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At this year's Annual Meetings the role of the IMF in promoting global policy cooperation is more important than ever. Recent months have seen sentiment become more negative, reflecting greater recognition of the full extent and severity of problems facing the world economy.

Recovery is intrinsically linked to reductions of deficits and surpluses across countries: the process we call global rebalancing. This process will involve deleveraging in some advanced economies, and increased consumption and investment in some emerging markets. Generally speaking, by reorienting the composition of growth more towards consumption in emerging markets, and more towards exports in advanced economies, both sets of economies will benefit.

However the pace at which rebalancing can occur remains uncertain. Policy actions to facilitate rebalancing in one country have implications for the pace of rebalancing in others, and countries may take different views on the right speed at which to implement such policy change. Moreover, structural changes are needed – for example, to shift production to new or different industries, and supply side reforms to lift growth more generally. Such change will take time to implement and to yield results. Although some progress is being made and faster adjustment would have advantages, our outlook is that the pace of global rebalancing will be slow.

EU leaders have made commitments which, once implemented, are sure to be of great assistance to the most fragile countries and to broader European stability. However concerns have continued to grow about debt sustainability in the region. Euro zone countries in IMF programs are benefitting from program finance and advice on comprehensive and ambitious reform agendas. The agendas cover measures to facilitate fiscal consolidation and deleveraging, peel back inefficiencies, improve policy and regulatory frameworks and country competitiveness. While progress has been made we must be realistic about prospects, and careful to ensure that resource is used as effectively as possible. In the present circumstances, market uncertainty on whether the program targets will be successfully met is causing volatility and exacerbating risks.

More generally, heightened risk aversion and volatility is damaging to growth. Ensuing capital flows can be difficult to absorb, with unwelcome risks of instability or bubbles. In New Zealand we also have a rebalancing process that needs to take place. Our ability to rebalance is being constrained by a persistently high exchange rate, which is creating exceptionally difficult conditions for exporters. Alongside this, high household debt is contributing to subdued retail spending. And we continue to deal with the aftermath of devastating earthquakes.

However we are working towards a continued orderly reduction of the ratio of our debt to GDP. Growth has been supported by high commodity prices, and the Rugby World cup has provided a boost to the tourism industry. Part of our effort to tackle deleveraging is to raise national savings, through fiscal consolidation and a continual drive to improve public sector efficiency. Throughout this process monetary policy has provided support, while keeping a close eye on inflation pressures.

New Zealand's open economy and financial system provides important opportunities for growth, but also poses risks that need to be managed. Moving back to the global context, credible convincing and cooperative policies are called for. The Fund assists governments to identify policy solutions in the bilateral context, while multilateral discussion of policy is typically high-level. In these unusual times, an increase in the level of policy detail given in multilateral discussion may be called for. This would add visibility to potential policy solutions and trade-offs.

Financial market volatility is a symptom of underlying problems and imbalances, but also evidence of uncertainty as to whether policymakers will succeed in working together to fundamentally resolve existing problems. This year's meetings are an opportunity to push back on that source of uncertainty, and to clarify that our shared national interests lie in policy cooperation.

While immediate challenges to growth and recovery are at the forefront of the policy effort, regulators must also press ahead with financial sector reform. Substantial reforms have been agreed, and need to be implemented. New Zealand has implemented a new liquidity policy for banks, and expects to adopt Basel III standards, with some adaptation to suit local conditions. New Zealand has established a new Council of Financial Regulators to foster cooperation between financial and prudential regulators. However significant aspects of global regulatory concern remain, including risks associated with systemically important financial institutions and the shadow banking system. We encourage the Fund to continue to work closely with the BIS and the FSB on these matters.

In order for the Fund to maintain the high levels of authority and relevance that it needs to be effective, it must be adequately resourced and representative. We are working towards ratifying the 14th General Review of Quotas, and we are using this as an opportunity to look at streamlining our ratification process. The Fund is currently working on a revised quota formula, which we hope will go further in ensuring quota better reflects the mix of the Fund's membership.

The selection of Managing Director/President has a key impact on how representative the IMF and World Bank are perceived to be. Notwithstanding our full support for both incumbents, we believe that any link to nationality in selection of these roles needs to be removed.

I would like to briefly mention three upcoming reviews that cut to the heart of the Fund's operations: those on surveillance, lending instruments, and conditionality. We think the drive for more focus on surveillance of systemically-important countries is appropriate, and we are also pleased to observe the increased weight put on spillovers across countries and regions. The new Flexible and Precautionary Credit Line (FCL and PCL) instruments ensure that assistance can be delivered in a timely fashion, though we look forward to what the review can tell us about any challenges associated with these instruments. On conditionality, the

Fund must strike the right balance between supporting countries through crises and facilitating necessary change.

As a knowledge-based institution it is necessary for the Fund to continually review its thinking and approach. Therefore we support the efforts of the Independent Evaluation Office to ensure that the Fund's experiences are captured and learned from. We look forward to hearing more about how insights gained from these efforts are being put to use.

Alongside our support for increased systemic focus to surveillance, I would like to caution that the Fund must also retain focus on the small island states: the IMF and the World Bank have huge scope to positively affect these countries. We think this can be best accomplished through having teams that have developed long term specialized understanding of both the similarities and points of uniqueness in challenges faced by Pacific countries. Improved outcomes in the Pacific are a key focus for New Zealand, and we appreciate the work that the Fund has done in the Pacific through the regional technical assistance centre, and Fund programs in response to some of the PIC's specific adjustment plans.

Similarly, we welcome the World Bank's increased presence in the Pacific region over recent years, including through joint Asian Development Bank/World Bank country offices. We encourage this commitment to continue and build in momentum. We support progress towards development co-ordination initiatives and an enhanced development dialogue.

For New Zealand, results are about actively improving development outcomes. Like other donors, New Zealand is looking carefully at value for money and tangible outcomes for our taxpayer investment. We need to be sure that multilateral instruments are playing to their comparative advantage, and achieving stronger outcomes than we could achieve bilaterally. A practical focus on development results can help us achieve this.

We welcome the World Bank's proposed new Programme for Results lending instrument and look forward to seeing it deployed effectively in the Pacific. We welcome the Bank's revision of the Corporate Scorecard and the provision of more information on results. However there is still work to be done to see more tangible results on the ground, and to ensure that results data is used effectively. The Pacific is a region of profound potential, where innovation and nimbleness are key to unlock improved economic performance and sustainable development.

We look forward to working collaboratively with the World Bank, Pacific partners and other development partners in the coming year to make a real difference in the lives of the peoples of the Pacific and beyond.