



International Monetary and Financial Committee

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Statement by Mr. Borg

Nordic-Baltic IMF Coordination

International Monetary and Financial Committee Meeting

On April 25 in Washington D.C

Statement by Mr. Anders Borg

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

Main messages

- *Ensuring long-term fiscal sustainability is key for the impact of short-term fiscal stimulus as well as for a credible exit strategy from crisis management.*
- *I recognize the need for short-term lending arrangements to boost IMF resources. Several members in my constituency have already promised substantial short-term contributions.*
- *Moreover, my constituency, has for long supported the IMF financially through the NAB, by providing concessional resources and more recently through bilateral support to IMF programs. We are prepared to continue to do so. Being a constituency consisting of several program countries as well as being one of the largest donors in the world in absolute terms we take a strong interest in a governance structure based on representation.*
- *I welcome the discussion on IMF governance. It is of utmost importance to continuously assess and improve the relevance, legitimacy and accountability of the Fund. It is also an institution where all countries are represented, a feature that makes it superior to many other international fora. In order to justify future large contributions to the IMF to our tax payers and parliaments adequate representation is required.*

The financial crisis and the economic situation

1. The financial and economic crisis has affected the whole world in a profound manner. The length of the downturn and the normalization of financial markets still remain uncertain. My hope is that the comprehensive policy action taken by the international community will help to reduce and shorten the negative effects.
2. The situation in the financial markets is still very serious. One of our top priorities for the banking sector must be to restore the proper functioning and confidence of the financial markets.
3. The current crisis has also major effects on low-income countries. They are more integrated into the world economy than ever before, and consequently also more vulnerable to its fluctuations. Reduced trade and decreased remittances are among the key channels for contagion of the crisis. Without proper action, the recent progress in reaching the Millennium Development Goals will be compromised. We call on the multilateral institutions to act within their mandate to reduce the impact of the crisis on the low-income countries.
4. In the short term, we are already doing much in terms of economic policy stimulus and support to the banking system, and we have to continuously assess the need to do more. It is important to underline that fiscal stimulus must be balanced with the need to ensure long-term fiscal sustainability. The present focus on crisis management must not make us lose sight of an exit strategy.
5. The medium-term measures are also vital to address in order to prevent a similar situation in the future. It is now important that we analyze the underlying problems that led to the present crisis and thoroughly address them. This work has of course already begun, in various processes. One underlying problem is that the risks linked to the strong growth of financial products and institutions were not fully understood, and not fully covered by appropriate regulation and supervision and capital requirements. One of the conclusions drawn from the crisis so far is the need for better, but not necessarily more, regulation.
6. It is also fundamental to stress the importance of sound macroeconomic policies and structural reforms in good times in order to strengthen the long-term capacity and resilience of sudden economic downturns.
7. As has been stated many times before, a global crisis needs global solutions. This crisis affects us all, and we should all help in addressing the problems in order to create better conditions for a recovery. We should continue to strive

for coherent and effective international cooperation and coordination. Historical lessons highlight the need to resist trade and financial protectionism.

8. The G20 process has put crucial issues at the centre of attention. I welcome this work as a vital starting point. Now the reform proposals must also be anchored in a truly multilateral and institutional framework, where all parties are represented. This guarantees legitimate decisions and future accountability.

Experiences of crisis management in our constituency

9. Consisting of small and open economies, the countries in our constituency have been affected adversely by the crisis. As the financial turmoil evolved, the need for increased coordination and solidarity became increasingly clear. The close cooperation with the Fund as well as with the European Commission has been crucial for our work towards crisis resolution.
10. Based on our previous experience from crisis resolution, we would like to point out a few recommendations that are still valid in the present situation: i) a coordinated and transparent approach with broad political support in order to enable swift and decisive action, ii) clear and candid information to international markets on the situation, iii) a firm attitude towards valuation of bad loans and disclosure of impaired assets to restore a healthy banking system.

IMF reform

11. The IMF is generally functioning well and should remain at the core of the work on crisis prevention going forward, with its broad competence, political foundation and established surveillance of member countries.

Governance

12. The governance structure must contribute to making the IMF relevant, effective and legitimate. With respect to this, we welcome a discussion of the Fund's governance. One of the interesting proposals that deserve further elaborations is to transform the IMFC into a ministerial council, as this will need to be discussed in light of its implications for the overall governance structure of the Fund.
13. We call for a swift ratification of the reform of quota and voice agreed on last year. We call for a completion of the next quota review by 2011 based on the quota formula agreed on last year.

14. We call for the introduction of an open, transparent and merit-based system for the appointment of the Managing Director and Deputy Managing Directors regardless of nationality.

Surveillance

15. The crisis has underlined the need for strengthened supervision and surveillance. The IMF is the obvious institution to assume this task, together with other relevant institutions. Many of the imbalances that led to the crisis had been identified by the IMF.
16. It is important to note that the main problem might not have been the lack of information per se, but rather the failure to act on already known imbalances. The challenge ahead is to ensure that the information at hand is used proactively to mitigate future crises. We therefore welcome a discussion on how to increase political commitment by the examined country. Among the ideas that could be elaborated are parliamentary hearings or compulsory government responses to the Financial Sector Assessment Program's (FSAP) main messages. It is also important to underline the need for focus and prioritization in policy recommendations.
17. We continue to stress the need for increased emphasis on regional and financial sector matters including a more systematic use of regional FSAPs. It is crucial that surveillance is conducted in an even-handed manner. FSAPs should become mandatory for all member countries.
18. Cooperation between the Fund and the Financial Stability Board must reflect the mandates of the two institutions. All results with policy implications must be endorsed by the IMF Board with its universal membership. The main responsibility for the Early Warning System should rest with the IMF.

Resources

19. Our constituency has long supported the IMF financially (NAB, concessional resources and more recently bilateral support to IMF programs). Continued financial support must be paired with adequate influence.
20. We recognize the need for short term lending arrangements to boost IMF resources. Several members in our constituency have already committed to substantial contributions to support the Fund.
21. The more permanent solution to strengthen the Fund's financial base is through a well-balanced quota increase based on the 2008 formula

complemented with an extension and increase of the New Agreements to Borrow.

22. We call for a rapid ratification of the 1997 SDR decision and the full implementation of the 2008 income-side reform.

Lending instruments

23. The reform process of Fund facilities and conditionality has been swift and comprehensive. The Fund is now hopefully better equipped to prevent and resolve crises. We welcome a review of the lending framework, with particular focus on the recently approved facilities, within a few years.
24. The Fund's financial resources are limited. Consequently, adequate financial safeguards need to be included when designing new facilities. It is also crucial that Fund facilities are transparent and rules-based in order to avoid arbitrary decisions.
25. Low-income countries are strongly affected by the crisis. The Nordic-Baltic Constituency supports the IMF in adapting its lending framework also to the needs of low-income Countries. The changing nature of LICs, not least their increased exposure to global volatility, warrants a concessional precautionary instrument as well as a new, more flexible short term instrument. The changes must be made in a way that does not undermine long-term debt sustainability.