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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **BODIL NYBOE ANDERSEN**,
Alternate Governor of the Fund for **DENMARK**,
on behalf of the Fund Nordic-Baltic Group,
at the Joint Annual Discussion

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Introduction

I am pleased to address the joint annual meetings 2002 on behalf of the Nordic-Baltic constituency in the Fund.

First, I would like to welcome the representatives of The Democratic Republic of East Timor, which has just joined the IMF as its 184th member.

To make globalisation work for all presents a challenge and the Fund has taken this challenge on. The Fund has also adapted to the new financial environment that is characterized by liberalized capital flows. More emphasis is now given to make conditionality more effective and simple as well as to financial stability issues. The Fund is a much more active participant in the fight against poverty in member countries. Similarly, the Fund has responded well to the need to make its policies more transparent.

These annual meetings take place against a background of a series of financial crises – this year in Latin America and Turkey – which have necessitated very large IMF loans. The crises demonstrate once again the importance of sound economic policies in order to reduce vulnerabilities from globalisation and the need for strengthening Fund surveillance.

The Changing Role of the Fund

Traditionally, our constituency has emphasized the importance of keeping the Fund focused on its core functions such as macroeconomic policy advice and catalytic balance-of-payments financing. However, the Fund must also respond to the challenges of the changing international environment as it has done but within its mandate.

The need for the Fund to collaborate with other international financial institutions has also increased in order to avoid duplication of work and to ensure that Fund programmes properly reflects the country's own strategy and to the programmes of the other international financial institutions.

It is important to keep in mind that the Fund's main source of financing is member states' quota subscriptions. The revolving character of the Fund's resources must be preserved. Careful examination is therefore required where the Fund considers stepping into new territory.

The Fund's Role in the Fight against Money Laundering and the Financing of Terrorist Activities

The Nordic-Baltic constituency very much supports the launching of a Anti-Money Laundering pilot project where the Fund and the Bank in collaboration with the Financial Action Task Force will survey how member countries seek to combat money laundering and the financing of terrorism.

The Nordic-Baltic countries have implemented the measures to combat money laundering and the financing of terrorism as recommended by the UN, the international financial institutions and the Financial Action Task Force.

Achieving the Millennium Development Goals

The Fund has been an important participant in the two conferences arranged this year by the UN to discuss policies to achieve the Millennium Development Goals: The Financing for Development Conference held in March in Monterrey, and The World Summit on Sustainable Development just held in Johannesburg. We in the Nordic-Baltic constituency find it important that the Fund – within its mandate and expertise – be part of these global efforts.

Fund Quotas

My constituency finds it important that the Fund remain well capitalized. The Fund should only rely on its various borrowing arrangements in truly exceptional circumstances. The Fund's liquidity position is at a satisfactory level so far but we need constantly to assess developments to ensure that the Fund is capable of meeting future demands for its resources.

Fund quotas need to be regularly reviewed through a transparent and simple procedure with a view to reflecting changes in the world economy, the international financial system and the ability to contribute. Efforts must also be made to bring better alignment between members' actual and calculated quota.

Changing the Fund's Surveillance Role – Crisis Prevention

We welcome the recent review of the Fund's surveillance practices and, in particular, the emphasis on improving the effectiveness of such surveillance by strengthening the coverage of the authorities' response to past policy advice. We agree that Fund policies on surveillance must be under constant review, but we are not in favour of recent proposals to introduce new formal arrangements for separating the surveillance function from that of programme monitoring. Nevertheless, a certain independence between these two functions may well be useful.

Many countries have already agreed to accept publication of staff documents that describe the developments in their economies and the Fund's assessment of their policies. We encourage all countries to follow suit. There should be a presumption – but no obligation – in favour of publication of such reports. Publication will enhance the quality of the policy debate, not only in the country itself, but also globally.

The experience of the financial crises in the 1990s has clearly demonstrated the need to reduce vulnerabilities in the financial sectors and highlighted the importance of good governance, accounting and auditing practices. The Financial Sector Assessment Programme (FSAP) is an effective framework for expanding the international institutions' increased surveillance role in this area.

In view of the considerable resources needed to prepare FSAP reports, it is important that the Fund's work be well targeted. The Fund's principal role in the financial field is not to develop codes and standards outside its core mandate, but rather to use its broad surveillance mandate to monitor how internationally agreed codes and standards are implemented in member countries.

The Fund's surveillance of industrial countries' trade policies and its effect on developing countries should be strengthened. Further opening up of industrial countries' markets should be even more explicitly encouraged than today and the impact that subsidies have on prices, production and market access should be analysed. The benefits of increased trade between developing countries themselves should also be analysed further. In these endeavours the Fund should work closely with the WTO.

Crisis Resolution and Private Sector Involvement

Large financing packages for member countries were again put together in 2002. For Brazil, Turkey and Uruguay programmes have been approved implying drawings on the Fund at levels exceeding normal access limits by large margins. Argentina has outstanding drawings, which far exceeds normal access limits.

We welcome the work to clarify the Fund's policy on access to its resources. More work has to be done to improve debt sustainability analysis and to establish clearer guidelines for the Fund's exposure to individual countries.

In Prague, we agreed on a framework that relies on a combination of domestic adjustment, official financing and private sector involvement. Making this framework operational has been difficult, in lack of adequate clarity and predictability. Although market oriented solutions and voluntary approaches are preferable to ensure the participation of the private sector, experience suggests that a more predictable framework needs to be developed. This will establish greater discipline, clarity and transparency about the level of official financing and to exerting additional pressure on private investors. Such a framework should ensure that Fund credit beyond normal access limits be provided only in exceptional cases and subject to special criteria and procedures, including debt sustainability analyses and assessment of prospects for a return to market access.

Including collective action clauses in sovereign bond contracts would facilitate debt restructuring. In this respect we welcome the initiative by the EU to lead by example in including majority action clauses and collective representation clauses in government

bonds issued under a foreign jurisdiction. We welcome the work on a wider use of these clauses in tandem with continued work regarding the proposal on a Sovereign Debt Restructuring Mechanism. (SDRM).

The SDRM should be seen as a part of a more comprehensive framework for dealing with financial crises, and should, therefore, be developed not as an alternative but in parallel with other initiatives to clarify and strengthen private sector involvement.

We also welcome the work on establishing clearer rules for IMF lending to countries in arrears to their private creditors. A code of conduct even in such extreme circumstances can provide a more predictable framework and provide a sounder climate for collaborative solutions. The debtor countries must be prepared to inform the creditors about their economic problems and the financial circumstances that justify a debt restructuring including a comprehensive picture of the treatment of the claims held against the country. We will also stress the importance of the debtors observing a principle of securing equity in the treatment of different creditor claims.

The Fund's Role in Low-Income Countries: The HIPC Initiative and PRGF Programmes

The Fund has an important role in assisting the low-income countries, assuring macroeconomic stability, and achieving long-term debt sustainability.

Poverty reduction has been given increased priority in development policy, both among donors and receivers of aid. Achieving macroeconomic stability is essential for poverty reduction strategies to be successful. But it is also important that the population at large understands the reason for Fund programmes, and that these programmes be made integral parts of the country's own poverty reduction strategy. The Fund has a limited mandate and its role in development policy is primarily concentrated on assisting countries in achieving macroeconomic stability. We welcome the continued efforts to enhance co-operation with the World Bank, whose mandate lies much closer to these important targets.

We in the Nordic-Baltic constituency strongly support the enhanced HIPC initiative. Long-term debt sustainability is the key to ensuring poverty reduction in the countries eligible for support under the HIPC-initiative. We welcome that 26 countries have reached their decision point by now. The HIPC-initiative was conceived as the most comprehensive and ambitious programme to foster long-term debt sustainability for developing countries. It is important that all parties to this agreement be able to fulfil the role assigned to them, and that the countries that benefit from support maintain their stabilisation efforts also when the debt reduction has become effective. Policies must not revert to the old pattern with bad governance, unstable economic policies and debt accumulation. For certain countries where adverse external factors have eroded the debt sustainability target agreed on, there will be a need for additional finance also after they have reached their completion point. Additional bilateral contributions will be needed.

We call on all stakeholders, including the Fund and the Bank, to initiate at an early stage a discussion on securing the necessary financing through an equitable burden sharing.

Concluding Remarks

The Fund has already for some years been engaged in a comprehensive adjustment process with a view to adapting its handling of international economic and financial challenges to changing circumstances and rendering it more open and accountable. The Fund has taken important steps to adapt its organisational set-up and measures have been taken to increase transparency. I find it appropriate to take this opportunity to commend the exceptional dedication and high quality of IMF management and staff.

However, further work is needed to make the Fund a more efficient institution. Recent events have clearly demonstrated the need for the Fund to improve its surveillance of debt dynamics. Better debt sustainability analysis will be instrumental in crisis prevention and crisis resolution in the future.