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Statement by Ms. Urpilainen

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

Main messages

- In advanced economies, the strategy of repairing fiscal and financial balance positions is working. It has been, and continues to be, essential for stronger confidence and better financial resilience. Now the real economy appears to be recovering. The strategy should be fully implemented, including by supportive monetary policy in the context of low inflation, ambitious structural reforms and by ensuring long-term fiscal sustainability.
- Challenges in emerging markets, such as imbalances and a reversal of previous capital inflows resulting from the normalisation of monetary conditions in advanced countries, should be addressed with well-calibrated monetary and fiscal policies, adequate macroprudential measures, and structural reforms.
- Spillovers can stem from all policy areas and affect developing, emerging and advanced economies alike. We need a solid understanding of the channels through which they are transmitted and the precautions to be taken if needed. Countries unwind unconventional crisis measures at different speeds, and the Fund should monitor this closely within its enhanced surveillance mandate.
- We welcome the Fund's work on the macroeconomic consequences of inequality and stress the need to understand the forces driving inequality and the impact of different measures to address it. Equity considerations should be included in surveillance and program-related activities.
- Quota, voice and representation of Fund members needs to continuously evolve with the changing dynamics in the global economy, as reflected by the quota formula. The Fund should have the resources to effectively play its role.

Economic and financial challenges

1. We broadly agree with the assessments and policy recommendations in the latest IMF reports on the global economic and financial outlook. Economic prospects are improving in advanced economies. However, global recovery is still fragile. Downside risks persist, and due attention must be paid to emerging market economies facing challenges.
2. Low inflation in many advanced economies still call for accommodative monetary policy. Structural reforms should be implemented across the membership to increase growth. Credible medium-term fiscal consolidation frameworks must be put in place to improve fiscal sustainability, particularly in countries facing mounting risks from high levels of public debt.
3. In Europe, the agreed fiscal policy and structural reform strategy is supporting the economic recovery, including by restoring confidence, and re-establishing financial market resilience. Among the challenges is to sustain and further build on the progress so far. Financial fragmentation is one of the downside risks, and high structural unemployment rates need to be urgently addressed. In this context, due attention must specifically be paid to the dramatic increase in youth unemployment. Nearly 6 million under the age of 25 are out of work. If left unattended, the ensuing social costs can become extremely high. This problem needs to be at the top of policymakers' agenda and should be addressed by broad structural measures.
4. Financial market turbulence in emerging market economies reflects both foreign and domestic factors. Stronger growth in advanced economies leading to monetary policy normalization will benefit the rest of the world as global demand regains momentum. However, this policy change can also pose challenges in EMEs as previous capital inflows are reversed, calling for a combination of macroprudential policies and committed structural reforms, supported by an appropriate monetary framework. In this context, when unconventional central bank measures are reversed and policy rates normalized in advanced economies, clear communication is essential to reduce the risk of market overreaction.
5. To restore confidence and stimulate sound provision of credit to the economy, continued progress is needed to strengthen supervision, implement new and stricter international capital requirements and finalize frameworks for the resolution of cross-border banks and financial groups. Frameworks should be such that the owners and investors, not taxpayers, cover losses when banks fail.
6. World trade continues to be an important engine for global growth. Renewed dynamism in multilateral trade cooperation is needed. We welcome the recent World Trade Organization (WTO) agreement as an important step.

The role of the IMF

7. Economic and financial developments in recent years have again demonstrated that in crisis the world turns to the IMF. The IMF is *the* global forum for economic and financial cooperation. It must continuously evolve with the changing dynamics in the global economy and have the resources to effectively play its role.

8. We welcome the recent IMF work on fiscal policy and income inequality and the attention it draws to disparity of income. We encourage the Fund to continue work on the macroeconomic consequences of income inequality and to include equity considerations in surveillance and program-related activities.
9. Countries in the Nordic-Baltic constituency are known for being equitable *and* achieving strong and sustainable growth. We see universal access to education and health as the backbone for creating a society of equal opportunities.
10. The IMF must continue to assist its members in strengthening their fiscal policy frameworks and addressing debt sustainability risks. We look forward to further work on possible reforms to strengthen the existing framework for sovereign debt restructuring.
11. IMF surveillance has been significantly strengthened in recent years. We urge the Fund to keep up momentum and look forward to the upcoming Triennial Surveillance Review. In particular, we welcome that the review will assess the recent financial surveillance initiatives, shed light on post-crisis challenges and address the medium term aspects in Fund policy advice.
12. Spillovers can stem from all policy areas and affect developing, emerging and advanced economies alike. The IMF should provide solid understanding of the channels through which they are transmitted and of possible precautions to be taken if needed. Countries unwind unconventional crisis measures at different speeds, and the Fund has a vital role in assessing the global picture and monitoring developments within its enhanced surveillance mandate.
13. We look forward to the forthcoming Baltic Cluster Report, a welcome step in further developing the regional focus in the Fund's surveillance activities. Seven out of eight countries in our constituency have now been subject to regional analysis by the IMF.
14. We support the precautionary lending facilities as a useful part of the Fund's crisis prevention toolkit. Further improvements of these facilities are needed to increase transparency, ensure appropriate incentives and take into account the revolving nature of Fund resources. A time-based commitment fee would encourage timely exit from the facilities. Furthermore, thorough qualification assessments prior to providing or renewing precautionary credit lines are necessary for the correct use of IMF lending instruments.
15. The Nordic and Baltic countries remain committed to engaging in constructive discussions on the quota formula and the 15th General Review of Quotas as an integrated package and to arriving at a result which is acceptable to the broad membership. It is essential that discussions and negotiations are anchored within the relevant IMF bodies. Quota, voice and representation of all Fund members needs to continuously evolve with the changing dynamics in the global economy, as reflected by the quota formula. The Fund should have the resources to effectively play its role. At present we do not see the need for a large quota increase beyond the one resulting from the 14th General Review of Quotas. Voluntary financial contributions to the IMF need to be taken into account in the distribution of quotas.

16. We welcome the Board of Governors' decision to request the IMFC Chairman to consult with members and to advise the IMFC at the Spring Meetings on progress in advancing the process on governance reform and related issues. We look forward to receiving his report.
17. We note the central role that economic and political institutions play in the impressive progress that we have seen in many Sub-Saharan African countries. The IMF, together with the World Bank, helps to build strong institutions and create an environment favorable for market economy and private initiative. Many low-income countries have seen a shift in their financing, with growing flows from new official creditors and some increases in market based funding. We support the on-going reform efforts in the IMF on its debt limit and debt restructuring policies; these should be flexible enough for LICs to utilize diverse sources of funding while maintaining the focus on debt sustainability.
18. Ukraine is in serious economic difficulties as well as in a political crisis, which can deteriorate if the economy worsens. We strongly support that the IMF acts swiftly and decisively in supporting the economic reform agenda in Ukraine through financing instruments as well as policy advice and technical assistance.
19. Our constituency strongly supports the Independent Evaluation Office (IEO). It enhances the IMF's institutional governance and helps to increase transparency. Through candid reports it has built up its own credibility and strengthened that of the IMF. To ensure that its messages get across, the IEO should seek ways to make the communication of its findings more effective. The IMF Executive Board must play an active role in monitoring the Fund's response to the IEO's recommendations. We look forward to the forthcoming review of the IMF response to the global financial crisis.