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Statement by the Hon. **MÁR GUDMUNDSSON**,
Governor of the Fund for **ICELAND**,
on Behalf of the Nordic-Baltic Constituency

Statement by the Hon. Már Guðmundsson
Governor of the Fund for Iceland
on behalf of the Nordic-Baltic Constituency
at the Annual Meetings of the International Monetary Fund,
Lima, October 2015

I am honored to make this statement on behalf of the Nordic-Baltic IMF Constituency, which consists of Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Sweden, and Iceland.

The global economy is at a critical juncture, characterized by significant growth slowdown and rebalancing in several important emerging market economies, big terms of trade shifts and heightened global financial market volatility. Although global growth is projected to pick up slightly next year, risks are tilted to the downside. In this environment it is uplifting to see that a number of low-income countries have continued to make significant progress, not least in Africa.

Financial markets have been fueled by highly accommodative monetary policy in major advanced economies. The recent bout of volatility partly reflects uncertainty about the progress of the needed rebalancing of growth in major emerging market economies and the timing and pace of monetary policy tightening in major advanced economies. That tightening should be well communicated and to the extent possible take into account global spillovers and spillbacks. Overall monetary policy has been overburdened in many countries due to lack of fiscal space and supportive structural reforms.

These conditions call for vigilance on behalf of the Fund and its member countries.

Seven years after the culmination of the financial crisis, various legacy problems and fragilities remain. The Fund has done a good job of promoting financial stability and developing macroprudential regulation in close cooperation

with relevant international agents. However, further work on bank crisis resolution and sovereign debt restructuring is needed.

The Fund has analyzed and demonstrated how fiscal policy can support growth, including through structural reforms and infrastructure development. Where fiscal space allows, targeted and well-considered fiscal policies could be applied to promote sustainable and job-friendly growth. Structural reforms should be accelerated in the current environment to balance more effectively the interplay between monetary and fiscal policy, coupled with enhanced macroprudential measures.

We are deeply concerned about the delay in the implementation of the 2010 Reforms. The largest shareholder, the United States, has yet to approve the governance reforms. This has left the Fund reliant on borrowed resources and stalled discussions on the quota formula and the 15th review of quotas. My Constituency believes that prompt implementation of the 2010 reforms is of paramount importance for the Fund's effectiveness and legitimacy. The IMF should not be dependent on temporary borrowed resources as a significant source of funding for an extended period.

We would like to stress that in order to fulfill the Fund's mandate to facilitate international trade and reduce balance of payments problems, openness must have significant weight in the quota allocations. We are committed to participating in constructive discussions on these issues, anchored in Fund bodies, with the aim of achieving results acceptable to the broad membership.

The Fund's lending framework must be further improved, with respect to the adoption of debt re-profiling and removal of the current systemic exemption clause. It is positive to note that developing countries' potential access to IMF resources has been expanded. Also, the new Catastrophe Containment

and Relief Trust will broaden the Fund's ability to support its most vulnerable members.

We welcome the new Sustainable Development Goals agreed upon this September as a roadmap for development until 2030. The Fund has our full support in helping within its mandate to achieve several of the proposed goals and targets through its work on macroeconomic and financial development, and capacity building.

The upcoming conference on climate change, to be held in Paris in December, is of critical importance, and the cooperative strategy adopted is helpful. Significant investments are needed to combat the effects of climate change in the coming decades. Low-income countries and the poorest segment of the population will be hit especially hard. The Fund should play an active role within its competence in advising on policies aimed at mitigating the negative economic effects of climate change.

In times of uncertainty, it is useful to revisit the founding principles of our institution. The countries at the Bretton Woods conference in 1944 agreed that a framework for international economic cooperation was needed to facilitate freer trade and avoid a repetition of the disastrous economic policies that contributed to the Great Depression. In the same vein, we should not lose sight of the Fund's original rationale that although self-insurance should have a role to play as a first line of defense, a predictable multilateral framework is generally more efficient for handling economic crisis.

This cooperative spirit must be the guiding principle in addressing the many challenges facing the global economy today. We should therefore be mindful of the importance of making the international monetary system as resilient as possible. In this regard, further financial integration of China and inclusion of the renminbi in the SDR, when appropriate, will be a step towards a more integrated and efficient global monetary system.

Recent events have underlined that much remains to be done to place the global economy on a stable and sustainable path of economic progress. The scope of the Fund's activities has increased in recent years. This includes sharpened focus on financial stability, development of data standards and crisis resolution and renewed focus on core issues related to the design of international monetary and financial systems. Among these core issues are global liquidity provision and policy responses to volatile capital flows.

The Fund has certainly proven its worth, not only through surveillance and financial assistance but also as a forum for constructive and forward-looking discussions and proposals that aid all members in their quest to improve the living standards of their people.