International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

Statement by Mr. Antti Rinne
Minister of Finance, Finland

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

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The global economic recovery continues to be tepid and increased geopolitical tensions have added to uncertainty. A sustained recovery rests on structural reforms boosting growth and growth potential in both advanced and emerging market economies as well as on continued fiscal consolidation implemented in a growth-friendly manner. Countries with high public debt should focus on credible medium-term consolidation and put debt on a sustainable path, particularly where growth potential is weak. Accommodative monetary policies play a crucial role in supporting the recovery. To underpin financial stability and hinder market developments not supported by fundamentals, the financial regulatory reform agenda should be resolutely implemented, while macroprudential policies could be actively used where needed. Strengthened surveillance has made the IMF better equipped to effectively advice its members. To solidify the effectiveness of the IMF, the 2010 reforms must come into effect without further delay.

Global recovery is proceeding, but at a slow and differentiated pace.
Global growth has once again disappointed and prospects have been revised downwards. Downside risks continue to dominate the outlook. Intensified geopolitical risks, particularly the Russia-Ukraine conflict and hostilities in the Middle East, can have serious economic implications.

It is vital to raise economic growth and boost growth potential. Growth friendly fiscal consolidation combined with ambitious structural reforms should be applied for this purpose. Monetary policy is expansionary and contributes appropriately to the recovery, but fiscal policy is constrained in many countries by very high debt. However, where fiscal space exists, it may be used to further support growth through productive investments, for example in public infrastructure, while staying within credible medium-term frameworks. The unwinding of unconventional monetary policy in the US should be conducted in such a way as to minimize the risk of erratic market reaction. Clear communication will be crucial.

Growth in emerging market economies has generally surprised on the downside and is likely to continue to be held back by supply side constraints, including supply and infrastructure bottlenecks. Also in these countries, structural reforms to strengthen productivity and raise potential growth are vital.

Bolstering growth and growth potential is needed in EU member countries.
High unemployment and excessive debt in many European countries must be sustainably brought down. Fiscal and financial balances are gradually being repaired. This is essential for stronger confidence and better financial resilience. The real economy is gradually recovering, albeit at a varying pace among member states. In addition to accommodative monetary policy, the recovery needs to be supported by ambitious structural reforms, and by credible policies to ensure long-term fiscal sustainability. While respecting fully the European fiscal rules, existing flexibility could be employed to support economic recovery and overall confidence. However, in most countries fiscal space is very limited, and expansionary fiscal policies are neither the short nor long-term solution and risk

jeopardizing confidence. Structural reforms that enhance growth potential and improve fiscal sustainability should be given particular attention. In addition, access to long-term investment finance should be improved as part of a deepening of capital markets. High unemployment, in particular youth unemployment, should be addressed through better skills and education as well as through more open labor markets. The Single Market needs to be further integrated.

A robust financial system is necessary for healthy growth.
Strengthened capital requirements and enhanced cross-border cooperation are required to detect and prevent new financial system vulnerabilities, and bank resolution regimes need to be improved. Stronger banks will increase the robustness of the financial system and the real economy. Banks should take advantage of benign market conditions to raise capital and repair balance sheets. In Europe, ongoing work to implement the Banking Union will strengthen the financial system. Going forward, it is important to work on more efficient and better integrated capital markets in Europe as an alternative to bank-based financing. In emerging market economies, building strong and independent supervisory structures is required to prevent new vulnerabilities.

Further macroprudential policies may be warranted.
Asset prices have increased further, especially at the riskier end of the spectrum. There are increasing signs of some markets diverging from fundamentals. Some risk indicators are now at levels not seen since before the 2008 crisis. Furthermore, there are signs of overheated housing markets and associated credit booms in some countries and regions. Use of macroprudential policies, as a supplement to other financial market regulation and monetary policy, is warranted to underpin financial stability.

Strengthened surveillance adds weight to IMF advice and should increase traction.
The 2014 Triennial Surveillance Review (TSR) confirms the significant changes which have been introduced in the IMF's surveillance methods, tools and practices. Together they have given further analytical weight to the IMF's assessments and advice. We place particular emphasis on the further development of risk and spillover analyses, on the importance of macro-financial analysis and of fully incorporating financial sector surveillance into Article IV Consultations, and on the revival of balance sheet analysis.

We support streamlining and consolidation of the key surveillance messages which should enable the IMF to reach a wider audience. With strengthened surveillance, the IMF is well positioned to give good and tailor-made advice to all its members. Candor, clarity and transparency are vital in this process.

Current situation demands increased attention to structural reforms.
The IMF will need to increasingly focus on structural reforms in member countries to enhance potential growth. Due consideration needs to be given to how progress made by members on this front is concretely evaluated within the surveillance framework. We support the broad approach suggested by staff, *inter alia* in the TSR, to recognize all macro-critical structural issues and their implications, and the proposed principles in determining where to provide advice. This includes financial deepening and business environment, labor market and income distribution issues which are important in many countries. The IMF's role regarding structural issues should be defined by its mandate and limited to areas where it has competence. Thus, cooperation with other institutions will be necessary, while overlaps should be avoided.

We support the IMF's work on growth and employment, including on the interplay between growth enhancing policies and the creation of jobs. The IMF needs to play an active role in defining effective policies, and in pushing their implementation. We support the IMF's continued work on the macroeconomic consequences of income inequality and the inclusion of equity consideration into surveillance and program-related activities.

The work on sovereign debt issues is advancing.
We support the IMF's important work on strengthening the contractual framework to address collective action problems in sovereign debt restructurings. We find the current initiatives a promising basis for moving towards a more efficient, predictable and fair system for sovereign debt negotiations. This work will also complement the IMF's efforts to improve its policy framework in the context of sovereign distress.

The IMF must have sufficient quota resources…
It is essential that the 2010 reforms promptly come into effect in order to strengthen the IMF's effectiveness and legitimacy. Continued stalemate risks leading to a more fragmented international monetary system which could negatively affect global stability and welfare. As the institution at the center of the global financial safety net, the IMF must have sufficient permanent resources to meet potential needs and instill confidence. The implementation of the 14th General Review of Quotas and the associated doubling of IMF quotas would confirm the nature of the IMF as a quota-based institution. Borrowed resources are by design temporary and should not be a long-term major source of funding. IMF cooperation with Regional Financing Arrangements has proved to be useful.

…and the ongoing reviews of the size and distribution of quotas must be completed.
All elements of the quota formula and the 15th General Review of Quotas must be agreed as an integrated package. The current quota formula delivers sizable shifts in quotas in line with changing relative roles of countries in the global economy. Thus, a major overhaul of the quota formula is unnecessary.

Final agreement on the quota formula and the Review of Quotas must be arrived at in the IMF's own bodies where the interests of all members are represented. It must be acceptable to the broad membership.

Learning from history
The IMF has a tradition of quickly adapting to new circumstances and learning from history. In that regard, the assessments and recommendations of the Independent Evaluation Office (IEO) have become very important. We strongly support the work of the IEO and look forward to its forthcoming evaluation of the IMF's response to the financial and economic crisis, including on the role of the IMF in the coordinated global responses to the crisis, the timeliness and effectiveness of IMF's policy advice during the crisis, and the IMF's provision of adequate and timely financial support to countries.