IMFC

Intervention in the Plenary Session on Managing Director's Report on the Action Plan

Date: **24.09.2011** Time: **9.45 A.M.** Venue: **IMF HQ 2 Conference Hall-1**

Mr. Chairman,

We welcome the future Action Plan proposed by the Managing Director. The focus on the main risks facing the global economy at this juncture is appropriate. For the early detection and prevention of crises, it is important to focus on risk assessment and ensuring stronger traction with policy makers. In order to mitigate the systemic effects of crises, especially on emerging economies and low income countries, the lending toolkit should be an integral part of the global financial safety net.

On the challenges that face us and appropriate responses, I will address three sets of issues.

Fiscal Issues

1. How do we address the contradictions between medium term fiscal adjustment and pro-growth structural reforms? While near term liquidity issues require the use of appropriate fiscal policy, recent experience shows that sustainability of public debt is equally important to ensure solvency. Debt sustainability exercises should be reviewed

separately for advanced economies, emerging market economies (EMEs) and low income countries (LICs), in order to account for the unique and distinct challenges facing each set of countries. In order to overcome large infrastructure gaps and attract public investment in infrastructure, any debt sustainability analysis should make allowances for such infrastructure investment without compromising the viability of public finances.

Repairing Banks' Balance Sheets

2. There has been a spillover of significant risks from the sovereign to the banking sector, transmitted by extensive cross-border holdings of sovereign debt. While there is a pressing need to address the fiscal challenges facing governments, it is also critical for banks to raise private capital to restore confidence and also for adequate public backstops for their recapitalization when needed.

Global Financial Safety Nets

3. The post-crisis global financial safety net needs to be truly "global" and include multiple layers consisting of individual countries; central banks; regional arrangements; and International Financial Institutions. The IMF needs to catalyze such a global arrangement, while clearly communicating the criteria for both the inclusion as well as exclusion of specific countries.

4. The IMF has overhauled its lending toolkit and boosted its resources with a view to strengthening its ability to mitigate the adverse consequences of future shocks. Its effectiveness in this context will draw on the ability to identify triggers of systemic crises well before their onset, especially those originating in large or more integrated economies with high potential of contagion. It is also important to ensure that support is specific to genuine bystanders with strong fundamentals and prudent macroeconomic policies. The financial safety net should not be used as a substitute for macroeconomic adjustment or sound regulation and supervision.

Turning to the longer-term policy agenda, I will restrict my comments to two issues.

Surveillance

5. The surveillance function is critical to the Fund's overall mandate. We continue to believe that the modernization of surveillance can be achieved within the ambit of the existing provisions of the Articles of Agreement. The issue is one of effective implementation.

6. Bilateral surveillance is at the core of the Fund's mandate and the pursuit of robust and evenhanded bilateral surveillance is critical. The recent good work on analysis of spillovers needs to be carried further to explore channels of transmission of risks; to develop early warnings; and

to ensure consistency of messages across surveillance products. While identification of spillovers is an important first step, it is necessary to put in place credible and effective mechanisms for containing the spillovers, and monitoring their implementation.

7. Greater traction is critical to the effectiveness of the IMF's surveillance, in order to translate policy advice into concrete policy actions. Traction depends on trust and the perception of even-handedness without any sacrifice of candour. As governance reforms progressively reflect the changing global economic realities, so also will surveillance gain legitimacy, incisiveness and traction.

Capital Flows

8. Emerging and developing countries have been grappling with the problem of volatile capital flows that lead to overheating pressures, thus complicating the setting of macroeconomic policies. Managing capital flows should not be treated as an exclusive problem of the recipient countries since there are both push and pull factors involved. The approach to capital flows depends on country-specific circumstances, and any policy framework that seeks to restrict the range of policy options for capital receiving countries would lack even-handedness. It is also important to strengthen the regulatory and supervisory framework of the financial sector that intermediates these flows.