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Statement by the Hon. **ERKKI LIIKANEN,**
Governor of the Fund for **FINLAND,**
on Behalf of the Nordic-Baltic Constituency

Statement by the Hon. Erkki Liikanen,
Governor of the Fund for Finland,
on Behalf of the Nordic-Baltic IMF Constituency

I am honoured to make this statement on behalf of the Nordic-Baltic IMF constituency consisting of Denmark, Estonia, Iceland, Latvia, Lithuania, Norway, Sweden and Finland.

This is a special year as we are celebrating the 70th anniversary of the Bretton Woods Institutions. Accordingly, I would like to start my talk with some reflections from the past, then go through some current challenges and end with some thoughts about the future.

The original idea of cooperation among countries has stood the test of time

Already at the conference in Bretton Woods, the founders of the IMF were determined to create an organisation in which nations would cooperate. They felt strongly that an orderly monetary system was a fundamental condition for international prosperity. It would encourage trade, create jobs, expand economic activity, and raise living standards throughout the world. Multilateral cooperation was, and still very much is, a necessary precondition for global prosperity.

Throughout history the IMF has shown that it is able to adapt to changing circumstances. Its membership has expanded in the aftermath of the independence of African nations and the dissolution of the Soviet Union. Over the decades, various member countries all over the world have faced crises and have received support from the Fund. Furthermore, experience and advances in economics have played a role in shaping the institution.

The IMF has not forgotten its mandate to promote stability of the international monetary system, but it has also risen to new challenges. For example, as a response to the recent crisis, the Fund has revamped its lending facilities. It has also deepened its analysis and rethought its surveillance to reflect the interconnectedness of the global economy. The IMF has clearly also learned from the crisis and focused its activities. The Independent Evaluation Office has played an important role in this respect.

We have come far, but there is still work to do

Today, the outlook for global economic recovery continues to be fragile and uneven. While growth prospects are relatively strong in some advanced economies, recovery is still subdued in others. In addition, growth performance in emerging countries varies. Downside risks to growth, financial stability vulnerabilities and geopolitical tensions require continuous monitoring.

The legacy of the crisis will remain with us. Despite many unprecedented policy measures, we still face considerable challenges. Let me mention just a few of them.

First of all, after a considerable period of expansionary monetary policies, the road to "a new normal" has to be defined. The question is not only when to start the monetary tightening, but how to communicate changes in the monetary policy stance. As the situation in individual countries differs considerably, spillover and spillback effects have to be taken into consideration. The orderly flow of credit to the real economy should also be secured. Especially lending to small and medium-sized enterprises should be encouraged, as these firms are important employers and contribute significantly to economic growth.

Second, fiscal and structural issues require our attention. Public and private sectors remain highly leveraged in many countries. At the same time, impressive consolidation measures have been taken, particularly in Europe. Still more needs to be done to stabilize debt levels. While we must support growth-friendly policies, credible medium-term fiscal consolidation frameworks are essential in order to improve fiscal sustainability and to bring debt on a downward trajectory. Moreover, youth unemployment in many countries has reached worrisome levels. If we fail to solve this, welfare costs in the future will be high.

In addition, structural reforms are needed to tackle the road blocks that lie in the way of innovation, job creation, investment and higher productivity. Without reforms it will not be possible to raise growth potential and to achieve sustainable economic growth. Reforms are also needed to deflect the vicious cycle of high unemployment, high debt levels and increasing inequality. We should not lose the momentum.

Third, financial sector reforms need to be finalised. Many improvements, such as stronger capital and liquidity requirements, have already taken place. Frameworks for macroprudential supervision are progressing. The Banking Union in Europe is also advancing. The Single Supervisory Mechanism (SSM) takes effect next month and the Single Resolution Mechanism will come into force in 2015.

Despite these encouraging steps forward, we still need tools to tackle the too-big or too-complex –to fail problem. We need resolution practices which enable orderly failure of banks and do not create negative effects on financial markets. The proposed EU Bank Recovery and Resolution Directive would be helpful in clarifying the current situation. Equally important are better monitoring of shadow banks, increasing international cooperation on cross-border issues and enhanced risk management at the individual bank-level.

To stay relevant the Fund must continue to adapt

In the future, the world is likely to become ever more integrated. However, with increased interconnectedness and spillovers comes a heightened risk of instability. This may translate into an increased risk of fragmentation at the cost of multilateralism.

Some key macro-critical challenges facing the Fund in the future will come from demographics and global shifts in power. Even environmental issues and increased inequality will need to be taken into account. The Fund will be judged by how well it was able to foresee various megatrends and prepare for the future world. The Fund is already moving in the right direction with increased use of scenario analysis in its work.

To remain relevant, the Fund must also have adequate resources. In this respect, it is essential that the 2010 reforms come into effect promptly. We should also remain open to constructively discuss the ongoing quota reviews and strive for an agreement that is acceptable to the broad membership.

Equally important is that the Fund continues to adapt its surveillance. It needs to deliver increasingly "smarter surveillance" as referred to in the 2014 Triennial Surveillance Review. We fully agree that risks and spillovers, tailoring of expert policy advice, and achieving greater impact warrant attention. Greater impact across countries will require genuine cooperation. Here the Fund, with its universal membership, has a unique role as the truly global forum for economic and financial cooperation.

This leads me back to the very foundation of the IMF seven decades ago. As no country can solve global issues alone, we need a renewed commitment to international cooperation. At the same time, we need to learn from the past and be ready and open for change.