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On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste

**Statement by the Honorable Giulio Tremonti
Minister of Economy and Finance, and Governor of the IMF for Italy
Speaking on behalf of Albania, Greece, Italy, Malta,
Portugal, San Marino, and Timor-Leste**

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1. The Global Economy

The global economy grew more than expected in the first half of the year; however, this result masks diverging trends among regions and countries. Most emerging economies are growing at rates close to those achieved before the crisis, while the pace of the recovery has significantly weakened in the US and Japan; by contrast, there has been a sharp acceleration of economic activity in Europe.

Last May financial markets suffered another wave of volatility, triggered by concerns about fiscal conditions in some European countries. However, unprecedented initiatives taken by the European Central Bank, including the Security Markets Program (SMP) and by the euro area members, most notably the European Stabilization Mechanism (ESM), coupled with the prompt adoption of credible fiscal stabilization programs by a number of European countries succeeded in stabilizing the situation and in containing the spillover effects. Concerns that the sovereign debt crisis could hamper the global recovery proved overstated, although spreads in some peripheral countries have not retreated.

The global recovery remains fragile because fundamental adjustments in both advanced and emerging countries have not been completed. Growth in most advanced countries still relies on the fiscal stimulus enacted last year and the upsurge in exports. Unemployment remains stubbornly high and it undermines a sustained upturn in private demand. Most emerging countries have resumed growing at the pre-crisis levels, but they remain dependent on exports to advanced economies. Furthermore, only limited progress has been achieved in rebalancing global demand from external deficit economies to external surplus economies, including higher exports in the US and lower exports in emerging Asia.

The uncertain prospective of the recovery in advanced countries will require striking a careful balance between the need for continuing to support the economy (mostly through accommodative monetary policies) and the goal of ensuring fiscal sustainability in countries with high debts and deficits. The fragility of the current recovery also underlines the need to address a fundamental weakness of the global economy, namely the persistently high level of global imbalances. After an initial improvement brought about by the sharp decline in demand from advanced countries, excessive trade surpluses and reserve accumulations have reappeared as central features of the global economy. Greater efforts and closer policy coordination are required to rebalance global demand from external deficit economies to external surplus economies.

Nevertheless, recent initiatives in the foreign exchange markets cast some doubt about the determination of some G 20 countries to address these issues in a coordinated way. On the contrary, well-designed structural policies are essential to foster the productive potential and to support global demand rebalancing. Labor and product market reforms are particularly crucial in tackling the challenges posed by high and persistent unemployment in many advanced economies. Fostering competition and lowering markups are essential in order to boost labor demand, increase real wages, and ultimately increase private consumption and investment.

2. Developments in the Members of the Constituency

In **Italy**, the pace of the recovery strengthened in the second quarter of 2010. Recent indicators point to further economic recovery in the second half of the year, although at a reduced speed. This trend is in line with those expected in other European countries, as growth in the region remains dependent on the waning fiscal stimulus – most of which are temporary - enacted during the crisis and the temporary upsurge in demand from emerging countries, mostly for capital goods.

The recovery in Italy should be supported by the absence of major imbalances. The Italian banking system remained largely immune from the turbulences of the international markets, and the real estate sector was affected only marginally by markets' corrections. The level of the private sector debt with respect to GDP is relatively low compared to other advanced countries.

Unemployment has remained below the euro area average due to several measures enacted in order to retain workers despite the slack in production and new active labor market policies. Subdued demand has dampened price increases so that inflation in Italy is broadly in line with the euro area average, thus closing Italy's HICP differential.

Fiscal policy has remained prudent during the crisis, as the anti-crisis policies implemented in the past two years consisted of well-targeted and temporary measures. The goal of achieving fiscal consolidation in line with the commitment under the Stability and Growth pact (reduce the deficit below 3.0 percent by 2012) strengthened with the measures approved over the summer. Thanks to extensive reforms enacted in major entitlement programs in the past several years, the long-term prospects for fiscal sustainability in Italy is quite favorable; indeed, according to IMF projections, the degree of fiscal adjustment required to lower the gross general government debt-to-GDP ratio back to 60 percent by 2030 is the second smallest in the euro area, after Germany.

Recent policy measures confirm the commitment to pursuing an ambitious program of structural reforms to increase productivity and foster potential growth. The additional measures introduced over the summer ensure an automatic balancing of the impact of ageing on public accounts, linking the retirement age to life expectancy at regular time intervals.

Furthermore, fiscal federalism tackles one of the long-standing structural issues of improving the efficiency of the public sector as well as that of reducing the gap in the regional divide

between the Northern and the Southern regions. To encourage better management of public property, some real estate property has been recently transferred from the central government to local governments. Transfers from the center to the local level will be reduced correspondingly. Far-reaching measures have also been taken so as to reduce red tape for businesses and promote foreign direct investment as well as spur labor productivity.

The **Albanian** economy has managed to preserve positive growth rates in spite of difficult internal and external financing conditions as well as remaining uncertainty in the domestic activity. Economic activity has benefited from a noticeable pick-up in external demand, while domestic demand has been sluggish and has still been affected by high uncertainty in the household and corporate sector, difficult financing conditions, and the declining impact of the fiscal stimulus. The overall consensus for 2010 is that the Albanian economy will grow at a rate comparable to the previous year. It is important to note that contrary to 2009, this growth will be generated and supported by the private sector.

Overall, macroeconomic policy has been stimulating, with monetary policy playing an ever increasing role in supporting the economic activity. The Bank of Albania pursued a progressively easier monetary policy, and the policy rate was brought to a historical low of 5.00 percent. On the other hand, fiscal policy has been noticeably more cautious throughout the year, as the fiscal space has narrowed and public debt has approached the ceiling of 60 percent of GDP, stipulated by law. The revised budget passed by the Albanian parliament, with roughly a 10 percent reduction in overall expenditures and a 23 percent reduction in budget deficit, speaks of the strong commitment of fiscal authorities to both the short-term macroeconomic stability and the long-term fiscal sustainability.

Inflation projections indicate that CPI inflation will remain within the Bank of Albania's target, with a slightly decreasing trend over the short to medium run. Inflation expectations are well anchored to the Bank of Albania's objectives and monetary conditions remain tailored to the performance of economic activity. Regarding the external sector, we have seen some encouraging signs of corrections in both the trade and the current account deficit. The latter has improved by almost 6 percentage points of GDP through the second quarter of 2010, on the back of double digit export growth and controlled imports. The better match of supply and demand for foreign currency has resulted in a more stable exchange rate and exchange rate outlook.

The credit to the private sector and financial intermediation continue to be slow, in view of lower credit demand and tighter credit standards applied by the banks. The Bank of Albania is increasingly pushing the banks to expand their lending activities without decreasing their due diligence in the process. The Bank of Albania's supervision has proved prudent. The tightening of the credit standards and regulations by the Bank of Albania in the previous years have paid dividends in terms of delivering a stable, liquid, and well-capitalized banking system in this challenging environment.

The financial markets recently have improved noticeably, whereby they have registered increased activity, lower uncertainty, and a declining trend of both short- and long-term interest rates. Domestic banks display stable liquidity positions, and decreased fiscal

pressures and the easing monetary policy have underpinned a steady decline in interbank and primary markets for government papers.

During the past year, the **Greek** economy has been the epicenter of a major economic and financial crisis. The crisis has been marked by a sharp widening of spreads on Greek financial instruments and the closing of international capital markets to Greek entities. It originated in the country's long-standing fiscal and external imbalances. The crisis confronted the Greek authorities with important challenges: regaining control over public finances; and tackling long-standing impediments to growth, jobs, and wealth creation that had undermined international competitiveness.

A key part of Greece's response to the crisis is represented by the combined EU-IMF package amounting to a total of EUR 110 billion agreed last May. The package is unprecedented and is based on strict conditionality criteria dealing with fiscal and structural policies.

Policy implementation has made a strong start. The adjustment program involves a frontloaded fiscal adjustment program that is being rigorously implemented. The deficit is down by more than 30 percent in the first eight months of 2010 and is on its way to meeting the 8.1 percent deficit-to-GDP target set for 2010 (5.5 percentage points lower than in 2009). This improvement has been the result of a determined effort to reduce expenditures and raise revenues. Specific measures taken so far include a 15 percent salary cut in the public sector, a 10 percent cut in public and private sector pensions, a 30 percent cut in government operating expenditures, a 4 percent hike in value-added tax, and a 30 percent increase in excise taxes.

With regard to the structural policies, the adoption of far-reaching pension and labor-market reforms are ahead of schedule. In addition, the tax-collection mechanism is being revamped to substantially reduce tax evasion, local administration is being rationalized, a new rules-based framework for executing and monitoring the government budget is being introduced, an independent statistics authority has been established, and a Financial Stability Fund, which will serve as a "backstop" fund for a banking system currently suffering from the sovereign crisis, has been set-up. At the same time, the government is formulating a wide-ranging privatization program that will increase the degree of utilization of Greece's public resources.

The Greek government believes that the economic crisis has served as a catalyst to put the public finances on a sustainable footing and to sharply improve competitiveness. The adjustment program is serving as the vehicle to bring about the changes in these areas so that the economy is transformed into a dynamic, competitive economy - one that will raise employment and living standards for Greek citizens.

The recovery in the **Maltese** economy, which began in the last quarter of 2009, gathered pace during the first half of this year. GDP expanded by around 4 percent from a year earlier in each of the first two quarters of 2010. Economic growth was underpinned by a sharp rise in exports, as manufacturing and tourism rebounded, while private consumption and investment

also contributed. There is also more buoyancy in the labor market with the unemployment rate dropping to 6.5 percent in July from 7.3 percent in the same period of 2009.

Inflation has also picked up, however. The annual rate of inflation, which had fallen to -0.4 percent by December 2009, increased to 3.0 percent in August of this year. The acceleration partly reflects rising energy prices, influenced, in turn, by the price of oil, but the strong performance of the tourism sector has also fed into higher prices.

The recovery in exports outweighed an increase in imports, giving rise to a reduction in the deficit on the current account of the balance of payments. This narrowed to 3.2 percent of GDP during the four quarters leading up to March 2010 from 9.0 percent during the four quarters leading up to March 2009.

The Maltese financial sector, which survived the financial turmoil virtually unscathed, remains stable. Banks' funding structure remains robust, capital adequacy ratios remain well above the regulatory minimum, and liquidity risk is low. Nevertheless, this outlook is subject to uncertainty, with the system being susceptible to any weakening in the recovery, while weaknesses related to the property market continue to be a source of vulnerability.

As the economy recovers, the focus of macroeconomic policy-making will be fiscal consolidation. Partly as a result of measures taken to sustain the economic recovery, the deficit is projected to widen slightly this year to 3.9 percent of GDP, while the debt ratio is expected to rise marginally to 69 percent of GDP. The government is committed to reducing the deficit below 3 percent of GDP by 2011, largely through the phasing out of stimulus measures and expenditure restraint, aided by the favorable impact of economic growth.

Fiscal consolidation is expected to be accompanied by further reforms to market structures in order to increase productivity and enhance competitiveness. In this regard, investment in education and the physical infrastructure will be given higher priorities as the authorities seek to achieve sustainable long-term growth through a further diversification of the economy's productive base.

After a significant contraction in 2009, with growth at -2.6 percent, the economic activity in **Portugal** restarted expanding in the beginning of 2010. For this year as a whole, it is projected to grow at around 1.1 percent, slowing down to a virtual standstill in 2011. The first half of 2010 would suggest a stronger performance. However, the deterioration of external financing conditions made it urgent to address the country's macroeconomic imbalances and structural vulnerabilities. The second half of the year will already reflect the budgetary consolidation and deleveraging by firms and households. Private consumption is expected to decelerate, and investment and public expenditures will contract, while net exports will continue to provide a positive contribution to growth.

In 2009, the public deficit increased to 9.3 percent of GDP, from 2.8 percent in 2008, and the debt ratio increased to more than 75 percent of GDP. To restore confidence and limit the deterioration of financing conditions, the authorities are focused on the consolidation of public finances. Measures undertaken in the second half of 2010 include tax increases and

the phasing out of the previous emergency discretionary fiscal stimulus. This year's public deficit ratio is expected to decrease by 2 percentage points, and a deficit ratio of 3 percent is foreseen by the authorities for 2012.

The four largest Portuguese banking groups took part in the EU-wide stress testing exercise. The results show that the Portuguese banking system is resilient to the demanding conditions considered in the stress tests. Nonetheless, the elevated sovereign risk premium and persistently high uncertainty impact negatively on banks' funding conditions. In such a difficult global environment, public sector imbalances impinge on the rest of the economy as banks' financing conditions translate into more expensive credit and tighter credit standards for firms and households. Expensive and scarce credit will impact both investment and consumption.

After a negative rate in 2009, inflation seems contained and no significant pressures are expected. Labor market conditions remain subdued. The unemployment rate increased to 10.6 percent in the first and second quarter of 2010, and employment posted negative growth rates. The gap between investment and savings is expected to continue its recent downward trend. Still, external financing needs may represent about 9 and 8 percent of GDP in 2010 and 2011 respectively.

Fiscal consolidation is critical for successful adjustment. However, structural reforms must proceed in order to sustain and improve growth prospects.

San Marino's economic growth has slowed down considerably in the current year, due to external factors associated with a decline in trade flows and domestic production.

Against the crisis affecting the economic and financial system, the government is implementing a strict budgetary policy to curb costs and, at the same time, adopt measures to boost the key sectors of the economy, taking also into account the necessary structural measures to convert the sectors most affected in terms of competitiveness, including the financial system.

The adverse effects of the current downturn have resulted, in particular, in a drop in GDP (which could settle at -7 percent at the end of 2010) and a shortfall in tax revenue, depending mainly on reduced single stage indirect tax (Monofase) revenue (-20 percent in 2009 and -10 percent in 2010), but also on a decrease in bank revenues. However, the adverse effects thereof have been partially mitigated through current expenditure restraint. Against the decline in the tax revenue, the government is accelerating the reform process of the tax system, by taking measures to increase the tax base.

Also employment has registered a decline and the unemployment rate rose from 2.44 percent in July 2009 to 3.05 percent in July 2010.

Notwithstanding the negative trends in the economy, the country's borrowing is still moderate. This has been a common feature of the financial policy pursued by the Republic of

San Marino over the years which, together with adequate levels of liquidity, allows the authorities to have the necessary resources to finance the 2009 and 2010 budget deficits.

In the last 12 months, the San Marino financial system has experienced a sharp decline in terms of total assets. Against this background, the authorities underscore that the Central Bank's action has been focused on maintaining the stability of the banking sector by strengthening the controls over authorized parties, in order to allow only the intermediaries meeting the necessary requirements of capital and organizational adequacy to operate in the market. They also note that the Central Bank has been carrying on the on-going process to align supervisory rules and practices with the best international standards.

Finally, the San Marino authorities have stated their commitment to pursue action aimed at combating money laundering and terrorist financing, improving and strengthening transparency and cooperation, and ensuring an effective exchange of information, in accordance with internationally recognized and accepted standards. This commitment has been acknowledged by the Moneyval Committee of the Council of Europe, the OECD, and the FATF.

Despite its petroleum wealth, **Timor-Leste** remains one of the poorest and least-developed countries, but it has been growing rapidly in the past 3 years. Due to its limited integration in the global economy, the country was largely isolated from the global crisis. Following civil unrest in 2006 and a drought in 2007, the economy rebounded strongly as the security situation improved, and the government raised spending on poverty alleviation (through transfers in cash to the most vulnerable; rice subsidies to buffer the impact of the global food price shock on the urban poor; distribution of seeds and fertilizers to boost agricultural production; and investment in health, education, and infrastructure). These measures have successfully reduced poverty. According to World Bank reports, poverty decreased by 9 percent from 2007 to 2009. Private business activity remains moderate, but foreign direct investment has picked up recently. As a result, non-oil GDP grew at a double digit rate on average during 2007-09. Inflation has fluctuated in parallel with international food and energy prices. The urban (Dili) CPI is currently running at 6½ percent, and is expected to settle at around 4 percent in 2011.

The key challenge for fiscal policy is managing the abundant petroleum income in order to develop a sustainable non-oil economy. In April 2010, the government presented the summary of the Strategic Development Plan 2011-30. This plan sets a GDP growth target of 12 percent per year during 2010-20, and 10 percent during 2020-30. The government believes that, while ambitious, this growth target can be reached by significantly increasing investment in health, education, and infrastructure. The financing will come mainly from the Petroleum Fund, but the government is also considering borrowing from multilateral and bilateral donors. To accelerate the development of Timor-Leste, a mid-year supplemental 2010 budget was approved that foresees a steep increase in capital spending by 35 percent already this year.

These measures are aimed at creating the basic conditions for the development of non-oil economic activities. However, the underlying fragility of this post-conflict country remains

highly visible on the still worrisome levels of poverty. Timor-Leste is determined to continue the implementation of a very ambitious reform agenda in order to develop the country, and benefit both the current and future generations.

3. IMF Issues

We welcome the reports on the Fund's mandate as well as on quota and governance reform submitted by the Executive Board. We support the pragmatic approach followed by the Fund which has already delivered remarkable results, especially on enhancing financial sector surveillance and modernization of the Fund's financial lending toolkit. On governance and quota reforms, further efforts are needed in order to reach a final agreement. We are confident that the deadline of January 2011 will be met and we renew our commitment to contributing to a compromise.

A. Mandate

Surveillance

The Fund has made important progress following the IMFC's call in April to take concrete steps toward strengthening Fund surveillance. The spillover reports approved by the Board in September have the potential to raise the members' awareness of their responsibilities toward preserving global financial stability, and to more clearly highlight the risks faced by countries affected by international spillovers.

In the same vein, the Financial Stability Assessments (FSAs), which have been approved under the FSAP as a mandatory part of Article IV consultations for members with systemically important financial sectors, can significantly help achieve a better and steady coverage of financial sector issues in bilateral surveillance.

However, for the new stability assessments to effectively improve the coverage of financial sector issues in bilateral surveillance, it is imperative to more closely integrate their findings into Article IV reports, which remain the primary vehicle for systematic and ongoing bilateral financial sector surveillance. To this end, the key is to ensure that recommendations drawn from stability assessments are fully and timely followed up on in subsequent Article IV consultations. In the absence of such a follow up, there is a risk that stability assessments turn out to be a stand-alone exercise.

We recognize the potential benefits that a Multilateral Surveillance Decision (MSD) could bring in, not least in terms of procedural clarity. However, there are risks that the formal approval of an MSD by the Executive Board may turn out to be a lengthy process. We are open to discussing further the case for an MSD on the occasion of the Triennial Surveillance Review in 2011.

We continue to believe that a closer involvement of the IMFC in discussions on the main findings highlighted by Fund surveillance, including in the spillover reports, can improve its traction and can strengthen the peer review process.

Financial sector surveillance takes center stage in the Fund's crisis prevention activities, even more so in the aftermath of the global crisis. It is important to ensure that the new surveillance initiatives by the Fund receive adequate resources.

Lending

IMF lending is a key instrument for crisis resolution, and may also play an important role in crisis prevention. As it helps reinforce global financial stability, it is part of a broader safety net that includes multilateral, regional, and bilateral instruments. Against this background, we appreciate the Fund's pragmatic approach to proceed only with the reforms on which a broad consensus has recently emerged, namely the enhancement of the Flexible Credit Line (FCL) and the establishment of the Precautionary Credit Line (PCL), while allowing more time and a deeper analysis of the motivations and consequences of a new policy establishing a Global Stabilization Mechanism (GSM).

Flexible Credit Line (FCL). We welcome the recent reforms aimed at increasing the FCL predictability and flexibility. Going forward, it is critical to retain the FCL's "platinum" qualification standard. In order to mitigate moral hazard risks, it is also crucial to enhance the safeguards to preserve the Fund's financial integrity. Accordingly, it is of the utmost importance to strengthen the procedures by keeping the Executive Board timely informed of developments in members with FCL arrangements and by providing a rigorous assessment of financing needs, capacity to repay, and impact on Fund liquidity for the higher-access arrangements. It is also fundamental to design clear exit strategies from FCL arrangements and to set stronger incentives to pave countries' ways out of the facility.

Precautionary Credit Line (PCL). We welcome the establishment of the PCL for countries that meet stringent qualification criteria but would also be required to commit to a set of policies addressing vulnerabilities. In trying to meet the needs of those countries, we must be mindful of moral hazard risks as well as the need to preserve the Fund's resources. Therefore countries that do not meet the FCL's eligibility criteria should continue to be subject to ex-post conditionality. Accordingly, it is clear that countries will not qualify for a PCL arrangement if they have actual balance of payments needs, the inability to access international capital markets, unsustainable debt positions, or if they are in need of large macroeconomic or structural adjustments.

Ex-post conditionality would foster market confidence as it will make it clear that a country is addressing policy shortcomings. In addition, it would help members' efforts in gaining the support of domestic political constituencies. However, given the prominent role of ex-ante conditionality (strong performance in most of the FCL's qualification criteria with no substantial underperformance in any of them), ex-post conditionality should be tailored to the members' specific circumstances and should be focused on those areas where vulnerabilities have been detected.

Global Stabilization Mechanism (GSM). We maintain reservations on the proposal of establishing a GSM and we welcome the decision of dedicating further work on this issue in order to address the significant concerns regarding its design and function. In particular, we remain perplexed by the "unilateral offer" nature of this facility; so long as countries are the

ones determining whether they need assistance, they should approach the Fund accordingly. Moreover, we are concerned by a number of other potential problems related to the activation of the GSM, including sending the wrong signals, moral hazard, and the potentially very high impact on Fund resources. We are also very doubtful about the appropriateness of financing such a mechanism through general allocations of Special Drawing Rights.

Going forward, we encourage the Fund to elaborate on the possibility of using the existing tools to cope with systemic crises, and allowing for open and transparent consultation and coordination with members, regional institutions, and systemic risk bodies. In this respect, any proposal should take into account the specific members' institutional requirements, including those stemming from their membership in currency areas. In particular, the scope for greater synergies between the Fund and regional-financing arrangements, such as with the European Stabilization Mechanism, need to be further explored in depth.

B. Quota and Governance

We reiterate our strong commitment to reaching a compromise and agreeing on a set of proposals that can be endorsed by the membership in time for the envisaged deadline of January 2011. The recent work by IMF staff confirms that it is possible to achieve the targets we agreed upon last year in Istanbul, such as a shift in the quota share to dynamic emerging market and developing countries of at least five percent from over-represented countries to under-represented countries using the current quota formula as the basis from which to work, while protecting the voting share of the poorest members.

The issues of quota and governance have become increasingly intertwined as part of a package, notably after the US's decision not to support the Resolution regarding the 2010 Regular Election of Executive Directors; thus the stake has been raised. Failing to reach a compromise would seriously undermine the credibility and effectiveness of the Fund. This would represent a major setback for an institution that has regained its central role in the international financial system and has been entrusted by unprecedented amounts of resources by its members. Even a delay in taking a decision will have serious consequences, including the need for further negotiations that would distract the Fund from other important matters. The international community would hardly understand the Fund's obsessions with internal matters while the current economic situation poses new challenges to the global stability.

Quota Review

Size of the Fund. As no general quota increase has been approved since 1998, the size of quota resources has shrunk substantially relative to any metrics of the global economy. In addition, the recent increased use of the Fund's resources for SBAs would support the case for a substantial increase in the quota size. However, the overall size of quotas should primarily take into account the IMF's long-term ability to meet member countries' balance of payment financing needs. On balance, we believe that a compromise could be reached by envisaging a substantial quota increase, up to doubling of actual quotas.

To preserve the nature of the IMF as a quota-based institution, it is necessary to maintain an appropriate balance between quota and borrowed resources. Accordingly, the size of the NAB should be re-discussed once the Fourteenth Review is completed.

Quota Shift. We remain convinced that the main objective of the quota review should be to substantially reduce the gap between actual and calculated quotas of the Fund's members, using the 2008 quota formula as a basis. The redistribution of quotas has to ensure the reduction of out-of-lineness and crucially prevent over-represented countries from becoming under-represented.

The most recent simulations by IMF staff confirm that the envisaged shift of at least 5 percent from over-represented to under-represented members guarantees a shift of at least 5 percent to dynamic emerging and developing countries and, at the same time, a sizeable increase in quotas of EMDCs as a group.

The shift should be based mainly on a selective-quota increase distributed to all members using the quota formula. However, in order to reach a consensus and to address a range of other issues, including the protection of the quota shares of the individual poorest countries, it is realistic to contemplate some ad-hoc elements in the redistribution. Such ad-hoc components could also be based on some relevant elements as the GDP blend. We are confident that a broad consensus could be found along those lines.

Protection of the Poorest. We reiterate our strong commitment to protecting the voting share of the poorest members. In addition to the protection provided by the agreement reached in the context of the 2008 reform of maintaining basic votes at the same share of total votes, we see merits in providing part of the ad-hoc increase to individual countries within the group of Low-Income Countries (LICs).

Governance Reform. To enhance the legitimacy and effectiveness of the Fund, it is of the utmost importance to make progress on a number of governance issues, and not just on the realignment of quota and the size of the Fund's resources. Among the top priorities to be implemented simultaneously with the quotas and size reforms are the selection of management; greater involvement of ministers in the Fund's activities; the Board's composition and size; voting majorities; and staff diversity.

Ministerial Engagement and Oversight. We welcome the improvements introduced in the IMFC working processes. However, while they are useful, they seem limited in scope, and insufficient to ensure the necessary political engagement. Thus, we see merits in the proposal of transforming the IMFC into a decision-making body that would enhance the involvement of ministers by conferring to it some decision-making powers.

The Executive Board. In order to be effective, the reform should clearly identify the respective responsibilities of the Governors, the ministers, the Executive Board, and management, as well as increase the accountability of the Executive Board and management. The Executive Board should continue to be at the center of IMF governance, and should be responsible for conducting the business of the Fund, for using Fund resources, and for preparing decisions or recommendations of the reformed IMFC as well as implementing its guidelines. In particular, care must be taken not to undermine the responsibilities of the Board in overseeing the activities of management and staff.

Size and Composition of the Executive Board. Any decision on the optimal size and composition of the Board should take into account a multiplicity of objectives, sometimes at cross-purposes with each other. If the objective of the reform is to enhance the legitimacy of the Board, a strong case could be made for its enlargement rather than the reduction of its chairs. Indeed, this is the approach taken by the World Bank. On the contrary, if the overriding goal is to increase the Board's efficiency, then its size should be reduced considerably, as a reduction by two or four chairs would not make much of a difference. Considering all of these points, we believe that the current size of the Board strikes the appropriate balance between legitimacy and effectiveness, and we are in favor of changing the Articles of Agreement to establish the size of the Board at 24 chairs.

Management Selection and Staff Diversity. We support an open, transparent, and unbiased process for the selection of the Managing Director and Deputy Manager Directors. Each candidate should be considered on his/her own merits, regardless of nationality. It is however essential that this move apply also to all international financial institutions, including the World Bank.

A balanced distribution of Fund staff, in terms of nationality, gender, education, and professional background, would be beneficial for the Fund and would better reflect the diversity of its membership. The introduction of the diversity scorecard in 2009 has proven to be a very useful tool to help management foster greater diversity among the staff. We encourage the Fund to make additional progress on staff diversity, especially at the most senior levels.

Voting Rules. On the voting rules, we would encourage the Fund to elaborate proposals aimed at lowering the thresholds required for special voting majorities with a view to reducing the possibilities of blocking minorities and to contributing to more inclusive decisions. Further work on double-majority voting on a limited range of issues would also be welcome.