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Statement by Mr. Katainen

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

Main messages

- ◆ While the economic and financial situation has improved, serious policy challenges remain, particularly in safeguarding public finances and rebalancing global demand.
- ◆ The crisis has demonstrated the need for stronger Fund surveillance on particularly macro-systemic risks stemming from the financial sector and multilateral aspects of domestic policies. The Fund should take a leading role in analysing and giving guidance on macro-systemic issues related to financial regulation and supervision.
- ◆ We should agree globally on principles for a “Systemic bank or Stability fee” to complement other measures planned to address systemic risk. Such principles could aim at consistency with the efforts to harmonize deposit guarantee systems and avoidance of competitive distortions and moral hazard. We welcome the recent report by the IMF on the issue.
- ◆ A strengthened IMFC should be the key forum for global economic and financial discussions and decisions, being a truly multilateral and statutory-based institution where all countries are represented.

Economic situation and policy

1. It is encouraging that the global recovery appears stronger than expected. Global financial stability conditions have also improved. Still, the recovery, which in the advanced economies has been driven mainly by policy support and the inventory cycle, is fragile as mostly downside risks remain and the global risk profile has been altered by the deterioration in fiscal balances and rapid accumulation of public debt.
2. Countries should prepare and clearly communicate exit strategies from economic policy stimulus. A firm commitment to sound medium-term fiscal and monetary policy frameworks is essential in safeguarding public finances, anchoring inflation expectations and underpinning confidence in the private sector. Phasing out crisis-related policy measures should be coordinated where possible.
3. For most advanced countries, significant fiscal consolidation should be initiated in 2010 or 2011, depending on the fiscal challenges and taking into account sovereign risks to global stability. Many countries in our constituency have made substantial consolidation efforts in various cyclical circumstances. This has increased confidence in the economy and promoted sustainable growth. Priority must also be given to financial sector reform, and the sector should be ready for the withdrawal of central bank liquidity support and government debt guarantee schemes.
4. A failure by especially large and systemically important countries to address the underlying causes of global imbalances, which are expected to increase again, may well constitute a threat to balanced growth in the medium term. The IMF should assist in such rebalancing by

providing policy advice based on comprehensive analysis of the structural factors behind too much or too little spending on investment and consumption. Such factors would include the efficiency of the financial sector, capital income taxation, welfare systems and corporate governance.

IMF reform

Surveillance

5. The lessons of the crisis should guide the reform discussions, giving greatest priority to enhancing the effectiveness of the Fund's surveillance. The Nordic-Baltic constituency strongly supports strengthening multilateral surveillance, assessments of macro-systemic risks and spill-over effects and international policy coordination.
6. We believe that the Fund should have a stronger role in financial surveillance and in assessing macro-financial linkages. With its broad global membership and strong analytical capacity, the Fund is uniquely positioned to take a leading role in analysing and giving guidance on macro-systemic issues related to financial regulation and supervision and assessing the factors driving stability and instability in the financial system. We also call for mandatory FSAPs with regular updates for all systemically important countries.
7. Focus should be strengthened on the effects of domestic economic policies on other countries. We hope to see the G20 Mutual Assessment Process contribute to sustainable and balanced global growth and encourage the G20-members to engage in globally transparent discussions moving forward. The Fund's role in the process should benefit the entire Fund-membership and be used as a tool to further strengthen bilateral and multilateral surveillance.
8. We support the efforts to clarify the Fund's mandate in analyzing and assessing capital flows as well as providing guidance on capital account liberalization and possible capital controls.
9. A new multilateral surveillance procedure seems a promising way to achieve these objectives and should be explored. Moreover, we are open to discuss whether changing the Articles of Agreement to include a formal mandate for the Fund on financial stability in its surveillance role is needed.
10. The traction of surveillance remains a weakness. In that respect, relevance, transparency and accountability of surveillance are necessary for a more effective peer review process. We continue to encourage publication of all Article IV reports and welcome the move to publication on a non-objection basis. In addition, the Fund's members should explain their reasoning if they do not implement the Fund's recommendations.

The Fund's financial role

11. The Fund has played a very important role in limiting the impact of the crisis. The major reforms of the Fund's lending facilities last year and the subsequent increase in resources were significant steps in this respect.
12. We are open to consider further adjustments of the Fund's lending role based on thorough analysis and further experience with the newly reformed lending instruments. The Fund's lending instruments must be well-designed to promote sound economic policies, safeguard the

Fund's resources, and support the Fund's surveillance role. Conditionality-based lending should remain a cornerstone in the Fund's financial role.

13. The size of the Fund should be determined by its mandate. The quota increase should ensure that the Fund's lending under normal circumstances will be covered by quotas. It is nevertheless important that the Fund has access to back-stop resources that can be drawn upon in special circumstances such as the current crisis.
14. Securing sufficient resources for concessional lending to low income countries should be a high priority. Countries in our constituency have already responded to the new fund-raising effort with subsidy resources and new loan agreements and we encourage other countries to do so as well. Equal treatment, transparency and fair burden sharing is of utmost importance.
15. It will be important to review the consequences of last year's SDR allocation to boost global reserve liquidity. It should be recalled that SDRs were designed to be a supplementary reserve asset. They are not an appropriate source of permanent financing for alternative purposes.

Governance

16. It is fundamental that global economic and financial discussions and decisions take place in a truly multilateral and statutory-based institution where all countries are represented. All issues related to the Fund, including its governance, should be prepared and decided within its decision-making bodies. We strongly support strengthening the IMFC as an effective body for giving strategic guidance to the Fund, discussing global economic and financial issues, and for securing both ownership and commitment to decisions.
17. In this vein, a clear timeframe should be set for exploring the decisive issues that could lead to agreement on a set of reform principles by the Annual Meetings in October that would be sufficiently specific to allow the Board to finalize the reform.
18. The fourteenth general quota review is a key element in the governance reforms. It must be based on sound principles and on objective economic and financial criteria. Quota adjustments should reduce to the extent possible under- and overrepresentation resulting from the present quota formula. Quota shares should not for any country become more misaligned after the reform than they were before. We strongly encourage all member countries to ratify the 2008 reform.
19. We reiterate our support for an open, transparent and merit-based management selection procedure and call for increased educational and professional staff diversity.
20. The current size of the Executive Board appropriately balances the need for effective decision-making and representation of all Fund members. It is also important to bear in mind the right of free constituency formation.
21. The voice and representation of low income countries should be ensured. We are committed to protecting their voting share.