International Monetary and Financial Committee

Twenty-Fourth Meeting
September 24, 2011

Statement by Nils Bernstein, Governor and Chairman of the Board of Governors,
Danmarks Nationalbank, Denmark

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

Statement by Mr. Nils Bernstein
Governor, Denmark
On behalf of Denmark, Estonia, Finland, Iceland, Latvia,
Lithuania, Norway, and Sweden.

Main messages

- Credible and convincing policy strategies are needed to address the increasing downside risks to the global economic and financial outlook. Sovereign debt challenges in advanced countries must be addressed resolutely and without delay to restore confidence and support an economic recovery. In most advanced countries, there is no room for fiscal stimulus. Fiscal consolidation should be coupled with a policy-mix aimed at reforms supporting growth potential and employment.

- Global imbalances continue to be inadequately addressed. Concrete policy actions to rebalance global demand are needed, including through fiscal policies and structural reforms. Emerging market surplus economies must also do their part to rebalance growth towards domestic demand, also to the benefit of their own economies.

- High quality, candid and tailored policy advice together with improved traction of IMF surveillance is key to ensure global economic and financial stability and a resilient and efficient international monetary system. The IMF should have a strong role in ensuring efficient crisis prevention and in building a global framework for responding to systemic crises. We support a revision of the Articles of Agreement, clearly specifying the IMF's role in multilateral and financial sector surveillance and defining an IMF financial stability mandate.

- Global challenges call for global discussions and decisions. Collaboration on international policy frameworks and directions should be firmly anchored in the multilateral organizations. We are fully committed to ensuring the IMFC's role as a key forum for global economic and financial cooperation as agreed by the IMFC in April 2011.

Global Economic and Financial Challenges

1. The current short-term challenges must be addressed immediately with solutions for the longer run. Today is time to implement tomorrow's credible frameworks for sustainable public finances, well-functioning labor markets and resilient financial sectors. We broadly support the IMF's candid policy recommendations in the Consolidated Multilateral Surveillance Report. Downside risks to the global economic and financial outlook have increased significantly and policy actions have not been enough until now.

2. The key to renewed growth in advanced economies is private sector confidence boosted by credible medium-term fiscal strategies, structural reforms and a healthy financial framework allowing for low interest rates. In most advanced countries there is no room for fiscal stimulus. In the United States, agreement and implementation of a credible fiscal adjustment plan addressing the mounting medium-term fiscal challenges should be of highest priority. In Europe, strict and timely implementation of already agreed medium-term fiscal adjustment plans should be the top priority. The most vulnerable advanced European countries should move ahead of the curve.

3. The current global unemployment crisis is costly for individuals, in particular for youth, and the society as a whole. Fiscal consolidation should therefore be coupled with a policy-mix aimed at reforms supporting growth potential and employment. In most countries, reforms of labor markets and entitlement schemes are necessary to strengthen the long-term growth potential. Continued implementation of low-interest-rate monetary policies seems appropriate in the current circumstances.

4. Global imbalances continue to be inadequately addressed. In some emerging market countries, policies should be better tailored to reduce high surpluses of savings to encourage more domestic demand. In other emerging markets, the risk of overheating and increasing domestic imbalances leave the economy vulnerable to sudden changes in international monetary policy conditions and investor sentiments. Economic policies and financial and structural reforms should be calibrated to reap the benefits of capital inflows. Successful implementation of the G20 MAP will be important to address global imbalances. Delayed policy action in one country cannot be justified by insufficient policy action in other countries.

5. The welcome economic rebound in Low Income Countries should be used to restore policy buffers and reorient macroeconomic policies towards enhancing potential growth and reducing poverty. In general, an abating pressure from commodity prices provides another opportunity to replace subsidies and price distortions with better-targeted social safety nets. Support for the most vulnerable is needed as food prices remain high.

6. The renewed financial stress highlights the need for continued financial sector balance sheet repair and for real progress on reforming financial regulation and supervision. International coordination between regulators is essential. Timely and consistent implementation of regulatory reforms across regions is needed. Adequate policy frameworks for Systemically Important Financial Institutions (SIFI) should include more stringent capital and liquidity requirements, effective supervision, enhanced transparency and effective resolution regimes.

IMF Surveillance

7. Ensuring high quality, candid and tailored policy advice together with improved traction of IMF surveillance is key in strengthening the International Monetary System. Surveillance should better recognize the central role of economic and financial inter-connections across countries, as well as the inter-linkages between the financial sector and the real economy. IMF policy advice should also make better use of cross-country experiences.

8. We support a revision of the Articles of Agreement, clearly specifying the IMF's role in multilateral and financial sector surveillance and defining an IMF financial stability mandate. Further, the IMF’s mandate should include capital account oversight and assessing reserve accumulation.

9. We highly appreciate an IMFC discussion based on the Consolidated Multilateral Surveillance Report. Such concise, clear and candid reports should be a regular feature on the IMFC’s agenda. Early consensus in the IMFC is needed on concrete policy actions that reduce global imbalances and steer the global economy towards sustainable growth and financial stability.

10. The first set of spillover reports has shed light on the impact of the largest and most systemically important countries’ and regions’ policy decisions on other countries. The Fund is uniquely positioned to conduct spillover analyses and provide concrete policy recommendations to policy-makers. The spillover exercise brings an essential multilateral perspective to policy discussions in Article IVs. We look forward to further developing the spillover reports and to discussing the findings of another set of analyses next year.

11. We look forward to considering a tangible progress in developing a comprehensive and balanced approach for the management of capital flows at our next meeting. The prime objective for policy responses in recipient countries should be to enable the economies absorbing the benefits of capital flows.

IMF Lending and Global Financial Safety Nets

12. We support a strong role for the IMF in ensuring efficient crisis prevention and in a framework for responding to systemic crises. Efficient crisis prevention primarily rests on sound economic policy making and improved financial regulation, supported by improved bilateral and multilateral IMF surveillance.

13. We are open to explore possible ways to strengthen the IMF’s role in preventing regional liquidity tensions turning into full-blown liquidity crises. An efficient global financial safety net should be rules-based and have clearly specified preconditions. It should provide the IMF with the capacity to respond quickly and flexibly taking into account countries’ diverging needs. Further, it should include sufficient safeguards for the Fund’s resources.

14. We are open to consider enhancing the Fund’s toolkit, should the existing lending instruments be judged to be insufficient. It should reflect well-documented needs and adequately address moral hazard and stigma concerns. We look forward to evaluating the experience with the precautionary lending framework already in place, including reviewing

the financing and liquidity consequences and strengthening the incentive structure by scaling up commitment fees with the length and size of programs. Conditionality should remain a corner stone in the IMF's lending framework.

15. We support close collaboration between the IMF and regional financing arrangements (RFA), which can play an important role in ensuring an efficient global financial safety net. Experience from joint EU-IMF programs could be used to formulate general principles for IMF cooperation with RFAs.

The Fund's governance

16. We are fully committed to ensuring the IMFC's role as a key forum for global economic and financial cooperation, as agreed in April 2011. In fact, it should be *the* forum for global economic and financial cooperation. A strong IMFC would enhance global representation and thereby lend needed legitimacy to the process of international economic and financial cooperation. Collaboration on international policy frameworks, institutions and directions should be firmly anchored in the multilateral organizations.

17. We are committed to ensuring a timely implementation of the 2010 Quota and Governance Reform and to completing the forthcoming review of the quota formula. However, the implementation of the 2010 reform has not been finalised and considering the current risks to the world economy focus should be on solutions to the global economic and financial policy challenges before embarking on renewed discussions on the quota formula.

18. In due course, the quota formula should be improved to better reflect the broad mandate and work of the Fund, as well as the purpose of quotas based on sound economic reasoning. In that respect, members' relative weight in the world economy is best captured by GDP measured at market exchange rates as well as by their economic and financial openness.

19. We urge the entire membership to work for a transparent and inclusive negotiation process on the quota formula that is fully anchored within the IMF's bodies and suggest that the IMFC establishes a working group on the quota formula. Agreement on a revised quota formula should ensure that future quota reviews are based solely on the quota formula.

20. We welcome the open, transparent and merit-based process leading to the recent selection of the new IMF Managing Director. We call on other IFIs to adhere to similar processes.