



**International Monetary and  
Financial Committee**

**Nineteenth Meeting  
April 25, 2009**

**Statement by Nout Wellink,  
President, Dutch Central Bank, Netherlands**

**On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus,  
Georgia, Israel, Macedonia, former Yugoslav Republic of, Moldova,  
Montenegro, Netherlands, Romania, Ukraine**

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### **Dutch Central Bank, the Netherlands**

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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**

The ongoing global financial and economic crisis illustrates the crucial role of globally coordinated efforts towards crisis prevention and resolution. Given its resources and universal membership, the IMF should play a key role in providing support to countries with balance of payments needs, and in signalling macroeconomic and financial risks and the actions required to address them. A principal task of the IMF with regard to the latter is to avoid negative spillovers of macro-economic and financial sector policies within and between countries. However, this task can only be accomplished if all members have the willingness to make further efforts in that direction. Similarly, our Constituency believes that the IMF needs to step up its efforts to help countries in following up its advice, while at the same time, countries concerned need to be more responsive to Fund suggestions.

#### **World Economic Outlook**

1. In the past few months, the world economy has undergone rapid deterioration in both industrialized and emerging countries, especially after the collapse of confidence that followed the bankruptcy of Lehman Brothers. According to the latest IMF-projections, the world economy is projected to contract by 0,5 to 1 percent in 2009. For 2010, a gradual recovery is projected, with growth picking up to 1.5-2.5 percent. However, the economic outlook for 2009 and 2010 continues to deteriorate. This fits with the historic pattern that recessions tend to be longer and deeper when they are rooted in financial sector problems. In particular the prospects for trade remain highly uncertain. If the period of financial stress continues and inward-looking measures intensify, a recovery in world trade in 2010 could possibly fail to materialize.

3. At the same time, financial institutions remain under pressure, which in turn is weighing on the real economy. Under these extraordinary circumstances, authorities in many countries have taken policy action to stabilize financial conditions, ranging from liquidity provision in funding markets and bank

funding guarantees to the recapitalization of banks. Recently, authorities have also dealt more directly with distressed assets on banks' balance sheets, an important source of uncertainty in markets.

4. On the macro level, authorities have expanded fiscal and monetary policies to limit the impact of the crisis. However, such stimulating measures must take into account the longer term implications, which means that fiscal sustainability must be considered when designing crisis measures.

5. Looking ahead, it is hoped that the financial and macro-economic policy actions taken will contribute to the stabilization of financial sectors and markets and a gradual economic recovery. Continued international policy coordination will be critical to ensure the effectiveness of these policies and preserve global financial and economic integration.

### **IMF resources**

6. Since the onset of the crisis, the IMF has been providing large-scale financing to countries experiencing a reduction in the availability of external financing. A distinguishing feature of these IMF-arrangements has been their exceptionally large access in relation to countries' quota. This underscores the severity of the current crisis, as well as the renewed role of the IMF in safeguarding international financial stability.

7. Against this background, we support a substantial increase in the financial resources of the Fund, so that it can effectively deal with the crisis and provide timely and effective balance of payments assistance to its members. Our Constituency is ready to contribute its fair share, of course taking into account the economic and financial strength of individual members. More generally, our Constituency would also like to underline the important role of the Fund in catalyzing and coordinating other official and private sector involvement.

8. In view of the aim to increase the Fund's lending base, our Constituency has a preference for resources that, if necessary, can be mobilized relatively quickly and a solution that fits into a multilateral framework. Therefore, expanding the New Agreements to Borrow (NAB) should be the preferred option for extending the IMF's credit capacity, as it is a well established and transparent multilateral structure and allows for a relatively quick provision of resources if needed. To enable funding through the NAB, existing NAB members could increase their contributions and new members should be invited to participate, in particular those countries with large current account surpluses. Since increasing the NAB takes time, transitional arrangements in the form of bilateral loan agreements that in time are embedded into the NAB are appropriate.

9. We see merit in the increase of the SDR allocation of USD 250 billion and invite the IMF to assess and prepare for such an increase expeditely. The Constituency would like to urge those members that have not yet ratified the 4<sup>th</sup> Amendment to the Articles of Agreement of 1997 to do so.

### **Lending framework**

10. Our Constituency welcomes the reforms of the Fund's lending framework to make it more flexible and streamlined including the changes to access limits and cost and maturity structures. We support the simplification of the lending framework through the elimination of several special facilities for which there was no demand. Furthermore, we support the streamlining of the conditionality to ensure that conditions linked to IMF loan disbursements are sufficiently focused on the core objectives of the program. This will allow the Fund to address the ongoing crisis and support its global role in the prevention and resolution of future crises.

11. Our Constituency supports the flexibility that may be created in accessing credit through the new preventive instruments, the Flexible Credit Line (FCL) and the High-Access Stand-by Arrangements. We would like to stress the importance of a framework with clear qualification criteria that is applied rigorously in all instances. Furthermore, our Constituency underlines the importance of the shorter duration of the FCL, compared to other existing facilities that include an adjustment program and conditionality.

### **Governance**

12. Our Constituency welcomes the dialogue taking place regarding reform of IMF governance on, among other, the necessity to define the responsibilities and competencies of the Board and Management. At the same time, we stress that the question of governance is complex and strong involvement of the Board is important in order to clearly set out our objectives when bringing this issue forward. We especially welcome the proposals to strengthen the selection of the Fund's Senior Management. We can agree with an acceleration of the quota review. This work should avoid repeating the long and extensive discussion that led to the 2008 quota agreement, e.g. on the formula.

### **Surveillance**

13. The current crisis strongly calls for improving country- as well as system-level surveillance. Financial and economic systems are too interconnected to look only at the sectoral or national level. A key element in this respect is the need for Fund surveillance to be even-handed and to step up clarity and transparency of communication. Our Constituency supports the commitment by all G20 countries to undergo a Financial Sector Assessment Program (FSAP) and the cooperation between the Financial Stability Board and the Fund in the preparation of an Early Warning Exercise (EWE).

14. Nonetheless, more should be done, including by increasing the number of countries that undertake an FSAP and by regularly updating these assessments for systemically relevant countries. Similarly, our Constituency supports a better integration of financial sector surveillance and recommendations in Article IV reports. Moreover, while we welcome the initiative of the EWE, we also stress the importance of providing policy advice on how to mitigate risks and how these suggestions can be implemented. Generally, the efficiency of surveillance strongly depends on countries' implementation of the recommendations. We believe that on the one hand, the IMF needs to help countries to follow up on advice given. On the other hand, it is important that countries concerned are cooperative and responsive in this regard.

#### **Low Income Countries (LICs)**

15. As was also confirmed during the recent conference in Tanzania, the IMF has a continuously important role to play in low income countries, while remaining within its core mandate. The spreading of the global crisis to developing countries has proven that 'decoupling' does not apply and that low income countries face severe challenges as a result of contagion. It is expected that this crisis will lead to over 50 million people worldwide entering in a state of extreme poverty. The IMF should therefore continue to show its responsiveness to the needs of low income countries. Providing adequate and appropriate policy space to borrowing members is vital. Policy conditionalities should therefore be minimised, without hampering sound economic principles consistent with sustainable long-term development. In particular, this means that only those criteria should be included that have a direct relation to macro-financial stability. In this sense, we welcome recent moves to improve the accessibility of the ESF, and we strongly encourage Management to continue exploring further options for streamlining IMF lending facilities.

15. Furthermore, we believe there is some room within the Debt Sustainability Framework to use current concessionality requirements in a more flexible and tailored manner, while avoiding recurrence of unsustainable debts. Finally, we must ensure that LICs and their interests are adequately represented. In this light, we call on all countries to ratify the 2008 governance package as quickly as possible.