

**Statement by Mr. ARDO HANSSON,
Governor of the Fund for ESTONIA,
on behalf of the Nordic-Baltic Constituency**

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

We meet at a time when the global economy is showing some encouraging signs. However, in addition to remaining fragilities, new areas of vulnerability have appeared, underlining the need for tireless policy action and reforms. Indeed, there is no time or room for complacency.

In the euro area, the encouraging developments include policy measures that have reduced tail risks, stabilized financial markets and improved sentiment. These measures give us reason to expect that the nascent economic recovery will continue. We can also see the long awaited signs of improvement in other major advanced economies.

Nevertheless, the global recovery remains fragile. Significant fiscal and structural problems persist in many economies. Public debt in some advanced countries remains a concern, while sluggish growth reflects structural weaknesses. At the same time, the volatility that has recently surfaced in emerging countries has reminded us once again that the global recovery cannot be taken for granted. Periods of heightened instability in financial markets or a more protracted period of slow growth in global output may occur.

In order to improve global medium-term growth prospects, we need to address these challenges without delay. Monetary policy in advanced countries is likely to remain accommodative, but a lasting impact can only be achieved if it is accompanied by comprehensive structural and fiscal policies. Relying too long or too heavily on the monetary policy cushion could generate new risks. Policymakers in advanced economies should therefore continue with the active implementation of the necessary structural reforms, as these are the key to increasing competitiveness, unlocking growth potential and creating job opportunities.

Credible and carefully calibrated fiscal consolidation is equally important for stabilizing and reducing debt levels and to support confidence in the economic sustainability in the longer term. Many European countries have already been strengthening their fiscal frameworks and implementing fiscal consolidation strategies. However, credible plans for medium-term debt sustainability are highly needed so that high debt levels can be put on a downward path, including in the USA and Japan. Meanwhile, the volatility in emerging markets underscores the need for a robust domestic policy framework and institutions in these countries in order to foster financial stability and diversify economies so they can withstand an economic slowdown.

The unique experience and world-wide membership of the Fund makes it the best equipped and most legitimate institution to advise countries in designing and coordinating effective economic policy responses in a global context.

It is important to highlight that the Fund's advice is only effective when it has a constructive dialogue with its members. The dialogue needs to work on all levels of interaction, from

country surveillance to Annual Meetings. We applaud the fact that discussions in the IMFC have become more focused on core issues for the membership. We also emphasize that the IMFC should be the principal global forum for matters of economics and finance.

The high degree of interconnectedness at global and regional levels and between the financial sector and the real economy continues to pose challenges to advanced and developing countries alike. The IMF's broadened surveillance toolkit should be used in full to execute the Fund's crisis prevention role. A pilot regional surveillance study was carried out in four Nordic countries earlier this year. The Fund could build on this experience and take further measures to define and clarify the role and scope of regional surveillance. The success of regional analysis hinges on the ability to demarcate a region from the basis of the actual economic and financial ties between countries.

Both macroeconomic and financial issues will continue to demand attention in the coming years. The Fund should remain alert to high public debt levels, structural inefficiencies and the risks stemming from the postponement of necessary corrective actions. Slippages can have considerable long-term economic and social costs. Financial sector issues are currently approached in accordance with the Fund's year-old framework, which requires continuous enrichment to tackle the heart of these issues in a comprehensive and timely manner. The Fund's active role in analyzing and advising on macroprudential policies is appropriate.

Stability of the global economy is crucial for confidence.

The Fund's lending and its new tools for more effective crisis prevention have substantially eased global tensions. The membership should always be prepared to consider refining the lending facilities, should experience and new developments so require. It is an art to balance the different aims of financial assistance, to keep lending attractive to countries in need, and to avoid moral hazard.

As one of the strengths of the IMF lies in its ability to adapt to new situations, it is an opportune time to consider systematically the long-term trends and challenges with the aim of strengthening the resilience of the international monetary and financial system. This work should be built around the Fund's mandate and respect the division of labor with other international organizations and institutions, focusing on macro-critical issues from a long-term perspective. The Fund needs a clear strategy to address the challenges identified – a strategy that is effectively integrated into the current work agenda.

It is in everyone's interest to have a legitimate and credible Fund.

Ratification and implementation of the comprehensive reform of IMF quotas and governance that was already agreed in 2010 must proceed without further delay. We should remain open and constructive in the ongoing discussions of the quota formula and the 15th General Review of Quotas, recognizing that the process needs to take into account the interests of the entire membership and that the final agreement requires a package approach.

The current formula is the result of a long and difficult compromise. New data confirm that the formula successfully captures the dynamics in the world economy. A major overhaul is therefore unnecessary. As in other aspects of the Fund's work we have to respect the Fund's core mandate. Thus, both openness and GDP should maintain a prominent place in the quota formula.

The 15th General Review of Quotas will offer the opportunity to review the size and composition of IMF resources. It follows the pending ratification of the doubling of the IMF quotas. These decisions should be based on a long-term perspective and on the estimates of the size of future financing needs. The composition of IMF resources should follow the principle that the Fund is and should remain a quota-based institution.

To conclude, it is everyone's duty to keep their own house in order. The Fund's universal membership, almost seventy years of experience and analytical capabilities form a sound basis for continuing to provide valuable advice for maintaining stability in individual countries and also at the global and regional levels. At the same time, it is important for the Fund to equip itself for new challenges. In parallel to accommodating crisis prevention and resolution policies, the IMF needs proper financial resources. We urge the remaining countries to ratify the reform that doubles the Fund's quotas and enacts the changes in governance. Agreements on the quota formula and IMF resources are pending and are important in keeping the Fund relevant and legitimate among its members. Needless to say, we should hold these discussions in the IMF bodies where the whole membership is represented. However, we should not be overwhelmed by the Fund's organizational issues but rather we should keep our focus on the Fund's core mandate to promote international monetary and financial stability. I wish us all determination along this path.