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The recovery of the world economy from the unprecedented crisis has, over the past few months been facing serious and increasing problems. The outlook points to a protracted and difficult recovery rather than a rapid adjustment which returns the process back to a sustainable path. What were, at the outset of the crisis, local financial difficulties on sub-prime markets have spread across sectors and countries, channeling risks from private to public sectors and are now the main source of global uncertainty and of the significant reduction of market confidence.

The advanced economies are still struggling with the legacy of excessive leverage and high debt which adversely affects growth, while a number of emerging economies are showing signs of overheating. The two projects aimed at rebalancing demand, domestic demand from the public to the private sector and global demand from external deficit countries to external surplus countries remain to be completed. Several of the European economies are facing a huge problem of sovereign debt which in some cases seems to be difficult to sustain.

These developments bring considerable consequences for global financial stability. After the risks to financial stability declined somewhat this spring, they are now again on the rise. An increase of individual financial risk is reflected by a clear reduction of the appetite for risk.

Over recent decades global and innovative financial markets have been increasingly driving the growth of the world economy. These markets, while bringing strong growth-enhancing effects, may also fuel, amplify and channel risks to economic growth and financial stability.

Despite some failures inherent to financial markets, it is, however, policy which has turned out to be a major factor responsible for the recent global crisis. The crisis has affected, although to varying degrees, a vast number of economies putting the concept of decoupling in serious doubt. Simultaneously, the crisis has turned out to be a country- and region-specific process with some economies hit hard, whereas others remain relatively resilient and able to weather the impact of the crisis.

In principle, it is the build-up of systemic risk due to inadequate, pro-cyclical macroeconomic policies and to regulatory and supervisory failure which can be considered as the root causes of the global financial crisis. Strong and determined policy action is instrumental for overcoming the current unbalanced,

weak global recovery and associated risks. In particular, at this moment in time, the severity of the crisis in public finances poses an extremely difficult challenge for policy makers: to strike an appropriate balance between the strength and speed of fiscal consolidation and economic growth. A possible contraction in growth increases the risk of negative and punishing assessments by the markets.

Wide-spread international financial contagion throughout global financial markets makes a case for an internationally coordinated policy response. While in difficult times more policy coordination is warranted, markets should be reassured that the policy makers are working together. Nearly all stakeholders have an interest in maintaining the stability of the international financial system as it helps to provide a more efficient distribution of financial resources across countries. However, development of global financial governance seems to have lagged behind the robust development of financial markets.

A difficult environment and increasing risks call for coordinated action aimed at achieving common goals, for financial solidarity and responsibility, including support for those hardest hit, especially by external shocks, for a fair burden-sharing of costs and non-abuse of financial support.

International financial institutions are naturally predestined to actively participate in a policy response to the global crisis. It is worth appreciating that the G20 has initiated and is overseeing the overall process of economic and financial reforms. It is the G20 economies which should lead by example in making adjustments and introducing reforms. It should also be emphasized that owing to its financial, human and institutional resources, its mandate, it's comparative advantage as well as it's global membership, the IMF is uniquely equipped to address crisis legacies and current risks to financial stability and global recovery. The Fund indeed remains instrumental in shaping policy response in the areas both of crisis prevention and crisis resolution.

Surveillance plays a critical role in crisis prevention and the recent economic downturn has highlighted the need to improve surveillance. More detailed assessment is necessary to pinpoint why the build-up of systemic risks was not adequately addressed in the run-up to the crisis. Several IMF surveillance products, including WEO and GFSR, had warned the global community of these risks. However, despite manifold warnings, policy makers were not determined enough to adjust their policies. The impact of the IMF policy advice turned out to be the sensitive, weak spot of the surveillance framework. This reluctance to implement prompt adjustments mainly occurred in some advanced countries which are normally subjected to less intensive surveillance than other groups of Fund members and it highlights the need for a more evenhanded approach to

surveillance as well as for the development of a uniform and balanced approach across both countries and issues.

We think that the preliminary 2011 Triennial Surveillance Review adequately signals current surveillance priorities. In particular, greater attention is merited by topics such as risk assessment, traction of surveillance, increasing financial interconnectedness between countries which implies an increasing vulnerability to international spillover effects.

Additionally, in view of the growing number of valuable multilateral surveillance reports, a move towards some streamlining, consistency and coherence of reports would be reasonable. In this context, a stand-alone consolidated surveillance report for the IMFC helps increase the effectiveness of surveillance.

The clear and positive role of the IMF in crisis resolution deserves to be recognized. The Fund's emergency response to the crisis, as well as further actions designed to resolve the crisis, are essentially adequate and timely. The IMF has substantially increased its financial resources, including through expansion of the NAB program, additional SDR allocation and speeding up the implementation of the 2008 quota increases and, therefore, exerting a calming effect on markets. The Fund has also adjusted its lending toolkit by introducing and augmenting new instruments, such as the FCL, for countries with strong fundamentals and appropriate policies. For three years Poland has benefited from the FCL on a precautionary basis which has served the country well and even better now, during the sovereign debt crisis. Risks to sovereign debt sustainability call for greater attention to be paid to orderly debt restructuring procedures. Work in this area may well have benefited from the Fund's past discussions on the SDRM.

The IMF has a critical role to play in strengthening global financial safety nets. This process includes cooperation between the Fund and regional financial arrangements. Inside the EU, "the six-pack" approach provides a useful example of badly needed enhancements to regional economic governance designed to address a number of institutional and structural shortcomings of the Eurozone. Regional actions in both crisis resolution and its prevention are well aligned with, and complemented by the involvement of the IMF, not only in financial terms but also by having access to the Fund's vast technical expertise.

We see great merit in the Fund participating in activities under the G20 framework on reforming the international monetary system. These activities involve a number of financial institutions at the national, regional and global level. A spirit of collective responsibility, as well as an appropriate division of

labour between participating institutions will allow for better synergy between the partners.

LIC's are especially vulnerable to external shocks and deserve particular attention and support from the IMF. We welcome the Fund's focus on enhancing its engagement in those situations where LIC's face unique challenges. The IMF's involvement should be consistent with its core responsibilities and should take into account the security of its financial position.

We also believe that the quota reform agreed in 2010 will further bring the quota system to better reflect the world's economy and finances, and will be helpful in improving the representation, credibility and efficiency of the Fund.