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Statement by the Hon. **STEFAN INGVES**,
Governor of the Fund for **SWEDEN**,
on behalf of the Nordic and Baltic Countries

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

Before the world economy fully recovered from the financial crisis and the following downturn, financial market unease has risen again. This time, the uncertainty mainly stems from concerns about the outlook for public finances, and consequently the effects this may have on the integrated banking system. The international community and domestic policymakers once again need to handle risks and hinder contagion.

Public sector debt is currently high, particularly in the advanced economies. Many advanced countries are planning considerable fiscal consolidation. This is welcome but it will also be important to appropriately balance short term considerations with credible medium term plans. Improved public finances will be necessary to create stability and reduce vulnerability in the future. But to consolidate public finances will take time, and until this is achieved there is always a risk that markets will judge the measures as insufficient, which in turn risks leading to worsened or renewed turbulence. Because sovereign debt problems and bank problems are often closely intertwined, via banks' holdings of sovereign debt but also the public sector's ability to support banks in distress, this is of concern also to the banking system.

The Fund, with its almost universal membership and unique surveillance capacity, is the organization best suited, and most legitimate, to coordinate and formulate policy options to meet the challenges at the global level.

However, the Fund's comparative advantages – good surveillance and legitimate governance structure – will never be enough without two other crucial ingredients. These are frankness and traction. The IMF must always be prepared to speak truth to power. All countries – no matter small or large – need independent evaluation to be able to make the best policy choices. The increasingly interdependent global economy makes this a common interest, as we are affected not only by our own but also by our neighbors' policy choices! But frank surveillance also needs to be accompanied by frank discussion and policy action.

The Triennial Surveillance Review just considered by the Executive Board must result in more effective IMF surveillance, bilateral and multilateral as well as of financial sectors. It will build on the improvements and innovations introduced so far, including spillover reports and the increased focus on interconnectedness. The globalization of the financial system means that systemic risks can spread quickly across countries. Reducing the build-up or impact of such risks will require coordinated international actions. The joint IMF-FSB early Early Warning Exercise is very important to this end, including the involvement of the IMFC. We would also favor that IMF surveillance focus more on the structure of capital flows to be able to better assess their impact. However, the greatest challenge remains to increase the traction of IMF advice. We suggest among other things that the member countries should be expected to comply or explain.

Significant changes in IMF governance were agreed last year but they need to be followed up. We have for example repeatedly emphasized the importance of strengthening the IMFC, making it *the* principal forum on matters of global economics and finance. We therefore welcome the IMFC Chairman's emphasis on the importance of the IMFC becoming a more effective forum for open and active discussions. We have made proposals to this end, relating among other things to preparations for meetings, the setting of the agenda and the meeting format in addition to giving it a specific role in the surveillance of systemic countries. A stronger IMFC entails increased accountability since it represents the IMF's global membership.

Important discussions are ahead on the review of the quota formula. It is crucial that the revised quota formula will be consistent with the mandate of the IMF and the purpose of quotas. The current formula has several weaknesses and there is significant room for improvement, such as including financial openness, measure GDP at market exchange rates rather than purchasing power parity and making the compression element a strong feature. We are prepared to enter into constructive discussions, fully anchored in the Executive Board and the IMFC, in order to achieve a result that will ensure that the IMF quota distribution remains transparent and formula-based and that the revised formula will be the sole basis for future quota alignments. Nevertheless, at this important time for the world economy, we have to use most of our energy on finding solutions to the current economic and financial challenges, and less on internal Fund matters.

To sum up, the first line of defense that needs to be strengthened to prevent systemic risks materializing in the first place is prudent domestic policies - including financial regulation - guided by good surveillance and followed by policy actions. However, when risks do materialize, the overall challenge is to create multilateral responses that are sufficiently fast, predictable and well-coordinated to avoid risks evolving into a full-fledged crisis. The IMF is well placed to act as a whistleblower when systemic risks arise and coordinate national, bilateral and multilateral action to stem contagion.

In the long-run, we may be destined to repeat the past, but we can put structures in place that make this repetition less frequent and less costly. Institutions have a longer memory than individuals, so an important element of the current reforms to the global financial system is to create frameworks to ensure that the mistakes made in the run-up to this crisis are not forgotten and repeated once the key actors in this crisis are gone. It is difficult to predict the cause of the next crisis and this is why we actively support strong international institutions, where the IMF is of course a key player.

Thank you.