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Office of the Nordic-Baltic Constituency

VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

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 a thorough review of IMF's work, but aims at presenting the key discussions over the past six months through December 2016. The next report is scheduled for July 2017.
The IMF has 189 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.

December 31, 2016

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Introduction

This report provides an overview of the main Executive Board discussions and other IMF related issues over the second half of 2016.

The global landscape started to shift in the second half of 2016 with developments indicating a somewhat greater growth momentum in a number of important economies. In its most recent update, the January 2017 World Economic Outlook, the IMF now forecasts that global growth will rise to 3.4 percent in 2017 and 3.6 percent in 2018, up from 3.1 percent in 2016. Growth in advanced economies is expected to increase to 1.9 percent in 2017, up from 1.6 percent in 2016, while growth in emerging markets and developing economies (EMDCs) is expected to reach 4.5 percent this year, up from 4.1 percent in 2016. Aggregate growth estimates and projections for 2017 – 18 for the world economy remain unchanged relative to the October 2016 World Economic Outlook.

At the October Annual Meetings the Managing Director, Christine Lagarde, described the situation by saying that; "*growth has been too low, for too long, and benefiting too few*". Hence, "*inequality remains too high in too many countries*". The risks associated with the social and political consequences of these developments have been high on the Fund's agenda these last six months. The risks to the Fund's latest economic outlook are skewed to the downside and include the uncertainty surrounding the policy stance of the new U.S. administration and the impact U.S. policies might have on the rest of the world. In addition, other noneconomic factors, such as increased geopolitical tension, civil war, domestic conflicts, acts of terrorism around the world, and the spread of the Zika virus continued to place a drag on confidence and the growth outlook.

The Fund's response has been to focus on the facts, and highlight that a retreat from globalization and multilateralism is a serious risk at a time when international cooperation and coordination is needed more than ever. At the same time, acknowledging that not enough has been done to address the concerns of those who have been adversely affected by globalization and technological advances, creating social tensions and political backlash. In its surveillance work, Fund advice continued to focus on *sustainable* and *inclusive* growth, emphasizing the importance of adequate social safety nets and equality of opportunity. The IMF has also emphasized macro-critical issues affecting the membership such as climate change, migration, gender equality, corruption and financial inclusion.

To ensure the IMF can serve the needs of its membership, the Fund's effort has been on securing the existing lending capacity and ensuring the adequacy of the lending toolkit. With the 15th Quota and Governance Reform delayed, the aim is to maintain the current level of resources through the renewal of the New Arrangements to Borrow (NAB) and the existing bilateral borrowing arrangements. The Fund is also working on the architecture of its lending facilities and aims to finalize this work by the second quarter of 2017.

1 SURVEILLANCE & ECONOMIC POLICY

1.1 Global Economic & Financial Developments

CONTEXT. According to the IMF's Flagship Reports (World Economic Outlook (WEO), Global Financial Stability Report (GFSR) and Fiscal Monitor (FM)) from October 2016, the forces shaping the global outlook point to subdued growth for 2016 and a gradual recovery thereafter. Global growth for 2016 was forecast at 3.1 percent, while growth was expected to pick up to 3.4 percent in 2017. Growth in advanced economies was marked down to 1.6 percent reflecting weaker-than-expected U.S. activity in the first half of the year and the materialization of the downside risk associated with the U.K. Brexit vote. Growth in emerging market and developing economies (EMDE) was expected to strengthen slightly to 4.2 in 2016 percent up from 4.0 percent in 2015. Growth in EMDE was expected to account for over three-quarters of global growth in 2016.

Going forward, advanced economies face productivity challenges, declining equilibrium interest rates, and changing demographics; whereas emerging markets need to address economic distortions, corporate leverage, and invest in human capital.

The **GFSR** concluded that while the short-term risks have abated, the medium-term financial stability risks have increased. There was also a focus on the structural challenges in the banking sector – debt overhang, overbanking, reduced profitability, and an increasing role of nonbanks. For life insurers and pension funds, the GFSR found that generating sufficient returns will become increasingly challenging.

The **FM** concentrated on the risk non-financial sector debt represents to the global economy. Non-financial debt is currently at an all-time-high level of 225 percent of world GDP. Given that the economic growth outlook remains modest, with downside risks dominating, the Fiscal Monitor highlighted that addressing the vicious cycle of low growth and prolonged debt overhang is vital.

The **Managing Director's Global Policy Agenda** (GPA) concluded that, despite signs of recovery and resilience in some economies, global growth continued to disappoint. The persistent underperformance had exposed complex underlying trends in many countries, including the difficulty for some groups to adjust to rapid changes in the global economy. In response to these challenges, the MD called on policymakers to act and use a balanced mix of all policy levers to revive demand and raise productivity, and ensure the gains from technology and globalization were shared more broadly. The MD emphasized that a retreat from globalization and multilateralism was a serious risk at a time when international cooperation and coordination is as critical as ever. In the medium term, uncertainty remained high and risks were rising as a result of new challenges. The Fund could assist by helping policymakers in their efforts by providing advice, developing capacity, and lending to countries in need, while continuing to advocate for multilateral solutions that work for all.

The GPA advocated the need for a three-pronged policy approach - the 3-C approach: Comprehensive, Consistent and Coordinated policies - to revive demand and raise productivity (see also Section 1.4). Where demand is still lacking, fiscal and monetary policy could support short-term growth while accelerating the positive impact of structural reforms on growth. In addition, with policy interest rates near or at their effective lower bounds in many countries, fiscal policy also has an especially vital role to play. Given the longer-term challenges to growth, it was also emphasized that implementation of structural reforms needs to be stepped up, in a sequenced and prioritized manner.

NBC VIEW. The Nordic Baltic Constituency (NBC) broadly agreed with the Fund's assessment of the global economy and financial developments. The NBC stressed that the subdued outlook and significant downside risks called for continued efforts in growth oriented policies. Low productivity growth underlined the importance of structural adjustments and reform in many countries, especially as fiscal space is limited and monetary policy is already very accommodative in the advanced economies. Whereas monetary policy in advanced countries should remain accommodative, fiscal support should be used responsibly and where conditions allow. In its IMFC statement, the NBC emphasized that trade-friendly policies aimed at reviving confidence and raising productivity are needed.

FURTHER READING: World Economic Outlook, Global Financial Stability Report, Fiscal Monitor, Managing Director's Global Policy Agenda, and IMFC statement of the NBC.

1.2 Bilateral & Multilateral Surveillance

CONTEXT. The IMF Executive Board concluded regular Article IV consultations and Financial System Stability Assessment's (FSAP) with both Finland and Sweden in November. Box 1 provides a summary of the findings.

Box 1 IMF Art. IV and FSAP for Finland and Sweden

Finland: The Art. IV showed that following a deep recession, growth had turned tepidly positive again. GDP increased by 0.2 percent in 2015, and the recovery was likely to continue with growth forecasted at 0.9 percent in 2016 and 1.1 percent in 2017. It was noted that the recovery would be slow and fragile and that the outlook was subject to downside risks. Policy recommendations focused on measures that support the recovery, boost potential growth, and contain economic and stability risks – including liberalizing retail trade and selected network sectors, and reallocating resources toward R&D spending, well-designed active labor market programs and productive public investments.

According to the FSAP, banks are well capitalized and profitable despite the weak economy and low credit demand. However, the banking system is also highly concentrated and dependent on wholesale funding. IMF recommendations were that financial sector policy frameworks should be further bolstered to prepare for future risks. Continued strengthening of bank supervision was highlighted including the need for increased resources allocated to supervision to reflect the growth in regulatory complexity and supervision intensity.

Sweden: The Art. IV consultation concluded that Sweden has enjoyed strong economic performance with real GDP growth headed for about 3.4 percent in 2016, a slight downturn from 4.1 percent growth the year before. Domestic demand is the main growth driver, boosted by the stimulatory monetary policy along with higher government spending related to migration in 2015–16. Growth was expected to moderate to a still solid 2.4 percent in 2017. To sustain this solid growth performance, the IMF recommended retuning inflation to target, containing the build-up of vulnerabilities from household debt, ensuring that the financial sector remains resilient, and accelerating the integration of refugees into the workforce.

The FSAP highlighted that the Swedish financial system is large and highly interconnected, and relative to the size of the domestic economy, the financial system is among Europe's largest. Banks are well capitalized and profitable, however since 2011 macrofinancial risks have grown. The rising share of highly indebted households was particularly emphasized as the macroeconomic impact could be sizable if house prices were to decline abruptly.

FURTHER READING: Finland Article IV Consultation, Finland: Financial System Stability Assessment, Sweden Article IV Consultation and Sweden: Financial System Stability Assessment.

1.3 The 3-C Approach to Economic Policy

CONTEXT. In September, the IMF staff paper on *Macroeconomic Management When Policy Space is Constrained: A Comprehensive, Consistent and Coordinated Approach to Economic Policy*, was published. It considers options for macroeconomic management when policy space is constrained in the face of a negative shock. It discredits the widespread concerns that little can be done by policymakers facing a cycle of low growth, low inflation, near zero interest rates, and high debt levels. IMF staff found that monetary policy has too often been the only game in town, and the low interest rates have not brought growth back to acceptable levels. So, monetary policy alone is not enough—fiscal and structural policies need to do much more. Staff found that a *comprehensive*, *consistent*, and *coordinated* approach (the 3-Cs) would allow policymakers to better align instruments and objectives, helping them deal with shocks, by tapping into the synergies of policies working together within a country, across countries, and over time.
Comprehensive policies are three-pronged: they deploy structural and fiscal policy in support of monetary policy; while monetary policy, in turn, maximizes the expansionary effects of structural reforms and active fiscal policy. Consistent and well-communicated policies harness the power of stabilizing expectations. Coordination among countries confers beneficial spillovers, making the whole greater than the sum of its parts. If widely adopted, this approach, based on the three policy prongs, can raise growth now. It could also defend against a negative global shock, limiting the resulting damage to fiscal positions, if carried out on a larger scale.

NBC VIEW. The NBC in principle agrees with the three-pronged, or 3-c, policy approach, but is of the view that it would be most appropriate as a response to an adverse scenario materializing, as opposed to a baseline development. While monetary policy continues to be very accommodative, the use of fiscal space should depend on cyclical conditions and country-specific circumstances. This needs to be coupled with structural reforms to strengthen confidence and improve economic prospects in the medium and long term.

FURTHER READING: Macroeconomic Management When Policy Space is Constrained: A Comprehensive, Consistent and Coordinated Approach to Economic Policy and Blog: The Whole Can Be Greater Than the Sum of its Parts

1.4 The Refugee Crisis

CONTEXT. IMF staff published a paper on *The Economic Impact of Conflicts and the Refugee Crisis* in September. In recent decades, the Middle East and North Africa region (MENA) has experienced more frequent and severe conflicts than in any other region of the world, exacting a devastating human toll. The region now faces unprecedented challenges, including the emergence of violent non-state actors, significant destruction, and the biggest refugee crisis since World War II. The paper raised awareness of the economic costs of conflicts on the countries directly involved and on their neighbors. It draws lessons from the Fund's work in assisting countries directly and indirectly affected by conflicts. Besides the humanitarian impact, staff highlighted a number of channels through which the macroeconomic impact is felt, including changes in productivity and the size of the labor force, damage to physical capital and infrastructure, weakening confidence and security, and a deterioration in social cohesion and institutional quality. It argued that appropriate macroeconomic policies could help mitigate the impact of conflicts in the short term, and that fostering higher and more inclusive growth could help address some of the root causes of conflicts over the long term. The paper also highlights the crucial role of external partners, including the IMF, in helping MENA countries tackle these challenges.

NBC VIEW. The NBC strongly encourage the Fund to continue integrating macro-critical aspects of, inter alia, migration into its research and surveillance activities. This will contribute to strengthen the Fund's analysis and support for countries managing spillovers from non-economic sources, such as large refugee flows.

FURTHER READING: The Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa and MDs Blog: The Calculus of Conflict in the Middle East.

1.5 Tax Policy, Leverage and Macroeconomic Stability

CONTEXT. In October the IMF published a policy paper on *Tax Policy, Leverage and Macroeconomic Stability*. The paper looks at how risks to macroeconomic stability posed by excessive private leverage are significantly amplified by tax distortions. 'Debt bias' - tax provisions favoring finance by debt rather than equity - has increased leverage in both the household and corporate sectors, and is now widely recognized as a significant macroeconomic concern. In regards to the corporate sector, it was highlighted that tax systems create incentives for excessive borrowing. While the corporate debt bias needs to be tackled as a whole, staff also found that debt bias is particularly harmful as regards the financial sector, posing a major financial stability concern. Policymakers were encouraged to carefully analyze different options to eliminate, or at least mitigate, corporate debt bias. The paper assessed potential tax policies that can be used to address corporate debt bias, including thin capitalization rules, allowance for corporate equity, and special taxation of the financial sector.

In regards to the household sector, the main issue is the tax deductibility of mortgage interest payments that provides incentives for household leverage and amplifies financial stability risks. This can be mitigated by gradually reforming generous tax deductions for mortgage interest payments. Staff recommends stable and neutral tax systems with respect to housing instead of trying to use taxes to steer house price developments. It was also highlighted that in the current low interest rate environment there is now a "window of opportunity" for authorities to phase out interest deductibility.

NBC VIEW. The NBC welcomes the ongoing staff work in this area and shares the concern that tax systems create incentives for excessive borrowing that poses a risk to financial stability. The challenge going forward is for the Fund to ensure that addressing debt bias becomes a prominent feature in national tax reform agendas so that stability risks are mitigated. In this regard, the NBC welcomes the fact that some of the policy options discussed in the staff paper have already found their way into the Fund's country reports and technical assistance.

FURTHER READING: Blog: Fixing the Great Distortion: How to Undo the Tax Bias Toward Debt Finance and Policy Paper: Tax Policy, Leverage and Macroeconomic Stability

1.6 Capital Flows – The Institutional View

CONTEXT: The Institutional View on the liberalization and management of capital flows provides the Fund with a basis for consistent advice on policies related to capital flows. In December, the IMF Executive Board discussed staff's review of countries' experiences with the Institutional View in the period since it was adopted in 2012. As opposed to the pre-2012 experience, the challenge more recently has been posed by capital outflows. Based on experience, the IMF identified a few areas in which the view would benefit from further clarification or elaboration. Follow-up work will, inter alia, focus on the interaction between macro-prudential and capital flow measures.

NBC VIEW: The NBC was a strong supporter of establishing the IMF's Institutional View on capital flow measures in 2012 and is pleased it has played a vital role in Fund surveillance since, and that countries' policy responses have generally been in line with the Institutional View. The NBC believes capital account liberalization should remain an important objective for countries as they develop institutionally and financially. While international movement of capital has many benefits, large and volatile capital flows can pose risks to macroeconomic and financial stability. Sound macroeconomic policies, coupled with robust micro- and macro prudential measures should remain the first line of defense. If capital flow management measures are used they should be transparent, targeted, temporary, and non-discriminatory as stated in the Institutional View.

FURTHER READING: Policy Paper: Capital Flows – Review of Experience with the Institutional View

2 LENDING

2.1 Lending Programs

CONTEXT. During the second half of 2016, the IMF remained deeply engaged in Greece despite the cancellation of the program agreed in 2012, continued to engage with Ukraine to complete the second review under the Extended Fund Facility (EFF), and entered into a new USD 12 billion three-year Extended Arrangement with Egypt. Box 2 provides an overview of these issues.

Box 2 IMF financial support to selected countries

At the Eurogroup meeting in May, the IMF management committed to work towards reaching a program agreement with **Greece** by end-2016. Fact finding missions were dispatched to Athens for further preparatory work, including the Article IV mission in September. The Fund's management also kept in close contact with the Greek authorities and European institutions. Nonetheless, negotiation progress has been slow and remaining differences in views prevented reaching an agreement on the IMF-supported program. The main areas of disagreements relate to differences in views on the primary surplus target and debt sustainability. The IMF is also concerned about the risk of policy reversals, lagging progress on structural reforms, and quality of fiscal adjustment. These concerns and the position of the Fund was well-articulated in the Article IV mission statement and the IMF blog.

On September 15, the Executive Board supported the Second Review of the economic program with **Ukraine**. The latest Article IV mission to Ukraine was in November, 2016. The mission concluded that the speed of reforms had slowed, including the pension reform, progress was weak and the pressure to do things had eased. In December, the National Bank of Ukraine declared Privatbank PJSC insolvent transferring the bank into 100 percent state ownership. The next review of the arrangement and Article IV is expected in Spring, 2017.

In November, the IMF approved a three-year $12 billion loan to **Egypt** in support of the country's economic reform program. The reform program will address longstanding challenges in the Egyptian economy. These include a balance of payments problem manifested in an overvalued exchange rate and foreign exchange shortages; large budget deficits and high and rising public debt; and low growth with high unemployment. The authorities have taken strong ownership of the program and showed considerable commitment by implementing the liberalization of the exchange rate regime upfront and devaluing the Egyptian pound. They also reduced energy subsidies and will introduce a VAT. To mitigate the impact of the reforms on the poor, the authorities will use part of the fiscal savings to strengthen the social safety nets.

FURTHER READING: IMF lending arrangements, Blog: the IMF is not asking Greece for More Austerity, Staff Concluding Statement of the 2016 Article IV Mission, Statement at the

Conclusion of the IMF Mission to Ukraine, Press Releases: Egypt 1 and Egypt 2 and IMF News Article: Egypt

3 IMF RESOURCES & GOVERNANCE

3.1 Quotas – Data Update and Simulations

CONTEXT. In September, the quota database was updated by one year through 2014. Overall, the results of the update continue the broad trends observed in previous updates. Using the current quota formula, the calculated quota shares of Emerging Market and Developing Countries as a group increased by 0.6 percentage points relative to the 2015 update to 49.3 percent. The staff paper also took stock of recent discussions on the quota formula, including the outcome of the Quota Formula Review in 2013 and subsequent discussions in the context of the annual quota data updates. It also updated the illustrative simulations of possible reforms of the quota formula, using the latest data. These simulations sought to capture possible reforms that would be broadly in line with the conclusions of the 2013 Quota Formula Review.

NBC VIEW. The NBC highlighted that the current quota formula –which was a carefully calibrated compromise– is delivering shifts that reflect members' evolving relative positions in the world economy. This is continuously confirmed by the yearly data updates that generated increasing quota shares for emerging market and developing countries as a group. The NBC believes the voluntary financial contributions should be recognized in the quota and governance discussions, and thus welcomed the new simulations including the impact of taking voluntary financial contributions into account. The NBC also noted that the illustrative simulations resulted in relatively large shifts from the broader IMF membership to the very largest members, in particular G20 members, and emphasized that solutions which disproportionately benefit a limited group of large member countries at the cost of many small members – developing, emerging and advanced countries alike – will not increase the credibility, legitimacy, and inclusiveness of the IMF.

FURTHER READING: Quotas - Data Update and Simulations

3.2 Progress on the 15th General Review of Quotas

CONTEXT. On September 30, 2016, the Executive Board adopted a report to the Board of Governors—the IMF's highest decision-making body—on Progress on the Fifteenth General Review of Quotas ("15th Review"). The report focused on progress since the first quarter of 2016 and noted that views on the quota formula had remained broadly unchanged since the Quota Formula Review of 2013. Executive Directors agreed to report further to the Board of Governors on how best to take the work forward. During the Annual Meetings in October an agreement on a new time table for completing the 15th Review was reached. The new deadline was set for the Spring Meetings of 2019, with a possibility to push it slightly further, but no later than the Annual Meetings of 2019. The agreement included an upfront commitment to tangible outcomes; (i) ensuring that the Fund has adequate resources to fulfill its role at the center of the global financial safety net, (ii) continuing the process of modernizing the Fund's governance structure to reflect members' relative positions in the world economy, based on a new quota formula that can command broad support; and (iii) protecting the voice and representation of the poorest members. The Executive Board adopted the report to the Board of Governors, setting out this new agreement, on November 2. The report also included a sequenced work program with clear goals to ensure completion of the 15th Review by the 2019 Spring Meetings was achieved. This work program promises that the Fund will accelerate the work on the architecture of the IMF's lending facilities and to complete this work by the second quarter of 2017. In the third quarter of 2017, the Executive Board should turn to discussions on the size of the Fund and the distribution of any quota increase, including a new quota formula. The goal is then to obtain guidance from the International Monetary and Financial Committee (IMFC) on key elements of the review in the second quarter of 2018. This guidance should focus the Executive Board's work on narrowing remaining differences in the rest of 2018 and early 2019. Over this period the Executive Board will provide semi-annual progress reports, with the first report due by the 2017 Annual Meetings.

NBC VIEW. The Nordic-Baltic authorities regretted that little progress had been made on the 15th Review and that the deadline for completion had to be extended again. However, the NBC recognized that, in light of the significant divergences of views on the key issues, more time was needed to reach a consensus. In discussions, the NBC has continuously emphasized; (i) that it remains committed to engaging constructively in discussions on the 15th Review and quota formula as an integrated package, (ii) that for reasons of legitimacy and ownership all discussions on quota and governance reforms must take place within the relevant IMF bodies where the entire membership is represented, and (iii) that voluntary financial contributions to the Fund must be recognized in upcoming quota reviews, preferably as part of the quota formula.

FURTHER READING: IMF Executive Board Reports to the Board of Governors on the Fifteenth General Review of Quotas and Fifteenth General Review of Quotas - Report of the Executive Board to the Board of Governors. Press Release No. 16/446 and No. 16/489

3.3 Borrowing Arrangements – NAB and Bilateral Loans

CONTEXT. The Fund's 2012 bilateral borrowing agreements where scheduled to start to expire in mid-October 2016. Thus, unless the Fund could renew access to new bilateral loans broadly at the same level of those in 2012, the Fund's lending capacity would have fallen rather sharply undermining the confidence that the Fund will continue to be able to meet the potential needs of its membership. Against this backdrop, the Executive Board on August 29 agreed on a new framework to maintain temporary access to bilateral borrowing, as well as a review of the Fund's borrowing guidelines. In doing so, the Board, while reiterating that the Fund is and must remain a quota-based institution, recognized that securing continued access to temporary bilateral borrowing under new 2016 borrowing agreements was the most practical near-term option to maintain the Fund's overall lending capacity amid elevated uncertainty and risks in the global economy. The first set of new bilateral borrowing agreements between the individual bilateral lenders and the Fund were signed in the margin of the Annual Meetings in October.

On November 4, the Board agreed on the proposed renewal of the New Arrangements to Borrow (NAB) until 2022 and modifications to the NAB decision. Although the NAB is currently deactivated following the doubling of quotas earlier in 2016, the NAB can be activated to provide backup resources if needed.

NBC VIEW. The Nordic-Baltic authorities reiterated their support for a strong, adequately resourced and quota-based IMF. They welcomed the proposed new governance framework for the potential new borrowing arrangements. The NBC also supported the proposed renewal of the NAB and modifications to the NAB decision and also emphasized that voluntary financial contributions should be recognized in the upcoming quota and governance discussions. Denmark, Finland, Norway, and Sweden participate in the NAB and all contributed as bilateral lenders under the 2012 bilateral borrowing agreements. Denmark renewed its bilateral loan agreement with the Fund in October 2016, while Finland, Norway and Sweden are in the process of renewing theirs subject to parliamentary approval.

FURTHER READING: IMF Members Commit US$340 billion in Bilateral Borrowing to Maintain the IMF's Lending Capacity, Guidelines of Borrowing by the Fund.

4 LOW INCOME AND DEVELOPING COUNTRIES

4.1 Poverty Reduction and Growth Trust – Review of Interest Rate Structure

CONTEXT. On October 3, 2016, the Executive Board approved a modification of the mechanism governing interest rate setting of PRGT facilities maintaining zero interest rates on all Fund concessional loans under the PRGT for the next two years through end-December 2018. Under the modified mechanism, rates will continue to be set at zero for as long as and whenever global interest rates are low. This provides continued support to LICs amidst the current challenging global environment. The modification introduces an additional threshold for the SDR reference rate and sets the interest rates on the Standby Credit Facility (SCF) and the Extended Credit Facility (ECF) to zero if the SDR reference rate is lower than or equal to 0.75 percent. The Executive Board also decided to waive interest rate charges on outstanding balances under the Exogenous Shocks Facility until the next review of the interest rate mechanism in 2018.

NBC VIEW. The NBC agreed that the global economic outlook had not improved and that downside risks remained for LICs, hence there was a strong case to maintain zero interest rates on the Fund's concessional lending for the next two years.

FURTHER READING. PRGT—Review of Interest Rate Structure and Press Release No.16/448

4.2 PRGT Borrowing Agreements with Denmark, Norway and Sweden

CONTEXT. In 2015, the demand for PRGT resources increased strongly and reached SDR 1.5 billion, largely in response to shocks to commodity prices and adverse global financial market conditions. Demand remained elevated in 2016, as the global environment continued to be challenging. In response, the Managing Director launched a campaign in November 2015 with a target of SDR 11 billion in new bilateral loan resources to the PRGT. Denmark, Norway and Sweden signed borrowing agreements in November together providing SDR 1.1 billion in new loan resources for the PRGT benefitting the IMF's low-income member countries.

NBC VIEW: NBC's continued support to the PRGT loan resources is a critical element towards sustaining the Fund's concessional lending operations to the IMF's low-income member countries over the medium term.

FURTHER READING. Press Releases: Denmark, Norway and Sweden. PRGT loan agreement and Update on the Mobilization of Loan Resources for PRGT.

4.3 Financing for Development: Financial Safety Net for Developing Countries

CONTEXT. On November 16, the IMF Executive Board provided further guidance to enhance the financial safety net (FSN) for developing countries. A new staff paper "Financing for Development: Enhancing the Financial Safety Net for Developing Countries – Further Considerations" provided clarification on a number of issues in regards to the access of developing countries to financial support from the IMF. The issues included: a) access of Poverty Reduction and Growth Trust (PRGT)-eligible members to Fund instruments; b) the role of access norms in providing indicative guidance on what could constitute the appropriate level of access; c) the adequacy of PRGT-eligible members' access to precautionary financial support; and d) the adequacy of safeguards to prevent repeated use of the Rapid Credit Facility (RCF) as a substitute for arrangements with ex post conditionality. A comprehensive review of PRGT resources and facilities is planned for 2018.

NBC VIEW. The NBC believes it is important to emphasize that the Fund's concessional financing facilities constitute a fundamental part of the Financial Safety Net for low-income countries, and that PRGT supported financing accounts for more than a half of the Fund's arrangements. The NBC also believes it is important to maintain the adequacy and flexibility of the PRGT lending toolkit and ensure the safeguarding mechanisms for retaining the self-sustaining capacity of the PRGT are preserved.

FURTHER READING: Financing for Development: Enhancing the Financial Safety Net for Developing Countries – Further Considerations.

4.4 Small States' Resilience to Natural Disasters and Climate Change: Role for the IMF

CONTEXT. On December 1, the Executive Board discussed the "Small States' Resilience to Natural Disasters and Climate Change—Role for the Fund" staff paper, which explores how the Fund's macroeconomic policy advice, capacity building support, lending facilities and instruments can help meet the evolving needs of small states facing risks from natural disasters and climate change. The paper also discusses small states' use of Fund's financing both in general terms, and in the immediate aftermath of natural disasters. On the latter, it is proposed to increase annual access limits under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) for all countries affected by severe natural disasters. Formal proposals for reform of the RCF and RFI will be submitted for the Board's consideration soon. The Fund will also conduct assessments of climate change policies for selected small states on a pilot basis, in collaboration with the World Bank.

NBC VIEW. The NBC shared the Fund's assessment that small developing states are disproportionately subjected to, and vulnerable to, natural disasters, and that the economic challenges faced by small states are likely to rise as a result of more frequent and more damaging natural disasters. Hence, the NBC supported that the IMF works towards greater integration of policies for managing natural disasters and climate change into the Fund's analysis and lending toolkit. NBC also supported an increase of the access limits under the RCF and RFI for countries impacted by severe disasters.

FURTHER READING: Press Release and Policy Paper: Small States' Resilience to Natural Disasters and Climate Change—Role for the Fund" and Blog: Small States Confront Big Challenges with Natural Disasters and Climate Change.

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.
As of December 2016, our staff includes:

Thomas Östros	Executive Director, Sweden
Kimmo Virolainen	Alternate Executive Director, Finland
Thomas Pihl Gade	Senior Advisor, Denmark
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