



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fifth Meeting April 21, 2022

Statement No. 45-4

Statement by Mr. Wammen Denmark

On behalf of
Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia,
Republic of Lithuania, Norway, and Sweden

**Statement by Mr. Nicolai Wammen, Minister for Finance, Denmark
On behalf of Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia,
Republic of Lithuania, Norway, and Sweden**

The Nordic-Baltic countries stand in solidarity with Ukraine and its people

1. The Nordic-Baltic countries condemn in the strongest terms possible Russia's unprovoked aggression against Ukraine. The attack is a gross violation of international law and the UN Charter. It inflicts unspeakable suffering on the Ukrainian people and undermines not only European but also global security, stability and prosperity. *The Nordic-Baltic countries stand firmly by Ukraine and its people as they face an unparalleled and brutal crisis that costs human lives and forces millions to flee their homes.* We are committed to continue delivering financial and humanitarian assistance to Ukraine. We work in close cooperation with international partners to implement strong, far-reaching and effective sanctions with severe impacts on Russia and its accomplice Belarus as part of broader efforts of further isolation.
2. Russia's war in Ukraine risks causing global fragmentation with consequences to longer-term economic stability and prosperity. This moment calls for even stronger multilateral cooperation and strengthened international institutions to fight against these adverse consequences. *We commend the IMF for its swift action to provide emergency financing to Ukraine* and to support the Ukrainian authorities in implementing effective crisis mitigation measures. Also going forward strong collective action from European and international institutions will be essential in assisting Ukraine and countries destabilized by the spillovers of the war.

The global economic recovery is facing severe headwinds from the war in Ukraine, while ending the pandemic and fighting climate change remain key priorities

3. *The war in Ukraine has cast a dark shadow on the global economic recovery and causing exceptionally high uncertainty about the global outlook.* The economic impacts from the shock will be felt across countries through high uncertainty, rising inflationary pressures, trade and supply disruptions as well as tighter financial conditions. The uneven global recovery, differing levels of policy space, and limited resilience to withstand the geopolitical shock adds to the global policy challenge. We are concerned about the impact of higher food and energy prices on low-income households and countries.
4. *Managing the pandemic globally remains vital for the economic recovery.* While still more people are being vaccinated and societies are adapting to an endemic phase of Covid-19, uncertainty continues to be high and universal vaccination remains a global priority. It is therefore crucial to support the ACT-A collaboration and its COVAX facility to ensure global distribution of vaccines and other Covid-19 tools. We need to learn lessons from the pandemic to better prevent, prepare and respond to future health threats and promote global health.
5. *We must remain focused on accelerating the global green transition to net zero.* Tackling climate change is, and should be, the defining issue of our time. The social and economic consequences of climate change as well as its detrimental effects on the planet and its biodiversity are being felt already. The current high energy prices and energy security concerns underscore the need to further amplify our efforts to speed up the transition away from fossil fuels. Global and domestic ambitions must be raised, and action accelerated to achieve net-zero CO₂ emissions and a significant reduction in other greenhouse gas emissions by 2050. Carbon pricing is the most cost-effective measure to curb CO₂ emissions. Agreeing on internationally coordinated carbon pricing would provide an efficient and transparent instrument to achieve decarbonization and address the challenges arising from carbon leakage and competitiveness

concerns. We stress that a transition to a green economy will require a broad range of measures targeted to accelerating investment and innovation in green energy, infrastructure and technologies. These in turn will unlock the opportunities for new jobs and economic growth.

Policymakers will need to carefully navigate the environment of high inflation while supporting growth and implementing structural reforms

6. Agility is needed in responding to the multiple challenges facing our economies. *Central banks need to be very attentive to inflationary pressures* to ensure that inflation expectations remain anchored and conditions remain supportive for economic growth and financial stability. Clear and timely communication is imperative to limit potential volatility and spillovers. *Sound fiscal policy and credible medium-term fiscal frameworks are essential for macroeconomic stability and for ensuring debt sustainability.* Fiscal policy should be carefully calibrated to the stage of economic recovery and available policy space. Where needed, support should be targeted the most vulnerable groups. Fiscal buffers should be rebuilt, as economic conditions permit.
7. *A well-functioning financial system is key for economic stability and for achieving strong and resilient growth over the long-term.* Risks stemming from the repercussions of the war and existing vulnerabilities such as high debt levels, elevated asset prices and potential capital flow volatility, need to be monitored closely, especially given the global monetary policy tightening cycle. Macroprudential tools should be used proactively to mitigate systemic risks. Vigilance is also needed on cyber resilience and the potential risks related to crypto-assets.
8. *Structural reforms should focus on facilitating the green and digital transformation and boosting productivity, innovation and investments.* The functioning of labour markets should be improved to increase job opportunities, facilitate job-to-job transitions and increase participation levels especially for women. We further stress the importance of addressing inequality through fostering inclusive education and economic opportunities.
9. *Multilateral cooperation and focus on trade openness are essential to ensure a broad-based global recovery.* It is paramount to reform the WTO, avoid protectionism and barriers on trade, and ensure an effective rules-based international trade system is equipped to tackle unfair trade practices and promote modernization of international trade rules.

IMF surveillance should help the membership manage the uncertain recovery and address debt related challenges

10. *The risk-based approach to IMF surveillance will help the Fund support its members* in preparing for potential shocks, while moving ahead with the economic recovery, policy normalization and addressing evolving longer-term challenges. While strong economic fundamentals, policy frameworks and institutions should remain the first line of defense against volatile capital flows, we acknowledge the potential benefit of capital flow measures under certain conditions, as expressed in the recently approved review of the IMF's Institutional View on Capital Flows. We support the IMF's strengthened focus on macro financial surveillance.
11. *The new Climate Strategy will allow the Fund to step up support of members in their path toward the green transition and to contribute to the global climate policy debate.* Analytical capacities should be bolstered by developing economic models and analysis to identify best-practice policies together with improving the availability of comparable climate data. We look

forward to the roll out of the strategy to Article IVs, including through increased analysis on the mitigation progress of the largest emitters.

12. *Rising interest rates and risks to the global recovery may exacerbate debt vulnerabilities, especially in highly indebted, fragile and low-income countries.* A comprehensive approach to bolster growth, fiscal sustainability, debt management and transparency should remain a key priority for IMF engagement. IMF policies should support effective, right-sized and timely debt restructurings and encourage debtor-creditor engagement, when necessary. International efforts are needed to strengthen the Paris Club and G20 Common Framework (CF) for debt treatments, drawing lessons from its first cases to ensure effectiveness and comparability of treatment. We also appreciate the initiatives to improve the implementation of the CF including clearer timeframes and the possibility to request a debt standstill. We look forward to the completion of the review of the Fund's arrears policies and perimeter.

IMF lending should increasingly focus on UCT quality medium-term programs

13. *The IMFs focus should continue to shift from emergency lending towards medium-term programs with upper-credit-tranche (UCT) conditionality* designed to restore economic sustainability and catalyze access to financing. Strong follow-up on implementation of emergency lending governance safeguards should be ensured in the transition. We highlight the importance of securing sufficient subsidy resources to the Poverty Reduction and Growth Trust (PRGT) based on broad-burden sharing to accommodate the expected increases in lending to low-income countries and restore the sustainability of the PRGT. Countries in our constituency have already pledged loan and subsidy resources to the PRGT, and more countries are currently considering how to contribute. We also underscore the need for a strong emphasis on governance challenges and anti-corruption efforts as part of the IMF's new strategy for Fragile and Conflict-Affected States (FCS) and look forward to improved Fund engagement in FCS.
14. We support the voluntary channeling of SDRs or hard currencies through sustainably scaling up the PRGT and through the establishment of the Resilience and Sustainability Trust (RST). The RST is appropriately focused on longer-term structural issues to reduce risks of prospective balance of payment pressures while providing financing with longer repayment schedules, reflecting the longer-term benefits of the attached structural reforms. *We support directing RST financing to support critical climate policies* and call for close, systematic cooperation with the World Bank and other multilateral development banks to benefit from its expertise and comparative advantages. We highlight the importance of strong monitoring of borrowing countries' debt sustainability and capacity to repay the Fund, including after the end of the concurrent UCT program.

The Nordic-Baltic countries support a strong, quota-based and adequately resourced IMF at the center of the global financial safety net

15. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th Quota Review within the agreed timetable. We see the current size of the IMF resource envelope as adequate in the short and medium term. We are willing to support a quota increase in the 16th Quota Review that will both reinforce the primary role of quotas in IMF resources and address underrepresentation. Such a quota increase rests on a fair, rules-based, and transparent distribution of quotas. The current formula is working well, reflects a careful balance of different objectives and delivers on the aim of realigning quota shares.