



International Monetary and Financial Committee

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Statement by Mr. Johnsen

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On behalf of Denmark, Estonia, Finland, Iceland,
Lithuania, Norway, and Sweden**

Main messages

- ◆ We need a strong, effective, and relevant IMF. Comprehensive governance reforms, a substantial increase in quotas, and a stronger and wider surveillance mandate will all contribute significantly to this. A package solution which benefits the entire membership is within reach.
- ◆ The IMFC should be *the* key forum for global economic and financial discussions. Increased involvement of ministers in a stronger IMFC with decision-making powers is an essential component of governance reforms.
- ◆ An Executive Board of 24 seats strikes the right balance between effectiveness, inclusiveness, and legitimacy. The Articles of Agreement should be amended to reflect this.
- ◆ Quota allocations should be based on the quota formula and, through this, mirror the evolving economic weight of individual member countries in the world economy. No over-represented country should become under-represented as a result of the current quota review.
- ◆ A stronger mandate for multilateral and financial surveillance will strengthen the IMF's role in multilateral economic policy discussions, and improve its capacity for crisis prevention and resolution. We welcome further work on a Multilateral Surveillance Decision.

Governance and quota reforms

1. We support comprehensive and ambitious reforms that should be decided within the IMF. A package solution which benefits the entire membership is within reach. It will require that all members of the IMF trade off between their different preferences.
2. Increased involvement of ministers must be a key element of the reforms. Our clear priority is a stronger IMFC with formal decision-making powers. It is a truly multilateral and statutory-based body where all countries are represented. It should be *the* key forum for global economic and financial discussions, including providing strategic guidance for the IMF. As a result, the IMF could benefit from increased accountability, greater political traction and stronger ownership by members.
3. We welcome the 14th quota review and remain committed to reaching agreement on an ambitious shift in quota shares in line with the Istanbul communiqué. Members' quota shares should converge toward their calculated shares, which continue to adjust to their changing weights in the world economy. No overrepresented member should become underrepresented as a result of the current quota review. We support protecting the voting shares of low income countries.
4. The 2008 quota formula reflects the specific mandate of the IMF. Our difficult discussions then resulted in a compromise that is far from perfect. Now is the time for delivering on our quota reform promises within the agreed deadline, and not for re-opening the formula. The agreed quota framework is the best way to assure the equal treatment of members. Any deviations should be minor, based on forward-looking reasoning, and with full respect for the quota formula.
5. We support a substantial increase in quotas, up to a doubling, which should suffice to cover the IMF's need for permanent resources. Once completed, one should consider if it would be appropriate to reduce the expanded New Arrangements to Borrow (NAB), given the enhanced financial cushion of the IMF, the premier role of quotas, and the supplementary role of borrowing.
6. An Executive Board of 24 seats strikes the right balance between inclusiveness, legitimacy and effectiveness. The Articles of Agreement should be amended to reflect this. Over time, the composition of the Executive Board will continue to reflect members' evolving weights in the world economy, as determined through the quota framework. It is important to respect the fundamental rules that give IMF members the right to freely form constituencies.
7. We support an open, transparent, and merit-based procedure for management selection in the Bretton Woods institutions. We call for increased educational and professional staff diversity.

Surveillance

8. The IMF needs a stronger mandate for multilateral and financial surveillance, including of capital flows. Such a mandate will give the IMF the central role in multilateral economic policy discussions, and anchor them in IMF forums. It will also provide the IMF with a more effective framework for crisis prevention and resolution. Regional surveillance must be strengthened.
9. A strong financial surveillance mandate for the IMF is important. We welcome the decision to make Financial Sector Assessment Programs (FSAP) mandatory for systemically important countries, with regular updates. Furthermore, FSAP conclusions should be integrated into Article IV consultations.
10. We welcome further work on a Multilateral Surveillance Decision. The IMF should be instructed to give analysis and advice on policies related to macroeconomic and financial linkages, and on policy spillovers. The IMF should advise its members on issues related to the capital account, such as capital flows. We would also welcome further analysis of international reserve holdings in Article IV consultations.
11. Another important challenge is to improve the effectiveness and traction of IMF surveillance. Increased relevance and stronger political commitment are keys in this respect. All members should be expected to explain their reasoning if they do not follow the IMF's policy recommendations. A strengthened role of the IMFC in surveillance discussions would be helpful in this context.

The IMF's lending role

12. The IMF has played a vital role in dealing with the economic and financial crisis and has responded quickly forcefully and flexibly. Members' readiness to grant the IMF significant additional financial resources greatly enhanced its capacity to contribute to the restoration of global economic and financial stability. The reform of the IMF lending instruments was also a significant and conducive factor. It is important that the Fund has a concise set of tools that its membership considers suitable and beneficial.
13. We support further work in developing a framework for a multilateral and rules-based approach in responding to crises of systemic nature, along the lines of the proposed Global Stabilisation Mechanism. It is important that regional initiatives, bilateral swap lines, and IMF arrangements all function in harmony. The IMF must take on a central and catalytic role in such a framework, and work to prevent tensions from erupting into a full-fledged crisis.

14. The IMF's current lending role, as well as any new financing frameworks, should be consistent with the overall aim of promoting sound economic policies through appropriate conditionality and proper incentives for the private sector, thereby reducing moral hazard.

Macroeconomic and financial sector policies

15. Most advanced economies and some emerging ones still face major adjustment needs. Particular challenges are to stabilize and reduce public debt, repair and reform the financial sector, and bring down high unemployment. Ambitious fiscal consolidation efforts beyond the withdrawal of stimulus measures are required. For advanced countries where medium-term fiscal consolidation is needed, and not already under way, it needs to start in 2011 on a scale defined by country-specific circumstances. Sustainable fiscal policies accompanied by well-targeted structural reforms are required for strong and durable economic growth.
16. Progress is needed on financial sector reforms and in dealing with the legacy problems from the crisis. A well-functioning financial system will be crucial for continued economic recovery. While ensuring even-handed implementation, it is crucial to move forward expeditiously with regulatory reforms to avoid the harmful effects of prolonged uncertainty. In the long-run, improved financial regulations and supervision will contribute to economic stability, job creation and growth.
17. The functioning of labour markets must also be improved. High unemployment and underemployment have large economic and social costs. Economic reforms geared towards increasing employment, hence also supporting fiscal viability, will be necessary for sustainable and inclusive economic growth over time.
18. Failure by systemically important countries, in particular, to address the domestic causes of global imbalances may well constitute a threat to balanced growth in the medium term. We note that unaddressed vulnerabilities can have comprehensive global effects through contagion, not only in large countries but also in smaller ones. A conclusion of the Doha round remains important as it will serve to enhance the benefits of international trade and help reduce one-sided reliance on external demand for growth. In this respect we note that growth in some emerging economies is still overly reliant on demand in advanced economies.
19. We welcome the recovery in many low-income countries, reflecting their improved macroeconomic frameworks, effective policy responses, and support from the international community. Sustained efforts in promoting sound economic policies will be important to underpin progress towards the Millennium Development Goals. We also welcome the joint international efforts to support countries hit by extraordinary natural disasters, including debt relief for Haiti.

The International Monetary System

20. We look forward to forthcoming IMF deliberations aimed at strengthening the international monetary system. The IMF needs to be at the center of all of these deliberations as *the* forum for global economic and financial cooperation. The Articles of Agreement require the IMF to promote long-term global stability and proper functioning of the international monetary system.
21. Ongoing efforts should be directed at (i) ensuring the pursuit of sustainable and stable policies, including appropriate exchange rate arrangements, (ii) clarifying and promoting reasonable reserve holdings, and (iii) reducing the volatility of capital flows through increased surveillance. The efforts should also aim at examining ways to improve the multi-currency based reserve system and the role of SDRs as a reserve asset.