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Statement by Koen Geens,
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On behalf of Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania, Ukraine

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Significant progress has been made in implementing necessary reforms leading to further economic recovery. However, growth remains weak in most advanced economies. The global economy faces major challenges and spillover effects for which the IMFC should agree on a framework for mutually consistent policy responses. Cooperation among all countries, the IMF and other international institutions is essential to achieve stability, balanced sustainable growth and higher employment.

Global Economic and Financial Prospects and Policies

In Europe, significant measures have been taken to strengthen the economic recovery. A return to healthy economies with sustained output and employment growth requires strong implementation of structural reforms, fiscal consolidation and strengthening financial sectors. Without such actions, growth levels will remain low and frustrate achieving fiscal targets, financial sector soundness, and above all employment growth as an anchor for social cohesion and welfare of our population.

Credible fiscal consolidation
Notwithstanding progress with fiscal consolidation, public finances remain vulnerable in many advanced economies because of persistently high debt, low growth and inflation, possible increases in interest rates, failure to contain spending pressures and contingent liabilities stemming from amongst others the banking sector.

There is no time to lose with consistently implementing credible medium-term consolidation plans with intermediate structural fiscal balance targets that are aligned with debt levels, financial conditions and the overall economic environment. Primary spending should be firmly contained or reduced and oriented to facilitate growth and efficiency. The latest Fiscal Monitor formulates valuable advice on how, in the face of limited or no room for raising overall tax revenues, there remains scope for making taxation more fair and efficient by minimizing distortions, broadening the tax base, eliminating inappropriate exemptions or tax expenditures, targeting negative externalities, such as carbon emissions, and avoiding tax rates that discourage investment or work.

Financial sector reform
A robust banking sector that allocates credit on a sound basis is essential for stability, sustainable growth and employment. The experience of the recent crisis has led to a global financial reform agenda. It also underlined the need for macroprudential policy frameworks to counter the build-up of financial imbalances. While overall progress on these fronts has been made, vulnerabilities are still present. Since the onset of the

crisis, global systemic financial institutions have grown in absolute and relative size. Their systemic risks must be addressed. Timely and internationally consistent implementation of agreed regulatory reforms is therefore all the more critical.

In response to tighter financial regulation and supervision, financial institutions are strengthening their capital and liquidity and adjusting their business models, governance and risk management. In the coming years, financial institutions must further build capital buffers to comply with enhanced standards under Basel III. Equity capital can only be attracted from private investors when profitability is adequate. Many financial institutions need to increase efficiency and profitability with superior risk management, improved client services and effective cost controls.

In Europe, banks have already substantially increased their capital positions. A thorough asset quality review and stress test will ensure that possible remaining balance sheet problems of banks are identified and addressed.

Although financial fragmentation in the Euro area has been reduced, it continues to hamper a sustainable recovery. A part of the remaining difference in interest rate levels and responsiveness to monetary policy action is explained by structural distortions. Addressing these structural handicaps will facilitate, in turn, progress with rebuilding sustainable financial integration, both in banking and capital markets, without which the monetary union in Europe cannot achieve its full benefits. It will also facilitate introducing a resolution mechanism in the euro area including a common financial backstop to facilitate the orderly resolution of financial institutions. In the longer run, this would set the stage for a discussion on an area-wide deposit guarantee system.

Addressing structural weaknesses

Addressing rigidities in labor, product and services markets is critical for underpinning competitiveness and regaining sustainable growth.

Euro area countries with prolonged recessions often saw their exports dwindle as their unit labor costs outpaced those in core countries of the Monetary Union. Profitability in their corporate sectors declined or was lost. With rigid salaries and working conditions under a single currency, adjustment in response to lost competitiveness eventually took form mainly through loss of employment and deep recessions. To avoid such setbacks, labor costs should remain in line with labor productivity developments and external competitiveness preserved.

Euro area countries, among which those with adjustment programs supported by the Fund and the European Stability Mechanism, are reforming their labor, product and services market to enhance productivity and competiveness. Euro area countries with previously high current account deficits, as a group, recorded a surplus of 0.9 % of their GDP in 2012, a major external adjustment.

As to emerging and low income countries, it is encouraging to observe that over the past five years many countries have reached income levels that now exceed, sometimes significantly, those projected prior to the crisis. These countries have reaped the benefits of structural reforms and improved macroeconomic policies implemented in the past decade.

Keeping a position at the technological frontier contributes to economic success, and puts a premium on education and research. Yet technological change and globalization can also contribute to a lower share of labor income in GDP, wages lagging labor productivity increases. The share of labor in GDP has dropped with income distribution more skewed towards the higher income brackets. Inequality is rising in both advanced and emerging market countries. The OECD, the ILO and IMF should collaborate to better understand these developments, how they affect macroeconomic performances and how policy can contribute to better outcomes. The evolution of labor costs is a critical driver of countries' real effective exchange rate which is the focus of Fund surveillance.

Monetary policy and spillovers
Unconventional monetary policy in advanced economies has been necessary and successful in stabilizing markets. Yet such policies may fuel new imbalances and remove incentives for the orderly repair of balance sheets. As such, monetary policy can only buy time for implementing structural reforms and balance sheet repair.

Recent developments in some emerging markets show how monetary policy conditions in advanced countries can influence volatility in emerging markets, in particular those with high current account deficits, high inflation and domestic structural vulnerabilities. Ample and cheap international capital and elevated commodity prices in recent years added to the buoyancy of those economies. Since the IMFC's last meeting, the risk of abruptly reversing market conditions has become more prominent, as the prospect of a change in the monetary policy stance in the US has caused financial market conditions to tighten, if only mildly.

For emerging markets vulnerable to global liquidity conditions, macroprudential and supervisory measures must prevent excessive credit growth that fuels imbalanced growth and undermines bank soundness. Borrowing in foreign currency in particular is a potential source of fragility. Foreign capital should be attracted through foreign direct investment rather than in the form of volatile foreign debt.

Eventual tightening of monetary policy in major advanced countries should be implemented gradually and should be communicated clearly, taking into account the spillover effects that such a policy reversal may have. While mandates of central banks may not allow for formal coordination, existing international fora should be used for discussion. Where foreign capital is withdrawn, emerging market countries should allow exchange rates to adjust in line with fundamentals. Exchange market intervention might be needed to maintain orderly conditions. The Fund should stand ready to assist countries that might be adversely affected by monetary tightening in major advanced economies.

C*onclusion*
Implementing mutually consistent policies as outlined above and recommended by the Fund will help underpin the economic recovery and ensure more balanced and sustained growth across the world.

IMF Policies

Surveillance more attuned to an integrated world economy
Since the onset of the global economic and financial crisis, Fund surveillance has been adjusted to better capture the complexities of progressive economic and financial integration and of increasingly interdependent relations between countries. With its Integrated Surveillance Decision, the Fund bridges bilateral and multilateral surveillance by discussing the spillover effects from countries' policies on partner countries. The Early Warning Exercise, the Spillover Reports, the External Sector Report, the enhanced Financial Sector Surveillance Strategy and the Fund's institutional view on the liberalization and management of capital flows are all essential components of a Fund surveillance better attuned to a closely integrated global economy. We encourage countries and the staff to enhance data collection and the analytical frameworks needed to better understand interconnectedness and reach authoritative conclusions on policy responses to spillover effects.

These areas are critical to delivering the Fund's core mandate and we look forward to assessing the progress in next year's Triennial Surveillance Review. In this light, particular attention to financial sector surveillance, macroprudential policy measures and complementarities of Fund surveillance with other international institutions would be particularly fruitful.

Ensuring the adequacy of IMF Resources
In 2010, the Board of Governors agreed on a doubling of quota resources, which when effective will substantially raise the Fund's structural lending capacity. Meanwhile, the New Arrangements to Borrow (NAB), a voluntary arrangement in which from our Constituency Belgium, Cyprus, Israel, Luxembourg, and the Netherlands participate, provides the Fund a substantial amount of additional resources. Moreover, in April 2012, 38 member countries have pledged to extend bilateral loans to the Fund for a total amount of US$ 461 billion. This action was critical in ensuring that the IMF has adequate resources to support the potential financing needs of its whole membership. In our Constituency, Belgium and the Netherlands have signed loan agreements with the Fund for a total amount of EUR 23.6 billion (about US$ 31 billion). We welcome that most countries have completed their bilateral agreements. We urge the others to do so expeditiously.

Governance reform
The 2010 Quota and Governance Reforms are important steps to enhance the Fund's legitimacy and effectiveness. In our constituency, all countries have completed their national procedures to allow the amendment and the quota adjustment to become effective. We encourage countries that did not yet ratify the 2010 Amendment on the Reform of the IMF Executive Board, or did not yet consent to the 14th General Review of Quotas, to do so. Belgium and the Netherlands have contributed their share to the agreed reduction of Executive Directors from advanced European countries.

The countries of our constituency remain committed to the agreement to further review the quota formula as an integrated part of the 15th General Quota Review with the aim to reach a comprehensive agreement. These discussions and agreements must be fully anchored in the IMFC and the Executive Board where all IMF members are represented. This ensures that the outcome is acceptable to the wider IMF membership.

The new data presented by staff in June confirm that the current formula captures well developments in the world economy, resulting in a transfer of 2.9 percentage points of calculated quota shares from the group of advanced economies to the group of emerging market and developing countries (EMDCs), relative to the 14th General Review. The four principles which underpinned the 2008 formula reform remain valid and should be applied. The formula should be based on verifiable and clear economic criteria that are closely linked to the Fund’s mandate. Economic interconnectedness of countries is the *raison d’être* of the Fund, and the overall weight of openness variables should at least be maintained.

Capacity Development

We endorse the Fund’s new strategy for capacity development. It should further increase the effectiveness of training and technical assistance, particularly for poor countries. The new strategy includes an adequate prioritization of capacity building activities, both at the level of the Fund, and according to countries’ needs and demands. We welcome in particular the enhanced monitoring and evaluation to ensure more systematic implementation of lessons learned from evaluations of capacity development activities. The Executive Board should allocate adequate budget resources for technical assistance.

The countries in our constituency are active in capacity development both as providers and recipients. The countries in our group stand ready to engage with the Fund on their experience and will continue to cooperate to help meet members’ evolving needs.

Low income countries

When reviewing the policy on debt limits in PRGT program countries, incentives for low-income countries (LICs) to attract financing under concessional terms should be preserved while reconciled with the aim for a single policy framework on debt limits for all countries. The primary objective of the debt limits policy is preserving debt sustainability. It is crucial to ensure a close link between individual countries’ debt sustainability analysis and the debt limits policy. We look forward to the discussion of the new Debt Limits Policy in 2014.

Because of limited PRGT resources, access limits in nominal terms to the Fund’s concessional lending resources should be maintained after the 14th quota increase becomes effective. We welcome that countries have generously pledged to the PRGT.