic growth. I would like to highlight three specific issues with respect to the economic outlook.

First, the need to forego more damaging effects of expensive oil. So far, the world economy has weathered the oil shock well. But it is crucial that second-round effects through inflation and wages are kept at bay. It is also crucial to avoid distortionary measures. Price measures and subsidies cause distortions in energy markets and prevent the necessary adjustment. Price signals are crucial if we want markets to function properly.

Second, the continuing challenge to ensure an orderly adjustment of global external imbalances, without resorting to protectionist measures. The reform of China’s exchange rate regime presents a first welcome and important step towards more exchange rate flexibility in Asia. In any case, as simulations in the WEO indicate, an orderly adjustment of global

imbalances primarily needs a structural increase of private and public savings in the United States. Europe will move ahead further on the path of structural reform.

Third, the urgency to take appropriate measures to ensure medium and long term sustainability of public finances in view of the costs of ageing (both pensions and health care). The present economic momentum should be effectively used to implement budgetary consolidation in all major economic areas of the world.

Turning to **debt relief**. At the Spring meetings The Netherlands already expressed its support for a new round of multilateral debt relief to low-income countries in order to help these countries achieve the Millennium Development Goals. To maximize the benefits of multilateral debt relief, the Netherlands consistently pointed at four key principles. First, its financing should be truly additional, making more resources available for development and protecting the financial solidity of the participating institutions. Second, a wide group of countries should be able to benefit from debt relief. Third, it should benefit countries that follow strong economic policies in order to reduce moral hazard and increase MDG effectiveness. And fourth, safeguards should be in place to break the vicious circle of lending and forgiving.

I am very pleased to note that the discussions in the last months and weeks have brought fruitful results on all four points. I therefore support the current debt relief initiative and expect it can be finalized soon.

As you know, I am a strong advocate of scaling up external assistance. Each country should live up to its commitment of at least 0.7% GNP of Official Development Assistance.

However, there is one potential pitfall. Research tells us that more often than not external assistance crowds out domestic resource mobilization. This brings me to the third issue: the importance of increasing **domestic resource mobilization**. Domestic resource mobilization clearly outperforms external assistance in terms of predictability and ownership. It avoids aid dependency, facilitates investment in infrastructure and buttresses growth with equity, as indicated in the new World Development Report. So I invite recipient countries to increase their domestic resource mobilization.

In addition to domestic resource mobilization, aid should be accompanied by **trade**. I therefore encourage all countries to maintain their commitment and flexibility to make significant progress in multilateral trade liberalization.

As fourth point, I would like to stress the need to make a success of the UN International Year of Microcredit. The potential benefits of **microfinance** are large, not only for poverty reduction but also for broad-based macro-economic performance. I would like to encourage the IMF and the World Bank to review data availability on microfinance. Adequate data are a valuable input to national strategies directed at increasing access to financial services for the poor. Furthermore, I encourage the IMF and World Bank to continue to address microfinance in their Financial Sector Assessment Programmes where appropriate.

On a final note, I would like to call your attention to the joint paper of Belgium, Sweden, Switzerland and the Netherlands on the IMF Strategic Review. In this paper, we call for a renewed focus on the IMF's core areas and more effectiveness and efficiency within these areas. We also attach importance to the issue of quota and representation. Member states' quota should remain a reflection of their relative positions in the international financial system. Apart from increasing the number of basic votes, I am prepared to consider ad hoc

quota increases for the most clearly underrepresented emerging economies, based on the current system of quota formulas. Let me conclude by stressing once again the value of mixed constituencies such as ours, that are so instrumental for consensus building in the Bretton Woods institutions.

Thank you!