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Statement by the Hon. **SVEIN GJEDREM**,
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on Behalf of the Nordic and Baltic Countries

IMF Annual Meeting Statement by the Hon. **Svein Gjedrem**,
Alternate Governor of the Fund for **Norway**,
on behalf of the Nordic and Baltic Countries

I am honored to make this Statement on behalf of the Nordic-Baltic IMF constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden.

Lessons and policy challenges

A key lesson from the recent crisis is the need for multilateral cooperation and collective action. This involves the framework for policies on prevention, resolution, reform and implementation. It also encompasses the institutional set-up. The international community turns to the IMF in times of crisis because it is an effective institution that performs the vital functions that are called for. The IMF played a pivotal role in presenting the initial lessons from the crisis, in providing finance to countries with temporary balance of payments needs, and in preparing the overall framework for the international policy response.

We have seen the interplay between closely interwoven economies, financial systems and markets, which underlines the crucial importance of effective and comprehensive financial market oversight and regulatory enforcement. We have also learned that systemic importance is not restricted to the large countries. Policy deficiencies in small countries can have wide-ranging global effects through contagion. No country is exempt from pursuing responsible policies, not just for its own benefit, but also that of others.

The crisis has left a legacy. Large public and private debt, high unemployment and wide global imbalances continue to challenge the global framework for economic policy.

Recovery from the crisis continues to be fragile and downside risks remain elevated despite extraordinary stimulatory policies that have in some cases gone beyond convention. It is a demanding challenge to sustain the recovery, and unconventional measures are still needed. Sustaining the recovery is made all the more arduous by the urgent need in many countries to rein in excessive or unsustainable fiscal deficits and put public finances on a sustainable and credible medium-term fiscal path, a challenge which is compounded by very high unemployment in many countries.

In order to boost medium term growth, structural reforms, including labor market reforms, must be undertaken in many countries. Failure by large and systemically important countries in particular to address the underlying causes of global imbalances may well constitute a threat to balanced growth in the medium term. Protectionism must also be resisted and the Doha round completed.

Additionally, financial regulatory reform is an essential element in restoring trust in global financial markets and institutions and must be swiftly agreed. The recent decision on bank capital is welcome but more is needed on a wider front to correct manifest shortcomings in the international regulatory framework. Early clarification of regulatory reforms will enable financial institutions to review their business strategies. Final agreement on regulatory

reforms must deliver credible, coherent and comprehensive changes aimed at promptly strengthening the global financial system.

The G20 countries have embarked upon an impressive and unprecedented course of coordinating their economic and financial policies with the aim of promoting strong, sustainable and balanced growth. The G20 is also in the forefront of financial market reform. It is vital that it deliver in both of these areas.

Multilateralism and the role and governance of the IMF

The Nordic and Baltic Countries are and have been both strong advocates of and participants in multilateral cooperation. We have made considerable contributions to multilateral efforts, including the activities of the IMF. In the IMF we act jointly in a constituency based on democratic principles. It is important for us to be able to participate in the formulation of global policies and related decisions, through direct or indirect participation. We therefore strongly support globally recognised and representative structures.

In light of this we are concerned about increasingly insufficient multilateral representation in the current global economic and financial structures. We fully recognize and appreciate the crucial response of the G20 to the global crisis. Had it not been for the determined action of the G20, the world would likely have suffered much more serious calamities. However, the G20 appears to be taking on an increasingly permanent character as a forum for “global” economic and financial cooperation.

While outreach efforts are welcome, and we appreciate the efforts of the Korean Presidency in that area, they cannot substitute for global economic governance structures based on legitimacy and adherence to multilateral principles.

We are strong supporters of the IMF which has proven its critical importance. The lessons from the most recent crisis have demonstrated the need to bolster its financial strength and to ensure that its facilities can serve both as crisis prevention and crisis resolution mechanisms. We support exploring options for developing an IMF-coordinated framework for responding to systemic events that threaten regional and global stability. Moreover, in the post crisis period, IMF surveillance will be of growing importance and acquire a greater role in preventing crises, both in individual countries and globally.

Bilateral surveillance will continue to be a core activity, but multilateral surveillance must be strengthened. We strongly support efforts in this direction, including expanded analyses of macro-financial linkages and spill-over effects. Financial sector surveillance also needs to be intensified and integrated into surveillance under Article IV. These efforts require respect among member countries for IMF advice and recommendations, i.e. that IMF advice and recommendations gain traction. The role of the IMF in the G20 MAP provides valuable experience for the increased emphasis on multilateral surveillance.

We strongly support IMF quota and governance reforms. They aim at strengthening the efficiency and representative foundation of the most important multilateral institution in the international financial architecture. We are unwavering supporters of good governance and transparency, which should both be hallmarks of IMF activities.

The IMF has been and shall continue to be a quota-based institution with quota shares determined on the basis of members’ relative economic size, using a transparent formula consistent with the mandate of the IMF.

A strengthening of the IMFC is essential for it to be *the* principal global forum on matters of global economics and finance. The IMFC constituency structure ensures inclusiveness and legitimacy through representation of the entire membership. One potentially important component in achieving a strengthened IMFC is to grant it formal decision-making powers. We are prepared to support an amendment of the Articles of Agreement if deemed necessary for that purpose. A strengthened IMFC can hold the Executive Board and Management accountable to the membership.

In addition to being the forum for discussing global economic and financial developments and policies, the reformed IMFC should focus on other issues of key importance and strategic relevance, including the following:

- Consider and agree on the strategic direction of the IMF.
- Agree on the medium term budget priorities.
- Set the surveillance priorities.
- Engage in the surveillance of systemically important countries.

A reinvigorated IMFC requires a firm *policy commitment* from the membership that strategic discussions for the institution and global economic cooperation take place in the IMFC. Adequately dedicated and effectively organized and managed, it can provide strategic leadership and guidance to the Executive Board which would be given a stronger role in preparing IMFC meetings.

IMF reform is a vital element in the necessary improvement in the workings of the international monetary system, and a reformed IMF will be the appropriate forum for that process. An ambitious goal has been set for agreeing on changes in quotas and other governance related matters. These reforms must be agreed within the relevant bodies of the IMF in a cooperative spirit. They must be transparent and based on sound premises, including evenhandedness and equal treatment, consistent with the mandate of the IMF.

In conclusion, let me reiterate our desire to continue to play an active and constructive role in multilateral cooperation and activities, including in a reformed IMF. To ensure continued support of our citizens, we need to have a say in institutions where we contribute.