International Monetary and Financial Committee

Twentieth Meeting
October 4, 2009

Statement by Minister of Finance Anders Borg

On behalf of EU Council of Economic and Finance Ministers

ECONOMIC AND FINANCIAL COMMITTEE

Brussels, 2 October 2009
ECFIN.CEF.CEP ARES(2009)261194

Statement by Minister of Finance Anders BORG,
in his capacity as Chairman of the EU Council of Economic and Finance Ministers,
to the IMFC Autumn 2009 Meeting

1. I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses notably on the world economy, in particular the outlook and policies for the EU, and on IMF policy issues.

Economic Situation and Outlook

2. The global economy is starting to show signs of stabilisation. Recent data for trade, industrial production as well as business and consumer confidence around the world are improving. Asia appears to lead the way to the recovery (in particular China), while the contraction in US GDP growth has levelled out. The implementation of widespread stimulus measures is clearly having a positive impact on the world economy. However, labour market developments are a concern, with the unemployment rate expected to continue to rise in many European countries. The main issue is whether current positive signs reflect a sustained recovery, or whether instead this is only a temporary, policy-induced respite and further shockwaves are still to be expected. It is therefore important to await additional indicators to confirm the strength of the underlying recovery in coming months. We will continue our unprecedented, decisive and concerted financial support measures and expansionary monetary and fiscal policies, consistent with price stability and long-term fiscal sustainability, until economic recovery in the EU is secured.

3. The EU economy has started to show increasing signs of stabilisation. The sharp contraction in GDP in the first quarter came close to a halt in the second, with the fall in GDP limited to -0.2% q-o-q in the EU. Other hard data have also improved, with e.g. the contraction in retail sales and in industrial production slowing substantially. Although high uncertainty still prevails, more recent business and consumer confidence indicators suggest that a recovery, albeit moderate, may be in the cards for the second half of 2009. Temporarily, growth may be boosted by the inventory cycle gradually coming to an end and as further fiscal stimulus kicks in. In the context of global efforts, EU financial rescue plans and monetary policy measures averted the systemic risk of a general financial meltdown. Conditions in the financial markets have improved further over the summer and several indicators of financial stress, although still elevated, have now reached levels prevailing before the October 2008 fall-out. However, the situation is not normalized, also as concerns credit standards.

4. Inflationary pressures have moderated significantly in EU Member States over the past twelve months, as a result of the strong demand contraction and the decline in commodity pries. Many Member States (and the euro area as a whole) are currently experiencing negative

inflation rates, partly reflecting downward base effects stemming from the marked decline in energy and other commodity prices rather than a generalised fall in prices. However, this period of negative inflation is likely to be short-lived and there are no significant risks of deflation: increasing commodity prices will start exerting upward pressure on prices, while upward base-effects will start to set-in in the coming months. Furthermore, inflation expectations remain well anchored in line with the objective of price stability.

Policy Responses to the Crisis

a) Macroeconomic and structural policy response

5. The EU response to the downturn, reflected in the European Economic Recovery Plan (EERP), is being implemented by EU Member States and the European Commission. It focuses on supporting the real economy by coordinated fiscal impulses, contributing to the stability of the financial system, as well as on external aspects.

6. Co-ordination of the exit phase of the actions taken by authorities in response to the financial crisis (including the support of troubled institutions through guarantees, liquidity support, insurance of assets and capital injections) will facilitate the return to normal conditions in the markets and avoid a reversal of the progress made in stabilising the financial sector. As soon as economic recovery in the EU has taken hold and the risk of an economic relapse diminishes further, the progressive re-orientation of fiscal policies towards sustainability will be needed, also within the context of the Stability and Growth Pact. Exit plans need to be gradual, in order not to jeopardize the recovery. They also need to be sequenced in a coordinated way among EU members to prevent negative spill-over effects. Credible exit strategies should be designed and communicated clearly to anchor expectations and reinforce confidence.

7. Budgetary policies in the EU are providing an important support to aggregate demand and economic growth, appropriately differentiated among Member sates. Generally, Member States are allowing automatic stabilisers to play. The current extraordinary circumstances have also justified targeted and temporary discretionary countercyclical measures with minimum adverse side-effects, which should be consistent with the long-term objectives identified in the Lisbon Strategy The EERP aims to provide temporary support to the real economy and is expected to boost demand, generate new investments, create jobs and help the EU move to a low-carbon economy. Overall support to the EU economy in 2009 and 2010 is projected to amount to 5 percent of GDP, including automatic stabilisers. Measures are targeted to stimulate demand by providing support for households, business, and employment, directly increasing demand through public investment and the modernisation of infrastructure. Most of these measures are consistent with the longer-term objectives of increasing the growth potential – such as building Europe's knowledge base and boosting energy security in a low-carbon economy.

8. Inflation developments and outlook have allowed monetary policy to be eased substantially by the ECB and national central banks, including through lower rates, and a number of unconventional policy measures to provide liquidity support to the banking sector. Once the financial and macroeconomic environment improves, central banks would take care that the measures taken are unwound and that the ample liquidity provided is absorbed, reflecting the specific circumstances in the respective regions and countries. This should counter effectively any threat to price stability in the medium term in a timely fashion.

9. In the months to come, it will be important to continue to focus on the implementation of the already decided fiscal stimulus measures, while respecting the openness within the Internal market and vis-à-vis third countries, ensuring non-discrimination of products and services within the EU, and ensuring consistency of short-term measures with long-term objectives.

10. The EU stresses the need for a global cooperative response to the current crisis and call on its partners to refrain from competitive devaluation of their currencies and to promote a stable and well functioning international monetary system. The EU welcomes the G20 framework for strong, sustainable and balanced growth, relying on IMF, World Bank and FSB analysis. The EU dimension should be fully taken into account in this framework.

b) Financial market policy response

11. Since autumn 2008, financial sector rescue operations have been carried out in EU Member States and measures are still being taken to stabilise the financial system and to improve financial governance.

12. Although the real economy has begun to see signs of recovery, the global financial system remains fragile and economic activity continues to indicate some weakness. Recent months of financial stress have driven decelerating output growth and sustained market uncertainty. A key priority on the international agenda is, therefore, to break this vicious cycle and enhance efforts to restore confidence in global markets. Government measures should be implemented on a timely and coordinated basis, as spelled out in the framework of the G20 process. Priority tasks include:

- Restoring the functioning of credit markets and facilitating the flow of lending to the real economy. Measures to restore the full functioning of the financial sector and in particular the banking sectors, must be implemented on a timely and coordinated basis, safeguarding a level playing field. There is also a need to prepare exit strategies that would be implemented when as market conditions return to normal.

- Establishing a comprehensive, ambitious and globally coordinated approach towards regulatory and supervisory reform, ensuring that all financial products, institutions and markets are appropriately regulated and subject to oversight. Plans are already underway to overhaul the financial regulatory and supervisory environment. These changes will be key to preventing future crises, mitigating moral hazard, and reducing the need and potential cost of public interventions.

- Improving the cooperation between financial authorities at an international level. Large, complex, global financial institutions need to be better supervised through supervisory colleges. There is also a need to further strengthen collaboration between the IMF and the FSB (Financial Stability Board, previously Financial Stability Forum) to identify risks and vulnerabilities to global economic stability at an early stage.

- Coordinating implementation of national measures to support the financial system with the objective of: (i) averting the immediate threat to financial stability and the banking sector in particular; (ii) promoting a return to normal functioning in the interbank and other wholesale credit markets; (iii) minimizing distortions to the level playing field; and (iv) underpinning lending to the private non-financial sectors of the economy, and thus mitigating the effects of any credit supply constraints. Since autumn 2008, EU

Member States have announced and implemented financial rescue measures – including liquidity, re-capitalisation and bank guarantee schemes – that combined with additional capital committed but not yet allocated amount to more than 25% of EU GDP and represent a substantial commitment to improving the economic environment. The European Commission has also approved several individual bank rescue plans within the context of state-aid rules and provided guidance which aims to: (i) minimise the economic and budgetary cost of state-aid intervention; (ii) minimise the inherent competition distortions between banks and Member States; and (iii) guarantee the functioning of the internal market.

As to future regulatory reforms, work on the following proposals/issues should continue:

- Work to **strengthen and improve financial regulation and supervision** is already underway and encompasses a stronger, more coherent supervisory framework. This new EU supervisory framework will be based on the European Systemic Risk Board (ESRB) which will monitor and assess risks and threats to the stability of the financial system as a whole ("macro-prudential supervision") and the European System of Financial Supervisors (ESFS), comprising European Supervisory authorities for banking, insurance and securities (micro-prudential supervision). The ESRB will issue early warning of systemic risks that may be building up and, where necessary, recommendations for action to deal with these risks, and monitor their implementation. The ESFS will consist of a robust network of national financial supervisors, including the new European Supervisory Authorities (ESAS). The ESAS should be entrusted with a number of tasks and powers, such as: ensuring a single set of harmonised rules and consistent supervisory practices; consistent application of EU rules, notably in cases of manifest breach of EU law or standards, disagreement between national supervisors; ensuring a coordinated response in crisis situations.

- The **implementation of Basel II** at an international level is of key importance to ensure that banks hold an adequate level of capital to withstand and absorb losses and that the quality of capital is further improved. In this respect, the EU has already taken stock of what has been agreed by the Basel Committee on Banking Supervision and urges the Committee to continue its work. Once recovery is assured, capital requirements should be further strengthened over time to increase the quality (tier 1), quantity and international consistency and transparency of prudential capital, as well as to improve risk coverage. In the same vein, the Committee is expected to develop key measures, such as a leverage ratio as supplementary measure of Basel II framework, a minimum global standard for funding liquidity, and a framework for forward-looking provisioning.

- The new regulatory, supervisory and prudential framework should also take into account the greater risks which are inherent in large and complex financial institutions. In view of their systemic size and interconnectedness, such large institutions suffer from great moral hazard and put a potentially heavy burden on public finances. Therefore, it is crucial to ensure that they do not engage in excessive risk taking while fulfilling their normal credit functions. Prudential standards for systemic institutions should be commensurate with the potential cost of their failure. A legal framework for crisis intervention and tools for the resolution of crisis should be developed for major cross-border groups. The EU emphasises the need to put in place clear and transparent principles about when to intervene and which conditions to apply to intervention measures in the financial sector. Such 'entry strategies' help to mitigate moral hazard, and should be developed as soon as possible, in order to be effective and ensure a level playing field.

- Decisive action is being taken in the EU **to mitigate the inherent pro-cyclical nature of the financial system**. The EU has been reviewing which tools are most appropriate against pro-cyclicality and intends to implement dynamic provisioning and is scrutinizing appropriate additional capital buffers. In this respect, consistency with accounting developments should be ensured. The EU is pushing forward with, in the EU and at a global level, the strengthening of the FSB principles and the national implementation of rules concerning compensation schemes in the financial sector and ensuring that they are effectively enforced (e.g. via prudential rules).

- Accounting standards are another key area. The EU has called upon accounting standard setters to work in order to achieve a single set of high quality, global standards. While maintaining transparency for investors, accounting standards should not aggravate pro-cyclicality of financial markets and should not undermine the implementation of prudential rules. To this end, standards setters should work closely with prudential supervisors and regulators to improve inter alia valuation and provisioning practices and aim at internationally convergent standards which do not contribute to financial instability. Within the framework of the independent accounting standard setting process, the IASB is encouraged to take account of the Basel Committee guiding principles on IASB and the report of the Financial Crisis Advisory Group. In this regard, the EU is concerned about the possible impact of recent IASB exposure draft on the scope of fair value and intends to closely follow and monitor the work of the IASB to ensure timely and proper completion of the changes in the accounting standards. The EU considers that the implementation of a new provisioning system based on expected losses is essential to mitigate procyclicality. It is also a matter of common interest that the governance of the IASB is further reformed, and its constitutional review should improve the involvement of stakeholders, including prudential regulators and the emerging markets.

- The EU has already adopted a regulation which will subject **credit rating agencies** to mandatory registration and supervision in order to ensure the integrity of both the rating process and the ratings themselves.

- **Hedge funds and private equity** activities have come under increasingly sharp international scrutiny. Regulatory initiatives on alternative investment funds and managers should be based on the assessment of systemic risks, the need to preserve market integrity, efficiency and transparency towards counterparties and investors, as well as investor protection. Future registration of funds and their managers is a focal point. The EU is in the process of adopting legislation in this respect. Debate surrounding **derivatives** now mandates that derivative markets be subject to greater transparency. There is an urgent need for clearing eligible derivatives through well capitalized and well managed Central Counterparties (CCPs) subject to effective regulation, and supervised with high and harmonised prudential and operational standards. To enhance the resilience of the OTC derivatives market the Commission will present appropriate initiatives before the end of the year.

- The EU strongly supports a reform of compensation practices and the implementation of the FSB principles and standards. The EU has already adopted recommendations on remuneration practices in the financial sector and is now working towards binding rules on a system of pay and compensation policies which encourages sound risk management and establishes a link between compensation and long term performance and risks of financial institutions, so as to promote the long term sustainability of financial institutions, as well as the accountability and transparency of remuneration policies. Non compliance with these principles will be duly sanctioned and compensation arrangements will be backed up by effective supervision and enforcement. The EU urges G20 countries to commit to efficient measures towards banks not complying with the FSB principles and standards. The EU looks forward to monitoring the implementation by the FSB and to further proposals for additional measures by March 2010.

There is a need to restore the confidence of retail clients in the financial industry, through measures that enhance their ability to take efficient decisions and that ensure a high degree of protection. Further work should be pursued on **non-transparent and non-cooperative jurisdictions**, including off-shore centres, in order to achieve exchange of tax information, improve their standards to fight money laundering and terrorist financing and enhance their effective compliance with prudential regulatory and supervisory standards, in particular on cross-border cooperation and exchange of information. To bring these jurisdictions towards full adherence to internationally agreed standards, we should commit to take sanctions against those that do not implement them efficiently. In particular, sanctions against jurisdictions that have not yet substantially implemented the agreed international tax standards should be taken from March 2010.

c) Contributing to a more favourable international environment

13. Global imbalances remain a medium-term challenge for global macroeconomics and financial stability, including the risk that the world economy returns to a growth path without having substantially corrected underlying imbalances. All major countries and economic areas have to play their part to resolve them in a manner compatible with sustained global growth, including by continuing to implement the agreed strategy adopted in the context of the Multilateral Consultations on Global Imbalances. In this context, the IMF should take into account this dimension throughout its surveillance activities, while fully reflecting the euro area dimension in this process.

14. Markets should be kept open and all forms of economic protectionism avoided. Implementing the commitments agreed at the April 2009 London summit not to impose new trade and investment restrictions and not to create new subsidies to exports is essential. Given the drastic deterioration in industrial production and decrease of trade around the world, there is a need to re-affirm that it is in our mutual interest to support trade by promoting the orderly supply of trade financing, and to avoid competitive devaluations and anticompetitive measures. The EU strongly supports the G-20 multilateral initiative to mitigate the decline in trade finance provided by the private sector.

15. On international trade policy, the EU remains fully committed to constructively pursuing the Doha negotiations with a view to reaching an ambitious, balanced and comprehensive agreement in 2010. Maintaining and strengthening the multilateral trade system based on the WTO is of key importance for growth and employment prospects of the global economy, as well as for development.

16. The EU is also committed to reaching a global, ambitious and comprehensive climate agreement in Copenhagen. Early and coordinated action will not only limit global warming,

but can also stimulate growth and new technologies to move towards a low-carbon global economy. Financial resources will need to be scaled up urgently and substantially to reduce global greenhouse gas emissions, including from deforestation, and to adapt to the unavoidable effects of global warming as well as to fund technology cooperation and capacity development. Financing will have to come from multiple sources, including domestic and international public and private funds and carbon markets. In order to deliver significant scaling-up of climate finance, we will need efficient, effective and equitable financing mechanisms. As far as possible, financing mechanisms should build on existing and, if necessary, reformed instruments and institutions. All countries should establish low-carbon development strategies (or low-carbon growth plans) which outline the policy framework and the required domestic and external financing. The EU also recognizes the need to fast-track international support for addressing urgent financing needs and building up capacity. The private sector, through an appropriate domestic and international policy framework, should be a major source of financing for mitigation. Targeted policies and regulation should provide incentives for private investment in the most efficient low-carbon technologies. A broad and liquid global carbon market should enhance the overall efficiency of the global mitigation effort by linking cap-and-trade schemes and improving offset mechanisms. All countries, except the least developed, should contribute to financing the fight against climate change in developing countries on the basis of a universal, comprehensive and specific contribution key reflecting each country's ability to pay and their responsibility for emissions. Contributions based on the key should be adjustable over time and provide fair-burden-sharing. Such a key would allow more rapid scaling-up of finance, ensure predictability and fairness while giving contributing countries a choice with regard to their sources of financing. Climate financing should reinforce and not replace global poverty reduction efforts. The governance of mechanisms to disburse and to oversee funds should be transparent, fair, efficient, and reflect balanced representation. A comprehensive system, including a coordinating mechanism and a central international registry, should be established to measure, report and verify mitigation actions and finance as far as possible, to ensure implementation of financial commitments and agreed mitigation actions to reinforce international coordination, and to help bringing finance to actions. A system to monitor and report adaptation actions and finance should also be put in place.

IMF Policy Issues

17. EU Member States welcome the positive role played by the IMF in addressing the challenges generated by the current financial crisis and the decisions taken over the last months to adjust its instruments and financial set-up to ensure that it can assist members effectively in the current extraordinary global economic and financial environment. We recognise that further reforms regarding the IMF's mandate, scope and governance will be warranted to strengthen the IMF so that it better meets the needs of its membership and fully addresses the challenges posed to the global economy in the 21^{st} century. EU members will continue to contribute constructively in this process.

IMF resources

18. We welcome the global efforts undertaken over the last months to treble the resources available to the IMF to address the financial needs related to the current crisis. EU Member States, by pledging up to 125 billion euro to the NAB, representing 35% of the total NAB increase, have contributed their share to supplement the IMF’s financing capacity. This will allow the IMF to continue to respond to the financial crisis and to support growth in its member countries.

19. The discussions on the modalities of the enlarged, expanded and modified NAB should be pushed forward with resolve. In line with the commitments made at the London Summit and the last IMFC, money raised under the potential IMF notes programme should be part of the new and expanded NAB. We support the inclusion of a review clause in the new NAB agreement, in order to take account of the impact of the new quota increase (which should be completed by January 2011) and the long-term resources needs of the IMF.

20. EU Member States welcome the IMF's SDR allocation of USD283bn in total. This will be an important liquidity buffer for countries. However, SDRs should not become a substitute for traditional IMF lending programmes. Many EU countries are participating in the standing voluntary arrangements and we encourage other countries to do the same to help guaranteeing the liquidity of the SDR. As the allocation is large, its implications both for countries that intend to use it and for other countries should be monitored in regular reviews by the IMF Board. In its regular reviews, the IMF should continue to consider whether a partial cancellation of the allocated SDRs would be warranted, in view of the global outlook and a reassessment of the global need of reserves at that time. EU Member States are willing to consider, on a voluntary basis, a post-reallocation of SDRs to support IMF lending to the poorest countries, subject to further technical work by the IMF on the scope and modalities of such a redistribution.

21. EU Member States reaffirm their commitment to continue to contribute to the resolution of the current crisis through the Community's Medium-Term Financial Assistance Facility, alongside the IMF and other international donors. We welcome the close cooperation with the IMF in designing the lending programmes for Hungary, Latvia and Romania and pledge to continue such cooperation in the future.

IMF reform

22. IMF reform should include quotas, voice, mandate and governance issues. The benefits of quota and voice reform will be greater if they are accompanied by measures to improve the IMF's internal governance as effective and efficient internal governance arrangements are critical to the IMF's performance.

23. IMF reform should follow the following principles: First, all elements of reforms have to be dealt with together and in the same time-frame. Second, the reform should be based on objective economic and financial criteria, consistent with the IMF's core mandate, and not on political criteria. Third, equal treatment must be afforded to all IMF members. Fourth, the IMF should remain a quota-based institution. Fifth, the reform process should be fully anchored within the relevant IMF bodies, and should engage all members of the IMF.

24. On governance, the 2008 quota and voice reform should be ratified as a matter of urgency by all IMF members, as a basis for the next review. The EU is committed to the goal of aligning members' quotas and voice with their relative weight in the world economy and reiterates its support for a general quota review by January 2011. We share the expectation that this review will lead to a shift in quota share to dynamic emerging markets and developing countries of at least five percent from over-represented to under-represented countries using the current quota formula. We insist that the process of implementing this reform should be objective and formula-based so that it affords equal treatment to all IMF members. The IMF has already developed transparent procedures for the calculation of quotas, and any change would need to be justified according to the principles for reform set

above. We also recognise the need to protect the position of low-income countries. EU countries are ready to play their part in achieving these objectives.

25. The size of a possible quota increase should aim to ensure that IMF quota-based resources are commensurate with the long-term needs of the IMF.

26. EU members are ready to consider in more detail lowering the thresholds required for special voting majorities to reduce the possibilities of blocking minorities. Double-majority voting on a wider range of IMF policy/regulatory issues also deserves further study, provided it does not undermine the IMF's decision-making capacity. EU members also support strengthening the IMF's decision making processes.

27. While reforms to enhance the effectiveness of the Executive Board are important, the EU believes that the current size of the Executive Board reasonably strikes the right balance between inclusiveness/legitimacy and an effective functioning of the Fund. Lowering the number of chairs from 24 to 20 would be unlikely to yield efficiency gains, while reducing notably the variety of views of the Fund’s member. We are therefore not in favour of a reduction of the size of the Board.

28. EU Member States support a strong Executive Board responsible for conducting the Fund's business, as stipulated in the Articles of Agreement, including strategic and operational decision-taking. At the same time, consideration should be given to greater involvement of the Governors in providing strategic direction to the Fund and increasing its accountability. EU members are prepared to consider the possibility of activating a Ministerial Council or reforming the IMFC. A proper delineation of tasks between Governors, the Executive Board and IMF management would be necessary in order to ensure efficient governance.

29. EU members support a merit-based and transparent process for the selection of the heads and senior management of all international institutions, irrespective of nationality. We call on the IMF and the World Bank to come forward with concrete proposals in this respect. A balanced distribution of IMF staff is desirable, in terms of geographical origin as well as professional background.

30. The IMF's mandate and facilities should be reviewed in order to clarify the IMF's role in preventing and responding to global financial and economic crisis, including its role in a better oversight of the capital account, in promoting global financial stability and in rebalancing growth, and in analysing whether policies pursued by individual countries are consistent with more sustainable and balanced trajectories for the global economy.

Surveillance framework

31. The economic and financial crisis has highlighted the relevance and need for effective, candid and independent surveillance, including of the financial sector, to ensure the proper functioning of the global economy. EU members fully support measures to strengthen further the IMF's bilateral and multilateral surveillance, and to increase the traction of surveillance, with a view to strengthening the IMF's crisis prevention role. In this context, the statement of surveillance priorities should play a central role in ensuring that IMF surveillance is well targeted and accountable. All IMF countries should commit to the timely publication of surveillance reports.

32. We welcome the work on the joint early warning exercise of the IMF and FSB to enhance macro-prudential surveillance, and welcome its launch at the Annual Meetings in Istanbul. This will be an important contribution in helping to identify systemic macro-financial risks and weaknesses arising from the financial sector and regulation, and assist multilateral surveillance.

33. EU members support overall assessments of IMF members' financial sectors through regular implementation of Financial Sector Assessment Programmes (FSAP), in particular for all systemically relevant countries. In this context, we welcome the planned overhaul of the Financial Sector Assessment Programmes. As a result, the FSAP should be more flexible, targeted and better integrated into bilateral surveillance.

34. Also, we welcome and support efforts to enhance the IMF's role in global and regional surveillance and multilateral dialogues, to reflect the integration of the global economy and improve the understanding of how national policy frameworks fit together. This will contribute to better manage the transition to a more balanced pattern of global growth. In this context, we welcome steps undertaken to improve the consistency of the World Economic Outlook, the Global Financial Stability Report and the Early Warning Report. We call on the IMF to continue with this work.

Role of the IMF in low-income countries (LICs)

35. Stepping up international support is required to support macroeconomic and financial stabilisation of LICs and to overcome the adverse effects of the global crisis. We welcome the review of the IMF's financial facilities for LICs which should increase the efficiency of these instruments, consistent with the Fund's mandate, and supporting poverty reduction and debt sustainability. We also welcome the significant increase in lending by MDB's.

36. Since the demand for IMF concessional financing has increased significantly, additional resources are being mobilised. Increases in the IMF's concessional lending capacity need to be supported by clear options for financing additional subsidy resources. This must be supported by ongoing close engagement by the Fund with all LICs, to provide the advice they need to help them cope with the crisis. Close co-ordination with other major development institutions is necessary. We have committed, consistent with the new income model, to use additional resources from agreed gold sales, together with surplus income, to provide additional concessional and flexible finance to the poorest countries. Surplus revenues from gold sales to be used for LIC financing must be assessed in the light of the New Income Model and uncertainty over the future price of gold. It is important to maintain long-term sustainability of PRGF-ESF resources given the uncertainty over the future demand for concessional resources by LICs. We note that the IMF is currently exploring the possibility of raising additional subsidy resources in the form of direct contributions by members.

37. It is important to help restore and preserve debt sustainability in low-income countries. The goal of the IMF/World Bank debt sustainability framework (DSF) should continue to be to help LICs meet their development financing needs without re-accumulating unsustainable levels of debt. Debt sustainability must remain an integral part of IFIs lending to LICs. However, on the basis of a case by case analysis, LICs with strong fiscal frameworks and debt management capacity could be given more flexibility with regard to concessionality requirements without jeopardising long-term debt sustainability. Additional borrowing by these countries to better leverage resources for high-return investments may be justified. Co-

ordination with official and private creditors that do not apply the DSF in their lending decisions needs to be improved, as should the debt management capacity in LICs.

Non-cooperative jurisdictions

38. EU countries remain strongly committed to reinforced action towards uncooperative and non-transparent jurisdictions that lack compliance with agreed international standards in the areas of taxation, financial supervision and money laundering, counterfeiting and terrorist financing. We welcome the progress made over the last months to develop a comprehensive framework for identifying non-cooperative jurisdictions, and call on all parties to contribute to putting such a framework in place swiftly. In particular, we support the production of a compliance snapshot of non-cooperative jurisdictions, and the development of a toolbox of measures that promote adherence to the international regulatory standards. The IMF, together with the World Bank, has an important role to play in evaluating compliance.