



# **International Monetary and Financial Committee**

Fifteenth Meeting  
April 14, 2007

Statement No. 15-22

**Statement by Mr. Heinäluoma**



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## Statement by Mr. Eero Heinäluoma

Minister of Finance, Finland

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

### Main messages

- *Strengthened multilateral arrangements and institutions are needed to safeguard the world economy and to ensure that all have access to the benefits of globalization.*
- *The system of determining voting shares in the IMF should be predictable and rules-based. A new quota formula should be simpler, more transparent and based on sound principles. It must produce an outcome which better reflects the relative weight and role of members in the world economy and the Fund's mission and purposes. The solution should not expand the number of variables but adjust their weight and add a compression factor. Only such a formula can legitimately and durably guide future quota distributions. The quota and voice reform must ensure that the voting shares of low income countries are improved.*
- *The proposals by the Committee to study sustainable long-term financing of the IMF provide a sound basis for further work. We support the creation of an endowment from limited gold sales and further exploration of a prudent relaxation of the Fund's investment guidelines. Moreover, more analysis is needed on the implications of the option of investing the Fund's quota based resources. The work to improve the allocation of the Fund's bilateral services should be conducted separately from the issue of Fund finances. Continued restraint on expenditures remains vital.*
- *We fully support the efforts to clarify and update the surveillance framework. The process must stay within the surveillance mandate in the Articles of Agreement.*
- *The Fund's work in low income countries must remain focused on macroeconomic and financial stability issues and institutions but needs to adapt to changing circumstances.*

### 1. Introduction

1. We note that the global economic expansion continues to be robust. This resilience must not lead to complacency. On the contrary, efforts to reduce global imbalances and further financial stability must be strengthened.
2. Strengthened multilateral arrangements and institutions are needed to safeguard the world economy and to ensure that all have access to the benefits of globalization. We reiterate the need for a successful completion of the WTO Doha round. Moreover, the economic effects of climate change and the environmental sustainability of growth will require increased attention. Effective and focused Fund surveillance can contribute to sustaining global economic growth. Promotion of effective surveillance of financial institutions and markets is important to improve risk assessment and pricing in order to increase their resilience. In times of market stress and turbulence, the Fund can provide a unique forum for crisis prevention and resolution. To be effective, the Fund needs the right tool kit and legitimate governance structures.

## 2. Fund governance

### Quotas and voice reform

3. An agreement on the quota and voice reform is essential for the Fund's legitimacy. Concessions from all parties are necessary to reach a balanced compromise. We will continue to work constructively for a predictable and rules-based system of determining voting shares. We caution against a situation where members are counting on others to give in first as this type of collective "brinkmanship" could undermine a much needed agreement on this central issue.
4. A new quota formula should be simpler, more transparent and based on sound principles and statistically reliable variables. It must produce an outcome which better reflects the relative weight and role of members in the world economy and the Fund's mission and purposes. Only such a formula will be able to stand up on its own over a long period of time.
5. GDP measured at market exchange rates and openness should be the main variables in the new quota formula. The weight of GDP should be increased since it is the best measure of a country's weight in the world economy and its ability to contribute to the Fund. Variability and reserves can be included in the formula albeit with much lower weights. To facilitate convergence of views, the set of variables should not be expanded beyond these four. We support a compression factor in the quota formula to achieve a rules-based distribution of quotas that is regarded as just and acceptable by the membership.
6. We welcome the progress made towards an amendment of the Articles of Agreement that would at least double the basic votes and put in place a mechanism to safeguard their proportion of total voting power. This will strengthen the voice of the smaller members in the Fund. The quota and voice reform must ensure that the voting shares of low income countries are improved.

### Fund finances

7. The steep decline in outstanding Fund credit in recent years is clearly a welcome development as it testifies to the strength of the global economy. However, it necessitates a reform of the Fund's income mechanism.
8. The proposals by the Committee to study sustainable long-term financing of the IMF provide a sound basis for further work. We agree that the cost of Fund credit must be made more stable and predictable by breaking the link between the rate of charge and the overall income target. We support the Committee's recommendations to create an endowment from limited gold sales and to explore further a prudent relaxation of the Fund's investment guidelines. We believe, however, that more analysis is needed on the implications of the option of investing the Fund's quota based resources.
9. There is a clear need to better prioritize the allocation of the Fund's bilateral services. We are generally sceptical of the recommendation to charge for the bilateral services provided by the Fund. It could reduce demand for technical assistance and training where these services are most needed. The viability of charging non-low income Fund members for bilateral services, and other means of making the prices of these services more transparent, deserve to be assessed. Given the very limited revenue potential available from these sources, this work should be conducted separately from the issue of Fund finances.
10. New income sources should not lead to increases in current spending or creation of new activities. Continued restraint on expenditures is vital in ensuring sound Fund finances. In particular, the Fund must continue to investigate the possibilities of curbing administrative expenditures. We look forward to seeing more detailed assessments of the cost implications

of the reforms related to the medium-term strategy, using the recently introduced medium-term budgeting framework.

#### Other governance issues

11. Clear and coherent communication is an important policy tool. Changes in the Fund's operating environment call for a revised strategy. An important aim must be improved integration of the Fund operations and communications. The benefit will be increased understanding and support for how upcoming decisions on the Fund's reforms will make the Fund a better institution.

### **3. Fund Policies**

#### Surveillance

12. We support the efforts in clarifying and updating the surveillance framework. The process must remain within the surveillance mandate defined in the Articles.
13. Reaching an agreement on the review of the 1977 Decision on Surveillance over Exchange Rate Policies is a crucial part of strengthening the surveillance framework. A revised decision should clarify the focus, scope and modalities of surveillance by drawing on the best practices already being used in Article IV consultations. It should emphasize the principles of equal treatment, candidness, independence of Fund advice and importance of member's engagement. This will provide for greater transparency and accountability of surveillance.
14. The new decision should anchor bilateral surveillance to the concept of external stability. While this concept requires some further clarification, we agree that external stability should be assessed with a multilateral perspective, giving due regard to spillover effects. One key benefit of the revision could be a greater clarity on the scope of domestic policies that are relevant for surveillance. This should reduce the risk of mission creep.
15. A "remit", being a compact statement of the Executive Board's priorities to guide surveillance activities, could enhance communication with external stakeholders. Political ownership by the IMFC of the conjunctural surveillance objectives could serve as a commitment from the side of the membership to work with the Fund in achieving those objectives. More work is needed to ensure that the "remit" can fulfill its various roles in a way that genuinely adds value to the surveillance framework.
16. We remain strong supporters for a better integration of financial sector surveillance into Article IV surveillance. This remains a challenge also at regional and multilateral levels. We welcome the recent measures that have been taken to better integrate the Fund's two main products of multilateral surveillance, i.e. the World Economic Outlook and the Global Financial Stability Report.

#### The Fund and the Low Income Countries

17. In recent years, many low income countries (LICs) have benefited from a stronger economic growth. We are particularly encouraged by good growth performance in sub-Saharan African LICs.
18. The Fund's work in low income countries needs to adapt to changing circumstances but must focus on macroeconomic and financial stability issues and institutions. The guidelines on conditionality should be fully implemented at country level, and broad ownership to policy formulation must be ensured. Mission creep must be resisted with the recent decline in the number of regular Fund programs. The division of responsibilities between the Fund and other institutions needs to be further clarified. We note the report of the External Review

Committee on Bank/Fund collaboration, which offers a good basis for a further discussion on how the two institutions can more effectively work together in LICs.

19. We welcome the IEO report on the IMF and Aid to Sub-Saharan Africa. We broadly agree with the recommendations, but emphasize that the response should not be mission creep. We acknowledge the challenges posed by cooperation with other development partners in allocation of aid and in the context of Millennium Development Goals, but underline that the Fund should continue to focus on macroeconomic stability.
20. Non-concessional lending to countries with a recent history of unsustainable debt has to be avoided. An increasing number of LICs are gaining access to non-concessional financing. Debt sustainability analyses and debt management must be among the most important priority areas of Fund work in LICs. Although the prime responsibility of maintaining debt sustainability rests with the borrowing countries themselves, creditor countries should adhere to the principles of prudent and responsible lending which underpin the Debt Sustainability Framework. Moreover, it is important to ensure that the terms of lending are kept transparent so that the related risks can be properly assessed.
21. We support intensified efforts in resolving the remaining arrears cases and call for additional donor contributions, including from the G-7 countries. We stand ready to shoulder our part of the cost and are prepared to consider various means of mobilizing resources in a way that is consistent with fair burden sharing. A solution to particular arrears cases should be comprehensive, transparent and cover the arrears to all the international financial institutions.
22. Strengthened governance is essential for making more rapid progress in helping the poor and reaching the Millennium Development Goals. The responsibility for good governance and transparent management of public affairs lies with the national authorities. The Fund should make efficient use of its existing tools to contribute to strengthening governance and promoting enhanced transparency in program countries as regards economic and financial stability aspects of governance. The systematic use of governance indicators and codes of best practices would facilitate a more even-handed and targeted approach to combat corruption.