



2012 TOKYO ANNUAL MEETINGS

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP

Governor's Statement No. 8

October 12, 2012

Statement by the Hon. **NILS BERNSTEIN**,
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on behalf of the Nordic and Baltic Countries

Governor of the Fund for Denmark, Nils Bernstein on behalf of the Nordic-Baltic Constituency

I am honoured to make this statement on behalf of the Nordic-Baltic constituency consisting of Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden and Denmark. I would like to start by welcoming South Sudan as a new member of the Fund.

Persisting economic vulnerabilities require resolute action from policymakers.

Risks to the global economic recovery are substantial. Growth has decelerated during the summer and the outlook seems less promising than earlier this year. Among the explanations are uncertainty about developments in some euro area countries with high debt levels and vulnerable financial sectors as well as less robust growth than anticipated in the US and important emerging economies. Volatility in financial markets remains elevated.

In Europe, a number of important measures have already been taken. These include initiatives by the ECB, fiscal consolidation measures, financial regulatory reforms and a strengthened framework for economic coordination. However, we would like to stress that there is no room for policy relaxation. Countries should deliver on ambitious structural reforms to foster growth and employment, and to strengthen competitiveness.

The situation in the euro area requires immediate attention, but challenges elsewhere are also important to address. The IMF has rightly stressed the importance of addressing the US fiscal cliff and debt ceiling. Credible, medium-term fiscal adjustment plans should be adopted in the US and strengthened in Japan. Furthermore, emerging markets not only face external risks from trade declines and volatile capital flows, but also need to implement structural reforms and address home-grown vulnerabilities. We find it encouraging that growth in most low-income countries remains robust.

Strong IMF involvement is necessary for effective crisis prevention and resolution.

Crises are most effectively avoided through sound domestic economic and financial policymaking. However, the current crisis has demonstrated the importance of the IMF also playing a prominent role through its lending facilities and surveillance activities. We should strive to further enhance the close collaboration between the IMF and regional arrangements which have also contributed significantly to containing the crisis.

To fulfil its systemic role, the Fund must have sufficient resources. At the Spring Meetings this year, a large number of IMF members showed their commitment by agreeing to provide bilateral loans to the Fund. The Nordic-Baltic constituency was among the largest contributors. These loans constitute an important temporary financing source, allowing the IMF to respond to members' needs.

The framework for IMF surveillance has been strengthened, but efforts should be continued.

The crisis made it clear that there was a need to improve the IMF's surveillance framework. We commend the IMF on steps already taken to increase focus on financial sector issues and spillovers. We strongly support further work on these issues and would like to highlight two important initiatives.

First of all, efforts to develop and implement the strategy for financial surveillance should be further pursued. The IMF should play a strong role in effective global systemic risk monitoring, identifying macrofinancial risks and providing policy analysis and advice. This should be done in cooperation with other institutions, respecting their different roles.

Secondly, the IMF's formal mandate should appropriately reflect the changed needs and priorities for IMF surveillance. We expect that the new integrated surveillance decision will contribute to more even-handed and transparent surveillance. We are pleased that the decision reduces the exchange rate bias in the IMF's mandate which has had negative repercussions for ownership and traction. Looking forward, implementation of the decision is key. Our commitment to the updated legal framework will be crucial for its effectiveness, since the decision does not entail new obligations for members.

Improved traction is a precondition for more effective IMF surveillance.

Without improved traction of the Fund's policy advice, potential benefits from the strengthened surveillance framework will not be fully realized. Strong involvement of ministers and governors is therefore required.

There is great potential for strengthening the IMFC's role in discussions on members' adherence to policy recommendations. The IMF is a unique institution with truly global representation. This implies a high degree of legitimacy for IMF discussions and decisions. We should therefore all actively support an enhancement of the IMFC as the key forum for frank economic policy discussions. We appreciate recent efforts from IMF management and the IMFC chairman in this regard.

Governance issues are important for the Fund's legitimacy and credibility.

The focus of discussions at these Annual Meetings should be on how to effectively resolve the current economic and financial challenges. However, this does not detract from the importance of ongoing governance discussions.

It goes without saying that governance reforms are not effective unless they are ratified and implemented by members. The Nordic-Baltic constituency has fully

met its commitment to ratify the 2010 Quota and Governance Reform by the agreed deadline. We encourage others to ratify the reforms promptly.

To ensure the IMF's legitimacy, the representation of member states in the Fund should reflect their integration in the world economy and the global financial system. In the ongoing discussions on the quota formula review, we must remember the IMF's core mandate. Openness is at the core of this mandate as a measure of a member's stake in promoting global economic and financial stability. We emphasize the importance of negotiations taking place in IMF bodies where all members are represented.

In conclusion, we are encouraged by the various initiatives taken since the onset of the crisis to broaden the scope of IMF surveillance, reform lending facilities, strengthen resources and improve the framework for the IMFC.

While persisting economic and financial tensions require our immediate attention, it is imperative that we already now increase focus on preventing the build-up of systemic risks in the future. We all have a responsibility in this regard. Domestically, we are responsible for sound economic and financial policymaking. Globally, it is our joint responsibility to enable and support the IMF's work to promote economic and financial stability.