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Statement by Jan Kees de Jager
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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 and policy priorities

The global economy has come back from the brink in the past six months, thanks in large part to resolute policy measures. Yet the sovereign debt crisis, financial sector vulnerabilities, heightened geopolitical uncertainties, higher commodity prices and resurgence of global imbalances represent high risks to the outlook. Growth has already been revised downward for both advanced and emerging and developing economies for 2012. Recent policies have bought time and led to a small increase in staff's growth forecasts, but it remains imperative to address long-standing vulnerabilities and build the foundations for a sustainable global recovery.

The escalation of pressures in the euro area in late 2011 had global repercussions, where foreign investors reduced their exposures to Europe and funding pressures within Europe led to tightening credit conditions and a blow to already fragile consumer confidence. Determined policy actions by national and European authorities, working in tandem and with the IMF, managed to stem market volatility. The Eurosystem's extraordinary measures have helped to moderate the credit crunch in the euro area and stabilize broader market sentiment. The EU's comprehensive five-point strategy for crisis response is addressing both short-term and long-term risks. In vulnerable euro area countries, there have been steady commitments for implementation of crucial fiscal and structural reforms. These need to be continued and where appropriate, intensified. Recapitalization of weak banks is progressing under the auspices of EBA. Thus far, we have no signs of disorderly deleveraging as a consequence of the EBA recapitalization exercise, although we have to remain alert to this risk. The decision to bring the ESM into full operation by June 2012, and to raise the combined European firewall's capacity, has shown that there is clear commitment to support vulnerable EU member states in their adjustment process. Europe is building a robust institutional architecture, including strong rule-based European governance, rigorous macroeconomic surveillance through the European semester and micro and macroprudential oversight and supervisory cooperation through the ESRB and ESA's. In the longer term, bold reforms – such as the creation of a European resolution authority and European deposit

insurance – can help to complete the European Single Market, under the condition of a single supervisory framework.

Not all risks emanate from Europe; there are key medium-term risks elsewhere in the world, which must also urgently be addressed. Fiscal sustainability in the United States and Japan weigh on the domestic and global outlook, and require clearly spelled out consolidation strategies to reduce the risk of a sudden loss of market confidence. Emerging market economies face difficult short-term policy choices between tightening macroeconomic policy to contain domestic inflation and financial pressures, or loosening to respond to a weaker external and thus domestic growth outlook. Global imbalances and excessive global liquidity have not been adequately addressed and will not ebb on their own; accommodative monetary policies and inflexible exchange rate policies could even aggravate these risks. Rising geopolitical tensions and the impact of higher commodity prices could have further destabilizing effects on the global economy and financial system. Hence, while we work to address the current vulnerabilities in Europe, we should not lose sight of the crucial systemic risks that are currently out of the limelight but waiting to take center stage again.

With already high debt ratios and the bulk of additional age-related spending on pensions and health care still to come for many countries, restoring sound public finances and growth pose significant and urgent policy challenges. Delaying fiscal consolidation in the face of weak growth appears particularly risky in the current circumstances, where the debt crisis has shown that market sentiment can change rapidly and unexpectedly to the worse. Market pressures could exacerbate the costs of delayed consolidation by a significant and possibly unsustainable amount. Moreover, overemphasizing the role of accommodative monetary policies while underemphasizing the urgency for fiscal consolidation can be dangerous. Monetary policy measures currently in place provide critical breathing space but do not provide a fundamental solution to the underlying problems many countries face today. In fact, unconventional policies and prolonged low interest rates can have negative effects on global savings, commodity prices and capital flows. Moreover, this can reduce the incentives to consolidate and implement necessary structural reforms, and can potentially harm the reputation and balance sheets of central banks. The impulse for sustainable long-term growth must therefore come first and foremost from structural reform.

IMF resources

The Fund's analysis has shown clearly that, in order to support a "good equilibrium" of strengthened policies and reduced tail risks at the global level, a temporary but substantial increase in Fund resources

will be required. We support such an increase, as these resources will enhance the IMF's capacity to fulfill its systemic responsibilities in support of its global membership. The euro area is aware of its special responsibility in the current circumstances. As such, the European firewall has recently been substantially strengthened, and both euro area countries and other EU member states have already committed additional resources through bilateral loans to the Fund's General Resources Account. Given the global nature of risks and potential spillover effects, we call on other IMF members to support the efforts to safeguard global financial stability by contributing to the increase in IMF resources as Europe has done in the past when major crises threatened economies in other parts of the world.

With regard to the modalities of new bilateral loans, we stress that the primary tool to mitigate risks to the IMF is the existing policies on program design, conditionality and access. Moreover, policies and rules should be applied in the same way for all Fund members, in line with the IMF's long-standing principle of equal treatment.

As the IMF increases its general resources to deal with systemic risks at the global level, it is critical that it also has the ability to fulfill its role toward low-income countries that may be hit by external headwinds in the current environment. The partial distribution of gold sale profits will bolster the Fund's PRGT subsidy resources, yet more is still needed. We call on advanced economies which have not yet done so to contribute to the PRGT subsidy and lending resources.

IMF Surveillance

The crisis has ignited a lively discussion on the demands on Fund surveillance as a crucial instrument of crisis prevention. Meanwhile, the Fund has done innovative surveillance work in the past 3 years – including the Early Warning Exercise, spillover reports, renewed work on external stability and more pointed and integrated policy messages. The Fund has been given clear benchmarks in the recommendations of the 2011 Triennial Surveillance Review (TSR) and the Independent Evaluation Office (IEO). These priorities must be implemented in a smart and measurable manner. More broadly, now is the time to institutionalize the Fund's progress on surveillance – and to ensure that the Fund is "paid to worry" about global economic and financial stability well into the future, after the concerns of the recent crisis have faded.

The most durable means to anchor Fund responsibilities for surveillance into future is through its legal framework. Currently, this framework does not adequately capture Fund surveillance activities, suffers from an exchange rate bias and does not encompass spillovers. Hence, we look forward to a new

Integrated Surveillance Decision and broadly welcome the building blocks for such a decision presented to the IMF Executive Board on 6 April. This decision should clarify the Fund's mandate for global economic and financial stability. It should better integrate bilateral, regional and multilateral surveillance, acknowledge and understand the case of currency unions, recognize the need for robust assessments of spillovers and incorporate a broader approach to external stability.

As a key element of strengthened surveillance, the Fund should play an active role in the field of international capital flows. We welcome the recent staff work on liberalizing capital flows, which moves the Fund closer toward building a comprehensive, balanced and sustainable framework for analysis and policy advice to the membership on capital flows and policies that affect them. We reaffirm that open capital accounts are the best way to promote global integration and growth for the benefit of all members. Yet recent work and national experiences show that individual countries should reach certain thresholds in financial and institutional development before launching full capital account liberalization. In practice, the pre-conditions for open capital accounts are often not met, both at the national level and at the global level – especially in the context of excessive global liquidity and volatile shifts in risk sentiment. These factors call for a careful and well-sequenced liberalization process, as put forward by staff, and for redoubled efforts to achieve the supporting conditions, through national reforms and better policy coordination at the global level. As part of a broader framework on capital flows, it will be important to look critically at spillovers from both source and recipient countries. Moreover, it will be important to keep the framework firmly grounded in empirics, and cognizant of the broader context of macroeconomic and prudential policies.

IMF governance

The 2010 quota and governance reforms constitute an important step to enhance the Fund's legitimacy. A number of countries in our Constituency have already concluded national ratification procedures and other countries are working on implementing the reforms by the agreed deadline of the 2012 Annual Meetings. We call on all IMF members to do the same.

Quotas should continue to reflect the relative positions of the Fund's members in the world economy, members' capacity to support the Fund's work and the mandate of the IMF. This means that GDP and openness should remain the main variables in the formula and that variability and voluntary financial contributions to the Fund should be adequately reflected. Given the significant increase in financial interconnectedness in the world and in the Fund's work, financial openness should be better reflected in

the formula. We support that the principles formulated for the 2008 reform of the quota formula remain relevant for the current review.

We find it particularly important that the review process of the quota formula takes place within the IMF, including the IMFC. As this is a matter of legitimacy, it must be ensured that the entire IMF membership is engaged in these discussions. But also in a broader sense should the IMFC act as a forum that provides the IMF with strategic oversight of the economic and financial situation and the role of the Fund. We very much support recent improvements of the IMFC process, such as better agenda setting, more focused and interactive discussions, more intensive IMFC deputies meetings and communiqué drafting and joint IMFC and G20 meetings. We would like to thank the IMFC chair for his efforts in this regard.