International Monetary and Financial Committee

Eighteenth Meeting
October 11, 2008

Statement by Wouter Bos
Minister of Finance, Netherlands

On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, former Yugoslav Republic of, Moldova, Netherlands, Romania, Ukraine

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World Economic Outlook

1. Since our last meeting the world economy has slowed down considerably, reflecting the increasing interaction between the financial crisis and the real economic cycle. For all member states, the economic outlook has worsened, even though the crisis has until now had a larger bearing on industrial countries and some emerging market economies prove remarkably resilient. While the crisis continues undeniably, governments have taken and are taking measures to prevent the crisis from further spreading and deepening.

2. Meanwhile some important lessons have been learned. We should, for instance, ensure that incentive structures do not encourage excessive risk-taking. Examination is also needed of the role of rating agencies and of ways to improve financial literacy. Our constituency calls on the financial sector and regulators to implement the recommendations of the Financial Stability Forum. The International Monetary Fund can play an important role by monitoring the implementation of the FSF recommendations in the context of its surveillance work.

3. The IMF should play a more central role in safeguarding international financial stability. A clear vision on the desirable role of the Fund in this regard is needed and our Constituency would like to ask the Managing Director to present a concrete proposal to the Board. The Fund should strengthen its diagnostic role on systemic implications of supervisory and regulatory issues and could, for instance, focus on shortcomings that are currently surfacing. The Fund’s role should be complementary to the BIS and FSF. The Fund should therefore make use of its comparative advantage that lies in its truly global perspective of institutions, markets and instruments, and in addressing the link between the financial and real sectors. In this context, the Fund should set out a strategy in which it would encourage best practices in supervisory and regulatory frameworks, crisis management and ways to avoid moral hazard.

4. Oil and food prices have moderated since their peaks earlier this year, but remain high. The combination of inflationary pressures and slowing growth put central banks in a delicate position. Central banks should be careful not to sacrifice long-term price stability, endangering macro stability and sustainable growth. This is especially true for countries that are facing negative real interest rates.

These countries should not rule out tightening monetary policy to fight inflation, even if that would imply abandoning tightly managed exchange rates.

Surveillance

5. Surveillance is the core activity of the Fund and can greatly contribute to local, regional and global monetary and financial stability, underpinning economic growth. Our constituency supports the conclusions of the triennial surveillance review and priorities set forward in the Statement of Surveillance Priorities. Our constituency especially values the ambition of cutting edge financial sector surveillance that is better integrated into macroeconomic analyses and vice versa. Furthermore, we stress the importance of clarity and even-handedness. The Fund should not shy away from truth-telling to any of its members, as long as this is based on high-quality and broad assessments.

The Fund's Lending Role

6. Over the years there has been an increase in the number of Fund lending instruments, some of which remain unused. There is a good reason to review whether the lending toolkit needs a "clean-up". In recent years, there seems less general demand for IMF financing. This is a reflection of robust economic development in many countries over the past couple of years, but also prompts the question if existing instruments are sufficiently well designed to serve the needs of member countries.

7. Our constituency supports a fundamental review of Fund instruments in conjunction with related policy on maturities and charges. There seems room for a better tailoring of the lending framework. We believe that in creating new Fund lending instruments, there should be extensive consultations with the Board, ensuring that there is indeed a material gap in the Fund's toolkit that follows from its mandate. Furthermore, members should clearly articulate their interest in such new instruments.

8. There seems to be demand for a new insurance instrument, especially for countries that are in the process of integrating into the global financial system. Such an instrument could give these countries confidence in the process of opening up to international capital markets. Our constituency has, therefore, together with the Southeast Asian constituency proposed to consider setting up a financial assistance instrument in the form of a Financial Stability Line. In this way, the Fund would more explicitly include financial stability within its core mandate. We urge the Board to decide on the new liquidity instrument before the next Spring Meetings.

Governance

9. Our constituency welcomes the report of the Independent Evaluation Office on governance. The constituency agrees that the respective tasks and responsibilities of the Executive Board and Management need to be more clearly specified. The Executive Board should focus on longer-term strategic issues. Furthermore, we agree with the proposal to create a framework to ensure that Management is held accountable for its performance. Such reforms should contribute to preserving the IMF's reputation as an effective and efficient international organisation. The Constituency is not

convinced, however, of the proposal to replace the IMFC with a Council of ministers. In our view, the IMFC does well in setting the strategic priorities of the Fund. Although we are of the opinion that the current set-up of the IMFC meetings rightly balances transparency and confidentiality, we are open to suggestions to further improve the set-up of the IMFC.

Sovereign Wealth Funds

10. Sovereign Wealth Funds (SWFs) are of importance in the context of both monetary and financial stability. Hence, greater transparency of these institutions is of importance. We welcome the recent agreement on the *Generally Accepted Principles and Practices* (GAPP) for SWFs. We believe this is a major step forward. This GAPP fits well into a greater trend towards more transparency on financial markets. We believe implementation of the GAPP is of utmost importance to safeguard a free investment climate and underpin financial stability. In addition, GAPP adherence would add to investment performance of SWFs, thanks to sound risk management principles and practices. We would therefore highlight GAPP Principle 24, which underscores the process of review of the implementation: it is essential for making the GAPP work. Finally, also with respect to financial stability and safeguarding a free investment climate, we would like to stress the importance of an orderly adjustment in the global balance of payment imbalances.