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Statement by the Hon. **SVEIN INGVAR GJEDREM**,
Alternate Governor of the Fund for **NORWAY**,
on behalf of the Fund Nordic-Baltic Group
at the Joint Annual Discussion

**Statement by the Hon. Svein Gjedrem,
Alternate Governor of the Fund for Norway on behalf of the Nordic-Baltic Constituency
at the Joint Annual Discussion**

Introduction

1. I am honored to address the 2005 Joint Annual Meetings on behalf of the Fund Nordic-Baltic constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Sweden, and Norway. Let me begin by thanking the US authorities for once again hosting the Annual Meetings here in Washington D.C.
2. Current projections for the world economy are largely positive, but short and medium-term risks are increasingly skewed to the downside. Global imbalances, high and volatile oil prices, mounting protectionist sentiments, the increasing potential for a sharp correction in financial markets – all are risks that call for particular attention by policymakers right now. Many countries also face an immediate challenge in how to rebalance economic policies without instigating economic or financial imbalances.
3. It is crucial that we use the favorable economic situation to also tackle the longer-term challenges of establishing more robust policy regimes to match the rapidly changing structures in a globalized world. Underlying economic vulnerabilities must be dealt with forcefully in order to lay the foundation for sustainable long-term growth.
4. The slow progress in trade liberalization is worrisome. It is of vital importance to strengthen the multilateral trading system. We all have a common responsibility for moving forward. Concrete progress on agriculture is particularly important for many poor countries. We urge all countries to participate constructively in the negotiations preparing the WTO Conference in December.

IMF Policies in a Changing World

5. Policymakers' ability to address imbalances and safeguard against emerging risks depends on high-quality analyses and thorough understanding of the forces that drive global developments. The Fund has an important role in monitoring and describing these developments. To preserve this role, the Fund must remain vigilant and prepared to face new challenges. The ongoing review of the Fund's Medium-Term Strategy is essential in that regard.
6. I will briefly touch upon three key areas in the strategic review, namely; surveillance, the Fund's financing role, and crisis resolution.
7. First, I welcome the steps taken to maintain and improve the effectiveness of Fund surveillance. A particular challenge remains in ensuring that country surveillance relates to and benefits from multilateral and regional surveillance. While increased financial liberalization and more integrated markets have contributed to higher economic growth, these developments may at the same time have increased the

potential for booms and busts in credit and asset markets. Further integration of these analyses into country surveillance will be of special importance.

8. Second, the Fund's traditional role of providing financing remains vital for many members, although the number of countries that potentially need such financing may decrease. While this would be a positive development, it calls, in our view, for a renewed discussion of what implications it may have for the Fund's future role as a lending institution. We believe the Fund must continue to exercise selectivity in supporting only those adjustment programs that will put members firmly on the path to external viability. The existence of robust domestic institutional frameworks, strong national ownership of programs, and a will to pursue sound economic policies are crucial to active Fund involvement. A substantive discussion of the Fund's financing role should be accompanied by a review of the financing and lending facilities, with a goal of ensuring an efficient, flexible and transparent facility structure.
9. Third, in the area of crisis resolution, market mechanisms to facilitate debt restructuring have improved in recent years. The Fund's role in such negotiations is less prominent than it would have been within a statutory approach. Indeed, we think it would be useful to, once more, ponder if the IMF's role in crisis management could be based on agreed principles rather than ad-hoc policies. Fund policies should set the context also for market-based debt restructuring negotiations. The uneven experience with existing Fund policies – notably the exceptional access framework and the lending into arrears policy – is therefore worrying. We believe it is necessary to evaluate whether the design and implementation of the Fund's crisis resolution framework could be improved.

IMF Support for Low-Income Countries

10. Let me now turn to the IMF's support for low-income countries. The Nordic-Baltic constituency fully endorses the Fund's commitment to supporting low-income countries in their efforts to achieve strong, durable growth, macroeconomic stability, and sustainable debt levels. We also support the emphasis on placing the Fund's mandate in the context of international partnerships, including the Monterrey Consensus and the progress towards achieving the Millennium Development Goals (MDGs). We stress the importance of continued good cooperation with the World Bank on these issues.
11. We welcome the political commitment to make further progress towards the MDGs and are pleased that the global fight against poverty is on top of the international policy agenda. We welcome the renewed commitments to specific timetables made by many developed countries to raise official development assistance to the UN target of 0.7 per cent of gross national income. We also welcome the recent proposal to provide debt cancellation to poor countries. We accord great importance to the clear commitment by the G8 to provide additional resources on a fair burden sharing basis.
12. The Fund's contribution to the debt cancellation provides an opportunity to reflect on the institution's financing role in low-income countries. Clearly, the Fund should continue to provide financial resources to low-income countries under relevant

programs and facilities. There is, however, a need for discussing how future Fund lending to poor countries should be provided and designed.

- First, the debt cancellation proposal accentuates the need for a review of the Fund's lending to PRGF-eligible countries.
 - Second, the proposal underscores the need to reconsider how we address debt sustainability, debt servicing capacity and growth issues in low-income countries. The proposal also calls for a discussion about what is needed beyond the present HIPC Initiative.
 - Third, we invite the Fund to take necessary steps to prevent that debt cancellation creates wrong incentives. The recognition that the Fund has been called on to cover the cost of debt cancellation over its own resources strengthens the case for strong safeguards in future lending operations.
13. Turning to the Fund's advisory role in low-income countries, it must continue to be centered on the institution's core expertise – macroeconomic and financial stability as a prerequisite for growth and poverty reduction. Recognizing the increased need for signaling and donor coordination, the Fund's surveillance activities and instruments must be adapted to these requests and the changing needs of low-income countries. The Policy Support Instrument could become a valuable tool for some countries.
14. Finally, continued efforts in capacity building will be essential to help developing strong institutions for efficient implementation of Fund advice and use of financial resources. Following up on the recent debt cancellation proposal's emphasis on good governance, accountability and transparency as crucial to releasing the benefits of debt relief, the Fund must stand ready to contribute to building the necessary capacity also in these fields.
15. To conclude, Mr. Chairman, these are testing times – both for the world economy and for the Fund. Globalization and increased financial liberalization clearly pose both opportunities and challenges. For policymakers around the world, and for the Fund, it is therefore more important than ever to be alert, and willing and ready to adapt to changing surroundings.