



International Monetary and Financial Committee

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Statement by Mr. Borg

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

Main messages

- The global economic recovery is at risk. The crisis in the euro area weighs on activity and output has weakened also elsewhere. High unemployment in many parts of the world brings huge costs to individuals and societies. Important steps have been taken to tackle the current crisis in euro area, but challenges still remain. European policy makers must stick to full and timely implementation of agreed fiscal and structural policies to consolidate the progress made and to restore confidence in financial markets. In the US, the fiscal cliff and debt ceiling uncertainties constitute serious risks to global economic stability and should be urgently addressed.
- In this context, it is important that the IMF has the capacity to play its role. The 2009 tripling of IMF resources was critical in order to enable the IMF to adequately support the membership. We also welcome the recent decision to increase IMF resources.
- Continued efforts are needed to safeguard financial stability. The IMF has a central role to play in facilitating international cooperation and in the development of macroprudential policies and tools. The Integrated Surveillance Decision and the Financial Surveillance Strategy are welcome improvements to IMF surveillance. Adherence to these improvements is necessary to effectively strengthen surveillance. We encourage increased transparency in IMF communication on financial sector risk at the global level and strengthened follow-up on policy advice.
- Economic and financial openness constitute a cornerstone of the IMF's purpose and mandate. Therefore, we fully agree with the EU position that the quota formula review must ensure a more prominent role for openness to better reflect countries' position in the world economy and the global financial system. A revised quota formula must be broadly acceptable to the entire membership and negotiations must be fully anchored in the IMF bodies, where all members are represented.

Global Economic and Financial Challenges

1. Global growth prospects have deteriorated. Only a gradual strengthening of activity can be expected in late 2012 or 2013 following recent policy measures in Europe and US and improved financial market conditions. Persistent lack of confidence in short and medium-term prospects for major advanced economies and fear of tail-risk scenarios have led to heightened market uncertainty, low growth and high levels of unemployment in many countries. Geopolitical tensions continue to pose a serious risk to the outlook through potential further surges in oil prices and heightened security concerns.
2. Important steps have been taken in Europe to tackle the crisis and strengthen the framework for economic policy cooperation, but challenges still remain, including with respect to implementation of agreed measures and policies. The European Stability Mechanism is soon

fully operational with the first two tranches of capital already paid in. In addition, the ECB's introduction of Outright Monetary Transactions to safeguard the transmission of monetary policy through the euro area, subject to strict and effective conditionality, is also an important step in dealing with the crisis. The work on a single banking supervisory mechanism and complementary elements in a "banking union" should aim at establishing an effective framework for bank supervision and crisis management that in a flexible way underpins financial stability in the euro area as well as in the EU in general, while safeguarding financial integration and the internal market in Europe.

3. Policy makers in advanced economies must forcefully and credibly address fiscal and structural challenges. In Europe, the crisis must be contained effectively through strict implementation of the agreed fiscal plans and growth-enhancing reforms. To address the risks to global growth from unsustainably high debt levels, some advanced countries still need to adopt and implement credible medium-term fiscal adjustment plans. In the US, the lack of such plans has contributed to the fiscal cliff and debt ceiling uncertainties, which must be addressed promptly to avoid abrupt fiscal contraction and disruptions in financial markets. The lack of medium-term fiscal adjustment plans in the US as well as the need to strengthen adjustment plans in Japan remain a cause for concern.
4. Recent growth deceleration in key emerging market economies reflects not only lower external demand and volatile capital flows, but also home-grown vulnerabilities. To guard against further build-up of imbalances and prevent further crises, these vulnerabilities must be addressed without delay and structural reforms should be accelerated. Potential spill-over effects from key emerging economies to regional trading partners and the global economy must be closely monitored by the IMF. The relatively strong growth performance in many low-income countries is encouraging and should continue to be used to strengthen public finances, broaden the provision of basic public goods and strengthen social safety nets.
5. Weakened confidence in the financial system, funding difficulties and the risk of further deterioration in the quality of assets have increased the risk to global financial stability. Strengthening of financial regulation and oversight must therefore remain high on the international agenda. Implementation of the internationally agreed reforms should be accelerated, particularly the much needed strengthening of bank capital and liquidity requirements. Emphasis should also be placed on the development of macro-prudential policies and their practical implementation.

The IMF's role in supporting global economic and financial stability

6. Recent experiences have again demonstrated the importance of the IMF's prominent role in crisis prevention and resolution. Therefore, we strongly support the various initiatives to strengthen the IMF's surveillance framework and lending facilities. A prominent global role for the IMF was an important motive for the Nordic-Baltic Constituency to provide further bilateral loans to the IMF, as agreed at the last IMFC meeting.
7. We welcome the adoption of the integrated surveillance decision and the development of a strategy for financial surveillance clarifying the role of the IMF in this area. The Financial Surveillance Strategy should be an integrated part of IMF's surveillance activities. The IMF is uniquely positioned to carry out effective global systemic risk monitoring, identify macro-financial risks and provide policy analysis and advice. This includes the design and operation of macro-prudential policies where the IMF can provide new research and

facilitate international exchange of expertise. We support an increased IMF focus on cross-border capital flows and look forward to considering a comprehensive and flexible institutional IMF framework on this issue with a view to ensuring its early conclusion. Furthermore, we would strongly support increased IMF regional surveillance focusing on financial spillover effects from national policies.

8. Increased traction of the IMF's policy advice is a prerequisite for more effective surveillance and we call on the IMF to further consider streamlining and consolidating its multilateral surveillance reports to ensure clear, focused and frank policy advice to spur stronger engagement of ministers and governors in this area. The IMFC should have a more prominent role to ensure high-level discussions on IMF's policy advice and members' adherence to these. We welcome the steps already taken in this direction.
9. Conditionality is an important element of IMF-supported programs. Conditionality should be parsimonious and focused on IMF core areas. We are encouraged that the ongoing streamlining of conditionality has proven successful, and we support efforts towards enhancing program ownership which is crucial to program success and to overcoming the crisis. Furthermore, we are pleased that IMF-supported programs are increasingly emphasizing social aspects. Protection of the most vulnerable segments of the population is important to program success and contributes to securing macroeconomic stability.
10. The 2009 reform of the architecture for LIC lending facilities was an important improvement, making the IMF's instruments more flexible and better tailored to the individual needs of countries. There is, however, still room for improvement and the facilities should be kept under periodic review. As regards the projected concessional financing gap beyond 2014, we call on all IMF members to cooperate on finding a sustainable solution, recognising the fiscal and parliamentary challenges countries may have in committing funds for an extended period. The Nordic-Baltic constituency has in the past contributed generously to the financing of LIC facilities, including in the 2009 financing package, and we call on others to do the same to ensure fair burden sharing.

IMF Quotas and Governance

11. The Annual Meetings mark the deadline for the implementation of the 2010 Quota and Governance Reform. All eight countries in our constituency have consented to the proposed quota increases and accepted the Board Reform Amendment. We are concerned that some members' lack of acceptance will delay the implementation of the entire 2010 reform. We call on the remaining members to do their part in ensuring urgent reform implementation.
12. Building on the long-standing, pioneering principle of rotating representation we have expanded our rotation on the Executive and Alternate Executive Director positions to include the Baltic members of our constituency. Thus, our constituency is contributing to the commitment to reduce the representation of advanced European countries in the Executive Board.
13. We look forward to finalising the review of the quota formula. To better reflect the mandate of the IMF, to better capture members' true relative positions in the world economy and global financial system, and to better capture members' ability to contribute usable resources to the IMF, economic and financial openness should have a more prominent role in the formula. Increased trade and financial openness has been a key driver of global

growth and prosperity for decades and constitute the cornerstone of the mandate and purpose of the IMF as an international monetary institution.

14. The Nordic-Baltic constituency is the largest contributor in terms of quota shares to the additional bilateral loans requested by the Managing Director at the Spring Meetings 2012. To us it is an issue of legitimacy that there is a clear connection between a country's capacity and willingness to contribute financially to the Fund and its representation.
15. A formula based mostly, or even entirely, on GDP would go against the very purpose of the IMF and primarily benefit a few large, relatively closed economies at the expense of many smaller advanced and emerging economies with great stakes in global economic and financial stability. The use of GDP measured in purchasing power parities (PPP GDP) constitutes a significant flaw in the current formula and should be discontinued.
16. The final agreement on a revised formula must be broadly acceptable to the entire membership. All elements should be agreed as a package. It is crucial to the legitimacy of the quota formula that the discussions and decisions are fully anchored in the IMFC and the Executive Board, where all IMF members are represented. We welcome the important work by our deputies and the Executive Board in bringing the review discussions forward.
17. We remain fully committed to further strengthening the role of the IMFC as a key forum for global economic and financial cooperation. We strongly support the work by the Chairman and the Managing Director to this end.