



**International Monetary and  
Financial Committee**

**Eighteenth Meeting  
October 11, 2008**

**Statement by Mr. Stefan Ingves  
Governor, Sveriges Riksbank**

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

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#### Main messages

- *Financial markets remain under considerable stress and extensive public interventions have been necessary to contain the crisis. Immediate priority is to re-establish confidence in the global financial system. A comprehensive review of the recent experiences would need to follow. Close cooperation between authorities both at the national and international level is crucial. When taking measures countries should ensure that negative spill-over effects on other countries are avoided.*
- *As we learn lessons from the financial turmoil and adapt the rules for the international financial system, we need to give the IMF with its analytical strength and universal membership a stronger role in promoting global financial stability.*
- *In the current situation of extraordinary uncertainty, central banks have rightly prioritized the restoration of well-functioning funding markets through ample provision of liquidity. A forward-looking monetary policy stance needs to be carefully calibrated to address the changing balance of risks to inflation.*
- *If downside risks to the economic outlook were increasingly to materialize, policy makers would also need to consider timely, temporary and well-targeted fiscal measures, conditioned on the need to maintain a firm focus on strong public finances over the medium term.*
- *More needs to be done in terms of improving the analytical framework surrounding the 2007 Decision on Bilateral Surveillance. Surveillance should cover all relevant policies to ensure external stability and healthy domestic economies. The surveillance framework should remain relevant for all countries.*
- *The Fund's lending framework should be further simplified and streamlined with stronger incentives. Safeguarding the Fund's resources is of key importance.*
- *The emergence of protectionist pressures is worrying. The failure to reach a break-through in the Doha Round negotiations is a major setback for international trade.*
- *We look forward to further steps to improve the governance structure of the Fund. The Board should remain sufficiently broad to ensure the adequate representation of rich, poor, large and small countries.*

## **The economic situation and appropriate policy responses**

1. Financial markets remain under considerable stress and economic growth in advanced countries, and also in emerging and developing countries, is slowing.
2. In recent weeks the problems in the banking sector in the US and in Europe have intensified. Close co-operation between central banks has been vital in efforts to restore well-functioning funding markets. A forward-looking monetary policy stance needs to be carefully calibrated to address the changing balance of risks to inflation.
3. In a number of countries unprecedented public intervention has been necessary to contain the crisis. There is a strong need for a coordinated response among countries. The aim is to restore confidence and the functioning of markets. In this respect a key issue is to deal with troubled banks including injection of capital where necessary and a framework for handling toxic assets. Also, upholding transparency when dealing with troubled institutions is vital.
4. It is important that authorities co-operate and exchange information on what is guiding them in their intervention policies and the measures they intend to take to avoid that public intervention will be needed in the future. Also, when taking measures countries should ensure that negative spill-over effects on other countries are avoided. As we learn lessons from the financial turmoil and adapt the rules for the international financial system, we need to give the IMF with its analytical strength and universal membership a stronger role in promoting global financial stability.
5. Important questions related to governance of financial institutions, risk management, supervision, complexity and lack of transparency of structured products, quality and transparency of rating processes and moral hazard issues are bound to stay with us for some time. A fundamental issue is how to strike the right balance between self-regulation and regulation.
6. Countries with strong public finances could consider timely, temporary and well targeted fiscal measures in the current situation, undertaken within a well defined and rules-based framework. In this respect it is regrettable that many countries once again have missed out on the opportunity to strengthen their public finances in good times, thus limiting their arsenal of possible instruments to be used when entering a downturn. Sound budgetary positions and continued economic reforms are crucial to improve the conditions for non-inflationary growth, job creation and resilience to shocks of our economies.
7. The recent rise in food prices has had serious social consequences. Some low-income countries face difficulties in ensuring adequate food supplies for their poorest citizens and risk losing the gains in macroeconomic stability achieved in recent years. To meet the challenge of rising food-prices in the longer term, we need open trade regimes.
8. The failure to reach a break-through in the Doha Round negotiations is a major setback for international trade. WTO members must now assume the responsibility to swiftly move the Doha Round forward. Trade is a fundamental development tool, and the Fund should play an active role in assuring that the benefits of trade and globalisation accrue to all countries. The Nordic and Baltic countries will continue to work for a successful conclusion of the trade negotiations.
9. The Fund is well placed to deal – from its own perspective – with global issues such as the huge challenges posed by climate change. The NBC countries believe that the IMF should have the capacity to assess and to effectively deal with macroeconomic implications of climate change. An understanding of these challenges to the global economy could help form a basis for its policy advice to member countries.

## **Fund policies**

### Surveillance

10. Surveillance is at heart of the Fund's mandate and continues to be the key to crisis prevention. The 2008 Triennial Review provides useful input to the discussion on improving IMF surveillance. We welcome the updated statement on surveillance priorities including its emphasis on the importance of improved risk assessments. The current crisis shows that the world economy now more than ever needs a truly multilateral IMF with strong policy leadership.
11. More needs to be done in terms of improving the analytical framework in relation to the 2007 Decision on Bilateral Surveillance. Care should be taken that surveillance focus on the relevant challenges in countries, and that exchange rate issues do not crowd-out other issues that may be of greater relevance for economic stability in a specific economy. Emphasis should be on the consistency and sustainability of the overall set of economic policies. Recent experiences from within the Nordic Baltic Constituency confirm that more needs to be done in this field if effective and even-handed implementation is to be ensured.
12. We continue to stress the need for increased emphasis on regional and financial sector matters in Fund surveillance. Analysis of linkages between the financial sector and the real economy are especially important.
13. We welcome the agreement on a set of general principles and practices for sovereign wealth funds (SWFs). We also welcome efforts to continue an open, multilateral dialogue on SWFs, both by the working group hosted by the IMF and at the OECD. It is important to ensure the benefits of an open investment climate to both investor and recipient countries.

### Governance issues

14. We commend the IMF's work on restructuring the institution, including major reforms of the Quota and Voice system and Fund finances. We urge members to ratify the necessary amendments to the Articles of Agreement. Now the refocusing of the Fund is at centre. We welcome the shift of emphasis away from internal reforms toward the actions the Fund can take to help its members meet global challenges.
15. We look forward to further steps to improve the governance structure of the Fund. The Board should remain sufficiently broad to ensure the adequate representation of rich, poor, large and small countries.
16. We welcome the steps taken in order to make the process for selecting the Chair of the IMFC more transparent and accessible to all members. We support that the chairmanship now is time-limited and that the selection process is based on the principles of qualifications and geographic diversity.
17. The Fund, like all institutions, benefits from receiving an independent perspective on its activities. We highly value the work of the Independent Evaluation Office (IEO).

### Lending instruments

18. There is a need to reconsider the Fund's lending instruments and related policies. The review of Fund facilities should be broad in scope and encompass all facilities. We believe

that there is considerable scope for streamlining the Fund's financial instruments, and that a clearer and less complex lending structure without overlaps could improve the credibility of Fund lending.

19. We welcome the modification of the Exogenous Shock Facility and ask for its swift implementation. With surging food and fuel prices that hit low-income countries the ESF could be a useful instrument.

#### The IMF and low income countries

20. The Fund shall remain closely involved with its low-income members. Emphasis should be put in areas where the Fund has its core competencies – macroeconomic stabilization, fiscal, monetary and exchange rate policies and underlying institutions and structural policies. Achieving macroeconomic stability is essential for poverty reduction. We fully support the ongoing work to define more clearly the IMF's role in low-income countries.
21. Through, limited, selective and temporary financing, surveillance and technical assistance the Fund facilitates the LIC's continued integration into the global economy. Assistance in building strong institutions relevant for macroeconomic and financial stability is especially important.
22. Concerning conditionality, we welcome efforts to streamline the character and number of conditions to achieve the goals of the programme. Conditionality should focus on the Fund's area of expertise. National ownership and equal treatment are vital ingredients.
23. A more focused role of the Fund underscores the importance of a strong country ownership and a clear division of labour between multilateral institutions. The IMF and the World Bank should strengthen their collaboration and work more effectively together in supporting low-income countries.