International Monetary and Financial Committee

Seventeenth Meeting
April 12, 2008

Statement No. 17-23
Revised

Statement by Mr. Borg

Nordic-Baltic IMF Coordination

I

International Monetary and Financial Committee

Seventeenth Meeting
April 12, 2008

Statement by Mr. Anders Borg
Minister of Finance, Sweden
On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

Main messages

- *Economic conditions have worsened since the Annual Meetings. The risks continue to be tilted to the downside. The financial markets are being seriously tested. There are also clear signs that the financial turmoil is having consequences for the real economy, most notably in the US. In this environment the Fund provides a unique forum for cooperation and crisis prevention.*
- *Countries that have done their fiscal homework in good times now have more policy options available than countries that have been less prudent. Historical experience has shown that it is of great importance to formulate and fulfil clear medium-term budgetary targets. It is essential – also in times of uncertainty and financial turmoil – to work continuously with long term structural reforms.*
- *We welcome the agreement on the quotas and voice reform and are particularly pleased that it enhances the participation and voice of low income countries, especially by tripling the basic votes. Compression is an important element which should be maintained or reinforced to guarantee a rules-based and robust result in the long run.*
- *We strongly support a quick solution and implementation of an integrated approach to income and expenditure in the Fund. The solution must be kept together as a package deal.*
- *Surveillance is at the heart of the Fund's mandate and continues to be the key to crisis prevention. In many ways, the world economy needs more than ever a truly multilateral IMF with a global reach and a strong policy leadership.*
- *Low-Income Countries are important members for the Fund. The IMF and the World Bank should strengthen their collaboration and work more effectively together in supporting these countries.*

The economic situation and appropriate policy responses

1. The global financial market conditions have worsened considerably since the Annual Meetings. Growth prospects have deteriorated and inflationary pressures have intensified. Global imbalances still persist and the risks to the outlook continue to be tilted to the downside and some of them are in the process of materialising.

2. The financial markets are now being seriously tested. The turbulence exemplifies the complexity of financial markets as well as increased international spill-overs and interlinkages. The shock, originating in the U.S. housing market, has inflicted damage on markets and institutions at the core of the international financial system. There are also clear signs that the financial turmoil is having consequences for the real economy, most notably in the US. The Fund provides a unique forum for cooperation and we welcome the Fund’s work with other international institutions in analysing issues important to global financial stability.

3. Countries that have done their fiscal homework in good times now have more policy options available than countries that have been less prudent. A fiscal framework with well defined budgetary targets contributes to making economic policy stable and predictable. Historical experience has shown that it is of great importance to formulate and fulfil clear medium-term budgetary targets. Furthermore, it is essential - also in times of uncertainty and financial turmoil - to work continuously with long term structural reform. The Fund should continue to closely monitor economies from a structural perspective and if deficiencies are found, advise accordingly.

4. These are clearly challenging times for monetary policymakers. The liquidity measures adopted by central banks should contribute to alleviate the immediate effects of the financial turmoil. Cuts in interest rates are expected to sustain demand in some countries. With still higher energy and commodity prices, caution is needed to guard against the risks of price increases being built into inflation expectations.

5. It is vital that trade is not blamed for the economic slowdown, which is caused by domestic imbalances and financial problems. Open trade and markets support the world economy, underpinning growth and living standards in all countries. The Fund should continue to play an active role in assuring the world of the benefits of trade and globalisation, and countries should be committed to finalise the Doha Development Round successfully in 2008.

6. The necessity of strengthened multilateralism is also underscored by environmental developments. We welcome the increased attention the economic effects of climate change have received in the Fund’s work as reflected, for example, in the recent World Economic Outlook.

Governance issues – how the Fund should be run

Quotas and Voice Reform

7. For the IMF to reinforce its legitimacy, it must truly represent – and must be seen as truly representing – all of its member countries. We welcome the agreement on the quotas and voice reform and we call for a rapid implementation of the 2nd round ad hoc quota increases. Postponing an agreement would have been the

worst of outcomes. We are particularly pleased that the agreement enhances the participation and voice of low income countries, by tripling the basic votes.

8. A linear quota formula with high weight given to GDP tends to give higher quota shares, and thus voting power, to large advanced countries as a group. Compression is an important element which should be maintained or reinforced to guarantee a rules-based and robust result in the long run.

9. It is important for the Executive Board to demonstrate leadership and show that it too can reduce its expenditures. However, to ensure full relevance of the Fund, the Board should remain sufficiently broad to ensure adequate representation of rich, poor, large and small countries. Against this background, it is important not to reduce the size of the Board. Nevertheless, the governance of the Board could be enhanced.

10. The Executive Board and the IMFC should be central fora in discussions and decisions on all issues related to governance. We welcome further steps to improve the governance structure of the Fund. We support a time-limited chairmanship of the IMFC, as well as a selection process based on the principle of geographic diversity.

<u>Sustainable financing of the Fund</u>

11. We welcome the agreement reached by the Executive Board and we strongly support a quick solution and implementation of an integrated approach to income and expenditure in the Fund. The solution must be kept together as a package deal. On the income side we favour a prompt decision to sell a limited amount of gold. Action should be undertaken to allow for a broader investment mandate. On the expenditure side we welcome efforts that reduce the costs of the IMF while preserving the focus of the Fund's core activities. All decisions requiring amendment of the Articles of Agreement should be implemented in one step.

12. The Fund should now engage in further work to match its priorities with a decreasing resource envelope. Sufficient flexibility must be secured for the Fund to be able to respond appropriately to new challenges. We welcome the swift action and the proposals put forward by the Managing Director to modernise and refocus the Fund. We wish in particular to commend staff for continuing to deliver excellent work under difficult circumstances.

Fund Policies – what the Fund should do

<u>Surveillance lies at the heart of the Fund</u>

13. We continue to stress the need for increased emphasis on multilateral, regional and financial sector matters in Fund surveillance. Analysis of linkages between the financial sector and the real economy is particularly important. Strengthening the linkages could involve a sharper focus of FSAPs regarding content, coverage and frequency, a stronger integration of the findings of FSAPs into Article IV reports and further development of analytical tools. We encourage the Fund to deepen its cooperation with other international financial institutions such as the Financial Stability Forum in efforts to promote greater disclosure and transparency.

14. Well-functioning and open international financial markets are mutually beneficial. A return to financial protectionism would reduce these benefits. Any discussion about sovereign wealth funds (SWF) must bear this in mind. The emergence of new players with limited transparency concerning their objectives, unclear governance structures and low degree of accountability has raised some concerns. Transparency must be a key tool in building trust. We look forward to working constructively with the IMF to formulate principles for the establishment and operation of SWFs and to identify best practises. Important in this work is to form a genuine and trustful cooperation between key players.

15. The new framework under the 2007 Decision on Bilateral Surveillance should be translated into more robust and effective surveillance practises. The Fund must be perceived as a relevant, impartial and frank advisor to all its members. Therefore, firm overall economic policy surveillance must be maintained together with strengthened focus on external stability, including exchange rate policies.

Low income countries are important members for the Fund

16. We fully support the ongoing work to define more clearly the IMF's role in low income countries. The Fund should continue to play an important role in these countries and should be able to provide selective, limited and temporary concessional financial assistance. The Fund's work should focus on macroeconomic issues and assist the efforts to reach the Millennium Development Goals (MDGs). Assistance in building strong institutions relevant for macroeconomic and financial stability is especially important. We welcome the recent IEO report on structural conditionality and we support ongoing efforts to streamline conditionality and enhance country ownership. The IMF and the World Bank should strengthen their collaboration and work more effectively together in supporting low-income countries. In particular, we support the efforts by both institutions to ensure debt sustainability in low-income countries.

17. We are pleased that the membership has secured adequate financing for the Fund to provide debt relief to Liberia. We underline that the participation in debt relief also by commercial creditors is crucial to ensure debt sustainability and we ask them to play their full part in providing debt relief.

18. We welcome the agreement reached by the OECD export credit group on the Principles and Guidelines on Sustainable lending to low income countries. Intensified dialogue is needed between new and old lenders and borrowing countries in order to strengthen the adherence to the debt sustainability framework. Continued focus on adequate debt management capacity and observance of the principles of good governance (including fighting corruption), accountability and sound economic management is also crucial to help countries maintain sustainable debt levels.

19. It is vital that donor countries deliver on their ODA promises and that aid is used efficiently in recipient countries. Using aid efficiently calls for strong fiscal institutions and prudent medium-term planning. Improvements in domestic revenue mobilization are crucial in the longer term to lessen the dependency on foreign aid.