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Statement by Mr. Jónsson
Iceland

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

Statement by Governor Ásgeir Jónsson on behalf of Iceland, Denmark, Republic of Estonia, Finland, Republic of Latvia, Republic of Lithuania, Norway and Sweden

We are deeply concerned by the persistent uncertainty, wars, conflicts and fragmentation in the world that place growing pressure on the global economy and the multilateral system.

The Nordic and Baltic countries continue to condemn, in the strongest possible terms, Russia's continued war of aggression against Ukraine, which constitutes a gross violation of international law. We reaffirm our unwavering support for Ukraine's independence, sovereignty and territorial integrity. We call on Russia to, immediately and unconditionally, withdraw all its military forces from the territory of Ukraine within its internationally recognized borders. We will continue providing Ukraine with all the necessary political, military, humanitarian, and economic support for as long as it takes, including to advance reforms on its path to EU membership. We encourage others to do the same.

Russia's war against Ukraine and other destabilising actions continue to threaten Euro-Atlantic and global security, increase geoeconomic fragmentation, and negatively affect the macroeconomic outlook. These challenges would be alleviated by Russia ending its war.

We also underline the severe humanitarian and economic consequences of ongoing war and conflict in the Middle East, including the inflationary impulse from higher commodity prices. We call on all parties to protect civilians, exercise restraint and underscore the importance of a negotiated long-term resolution to all outstanding issues, in line with international law, including the principles of the United Nations Charter and universal human rights.

The Nordic and Baltic countries remain steadfast in their commitment to international collaboration and coordination on global economic and financial issues, grounded in shared principles, agreed rules and strong institutions, with the IMF at the core. To fulfil its mandate, it is essential that the Fund remains a trusted provider of impartial analysis and policy advice.

Elevated uncertainty and vulnerabilities call for prudent policies and multilateral cooperation

1. While global growth has shown resilience, the outlook remains clouded by considerable uncertainty. Persistent inflationary pressures, rising interest rates, historically high public debt and geopolitical tensions continue to pose considerable risk to price stability, financial stability and economic growth. Russia's continued war of aggression against Ukraine as well as war and conflict in the Middle East further intensify inflationary pressures and impediments to global growth, through disruptions in supply chains and their effects on commodity prices. At a time of growing fragmentation, rules-based international cooperation is crucial for small, open economies and essential for all to address shared challenges and support global economic and financial stability.

2. Elevated public debt, higher borrowing costs and rising spending pressures from defense, climate-related challenges and demographic trends compound fiscal pressures and underscore the growing

urgency of rebuilding fiscal buffers and placing public debt on a sustainable medium-term path. Higher interest rates pose a challenge for fiscal policy and financial stability, while persistent inflationary pressures complicate the conduct of monetary policy. This increases the importance of a strong macroeconomic framework and well-calibrated monetary, fiscal and macroprudential policies. Persistent and excessive external imbalances warrant renewed policy attention in an increasingly fragmented global economy, particularly as imbalances have widened alongside increasing trade restrictions. Tariffs and other restrictive trade measures do not provide a solution to external imbalances. The IMF has a vital role in supporting rebalancing in both surplus and deficit countries and reducing harmful spillovers.

3. Vulnerabilities in the financial sector, including the risk of an artificial intelligence (AI) driven market correction, growing non-bank financial institutions (NBFIs) leverage, and rapidly developing cyber risks, should be promptly addressed. Strong macroeconomic policies, effective regulations and sound institutions are the first line of defence against emerging risks. We call for the full, timely and consistent implementation of all internationally agreed financial sector reforms and standards, including Basel III. Regulatory modernization in the financial field should lead to simplification, and not de-regulation. Vigilance is needed to guard against any weakening of financial regulation and standards. The growing number of cybersecurity threats requires new approaches and more effective collaboration to strengthen resilience and protect critical systems, data, and services needed by governments, businesses and individuals.

Structural transformations create both challenges and opportunities and underscore the need for effective structural reforms

4. The global economy is undergoing profound structural transformations. Climate change, technological advances, including AI and financial innovation, demographic shifts, and a more fragmented geopolitical environment are reshaping the global economy. While some of these transformations have the potential to create new opportunities for growth and enhanced productivity, others could pose significant challenges for labor markets, public finances, economic growth and financial stability. We recognize the potential risks associated with frontier AI technologies and emphasize the role of appropriate safeguards, sound governance and international cooperation for AI to reach its full potential and ensure that benefits are broadly shared. These developments and challenges also underscore the importance of multilateral cooperation and commitment to sound policies that foster macroeconomic and financial stability and sustainable long-term growth.

5. The Fund plays a critical role in helping members navigate structural change by providing independent, trusted and even-handed assessments and credible policy advice tailored to country circumstances. Ambitious structural reforms should be pursued to boost productivity, strengthen competition, increase labor supply and resilience, while strengthening economies' capacity to adapt to structural transformations. Robust institutions, including independent central banks, sound fiscal

governance, rule-of-law, strong anti-corruption frameworks, and accountability, are essential to anchor expectations, preserve trust and strengthen the credibility of policy choices.

Safeguarding a strong, effective and legitimate IMF

6. The Nordic and Baltic countries are committed to supporting the IMF as a strong, multilateral and trusted institution at the center of the Global Financial Safety Net (GFSN) and global economic cooperation. We will continue to work constructively to strengthen the Fund and support reforms that ensure that it remains adequately resourced with a fit-for-purpose toolbox and effective in delivering independent surveillance, candid policy advise, capacity building and lending based on strong conditionality. This would enable it to effectively promote financial stability and sound monetary and economic policies across all IMF members.

7. We welcome the recent policy framework reviews including the Comprehensive Surveillance Review, the Financial Sector Assessment Program Review and the Review of Program Design and Conditionality, which together help the Fund to continue delivering on its mandate. Under a real flat budget, the Fund must sharpen its focus, strengthen synergies and better integrate work across surveillance, lending and capacity development, without weakening the quality, candor or traction of its advice. This is particularly important in an environment of heightened uncertainty, where members increasingly rely on the Fund for trusted policy advice, timely financing, and credible pathways to stability and growth. The focus should be on implementing agreed reforms, supported by Board engagement and oversight. Effective implementation should support more focused and even-handed country engagement, robust programs and realistic debt assessments, while ensuring that surveillance continues to address current and emerging macro-critical risks, including those related to climate change.

8. The Nordic Baltic countries remain committed to a strong, quota-based, and adequately resourced IMF. We look forward to the prompt completion of the 16th General Review of Quotas, which is a crucial step towards strengthening the quota-based nature of the Fund. We stand ready to engage constructively in discussions on quota and governance reforms, including in the 17th General Review of Quotas. The NBC believes that the current formula remains a balanced and carefully negotiated compromise that captures members' relative positions in the global economy. A governance structure that improves representativeness, reflects the evolving global economy and commands broad support across the membership, is central to the Funds credibility and legitimacy. Any realignment of quota shares must be characterized by fair and broad burden sharing. Higher quota shares should, as a matter of principle, come hand in hand with commensurate responsibilities. Finally, efforts to improve gender diversity in the IMF leadership and on the Executive Board should continue.