January 2022

Office of the Nordic-Baltic Constituency

# VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

*2021 Annual Report*

# Contents

# INTRODUCTION

This annual report provides an overview and status of the main Executive Board discussions and other IMF-related issues during the calendar year 2021 and outlines the views of the Nordic-Baltic constituency (NBC) on these issues.

The Fund lays out its strategic agenda in the International Monetary and Financial Committee (IMFC) Communiqué following the IMFC Spring and Annual Meetings and the Managing Director's Global Policy Agenda (GPA).

At the beginning of the year, Magdalena Andersson, at the time Minister of Finance of Sweden, was selected by the IMFC to chair the three-year term beginning in January 2021. Ms. Andersson was the first female and first representative of the Nordic-Baltic constituency to chair the IMFC[1]. Ms. Andersson relinquished her duties as the Chair at the end of the year as she became Prime Minister.

While the year continued to be marred by the effect of the pandemic, the global economy experienced a strong recovery. The recovery proved to be uneven, with advanced economies coming out stronger than emerging market and developing countries, which was seen to be a result of lack of equal access to vaccines and policy support.

The IMF has continued to support its members with its lending facilities and through surveillance, policy guidance, and capacity development. The first sign of a scaling back of some of the pandemic measures appeared towards the end of the year when all annual access limits that had been temporarily increased were returned to their pre-pandemic levels. August 2021 marked the approval of a new allocation of Special Drawing Rights (SDRs) amounting to $650 billion, the largest in the IMF's history (see section 1.1). After ten years of real flat budgets, the membership approved a 6 percent real budget increase aimed towards strengthening new and transformative policy areas to "build forward better". This includes greener, more digital, and inclusive global policies.

The NBC has continued to be a strong supporter of the Fund´s response to the crisis. The NBC underline that policies need to remain supportive, but responsive to new developments and tailored to country-specific contexts. In general, transparency, predictability, accountability and a

[1] From 1951-1956 Ivar Rooth of Sweden served as Managing Director (MD) and from 1956-1962 Per Jacobsson of Sweden served as MD.

comprehensive follow-through on governance safeguards behind the Fund's Covid-related emergency lending have been at the forefront of the NBC policy advice in the Board. The constituency champions enhanced multilateral cooperation, with the World Bank and other multi-lateral institutions. The NBC supports a stable and well-functioning international monetary and financial system and aims to preserve the IMF at the center of the global financial safety net. The constituency has emphasized that the IMF should be adequately resourced and committed to maintaining the appropriate level of resources.

In the Executive Board, the NBC has continued to emphasize the importance of rules-based multilateralism, transparency and good governance, open trade, appropriate fiscal and monetary policies, emphasizing structural policies, financial stability, debt sustainability, the sustainable development goals, climate risks, as well as gender and economic equality.

The constituency was strongly supportive of the approval of a new allocation of Special Drawing Rights (SDRs) in August and has encouraged countries to move from emergency lending to the more traditional IMF lending facilities. Moreover, the NBC agreed on the budget increase of 6 percent aimed to support structural changes towards more resilient, green, inclusive, and digitalized economies, but the NBC would have preferred a more moderate increase.

The first section of the report summarizes global economic and financial developments and 2021 headline IMF policy issues and provides the backdrop for the work program of the Executive Board. The second section provides an overview of the Executive Board's work on surveillance and economic policy, including bilateral surveillance of the eight NBC countries, as well as some major economic policy items on the Board's agenda during 2021. The third section covers new Fund-supported programs and lending policy reviews conducted by the Executive Board during the year. The fourth section provides an overview of the Fund's capacity development activities. The fifth section provides an overview of the evaluations completed by the Independent Evaluation Office (IEO) during 2021. The last section covers other issues.

# 1 HEADLINE IMF POLICY & ECONOMIC AND FINANCIAL DEVELOPMENTS

## 1.1 SDR ALLOCATION, RST AND SDR CHANNELING

In August 2021, a historic general allocation of Special Drawing Rights (SDRs) equivalent to about USD 650 billion became effective. The allocation was the largest in the Fund´s history and aims to address the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy. Part of the motivation for the SDR allocation was to help the Fund´s most vulnerable member countries that were struggling to cope with the impact of the COVID-19 crisis. The general SDR allocation benefitted all IMF's 190 members countries in proportion to their existing quotas in the Fund. The IMFC communiqué at the Annual Meetings in October welcomed this historic SDR allocation and supported efforts to seek options for voluntary channeling of SDRs from members with strong external positions to the benefit of low-income and vulnerable middle-income countries. As part of this, the IMFC members supported establishing a Resilience and Sustainability Trust (RST) at the IMF to provide affordable long-term financing to support countries undertake macro-critical reforms to reduce risks to prospective balance of payment stability, including those related to climate change and pandemic preparedness. The IMFC called upon the IMF to develop and implement the RST in collaboration with the World Bank.

**NBC view**: The NBC supported the SDR allocation against the background of a long-term global need for additional reserves and supported proposals for enhancing the transparency and accountability in the reporting and in the use of SDRs. On the possible SDR channeling, the NBC highlighted some key principles, including that it should be voluntary as countries have different legal and institutional constraints. The NBC also noted that the reserve asset characteristics of the SDR need to be preserved and that potential SDR channeling should be additional to existing sources of financing and consider debt sustainability objectives.

**Further Reading:** 2021 SDR allocation, Communiqué of the Forty-Fourth Meeting of the IMFC

## 1.2 GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

**Context:** The IMF's three flagship reports, World Economic Outlook (WEO), Global Financial Stability Report (GFSR), and the Fiscal Monitor (FM) were issued in April ahead of the Spring meetings, and in October ahead of the Annual meetings. Shorter updates of the WEO were released in January and July.

The October WEO, "Recovery During a Pandemic: Health Concerns, Supply Disruptions, And Price Pressures", highlighted that while the global economic recovery is continuing, even as the pandemic resurges, the fault lines opened up by COVID-19 are looking more persistent. Vaccine access and policy support are the principal drivers of the gaps and near-term divergences are expected to leave lasting imprints on medium-term performance. The global economy is projected to grow 5.9 percent in 2021, 0.1 percentage point lower than in the April and July forecasts. The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. The report highlighted that the threat of new variants has increased uncertainty about how quickly the pandemic can be overcome, and that policy choices have become more difficult, with limited room to maneuver.

The October GFSR, "COVID-19, Crypto, and climate: Navigating Challenging Transition", emphasized that financial stability risks have been contained so far, reflecting ongoing policy support and a rebound in the global economy earlier this year. The report explains that financial conditions have eased further in net in advanced economies and changed little in emerging markets, but that the optimism that propelled markets earlier in the year has faded on growing concerns about the strength of the global recovery. In addition, ongoing supply chain disruptions intensified inflation concerns. Signs of stretched asset valuations in some market segments persist, and pockets of vulnerabilities remain especially in the non-bank financial sector.

The October Fiscal Monitor, "Strengthening the Credibility of Public Finances", argued that fiscal policy should remain nimble and strengthen its medium-term framework, as countries face highly uncertain and differentiated prospects. In advanced economies, the shift in fiscal support toward medium-term packages to "build back better" will have overall positive effects globally. Emerging markets and low-income developing countries face a more challenging outlook, with permanent economic scarring and revenue losses. Many countries find themselves in a situation where fiscal support is still invaluable to protect lives and livelihoods. At the same time, governments are also facing questions on their elevated debt and gross financing needs.

**NBC view:** At the Executive Board meeting on the flagship reports on September 28, the NBC broadly agreed with the assessments of the outlook for the global economy. The emphasized that policy choices are becoming more constrained and challenging, as the recoveries are uneven, and policy space is limited especially in many emerging, developing, and low-income countries. The NBC highlighted upside risks to inflation and argued that the trade-offs between further policy support and inflation risks are becoming much more complex. Regarding financial stability, the NBC highlighted the need to mitigate risks related to non-bank lenders and corrections in the housing market in many countries. The NBC agreed that authorities should take preemptive actions to tackle pockets of elevated financial vulnerabilities and underscored the importance of nuanced and concrete recommendations to guide policy discussions.

**Further Reading:** World Economic Outlook reports GFSR reports Fiscal Monitor reports

## 1.3 THE WORK PROGRAM OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR'S GLOBAL POLICY AGENDA

**Context:** In January 2021, the Managing Director's Statement on the Work Program of the Executive Board was published. The Work Program (WP) translates the strategic direction and policy priorities laid out at the Annual Meetings into an Executive Board agenda for the next six months. This WP´s main priorities included additional efforts to help members secure a durable exit from the pandemic crisis, minimize long-term scarring, and build a more sustainable and resilient global economy. The challenges stemming from the pandemic were also reflected in the Managing Director´s Global Policy Agenda (GPA) titled "Bolstering the Recovery, Countering the Divergence" discussed at the Spring Meetings and, together with the IMFC Communiqué, laid the ground for the next Work Program issued in July. July's WP aimed at providing timely macroeconomic and financial updates and policy advice on crisis response, as well as advance priority areas for a resilient recovery. The WP includes Board engagement in a possible budget augmentation for the Fund to ensure that it is well-equipped to serve its membership in areas of continued and increasing importance. For the Annual Meetings in October, the Managing Director (MD) delivered the Global Policy Agenda with the key messages "Vaccinate, Calibrate, Accelerate".

**NBC view**: The NBC supported the policy priorities laid out in the MD's statements on the Work Programs. The NBC especially appreciated the ambitious agendas related to debt and climate change issues, as these topics have become more important. Another key issue raised by the NBC was the inflation outlook. The NBC encouraged further work on trade as the IMF has a clear mandate on fostering an open global trade system and called for increased analysis and discussions in the IMF Board on this.

**Further Reading:** MD Statement on the Work Program, December 2020, Global Policy Agenda, Spring 2021, MD Statement on the Work Program, June 2021, Global Policy Agenda, Fall 2021

# 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. In 2021, the Executive Board concluded two major reviews related to the Fund's surveillance mandate: The Comprehensive Surveillance Review sought to update and modernize the Fund's surveillance framework according to the changing surveillance landscape. The review of the Fund's Financial Sector Assessment Program (FSAP) provided a strengthened framework for assessing financial stability risks as well as adjusting, and expanding, the list of countries subject to mandatory FSAP participation.

Following the pandemic-induced postponements of Article IV consultations and mandatory Financial Stability Assessments in 2020, the Fund's bilateral surveillance gradually returned to normal in 2021, although most consultations continued to be held in a virtual format. 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

### 2.1.1 SWEDEN 2021 ARTICLE IV CONSULTATION

The Executive Board concluded the 2021 Article IV consultation with Sweden in March 2021 with Lapse-of-Time (LOT) procedure. The Article IV report found that Sweden entered the pandemic with substantial buffers and suffered a relatively shallow recession in 2020, with estimated output falling by about 3 percent. The decline in output was moderated by substantial income and liquidity support as well as structural features of the economy. Sweden's initial less stringent containment strategy seemed to have altered the timing of the economic fallout, which intensified towards the middle of the year. This fallout has particularly impacted the youth and foreign-born.

The Swedish authorities confirmed their determination to balance the support for the recovery and their commitment to fiscal prudence. The authorities, and other stakeholders, generally agreed with the identified long-standing structural challenges of the Swedish economy identified in the report. Efforts to better integrate marginalized groups into the labor market are ongoing, but some stakeholders expressed a view that political constraints make a comprehensive housing sector reform unlikely over the near term.

**Further Reading:** Sweden Article IV 2021 - Press Release and Staff Report

### 2.1.2 ICELAND 2021 ARTICLE IV CONSULTATION

In June, the Board concluded the Article IV discussions with Iceland. The authorities were commended for their effective and well-coordinated response to the COVID-19 pandemic both on the economic management and public health front. Available policy space was considered a key factor in the effective policy response. Continued fiscal support was seen as warranted until the crisis subsides, but the authorities' continued commitment to fiscal discipline was welcomed. The authorities were encouraged to rebuild fiscal buffers and reduce gross debt. The monetary policy response was considered effective, yet the authorities were encouraged to carefully monitor inflation dynamics. Many chairs agreed that, given the shallow foreign exchange market and volatile capital lows, the use of Foreign Exchange (FX) interventions and Capital Flow Management Measures (CFM) had been warranted. However, some chairs still emphasized that such tools should only be used under exceptional circumstances and in such cases both temporarily and transparently. Some chairs stated that the report would have benefitted from a deeper and more country-specific analysis on the dynamics of the Icelandic tourism sector, instead of using global tourism indicators, noting that more specific considerations could be helpful for other tourism-reliant countries. Finally, while supporting staff´s recommendation regarding further economic diversification, many chairs called for more granular advice in this regard for smaller member countries in general where economies of scale can be a containing factor. The Icelandic authorities generally concurred with the staff's appraisal stating that they had achieved their main goal of supporting households and firms during the pandemic through concerted fiscal and monetary policy efforts, as well as by easing macroprudential and regulatory policy in line with EBA guidelines while preserving social, economic, and financial stability.

**Further Reading:** Iceland Article IV 2021 - Press Release and Staff Report

### 2.1.3 NORWAY 2021 ARTICLE IV CONSULTATION

In June, the Executive Board concluded the Article IV consultation with Norway on a lapse-of-time basis. The Article IV report showed that Norway experienced one of the mildest economic downturns in Europe in 2020 as a result of the authorities' substantial policy support actions and one of the lowest Covid infection and mortality rates. Norway entered the crisis with substantial buffers which allowed the authorities to act fast with strong and effective fiscal, monetary, and financial sector policies to support its people, while implementing strict containment measures. Nonetheless, the report shows that unemployment remained elevated, especially among the youth, foreign-born, and low-income groups. The IMF expected the economy to reach its pre-pandemic level by the end of 2021, helped by a rebound of domestic demand following a planned gradual unwinding of restrictions. Norway announced ambitious climate mitigation measures, centered around carbon taxation, technology development and regulations, despite being a leader in the take-up of electric vehicles. The IMF argued that the focus should now shift to cost-effective implementation of these measures. The Norwegian authorities agreed on the importance of maintaining the focus on the vulnerable segments of the population and striving towards a more inclusive labor force. The authorities concur with staff's assessment on the long-term pressures on public finances and believe that continued adherence to the fiscal rule will result in addressing Norway's fiscal and structural challenges. On climate change mitigation, the authorities agreed that the implementation of measures to achieve their objectives are key.

**Further Reading:** Norway Article IV 2021 - Press Release and Staff Report

### 2.1.4 DENMARK 2021 ARTICLE IV CONSULTATION

In June, the Executive Board concluded the Article IV consultation with Denmark and endorsed the staff appraisal on a Lapse-of-Time basis, without a meeting. The staff report emphasized that Denmark entered the pandemic on a strong economic footing. The authorities decisively utilized Denmark's large policy space built over time to successfully navigate the crisis and lay the ground for a strong recovery. With one of the smallest contractions in Europe, the decline in real GDP in 2020 was mainly driven by weak private consumption and net exports. The swift and sizable fiscal response cushioned the impact on activity. Fiscal policy continued to support the recovery and public debt was sustainable. Unprecedented policy measures supported the labor market; thus, unemployment increased only slightly. The current account surplus declined, mainly due to lower exports of services. A comprehensive financial policy package, together with measures to support households and corporates, helped mitigate financial stability risks. Macrofinancial vulnerabilities stem largely from accelerating housing price growth amid high and increasing household leverage. Policies should support the recovery, facilitate the green and digital transitions, safeguard the most vulnerable groups, and enhance macrofinancial resilience. The Danish authorities broadly concurred with staff's assessment of the outlook and risks. They agreed with staff that the fiscal stance was adequate and believed the financial system was sound, resilient to pandemic-related stress, and well equipped to face the withdrawal of COVID policy support. They also agreed that macrofinancial risks stemming from surging house valuations amid high household leverage could warrant action. The Danish authorities also indicated that they wanted to "restart" the economy by raising productivity and investment, including in green and digital sectors.

**Further Reading:** Denmark 2021 Article IV Report

### 2.1.5 ESTONIA 2021 ARTICLE IV CONSULTATION

The Executive Board concluded the 2021 Article IV consultation with Estonia in July with Lapse-of-Time procedure. The Article IV report found that Estonia had been broadly successful in managing the COVID-19 pandemic, supported by strong macroeconomic policies and buffers. Estonia's output fall in 2020 was among the mildest in the EU and a robust recovery was projected for 2021 and 2022. Over the medium term, growth was expected to ease closer to 3 percent. Inflation started to show signs of acceleration in the beginning of 2021 and was projected to pick up, before easing to target level in the medium term. Estonia's strong financial sector weathered the pandemic well and helped support the economy. There were large two-way risks, including from virus mutations and economic scarring on the downside, and on the upside from increased confidence due to the successful vaccination campaign and enhanced opportunities for a digital and green transition. Estonia had ample fiscal space to continue to provide targeted fiscal support. The Estonian authorities broadly concurred with staff's outlook and risk assessment. They expressed some concern over the risks of overheating. The authorities stressed their efforts to re-energize digital and green growth and committed to further advancing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) reforms.

**Further Reading:** Estonia 2021 Article IV Report

### 2.1.6 LITHUANIA 2021 ARTICLE IV CONSULTATION

The Executive Board concluded the 2021 Article IV consultation with Lithuania in August. The Article IV report highlighted that Lithuania experienced the mildest contraction in Europe during the pandemic with output contracting by 0.8 percent in 2020, although the figure was later revised further to only -0.1 percent GDP decline. The report emphasized that, for the first time, Lithuania was able to respond to a large negative shock with countercyclical policies, supported by large buffers in the economy, as well as euro area membership. Staff estimated a closed output gap already in 2021 and brought attention to potential upside risks in the medium term. The authorities needed to maintain countercyclical fiscal and macroprudential policies as the recovery strengthened. They were also recommended to push strongly on the implementation of key structural reforms, including in education and healthcare. These had to be complemented with a comprehensive fiscal strategy that incorporated a combination of revenue and high-quality expenditure measures to address budget rigidities and age-related spending pressures. The Lithuanian authorities broadly agreed with staff's assessment and recognized the need to maintain countercyclical policies, but highlighted uncertainty regarding economic slack, which warranted a cautious approach to the withdrawal of support. They recognized high medium-term spending pressures given social demands and agreed with the need to rebuild fiscal buffers. The authorities also highlighted the potential of the maturing Fintech sector, and confirmed that further strengthening of the AML/CFT framework remained at the forefront of their agenda.

**FURTHER READING:** Lithuania Article IV 2021 - Press Release and Staff Report

### 2.1.7 LATVIA 2021 ARTICLE IV CONSULTATION

The Executive Board concluded the 2021 Article IV consultation with Latvia in August. The Article IV report found that Latvia experienced a relatively milder recession than most other European countries, contracting by 3.6 percent in 2020. Output was projected to grow by 3.6 percent in 2021 and 5.2 percent in 2022. Inflation was assumed to pick up in 2021 before stabilizing at around 2 percent over the medium term. The sizable and broad-based policy response was key to mitigating the economic and social impact of COVID-19. An acceleration of capital spending supported by the EU funds, including Recovery and Resilience Facility grants, is expected to support medium-term growth. High governance standards and careful monitoring will be required given the significant stimulus and ambitious investment plans. The pandemic's impact on the labor market was relatively large and uneven across groups. Policies to facilitate job creation and ensure a smooth reallocation of labor will be essential. The financial sector was resilient, given its comfortable liquidity and capital positions. Recent additions to the macroprudential toolkit supplemented existing tools and will help preserve prudent lending in view of future shocks. The exit strategy from the support measures will require corporate recapitalization and strengthening of the insolvency regime. It was recognized that Latvia had made significant progress in strengthening its AML/CFT framework. The Latvian authorities broadly shared staff's assessment of the outlook and risks, as well as the policy recommendations. They agreed that it will be important to maintain supportive policies in the near term while preserving financial stability and rebuilding fiscal buffers in the medium term. The authorities were committed to continue with further enhancing the AML/CFT framework and ambitious the reform agenda fostering structural transformation to achieve greener, smarter, and more inclusive growth.

**FURTHER READING:** [Republic of Latvia: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Republic of Latvia]

#### 2.1.8 FINLAND 2021 ARTICLE IV CONSULTATION

IMF concluded its 2021 Article IV mission to Finland in November 2021. In the concluding statement at the end of the mission, IMF noted that Finland suffered a relatively mild economic contraction in 2020 followed by a swift recovery which was expected to continue into 2022. At the time, the IMF assessed that the fiscal stance in 2022 is broadly appropriate but underscored that policy should remain flexible given the still-uncertain outlook. Over the medium term, and provided the recovery is firmly on track, fiscal policy should aim to bring public debt on a declining path. IMF highlighted that boosting employment and growth are key to strengthening public finances, but that direct fiscal measures may also be needed. Finally, the IMF noted that enhancing the macroprudential toolkit would strengthen macrofinancial resilience.

**FURTHER READING:** [Finland: Concluding Statement of the 2021 Article IV Mission]

### 2.2 COMPREHENSIVE SURVEILLANCE REVIEW

**Context:** In May 2021, the Executive Board approved the "2021 Comprehensive Surveillance Review" (CSR) that will guide IMF surveillance activities over the next five years, until the next review. To better serve the membership in a changing global environment, the CSR finds that Fund surveillance should be arranged around four key priorities: i) confronting risks and uncertainties: policymakers will need to actively manage the risks of a highly uncertain outlook; ii) preempting and mitigating adverse spillovers: the shifting patterns of global economic integration will bring about new channels for contagion and policy spillovers; iii) fostering economic sustainability: a broader understanding of sustainability to better account for the impact of economic and non-economic developments on stability; and iv) unified policy advice: better accounting for the trade-offs and synergies among different policy combinations in the face of limited policy space and overlapping priorities, tailored to country-specific circumstances.

Regarding the modalities, the CSR found that modern Fund surveillance needs to be more targeted, topical, timely, better interconnected and better informed. It also concluded that modernizing surveillance will likely require additional resources. A flexible approach to implementing the new modalities, characterized by experimentation and learning-by-doing – a "sandbox" for new modalities – was agreed.

**NBC view:** The NBC supported the CSR and noted that the Fund surveillance is more important than ever as the membership navigates through unusual uncertainty following the pandemic. The NBC underlined the need to retain proper focus on the "core" issues in Article IVs, while also supporting increased focus on climate issues and strengthened macro-financial advice. The NBC continued to welcome proposals to better align Capacity Development and surveillance.

**FURTHER READING:** [2021 Comprehensive Surveillance Review]

## 2.3 FINANCIAL SECTOR ASSESSMENT PROGRAM REVIEW

**Context:** In May 2021, the Executive Board approved the 2021 Financial Sector Assessment Program (FSAP) Review. The review assessed how the FSAP has adapted to the transformation of financial systems and emerging new risks and provided proposals on enhancing the value of the FSAP for national authorities and further strengthening its contribution to Fund financial surveillance. The review was based on background staff analyses and surveys of country authorities and Executive Directors. Executive Directors welcomed the final proposals and commended staff for a smooth review process. Directors also underscored that the FSAP is a critically important analytical product that goes to the core of the Fund's mandate. Directors welcomed the proposals for enhancing the quantitative toolkit for the analysis and calibration of macroprudential policies and to develop assessment tools for emerging risks, such as climate risk, cybersecurity, and fintech. To improve the traction of FSAPs, a number of Directors stressed the importance of better integration between FSAPs and Article IV consultations and welcomed the introduction of the authorities' views in Financial System Stability Assessments (FSSA). Directors also supported the expansion of mandatory FSAP participation with a 5-year minimum cycle for the 32 systemically important jurisdictions and adopting a 10-year cycle for the additional 15 jurisdictions. Moreover, several Directors emphasized that there should be sufficient resources to meet the demand for voluntary FSAPs and noted that the slight cost increase from expanding the list of mandatory FSSAs while maintaining space for voluntary FSSAs could be accommodated within the current resource envelope.

**NBC view:** The NBC supported the completion of the FSAP review and welcomed the proposals for further strengthening the FSAP's role in the Fund's efforts towards building more resilient and sustainable financial systems. The NBC supported the Fund's practice of conducting mandatory FSAPs for countries with systemically important financial sectors, while maintaining access to the FSAP for all other members. The NBC was supportive of the updates to the methodology of identifying systemic jurisdictions and the strengthening of a risk-based approach by adding an extra level of risk tolerance to identify additional jurisdictions to be assessed at a lower frequency. The NBC agreed on the need to increase the traction of FSAPs, including through systematic follow-up on FSAP findings and recommendations in Article IV reports, better prioritizing FSAP recommendations based on macro-criticality and greater cross-mission participation of FSAP and Article IV teams. The NBC considered supranational FSAPs, focusing on region-wide risks and institutions, such as the euro area, as crucial complements to national FSAPs, where the focus should be on country-specific issues, idiosyncratic risks, and national macroprudential policies. The NBC stressed that FSAPs are a vital part of the Fund's financial surveillance and warrant adequate resources. At the same time, the NBC saw scope for more cost-efficient FSAPs via better planning and focus. In addition, better utilization of available data and relevant information from other competent institutions should be explored further to relieve the financial and administrative burden of FSAPs on both the Fund staff and national authorities.

**Further reading:** 2021 Financial Sector Assessment Program Review

## 2.4 EXTERNAL SECTOR REPORT

**Context:** In July 2021, the Executive Board discussed the 2021 External Sector Report, titled "Divergent Recoveries and Global Imbalances". The report showed that overall current account deficits and surpluses widened in 2020 to 3.2 percent of world GDP. The IMF's multilateral approach suggests that global excessive imbalances were broadly unchanged in 2020 at about 1.2 percent of world GDP. The external outlook for 2021 is highly uncertain given the divergent economic prospects across countries. Unprecedented government borrowing to finance health care and economic support has had uneven effects on current account balances. The impact on the current account balances depends on a country's relative fiscal policy stance compared with that of its trading partners. The outlook for global current account balances is gradually narrowing during 2022–26, mainly reflecting a narrowing of the US deficit and China's surplus to below pre-pandemic levels.

**NBC view:** The NBC broadly supported the assessments in the report and shared the assessment of the uneven impact of the pandemic shock on countries' external positions depending on their economic structure and institutional features. The NBC agreed that stronger fiscal support in advanced countries may have affected their fiscal stance relative to trade partners and took note of the assessment that this contributed to the slowdown in downhill capital flows to emerging markets. The NBC welcomed the methodological focus on transitory pandemic effects and fiscal balances and highlighted that a potential resurgence of the pandemic could make the COVID-19 sectoral effects more persistent and could have scarring effects, especially in poorer countries.

**Further Reading:** 2021 External Sector Report

## 2.5 DEBT RELATED ISSUES

### 2.5.1 REVIEW OF DEBT SUSTAINABILITY FRAMEWORK FOR MARKET ACCESS COUNTRIES

**Context:** In January 2021, the Executive Board completed the review of the Debt Sustainability Framework for Market Access Countries (MAC DSA). Directors broadly supported the reform proposals for modernizing and better aligning the MAC DSA with its objectives and the IMF's lending framework. In particular, Directors welcomed the improved predictive capacity and clarity of results, while supporting changing the name of the framework to Sovereign Risk and Debt Sustainability Framework for Market Access Countries (MAC SRDSF) to capture the full range of its analysis. Some Directors pushed for early implementation of the new framework, while others preferred a longer testing period. Views on transparency to the public of the debt sustainability assessment were also mixed, but in the end, Directors agreed on a compromise proposal. This would entail full disclosure to the Board but limited disclosure to the public for a 12-month period, at which time full disclosure to the public would be reconsidered. Several Directors welcomed the use of judgment to challenge the mechanical signals provided by the model framework but emphasized the need for clear and evenhanded use of judgment. Finally, many Directors underscored the need for capacity development to increase the quality of data and ensure a smooth rollout of the framework. According to recent announcements, the framework is expected to be implemented in the Spring of 2022.

**NBC view:** The NBC welcomed the new framework and its improved predictive capacity, coverage, and clarity of results, as well as its convergence with the European Union DSA framework. The NBC recognized the role of exercising judgment in the assessments of sovereign risks and debt sustainability if done evenhandedly. The NBC also welcomed the use of longer-term risk tools as well as the inclusion of macro-critical long-term fiscal sustainability challenges related to climate change. While the NBC would have preferred full disclosure of information, the NBC was willing to support the proposed transition period in recognition of issues related to market sensitivity as well as the novelty of the new framework. Due to the clear improvements of the new framework, the NBC would have preferred a swifter implementation starting with all program cases.

**Further Reading:** Review of The Debt Sustainability Framework For Market Access Countries

### 2.5.2 DSSI AND THE COMMON FRAMEWORK FOR DEBT TREATMENTS

**Context:** In April, the G20 agreed to extend the Debt Service Suspension Initiative (DSSI) until end-December 2021. The DSSI, which was first established in May 2020, provided over USD 12.9 billion in relief to 48 out of the 73 DSSI eligible countries altogether. While the DSSI was intended to alleviate countries' liquidity pressures arising from the COVID-19 crisis, the G20 and Paris Club endorsed a Common Framework for Debt Treatments Beyond the DSSI (CF) in November 2020 with the purpose of assisting countries restructure their debt and deal with insolvency and protracted liquidity problems, including by bringing together creditors in a coordinated manner. The CF covers the 73 DSSI eligible countries with the important features that the framework is applied to country-specific needs and that individual countries are required to seek at least the same debt restructuring terms from private creditors as from official creditors. At the same time, the CF requires that the treatment under the framework must be accompanied by an IMF-supported program. So far implementation has been slow with only Chad, Ethiopia, and Zambia having made formal requests for debt relief under the CF and Chad and Ethiopia being the only cases where a creditor committee has been formed.

**NBC view:** The NBC believed that the DSSI had successfully provided much needed debt service relief for vulnerable countries. At the same time, the NBC stressed the importance of ensuring that the freed-up resources were used in a targeted and efficient manner to tackle the health, social, and economic impacts of the pandemic. In this respect, the NBC reiterated its call for strengthened fiscal governance and transparency. The NBC also viewed the DSSI and CF as good opportunities to improve debt transparency and believed that while the DSSI had served its purpose well, implementation of the CF should be prioritized going forward. In this respect, ensuring the comparability of treatment in terms of private creditor participation under the CF would be important to ensure a successful application of the framework.

**Further Reading:** Common Framework for Debt Treatments beyond the DSSI

# 3 LENDING

## 3.1 MODIFICATIONS OF LENDING FACILITIES

### 3.1.1 REVIEW OF THE IMF'S LENDING FRAMEWORK FOR LOW-INCOME COUNTRIES

**Context**: In July 2021, the Executive Board approved a package of reforms related to the Fund´s concessional lending targeted to low-income countries (LICs). The key policy reforms proposed include: i) raising the normal annual/cumulative limits on access to Poverty Reduction and Growth Trust (PRGT) resources to 145/435 percent of quota, which is the same threshold for normal access as in the General Resources Account (GRA); ii) eliminating the hard limits on exceptional access (EA) to PRGT resources for the poorest LICs, enabling them to obtain all financing on concessional terms if the EA criteria are met; iii) changes to the framework for blending concessional and non-concessional resources to make it more robust and less complex; iv) stronger safeguards to address concerns regarding debt sustainability and capacity to repay the Fund; and v) retaining zero interest rates on PRGT loans, consistent with the established rules for setting these interest rates. The Executive Board approved a two-stage funding strategy to cover the cost of pandemic-related concessional lending and support the sustainability of the PRGT. The first stage of the strategy aims to secure SDR 2.8 billion in subsidy resources (to support zero interest rates), and an additional SDR 12.6 billion in loan resources. Amongst NBC countries, Lithuania has pledged EUR 2.4 million and Sweden has pledged SEK 300 million (about SDR 24 million) to the PRGT in this latest fundraising round.

**NBC view**: The NBC approved the proposals, noting their strong devotion to support LICs which is showed also by some NBC countries being among the largest Official Development Assistance providers in the world in terms of GDP. The NBC however raised concerns about the sustainability of the PRGT framework and the sequencing of reforms, taking a medium-term decision on access limits before commitments of funding has been secured.

**Further Reading:** IMF Financial support for Low-Income Countries-Responding to the pandemic, Lithuania PRGT pledge, Sweden PRGT pledge

### 3.1.2 TEMPORARY MODIFICATION TO THE FUND´S ANNUAL ACCESS LIMITS

**Context:** In December 2021, the Board discussed the Review of Temporary Modification to the Fund's Access Limits in Response to the COVID 19-Pandemic. Over the course of the pandemic, the Fund made several modifications to the limits on access to Fund resources and these temporary increases were extended on several occasions – most recently in March 2021. Modifications included higher annual and cumulative access limits under the Fund's emergency facilities as well as temporary higher annual access limits under the Fund's GRA and the PRGT. In the December review, Staff proposed a full return to standard access limits in Fund lending policies except for the temporary higher cumulative access limits (CAL) under the Fund's emergency facilities. Due to the high uncertainty in the period ahead, staff proposed extending these specific access limits by another 18 months. Such an extension was important to allow some borrowing space for countries which had already received emergency financing (EF) during the pandemic and might need additional EF if hit by new shocks. To ensure an orderly exit from the use of EF, staff would prepare an exit strategy by June 2023, when the extension of the higher EF CAL was set to expire. In the Board discussion, Directors broadly supported staff's proposals and believed these struck an appropriate balance between safeguarding the Fund's resources and allowing some borrowing space for countries facing new Balance of Payments (BoP) shocks. Many chairs also stressed the need to prioritize the transition to the upper-credit tranche (UCT) programs and some chairs called for strict implementation of the EF eligibility criteria going forward, including presenting a strong case when UCT programs were assessed to be infeasible. Directors broadly agreed on the extension of CAL under EF and the development of an exit strategy. Some, however, remained skeptical on the need for such an exit strategy and expected a full return to normal by June 2023, while others believed some flexibility should be retained.

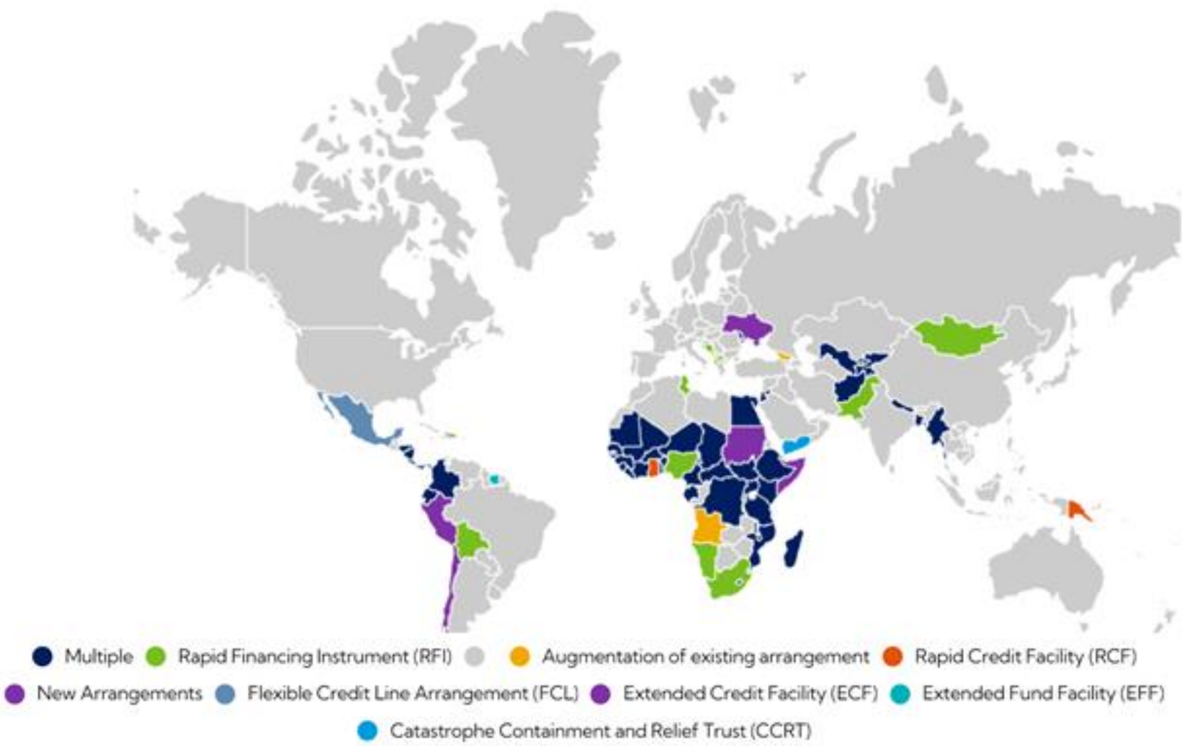
**NBC view:** The NBC agreed with staff that the Fund's emergency assistance and associated higher access limits had been essential to help countries contain the immediate effects of the pandemic. Since the emergency of the crisis had subsequently subsided, and as countries were now in the rebuilding phase, the NBC believed a return to standard Fund lending instruments was highly warranted. The NBC also argued that, going forward, the Fund's lending policies should facilitate a move to regular, upper credit tranche IMF programs which are better suited to support members in recovering and transforming their economies. On balance, the NBC believed that staff's proposals were steps in the right direction although the NBC would have preferred a shorter extension of the cumulative access limits under the Fund's EF. The NBC supported the formation of and early engagement on an exit strategy under the expectation of a full return to normal access limits by end-June 2023. The NBC reiterated the call for enhanced engagement and follow-up on governance safeguards in EF.

**Further Reading:** Review of Temporary Modification to the Fund's Access Limits

## 3.2 COVID-19 FINANCIAL ASSISTANCE AND DEBT SERVICE RELIEF

Between March 2020 and December 31, 2021, the Fund provided financial assistance to 90 countries, totaling SDR 122.4 billion / USD 170.2 billion[1]. Additionally, 29 countries received debt service relief from the Catastrophe Containment and Relief Trust (CCRT), totaling SDR 607.53 million / USD 850.70 million[2].

**Further Reading:** [COVID-19 Financial Assistance and Debt Service Relief]




[1] Amounts calculated using the SDR/USD exchange rate of the day of approval. Aggregate USD amounts are presented for illustrative purposes.

[2] This debt relief was provided in 4 tranches for debt service falling due during the periods April 13 through October 13, 2020(1st tranche), October 14, 2020 through April 13, 2021 (2nd tranche), April 14 through October 15, 2021 (3rd tranche), and October 16, 2021, through January 10, 2022 (4th tranche).

### 3.2.1 CATASTROPHE CONTAINMENT AND RELIEF TRUST (CCRT) DEBT SERVICE RELIEF

The Executive Board approved the disbursement of the fifth tranche of debt service relief under the CCRT in December. This tranche completed the two-year COVID-related debt service relief on obligations to the Fund falling due from April 14, 2020 through April 13, 2022 totaling a cumulative debt service relief of about SDR 690 million (USD 964 million). Established in February 2015 during the Ebola outbreak and modified in March 2020 in response to the COVID-19 pandemic, CCRT grants have complemented donor financing and IMF concessional lending through the PRGT helping the poorest and most vulnerable members to free up resources to tackle the pandemic and its repercussions. Despite generous support of about SRD 609 million (about USD 852 million) from the EU and 18 Fund members, including Norway and Sweden, total pledges have been substantially below the SDR 1 billion (USD 1.4 billion) fundraising goal. As a result, approval of the final tranche has reduced the CCRT pre-COVID cash buffer, leaving the CCRT insufficiently resourced to provide relief in future emergencies.

**NBC view:** The NBC encouraged CCRT recipient countries to strengthen their efforts in enhancing transparency and accountability on the use of resources freed up by the debt service relief and underscored that the purpose of the CCRT is to provide temporary liquidity support in a crisis and thus should not result in postponing adjustments, UCT-quality IMF programs, or debt restructurings, if deemed necessary. The NBC emphasized that a comprehensive review of the CCRT instrument will be necessary to assess the appropriateness of CCRT policies and framework including eligibility, funding needs, and the CCRT's role in restructurings for countries in debt distress. The NBC urged to continue the fundraising efforts to rebuild the pre-COVID cash buffer as quickly as possible to ensure that the Fund is able to provide relief in future emergencies.

**Further Reading:** Staff reports and press releases on disbursement of the CCRT debt service relief: the 1st tranche (April 13 through October 13, 2020), 2nd tranche (October 14, 2020 through April 13, 2021), 3rd tranche (April 14 through October 15, 2021); 4th tranche (October 16, 2021 through January 10, 2022), and 5th final tranche (January 11 through April 13, 2022).

## 3.3 STANDARD LENDING FACILITIES

As of December 31, 2021, the Fund was engaged in 22 active programs and made a total of approximately USD 133 billion available in lending commitments across the globe under the General Resources Account. During 2021, the Executive Board approved 10 new loans or precautionary arrangements under the standard non-concessional lending facilities for Senegal, Cameroon, Costa Rica, Gabon, Kenya, Moldova, Seychelles, Suriname, Mexico, and Panama. The Executive Board completed several regular reviews of ongoing Fund-supported programs. The NBC supported requests for new programs, as well as the reviews completed during 2021.

**Further Reading:** IMF Financial Activities

### 3.3.1 ARGENTINA EX-POST EVALUATION

**Context:** In December 2021, the Executive Board discussed the Ex-Post Evaluation (EPE) of Argentina's 2018 program with the Fund. In June 2018, the Executive Board approved the largest Stand-By Arrangement in the Fund's history, in support of Argentina's 2018-21 economic program. The EPE report concludes that relevant Fund policies and procedures, including those relating to financing, safeguards, and program design, were adhered to in this program. The report also finds that the program did not deliver on its objectives, despite significant modifications of economic policies. Mounting redemptions, along with capital flight by residents, put considerable pressure on the exchange rate. Despite FX interventions beyond program provisions, the exchange rate continued to depreciate, increasing inflation and the peso value of public debt, and weakening real incomes, especially of the poor. In sum, the EPE report concludes that the program did not fulfil the objectives of restoring confidence in fiscal and external viability while fostering economic growth. The program saw only four of the planned twelve reviews completed and arrangement was canceled in July 2020.

**NBC view**: The NBC welcomed the carefully executed evaluation and broadly shared its assessments and lessons. It is important to continuously draw lessons from the past as IMF policies and capacity for macroeconomic analysis have been developed throughout the institution's history. The NBC strongly agreed that the experience with the 2018 program shows the need for realistic baseline projections and assumptions, as well as proper contingency planning. All programs should be given a high probability to success, even if risks materialize.

**Further Reading:** Argentina: Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement-Press Release and Staff Report

### 3.3.2 UKRAINE

**Context:** In November 2021, the IMF Executive Board completed the first review under Ukraine's Stand-By Arrangement and agreed to extend the program by six months from December 2021 to end-June 2022, along with rephasing of disbursements. The Board decision made available SDR 500 billion (about USD 700 billion) to the Ukrainian authorities. The program had previously been approved in June 2020 with access equivalent to SDR 3.6 billion (about USD 5 billion or 179 percent of quota) and an 18-month timeline. Although macroeconomic and financial stability was maintained, the first review was substantially delayed due to critical setbacks and policy slippages. In particular, the early tension around the independence of the central bank required a pause to assess policy continuity (former central bank Governor Smolii resigned soon after program approval citing political pressure), while adverse Constitutional Court rulings that challenged the anticorruption framework required restoring its effectiveness before the review could proceed. Corrective actions were later taken and most of the delayed structural benchmarks were implemented. The authorities strengthened the *de jure* independence of the central bank, restored the integrity of the anti-corruption institutions, and enacted legislation on the governance of the judiciary. Going forward, the authorities planned to pursue gradual fiscal consolidation, enhance corporate governance frameworks in state-owned enterprises and banks, and maintain the effective autonomy of the central bank while focusing monetary policy on returning inflation to its target.

**NBC view**: The NBC supported the completion of the first review and the associated requests. The NBC stressed the need to implement and sustainably execute the relevant legislation aimed at institution building, including the macro-critical legislation on the independence of the judiciary system, the anti-corruption institutions, and the central bank. The NBC encouraged staff to maintain ambition in their engagement with the Ukrainian authorities by developing a longer-term strategy, underpinned by a possible follow-up Extended Fund Facility program focused on deep structural reforms.

**Further Reading:** Ukraine: First Review Under the Stand-By Arrangement – Press Release and Staff Report

## 3.4 PRECAUTIONARY LENDING ARRANGEMENTS

As of December 31, 2021, the Fund was engaged in five precautionary arrangements and had made a total of approximately USD 105 billion available in lending commitments under those arrangements. During 2021, the Executive Board approved two new precautionary arrangements for Mexico and Panama.

### 3.4.1 MEXICO

**Context:** In November 2021, the Executive Board approved the successor two-year arrangement for Mexico under the Flexible Credit Line (FCL) in the amount of SDR 35.7 billion, 400 percent of quota, and the cancellation of the previous arrangement, approved in November 2019 (SDR 44.6 billion, 500 percent of quota). This is Mexico's ninth FCL arrangement. The authorities have been on a path of gradually reducing access in recent years and they intend to reduce access further at the mid-term review to 300 percent of quota, contingent on the evolution of external risks. This reflects the authorities' intention to gradually exit from the instrument. In staff's view, Mexico continues to meet the FCL qualification criteria. The authorities value the FCL as insurance against tail risks and as validation of the quality of their macroeconomic policies and institutional policy frameworks.

**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 has always considered the FCL as a temporary instrument and welcomed the authorities' commitment to continue the exit strategy.

**Further Reading:** Mexico: Arrangement Under the Flexible Credit Line and Cancellation of Current Arrangement

## 3.5 LOW INCOME COUNTRY PROGRAMS

As of December 31, 2021, the Fund was engaged in 19 active programs and had made a total of approximately USD 9.0 billion available in lending commitments under the Poverty Reduction and Growth Trust (PRGT). In 2021, the Executive Board approved new Upper Credit Tranche-level Fund-supported programs with financial resources under the concessional lending facilities for Cameroon, Chad, Democratic Republic of Congo, Kenya, Madagascar, Moldova, Niger, Sudan, Uganda, and Senegal. The Executive Board also completed several regular reviews of ongoing IMF-supported arrangements. The NBC supported the requests for new programs, as well as the reviews completed during 2021, stressing the need to find an appropriate balance between the levels of financing, the catalytic effects of Fund support, capacity development, and addressing debt related risks including through restructurings where needed. The largest of the new programs for Low Income Countries was the 39-month Extended Credit Facility Arrangement for Sudan in the amount of USD 2.47 billion, approved in June (see below on debt relief for Sudan under the HIPC initiative).

**Further Reading:** Active IMF Lending Commitments as of December 31, 2021

### 3.5.1 SUDAN DEBT RELIEF

**Context:** The Executive Boards of the IMF and World Bank approved Sudan's eligibility for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June. Sudan was the 38th country to reach this milestone, known as the HIPC Decision Point. It was a historic day, as Sudan cleared its arrears to the Fund, there were no countries with protracted arrears to the IMF for the first time since 1974. Debt relief under the HIPC Initiative will significantly reduce Sudan's external debt burden. Assuming full application and creditor participation, Sudan's debt was expected to decline from about USD 56 billion under current assumptions to USD 28 billion at Decision Point in present value terms. At Completion Point, debt was estimated to decline further to around USD 6 billion. The financing assurances to cover the Fund's share of the debt relief were provided by 120 members returning all or part of their share of the Special Contingent Account (SCA- 1) and deferred charges distribution, as well as nine additional cash grants from Canada, France, Italy, Malta, Saudi Arabia, Sweden, Switzerland, the US, and the European Union. Denmark and Norway also pledged resources to Sudan from budgetary appropriations, proportional to its share of the SCA-1 and deferred charges.

After a coup in October, the political situation in Sudan deteriorated. Since the HIPC is a milestone-based process, to obtain full debt relief, Sudan will need to reach the HIPC Completion Point, and this can be accomplished only once Sudan implements the floating Completion Point triggers (including satisfactory implementation of their full Poverty Reduction Strategy for at least one year) and maintains a track record of satisfactory macroeconomic performance under the country's Extended Credit Facility.

**NBC view:** The NBC supported Sudan in resolving its long-standing situation of debt distress and normalizing relations with the international community. While the Decision Point was a significant achievement, it was only the first step in a long process of economic transformation, therefore, the NBC strongly encouraged the authorities to maintain their reform momentum and avoid policy reversal.

**Further Reading**: Joint Statement on Sudan by David Malpass and Kristalina Georgieva on Behalf of the World Bank Group and the IMF; Frequently Asked Questions on Sudan

# 4 CAPACITY DEVELOPMENT

Capacity development (CD) and technical assistance 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 receives regular briefings by staff from the Fund's area and functional departments on the ongoing delivery of capacity development. The NBC countries contribute financial resources and/or technical expertise to the Fund's capacity development work.

## 4.1 IMF POLICIES AND PRACTICES ON CAPACITY DEVELOPMENT

**Context:** Since the start of the global pandemic, the IMF has provided Capacity Development (CD) support and policy advice to most Fund member countries to address the immediate challenges encountered during the lockdown. Virtual CD support for longer-term objectives has continued. Efforts are ongoing to increase CD integration with surveillance and lending mandates, with a continued prioritization of CD activities on low-income, fragile, conflict-affected, and small states. Fund CD activities directed to support Domestic Revenue Mobilization (RMB) remain the largest delivery area, while also harnessing the emerging areas of CD demand in the areas of climate change, gender, and fintech. As the recovery progresses, CD remains an important backbone by which Fund member countries can build on towards an inclusive and more durable growth.

**NBC view:** The NBC supported the increased interaction between staff and the Executive Board on capacity development during 2021, as CD is a key area of Fund's work. The NBC noted that close collaboration within the Fund, including the area departments, is crucial to help ensure that CD is allocated appropriately and welcomed the ongoing efforts to better align CD with lending and surveillance priorities.

**Further Reading:** IMF webpage on Capacity Development, Technical Assistance Annual Report 2021

# 5. INDEPENDENT EVALUATION OFFICE (IEO)

In November, the IEO marked its 20th anniversary with the conference discussing lessons from the experience with IEO evaluation over the past 10 years and the challenges to independent evaluation at the IMF going forward.

**Further Reading:** IEO@20 Conference; Managing Director's Remarks Opening of the IEO@20 Conference

To ensure the follow-up to previous IEO evaluations the Executive Board concluded the 11th Periodic Monitoring Report (PMR) in September. The 11th PMR assessed progress made over the past 18 months on 72 actions contained in 10 Management Implementation Plans (MIPs) in Response to Board-Endorsed IEO Recommendations. It concluded that the pace of implementing MIPs has accelerated despite the challenges brought by the ongoing COVID-19 pandemic. In particular, strong progress was observed in recently adopted MIPs, including in response to the IEO evaluations on *IMF Advice on Capital Flows*, *IMF Advice on Unconventional Monetary Policies*, and *IMF Financial Surveillance*. At the same time, about half of the open actions were more than one year past their implementation due dates, therefore Directors called on the accountable Fund Departments to expedite the implementation of all delayed open actions.

**NBC view:** The NBC expressed concerns about the cumulative effects of long-standing open actions and underlined that the pandemic and recovery has reinforced the case for timely delivery and even urgency in many areas, including on the Fund's macro-financial surveillance capabilities or on the Strategy for IMF Engagement on Social spending. The NBC emphasized the need for close collaboration with the World Bank and other partners to multiply efforts in many areas, including on climate.

**Further Reading**: Eleventh Periodic Monitoring Report on The Status of Management Implementation Plans In Response To Board-Endorsed IEO Recommendations

To implement recent IEO evaluations the Executive Board approved two Management Implementation Plans (MIPs). The MIP accepted in May in response to the IEO evaluation on *IMF Advice on Capital Flows* aimed at i) bringing the Fund's framework for advice on capital flow policies up to date with recent research and lessons from experience; ii) enhancing and coordinating Fund-wide research; iii) ramping up the monitoring and analysis of capital flows; iv) strengthening multilateral cooperation on policy issues affecting capital flows. The MIP approved in September, in response to the IEO evaluation on *IMF Collaboration with the World Bank on Macro-Structural Issues,* proposed concrete steps to enhance i) the Bank-Fund collaboration on strategic macro-structural issues, with an initial focus on the climate workstream; ii) Fund staff's incentives for collaboration with external partners, including the Bank; iii) access to and exchange of information and knowledge between Bank and Fund staff.

**Further Reading**: MIP in response to the IEO evaluation on IMF Collaboration with the World Bank on Macro-Structural Issues; MIP in response to the IEO evaluation of IMF Advice on Capital Flows,

## 5.1 GROWTH AND ADJUSTMENT IN IMF-SUPPORTED PROGRAMS

**Context:** In September 2021, the IEO released its evaluation on Growth and Adjustment in IMF-Supported Programs. The evaluation assessed how well IMF-supported programs have helped sustain economic growth while delivering necessary adjustment for external viability over the 2008–19 period. The report found that there was no evidence of consistent bias towards austerity in IMF Programs. However, the evaluation also concluded that program growth outcomes consistently fell short of program projections and the IEO saw a need for the IMF to enhance program countries' capacity to sustain activity while undertaking needed adjustment during the program and to enhance growth prospects beyond the program. The IEO presented three recommendations on how to achieve this: i) growth implications of IMF-supported programs should become more thorough, systematic, realistic, and sensitive to social and distributional consequences ii) greater attention to support deep and growth-oriented reforms, supported by capacity development and iii) continued investment in building a toolkit of models and monitors to be applied in a program context.

**NBC view:** The NBC welcomed the IEO's evaluation for its comprehensive and insightful findings and broadly supported the three recommendations. The NBC believed that the Fund should also consider the potential negative implications of adjustments to growth, including the distributional effects, while staying true to its mandate in resolving Balance of Payment (BoP) difficulties. In addition, the NBC saw scope for more growth-friendly structural reforms in Fund programs and the need for strong collaboration with other stakeholders including the World Bank as a means to improve the design of structural conditionality, supported by strengthened and targeted capacity development. The NBC expressed concern on the systematic optimism bias in growth forecasts which should be addressed when designing future programs. In general, the NBC believed that a careful tailoring for country conditions was the key lesson from this IEO's evaluation.

**Further Reading:** IEO Evaluation: Growth and Adjustment in IMF-Supported Programs Statement by the Managing Director on the Independent Evaluation Office Report on Growth and Adjustment in IMF-Supported Programs

# 6. OTHER ISSUES

## 6.1 REVIEW OF PRECAUTIONARY BALANCES

**Context:** The Executive Board concluded the interim review of the adequacy of the Fund's precautionary balances (PB) in December. Staff's assessment indicated that credit risks remain elevated due to high exposure, loan concentration, and a sizeable share of emergency financing. Directors agreed not to make any changes to the indicative medium-term PB target (SDR 25 billion), the PB minimum floor (SDR 15 billion), and the pace of PB accumulation. At the same time, they called for close monitoring given the elevated uncertainty. Directors supported keeping the SCA-1 account open with a zero balance, noting, however, that the Fund would be more likely to record a provision if new arrears were to arise, and in this context, called for close engagement with the Board.

**NBC view:** The NBC underlined the importance of achieving the medium-term target of SDR 25 billion without delays to the current timeline and highlighted the central role of surcharge policies in achieving this. The NBC did not see a need for any changes in the current surcharges policy, or for a consideration of temporary relief from surcharges. The NBC strongly supported leaving the SCA-1 account open and saw merit in considering a more permanent role for the SCA-1 account as a buffer in the Fund's financial risk management framework.

**Further Reading:** IMF press release

## 6.2 IMF'S ENGAGEMENT IN CLIMATE ISSUES

**Context:** The Executive Board discussed the Fund's strategy on climate change in July. It was concluded that climate change is a global existential threat that poses critical macroeconomic and financial policy challenges for the whole Fund membership in the coming years and decades. Against this backdrop, it was agreed that the Fund has an important role to play, within its mandate, in supporting members' efforts to address climate change related challenges through its surveillance, when macro-critical, and through its capacity development activities. It was broadly supported that a more comprehensive coverage of climate change issues in Article IV consultations, including the coverage of mitigation issues would be strongly encouraged for the top 20 largest emitters. Directors agreed that the implications from both physical and transition risks to the financial system should be covered in Financial Sector Assessment Programs. It was underscored that reliable climate data are a critical foundation for macro-climate analysis and encouraged further work in this area.

**NBC view:** The NBC strongly supported the set of actions and tools outlined in the strategy to broaden and deepen the Fund's engagement on macro-critical climate-change related issues across its activities. The NBC supported the integration of adaptation, mitigation, and transition policies into Article IV consultations and underlying macroeconomic framework. The NBC welcomed the integration of countries' exposure to climate risk and policy options to manage such risks into the Fund's Debt Sustainability Analyses. The NBC emphasized that the Fund should enhance its climate expertise and develop a close collaboration with relevant stakeholders, and the World Bank to leverage the expertise of other institutions, while minimizing overlap and maximizing value for the membership.

**Further Reading:** IMF Strategy to Help Members Address Climate Change-Related Policy Challenges; IMF press release on the Board discussions

# ABOUT



## THE IMF's EXECUTIVE BOARD

The International Monetary Fund (IMF) has 190 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 24 Executive Directors. 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 the 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 2021, our staff included:

| | |
|---|---|
| Mika Pösö | Executive Director, Finland |
| Jon Sigurgeirsson | Alternate Executive Director, Iceland |
| Åsa Ekelund | Senior Advisor, Sweden |
| Klaus Lund Ruhlmann | Senior Advisor, Denmark |
| Bjørnar Slettvåg | Advisor, Norway |
| Raido Kraavik | Advisor, Estonia |
| Ieva Skrīvere | Advisor, Latvia |
| Inese Allika | Advisor, Latvia |
| Simonas Spurga | Advisor, Lithuania |
| Maria P. Marin | Executive Assistant |
| Tammy Timko | Executive Assistant |

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