International Monetary and Financial Committee

Twenty-Third Meeting
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Statement by Sigbjoern Johnsen
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On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

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Main messages

- The global economy is recovering, but important risks remain. In advanced economies, urgent action is needed to put public finances on a sustainable footing, including in the United States and in highly indebted European economies. In several emerging countries, macroeconomic policies must be tightened to contain overheating pressures.

- A stronger IMF mandate for multilateral and financial surveillance would greatly improve global economic oversight and cooperation. Fund surveillance must be candid, even-handed, and its traction enhanced.

- We continue to call for a stronger IMFC with greater involvement of ministers and with formal decision-making powers. The IMFC should be *the* key forum for global economic and financial discussions.

- We look forward to reviewing the 2008 quota formula, building closely on the Fund's mandate as an economic and financial institution. Financial openness should be included in the formula. The review must fully engage the entire membership. The methodology and decision-making process applied in 2010 must not be repeated.

Macroeconomic Policies

1. We broadly share the analysis and candid policy recommendations in the recent World Economic Outlook and Global Financial Stability Report, as well as in the Managing Director's statement to the IMFC. The catastrophic events in Japan and the developments in North Africa and the Middle-East add uncertainty to the global economic prospects.

2. We would like to highlight the following:

   - Securing sustainable public finances should be the immediate priority in advanced economies. Resolute action is needed in highly indebted European countries and in the United States. Macroeconomic policies should be tightened in several emerging economies to contain overheating pressures.

   - Policies to make labour markets function better are urgently needed to reduce unemployment. We must not allow skills to erode and structural unemployment to rise. This will help address alarmingly high youth unemployment, reverse recent increases in inequality, and promote social inclusion.

   - Commodity price increases should be met by allowing the price mechanism to work within countries and across borders. Fuel subsidies and trade barriers should be removed. The poorest should be protected through targeted social support measures.

   - A coordinated rebalancing of the global economy is vital to securing a durable economic recovery and strong, sustainable growth. We urge the G20 to implement the policies agreed in its Mutual Assessment Process (MAP).

Financial Sector Policies

3. Pro-cyclical macroeconomic policies and poor regulation and supervision of the financial sector – and interactions between policies in these areas – are among the root causes of the financial crisis. The lessons are that we need better capitalized banks, counter-cyclical regulation, and well-specified resolution mechanisms. Systemically important financial institutions need supplementary requirements, including for capital and bail-in instruments.

4. International coordination is essential, and we strongly support the ongoing process to eliminate shortcomings in financial regulation and supervision. National implementation of agreed reforms must be timely, consistent and even-handed. All countries must strictly adhere to international standards. This is particularly important for countries with systemically important financial sectors.

5. The crisis underlined the need for greater and more proactive IMF involvement in financial sector policy and surveillance. The IMF should now assume a leading role, in particular in macro-prudential regulation and in analysing cross-border spillovers and interactions with the real economy.

IMF Surveillance

6. We support efforts agreed and underway to enhance and expand IMF surveillance, including the preparation of a Multilateral Surveillance Decision. The IMF should be given an explicit financial stability mandate in its Articles of Agreement. We expect IMF surveillance to be candid and even-handed for the entire membership.

7. The recommendations in the recent IEO report on the IMF's performance in the run-up to the financial crisis deserve full attention, including those relating to internal governance, culture, and diversity at the Fund. We look forward to discussing these and steps to further improve surveillance in the upcoming Triennial Surveillance Review.

8. IMF policy advice should be given more thrust and authority, with countries expected to either "comply or explain". Increasing the role of the IMFC in surveillance would strengthen traction and member ownership. The IMF should consider using indicative guidelines like those being developed by the EU and the G20 for identification of large imbalances that demand corrective action.

9. The IMF should monitor the volume, composition and direction of cross-border capital flows, and advise members on capital account and reserve policies. The Fund should develop a policy framework for managing capital flows, increase its focus on reserve adequacy, and possibly be given a statutory mandate in this area. Free capital movements bring large benefits, but not without risks. Capital controls should be a last and temporary resort, with clear exit strategies when possible.

The Fund's Lending Role and the international monetary system

10. Changes in its lending instruments, such as the FCL and PCL, have enabled the IMF to respond forcefully and flexibly to crises. We look forward to evaluating the incentive structure of these instruments, for example if fees should increase with the size and length of loans.

11. The IMF should continue to explore whether collaboration with regional financing arrangements can provide better liquidity buffers to prevent cross-border contagion of systemic risks.

12. We welcome efforts to enhance the resilience and functioning of the international monetary system. The Fund should take on a leading role in studying how financial shocks are transmitted across borders, and in identifying how the system can be improved.

Quota and governance reforms

13. We continue to call for greater involvement of ministers and for a stronger IMFC with formal decision-making powers. The IMFC is a truly multilateral and statutory based body with global membership. It should be *the* key forum for global economic and financial

discussions. A strengthened IMFC would lend needed legitimacy to the process of international economic and financial cooperation.

14. We look forward to working with the new IMFC chairman and encourage him to strengthen the committee and increase its relevance. This could be done by expanding the meeting preparations *inter alia* by developing a clear agenda with *issues for discussion* and options for decisions, and by actively engaging the Executive Board in preparing better focused and more effective IMFC meetings.

15. The 2010 reform represents a welcome and ambitious quota shift from overrepresented to underrepresented countries, and a substantial increase in IMF resources. However, the process was non-transparent and special treatment was given to a number of larger countries at the expense of smaller ones, developing as well as advanced. A larger, fairer and more broad-based shift could have been achieved simply by applying the agreed quota formula. We deeply regret that the vast majority of IMF members were not represented in the critical discussions.

16. We look forward to completing the quota formula review by January 2013. The quota formula must respect and reflect the mandate of the Fund. Members' relative size in the world economy depends on GDP measured at market exchange rates, as well as economic and financial openness. The final result should ensure a rules-based and consistent basis for future quota reviews, allowing for frequent alignments to changes in the world economy.

The IMF's Role in Low-Income Countries

17. Many low-income countries fared relatively well during the crisis owing to improved macroeconomic frameworks, effective policy responses, and support from the international community. Looking ahead, further mobilization of domestic revenue will be needed to finance necessary investments in infrastructure and social spending. We strongly support the IMF’s role in offering technical assistance to LICs in this area.

18. The Heavily Indebted Poor Countries (HIPC) Initiative has allowed large number of people to exit from poverty by reducing the debt burden and strengthening the reform efforts of participating countries. We look forward to staff recommendations on the initiative’s future. We would like to underline the importance of full creditor participation, including from non-Paris club countries and private creditors.

19. Bilateral contributions from member countries are the best way to secure resources for concessional lending. While we support devoting a sizable contribution of gold sale profits to LICs, as agreed in 2009, transferring these resources via IMF member states is not a simple process. We fear sizeable leakage and displacement of donor funds. It would neither be an efficient use of resources nor constitute fair burden sharing.