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Governor of the Fund and the Bank for New Zealand

Greater urgency is needed to strengthen growth and prevent the reemergence of imbalances.

A tentative and modest economic recovery is underway in advanced economies. While growth in emerging markets has rebounded more quickly, more sustainable medium-term sources of growth need to be developed.

The risks to the outlook remain substantial. Recovery in advanced economies has yet to become self-sustaining – there are few signs of substantial employment growth, and the financial sector remains impaired and vulnerable to shocks. Most importantly there are few easy policy options open to the largest advanced economies should risks materialize.

While we welcome the progress made by the G20 in addressing the global economic and financial crisis, greater political momentum and urgency is required to strengthen growth and manage the risks to the outlook. We call on G20 countries to exercise stronger leadership, including by making the necessary structural and policy adjustments. Medium-term fiscal consolidation plans for advanced countries with larger deficits need to be put in place.

Financial sector crisis measures have largely been removed and progress has been made on raising capital. However, it is apparent that several advanced countries have yet to deal adequately with weak financial institutions and continued financial sector weaknesses will constrain growth.

More broadly, substantial weaknesses remain to be addressed in the framework for financial sector regulation, and crisis prevention and resolution – namely preventing the reemergence of weaknesses in financial institutions that are considered too big to fail, and ensuring the capacity to deal with stress in those institutions.

Adjustment scenarios prepared for the G20 suggest that tighter fiscal policies in advanced countries will weigh on demand and unemployment will remain high, unless offset by structural reforms. There are few signs of the structural reforms that would address long-standing barriers to growth in advanced economies and see a rebalancing towards domestic demand in emerging Asia.

Further and faster adjustment in these areas will benefit all economies, including small open economies like New Zealand who typically face similar challenges in rebalancing growth to the private sector and external demand. Sharing the burden of global rebalancing more evenly will help these economies with their own internal rebalancing, by supporting sustainable growth in external demand.

Reforms to the Fund to address the lessons from the crisis are a reasonable start, but there are signs that the reforms may be too tentative

We support an ambitious set of governance reforms that ensure that the Fund improves its legitimacy and effectiveness.

Quota reforms need to increase the size of the Fund to ensure it can deliver on its current mandate. The ultimate agreement also needs to better reflect the current weight of member countries – here the broad goals for a shift in quota agreed by the IMFC are appropriate.

We encourage the membership to aim for a more ambitious set of governance reforms, which would include a mechanism for Ministerial engagement that ensures the continued relevance of the IMF as a key mechanism for international policy coordination. We consider that the appointment of the Managing Director remains an anomaly that is not consistent with best practice – the best candidate should be selected regardless of nationality.

A start has been made in addressing significant weaknesses in surveillance highlighted by the crisis.

In the financial sector there has in the past been insufficient attention to the weakness in and spillovers from policies in the large systemic economies. Regular surveillance needs to focus more on these issues, and efforts to produce spillover reports are a step in the right direction.

We support the measures taken to date to strengthen financial sector surveillance, although ultimately we would hope that financial stability assessments become more frequent for systemic countries and become a regular feature of Fund surveillance for the whole membership.

There is large scope for better use of the Fund's position as an intellectual credit union, through reforms that play to its comparative advantage of drawing on the range of membership experiences. Increased attention to regional and other cross-country analysis has been a welcome start.

Improvements to the Fund's focus and legitimacy will be welcome. But its effectiveness will remain critically dependent on national policy decisions. This requires a stronger sense of ownership and commitment to addressing problems by Ministers and national authorities.

We support the changes to the Flexible Credit Line and the introduction of the Precautionary Credit Line to strengthen the Fund's crisis prevention tools. While we are open to further discussions on a better contingency plan for dealing with systemic global or regional crises, there is limited value in having a very specific mechanism that can trigger predefined crisis measures.

The Fund and the World Bank need to be proactive in supporting their Pacific Island members.

Over the past year we have seen an improvement in the level of engagement from the World Bank in the Pacific region, and a greater focus on small states. Improved outcomes for the Pacific region are a key focus for us which is why we have decided to increasingly deploy our resources within our region.

We welcome the Bank's increased presence in opening new country offices and its commitment to multi-donor partnerships in education, energy efficiency, health and aviation reform in the region. We want to ensure that engagement is effective and builds on existing efforts and initiatives. The recent agreement to devise individualized country assistance strategies for each country in the region is a further step forward. We will look for this engagement to be continued and strengthened in the coming year.

Despite improvements in macroeconomic policies, many Pacific Islands countries remain very vulnerable to external shocks. We appreciate the work that the Fund has done in the Pacific through the regional technical assistance centre and recent Fund programs in response to some of the PIC's specific adjustment plans. Nonetheless we consider that the Fund can be more proactive to address their need for strengthened macroeconomic frameworks and structural changes to improve their resilience to global and natural developments. Strengthening the surveillance of these small island economies, including addressing common regional issues, is one area that the Fund can further build on its partnership with its pacific island members.

The World Bank must focus on improving results on the ground.

At this time of severe fiscal constraint New Zealand, like other donors, is looking closely at its multilateral engagements in an effort to ensure value for money from our investment. Our focus is to ensure that every dollar of our aid expenditure is spent in the most effective way possible to ensure that tangible development results are being achieved on the ground.

Some will suggest that it is merely a matter of more money being provided, of donors being asked to dig deeper. Despite the effects of the global economic crisis, most nations are digging deeper. New Zealand is increasing our aid budget by almost 15% over the next three years. But more money alone will not solve development problems. We need a much greater focus on aid effectiveness and we need to place a much higher premium on donor coordination. In this respect we welcome existing World Bank efforts in the IDA Results Measurement System and we look forward to seeing further progress on measuring outcomes. We would like to see clear objectives and benchmarking for IDA activities as well as a strategy to ensure the results of impact evaluations are used to make improvements in the future.

Internal Reforms at the World Bank must continue to enhance the legitimacy and accountability of the institution.

We recognize that the Spring 2010 meetings achieved significant changes in voice reform. New Zealand particularly welcomed the commitment to protect the shareholding of the smallest and poorest members. In addition to institutional voice reforms we also want the Bank to continue to find innovative ways that small developing countries, such as those in the Pacific can have an effective voice.

We support the progress made on the Bank's "post-crisis direction" reforms which are important to enhance the accountability, legitimacy and transparency of the institution. We look forward to seeing the progress of working groups at Springs 2011, including work on the merit based selection of the President without regard to nationality and strengthened shareholder oversight.

Finally, we would like to extend a warm welcome to Tuvalu as the newest member of our Constituency Office.