December 2019

Office of the Nordic-Baltic Constituency

VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

Annual Report

Contents

1 INTRODUCTION

This report provides an overview and status of the main Executive Board discussions and other IMF-related issues during 2019 and outlines the view of the Nordic-Baltic constituency (NBC) on these issues. The first section of the report summarizes the global economic and financial developments, which provides the backdrop for the work program of the Executive Board over the next twelve months. The second section provides and overview of the Executive Board's work on surveillance and economic policy, including the bilateral surveillance of the eight NBC countries, as well as some of the major economic policy items on the Board's agenda during 2019. The third section covers new Fund-supported programs and lending policy reviews conducted by the Executive Board during this period. The fourth section provides an overview of the Fund's capacity development activities. The fifth section gives an update on the IMF's resources and governance. The sixth section provides an overview of the evaluations completed by the Independent Evaluation Office (IEO) during 2019. The final section covers other relevant issues.

1.1 ONBC views and priorities in 2019

The year 2019 marked the 75-year anniversary of the Bretton Woods conference. The key messages of the Nordic-Baltic constituency were to underline the importance of the IMF in enhancing multilateral cooperation in support of a stable and well-functioning international monetary and financial system preserving the IMF at the center of the global financial safety net. In light of the slowdown in global economic activity, the constituency continued to underscore the importance of a global rules-based economic order that is committed to multilateral solutions to global challenges, and where tensions and uncertainty are minimized. The constituency underlined that the IMF should be adequately resourced and committed to working towards maintaining the current level of resources, in the context of satisfactory burden sharing and an appropriate link between financial contributions and representation. In the Executive Board, the NBC has emphasized the importance of rules-based multilateralism, transparency and good governance, open trade, fiscal prudence, financial stability, the sustainable development goals, climate risks, as well as gender and economic equality.

1.2 Global Economic and Financial Developments

CONTEXT: On January 20, 2020, the IMF published its latest economic forecasts, giving an update of the October World Economic Outlook (WEO). In the October WEO, which had the subtitle *Global Manufacturing Downturn, Rising Trade Barriers*, the IMF described the global economy as in a synchronized slowdown, with escalating downside risks that could further derail growth. Since then, some risks had partially receded with the announcement of a US-China Phase I trade deal and lower likelihood of a no-deal Brexit. Monetary policy had continued to support growth and buoyant financial conditions. With these developments, there were tentative signs that global growth may be stabilizing, though at subdued levels. In the January update, the IMF projected global growth to increase modestly from 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent in 2021. The slight downward revision of 0.1 percent for 2019 and 2020, and 0.2 percent for 2021, was owed largely to downward revisions for India. It was communicated that the pickup in global growth for 2020 remained highly uncertain as it relied on improved growth outcomes for stressed economies like Argentina, Iran, and Turkey and for underperforming emerging and developing economies such as Brazil, India, and Mexico. Overall, the risks to the global economy remained on the downside, despite positive news on trade and diminishing concerns of a no-deal Brexit. It was also pointed out that new trade tensions could emerge between the United States and the European Union, and US-China trade tensions could return. Such events, alongside rising geopolitical risks and intensifying social unrest, could reverse easy financing conditions, expose financial vulnerabilities, and severely disrupt growth.

On October 3, 2019, the Executive Board discussed the flagship reports of the Fund: The WEO, the Global Financial Stability Report (GFSR), and the Fiscal Monitor.

The October GFSR, with the subtitle *Lower for Longer*, found that financial conditions had eased further since the previous GFSR but appeared to be premised on expectations of additional monetary policy accommodation across the globe. Financial markets had been buffeted by the twists and turns of trade disputes amid growing investor concerns about downside risks to the economic outlook. Large declines in interest rates had created further incentives for investors to search for yield, leading to stretched valuations in some asset markets. Although accommodative conditions had helped contain near-term downside risks to global growth, they had also fueled a further buildup of financial vulnerabilities. Against this backdrop, medium-term risks to global growth and financial stability continued to be firmly skewed to the downside. These vulnerabilities included rising corporate debt burden, increasing holdings of riskier and more illiquid securities by institutional investors, and increased reliance on external borrowing by emerging and frontier market economies.

The October Fiscal Monitor, with the subtitle *How to Mitigate Climate Change*, emphasized the environmental, fiscal, economic, and administrative case for using carbon taxes, or similar pricing schemes such as emission trading systems, to implement climate mitigation strategies. It provided a quantitative framework for understanding their effects and trade-offs with other instruments and applied it to the largest advanced and emerging economies. Alternative approaches, like “feebates” to impose fees on high polluters and give rebates to cleaner energy users, can play an important role when higher energy prices are difficult politically. At the international level, the report called for a carbon price floor arrangement among large emitters, designed flexibly to accommodate equity considerations and constraints on national policies. The report estimated the consequences of carbon pricing and redistribution of its revenues for inequality across households. Strategies for enhancing the political acceptability of carbon pricing were discussed, along with supporting measures to promote clean technology investments. This Fiscal Monitor argued that, of the various mitigation strategies to reduce fossil fuel CO2 emissions, carbon taxes—levied on the supply of fossil fuels in proportion to their carbon content—are the most powerful and efficient because they allow firms and households to find the lowest-cost ways of reducing energy use and shifting toward cleaner alternatives.

The April Fiscal Monitor presented evidence that the fiscal costs of corruption can be substantial for economies at all levels of development. For example, comparing countries at similar income levels, the least corrupt governments collect 4 percent of GDP more in tax revenues than their peers with the highest levels of corruption. Based on such cross-country comparisons, if all countries today were to reduce corruption by a similar extent, on average, as those that reduced it over the past two decades, global tax revenues could be higher by USD 1 trillion, or 1¼ percent of global GDP; the gains would likely be greater considering that lower corruption would increase economic growth, further boosting revenues. To ensure lasting improvements also requires developing good institutions to promote integrity and accountability throughout the public sector. Corruption is also a global problem demanding greater international cooperation to fight it.

NBC VIEW: The NBC broadly shared the Fund's October assessment of the global economic developments, while noting that the 2020 growth projections may have seemed somewhat optimistic. The NBC emphasized that the most effective stimulus to the global growth would be to resolve ongoing trade tensions and adhere to multilateral solutions and cooperation. The NBC underlined the need to further strengthen macroprudential policy frameworks to limit financial vulnerabilities and mitigate systemic risks. The NBC welcomed the IMF's emphasis on the need for immediate action to meet the targets of the Paris Agreement and supported the integration of the assessment of climate change mitigation policies into the Fund's surveillance activity.

The NBC welcomed the focus on curbing corruption in the April Fiscal Monitor, emphasizing that the constituency has been a long-standing promoter of transparency and good governance, and has supported the Fund's work in this context, including the framework for enhanced IMF engagement in governance implemented in 2018. The importance of good governance, transparency, and solid institutions and frameworks to fight corruption and to achieve strong, sustainable, and inclusive economic development cannot be overstated. The NBC agreed with the report that institutions responsible for core fiscal operations such as budget, tax, and procurement administration play a vital role in curbing corruption.

FURTHER READING: World Economic Outlook Update, January 2020 World Economic Update, January 2020, Blog October 2019 World Economic Outlook October 2019 GFSR October 2019 Fiscal Monitor April 2019 World Economic Outlook April 2019 GFSR April 2019 Fiscal Monitor

1.3 The Work Program of the Executive Board and MD Global Policy Agenda

CONTEXT: The Managing Director (MD) of the IMF presents a suggestion for a Global Policy Agenda (GPA) twice a year ahead of the semi-annual meetings of the International Monetary and Financial Committee (IMFC) – the IMF's policy-guiding body. The GPA serves to identify the policy challenges faced by the membership, outline policy responses that are needed at the global and country levels to address these challenges, and lays out what the IMF can do to provide support. Drawing on the GPA and the guidance from the IMFC, a work program (WP) for the IMF Executive Board is decided. The main policy priorities outlined in the WP from July included: i) supporting domestic policies to enhance resilience and inclusion, ii) upgrading global cooperation to level the playing field and address other shared challenges, iii) adapting the Fund's toolkits to lead and support change, and iv) continue to modernize the Fund to deliver for the future.

NBC VIEW: The NBC supported the main policy priorities in the work program and emphasized the Fund's important role in promoting open trade through policy advice and trade related macroeconomic analysis. In addition, the continued focus on financial sector resilience building, regulation, and transparency was warranted emphasizing the importance of continuing analysis on developments related to Fintech. The NBC also supported the Fund's ambitious focus on providing macroeconomic guidance when it comes to fiscal policies for climate change mitigation, as this could support countries in analyzing the Paris pledges and how they can be reached in a timely and cost-effective way.

FURTHER READING: MD GPA April 2019 MD GPA October 2019 Work Program of the EB July 2019

1.4 The New Managing Director

CONTEXT: On September 25, the Executive Board selected Kristalina Georgieva to serve as IMF Managing Director (MD) and Chair of the Executive Board for a five-year term starting on October 1, 2019. Ms. Georgieva, who succeeds Christine Lagarde, is the first person from an emerging market economy to lead the IMF since its inception in 1944. The selection of Ms. Georgieva by the 24-member Executive Board representing the IMF's 189 member countries brought to a conclusion the selection process initiated by the Executive Board on July 26, 2019. Following interviews with Ms. Georgieva, Executive Directors selected her for the position. The MD is the chief of the IMF's operating staff and Chair of the Executive Board. The MD is assisted by four Deputy Managing Directors in the operation of the Fund, which serves its membership through about 2,700 staff.

FURTHER READING: IMF Executive Board Initiates Selection Process for the Next Managing Director IMF Executive Board Selects Kristalina Georgieva as Managing Director

2 SURVEILLANCE AND ECONOMIC POLICY

A core part of the Fund's implementation of its mandate is to conduct economic and financial surveillance. To enable the Fund to conduct bilateral surveillance, each member of the Fund is required to provide it with the necessary information and to consult with it when requested. During 2019, the Executive Board concluded 126 Article IV consultations across all regions. For ten countries, the Executive Board discussed a comprehensive Financial System Stability Assessment, which is a more resource-intensive exercise conducted less frequently than

Article IV consultations. In addition, the Board was briefed by the various area departments of the Fund on regional developments, and the Board discussed several economic policy issues prepared by Fund staff.

2.1 IMF Article IV consultations of NBC countries in 2019

2.1.1 Denmark

The Executive Board concluded the 2019 Article IV consultation with Denmark in June. The Article IV report found that Denmark's economic performance, based on a model that prizes social inclusiveness, continued to impress with high living standards and employment rates, along with low levels of income inequality. Growth remained solid in 2018, supported by domestic demand, with the economy operating above potential for an estimated third year in a row. The labor market was strong, with pressures gradually building. Overall wage growth had picked up, broadly in line with productivity. Inflation remained moderate. The fiscal position was neutral and public debt was sustainable. The current account surplus had declined, amid higher investment and lower savings. House prices had started to soften, but household debt remained high. The outlook was for continued solid growth and gradually rising inflation and wages. But risks around the outlook were tilted to the downside. A sharper than expected slowdown in Denmark's main trading partners could slow export growth, as could a disorderly Brexit. High household debt amid elevated house valuations remained a key source of macro-financial vulnerability. The money laundering case could further affect confidence in the financial sector and financial stability. The Danish authorities broadly concurred with staff's assessment of the outlook and risks. They also underlined that several initiatives have been taken to strengthen the AML/CFT framework.

FURTHER READING: Denmark 2019 Article IV Report

2.1.2 Estonia

The Executive Board concluded the 2019 Article IV consultation for Estonia. The Article IV report found that the economy has performed well in recent years, supported by prudent management and effective structural reforms. Growth remained strong and unemployment was at a record low. Inflation was above the euro-area average, consistent with Estonia's convergence process. Wages were rising, reflecting a tight labor market and skill shortages at the high end of the labor market. Absent reforms to boost productivity and manage demographic challenges, however, growth would slow notably. The authorities needed to guard against potential overheating in the near term while taking advantage of sizable fiscal buffers in the medium term to support innovation and labor supply and reduce inequality. The Estonian authorities broadly agreed with staff's views regarding the economic developments and outlook, including the assessment of ageing-related headwinds to long-term growth.

FURTHER READING: Estonia 2019 Article IV Report

2.1.3 Finland

The Executive Board concluded the 2019 Article IV consultation with Finland in January. The Article IV report found that Finland's economic performance in recent years had been solid, after a long recession, as yearly growth had averaged around 2½ percent, employment had continued to increase, and unemployment was close to historical lows. However, growth had slowed in 2019, and household debt and productivity weaknesses persisted. Risks were mainly to the downside: the recent improvement in employment could yet prove to be mostly cyclical, and the economy was exposed to further deterioration in external demand. The banking system was well capitalized and profitable. However, some borrowers looked vulnerable, especially from the rapid increases in housing company loans and consumer credit. The new government had committed to spending more on education, employment, infrastructure, and climate policies. A cornerstone of the new medium-term economic program was for employment to reach a rate of 75 percent by 2023. The fiscal expansion would provide useful cyclical support in the short run, but offsetting measures would be required to ensure the structural balance reached the government's medium-term target. The Finnish authorities broadly shared staff's assessment of the outlook and risks. They agreed on the need for structural reforms to boost employment and productivity. The authorities considered that containing vulnerabilities from the increase and change in the composition of household debt was a policy priority.

FURTHER READING: Finland 2019 Article IV Report

2.1.4 Iceland

The Executive Board concluded the 2019 Article IV consultation with Iceland in December. The Article IV report found that, after years of robust growth, economic activity had significantly weakened. Supply disruptions in tourism, the engine of recent growth, and the associated uncertainty had triggered a drop in domestic demand and an increase in unemployment. A swift policy response, with fiscal relaxation and monetary easing, had stabilized expectations and cushioned the effects. A moderate but fragile growth recovery was expected in 2020. Over the medium term, growth was projected to recover to about 2 percent, inflation was expected to remain close to the 2.5 percent target, and the current account balance was projected to narrow but remain positive. The authorities shared most of staff's views on the baseline outlook. They agreed that the sharp deceleration in economic activity had created some moderate slack in the economy that will be closed in the following year. They concurred that the adverse export shocks created significant uncertainty, but the outcome turned out much better than many initially expected.

FURTHER READING: Iceland 2019 Article IV Report

2.1.5 Latvia

The Executive Board concluded the 2019 Article IV consultation with Latvia in August. The Article IV report noted that the economy continued to expand rapidly in 2018, as growth surprised with a strong construction-driven upswing. Fiscal and current account deficits were at manageable levels, as was the public debt. The financial system remained stable, despite a significant balance sheet restructuring of banks servicing foreign clients. The growth outlook was favorable, but risks weighed on the downside due to a less supportive external environment. In the short term, the authorities needed to address challenges posed by labor market tightness, the expected deceleration of EU investment funds, anemic credit growth, and lingering integrity and reputational risks in the financial sector. Higher productivity and investment growth were needed to offset the impact of Latvia's exceptionally unfavorable demographic trends and achieve robust long-term growth and rapid income convergence. Despite slight differences in near-term growth projections, the Latvian authorities broadly agreed with staff's views on the outlook and risks. While they emphasized that external risks were greater than domestic, they concurred that risks in the financial sector need to be promptly addressed. The Latvian authorities emphasized that important legislative changes had been introduced to reduce AML/CFT concerns and international sanctions risks and address MONEYVAL's recommendations. Nevertheless, they agreed that demonstrating effectiveness would take time and required considerable efforts, including the timely liquidation of ABLV under a transparent review process to mitigate reputational risks.

FURTHER READING: Latvia 2019 Article IV Report

2.1.6 Lithuania

The Executive Board concluded the 2019 Article IV consultation with Lithuania in July. The Article IV report found that the economy exceeded expectations in 2018, as real GDP expanded by 3.5 percent with external demand more resilient than expected and without pre-crisis imbalances reemerging. A strong contribution in net exports helped the current account reach its highest surplus in four years. The labor market remained tight with labor costs among the fastest growing in the EU, but without inflationary pressures. The authorities' efforts to promote financial innovations were already delivering results, as fintech companies would introduce some healthy competition, initially in the payment services segment. With Lithuania's economy expanding above potential, growth was expected to moderate in the next few years to a more sustainable pace. As a small open economy, Lithuania was vulnerable to a weakening external environment characterized by slower growth in Europe. Emigration, population aging, and slow progress in implementing key aspects of the government's reform agenda were the main domestic risks to the economic outlook. The authorities broadly shared the staff's assessment of the outlook and risks. The authorities agreed with staff on the need to increase productivity growth through reform implementation, particularly in the areas of education, healthcare, and innovation.

FURTHER READING: Lithuania Article IV Report

2.1.7 Norway

The Executive Board concluded the 2019 Article IV consultation with Norway in June. The Article IV Report found that Norway's economic momentum remained strong, supported by higher oil prices, competitiveness gains stemming from the weaker krone, and a robust labor market. Mainland economic activity was expected to accelerate further and rise by about 2.5 percent in 2019, before growth would slow to 2.1 percent in 2020. Risks to this outlook were broadly balanced. On the domestic side, risks from residential house price growth had abated, but not disappeared, while valuations in commercial real estate prices were growing strongly and appeared stretched in some segments. On the upside, resilient oil prices could lead to stronger-than-expected oil-related investment and exports. Overall, the structural non-oil deficit was expected to be broadly unchanged over the 2017–19 period. An expert commission had recently issued proposals for reforming sickness and disability schemes, within a broader remit on how to raise employment levels. The Norwegian authorities broadly agreed with staff's assessment and noted that the Norwegian economy was performing well. Employment growth was high, and unemployment had come down across the country. The employment rate was rising after falling for several years.

FURTHER READING: Norway Article IV Report

2.1.8 Sweden

The Executive Board concluded the 2019 Article IV consultation with Sweden in March. The Article IV report expected Sweden's growth to slow to 1.2 percent in 2019, given the downside risks from the global economy and domestic demand. Given Sweden's strong fiscal buffers, the relatively strong automatic fiscal stabilizers should be allowed to operate fully to cushion the lower growth. High housing prices and high market rents were deemed to increase vulnerabilities and inequality. A comprehensive housing reform, with key elements such as reforming the rental market, increasing the property tax, and producing affordable housing, was deemed as warranted. On monetary policy, the underlying inflation was expected to rise gradually, but uncertainties around this outlook had widened and a data-dependent approach was considered appropriate. The authorities broadly agreed with the conclusions and recommendations in the staff report. The authorities concurred with the IMF that there were challenges in the housing market and noted that the Government was continuously looking at different possibilities to improve its functioning.

FURTHER READING: Sweden Article IV Report

2.2 External Sector Report

External Sector Report: On July 17, the IMF published its 2019 External Sector Report. Following the global financial crisis, overall current account surpluses and deficits fell sharply from about 6 percent of global GDP in 2007 to about 3.5 percent in 2013. Since then, global current account imbalances had declined only slightly to 3 percent of world GDP in 2018, while rotating toward advanced economies and away from emerging economies, including China whose current account is now broadly in line with fundamentals. Trade actions and tensions had so far not significantly affected global current account imbalances, as trade had been diverted to other countries with lower or no tariffs. Instead, these trade tensions and related uncertainties were weighing on global investment and growth, especially in sectors most integrated into global supply chains. Despite the narrowing of global current account imbalances, stock imbalances (measured as the sum of countries' net foreign assets and liabilities) had continued to increase, as creditor countries had run surpluses and debtor countries had run deficits for the most part.

NBC VIEW: The NBC broadly agreed with the general assessment. Should global tensions intensify, stock imbalances could become too large for the world economy to support, with a potential disruptive global adjustment as a result. In the view of the NBC, global imbalances should be addressed in a growth-friendly manner with comprehensive policy action – strengthening conditions for investment in excessive surplus countries, and policies to boost savings and competitiveness in excess deficit countries. Strengthening the multilateral rules-based trading system while reviving liberalization and lowering barriers to trade was also seen to be important.

FURTHER READING: External Sector Report, Blog External Sector Report

2.3 A Strategy for IMF Engagement on Social Spending

CONTEXT: On May 2, the Executive Board discussed a strategy to guide IMF engagement on social spending issues. Analytical work had highlighted the relationship between inequality and growth, the important role of social spending in promoting sustained and inclusive growth, and the resource requirements for achieving the Sustainable Development Goals in education and health. Social spending issues had become more relevant over recent decades, reflecting concerns about rising inequality, and emerging challenges from demographic shifts, technological developments, and climate change. The strategy outlined the scope, objectives, and boundaries of IMF engagement and provided guidance on *when* and *how* to engage on social spending.

NBC VIEW: The NBC has consistently supported the Fund's increased emphasis on inequality and inclusive growth and thus welcomed augmented engagement on social spending. The NBC also considered it timely to develop a strategic framework on this issue.

FURTHER READING: A Strategy for IMF Engagement on Social Spending

2.4 Building Resilience in Developing Countries Vulnerable to Large Natural Disasters

CONTEXT: In May, the Executive Board discussed an IMF staff paper on building resilience to large natural disasters and options for managing associated risks in vulnerable developing countries. The paper viewed disaster risk management through the lens of a three-pillar strategy for building structural, financial, and post-disaster resilience. Enhancing *structural resilience* required infrastructure and other investments to limit the impact of disasters; building *financial resilience* involved creating fiscal buffers and using pre-arranged financial instruments to protect fiscal sustainability and manage recovery costs; and *post-disaster (including social) resilience* required contingency planning and related investments ensuring a speedy response to a disaster. A full national disaster resilience strategy (DRS) required actions on all three pillars, grounded on a clear diagnostic. The Fund could play a valuable role in supporting resilience building in disaster-vulnerable countries: Fund surveillance could analyze the macroeconomic impact of disasters and of resilience-building; Fund arrangements could be used to support implementation of a DRS, including providing financing to address associated balance of payments problems; and targeted capacity-building support in areas of Fund expertise could help strengthen national capacity. The Fund, collaborating with the World Bank and others, could also bring together stakeholders to tackle issues such as impediments to market-based risk transfer or better connecting small states with the climate funds.

NBC VIEW: The NBC welcomed Fund involvement on climate change related issues and appreciated the increasing role the Fund has taken in incorporating disaster risk and resilience building into the surveillance of the relevant countries, including through incorporating the impact of natural disasters in to macroeconomic frameworks. While broadly supporting the three-pillar framework for building structural, financial, and post-disaster resilience, the NBC called for more details on the functioning of the proposed DRS. The NBC strongly emphasized the need to further enhance donor coordination, as to improve collaboration and avoid overlaps with other IFIs and stakeholders.

FURTHER READING: Building Resilience in Developing Countries Vulnerable to Large Natural Disasters

2.5 Fiscal Policies for Paris Climate Strategies—from Principle to Practice

CONTEXT: In March, the Executive Board discussed an IMF staff paper providing country-level guidance on the role, and design of, fiscal policies for implementing climate mitigation strategies that countries had submitted for the 2015 Paris Agreement and for addressing vulnerabilities in disaster-prone countries. On the mitigation side, the paper presented a spreadsheet tool for judging the likely impact on emissions, fiscal revenues, local air pollution mortality, and economic welfare impacts of a range of instruments including comprehensive carbon taxes, emissions trading systems, taxes on individual fuels, and incentives for energy efficiency. This tool showed that carbon taxes or equivalent pricing for fossil fuels can be attractive on CO2, fiscal, domestic environmental, and economic grounds. However, accompanying measures at domestic and international levels would be needed. On the adaptation side, the paper stressed that a holistic strategy, going well beyond physical climate-proofing investment, was needed in vulnerable countries. Ideally, national strategies would encompass a variety of ways to diversify natural disaster and climate risks, such as building up contingency funds or participating in regional insurance schemes. The risk of future damages also needed to be factored into projections of national output and debt sustainability levels. The paper considered the role that the IMF could play, working with other organizations, in advising on the implications of climate commitments for countries' fiscal and macro policy given its expertise, universal membership, and frequent interaction with finance ministers. In turn, finance ministries had a central role in integrating carbon charges into fuel taxes, ensuring carbon pricing revenues are productively used, assisting vulnerable groups, and including climate investments in national budgets.

NBC VIEW: The NBC agreed that carbon pricing was often the most cost-efficient way of reducing emissions and, in doing so, meeting countries' pledges under the 2015 Paris Agreement. Nevertheless, the NBC noted it was important to consider the distributional and equity aspects of tax policies, including environmental taxes. The NBC noted that the IMF should stress the macro-criticality of urgent climate action and agreed that it could play a useful role in helping analyze the effects of Paris mitigation pledges and how they could be reached in a timely and cost-effective way. However, collaboration with other actors, such as the World Bank Group and the United Nations, was seen as key to ensure efficiency and effectiveness based on each institution's core mandate.

FURTHER READING: Fiscal Policies for Paris Climate Strategies—from Principle to Practice

2.6 Corporate Taxation in the Global Economy

CONTEXT: In February, the Executive Board discussed a paper on the current state of international corporate income tax arrangements. Executive Directors welcomed the opportunity to take stock of recent developments in international aspects of corporate taxation and offered preliminary observations on alternative proposals. They acknowledged the importance of these issues to all Fund members in their efforts to raise revenues in an efficient and equitable manner, and the potential for significant cross-border spillovers. Directors welcomed the significant progress made in addressing corporate tax avoidance and enhancing multilateral cooperation, notably by the G-20/OECD project on Base Erosion and Profit Shifting, and the Inclusive Framework that has broadened the scope of cooperation to many non-OECD countries. At the same time, they noted that there remained shortcomings in current international tax arrangements, and that many countries faced pressures to introduce unilateral action. Directors agreed that much remained to be done to find sustainable global solutions, building on the progress achieved so far to ensure fairness, inclusiveness, and broad consensus, although their views differed on the extent of needed reforms and the roles of relevant bodies.

NBC VIEW: The NBC underscored the importance of fighting aggressive tax planning but was not convinced that a more fundamental reform, aiming at a more general reallocation of taxing rights in the international tax system, was warranted. The NBC also noted that tax challenges arising from digitalization were very complex and needed to be analyzed thoroughly. The NBC stressed that it was a global issue that required a global consensus.

FURTHER READING: Corporate Taxation in the Global Economy

2.7 Fintech: The Experience So Far

CONTEXT: In May, the Executive Board discussed the IMF policy paper *Fintech: The Experience So Far*. The paper took stock of country fintech experiences and identified key fintech-related issues that merited further attention by the membership and international bodies. The paper found that, while there were important regional and national differences, countries were broadly embracing the opportunities of fintech to boost economic growth and inclusion, while balancing risks to stability and integrity. The paper suggested further work on international dimensions of data policy frameworks, while there was a clear demand also for considering new international standards by standard-setting bodies, including on crypto-assets, mobile money services, and peer-to-peer lending.

NBC VIEW: The NBC appreciated staff's timely and comprehensive review of this work, which demonstrated the Fund's role of acting as a global forum for sharing knowledge and experiences. The NBC broadly agreed with the paper´s suggestions and noted that the IMF had an important role in raising awareness among its membership on the benefits and risks of Fintech. The NBC emphasized a need for further international collaboration and knowledge-sharing on Fintech issues. The NBC also stressed the need for more analysis on the financial stability implications of Fintech.

FURTHER READING: IMF Executive Board Discusses Fintech: The Experience so Far

2.8 Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

CONTEXT: The Executive Board discussed the staff report *Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)*. The staff report took note of the multipronged approach which had enabled the Fund to address issues related to money laundering, terrorist financing, proliferation financing, and broader financial integrity-related issues, including developing and emerging issues such as those related to correspondent banking relationships (CBR) and financial technology (Fintech). It identified staff's efforts to increase synergies between the different workstreams in order to strengthen the efficiency and impact of the Fund's AML/CFT work—including in surveillance, Fund-supported programs, Financial Sector Assessment Programs, and the Fund's capacity development activities, including AML/CFT assessments and other related policy work. The staff report suggested that, while the Fund's AML/CFT program remained appropriate, in order to expand its reach and maximize the impact of the Fund's overall involvement in AML/CFT assessment work, consideration should be given to shift to fewer Fund-led assessments but increase staff's participation in the quality and consistency review of other assessment, and training efforts. Going forward, the Fund would continue to cooperate in these areas with the World Bank, the Financial Action Task Force (FATF), the FATF-Style Regional Bodies (FSRBs), and other stakeholders.

NBC VIEW: The NBC supported the review, stressing that financial integrity issues should remain a crucial part of the IMF's surveillance, program, and capacity development activities. As

AML/CFT was a cross-border challenge, the Fund with its near-universal membership was well-placed to address it. The NBC endorsed the proposal to increase the Fund's contribution to global efforts to ensure the quality and consistency of AML/CFT assessments by contributing less on assessments and allocating resources towards the Fund's participation in the review and training processes. However, the NBC added that the Fund should be ready to tackle new and emerging issues in AML/CFT as they arise, including in relation to crypto assets and payment institutions. The NBC emphasized that a regional perspective to AML/CFT issues is warranted in many cases. This was particularly important in cross-border banking where financial institutions have a presence in a number of countries.

FURTHER READING: Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

3 LENDING

3.1 Review of Program Design and Conditionality

CONTEXT: On May 3, the Executive Board discussed the *2018 Review of Program Design and Conditionality* building on IMF staff papers reviewing the design, conditionality, and performance of IMF-supported programs during the period of September 2011 to end-2017. Three-quarters of Fund-supported programs during that period had achieved success or some success, despite the extremely challenging post-crisis environment. Directors agreed that there was room for improvement, drawing lessons for future program design from success and failure and case studies. Growth assumptions had often been too optimistic, and Directors thus welcomed the proposals to increase the scrutiny of baseline assumptions, deepen the discussion of risk scenarios, and improve contingency planning in program design. Given difficulties with implementation of structural conditions, Directors stressed the need for more realistic implementation timetables and estimates of reform payoffs.

NBC VIEW: The NBC broadly agreed with the general findings and key recommendations, while noting the need for follow-up work in certain areas. The NBC thought that an even more detailed analysis of the drivers of typical successful and unsuccessful program, would be helpful. Also, coordination and collaboration with other institutions were considered important to program design, leveraging financing, and streamlining conditionality. Coordination with partners should therefore continue to be strengthened, especially on macro-critical structural policies outside the IMF's core responsibilities.

FURTHER READING: Review of Program Design and Conditionality

3.2 Standard Lending Facilities

As of December 31, 2019, the Fund was engaged in 19 active programs and had made a total of approximately USD 160 billion available in lending commitments across the globe under the General Resources Account. During 2019, the Executive Board approved seven new loans under the standard non-concessional lending facilities for Armenia, Ecuador, Equatorial Guinea, Ethiopia, Honduras, Mexico, and Pakistan. The Executive Board also completed several regular reviews of ongoing Fund-supported programs. The NBC supported requests for new programs, as well as the reviews completed during 2019. Some of the major Fund-supported programs are described in more detail below.

3.2.1 Argentina

CONTEXT: The Executive Board completed the third and fourth review of Argentina's economic performance under the 36-month Stand-By Arrangement (SBA) in April and July. The completion of the reviews allowed the authorities to draw USD 10.8 billion and USD 5.4 billion respectively, bringing total disbursements under the program (that started in June 2018) to about USD 44.1 billion.

After a period of turmoil in late April prompted by political uncertainties and a significant increase in inflation and inflation expectations, the markets stabilized somewhat in May and June prior to the fourth review. The IMF assessed that the authorities had continued to implement their policy program and met the fiscal targets. However, the IMF noted that breaking Argentina's considerable inflation inertia would take time and required a consistent implementation of the authorities' policy framework. With Argentina's very high inflation and increased gross financing needs, discussions centered on how best to mitigate risks to the program, bolster market confidence, and calibrate monetary policy to continue bringing down inflation.

During autumn, IMF engagement with Argentina continued with close dialogue and technical meetings. The elections brought a change of government in Argentina with Alberto Fernández becoming the new president in December.

NBC VIEW: The NBC supported the completion of program reviews while noting that downside risks to the program were significant as market conditions remained vulnerable to uncertainties related to the upcoming elections (that took place in October). The NBC considered it important for Argentina to remain committed to the policy plan and the broad program objectives throughout the election period and beyond, and to focus on careful communication of policy measures to foster market confidence and public support.

FURTHER READING: Argentina 3rd review in April Argentina 4th review in July

3.2.2 Ecuador

CONTEXT: In March 2019, the Executive Board approved a new USD 4.2 billion arrangement under the 36-month Extended Fund Facility (EFF) for Ecuador. The goals of the program were to boost competitiveness and job creation, protect the poor and most vulnerable, fortify the institutional foundations for dollarization, and to improve transparency and good governance to public sector operations while strengthening the fight against corruption. The first program review was concluded in June. However, the political, economic, and social environment proved to be challenging for program implementation; resulting in a recalibration of the program, including to help provide space to garner political and social consensus on key institutional reforms, and to recognize a changed outlook. The National Assembly approved a revised tax law, which led to the conclusion of the second and third reviews in December.

NBC VIEW: The NBC supported the decision for a 36-month EFF with Ecuador as well as completion of program reviews, but noted, that a number of crucial benchmarks had been postponed. The NBC emphasized that a refocus on restoring the fiscal policy path should remain at the top of the authorities' agenda, despite the slight recalibration of fiscal targets. The NBC welcomed the authorities' efforts to build consensus on crucial economic reforms through direct engagement with all the main constituents of Ecuador's civil society.

FURTHER READING: Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility First Review Second and Third Reviews

3.2.3 Pakistan

CONTEXT: In July, the Executive Board approved a 39-month arrangement under the Extended Fund Facility (EFF) for Pakistan for an amount of about USD 6 billion, or 210 percent of quota, to support the authorities' economic reform program. The program would help Pakistan to reduce economic vulnerabilities and generate sustainable and balanced growth focusing on: a decisive fiscal consolidation to reduce public debt and build resilience while expanding social spending; a flexible, market-determined exchange rate to restore competitiveness and rebuild official reserves; to eliminate quasi-fiscal losses in the energy sector; and to strengthen institutions and enhance transparency. The Executive Board's approval allowed for an immediate disbursement of about USD 1 billion. The remaining amount would be phased over the duration of the program, subject to four quarterly reviews and four semi-annual reviews. In December, the Executive Board completed the first review of Pakistan's economic performance under the EFF. The completion of this review allowed the authorities to draw an additional USD 452 million, bringing total disbursements to about USD 1,440 million.

NBC VIEW: While acknowledging the large risks, the NBC supported the request for an extended arrangement under the EFF. The NBC also highlighted that program success depended on strictly adhering to the revenue mobilization plan and eliminating the quasi-fiscal deficit to solidify Pakistan's public finances and debt sustainability. Given the satisfactory performance and the authorities' continued commitment to the program, the NBC also supported the completion of the first EFF review, while calling for decisive actions to address AML/CFT deficiencies.

FURTHER READING: Pakistan: Request for an Extended Arrangement Under the Extended Fund Facility Pakistan: First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria

3.3 Precautionary Lending Facilities

3.3.1 Colombia

CONTEXT: On May 20, 2019, the Executive Board completed its review of Colombia's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Colombia's continued qualification to access FCL resources. The Colombian authorities stated their intention to continue treating the arrangement as precautionary. The current two-year FCL arrangement for Colombia in an amount equivalent to about USD 11 billion was approved in May 2018. The IMF stated that Colombia's economic recovery had gained momentum, supported by its very strong policy frameworks and well-executed policies. Fiscal policy remained anchored over the medium term by the structural deficit rule and monetary policy was governed by a credible inflation targeting framework. The financial system remained sound and financial sector supervision was being further strengthened. A flexible exchange rate continued to be the primary mechanism of adjustment to external shocks. The FCL arrangement continued to provide a cushion of international liquidity and signaled the strength of Colombia's economy and its policy frameworks.

NBC VIEW: The NBC supported the completion of the review under the FCL arrangement. The NBC commended the authorities for their commitment to pursuing strong macroeconomic policies supported by robust policy frameworks. Nevertheless, heightened uncertainty about migration from Venezuela added to fiscal risks, and downside risks emanating from the slowdown in global growth and financial stability had increased somewhat. The NBC agreed with staff that reforms to raise tax revenue would help build fiscal space so that large cuts in social and investment spending, adversely affecting growth and poverty reduction, could be avoided if migration inflows escalated further. Moreover, the NBC emphasized the importance of continuing to strengthen implementation of governance and anti-corruption measures.

FURTHER READING: Colombia Review FCL Colombia Review FCL Press Release

3.3.2 Mexico

CONTEXT: In November, the Executive Board approved the Mexican authorities' request for a two-year precautionary Flexible Credit Line (FCL) in the amount of SDR 44.6 billion, 500 percent of quota, and the cancellation of the previous arrangement, approved in November 2017 (SDR 53.5 billion, 600 percent of quota, following a reduction in access in November 2018). The authorities considered that in an environment where external risks affecting Mexico were elevated, an FCL arrangement in the requested amount would play a critical role in supporting their overall macroeconomic strategy, preserving investor confidence, and providing insurance against tail risks. The reduction in the level of access was part of the authorities' strategy to continue the gradual phasing out of Mexico's use of the facility. In connection with this, they intended to request a further reduction in access to SDR 35.7 billion, 400 percent of quota, at the time of the mid-term review, conditional on a reduction of relevant external risks affecting Mexico during the proposed FCL.

NBC VIEW: The NBC supported the authorities' request for a new arrangement under the FCL and cancellation of the previous arrangement, while welcoming the proposal for a two-stage reduction in access. The NBC also encouraged the authorities to push forward with an ambitious reform agenda to enhance the country's resilience to external shocks.

FURTHER READING: Mexico: Arrangement Under the Flexible Credit Line and Cancellation of Current Arrangement

3.3.3 Morocco

CONTEXT: The Executive Board completed the first and second reviews under the Precautionary and Liquidity Line (PLL) Arrangement for Morocco in June and December respectively. Despite a challenging external environment, macroeconomic vulnerabilities had been reduced in recent years and reform implementation had been sustained. Stepped up fiscal and public sector reforms were needed to enhance macroeconomic resilience, as well as the efficiency and quality of public investment and services. Sustained structural reform implementation would be essential to achieve higher growth and reduce unemployment. Key reforms continued to accelerate, including to improve the business environment and financial inclusion, which would help shift to a more private sector-led growth model.

NBC VIEW: The NBC supported the completion of the first and second reviews under the PLL arrangement but reiterated a longstanding concern about the prolonged use of the Fund's short-term precautionary instruments. Despite a relatively strong program performance, the indicative target on the fiscal deficit was missed, highlighting the need to step-up fiscal consolidation and accelerate fiscal structural reforms. The NBC also noted, that current conditions were supportive for further increasing exchange rate flexibility, which could help to better absorb shocks, preserve reserve buffers and external competitiveness.

FURTHER READING: First Review Under the Precautionary and Liquidity Line Second Review

3.4 Review of LICs facilities

CONTEXT: On May 24, 2019 the Executive Board concluded the *2018-19 Review of Facilities for Low-Income Countries—Reform Proposals*. The review drew lessons on how the facilities might be adjusted to better meet the needs of low-income countries (LICs). The review took place against the backdrop of rising income levels in most LICs, along with greater trade and financial integration of LICs into the global economy. This had implied a gradual erosion of the limits on access to concessional financing relative to LICs' GDP levels and external financing needs since the last access increase in 2015. Directors agreed that the general framework of IMF facilities for LICs remained broadly appropriate, while noting that some changes were warranted to respond to evolving challenges. The proposed reform package aimed at enhancing support for LICs by: (i) providing higher levels of access to concessional financing, thus favoring the needs of the poorest and most vulnerable LICs; (ii) responding to the specific challenges faced by countries in fragile or post-conflict situations and by countries vulnerable to natural disasters, including through higher access limits under the Rapid Credit Facility; and (iii) improving the flexibility of Poverty Reduction and Growth Trust (PRGT) instruments through reforms to the Standby Credit Facility and the Extended Credit Facility to allow better tailoring of program design to countries' diverse circumstances.

NBC VIEW: The NBC welcomed staff's proposed reform package and their assessment that is was consistent with maintaining the self-sustainability of the PRGT financing framework. The NBC noted that the IMF had a very important role to play in relation to LICs: fostering economic growth, promoting financial stability, reducing poverty, and building capacity. While supporting the suggested increase in access limits and norms to avoid access erosion, the constituency reiterated the importance of careful debt sustainability analysis of potential LICs borrowers.

FURTHER READING: Review of LICs Facilities

3.5 Poverty Reduction and Growth Trust-Review of Interest Rate Structure

CONTEXT: On May 24, 2019, the Executive Board reviewed the interest rates applicable to concessional credit provided under the Poverty Reduction and Growth Trust (PRGT). They agreed to a proposal to modify the mechanism for setting PRGT interest rates, which would unify the interest rates applicable to loans under the Extended Credit Facility (ECF) and the Standby Credit Facility (SCF), while preserving the zero-interest rate on credit outstanding under the Rapid Credit Facility (RCF).

NBC VIEW: The NBC accepted the suggested alignment of the mechanism for determining interest rates on loans under the SCF and the ECF. Moreover, the NBC noted that the rules-based mechanism should be allowed to function when global interest rates normalized without reverting to continuous modifications in order to prevent nonzero interest rates of PRGT financing. It was important to preserve the appropriate incentives for the use of finite PRGT resources.

FURTHER READING: PRGT Review of Interest Rate Structure

3.6 LIC programs

As of December 31, 2019, the Fund was engaged in 20 active programs and had made a total of approximately USD 5.9 billion available in lending commitments under the Poverty Reduction and Growth Trust (PRGT). During 2019, the Executive Board approved a new Fund-supported program with financial resources under the concessional lending facilities for Central African Republic, Republic of Congo, Ethiopia, Honduras, Liberia, Mali, and Sao Tome & Principe. The Executive Board also completed several regular reviews of ongoing Fund-supported programs. The NBC supported requests for new programs, as well as the reviews completed during 2019. One of the major Fund-supported programs is described in more detail below.

3.6.1 Ethiopia

CONTEXT: In December, the Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Ethiopia in an amount of about USD 2.9 billion, approximately 700 percent of quota, to help the country implement their `Homegrown Economic Reform Plan' (HERP) to maintain macroeconomic stability and improve living standards. The new Fund-supported program was well-aligned with the HERP and was designed to address macroeconomic imbalances and implement structural reforms to upgrade policy frameworks and facilitate the shift from public-sector to private sector-led growth.

NBC VIEW: The NBC supported the request for a three-year arrangement under the ECF and EFF while noting that the program was unprecedently large and risky. The NBC called for reforms of state-owned enterprises and banks, as well as modernization of the central bank. Moreover, the NBC expressed concerns about the political support for the authorities' economic reform plan in the run-up to the election.

FURTHER READING: IMF Executive Board Approves US$2.9 Billion ECF and EFF Arrangements for Ethiopia The Federal Democratic Republic of Ethiopia: 2019 Article IV Consultation and Requests for Three-Year Arrangement under the Extended Credit Facility and an Arrangement under the Extended Fund Facility

4 CAPACITY DEVELOPMENT

Capacity development, including technical assistance (TA) and training, is one of the three core pillars of the Fund's work. Its main objective is to help member countries build institutions and the capacity necessary to formulate and implement sound economic and financial policies. The Executive Board received regular briefings by staff from the Fund's area and functional departments on the ongoing delivery of capacity development. NBC countries contribute with financial resources and/or technical expertise to the Fund's capacity development work. Further details on the Fund's work on capacity development can be found here.

4.1 IMF Policies and Practices on Capacity Development

CONTEXT: In November, a paper summarizing the IMF's policies and practices with regard to the delivery of capacity development (CD) activities was published. The purpose of this paper was to consolidate the guiding principles endorsed by the Board with policies and practices to be followed by staff in carrying out CD activities, including its objectives, scope, prioritization, partnership with donors, delivery, monitoring and evaluation, and transparency. The document was an update of the IMF Policies and Practices on Capacity Development from 2014 and reflected the conclusions from the 2018 Review of the Fund's Capacity Development Strategy that was approved by the Board in November 2018.

NBC VIEW: The NBC supported the principles, noting that there was plenty of scope to leverage technology to automate processes, and that this was particularly relevant on CD. CD delivery had expanded considerably over the past years, and the NBC emphasized the importance of ensuring prioritization and integration with lending and surveillance activities to ensure efficient delivery. In addition, the NBC called for increased oversight and reporting to the Executive Board.

FURTHER READING: IMF Policies and Practices on Capacity Development

5 IMF RESOURCES AND GOVERNANCE

CONTEXT: On January 16, 2020, the IMF Executive Board approved a doubling of the New Arrangements to Borrow (NAB) and proposed to the Board of Governors a resolution concluding the 15th General Review of Quotas (15th Review) and providing guidance on the 16th General Review of Quotas (16th Review). These were important decisions toward implementing the package on IMF resources and governance reform endorsed by the IMF membership during the 2019 Annual Meetings. On October 18, 2019, the IMFC reaffirmed its commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net and looked forward to consideration of a doubling of the New Arrangements to Borrow (NAB) and a further temporary round of bilateral borrowing beyond 2020. It also called on the Executive Board to complete its work on the 15th Review and committed to continuing the process of IMF governance reform under the 16th Review.

Modifications in the NAB: The Executive Board approved the doubling of the NAB, from the current SDR 182.4 billion (USD 252.1 billion) to SDR 364.7 billion (USD 504.2 billion), for a new NAB period from 2021 to 2025, and a few additional amendments to the NAB decision. The changes would become effective after NAB participants had secured the necessary domestic approvals and provided the required consents, with the targeted effectiveness date of January 1, 2021.

15th and 16th General Reviews of Quotas: As the support for a quota increase under the 15th Review fell short of the required majority, the Executive Board recommended to the Board of Governors a resolution concluding the 15th Review without an increase in quotas and providing guidance on the 16th Review in line with the October 2019 IMFC Communiqué:

"Beyond the 15th Review, we are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, including a new quota formula as a guide, with the Review to be extended from 2020 to no later than December 15, 2023. In this context, we remain committed to ensuring the primary role of quotas in IMF resources. Any adjustment in quota shares would be expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members."

NBC VIEW: The NBC supported the NAB doubling and the resolution proposed to the Board of Governors. Reiterating the views in the NBC's IMFC Statement at the Annual Meetings on October 18-19, we underscored that our constituency supported a strong, quota-based, and adequately resourced IMF to preserve its role at the centre of the GFSN. We regretted the insufficient support for a quota increase in the 15th Review, as an increase of quotas would have ensured a firmer resource base for the Fund. As a second-best solution we supported the doubling of the NAB. However, individual NAB arrangements were subject to domestic processes, including parliamentary approval in some cases.

FURTHER READING: Resources and Governance Reform, January 17, 2020 October 2019 IMFC Communiqué NBC's IMFC Statement, October 18-19, 2019

6 INDEPENDENT EVALUATION OFFICE (IEO)

6.1 IMF Financial Surveillance

CONTEXT: In January 2019, the *IEO Evaluation: IMF Financial Surveillance* was released. The evaluation assessed the many initiatives launched by the IMF to strengthen financial surveillance to better advise member countries of vulnerabilities and risks and to foster greater resilience over the past ten years. The Financial Sector Assessment Program had provided in-depth assessments for the most systemic financial jurisdictions, Article IV consultations had paid increased attention to macrofinancial linkages, and the Global Financial Stability Report and the Early Warning Exercise had become leading sources of insight on the global financial system. While the resilience of the overall system had not yet been fully tested, the efforts had delivered a substantial upgrade of IMF financial surveillance.

However, the IEO report found that there is still room for improvement and the work on the financial surveillance could be improved further. To this end, the IEO made recommendations in the following areas: The value-added of the FSAPs could be increased by being more strategic in the selection of countries and coverage; accelerating the build-up of the staff expertise needed for financial surveillance will be fundamental to progress as well as ensuring adequate resources for this work. Finally, the evaluation set out recommendations to address these challenges through a combination of new initiatives and adjustments to existing programs.

NBC VIEW: The NBC welcomed the IEO's evaluation of the IMF financial surveillance and noted that it provided a very useful foundation for further enhancing an already strong area of the Fund's work. While the NBC supported most of the recommendations of the report, it did not agree with the recommendation to only move the five most systemic jurisdictions to mandatory FSAPs , as the NBC considered it imperative that all financial sectors with systemic importance or strong cross-border linkages should be sufficiently covered over time.

FURTHER READING: IEO Evaluation: IMF Financial Surveillance Statement by the Managing Director on the Independent Evaluation Office Report on IMF Financial Surveillance

6.2 IMF Advice on Unconventional Monetary Policies

CONTEXT: In June, the *IEO Evaluation: IMF Advice on Unconventional Monetary Policies* was released. The evaluation assessed the IMF's advice for the countries which initiated these unconventional monetary policies (UMP) as well as for countries affected by spillovers from such policies. The evaluation recognized that the IMF provided timely validation to central banks leading the way on UMP, while urging action where such monetary support was lagging. The Fund monitored the potential financial stability risks from these policies and helped develop a macroprudential policy toolkit to manage them. The Fund also mobilized to help emerging markets and the international monetary system deal with the cross-border impacts of UMP.

While appreciating this wide-ranging response, the IEO found that the limited depth of expertise on monetary policy issues and high turnover of country teams impeded the Fund's ability to provide cutting-edge advice tailored to country circumstances. The report also suggested that the IMF could have done more to explore alternative policy mixes that could have limited side-effects from UMP. The evaluation provided concrete recommendations to build-up the IMF's monetary expertise and other steps to raise the capacity to provide timely advice in the future on this core area of the Fund's work.

NBC VIEW: The NBC welcomed the IEO's evaluation, which provided a comprehensive assessment of the Fund's role in analyzing and providing recommendations to country authorities on UMPs and related issues. The NBC saw merit in many of the recommendations raised by the IEO and noted that the report would be a useful input for ongoing work streams in the Fund, such as the comprehensive surveillance review and the integrated policy framework.

FURTHER READING: IEO Evaluation: IMF Advice on Unconventional Monetary Policies Statement by the Managing Director on the Independent Evaluation Office Report on the IMF Advice on Unconventional Monetary Policies

7 OTHER ISSUES

7.1 Gender Diversity in the Executive Board: Progress Report of The Executive Board to the Board of Governors

CONTEXT: In October, the Executive Board discussed the progress report on Gender Diversity in the Executive Board. The report updated the Executive Board on the current gender profile of the Fund's Executive Board; assessed this profile against that of other comparator organizations; and outlined the efforts currently being led by the Working Group on Gender Diversity at the Executive Board (WGGD) to achieve positive change going forward.

NBC VIEW: The NBC welcomed the important work on improving gender diversity and suggested it be addressed in the context of the Comprehensive Compensation and Benefits Review (CCBR) to do everything to support the recruitment of women in the Fund overall, not only to the Executive Board.

FURTHER READING: Gender Diversity In The Executive Board : Progress Report Of The Executive Board To The Board Of Governors

ABOUT

THE IMF's EXECUTIVE BOARD

The International Monetary Fund (IMF) has 189 member countries. Its highest decision-making body is the Board of Governors where all countries are represented. The Board of Governors approves only a few of the Fund's major decisions and has delegated the rest of its decision-making powers to the IMF's Executive Board where all countries are represented by an Executive Director. Some of the Executive Board's 24 chairs are single-country chairs, whereas the majority of the chairs represent multi-country constituencies. The task of the Executive Board is to conduct the daily business of the IMF in all aspects of its work, including surveillance, lending, and capacity development. The Board normally takes decisions based on consensus, but in some cases formal votes are cast. Each member country's voting power is determined predominantly by its quota, and the quota in turn is calculated to reflect member countries' relative position in the world economy.

THE OFFICE OF THE NORDIC-BALTIC CONSTITUENCY

The Nordic-Baltic Constituency (NBC) comprises Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden. The Office of the Nordic Baltic Constituency (ONBC) presents the views of our member countries in the Executive Board in close coordination with our national authorities. The office also regularly meets with representatives from the member countries' administrations or private delegations. All positions in the office rotate between the eight member countries according to an agreed schedule and all countries are represented at all times. As of December 2019, our staff included:

Thomas Östros	Executive Director, Sweden
Jon Sigurgeirsson	Alternate Executive Director, Iceland
Kristiina Karjanlahti	Senior Advisor, Finland
Snorre Evjen	Senior Advisor, Norway
Jannick Damgaard	Advisor, Denmark
Nils Vaikla	Advisor, Estonia
Ieva Skrīvere	Advisor, Latvia
Marijus Bernatavičius	Advisor, Lithuania
Maria P. Marin	Administrative Assistant
Tammy Timko	Administrative Assistant

Contact information for the Office of the Nordic-Baltic Constituency
Phone: +1 202 623 7000 | Email: oedno@imf.org