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Statement by Jan Kees de Jager, Minister of Finance, Ministry of Finance,
Netherlands

On behalf of Armenia, Bosnia & Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel,
Macedonia, FYR, Moldova, Montenegro, Netherlands, Romania, Ukraine

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Minister of Finance, 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

World Economic Outlook

1. The global economy continues to recover, but considerable uncertainty remains surrounding this recovery and its path going forward. Although many countries have shown signs of recovery, some countries continue facing very slow economic growth. In the US, consumer spending remains under pressure due to lower house prices, other equity losses and higher unemployment levels. These trends can also be observed to some extent in various European countries. A weaker macroeconomic outlook could affect banking sector resilience, which in turn could feed back into the real economy. In addition, the banking sector remains susceptible to sovereign and funding risks as well as legacy problems that need to be addressed, against the background of the ongoing regulatory reforms.
2. At the same time, policy measures and plans aimed towards fiscal consolidation, as part of a comprehensive economic strategy, have contributed to investor confidence and brought back a more stable situation in Europe and supported a path to economic recovery. In addition, projections suggest a further pick up of European economic growth with Germany leading the way, though the pace of recovery differs greatly between European countries. The main downside risk to European economic growth lies in renewed concerns about sovereign funding and solvency risks and as such it is of vital importance that EU countries live up to their progressive, sustainable fiscal consolidation plans underpinned by structural reforms. The importance of growth-friendly fiscal consolidation is also illustrated by the potential spillover effects on trading partners, including those Eastern European countries that are showing weak growth.
3. Consolidation measures in the short term to avoid debt levels from rising further will also be needed in some African countries. Whilst the limited integration with international financial markets and improved fundamentals has helped shield the African continent from the crisis, a number of countries are confronted with falling government revenues and increasing social spending, against the background of an already difficult external environment which includes declining donor support and volatile and high food prices. The latter underlines the need to create

enough room for fiscal manoeuvre, in order to allow targeted measures to assist the most vulnerable groups.

4. A return to strong and sustainable growth crucially depends on external rebalancing. Global current account imbalances are still present and may widen again over the medium term. The latter could create new financial and economic instability. Moreover, the resurgence of capital flows to some emerging economies also poses risks to global stability, since it could lead to, among others, overheating in some economies. These dislocations in the global system together with the risks that they could increase again in the future require committed high-level dialogue. The IMF is in the unique position to bring about the necessary discussion on a multilateral level and to encourage the relevant economies to discuss how best to reduce global imbalances with the aim of attaining sustainable global growth.

IMF mandate and surveillance

5. Considerable progress has been made in reviewing the Fund's mandate toward strengthening the Fund's role in safeguarding global economic and financial stability and preventing future crises. The review process has been guided by the recent crisis that has revealed the need for enhanced surveillance. In this respect, we support the proposals to strengthen multilateral surveillance by experimentation with a new spillover report, and enhance the effectiveness of the WEO and the GFSR as well as the synergy between them. At the same time, more focus should be given to the macro linkages across sectors and countries as well as on the linkages between the financial sector and the real economy, to contribute to financial stability and prevent future crisis. With regard to financial sector surveillance good cooperation with the FSB is important, while safeguarding IMF independence.
6. We also very much support further efforts towards enhancing bilateral surveillance. However, an important challenge with respect to effective Fund surveillance is increasing countries' political commitment and follow-up with respect to Fund's advice. Herein lays an important role for the IMFC, as a forum for policy dialogue and where countries could hold each other accountable on a political level.
7. As an advocate for mandatory FSAPs and better integration of FSAPs in Article IVs, we welcome the recent decision by the Board that the financial stability part of the FSAPs will become a mandatory part of the Article IV assessments of the 25 most interconnected economies.

IMF lending

8. Next to surveillance, lending facilities are central to the Fund's toolkit, in which the flexible Stand-By Arrangements remain the cornerstone. We believe the IMF should continue the flexible

approach it has applied during the crisis with financial arrangements. Following the changes to IMF lending introduced last year, further improvements have been made by adjusting the modalities of the FCL and introducing the PCL. We welcome these changes that ensure an adequate response to members' needs. At the same time we underline the importance of appropriate incentives to safeguard the financial position of the Fund and the revolving nature of its resources. In this respect, we underscore that (tailored) conditionality should remain at the core of the IMF lending programmes, to ensure the success of Fund involvement in tackling underlying vulnerabilities and underpin economic and financial stability.

IMF resources

9. Our constituency supports the expansion of the IMF's resources, including through bilateral loans, in line with the call by the G20 and IMFC last year. This has proven timely in view of the substantial rise in demand for IMF loans. In this regard, our Constituency welcomes the expanded and modified New Arrangement to Borrow (NAB) that includes an additional contribution from the Netherlands and where the Bank of Israel and Cyprus are among the group of new participants. We also welcome the additional resources provided to the Poverty Reduction and Growth Trust.
10. At the same time, we stress that the NAB should always function as an ultimate backstop to the general resources of the Fund and activation should only take place when international monetary stability is at stake and IMF programs cannot be financed from regular quota resources.
11. In order to ensure that the IMF stays a quota-based institution, the 14th quota review has been accelerated. A quota increase will also bring about the desired shift in quota and voting shares, which is part of the total IMF governance reform package. In general, total quota resources should be based on the long-term financial needs of the Fund and the risk for creditor countries should be taken into consideration. In this light we support an increase in quota between 50 and 100%. Moreover, we reiterate that the size of the NAB should be reviewed in light of the outcome of the fourteenth quota review, so as to maintain the right balance between quota and backstop resources.

IMF quota and governance

12. By January 2011, we should complete a comprehensive reform package to increase the legitimacy and effectiveness of the Fund. Besides the quota review, this reform includes also political involvement in the strategic oversight of the IMF, the Board's effectiveness, representation of members in the Board and selection of IMF staff and Senior Management.
13. Any shift in quota shares should reflect the economic weight of countries in the world. In this context, we remain committed to the agreement of the G20 and the IMFC to a shift in quota of at least five percent from over-represented to under-represented countries and to dynamic emerging

market and developing countries, using the current IMF quota formula as the basis to work from. Though not perfect, the formula is a reasonable reflection of the economic weight of members and the mandate and purpose of the IMF. The agreed shift should therefore be realized to the largest extent possible on the basis of the formula. Moreover, we support that the voting shares of the poorest members should be protected, and we support protection of PRGT-eligible countries on an individual level. The review should ensure that no country is more misaligned after the reform than it was before and no over-represented country should fall below its calculated quota shares.

14. We believe that the current size of the Board strikes the right balance between inclusiveness/legitimacy and an effective functioning of the Fund. A smaller board would risk affecting the representation and voice of smaller members, many of which are emerging economies and developing countries, and lead to polarization in the Board. The composition of the Board should be a reflection of the voting power in the IMF and financial contributions of countries should be recognized. The freedom of countries to form constituencies should be respected.
15. We welcome proposals to enlarge Governors' and Ministers' engagement in the strategic oversight of the IMF and increase the accountability of staff, management and the Board. We believe that the Fund would benefit from a greater political traction and ownership by 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 an 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 as a medium through which members apply peer review and pressure and address cross border spillovers of domestic policies. Members should be aware that with greater representation comes greater responsibility, where members need to commit to carrying out sound macroeconomic and financial policies, including in following up on Fund advice.
16. 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, and in the context of similar reforms at other IFI's, most notably the World Bank. Moreover, this should be part of an overall satisfactory reform package. On the same note, continued effort to increase staff diversity is needed.