International Monetary and Financial Committee

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IMFC Statement by Siv Jensen
Minister of Finance, Norway

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

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Moderate growth in most advanced and emerging economies calls for a mix of policies, including continued accommodative monetary policy, a careful growth-friendly composition of fiscal policies, and most importantly structural reforms. Although globalization has brought great benefits, financial integration has also led to financial cycles growing in amplitude and duration giving rise to volatile capital flows that increase the risk of systemic shocks and spillovers. It is therefore important that the Fund assists countries in pursuing policies aimed at improving confidence, and stays attuned to changes in the International Monetary System (IMS). To maintain the credibility of the Fund, it has to remain a quota-based institution with a clear link between financial contributions and representation.

Decisive policies are needed to strengthen global growth

Macroeconomic policy, in particular exceptionally expansionary monetary policy, has helped steer the global economy out of immediate crisis, but decisive action must now be taken to support the fragile recovery and to enhance growth prospects. Many countries are struggling with large budget deficits and high debt. In these countries fiscal policy needs to credibly bring public debt on a downward path to ensure sustainability. Where available, fiscal policy space may be used to support economic activity in the short term, preferably in a growth friendly composition in combination with structural reforms.

Limited available policy space strengthens the importance of structural reforms which can raise actual and potential growth across the membership. Such reforms should be tailored to country-specific needs and aligned with the changing dynamics of the global economy. Examples include broadening the tax base, reducing bureaucratic bottlenecks, promoting technology and innovation, and improving regulatory frameworks to facilitate deeper financial markets in emerging economies. Another crucial factor to enhance growth prospects is to revitalize global trade – all forms of protectionism must be avoided.

In these uncertain times the IMF plays a vital role in improving confidence by encouraging policy action through its bilateral and multilateral surveillance.

Agreed reforms must be implemented to foster global financial stability

Financial market volatility and risk aversion have increased, partly due to uncertainty over the effectiveness of policies to promote growth and targeted inflation. To stem a negative feedback loop between financial markets and the real economy, decisive action needs to be taken on both fronts.

In recent years the resilience of the financial system has been strengthened. Reforms must not be diluted at this critical juncture. Appropriate regulation, including well capitalized financial institutions and well-functioning frameworks for cross-border resolution mechanisms, are crucial for a strong and resilient financial sector and a pre-condition for sustainable lending and economic growth. The uneven implementation of financial reforms remains a concern. To foster international financial stability it is important to ensure prompt implementation of agreed reforms. Further reforms are needed to contain risks in the non-bank part of the financial system.

Corporate sector debt across emerging markets has quadrupled in the past decade and given rise to significant vulnerabilities to interest and exchange-rate changes. Relevant macro and microprudential measures should be implemented to contain risks. In Europe, substantial progress has been made to strengthen institutions and improve supervision and regulation after the crisis. To further bolster the resilience of the financial system it is important that these efforts continue. Levels of non-performing loans are still high in many European banks and need to be brought down.

Global cooperation is needed to ensure a well-functioning financial safety net

We welcome the approval of the 2010 Quota and Governance reforms providing the IMF with new permanent resources and considerably increasing the voice of emerging and developing countries. The reforms reflect the IMF's ability to adapt to the changes in the global economy. The inclusion of the Chinese renminbi into the SDR basket is also an important step towards strengthening the IMF and the IMS as a whole.

It is important that the Fund stays attuned to changes in the IMS to effectively assist member countries in meeting new challenges. In an increasingly interconnected world, a strong and inclusive global financial safety net (GFSN) is a necessity. The most effective insurance against crises is, however, to pursue sound macroeconomic and financial policies, and structural reforms. The Fund's surveillance and policy advice plays a central role in this regard and a strong conditionality framework gives countries an incentive to implement sound policies.

The GFSN – consisting of central bank reserves, swap lines, regional financing arrangements (RFAs) and IMF lending facilities – has grown significantly in size in recent years, but access to the various layers of the safety net differs between countries. We see a role for the IMF in seeking to improve cooperation between actors of the GFSN and to make the elements of the safety net function well together. For example, the IMF could enhance its cooperation with RFAs both in terms of co-financing and in designing programs. We look forward to continued discussions on how to strengthen the IMF's role in the GFSN as it is the only part of the safety net that covers almost all countries of the world. However, any expansion of the Fund's lending activities cannot be made at the expense of its strict conditionality.

The Fund has an important role as a trusted adviser…

The IMF has markedly improved its surveillance since the crisis, including in monitoring and reacting to spillover effects. We encourage further progress in this important area. Another area where progress has been made is the Fund's analysis of structural reforms, highlighted for example in the recent World Economic Outlook. It is imperative to continue improving our understanding of the effectiveness of such reforms, thus enabling the Fund to give policy advice tailored to country circumstances and facilitating stronger country ownership.

The hallmark of the IMF has been its ability to respond promptly to challenges arising from sudden changes in the global economy. We welcome that IMF surveillance has been broadened to cover structural reforms and emerging issues such as migration, gender and income inequality and climate change when deemed to be of macro-critical relevance. We believe that the Fund has much to contribute while staying within its mandate and competence.

… and a responsible lender in times of need

The IMF's resources must continue to be firmly safeguarded through strong program design with tailored and strict policy conditionality and appropriate access limits. We welcome the new principles on evenhandedness to be implemented in all these areas.

We welcome the recent changes to the Fund's lending framework for supporting countries in debt distress. Continuous monitoring and evaluation of the functioning of the new framework will be important. We support advancing work on private sector involvement to facilitate a timely and orderly approach to sovereign debt restructuring.

We continue to support an active role for the IMF in Low Income Countries. We specifically welcome the IMF's support and advice to countries in implementing the Sustainable Development Goals.

To fulfill these roles the legitimacy of the Fund is crucial

The IMF is an institution with near universal membership – making it unique compared to most other international fora. The governance structure of the IMF must continue to underpin its relevance, effectiveness and legitimacy. This requires rules-based systems and transparency.

We reiterate that the Fund should remain a quota-based institution with the New Arrangements to Borrow (NAB) as a backstop. Countries in our constituency support the IMF financially e.g. through the General Arrangements to Borrow (GAB), NAB, bilateral loans, technical assistance, as well as grants and loans to the IMF's low-income facility (PRGT). We belong to the top tier providers of financing to the IMF because we see the IMF as the primary institution for international cooperation and coordination on economic and financial issues. The medium-term global outlook remains uncertain which warrants continued access to borrowed resources to cover tail-events. We look forward to the upcoming renewal of the NAB. Generally, as we stand accountable to parliaments, and in the end taxpayers, financial contributions and representation must go hand in hand.

For the IMF to strengthen its external credibility it is important to learn from its experience. The work of the Independent Evaluation Office (IEO) is very important in this regard. We call on IMF management to foster increased awareness among the staff of the work and recommendations of the IEO. The Executive Board has an important role in discussing IEO reports and following up recommendations.

Finally, the Nordic-Baltic Constituency welcomes the appointment of Christine Lagarde for a second term as Managing Director of the IMF. During difficult times she has demonstrated an excellent ability to lead and has delivered historic reforms at the Fund.