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Statement by Jan Kees de Jager
Minister of Finance, The Netherlands

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 decelerated again in the last months. This is caused primarily by renewed volatility in global financial markets due to the European debt crisis and slowing growth momentum in the US and important emerging economies. Staff has again revised downward its projections of global growth, to 3.3% in 2012 and 3.7% in 2013, with substantial downside risks. The scale of the challenges facing the global economy highlights once again that committed policy implementation at the national, regional and global levels is essential to tackle our joint challenges and firmly put an end to the global crisis.

The economy of the euro area is expected to contract mildly this year followed by a modest recovery in 2013. This masks substantial heterogeneity across countries, with especially program countries in deep recessions. Output is under pressure from the short-term effects of adjustments which are necessary to address the debt crisis, but also from weakening global trade and a return to volatility in financial markets in the first half of 2012. Recent financial indicators show some signs of relaxation, thanks in large part to recent policy measures, including the introduction by the Eurosystem of Outright Monetary Transactions (OMT). The OMT allows breathing space for governments implementing the policies needed to achieve strong, sustainable and balanced growth. The preconditions of a macro-program, with close involvement of the Fund, underpins the credibility of – and public confidence in – these reforms.

Generally, market confidence will depend crucially in the coming months on the actions at the national level, in implementing the budgetary and structural reforms, and at the European level, in making the steps toward a banking union more concrete. Our constituency supports the creation of banking supervision, deposit insurance and resolution at the European level. Not all EU countries will be participating in this banking union. Therefore, the European supervisory authority’s remit will be limited to banks in the Eurozone countries, and banks in non-Eurozone member states that opt in. Given the importance of a level playing field and preserving the internal market, it will be vital to avoid segmentation. Furthermore, the process will have to balance the needs for timely implementation and coherent and sound design.

Growth of the US economy slowed to 1.7% in the second quarter of 2012, driven above all by low domestic consumption. Although the 2012 growth estimate has been revised upward, the economy continues to struggle with the effects of household debt overhang and the fragile housing and labor market. With a fiscal deficit of 8.7% and public debt of 107% (both revised upward since April 2012), US public finance is among the more fragile among advanced economies, and represents a key risk over the medium term. In the shorter term, political gridlock ahead of the November 2012 presidential elections has prevented a long-term deal on the debt ceiling. While markets have not priced in tail scenarios in US interests rates, recent experience suggests that the government should use the relatively benign market conditions to repair the fiscal position and prevent abrupt market shifts in the future. While the Fed's return to quantitative easing (QE3) can help support short-term demand, this too is no replacement for the necessary medium and long-term policy reforms.

Growth in emerging market economies has also decelerated markedly, though it is important to differentiate between economies. In Brazil and China, policy tightening to halt rapid credit growth has dented previously frothy growth rates. It is important for policy makers to stay on top of credit quality, which often deteriorates after periods of rapid growth toward the end of business cycles. In India, business confidence has suffered as the pace of structural reforms has disappointed. The correction in Turkey reflects a combination of lower confidence and policy tightening, while growth in Russia has been rather stable. In Central, Eastern and South-Eastern Europe, some (constituency) countries see positive structural trends in the balance sheets of banks, while other many countries are in an advanced stage of deleveraging and balance sheet repair. The risks of deleveraging by parent banks in advanced economies are salient, but growth of local financing (e.g. deposits), and greater home-host cooperation in Colleges of Supervisors, should help to alleviate risks. Generally, emerging economies are impacted by trends in global trade and financial markets, demonstrating that they have a significant stake in global economic and financial stability.

IMF surveillance

The 2011 Triennial Surveillance Review (TSR) and the debate on the Fund's legal framework have nurtured a welcome discussion of principle on what role the Fund should play in monitoring the global economy and international monetary system. We welcome the adoption of the Integrated Surveillance Decision (ISD), which will ensure a better integration of bilateral and multilateral surveillance and clarifies IMF's mandate for global financial and economic stability. We also welcome publication of the pilot External Sector Report (ESR) and the recent Spillover Report. These products highlight that aside from exchange rate policy, many other policies, including fiscal, monetary, structural and financial sector policies, can contribute to - or undermine - external stability. Beyond these improvements in Fund Surveillance, we are of the opinion that macro-financial linkages and the assessment of risks should be further strengthened in IMF surveillance. Against this background, we are positive toward the Fund’s Financial Sector Surveillance Strategy – a key pillar of the new ISD – and the priorities identified. Overall, the ISD and ESR are important steps in addressing the gaps in IMF surveillance identified by the Independent Evaluation Office (IEO) in 2011. In addition to further integration and effective bilateral and multilateral surveillance, the IEO also recommended better communication and closer cooperation between the various divisions and departments of the Fund, as well as between the IMF and the FSB. We strongly support these recommendations and encourage adequate follow-up.

IMF quota and governance

The 2010 Quota and Governance Reforms constitute an important step to enhance the Fund’s legitimacy and effectiveness. It is of utmost importance that all members continue their efforts to further improve the effectiveness and legitimacy of the institution. In this context, we call upon all members to complete the required ratification process for the 2010 quota increase and amendment to the Articles in due course.

As part of the governance reforms, Belgium, Luxembourg, and the countries of the constituency currently chaired by the Netherlands have agreed to create a new constituency by the next regular election of IMF Executive Directors. The Netherlands and Belgium would in the future nominate the Executive Director of this new constituency on an equal rotation basis. The new constituency will have an important voice in the IMF decision-making process. With this step, our constituency has taken its responsibility and played a key part in the reduction of two advanced European chairs in the IMF Executive Board.

Our constituency is open to engage in constructive discussion on the quota formula review due in January 2013. The review needs to be anchored within the relevant IMF bodies, to come to a legitimate and sustainable quota formula that will appropriately reflect the economic positions of countries in the world. We believe that GDP and openness should remain the main variables in the formula, and that the weight of GDP should not be increased relative to the weight of openness. After all, cross-border real and financial flows are at the core of the Fund’s mandate. We would also welcome the inclusion of a variable that captures voluntary financial contributions. This is a way to acknowledge members’ individual responsibilities for the Fund to remain adequately resourced.

IMF resources

It is important that the Fund continues to enhance its capability to address the challenges the international monetary and financial system is currently facing. In this context, we strongly welcome the agreement to temporarily increase IMF non-quota resources by USD 456 billion through additional bilateral borrowing. Together with the increase of the European firewalls to support financial stability of the euro area, this will strengthen the ability of the international community to provide effective responses at the global level.

The Kingdom of the Netherlands has delivered on its commitment of additional resources ad EUR 13.61 billion through a new bilateral loan to the Fund's General Resources Account (GRA) as part of the EUR 150 billion pledge by Eurozone countries in December 2011. Our constituency now calls on the Fund and other financially strong IMF members that have pledged additional bilateral loans to the GRA to speedily finalize loan agreements in our joint efforts to safeguard global financial stability. The global nature of risks and potential spillover effects justify global burden sharing in the Fund.

The recent increase in non-quota resources, however, also increased the responsibility for the Fund to supplant current and prospective bilateral funding of (outstanding) commitments by regular quota funding as soon as the 2010 reform is completed. The Fund is and should remain a quota driven institution.

As the IMF increases its general resources to deal with systemic risks at the global level, it is critical that it also has the capacity to fulfill its responsibilities for concessional lending to low-income countries (LICs) who may face external headwinds in the current environment. The recent Review of Facilities for LICs demonstrated that the 2009 overhaul and streamlining of facilities for LICs has been a tentative success, as reflected in higher use and economic outcomes. It is now important to ensure the Poverty Reduction and Growth Trust (PRGT) has adequate financial capacity. We welcome the partial distribution of windfall gold sale profits to the Fund's PRGT subsidy resources, yet more is still needed. We call on advanced economies, which have not yet done so to contribute directly to the PRGT subsidy and lending resources.