July 2016

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 an exhaustive review of IMF's work, but aims at presenting the key discussions over the past six months through June 2016. The next report is scheduled for December 2016.

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.

July xx, 2016

# Contents

# Introduction

The global economy is undergoing multiple transitions that pose domestic policy challenges and raise the bar for managing spillovers in an interconnected world. The forecasts for the global economy have been revised downwards and the outlook is surrounded by uncertainty and heightened downside risks. The outcome of the UK referendum implied the realization of a significant downside risk, surprising global financial markets and policy makers. While financial markets have absorbed the shock relatively well, the associated uncertainty about the future of the UK's relations with the EU will have a negative effect on economic performance.

During the Spring Meetings, the IMF called for reinforced commitments to strong and sustainable growth and a coordinated response to global challenges. Its internal work agenda has been oriented to support these efforts by clarifying the contours of available policy space and by aiming for more tailored financial support and capacity development. It has launched several work streams that focus on the assessment of fiscal space and unconventional monetary policies.

Further efforts have been made to strengthen the international monetary system as the Executive Board had discussed issues such as developing the global financial safety net, and continued work on sovereign debt. Following the implementation of the 2010 quota and governance reforms, which doubled the Fund's permanent resources and realigned quotas, reflecting members' positions in the world economy, the Executive Board also took a decision on lending access and surcharges. The Fund continued to support the membership by providing financial assistance, including through precautionary instruments. This report provides an overview of the main Executive Board discussions and other IMF related issues over the first half of 2016.

# 1 INTERNATIONAL MONETARY SYSTEM

## 1.1 International Monetary System: A Stocktaking

**CONTEXT.** In February 2016, the Executive Board discussed the challenges faced by the International Monetary System (IMS), sought to forge a common understanding of shortcomings and challenges facing the IMS, and to lay the basis for discussing a possible roadmap for further work on reform areas. Major structural shifts continue to transform the global economy with implications for the functioning of the IMS. Financial interconnectedness has become more pronounced, with financial cycles growing in amplitude and duration, capital flows becoming more volatile, and non-banks gaining importance. These factors have altered the nature of systemic risk. The added legacy of slow post-crisis global growth along with China's rebalancing and the end of the commodity super-cycle, present further challenges to the IMS, underlining the need to strengthen it. With the overarching goal of the IMS to provide a framework that sustains economic growth, the slowdown of emerging and developing countries' convergence to advanced economies' income levels raises the question of how the IMS could better support this process.

IMF staff finds that possible reforms should focus on mechanisms for crisis prevention and adjustment, rules and institutions for enhanced global cooperation on issues affecting global stability, and building a more coherent global financial safety net (GFSN).

**NBC VIEW.** The Nordic Baltic Constituency's (NBC) view is that the main priority for the Fund's work should be to prevent through rigorous and risk-oriented bilateral and multilateral surveillance systemic events from occurring and spreading. Strong and robust domestic policies, including macro-prudential measures, should constitute countries' first line of defense. However, as policy action can have negative spillover effects on other countries, communication and international cooperation also need to be enhanced. The NBC believes that further analysis of the effects of longer and larger global financial cycles is warranted.

**FURTHER READING:** Strengthening the IMS - A Stocktaking

## 1.2 Global Financial Safety Net

**CONTEXT.** The Global Financial Safety Net (GFSN) has undergone significant reforms, but gaps remain in the architecture, according to a study by IMF staff. Staff finds that, although the GFSN is larger, it has become more uneven in coverage, remains too costly, is unproven for several co-existing financing arrangements, and fails to provide appropriate incentives for sound policies. There are also shortcomings for most country groups, for whom coordinating between the different elements of the GFSN - reserves, central bank bilateral swap arrangements, regional financing arrangements, Fund resources and market based instruments - remains a challenge. Many weaknesses of existing safety nets were revealed during the global financial crisis. Moving forward entails building further on a new multilateral consensus for reform. Initial reforms could aim to strengthen the Fund and its cooperation with the different layers of the GFSN. As the part of the Fund's financial resources which are pledged on a bilateral basis – the so called bilateral borrowing arrangements – start to expire towards the end of the year, the Fund's management made a plea for the membership to continue ensuring a well-resourced IMF.

**NBC VIEW.** The NBC view is that the strength of the GFSN is understated in staff's analysis given that resources have increased significantly in recent years. In an increasingly interconnected world, a strong and inclusive GFSN is a necessity. However, the most effective insurance against crises is to pursue sound macroeconomic and financial policies, and structural reforms. The Fund's surveillance and policy advice plays a central role in this regard and a strong conditionality framework gives countries an incentive to implement sound policies. The NBC believes that the Fund has a central role to play in the GFSN, with its global membership mandate, competence and financial resources. On financial resources, the medium-term global outlook remains uncertain which warrants continued access to borrowed resources to cover tail-events. The Fund should continue to work towards improving coordination between actors and help fill potential gaps in the GFSN. Going forward, lessons from the use of Fund's precautionary instruments must feed into discussions on possible reforms of the Fund's lending toolkit.

**FURTHER READING**: Staff paper on The Adequacy of the Global Financial Safety Net

## 1.3 SDR Allocation

**CONTEXT.** In accordance with the Fund's Articles of Agreement the Fund's decisions on the general allocations or cancellations of SDRs take place in the context of consecutive basic periods of five years, normally. This June the Board discussed the case for a general allocation of SDRs during the Eleventh Basic Period (2017-21). Analysis from IMF staff indicates that structural factors could amplify the demand for reserves in the next basic period as global financial cycles have become more synchronized, increasing countries' exposures to common shocks. The demand for reserves is also likely to be influenced by unusually high levels of uncertainty and risks arising from a number of ongoing economic transitions. Staff finds that a general SDR allocation could potentially strengthen the IMS. However, there are also important architectural shortcomings that have limited the usability of the SDR. A forthcoming Board paper will look into the evolution of the SDR and its potential future role in addressing the IMS's vulnerabilities. IMF staff therefore finds it premature to present a possible proposal for an SDR allocation at this point, given the pending work on the role of the SDR.

**NBC VIEW.** The NBC agrees with the Board members' general assessment that it is premature to consider an SDR allocation at this stage, and is overall skeptical about the need for and effectiveness of a new general allocation. Given the increasing complexity of the world economy, the long-term global need for reserves is difficult to assess and additional analysis is necessary to complement mechanical estimations. While the NBC recognizes that the very substantial allocation in 2009 had a positive signaling effect, the concerns on effectiveness remain. Overall, the NBC supports a broad approach when considering the need for and use of SDRs.

**FURTHER READING:** General Allocation of SDRs During the Eleventh Basic Period**,** Factsheet -- Special Drawing Rights (SDRs)

## 1.4 Quotas

**CONTEXT.** In January, the Executive Board approved the entry into force of the Board Reform Amendment, allowing the quota increases under the Fourteenth General Review of Quotas to become effective. Implementation had been delayed, awaiting U.S. ratification of the reforms from 2010. The impact of the implementation of the 2010 reforms is significant, doubling the permanent resources of the Fund and better aligning the Fund's governance to reflect the changing positions of IMF members in the world economy. The Board also approved a report to the Board of Governors on the Fifteenth General Review of Quotas, setting a deadline for completion by the Annual Meetings in 2017. This deadline aims to provide sufficient time for discussions on the size of the Fund as well as the distribution of any quota increase and the quota formula.

**NBC VIEW.** The NBC welcomed the long awaited implementation of the Fourteenth Review and supported the report and proposed resolution. The NBC remains committed to engaging constructively in discussions on the Fifteenth Review and quota formula as an integrated package. The NBC's view is that discussions should be firmly anchored in the relevant IMF bodies where the entire membership is represented.

**FURTHER READING:** IMF press release

# 2 LENDING

## 2.1 Lending Limits & Surcharges

**CONTEXT.** A number of Fund lending policies have thresholds set as a percentage of members' quotas. These include limits on members' normal access to Fund resources in the General Resources Account (GRA), and thresholds for surcharges on high levels of outstanding Fund credit, and on commitment fees. With quotas doubling on average, as a result of the implementation of the 14th Review, and no policy change, quota-based limits and thresholds would also have doubled in SDR terms. This would have eroded critical elements of the Fund's risk management framework. Access to Fund resources in the GRA would have doubled without triggering safeguards under the exceptional access framework. It would also have doubled the outstanding SDR amounts on which surcharges do not apply, reducing the incentives for timely repayments.

To reflect these considerations and ensure that no member's access to GRA resources declined in SDR terms, the Executive Board decided to adjust annual and cumulative access limits to 145 and 435 percent of new quota (from 200 and 600 percent), respectively, resulting in an average increase of 45 percent in SDR terms. The threshold for level-based surcharges was lowered from 300 percent of quota to 187.5 percent, and thresholds for commitment fees were also lowered. Finally, an adjustment was made in the quota-based thresholds below which a member may be placed on an extended Article IV consultation and the Post Program Monitoring cycle.

To ensure no member is made worse off by the changes, the Executive Board approved a limited grandfathering period for affected members.

**NBC VIEW.** The NBC agreed that an adjustment to access limits and surcharges was necessary to re-establish the right balance between the availability of Fund assistance and the critical elements of the Fund's risk management framework. The NBC supported the proposed decisions, however would have preferred lower surcharge threshold that would have allowed for faster accumulation of the Fund's precautionary balances and strengthened the incentives for early repayment of the Fund's support. The NBC also noted that the flatter commitment fee structure, as proposed by Fund staff, might lower the incentives to exit from precautionary arrangements.

**FURTHER READING:** Review of Access Limits and Surcharge Policies

## 2.2 Lending Framework & Sovereign Debt

**CONTEXT.** In January, the Executive Board approved reforms to the IMF's exceptional access lending framework, which governs access above the Fund's normal financing limits. The aim of the new framework is to be more calibrated to members' debt situations, while avoiding unnecessary costs for the members, creditors, and the financial system as a whole. The approved reforms include the elimination of the "systemic exemption clause" introduced in 2010, increased flexibility for members where debt is assessed to be sustainable but not with high probability, and a clarification to the criterion related to market access. IMF staff consulted with numerous stakeholders, including market participants, in the course of its work on the reforms that are part of the broader work program to efficiently resolve sovereign debt crises.

The exceptional access policy was introduced in 2002 to provide large-scale financing for countries facing capital account crises. A number of conditions had to be met and the public debt had to be considered sustainable with high probability. In 2010, in connection with the handling of the crisis in Greece, the framework was reformed to allow for large-scale financing even if debt was not considered to be sustainable with high probability, if there was a high risk of systemic international spillovers. However, according to the analysis from IMF staff, experience has showed that the so-called "systemic exemption clause" fails to address the underlying concerns about debt vulnerabilities, and encourages moral hazard and ex-ante over-borrowing.

**NBC VIEW.** The NBC supported the proposals package, noting that these changes will enhance clarity and increase safeguards for Fund resources, while reducing moral hazard and fostering market discipline. A debt re-profiling may be less disruptive and cause less contagion than a comprehensive debt restructuring. The NBC supported the elimination of the systemic exemption clause on the grounds of moral hazard and creditors' subordination problem that risks undermining the broad acceptance of the Fund's preferred creditor status. The NBC underscored the importance of evenhanded treatment of all creditors in cases of debt restructurings or re-profilings, though recognizing the existing differences between creditors.

**FURTHER READING:** IMF survey: IMF Reforms Policy for Exceptional Access Lending

## 2.3 Lending Programs

**CONTEXT.** During the first 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), approved new increased precautionary arrangements with Mexico and Colombia, and carried out the post-program monitoring for

Portugal. The program with Cyprus was canceled at the authorities' request. Box 1 provides an overview of these issues.

**NBC VIEW.** The NBC closely followed the developments in the euro area countries that have outstanding credit to the Fund or are in the process of negotiating a new arrangement. The NBC supported Mexico's and Colombia's requests for an FCL arrangement on grounds of strong economic fundamentals in these countries and the stated need for an external insurance against shocks, though noted concerns that the increased access to Fund resources makes temporary support more entrenched.

**FURTHER READING:** IMF lending arrangements

**Box. 1. IMF financial support to selected countries**

In March, **Cyprus** submitted a request to cancel the EFF arrangement that was scheduled to expire in two months. In her statement, the IMF Managing Director congratulated the Cypriot authorities for their accomplishments under the adjustment program that delivered an impressive turnaround of the economy, noting that the banking system was on a more solid footing, the fiscal position had been restored to a sustainable path, and the authorities regained access to international capital markets.

Given its large credit exposure, the IMF continued its post-program monitoring (PPM) for **Portugal**. The latest PPM report emphasized fiscal deterioration, noting the missed 2015 fiscal deficit target and insufficiently ambitious budgetary plans for 2016. The report called for continuous efforts to improve profitability and bank balance sheets. It also noted disappointment about the reversal of structural measures introduced under the Fund-supported program.

The 2012 IMF program for Greece was cancelled at the request of Greek authorities in the beginning of the year. However, the Fund continued its close engagement with **Greece** and its European partners, working towards an agreement on a package of policies and debt measures that would allow recommending the Fund's Executive Board to consider further financial support for Greece. It provided its preliminary debt sustainability analysis (DSA) ahead of the Eurogroup meeting on May 24, where after intense discussions such an agreement had been reached. As stated in the Eurogroup statement and further explained in the IMF press briefing, management now intends to recommend to the Executive Board to approve a financial arrangement for Greece before the end of 2016, conditional on an updated DSA analysis. The IMF agreed that the possible debt relief will be delivered at the end of the program in mid-2018.

On February 10, the IMF's Managing Director issued a public statement noting concerns about **Ukraine**'s slow progress on governance and anti-corruption issues. The Fund has reengaged with the Ukrainian authorities after the approval of the new government, working towards the completion of the second review under the EFF. In May, the Fund noted the considerable progress in restoring macroeconomic stability, and called for the steadfast implementation of further structural and institutional reforms. The reform priorities include strengthening the anti-corruption framework, improving management of State Owned Enterprises (SOEs), financial sector and public finance reforms.

In January, the Executive Board approved the Polish authorities' request to lower access under the FCL precautionary credit line to $16.59 billion. During May-July, the IMF approved Flexible Credit Line arrangements with **Mexico** (US$88 billion.) and **Colombia** (US$11.5 billion). These credit lines should provide additional insurance against possible shocks, however they are not expected to be drawn upon.

# 3 SURVEILLANCE & ECONOMIC POLICY

## 3.1 Global Economic & Financial Developments

**CONTEXT**. In the flagship reports on global economic and financial stability (World Economic Outlook, Global Financial Stability Report, and Fiscal Monitor), the IMF noted that the global recovery has weakened amid increasing financial turbulence, falling asset and commodity prices, and a noticeable slowdown in trade. Under the baseline scenario, global growth was projected at a modest 3.2 percent in 2016, with a strengthened recovery expected in 2017 and beyond. Nonetheless, the likelihood of downside risks has increased considerably. Some of these risks, for example the outcome of the UK referendum, have materialized since the reports were issued in April.

The IMF's economic forecasts were updated shortly after the UK referendum. Before the referendum, the global economy was geared towards a stronger growth and upward forecasts revision, with the exception of Sub Saharan Africa, where growth has been constrained by negative developments in key regional economies, such as Nigeria and South Africa. Following the UK referendum, the global forecasts have been revised downwards, noting heightened uncertainty. The negative effect mostly concentrated on the UK and the EU.

Growth prospects in advanced economies are clouded by unfavorable demographics, low productivity growth, somewhat tighter financial conditions, and remaining legacies from the global financial crisis. In emerging market and developing economies, prospects remain uneven and generally weaker, particularly for some large emerging markets and many oil-exporters.

In its risk assessment, the IMF noted the risk of stagnation with persistent negative output gaps and very low inflation in advanced economies. Stress in emerging markets could increase if capital flows abruptly decline, exchange rates further depreciate, or growth slows sharper than expected in China. A protracted period of low oil prices could further destabilize oil exporters and the spillovers from non-economic shocks could be considerable. Weaker economic conditions increased risks to financial stability, leading to financial tightening, reduced risk appetite, higher credit risks, and hampered balance sheet repair.

The Managing Director's Global Policy Agenda concluded that global growth has been too low for too long and at this rate may not deliver the expected higher living standards, lower unemployment, and declining debt. It called for reinforced commitments to durable global growth and a more potent policy mix, recommending a three-pronged approach with mutually reinforcing monetary, fiscal, and structural actions.

Monetary policy should remain accommodative where output gaps are negative and inflation is too low, though where possible other policies should play a larger role in supporting demand. While countries with precarious fiscal positions should focus on strengthening public balances, those with fiscal space were encouraged to implement expansionary fiscal policy to support global demand. Structural reforms were seen as having the potential to support near-term growth and the medium-term potential output.

The Fund has emphasized the need to avoid undue access constraints to financial services, called for further steps to facilitate the repair of private sector balance sheets, and underscored the importance of completing the EU Banking Union and the global regulatory agenda.

**NBC VIEW**. The NBC shared the IMF's assessment of global prospects and risks, agreeing that a more balanced policy mix is necessary. The NBC welcomed the emphasis on structural reforms. Fiscal policy can play a larger role in supporting the recovery where fiscal space is available and cyclical conditions warrant a more expansionary stance, though the NBC cautioned against too general a message. Many countries still face fiscal sustainability challenges and should remain focused on improving sustainability. Responding to the IMF's call for increased infrastructure spending, the NBC emphasized that the investment returns should be sufficient not to further depress public finances. The NBC supported the increased focus on the need to address the issue of high level of NPLs in many European banks. Sharing the IMF's view on the growing importance of the insurance sector, the NBC agreed that supervisors and regulators should take a more macroprudential approach to the insurance sector.

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

## 3.2 Bilateral & Regional Surveillance

**CONTEXT.** During the reporting period, the IMF Executive Board concluded regular Article IV consultations with most of the Nordic-Baltic countries, concluded regional consultations with the euro area, and considered the analysis of Brexit related risks in the 2016 Article IV report on the UK. These discussions are summarized in Box 2.

**NBC VIEW.** The Nordic-Baltic authorities highly appreciate the IMF's analysis and policy recommendations for our respective economies. The Fund's analysis is always focused on topical issues, is of high quality, and receives good traction with the home authorities. The authorities welcome increased focus on macro-financial linkages and spillovers. The NBC broadly agreed with the Fund's analysis on the euro area and the UK and took note of the early assessment of the economic implications of the UK referendum that are comparable to the assessment by the EU institutions.

**FURTHER READING:** Euro Area Policies, UK selected issues report, IMF country information

**Box. 2. Bilateral and regional surveillance**

**Nordic Baltic region:** In its assessment on **Lithuania**, the Fund called on the authorities to preserve the gains achieved during the multi-year fiscal consolidation, rebuild the policy buffers, improve spending quality and tax administration, address weaknesses in the credit union sector, and press ahead with structural reforms. Also underscored was the need to boost productivity and reduce income inequality.

Structural reforms and the need to enhance productivity were also emphasized in its assessment on **Latvia**, among the key areas for further reforms noting the SOE sector, business environment, and legal system. Vigilance will be needed to adhere to fiscal targets and rules, while additional fiscal space will be needed over the medium-term to boost productive public spending and to improve adequacy of social safety nets. The authorities were encouraged to address the legal and structural constraints hampering lending to SMEs and households, as well as further align the AML framework with international standards.

On **Iceland,** the Fund welcomed the country's progress in tackling legacies from the crisis. However, it noted that further efforts are needed to address remaining challenges, in particular, the authorities should stand ready to further tighten monetary policy, cautiously dismantle capital controls, further develop the supervisory framework, and reform the wage setting framework.

The Fund assessed that the economic policies in **Norway** should aim to mitigate the downturn caused by the lower oil prices, while facilitating the transition to a less oil-dependent growth model. The expansionary fiscal stance and an accommodative monetary policy were found to be appropriate, whereas macroprudential and structural measures were recommended for dealing with increased vulnerabilities in the housing sector.

The Fund viewed the planned fiscal tightening as appropriate in **Denmark**. It recommended to consider further macro-prudential initiatives and abolishing the housing tax freeze, in order to promote a stable development of the housing market. The Fund noted the stubbornly low productivity growth and assessed potential productivity gains from reducing product market regulation, particularly in the retail and network sectors.

Regular Article IV consultations with **Sweden**, **Finland** and **Estonia** are planned to be concluded later this year. For Sweden and Finland, a Financial Sector Assessment Program (FSAP) will also be concluded in the second half of the year.

**Brexit:** The IMF analysis confirmed that leaving the EU would result in a material hit to UK incomes in the short-to-medium term. In the long-run, the net economic effects would also likely be negative and substantial. The estimates are surrounded by uncertainty, though under the analyzed scenarios the negative effect falls in the range of 1½-5½ percent of GDP, with significant risk of spillovers to the rest of the EU.

**Euro Area:** The IMF report on the Euro Area policies noted strengthened recovery supported by the lower oil prices, a broadly neutral fiscal stance, and accommodative monetary policy. However, inflation expectations remain very low and the euro area GDP growth is expected to decelerate from 1.6 percent this year to 1.4 percent in 2017, mainly due to the negative impact of the UK referendum. The analysis noted increased downside risks that are mostly political, calling for comprehensive and more balanced policies taken collectively.

## 3.3 Financial Sector Issues

**CONTEXT.** In addition to the regular semiannual discussion on the latest developments on regulatory reforms, data gaps and de-risking were two areas of focus in the first half of the year.

The so-called "data gaps initiative" deals with missing information that is essential in implementing global regulatory reforms to protect against problems in financial institutions that could spill across borders and affect the stability of the international financial system. Although G20 economies have been the focus of the data gaps initiative, given the broad benefits, all IMF member economies are indirectly affected. The post-crisis effort to identify and address missing information about the global economy heads into its second phase after the first one ended in September 2015. The initiative covers information in the areas of soundness of the financial system, shadow banking, global systemically important banks and securities and derivative markets. At the IMF, the initiative facilitated the introduction of a new tier of enhanced data dissemination standard for economies that are key players in international capital markets and whose institutions are interrelated.

De-risking, a set of actions on the part of banks to effectively avoid business and reputational risks altogether, and its impact on correspondent banking in particular became a new area of focus. A number of emerging and developing economies have recently been reporting a reduction in correspondent banking services by global banks. This pressure has also been associated with restricted access to financial services, resulting in some member countries turning to the Fund for policy advice with concerns that this phenomenon could disrupt financial services and undermine financial stability, inclusion, growth and development goals. While the withdrawal of correspondent banking relationships (CBR) has reached a critical level in some affected countries, which can have a systemic impact if unaddressed, macroeconomic consequences have not been identified so far at a global level. Coordinated efforts by the public and private sectors are called for to mitigate the risk of financial exclusion and the potential negative impact on financial stability. Home authorities of global banks should communicate their regulatory expectations and affected countries should continue to strengthen their regulatory and supervisory frameworks to meet relevant international standards, with the help of technical assistance where needed.

**NBC VIEW.** In discussions on regulatory reforms, the NBC emphasized the importance of finalizing the review of banks' internal models, revisions to the treatment of sovereign risk in the risk-weighted capital framework, and finalizing the work on higher loss-absorbency and effective resolution regimes and plans. On de-risking, the NBC highlighted the role played by uncertainty and inconsistency of regulatory expectations, and underlined the importance of global cooperation to clarify regulatory expectations.

**FURTHER READING**: Finance & Development: "To Plug the Gaps", The Withdrawal of Correspondent Banking Relationships : A Case for Policy Action

## 3.4 Evenhandedness of Surveillance

**CONTEXT.** Evenhanded treatment of member countries is essential to the Fund's credibility and legitimacy, as well as the traction of its policy analysis and advice. In February, the Executive Board agreed to move forward with a framework to help ensure the evenhandedness of Fund surveillance. The framework responds to recommendations from the 2014 Triennial Surveillance Review and it articulates principles of what it means to be evenhanded and establishes a mechanism for reporting and assessing specific concerns about lack of evenhandedness in surveillance. The principles of the framework can support a deeper dialogue through which issues of evenhandedness can be identified at an early stage and discussed more candidly in the surveillance process. The mechanism is intended to serve as a backstop to assess remaining concerns and identify lessons to promote better processes.

**NBC VIEW.** The NBC finds it essential for the Fund to address the long-standing perceptions of lack of evenhanded treatment within the membership. Principles on how to assess evenhandedness in conjunction with a reporting mechanism would constitute a good base for advancing work on this important issue. The NBC believes that continuous work is needed to prevent complaints about evenhandedness in the first place, such as enhancing the Fund's guidance on engaging the authorities in preparations ahead of Article IV and FSAP missions.

**FURTHER READING:** Evenhandedness of Fund Surveillance

## 3.5 Migration

**CONTEXT.** Migration has become a pressing economic issue and the Fund has communicated its aim of welcoming dialogue as the first step in setting up a framework for assessing the impact of migration, as well as designing relevant policies for involved countries. The Managing Director's latest Global Policy Agenda names migration as one of the emerging issues requiring strengthened policy advice. The Fund will examine the impact of migration on growth, labor markets and fiscal positions in both recipient and sender countries. The IMF also published a staff discussion note which focus on the economic aspects of the surge in asylum seekers in the European Union (EU). In the short term, the macroeconomic effect is likely to be a modest increase in GDP growth, reflecting the fiscal expansion associated with support to the asylum seekers and the expansion in labor supply. The medium and long-term growth impact depends on how the refugees are integrated in the labor market. While legitimate concerns among native workers over lower wages and higher unemployment can rise, past experience indicates that such effects are limited and temporary. Rapid labor market integration is also key to reducing the net fiscal cost associated with the inflow of asylum seekers and successful integration will also counter some of the adverse fiscal effects of population aging.

**NBC VIEW.** The NBC welcomes the broadened surveillance covering emerging issues, such as migration, and believes that the Fund has much to contribute while staying within its mandate. The NBC finds that the Fund can draw on cross-country experiences, incorporate this in surveillance and provide policy advice to specific countries.

**FURTHER READING:** The Refugee Surge in Europe

## 3.6 Low Income and Developing Countries

**CONTEXT.** The slowdown in the world economy and lower commodity prices has hit low-income and developing countries hard. Weaker growth in China, a significant direct investor in many low income and developing countries, has also contributed to the slowdown. The weaker external environment and tighter financing conditions are exacerbated by longer-term trends in climate change, demography and technology. To ensure sustainable growth going forward, low-income and developing countries could seek to diversify their economies, promote inclusion and close infrastructure gaps by tapping both domestic resources and foreign funding.

The Fund continues to support low income countries through its surveillance and capacity development activities, as well as financial support. In March, the Executive Board approved a new 24-month Stand-By Arrangement and a 24-month Standby Credit Facility for Kenya, which the authorities treat as precautionary and have no intention to draw on unless exogenous shocks lead to an actual balance of payments need.

**NBC VIEW.** The NBC supported the request for the new 24-month SBA for Kenya encouraging the authorities to fully utilize the opportunity provided by Fund support to put in place stronger buffers and increase resilience to external volatility, enabling an exit from SBA and SCF arrangements.

**FURTHER READING:** Developments in LIDCs IMF Lending

# 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 July 2016, our staff includes:

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| Tove Katrine Sand | Advisor, Norway |
| Maria P. Marin | Administrative Assistant |
| Tammy Timko | Administrative Assistant |

International Monetary Fund. Tel.: 1 202 623 7000

Office of the Nordic-Baltic Constituency. Tel.: 1 202 623 4570, Fax: 1 202 623 5385