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Statement by the Hon. **STEFAN INGVES**,  
Governor of the Fund for **SWEDEN**,  
on behalf of the Nordic Baltic Countries,  
at the Joint Annual Discussion



**Statement by the Hon. Stefan Ingves,  
Governor of the Fund for Sweden,  
on behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and  
Sweden  
at the Joint Annual Discussion**

**Introduction**

1. I am honoured to address this distinguished audience on behalf of the Nordic-Baltic constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. We are gathering here in Singapore in times of change in the world economy. The benefits of 21<sup>st</sup> century globalization have clearly been manifested in this part of the world. The Asian region, that was hit by severe crisis less than ten years ago, was quickly back on its feet, being one of the key drivers of the economic expansion we witness today. This makes the choice of venue for these meetings particularly suitable.
2. The global economy has been growing at healthy rates in recent years. At the same time, important risks cloud the picture, not least the increasing global payments imbalances and the growing protectionist sentiments. The dead-lock in the Doha Round negotiations is indeed regrettable. A common feature of most of the current risks is that they cross borders. Thus, policymakers in today's globalized economic system must take a global and genuinely multilateral approach in handling them. The multilateral consultation on the resolution of the global imbalances, recently initiated by the Managing Director, is a step in the right direction. I hope that these consultations, with appropriate involvement of the Executive Board, will help reinforce the Fund's role as the central forum for discussions on systemic issues. I believe that the IMFC should be the most important among the "Gs", a "G184" that all countries benefit from.
3. To be such a central forum, with a strong voice and sustained legitimacy, the Fund must stay relevant to all member countries. It needs to adapt to changing circumstances and the environment in which it operates. In this spirit, let me focus on some key challenges facing the Fund and its member countries.

**Surveillance and Crisis Prevention in the Globalized Economy**

4. We all agree that effective surveillance must be the central priority for the Fund. A stronger focus needs to be given to the links between the financial sector and the general macroeconomic stance. Deepening global integration requires greater attention to global and regional spill-over effects, including from exchange rate policies. This should be recognized in the review of the 1977 decision on surveillance over exchange rate policies.
5. Priority should also be given to the Financial Sector Assessment Programs and to focused and selective work on standards and codes, in which Technical Assistance should play its due part. We have come a long way in eliminating restrictions on current payments. As capital market integration catches up with trade integration it could now be warranted to direct more

focus in surveillance towards capital account issues. These points on surveillance are of particular importance to the Emerging Markets Economies as they integrate into world trade and capital markets, becoming more systemically important but also more vulnerable. We encourage all countries that remain to be assessed to participate in the FSAP at an early stage.

6. Furthermore on surveillance, I see merit in streamlining Article IV consultations in highly stable non-systemic countries. This should not be perceived as less attention to these countries or contradictory to the aim of having a role to play for the Fund in all member countries. Freed resources could be used to strengthen the regional focus of surveillance where national relevance can be enhanced in a cross-country context. Along these lines, the ongoing Nordic-Baltic Financial Sector Project is an example to follow.
7. Effective surveillance also means effective crisis prevention. For some time the Nordic-Baltic constituency has been sceptical towards contingent financing as an instrument for crisis prevention. But given the demand for such an instrument and the objective of having a Fund that is relevant to all members, we are prepared to be open-minded in the discussions ahead.

#### **Modernizing Fund Governance**

8. The Fund's relevance to member countries relies on reciprocity and interchange. In order for members to listen to the Fund, they also need to be listened to. The distribution of quotas in the IMF needs to continuously reflect changes in the weight and the role of countries in the world economy. We support the package of reforms as laid out in the Resolution of the Board of Governors. As we now go forward and deal with fundamental governance issues, changes should adequately reflect the purposes of the Fund. GDP and ability to contribute financially should remain important factors in determining voting power, but due weight should also be given to openness. Throughout this work, simple and transparent principles and equal treatment of all member states remain vital.
9. We should also enhance the voice of low income countries – many of which continue to borrow from the Fund. The increase in the staffing entitlement of Executive Directors' offices of particularly large constituencies should be implemented promptly. Furthermore, we support at least a doubling of basic votes and we believe that this opportunity should also be used to ensure that the share of basic votes is safeguarded in the future.

#### **Effective Fund support to Low-Income Countries**

10. Like several emerging market countries, many low-income members have experienced macroeconomic improvements in recent years. Sticking to its core mandate, the Fund should continue to support these countries in the aim of meeting the Millennium Development Goals.
11. Following the implementation of the Multilateral Debt Relief Initiative, every effort must be made to avoid that unsustainable debt is rebuilt. This is a truly shared responsibility between all debtors and creditors, including emerging lenders. We need to avoid free-riding behaviour and reduce moral hazard. The Fund will need to play an important role in this effort, based on

a strong, comprehensive and widely accepted debt sustainability framework. Furthermore, good governance - including fighting corruption - , accountability and sound economic management are crucial.

12. Appropriate macroeconomic management will be key for a successful absorption of debt relief and aid in general. The international community has made highly welcome pledges to increase aid – and to deliver it more effectively. In this respect, we see an important task for the Fund in providing advice to member countries on how to ensure that these aid flows support macroeconomic and financial stability on a viable basis. In pursuing this work, the Fund should recognize the analytical difficulties involved and engage in close dialogue and cooperation with the donor community.

### **Concluding remarks**

13. To sum up, these are evolving times for the IMF and I have outlined some major challenges. Other critical issues will also need to be addressed, not least the need to find a more sustainable income source for the Fund in an environment with less demand for its credit. I look forward to discussing concrete proposals from the Committee of Eminent Persons on this issue. I am also happy to note that all the challenges that I have mentioned here today are reflected in the Fund's Medium Term Strategy. At the same time, I would like to stress the importance of momentum being maintained in the implementation of the Medium-Term Strategy. Raising hopes about reform makes it all the more important to deliver, and I dare say that this juncture may be decisive for the Fund's continued role as the central forum for international economic policy discussion. Having said that, reforming the Fund is a necessary but not sufficient criterion for it to stay relevant. The Fund can reform itself endlessly, but that will not have much effect without the support of member countries. When it comes to resolving the main global economic challenges, quite often, we know what needs to be done. At the end of the day the question is how we translate words into deeds and – importantly - how we make the sentiment for multilateralism prevail.

Thank you.