



International Monetary and Financial Committee

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Statement by Mr. Borg

Nordic-Baltic IMF Coordination

IMFC Statement – main messages

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International Monetary and Financial Committee Meeting

On October 4 in Istanbul, Turkey

Main messages by Mr. Anders Borg

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On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

Main messages

- *Continued supportive economic and financial policies are crucial in the short term to underpin the sustainability of the early and still uncertain recovery. Sustained structural policy efforts must counteract the risk of persistently higher unemployment and lower potential economic growth. Firm commitment to sound medium-term fiscal and monetary policy frameworks is essential in safeguarding public finances and anchoring inflation expectations.*
- *Exit strategies should not be performed too early, but we must start to prepare for them. The effectiveness of fiscal policy depends on the impact it has on future expectations. Therefore, we need to start to communicate how we will handle budget deficits as soon as possible. This is key to maintain market confidence.*
- *Reforms of financial sector regulation and improved incentive structures must be promptly implemented.*
- *IMF Governance reforms should be treated as a package, and will require tradeoffs between different preferences. We acknowledge the concerns many countries have with regards to quota and voice, including the problem of underrepresentation, and are open to discuss this issue in a constructive way. For us, a sufficiently large Board is vital to ensure representation of all groups. Participation in the decision-making process of the Fund is a prerequisite for our taxpayers' continued support of large financial contributions. It's also important that the reform process is established within the relevant IMF bodies, ensuring participation from all members of the IMF.*
- *The international community has moved rapidly and decisively to meet short term financing needs. Going forward we need to decide on the "optimal size" and composition of Fund resources.*

The financial crisis and the economic situation

1. The global economic downturn seems to have bottomed out. Considerable uncertainty remains as to the timing and pattern of the economic recovery.
2. Continued supportive economic and financial policies are crucial in the short term to underpin the sustainability of the recovery. Sustained structural policy efforts must counteract the risk of persistently higher unemployment and lower economic growth. Firm commitment to sound medium-term fiscal and monetary policy frameworks is essential in safeguarding public finances and anchoring inflation expectations.
3. Exit strategies should not be performed too early, but we must start to prepare for them. The effectiveness of fiscal policy depends on the impact it has on future expectations. Therefore, we need to start to communicate how we will handle budget deficits as soon as possible. This is key to maintain market confidence.
4. The recent improvements in financial markets and institutions must not allow us to weaken intentions to complete the reforms of financial sector regulation and supervision and incentive structures. Our reform efforts must duly reflect that the financial sector is more critical for the modern economy than previously acknowledged. Equity and fairness considerations are important components in regaining the confidence of the broader public. Moreover, this crisis has taught us that, in addition to crisis prevention, crisis resolution regimes are crucial. Taking into account the level of strong financial integration and the need to strengthen the financial infrastructure, we also need a close international coordination to ensure a level playing field.
5. We rely on the Fund to play an active role in supporting our endeavours in these areas.

Fund Policies

Governance

6. It's important that the reform process is established within the relevant IMF bodies, ensuring participation from all members of the IMF. Governance reform should be approached as a package, including review of quotas, Board composition, strengthened ministerial involvement, voting procedures, management selection procedures and the Fund's mandate. However, members of the IMF have different priorities and governance reforms will thus require tradeoffs.
7. The linkage between financial contributions and representation must be acknowledged. We are large creditors to the Fund and are prepared to continue to be so. Adequate participation in the decision making process of the Fund is a prerequisite for our taxpayers' continued support of large financial contributions.
8. Our constituency continues to call for a completion of the next quota review by 2011. Also, the 2008 quota review must be ratified swiftly. A review of quota

should ensure that the IMF has quota-based resources that are commensurate with the long-term needs, and the variables in the quota formula should reflect the Fund's mandate.

9. A review of quota is a precondition for changes in IMF governance structures and should reflect members' relative weight in the world economy, including the increased relative weight of emerging markets and developing countries. Any governance reform should be based on the principle of smoothening differences between over- and underrepresented countries. Against this background, we take note of the call from the G20 that a review of quota should lead to a shift in quota share to dynamic emerging markets and developing countries of at least five percent from over- to underrepresented countries, using the current quota formula. We insist that reforms should be based on objective economic and financial criteria, consistent with the IMF's core mandate, and not on political criteria.
10. We support a strong and efficient Executive Board that is responsible for conducting the Fund's operations. The Board must be sufficiently large to ensure the representation of Fund members. A reduction in size of the Executive Board would not enhance efficiency; instead it would further complicate the governance of the IMF and impede the representation of Fund members. In this respect, we also emphasize the fundamental principle of free constituency formation.
11. We restate our support for an open, transparent and merit-based management selection procedure.
12. The voice and representation of low income countries should be ensured. To that end, a further increase in basic votes as a share of total votes might be considered.

Resources

13. Initiatives to increase resources to the Fund have different time horizons. In response to the financial crisis, the international community has moved rapidly and decisively to meet short term financing needs.
14. Going forward, we should consider the medium- and long term needs of resources. On the basis of this we should decide on the "optimal size" of the Fund, including an appropriate composition of permanent and temporary resources.
15. The quota reform envisaged for January 2011 is an appropriate moment to reconsider the size of the NAB given the well-established principle that the IMF should remain a quota-based institution.
16. Countries in the Nordic-Baltic Constituency contribute to and actively participate in various financing arrangements with the Fund. We contribute via quota, SDR trading arrangements, bilateral loans, NAB, subsidy resources, and co-financing of IMF programs to countries in our constituency. Our considerations of the extent of our future support will be guided by our involvement in the decision making processes.

Surveillance

17. The global imbalances have amplified the current crisis. The macroeconomic problems leading up to the current crisis were not addressed in time. New insight on the interlinkages between the financial sector and the real economy must now be reviewed and built on. Going forward, one important challenge is to increase the political commitment to IMF advice on economic policy.
18. There is an obvious need for increased supervision and surveillance. We consider this as the core mandate for the IMF, being an institution with global representation. This should not be undermined by parallel surveillance in other fora. We welcome the revision of the operational guidance of the 2007 Decision as well as the current efforts to sharpen the Fund's financial surveillance. For example, differences in regulation or in legislation between countries closely interconnected, need to be revealed to ease crisis solutions and support efficient market integration for cross-border banking groups. Regional FSAP's could here be a useful instrument as well as a closer integration of FSAP findings into the Article IV consultations and GFSR.
19. The Fund should further explore ways of achieving adequate oversight and swift response to future global financial and economic crises. This analysis should include the financial support provided by the IMF through appropriate facilities, as well as the risks stemming from the international capital movements, considering also the authority provided by the current mandate. IMF is the only existing institution that has the ability to handle such a responsibility.

IMF and low income countries

20. The low income countries have been very hard hit by the current economic and financial crisis, and their situation is troublesome. NBC members are already large donors and we stand ready to provide further to meet financing needs.
21. We welcome the recent changes in the Fund's framework for low income countries, with more flexibility, streamlined conditionality and increased concessionality, in particular the new SBA-like facility for low income countries.
22. The recently decided SDR allocation will ease the situation and improve the room for manoeuvre for many low-income countries.