The Office of the Nordic-Baltic
Constituency
INTERNATIONAL MONETARY FUND

Views and Positions on Policy Developments in the International Monetary Fund

July 2014

CONTENTS

This report is prepared by the Office of the Nordic-Baltic Constituency (NBC), representing Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden in the International Monetary Fund's Executive Board. The purpose is to present the positions taken by the Nordic-Baltic chair in the Executive Board and to update interested audiences on IMF issues. The report is not an exhaustive review of IMF's work, but aims at presenting the key discussions over the past six months through June 2014. The next report is scheduled for December 2014.

The IMF has 188 member countries. Each of them is represented by an Executive Director on the 24 member Executive Board. The IMF supports its membership by providing:

- policy advice to governments and central banks based on analysis of economic trends and cross-country experiences;
- research, statistics, forecasts, and analysis based on tracking of global, regional, and individual economies and markets;
- loans to help countries overcome economic difficulties;
- concessional loans to help fight poverty in developing countries; and
- technical assistance and training to help countries improve the management of their economies.

For additional information, we generally refer to the IMF's website, www.imf.org, which we have also benefited from while preparing this report.

July 28, 2014

I. INTRODUCTION

The post-crisis global recovery has been challenging and uneven. It involves a series of transitions that have to be carefully managed and require ambitious policy responses to move from stabilization to strong, sustainable and inclusive growth. Advice on managing these transitions constituted a large part of the IMF's evolving multilateral surveillance activities over the past six months through early July.

The IMF continued to provide bilateral assistance to its members including through assessments and policy advice provided in the Article IV and Financial Sector Assessment Program consultations. It also provided financial support under the various facilities developed for the diverse needs of the membership (please see Annex for more information).

As reflected in the contents of this report, significant efforts have also been devoted to learning from past experience and streamlining the IMF's policy frameworks, as well as continuing to explore and reflect on a multitude of cross-cutting policy issues. Work is also progressing in the important areas of the IMF's Access Limits and Surcharges Policy as well as Policy on Debt Limits in Fund-Supported Programs.

The Managing Director's Global Policy Agenda was endorsed by the International Monetary and Financial Committee (IMFC) during the 2014 Spring Meetings. The agenda includes further work to support the creation of a more dynamic and job-rich global economy. This will require a more active management of the recovery and reinforced policy cooperation to minimize negative spillovers and promote financial stability. In particular, further efforts will concentrate on managing the normalization of monetary policies to avoid adverse cross-border spillovers, on carefully calibrating macroeconomic policies and structural reforms to encourage sustained growth and support global rebalancing, as well as on assessing macroeconomic and financial stability implications of global financial regulatory reform to ensure smooth transition to financial stability. Prompt implementation of the 2010 quota and governance reforms, and completion of the 15th General Review of Quotas by January 2015 remain essential for the IMF's continued legitimacy, financial strength and effectiveness.

Our constituency supported these broad work directions in its IMFC statement and emphasized the role of structural reforms, long-term fiscal sustainability, and supportive monetary policy in the context of low inflation on the road towards sustained growth. It also encouraged further work on macroeconomic consequences of inequality and inclusion of equity considerations in surveillance and program-related activities.

II. SURVEILLANCE

To maintain stability and prevent crises in the international monetary system, the IMF reviews country policies and national, regional and global economic and financial developments. The IMF conducts surveillance and advises its 188[1] member countries,

[1] Please note that a letter from the Minister Assisting the President and Minister for Finance of the Republic of Nauru was received on April 15, 2014, applying for membership of the Republic of Nauru in the IMF.

encouraging policies that foster economic stability, reduce vulnerability to economic and financial crises, and raise living standards.

Over the last years, the IMF has been making special efforts to integrate more closely all dimensions of surveillance. On the global economy, the IMF's flagship reports are the World Economic Outlook, the Global Financial Stability Report and the Fiscal Monitor, all of which are published twice a year, while systemically important global links and interdependencies are explored in the annual Spillover Report and the Pilot External Sector Report. To bridge the gap between bilateral and multilateral surveillance, the IMF continues its pilot project on cluster Article IV consultations that look at logical groups of economies and consider policies in an integrated way. The Baltic Cluster Report is the latest product in this category. Based on the above mentioned sources we focus on multilateral surveillance outcomes and present the views expressed by the Nordic Baltic Constituency (NBC) to this end. The Fund's bilateral surveillance activities are well documented and can be accessed on the IMF's website.

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

CONTEXT. Global activity continues to strengthen and is expected to improve further as growth in advanced economies gradually gathers momentum. However, the recovery is still fragile and after a temporary but notable US GDP slowdown in the 1st quarter, the IMF has revised global growth outlook downwards for 2014. While risks to the near term outlook have diminished somewhat, they are still tilted to the downside and new risks have emerged. Lower-than-expected inflation poses challenges for advanced economies, while increased financial volatility and higher cost of capital reduce growth prospects for emerging markets. In addition, geopolitical tensions and risks have surfaced, particularly those related to developments in Ukraine and Russia, but also risks of an oil price spike increasing due to recent developments in the Middle East, adding further uncertainty to the growth outlook.

Market pressures have subsided and market conditions have returned close to the benign conditions before the Federal Reserve signaled its tapering in May 2013. However, the global financial system continues to undergo challenging transitions towards greater stability, and further progress is needed for a successful shift from liquidity-driven to growth-driven markets. This entails a number of challenges both in advanced economies and emerging markets.

Advanced economies' policymakers need to avoid a premature withdrawal of monetary accommodation. In particular, US monetary policy has to be properly calibrated to ensure a smooth exit from unconventional measures and avoid financial stability risks as the economy gathers steam. The Euro area has to make further progress towards transition from fragmentation to robust integration, while full implementation of all three arrows of Abenomics in Japan is indispensable to deliver sustained growth and stable inflation.

Tighter external financial conditions imply the need for rebalancing in emerging market economies amid higher corporate debt levels. Exchange rates have to respond to changing fundamentals to facilitate external adjustment and monetary policy has to address inflation concerns. High public debts call for further fiscal consolidation, and there is a need for continued structural reform efforts to ensure healthy growth.

NBC VIEW. The Nordic Baltic Constituency (NBC) welcomed the IMF's candid assessment of the global economy. While recognizing the improved balance of risks to short-term global growth, the NBC pointed to the high and growing public debt levels and emphasized that ample global liquidity and record low policy rates could encourage excessive risk-taking and misguided investments and thereby foster a build-up of new vulnerabilities. We also encouraged further attention to challenges posed by income inequality, emphasized that reducing high unemployment must be accorded a firm priority, and called for growth-promoting structural reforms to be implemented across the membership to sustainably raise growth potential. From a policy perspective this involved striking the right balance between macroeconomic and structural policies to support growth, both near and long-term.

Our constituency agreed that the eventual normalization of monetary policy as growth picked up in advanced economies would provide net benefits, yet stressed that the impact on the vulnerable economies could be larger than envisaged. Against this background macroeconomic imbalances had to be addressed where they existed, including through implementation of macroprudential actions to counter the build-up of financial imbalances and improving bank resolution frameworks, as well as proceeding with further fiscal consolidations where appropriate and establishing credible fiscal frameworks. Regarding regional risk profile, the NBC encouraged the Fund to include all relevant factors in its analysis of low inflation risks in the Euro area and noted that the assessment of risks in China might be too benign.

FURTHER READING: World Economic Outlook, Global Financial Stability Report, Fiscal Monitor, World Economic Outlook Update

BALTIC CLUSTER REPORT

CONTEXT. The report explored and documented the common features of the Baltic countries' economic models and addressed a number of shared policy challenges. While the Baltic economies have fared well over the last two decades outperforming most of their peers in terms of income convergence, the global financial crisis has exposed selected vulnerabilities that need to be addressed to sustain healthy economic performance. In particular, reviving lending to sustain economic growth in the future by spurring both the demand for and supply of bank credit, further efforts to support productivity growth and maintain strong performance of the export sector, as well as measures to alleviate high tax wedges on labor and to decrease skill and education mismatches to bring down high structural unemployment deserve further attention.

NBC VIEW. The Baltic authorities shared the assessment and welcomed its recommendations as a useful input for their policy agenda. They also saw that candid and interactive discussions clearly added value to the policy process in addressing these challenges. While recognizing the need for regional policy coordination, the authorities agreed that much of the work to address these challenges should take place at the national level, recognizing that among many commonalities there were also important differences among the three Baltic countries.

FURTHER READING: Baltic Cluster Report

SPILLOVER REPORT

CONTEXT. The report provides interesting insights into the interlinkages between countries. This year's spillover report is thematic, focusing on the cross border effects that stem from recovery and normalization of monetary policies and from slower growth in emerging markets. Monetary policy normalization, led by the U.S. and UK, will increase interest rates globally. The nature of spillovers depends on whether interest rate increases are driven by stronger growth in these countries or not. As an unexpected monetary tightening will have adverse spillovers globally, communication of monetary policy is highly complex and challenging. Slower growth in emerging markets affects global growth mostly via the trade and financial channels. The spillovers that originate from two different sources may interact with each other, creating a negative circle. Therefore, it is important that countries are prepared for stronger policy action at the national and global level. A novelty in this year's analysis is spillbacks, describing one part of the feedback loop that affects a country where the shock was originated.

NBC VIEW. NBC welcomed the report and highlighted the importance of spillover analysis in the global surveillance framework. We emphasized that high quality analysis of spillover channels raises the awareness of policy makers and provides an improved basis for determined policy action in both source and recipient countries to safeguard and mitigate risks. We underscored the importance of prudent macroeconomic policies, especially structural reforms that raise growth potential and strengthen public finances. We expressed concern about a prolonged low interest rate environment and the potential disconnect between markets' buoyancy and underlying economic developments.

FURTHER READING. Spillover report

III. IMF LENDING IN EUROPE

The euro area recovery is taking hold as strong policy actions have boosted confidence and supported a revival in domestic demand. Recently financial market sentiment has improved considerably and the ECB's Comprehensive Balance Sheet Assessment facilitates bank balance sheet repair. All these positive developments have helped the euro area program countries to progress further. The IMF has continued the joint effort with the European Commission and the European Central Bank in the euro area program countries, providing resources and offering policy advice. Ireland has completed the program; Portugal decided to allow the expiration of the program without completing the 12th and final review and without receiving the associated final tranche; and Cyprus and Greece successfully completed program reviews.

Romania and Poland of EU countries benefitted respectively from a stand-by arrangement and a flexible credit line. Outside the EU, in April the IMF Executive Board approved a new Stand-By Arrangement to Ukraine (SDR 10.976 billion) for a period of 24 months. Both Albania and Armenia have arrangements with the IMF under the Extended Fund Facility.

EURO AREA PROGRAM COUNTRIES

CYPRUS. Cyprus' program remains on track. The fiscal targets have been met in 2014 with a considerable margin. The credit sector has progressed with recapitalization and consolidation and banks are advancing with their restructuring plans. Steps have been taken toward implementing an ambitious structural reform agenda. To address the risks still surrounding the outlook, the authorities have to reduce the stock of non-performing loans, maintain public finances on a sustainable path, strengthen institutions, and take steps to reduce a very high level of unemployment. Continued full and timely policy implementation remains essential for the success of the program.

GREECE. The Greek authorities have progressed significantly with fiscal consolidation and rebalancing the economy. There are still challenges to complete the stabilization and return to a sustainable growth path. Additional fiscal adjustment is necessary to ensure debt sustainability. The Greek authorities still need to improve tax collection, combat tax evasion, strengthen expenditure control and accelerate public administration reforms. Export performance remains weak, prescribing further liberalization of product and service markets. Measures are necessary to remove regulatory barriers to competition in key sectors. The very high level of non-performing loans has to be addressed while maintaining adequate bank capitalization. The private debt resolution framework needs to be strengthened.

IRELAND. After steadfast policy implementation, Ireland successfully completed its EU-IMF supported program in December 2013. In June, the first Post-Program Monitoring was discussed by the IMF Board. Economic recovery is broadening in Ireland and the labor market strengthening. It is nevertheless important that the authorities continue steady fiscal adjustment and that the high level of non-performing loans is reduced. Further efforts are needed to address the high level of unemployment.

PORTUGAL. The Portuguese authorities decided in June 2014 to allow its EU-IMF supported program to expire without completing the final (12^{th}) review and without receiving the associated final tranche. The announced Constitutional Court ruling on the adopted budgetary measures created the fiscal gap and the authorities have decided to have a comprehensive response after the pending Constitutional Court rulings are known as well. At this stage, the government has to identify the measures needed to fill the fiscal gap created by the Constitutional Court rulings, in order to reach the budgetary targets agreed under the program.

OTHER EUROPEAN PROGRAM COUNTRIES

UKRAINE. The Ukrainian program aims to restore macroeconomic stability and strengthen economic governance and transparency, focusing on maintaining a flexible exchange rate, stabilizing the financial system and budget revenues, and embarking on the medium-term fiscal adjustment. There is a need to liberalize energy prices and reform the energy sector, while enhancing the social safety net. The authorities have to reduce corruption and improve the business climate to achieve sustainable growth. As the program faces unprecedented political and economic risks, an upfront implementation of a critical set of prior actions was agreed. In mid-July, the IMF announced a staff level agreement with Ukraine on the first review under the Stand-By Arrangement. This is expected to be discussed by the Executive Board in the near future.

IV. GLOBAL SAFETY NET

REVIEW OF THE FLEXIBLE CREDIT LINE, THE PRECAUTIONARY LIQUIDITY LINE AND THE RAPID FINANCING INSTRUMENT

CONTEXT. Following the onset of the Global Financial Crisis, the IMF embarked on strengthening its crisis prevention instruments for members with very strong or sound policy frameworks (Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL)). The Rapid Financing Instrument (RFI) was created in 2011 to make the IMF's financial support more flexible to countries facing an urgent balance of payments need.

The review undertaken in 2014 focused on four key issues: (i) the demand for these instruments; (ii) the qualification/conditionality framework for the FCL and the PLL; (iii) concerns about prolonged usage of FCL arrangements by the same members and consideration of ways to further improve the transparency in the discussion of access and exit from these arrangements.

While noting that the relatively modest use of precautionary arrangements reflects a continued preference for self-insurance and remaining perceptions of stigma associated with IMF financing in general, the IMF Executive Board agreed that the FCL, PLL, and RFI should remain in the IMF's lending toolkit. It welcomed efforts to enhance effectiveness, transparency, and attractiveness of these instruments while also preserving the revolving nature of the IMF's limited resources. To this end, aligning the areas for qualification assessments between the FCL and the PLL, developing selected indicators of institutional strength to complement existing quantitative indicators of qualification and introducing an indicator of external stress were seen as a useful innovation to strengthen these instruments.

NBC VIEW. The NBC supported the retention of precautionary instruments and welcomed modification of the facilities to increase transparency and ensure appropriate incentives for their use. In particular, it supported harmonization of the FCL and PLL qualification criteria as long as the qualification requirements for the FCL were not relaxed, the development of an external stress index and the use of new indicators of institutional strength as a complement to the existing ones. Our constituency also emphasized that these indexes must be used in combination with historical and other perspectives to arrive at a sound qualitative judgment.

The NBC also expressed its strong preference for a comprehensive review that would, among other, consider time based and steeper commitment fee structures to encourage timely exit from precautionary arrangements taking place within the next three years.

FURTHER READING: IMF Press Release No. 14/84, IMF Policy Paper

CONDITIONALITY IN EVOLVING MONETARY POLICY REGIMES

CONTEXT. The Fund often assesses the monetary policy stance in developing country programs by using the central bank balance sheet targets. However, the weakened relationship between reserve money and inflation questions this practice. This can be explained by progressing developing countries that adopt more flexible and forward-looking monetary policy frameworks in which a greater role is ascribed to policy rates and inflation objectives. Therefore, a new review-based conditionality was adopted as an option for countries with evolving monetary policy frameworks. Under this option a monetary policy consultation clause will be activated when money or inflation deviate from the target band. The countries that can benefit from this new option must have a good track record of monetary policy implementation, sufficient technical and institutional development or must be committed to strengthen the policy framework.

NBC VIEW. The NBC was supportive of this change, arguing that a more refined approach to monetary policy implementation should go hand in hand with modernized monetary policy and sound fiscal frameworks. We stressed the importance of central bank independence, strong internal governance of the central bank, efficient decision-making and transparent accountability and IMF technical assistance in achieving all this. Our constituency argued that assessing the soundness of the fiscal side is also important when the net domestic asset ceiling is removed.
FURTHER READING: IMF Policy Paper, Press Release No. 14/148

GLOBAL LIQUIDITY—ISSUES FOR SURVEILLANCE

CONTEXT. Following a G20 request, the Fund has extensively researched global liquidity (ease of funding in global financial markets). The IMF Executive Board was briefed on how global liquidity indicators can be integrated into the surveillance frameworks. The discussion touched upon the main drivers of global liquidity, its international transmission, and outcomes. It was acknowledged that the understanding of global liquidity and its impact is still limited. The Fund has already started with integrating the global liquidity indicators into the existing surveillance products as these indicators may have important cross-border policy implications.

NBC VIEW. The NBC supported this initiative and emphasized the importance of cooperation with the Bank for International Settlements (BIS). We also welcomed the work in integrating the liquidity indicators into the bilateral surveillance, stressing their importance in the monetary and exchange rate policy decision-making. Our constituency invited staff to explore in-depth the drivers of private liquidity creation and its links to the shadow banking sector. We also highlighted empirical evidence that the inclusion of global liquidity factors may improve forecasting performance of global and country macro variables.

FURTHER READING: IMF Policy Paper

V. CROSS-CUTTING POLICY ISSUES

THE FUND'S LENDING FRAMEWORK AND SOVEREIGN DEBT – PRELIMINARY CONSIDERATIONS

CONTEXT. The IMF's Exceptional Access Framework was established in 2002 and governs access for members seeking to borrow above the normal financing limits. It was designed to address concerns regarding continued IMF lending to countries with unsustainable public debt. The framework requires the Fund to deem the country's debt sustainable or unsustainable. In the latter case the country has to undergo debt restructuring (with a systemic exemption clause in cases where risk of contagion to other countries associated with a debt restructuring is high) to receive IMF financing. However, this can create unnecessary costs in borderline cases where debt restructuring might not have been necessary in hindsight.

In this context, the IMF Executive Board discussed an approach whereby the IMF would be able to provide exceptional access to a member on the basis of a debt reprofiling, which would entail a limited extension of debt maturities, without any reduction of principal or interest in such borderline cases (i.e., where the member has lost market access and debt is assessed to be sustainable but not with a high probability). The Board did not rule out that the systemic exemption clause, which was added to the framework during the recent financial crisis, could be removed, but emphasized the preliminary nature of the discussion and encouraged further work on a number of different aspects of this complex and multifaceted issue, involving further consultations with key stakeholders, including market participants.

NBC VIEW. The NBC welcomed the discussion of possible reforms to the IMF lending framework in the context of sovereign debt vulnerabilities and encouraged further work on these issues. We also welcomed the staff proposals aimed at finding ways to better involve the private sector in the overall framework. Our constituency emphasized the importance of market discipline and the need to establish appropriate incentives for both creditors and debtors to avoid excessive build-up of debt vulnerabilities in good times.
FURTHER READING: Press Release No. 14/ 294, IMF Report, Annexes

FISCAL POLICY AND INCOME EQUALITY

CONTEXT. The IMF has given high priority to advice on tax reforms and expenditure policies that support equity in income distribution. This is especially important against the background of increased income inequality in both advanced and developing economies. Income redistribution depends on policy priorities as policy choices affect incentives to work, save, and invest. Efficiency enhancing policy options suggest, among other things, for advanced countries to focus on means-tested benefits, raising retirement ages in pension systems and improving access to higher education. The list for developing countries includes, for example, consolidation of social assistance programs and improved targeting, promoting conditional cash transfer programs as administrative capacity improves and expanding noncontributory means-tested social pensions. The greater use of taxes on property and energy is also advisable. There is high demand for fiscal technical assistance across all country categories.

NBC VIEW. The NBC commended staff for the well-balanced and thorough work, including an extensive analytical overview of the distributional effects. Our constituency highlighted equality improving policy choices in the Nordic model, where a high level of transfers, equal access to education and health systems play important roles, being financed by less progressive but broad-based and efficient tax system. We also emphasized the importance of all stakeholders being aware of the distributional consequences of policy choices. This is particularly important in the present environment of fiscal consolidation in many countries. It also underscored that the way the labor market is organized affects equality.

FURTHER READING: Summary note, IMF Policy Paper

SPILLOVERS IN INTERNATIONAL CORPORATE TAXATION

CONTEXT. International tax issues have become important in the public debate, due to cross-border tax planning by multinational companies and high net wealth individuals. The IMF analysis complements the ongoing work in the OECD and G20 on base erosion and profit-shifting. The Fund argues that the effects of one country's corporate taxation rules and practices matter for macroeconomic performance of other countries. Spillovers are found to be especially significant for developing countries, suggesting that weaknesses in domestic law and international arrangements need to be addressed.

NBC VIEW. The NBC agreed that spillover effects from corporate tax regimes create collective inefficiencies, and noted the challenges of assessing the exact size and welfare implications of spillovers. Despite these challenges, a coordinated global approach is required to identify and address adverse spillovers. The Fund plays an important role in helping developing countries benefit from global initiatives, complementing the work in OECD and G20.

FURTHER READING: IMF Policy Paper, Press Release No. 14/303

REPORT ON DEVELOPMENTS IN THE AML/CFT PROGRAM, NEW ASSESSMENT METHODOLOGY AND IMPLICATIONS GOING FORWARD

CONTEXT. The IMF is an important contributor to international efforts to fight money laundering and terrorist financing (AML/CFT). AML/CFT assessments are incorporated into the Fund's Financial Sector Assessment Program (FSAP), an in-depth analysis of a country's financial sector. Furthermore, the IMF provides technical assistance on AML/CFT frameworks in many member countries.

The IMF Executive Board reviewed the Fund's AML/CFT strategy, welcoming recent revisions and improvements of the methodology used by the Financial Action Task Force (FATF) in its assessments. The Board discussed ways of ensuring the incorporation of timely and meaningful AML/CFT information into the FSAPs. The IMF Board preferred to continue converting all assessments into Reports on the Observance of Standards and Codes (ROSCs), underscoring that the FATF's strengthened controls will ensure that these reports meet the requisite quality standards.

NBC VIEW. The NBC supported the revised AML/CFT standard, particularly the proposal to extend the AML/CFT system to cover tax criminality and the greater emphasis on action against corruption. Our constituency endorsed the IMF's engagement to increase the focus and resource efficiency of AML/CFT assessments and appreciated the close cooperation between the FATF, the IMF and the World Bank in this area. The NBC supported the majority view to continue publishing all FATF/FSRB mutual assessments as ROSCs.

FURTHER READING: IMF's Press Release No. 14/167, IMF Policy Paper

SUSTAINING LONG-RUN GROWTH AND MACRO STABILITY IN LOW INCOME COUNTRIES: THE ROLE OF STRUCTURAL TRANSFORMATION AND DIVERSIFICATION

CONTEXT. The Fund published a paper analyzing the importance of diversification and transformation to boost long-term growth prospects in low-income countries (LICs). It found that diversification in exports and in domestic production has been conducive to faster economic growth in LICs. The study also found that there is still ample scope to upgrade the quality of LICs' existing export basket and/or introduce new higher value-added products, not only in manufacturing but also in agriculture. Therefore, development policies in LICs should include rather than abandon the agricultural sector.

The cross-country empirical evidence points to a range of general policy and reform measures that have proven effective in promoting diversification and structural transformation in LICs: improving infrastructure and trade networks, investing in human capital, encouraging financial deepening, and reducing barriers to entry for new products.

NBC VIEW. The NBC appreciates the Fund's extensive work on LICs. While our constituency agreed that country-specific factors have to be taken into account, it also emphasized that successful diversifications and structural transformations are often underpinned by general reforms and policy measures aimed at establishing sound institutional frameworks, good governance and fostering investment in infrastructure and human capital.

FURTHER READING: IMF Policy Paper

VI. IMF RESOURCES AND GOVERNANCE

IMPLEMENTATION OF THE 2010 REFORMS AND THE 15TH GENERAL REVIEW OF QUOTAS

CONTEXT. In 2010, the IMF membership agreed to wide-ranging governance reforms, shifting country representation at the IMF toward large, dynamic emerging market and developing countries. This also included a review of the current quota formula. This process is not yet completed as the U.S. Congress has not adopted a measure necessary for the U.S. to ratify the 2010 Quota and Governance Reforms. In April, the IMFC expressed disappointment about the continued delays, but reaffirmed the importance of the IMF as a quota based institution and expressed commitment to maintaining a strong and adequately resourced IMF. It was agreed that if the 2010 reforms are not ratified by the end of 2014, the IMF will be called on to build on the existing work and develop options for next steps.

NBC VIEW. Quota, voice and representation of all Fund members needs to continuously evolve with the changing dynamics in the global economy, as reflected by the quota formula. Therefore, NBC expressed regret that the 2010 Quota and Governance Reforms have not come into effect and we strongly urged the IMF members who have not done so to ratify them as soon as possible. The Nordic and Baltic countries remain committed to engaging in constructive discussions on the quota formula and the 15th General Review of Quotas as an integrated package and to arriving at a result which is acceptable to the broad membership.

VII. INDEPENDENT EVALUATION OFFICE REVIEWS

IEO REVIEW - RECURRING ISSUES FROM A DECADE OF EVALUATION: LESSONS FOR THE IMF

CONTEXT. The evaluation sought to help the IMF enhance its effectiveness by identifying major recurring issues from the Internal Evaluation Office's (IEO) first 20 evaluations and assess progress with addressing these issues. To this end, it aimed at strengthening the follow-up process. While the IMF Executive Board and Management have taken actions to address the identified issues, challenges still remain, some of which are inherent to a large multilateral institution with multiple objectives and a complex governance structure.

The IMF Executive Board welcomed the discussion and saw merit in increasing the Board's involvement in laying out strategic priorities and monitoring their implementation. It also acknowledged the progress in addressing organizational silos, but saw room for further progress in improving the coherence of different multilateral surveillance products, as well as enhancing the analysis of risks, transmission channels, and policy responses. The Board also considered that the perception of a lack of evenhandedness could be addressed through greater transparency and inclusiveness as well as through progress on governance reform. The majority of the Board also supported the recommendation to prepare a similar report on recurrent issues from IEO evaluations every five years and an additional high-level report on the status of initiatives that address the recurring issues identified by the IEO.

NBC VIEW. The NBC strongly supports the IEO and has consistently called for an active role of the IMF's Executive Board in monitoring the implementation of IEO recommendations. The NBC emphasized the importance of seeking to overcome the lingering perception that the Fund is not evenhanded which has been among the recurring themes. It also called for efforts to increase IMF staff familiarity with the role and recommendations of the IEO. Our constituency also called for the identification of recurring issues and the follow-up to be covered in a single IEO report which should include concrete recommendations on how to overcome these issues.

FURTHER READING: Press Release No. 14/316, IEO Report

IMF FORECASTS: PROCESS, QUALITY, AND COUNTRY PERSPECTIVES

CONTEXT. Given the central role of forecasts in macroeconomic analysis and policy decision making at both the country and global level, the forecast accuracy is crucial. The evaluation conducted by the IEO looked at many aspects of IMF forecasts, including the forecast processes and methods. The main findings confirmed that the World Economic Outlook Report growth forecasts over the period 1990-2011 were biased upwards while inflation forecasts were biased downwards. Another finding was that the short-term GDP and inflation forecasts were unbiased in the IMF-supported programs. However, in high profile program cases the forecasts tended to be optimistic. The evaluation came up with a number of proposals on how to enhance the forecasting process. The list included suggestions such as promoting a culture of learning and ensuring that best practices are followed. There was a request made to increase transparency of the forecasting process.

NBC VIEW. Our constituency welcomed the thorough and largely positive analysis and supported the IEO recommendations; it also shared the view that the implementation of the recommendations should be assessed. The NBC stressed, among other things, the challenges associated with staff rotation, in particular with respect to individual country surveillance, and suggested to enhance staff training and encouraged Management to give due attention to forecast biases in high profile IMF supported programs.

FURTHER READING: IEO report 'IMF Forecasts: Process, Quality, and Country Perspectives'

VIII. ANNEX

IMF Lending Arrangements as of June 12, 2014 (Data Source)

(In Thousands of SDRs)

General Resources Account (GRA)

Stand-By Arrangements (SBA)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Bosnia and Herzegovina	26-Sep-12	30-Jun-15	473	220	363
Jordan	3-Aug-12	2-Aug-15	1,364	512	853
Romania	27-Sep-13	26-Sep-15	1,751	1,751	2,975
St. Kitts and Nevis	27-Jul-11	26-Jul-14	53	5	47
Tunisia	7-Jun-13	6-Jun-15	1,146	573	573
Ukraine	30-Apr-14	29-Apr-16	10,976	8,918	3,980
		Total	**15,763**	**11,979**	**8,790**

Extended Arrangements (EFF)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Albania	28-Feb-14	27-Feb-17	295	272	29
Armenia	7-Mar-14	6-May-17	82	70	192
Cyprus	15-May-13	14-May-16	891	594	297
Greece	15-Mar-12	14-Mar-16	23,785	13,561	24,552
Jamaica	1-May-13	30-Apr-17	615	393	470
Pakistan	4-Sep-13	3-Sep-16	4,393	3,313	2,069
Portugal	20-May-11	30-Jun-14	23,742	800	22,942
Seychelles	4-Jun-14	3-Jun-17	11	10	29
		Total	**53,816**	**19,013**	**50,580**

Flexible Credit Line (FCL)					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Colombia	24-Jun-13	23-Jun-15	3,870	3,870	0
Mexico	30-Nov-12	29-Nov-14	47,292	47,292	0
Poland	18-Jan-13	17-Jan-15	22,000	22,000	0
		Total	**73,162,000**	**73,162,000**	**0**

Precautionary and Liquidity Line (PLL) 1/					
Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance	IMF Credit Outstanding Under GRA
Morocco	3-Aug-12	2-Aug-14	4,117,400	4,117,400	0
		Total	**4,117,400**	**4,117,400**	**0**

Poverty Reduction and Growth Trust (PRGT) Extended Credit Facility (ECF) 2/					
Member	**Date of Arrangement**	**Expiration**	**Total Amount Agreed**	**Undrawn Balance**	**IMF Credit Outstanding Under GRA**
Afghanistan	14-Nov-11	13-Nov-14	85	61	83
Bangladesh	11-Apr-12	10-Apr-15	640	183	526
Burkina Faso	27-Dec-13	26-Dec-16	27	25	139
Burundi	27-Jan-12	26-Jan-15	30	10	91
Cote d'Ivoire	4-Nov-11	31-Dec-14	390	81	610
Gambia, The	25-May-12	24-May-15	19	8	31
Guinea	24-Feb-12	23-Feb-15	129	55	74
Haiti	21-Jul-10	29-Aug-14	41	2	39
Kyrgyz Republic	20-Jun-11	31-Jul-14	67	10	127
Liberia	19-Nov-12	18-Nov-15	52	30	64
Malawi	23-Jul-12	22-Nov-15	104	52	134
Mali	18-Dec-13	17-Dec-16	30	24	89
Niger	16-Mar-12	31-Dec-15	79	34	70
Sao Tome and Principe	20-Jul-12	19-Jul-15	3	1	3
Sierra Leone	21-Oct-13	20-Oct-16	62	53	82
Solomon Islands	7-Dec-12	6-Dec-15	1	1	13
		Total	**1,758**	**629**	**2,176**

1/ Formerly Precautionary Credit Line (PCL).
2/ Formerly Poverty Reduction and Growth Facility (PRGF).

IX. STAFF OF THE OFFICE OF THE NORDIC BALTIC CONSTITUENCY

The Office of the Nordic Baltic Constituency presents the views of our member countries in the IMF's Executive Board in close coordination with our authorities in the eight capitals. The Office also regularly meets with representatives from the member countries' administrations or private delegations. All the positions in the office rotate between the eight member countries according to an agreed schedule and all countries are represented at all times.

By June 30, 2014, our staff includes:

Audun Groenn	Executive Director, Norway
Pernilla Meyersson	Alternate Executive Director, Sweden
Uldis Rutkaste	Senior Advisor, Latvia
Anne Brolev Marcussen	Advisor, Denmark
Martin Lindpere	Advisor, Estonia
Paavo Miettinen	Advisor, Finland
Ragnheidur Jonsdottir	Advisor, Iceland
Ramune Arust	Advisor, Lithuania
Maria P. Marin	Administrative Assistant
Anneli Nilsson	Administrative Assistant

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