



International Monetary and Financial Committee

Twenty-Eighth Meeting
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Statement by Rimantas Šadžius, Minister of Finance, Lithuania

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

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Main messages

- Recent indicators signal a brighter outlook in a number of advanced economies. Yet, global growth is modest and downside risks still dominate. Unemployment is high and significant fiscal sustainability risks persist in many countries. To foster stronger growth and employment, monetary support must be complemented by credible medium term fiscal policies and structural reforms. History has shown that long periods of easy money can contribute to the build-up of risks. The IMF should carefully monitor all such developments.
- Vulnerabilities have surfaced in many EMEs and growth prospects have worsened. Careful fiscal and monetary policy responses and ambitious structural reforms are required to ensure sustainable and balanced growth.
- Momentum should be maintained in reforming and implementing financial regulation and oversight. International cooperation is crucial in further developing regulatory frameworks and handling cross-border financial crises. Bank capital should be built to sufficient levels.
- The 2010 IMF reforms should be promptly completed. The current formula, which was a delicate political compromise, captures dynamic developments in the world economy. A major overhaul is therefore unnecessary. The quota formula must reflect the mandate and purposes of the IMF and be broadly acceptable to the whole membership. The 15th General Quota Review must be based on a thorough assessment of the IMF's medium to long-term need for general resources. All elements of the quota reform must be considered as an integrated package.

Economic and financial developments and policies

1. We share the IMF's assessments and broadly agree with policy recommendations in the latest reports on the global economic and financial situation and prospects. The global economy is showing some encouraging signs, notably in the advanced economies. Nevertheless, global growth continues to be modest, downside risks persist, and new areas of vulnerability have appeared.
2. Unconventional monetary policies have been necessary to counter the downturn and have provided support to the global economy and the financial sector. Current monetary and fiscal policies should, however, be complemented by ambitious structural reforms to support the recovery, increase potential growth, reduce unemployment, and underpin financial stability.

3. Global imbalances have subsided, mainly as a result of cyclical factors. A durable rebalancing of global demand requires policy action and coordination among systemically important countries. We must also protect the important gains brought by increased international trade and open markets. Therefore, it is important to resist all tendencies towards protectionism and beggar-thy-neighbor policies.
4. There are signs of a pick-up in growth in the euro area and confidence is rising, but the recovery is not yet firmly established. Much has been achieved in ensuring needed and differentiated fiscal consolidation, improving the functioning of the EMU and in ensuring broad based structural reforms. Nevertheless, important challenges remain. Agreed medium-term fiscal policy strategies and economic governance reforms must be fully implemented without delay.
5. Growth in the US seems to be firming, even against a background of fiscal tightening. Fiscal consolidation should be implemented according to a credible medium-term plan. A durable solution needs to be found to the recurring uncertainty posed by the federal debt ceiling. Exit from quantitative easing should be carefully communicated and timed.
6. Growth prospects have softened in EMEs, partly due to tighter financial conditions. Markets have reacted strongly to indications that withdrawal of quantitative easing may soon begin in the US. The effects exposed fragilities in the most affected countries. Although many countries have improved policy frameworks over the last decade, remaining vulnerabilities should be addressed through appropriate structural, fiscal, monetary and macro-prudential policies.
7. China would benefit from more balanced and domestically driven growth, structural reforms and opening up of markets to internal and external competition. Financial sector reforms could prevent a further build-up of risk. Potential vulnerabilities in the financial sector need to be contained.
8. Current Japanese economic policy has delivered positive initial results which need to be followed up by the structural reform part of the policy program. A solid medium-term fiscal consolidation plan should also be promptly elaborated.
9. We welcome the robust growth in sub-Saharan Africa. Many countries are now reaping the benefits of stronger institutions and improved policy frameworks. However, they remain vulnerable to global developments.
10. International cooperation is important in developing regulatory frameworks and in handling cross-border financial crises. However, the economic situation differs between countries. It is therefore important to retain the possibility to address specific national circumstances with adequate macro-prudential regulation. Individual countries must have the instruments necessary to safeguard financial stability at home.
11. Building strong buffers and diversifying funding sources will improve financial stability. New liquidity regulation for banks should reduce reliance on short-term funding, but many financial markets remain vulnerable to liquidity shocks and systemic contagion. Addressing structural vulnerabilities in key financial markets and increased monitoring of shadow

banking risk should contain the emergence of new market and liquidity risk. The combined effect of different regulations should be carefully monitored.

The role of the IMF

12. Significant and necessary steps have been taken to strengthen IMF surveillance in recent years. The IMF should look beyond the short-term horizon and remain alert to long-term tendencies in the global economy. We welcome the upcoming Triennial Surveillance Review. In particular we look forward to reviewing progress in enhancing the traction of IMF surveillance and in integrating financial sector surveillance, including risk aspects of macro-financial linkages, into the Article IV processes. We emphasize the importance of systematic follow-up of past recommendations in IMF surveillance to enhance traction and evenhandedness.
13. The pilot regional surveillance exercise in four of the countries in our constituency was a relevant step in further developing the regional focus in the IMF's surveillance activities.
14. We support increased focus by the IMF on sovereign debt issues. In this connection, we emphasize the importance of comprehensive and robust debt sustainability analyses with conservative and realistic assumptions.
15. We welcome the Fund's contribution to the global discussion on macro-prudential policies. The Fund should build on its analytical strengths and global coverage in advancing well designed macro-prudential policy advice as part of its surveillance mandate. In this work it is important to avoid simplistic "one-size-fits-all" solutions.
16. We look forward to the review of the precautionary lending facilities. The incentive structures and conditions for exit from such arrangements must be thoroughly assessed. The commitment fee could, for example, be scaled up with the length and size of programs. The impact on Fund financing, resources, and lending capacity from the prolonged use and high access to the facilities should also be carefully analyzed.
17. We are deeply concerned about the crisis in some Middle Eastern countries which can have serious global ramifications. We call on the IMF to stand ready to assist these countries in defining the appropriate economic policies as soon as conditions permit.

Quotas and governance

18. The 2010 IMF reforms should be promptly concluded. Further delays may damage the credibility of the IMF.
19. It is crucial for the future legitimacy of the IMF to reach a balanced quota agreement that is acceptable to the broad membership. Discussions and decisions should be fully anchored in bodies where the whole membership of the IMF is represented. All elements of the quota formula and the 15th General Quota Review must be agreed as part of an integrated package as they are all interconnected.

20. A major overhaul of the formula is unnecessary. The current quota formula continues to deliver significant shifts in quota shares to emerging market and developing economies, reflecting their increased weight in the world economy.
21. The formula discussions so far have focused on proposals primarily benefitting large member countries at the expense of the larger membership - advanced, emerging and developing countries alike. Such a decision would not increase the credibility and legitimacy of the IMF and cannot possibly be broadly acceptable to the membership.
22. The principles which underpinned the 2008 reform remain valid. GDP and openness should remain the most important variables in the formula. Openness reflects the very mandate of the IMF. The openness variable is needed to reflect the increased importance of spillovers and economic and financial interconnectedness as amply demonstrated in the recent crisis. We oppose caps on openness. Our readiness to consider dropping variability is conditional on a predominant share of its weight being transferred to openness.
23. Relative to quota shares, our constituency was the largest contributor 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 readiness to contribute financially to the IMF and its representation.
24. The 15th General Quota Review must be based on a thorough assessment of the future need for IMF resources with a view to its ability to fulfill its systemic role in the global economy. As a general principle, quota distributions should be formula based and ad hoc allocations only be used on an exceptional basis.
25. We strongly support the efforts of the IMFC Chairman and the Managing Director to strengthen the role of the IMFC as the key forum for global economic and financial cooperation.