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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

The global economic recovery has recently suffered a setback. After relatively strong growth in 2010, the combination of slowing growth prospects and concerns about fiscal sustainability in parts of the advanced world have sparked adverse reactions in markets and the financial sector. This threatens to cause a negative feedback loop between sovereign, financial sector and the real economy that has to be controlled. Uncertainties around the public finances of some Euro area countries - but also of the United States and Japan - have become key risks for global financial stability. As such, we believe that credible consolidation strategies without delay, combined with structural reforms, are now a critical priority in order to secure fiscal sustainability and long-term growth. Given the strong differences in the speed and progress of the recovery between countries and regions, the high level of global liquidity, and the fact that many distortions underlying pre-crisis global imbalances are still in place, global coordination on policy priorities is as critical as ever.

In Europe, we are taking bold steps to address the problems of distressed sovereigns, including through EU/IMF programs for Greece, Ireland and Portugal and adjustments to internal economic governance. The recent EU-wide stress test has focused on vulnerabilities in the banking sector, which are being addressed through European Banking Authority and as part of EU/IMF programs. Overall, the IMF has acted as a key contributor in crisis management in the euro area, bringing invaluable third-party expertise and conditionality. We welcome the Fund's continued involvement throughout the process of repair, reform and rebalancing in the euro area and beyond.

In several key emerging economies, growth has been very rapid in recent quarters – thanks in no small part to strong policy over the last decade. Such rapid growth can bring strong welfare benefits, particularly for the poorest in society. Yet it could also pose challenges to authorities. While emerging countries generally have a stronger outlook for fiscal sustainability than in the past and than some more advanced countries, fiscal stances are often still accommodative, and interest rates potentially too low. Hence, in countries facing strong credit and asset price growth, financial inflows and overheating, we encourage the use of more countercyclical policies, including macro-prudential instruments and fiscal tightening, so as to ensure stability and enhance resilience.

IMF's role in a more stable and resilient international monetary and financial system

To support macroeconomic and financial stability, the IMF has a crisis prevention and crisis resolution role. The IMF's surveillance and lending framework has already undergone a remarkable overhaul since the onset of the crisis, but more needs to be done to create a more stable and resilient international monetary and financial system. Although we are open to reforms and instruments that strengthen the crisis resolution role of the IMF, we believe the focus should lie on how to address the buildup of imbalances and vulnerabilities as this is key to prevent (systemic) crisis situations from emerging.

Surveillance

To address underlying imbalances, it is of utmost importance that risks and vulnerabilities are identified and communicated in a clear, consistent and timely manner. We welcome the significant progress over the past three years to address the shortcomings of IMF surveillance, including the spillover reports and the consolidated multilateral surveillance report as the most recent products. We look forward to an extensive discussion of these reports in the IMFC, and suggest building further on the experience and capacity gained with these reports by repeating the exercise next year. However, we should continue with the process of strengthening and improving the IMF surveillance framework building on the recommendations of the 2011 Triennial Surveillance Review (TSR) and the Independent Evaluation Office (IEO).

We recognize the gaps identified in both the TSR and the report of the IEO and support the key recommendations. We especially encourage the Fund and the membership to focus more on interconnections, spillovers, financial stability and capital flows. In this regard, we look forward to a regular strategic work plan for promoting financial stability and to continue the ongoing discussion on the treatment of capital flows. We especially welcome a more effective role for the IMFC, as we believe that involvement of ministers and governors will improve traction. External reviews and input for Article IVs and other analysis, and more intensive dialogue with the authorities ahead of consultations, will also contribute to an open exchange of views and enhance traction. With regard to the legal framework for surveillance, we are open to an amendment of the Articles or an integrated surveillance decision, as long as this contributes to the effectiveness of IMF surveillance. We believe that it is important that multilateral surveillance and its interaction with bilateral surveillance is covered and that it is recognized that more policies can contribute to - or undermine - external instability than only exchange rate policies. In the end, a modernized legal framework will only work if its content is broadly supported by the membership and we encourage the membership to approach this issue with an open mind.

Finally, we would like to stress that the recommendations on the Fund's internal organization pointed out in the IEO report should also be given high priority. The Fund should continue to create an environment where diverging views can be put forward and where the IMF gives clear and timely warnings to its membership. Filling gaps in surveillance by adding more flagship publications may not necessarily be the best way to come to a more risk-based assessment. Indeed, departments within the IMF need to work more closely together in order to integrate bilateral and multilateral surveillance effectively and overcome the silo mentality.

Capital accounts

Cross-border capital flows have grown dramatically over the past decades - part of a process of financial globalization which can bring large benefits for financial and economic development. Yet, recent experience shows that large capital flows can also be highly volatile and have destabilizing effects, contributing to financial imbalances and sudden stops. We welcome the Fund's recent analytical work on capital flows and its guidelines on policy responses. We strongly support the IEO and TSR recommendations that the Fund take an active role in monitoring capital flows. Sound macroeconomic and prudential policies should be the first line of defense against the downside risks that result from excessive and volatile capital flows. Capital controls should be seen as a last resort measure, which, when used should be strictly targeted, temporary, easily reversible, consistently enforced, and be accompanied with a clear exit strategy. Where possible, the potential external spillovers on other countries should be limited. Clearly, the inter-linkage between global liquidity, reserve accumulation and capital flows deserves attention.

Global financial safety nets

The existence of deep and liquid financial markets and their increased integration means that in times of crisis, shocks can be transmitted more rapidly across the globe, even to countries with better fundamentals and policies. For these countries, IMF support should be available. We consider that global financial safety nets have been strengthened considerably with the introduction of the FCL and PCL. At the same time, we encourage a thorough evaluation of these instruments in order to enhance their effectiveness. Such an assessment should focus on the fee and cost structure, burden on IMF resources and potential adverse incentives, in particular when it comes to the exit from the arrangements.

Going forward, we are open to exploring possibilities for increasing the flexibility of these facilities. However, any kind of flexibility should be accompanied by appropriate safeguards so that the approach does not lead to increased moral hazard, not in the least in the global market place. Ways to improve consistent collaboration between regional arrangements and the IMF should also be explored further.

SDR

We are open to a discussion on a strengthened role of the SDR in the IMS, in particular with respect to a criteria-based path to broaden the composition of the basket. All of the proposed steps should be thoroughly analyzed with the ultimate aim of contributing to the functioning and stability of the IMS. The expansion of the SDR basket by a limited number of currencies from systemically important countries could be a relevant step towards better reflecting economic realities and enhancing the system's stability. It is of utmost importance, however, that candidate currencies be convertible in order to guarantee that the reserve currency status of the SDR is not put at risk.

IMF resources and broader governance

We support the expansion and modification of the NAB, as it secures additional resources to support members' needs. However, it is important that the Fund remains a quota-based institution and that the NAB serves as a back-stop to quota resources. Therefore, we urge all members to complete the required ratification processes for the quota increase in a timely manner.

The 2010 governance reforms constitute an important step to enhance the Fund's legitimacy. However, the effectiveness and legitimacy of the institution should be further improved. One way to achieve greater legitimacy of global decision making would be to align the IMFC with the G20 meeting of ministers of finance and central bankers. This would combine the best of both fora: on the one hand the political commitment and resolve of the G20 and on the other hand the experience, expertise and the institutional anchoring of the IMFC. Moreover, the IMFC offers legitimacy with its constituency structure. Furthermore, we support a review of the current quota formula within the relevant IMF bodies, to come to a legitimate and sustainable quota formula that will appropriately reflect the economic weights of countries in the world.