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Statement by Mr. Borg

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Lithuania, Norway and Sweden

Main messages

Global prospects are improving, but the recovery is fragile. Momentum should be maintained on all policy fronts with determined implementation of agreed policies, especially in those countries and regions facing the greatest adjustment challenges.

Financial system reforms must continue and policy makers should be vigilant against new medium-term risks building up in the financial sector. Macro-prudential policies can help to limit these risks, complementing more traditional macroeconomic policies. The IMF should be in the forefront of research, detect possible spillover effects and advise member countries on macro-prudential policies.

In Europe, substantial policy decisions have calmed the markets. Reform momentum has to be maintained to strengthen public finances, reform the financial sector, including making progress towards a banking union, and improve competitiveness. To enhance public support for continued reforms, policymakers will need to clearly communicate the comprehensive strategy and effects of the ongoing reforms.

The unsustainable fiscal situation in the US and Japan is a source of concern and uncertainty. Credible medium-term fiscal plans should be promptly developed.

We strongly emphasize that the current quota formula has produced and will continue to produce significant shifts in quota shares and voting power in favor of dynamic emerging market and developing economies, reflecting their increased role in the global economy. Increasing the weight of GDP relative to openness would decrease the quota shares of two thirds of the membership, developing, emerging and advanced countries alike. A result which benefits a few large member countries at the expense of many smaller ones would neither enhance the legitimacy of the IMF nor be acceptable to the broad membership. The ongoing quota reviews must be conducted within IMF bodies where the interests of all IMF member countries are represented.

Economic and financial challenges

1. Since our last meeting, lower risks stemming from Europe and the partly deferred fiscal cliff in the US have helped improve confidence and funding conditions in financial markets. However, considerable uncertainties and downward risks remain, holding down the recovery in the real economy. Therefore, it is crucial to retain momentum on all policy fronts with determined implementation of agreed policies, especially in those countries and regions facing the greatest adjustment challenges. Fiscal consolidation should be differentiated and growth-friendly, and automatic stabilizers should be allowed to operate in countries with sufficient fiscal space. To enhance public support for continued reforms, policymakers will need to clearly communicate the comprehensive strategy and effects of the ongoing reforms.

2. In Europe, deleveraging in the private and public sector in some countries will continue to act as a drag on growth. Important steps have been taken to correct excessive government deficits. However, fiscal consolidation has to continue as agreed in order to ensure structurally balanced budgets and bring gross debt levels on a downward path. This will support confidence and growth prospects. Building on the positive confidence effects of the ECB's actions, other agreed policy measures must be fully implemented, both at the national level and the European level. At the national level, structural reforms should focus on ways to increase productivity and raise competitiveness, by for example enhancing labor and product market flexibility. At the European level, the agreed economic governance reforms should be fully implemented and enforced. The implementation of the banking union should continue in accordance with the intentions agreed by EU member states.

3. In the US, to further strengthen confidence, it is essential to establish fiscal policy predictability and a credible medium term fiscal consolidation plan. This will help to contain the negative spillover effects of policy uncertainty on investment and output growth, not only in the US but also in other regions. In Japan, the public debt is of serious concern. Bringing public finances back to a sustainable path in the medium to long term requires strong and urgent attention.

4. Exceptional circumstances continue to require exceptional monetary policies in advanced countries. However, it is necessary to be on the alert for unintended consequences of monetary accommodation over an extended period. It may encourage risk taking and amplify economic imbalances, not only in advanced countries. Policy makers should use macro-prudential policies to mitigate the buildup of risks.

5. Unemployment has become a pressing problem in many member countries, demanding immediate attention. It brings hardships and huge costs to individuals and societies. Measures to stimulate growth and employment taking fiscal sustainability into account are important, including reforms in labour and product markets. Inflexibility and skills mismatch have to be addressed while maintaining viable social safety nets. We strongly support increased IMF focus on these issues and the approach embodied in the recent recommendations for surveillance and program work.

6. Emerging market economies should in the short term carefully monitor risks originating in continued rapid credit growth and high asset prices and build macroeconomic buffers. Over the longer term, they should aim to address possible growth-impeding underlying structural problems, which could reduce future growth.

7. We welcome the robust development and prospects in many LICs. In particular, we note the positive developments in Africa. Indeed, dynamic LICs have grown at a faster pace than advanced economies since the turn of the 21st century and have even outpaced other emerging market and developing economies since the Great Recession. We note the central role that strong economic and political institutions play in this respect. The lesson applicable to the whole membership is that not only are good policies important, but good governance, institutional soundness and confidence in public institutions are crucial for their successful implementation.

8. Advanced countries with IMF programs need to persevere. Two countries in our constituency, Iceland and Latvia, completed demanding IMF programs negotiated early in the crisis. Strong ownership and sound institutions able to carry out the necessary policies were crucial for their success.

9. Globally, all tendencies towards protectionism and beggar-thy-neighbour policies must be resisted.

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

10. Through its surveillance activity the IMF plays a pivotal role in supporting global economic and financial stability as well as in monitoring signs of potentially destabilizing developments and risks. Its ability to do so was strengthened with the adoption of the Integrated Surveillance Decision and the Financial Surveillance Strategy in 2012. We call for a determined implementation of both, in an evenhanded and transparent manner.

11. Improving the traction of its advice continues to be a challenge in IMF surveillance. This is particularly the case vis-à-vis many large member countries, advanced and emerging alike. An important factor to improve traction is to have more stringent follow-up processes of the Fund's advice. Article IV reports should therefore more consistently review members' adherence to previous IMF policy advice. This would enhance accountability and comparability over time. Strong engagement by ministers and governors is also necessary. Thus we repeat our earlier calls to strengthen the role of the IMFC in surveillance, particularly for systemically important countries.

12. The 2012 adoption of an institutional IMF view on capital flows was an important milestone. It must now be resolutely implemented within the IMF's multilateral and bilateral surveillance activities and in its general policy advice to members. An active IMF is consistent with its core mandate.

13. Macro-prudential instruments can limit the build-up of systemic risks complementing more traditional macroeconomic policies. In the current situation of exceptionally accommodative monetary policy, macro-prudential policies should be used to prevent potential accumulation of risk. We expect the IMF, together with others, to be in the forefront of research aimed at identifying appropriate frameworks, policies, instruments and implementation practices as well as improving the understanding of the interconnection between macro-prudential and other economic policies. Additionally, its global membership makes the IMF uniquely placed to detect and discuss possible spillover effects generated by macro-prudential policy action or inaction, gather best practices, and give advice to member countries.

14. Four of the countries in our constituency are the subject of an innovative pilot regional surveillance report this spring. We welcome this and trust that it will benefit the countries directly involved and provide the IMF with valuable experience in developing the regional aspect of its surveillance. For future regional based surveillance by the IMF, we emphasize that the highest value added is achieved when country coverage is based on economic and financial links.

15. We continue to support an active role for the IMF in Low Income Countries (LICs). Many Sub-Saharan African countries are now reaping the benefits of a long process of policy and structural reforms and institutions building where the IMF has been an important advisor. We must ensure that LICs-specific facilities continue to be relevant and appropriate for their task. At the same time, we must ensure that the IMF's engagement is limited to its areas of competence.

Quotas and governance

16. We urge members who have not yet ratified the IMF reforms agreed in 2010 to do so without further delay. This is important for the legitimacy of the IMF.

17. We strongly emphasize the sizeable changes which the current quota formula brings about in relative quotas on the basis of data updates. The formula, which was a carefully calibrated compromise when agreed, is dynamic and it has produced and will continue to produce significant shifts in quotas and voting power in favor of dynamic emerging market and developing economies, reflecting their increased role in the global economy and ensuring a fair distribution of quotas.

18. GDP and openness should remain the most important variables. Openness reflects the member countries' interconnectedness in the global financial and economic system, making it closely related to the very mandate of the IMF and the purpose of quotas. It must be clear to all that increasing the weight of GPD relative to openness will decrease the quota shares of two thirds of the membership, developing, emerging and advanced countries alike - only a limited group of large countries would benefit. Moreover, the reduction or elimination of the variability variable, which is highly correlated with openness and is in itself a proxy for openness, would decrease the relative quotas of most emerging, developing and smaller advanced economies. A

formula which favours a few large members at the cost of a large majority of the membership is neither fair nor acceptable.

19. Further, voluntary financial contributions should be accounted for when new distributions of quotas are decided. Our constituency was the largest contributor in terms of quota shares to the bilateral loans committed to the IMF in 2012. It is an issue of legitimacy that there is a clear connection between a country's capacity and willingness to contribute financially to the IMF and its representation.

20. We strongly object to any suggestions to set numerical objectives for changes in the quota shares of particular or arbitrarily defined groups of countries.

21. In the discussions on the quota formula and the 15th General Quota Review, we will insist on a fair agreement acceptable to the broad membership. It is crucial for the future credibility and legitimacy of the IMF that the quota formula and 15th General Review of Quotas is conducted in IMF bodies where the whole membership of the IMF is represented and not in forums where only a few members participate, such as the G20.

22. The 15th General Quota Review must be based on a thorough medium- to long-term analysis of the need for IMF resources. The 14th Quota Review will substantially increase the permanent lending capacity of the IMF when ratified. Further, the second round of bilateral loans provides a safety margin for the short-term. We welcome that many countries have expeditiously concluded their bilateral loan agreements.

23. We welcome the more assertive role of the IMFC in the recent years, and we fully support its further strengthening as the key forum for global economic and financial cooperation. We strongly support the work of the IMFC Chairman and the Managing Director to this end.

The Independent Evaluation Office

24. The Nordic-Baltic Constituency is a strong supporter of the Independent Evaluation Office (IEO). It has played an important role in enhancing the IMF's institutional governance and oversight and through its candid reports built up its own credibility and strengthened that of the IMF. The recent external evaluation of the IEO revealed areas where the IMF itself can do more internally to follow up the work of the IEO. IMF management should foster increased awareness among the staff of the work and recommendations of the IEO, while the Executive Board should play an effective role in monitoring the response to the IEO's recommendations.