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Statement by the Hon. **VITAS VASILIAUSKAS**,
Governor of the Fund for the **REPUBLIC OF LITHUANIA**
on Behalf of the IMF Nordic-Baltic Constituency

Statement by the Hon. Vitas Vasiliauskas,
Governor of the Fund for the Republic of Lithuania

I am honored to make this statement on behalf of the Nordic-Baltic IMF Constituency, consisting of Denmark, Estonia, Finland, Iceland, Latvia, Norway, Sweden, and Lithuania.

In order to maintain strong growth, it is crucial to commit to structural reforms, apply well-designed macroprudential policies and strengthen multilateral cooperation.

Global economic growth has gained momentum; however, we face challenges in reaching a sustainably high economic growth. In order to maintain this momentum, we need to address low productivity growth, inequality in terms of opportunities, as well as income and gender, rising indebtedness, and demographic headwinds. Such challenges require policy makers to think in the frame of an appropriate mix of structural reforms, fiscal policy, well-designed macroprudential policies, and monetary policy.

It is important to stay focused and committed to the implementation of structural reforms; otherwise structural issues will continue to dampen growth prospects. Technological change and fast-paced digitalization are altering economic fundamentals. Policy makers will have to foster the positive implications of this change, while at the same time searching for solutions that help mitigate the negative effects. Fiscal policy, often together with structural policies, will have to accommodate systemic changes, for labor markets in particular. Technological improvements – despite the many benefits – have the potential to disrupt labor markets and change the sectoral composition of economies. In order to address such challenges, we need to facilitate mobility and the efficient transfer of labor resources between sectors and regions.

It is widely acknowledged that the prolonged low interest rate environment – partly a legacy of the global financial crisis – has created risks to financial stability. Well-designed macroprudential policies – when needed also with the collaboration between countries – may prevent the build-up of financial vulnerabilities and imbalances, while at the same time enhancing the resilience of economic growth. Therefore, we welcome the Fund's contribution to the global development of macroprudential policies and invite further research on their effectiveness and impact. In this respect, we encourage the Fund to continue gathering information on the best practices from the in-depth analyses and cross-country comparisons.

The low interest rate environment poses additional challenges for the effectiveness of monetary policy. The normalization of exceptionally accommodative monetary policy will be an unprecedented and challenging process with a longer-term perspective. This calls for enhanced vigilance among policy makers especially concerning the containment of potential spillover effects.

Multilateral cooperation continues to be crucial, especially when facing the risk of a possible inward shift in policies and threat of protectionism. Trade integration has

contributed to the improved living standards across the globe, while lifting hundreds of millions out of poverty. Geopolitical and national political risks add to the uncertainty of the global economic outlook. In this context, we strongly believe that adherence to a rules-based international trading order is vital in order to continue reaping the benefits of globalization. Adding to that, climate change also requires worldwide, multilateral action, and so does handling its macro-economic consequences. In order to secure intergenerational equity, it is imperative that the long-term economic consequences of climate changes are prioritized over any short-term gains from disregarding environmental considerations.

The Fund has a role to play in new macro-critical areas; also it should maintain its tailored advice on appropriate country-specific policies and remain the key institution in the Global Financial Safety Net.

We welcome the Fund's work in new areas such as the digital economy, the FinTech industry, and in facilitating policies that promote inclusive growth, i.e. ensure equal opportunities for all. The benefits, brought on by the FinTech industry and increased digitalization, are welcome and encouraged. However, we have to take into account the changes they might bring to the regulatory framework and established market structures. In this respect, the Fund could have a role to play in monitoring the risks that the evolution of the FinTech industry might entail. The recently observed changes brought by the FinTech industry and increased digitalization might also help address the risks regarding correspondent banking relationships (CBRs), which have recently come under pressure. We welcome the Fund's analytic work and advice on policies aimed towards dealing with the adverse impact of withdrawal from CBRs.

The Fund plays a central role in fostering global economic growth and financial stability by providing country specific policy advice and guidance to policymakers in moving towards not only strong domestic policies, but also promoting globally optimal solutions. We support the Fund's engagement in policy diagnosis and recommendations while promoting the implementation of the right mix of structural reforms, fiscal, macroprudential and monetary policies.

We strongly support the Fund's role as the key institution in the Global Financial Safety Net (GFSN). We welcome the Fund's continuous work on reforming its lending facilities and instruments to address potential gaps in the GFSN. We welcome the discussions on the new tools and the introduction of the Policy Coordination Instrument, which could encourage countries to commit to and signal strong national policies. At the same time, we believe that further work is needed in order to ensure an adequate and strong GFSN with the Fund at its center.

We stand ready to engage in an open and constructive discussion on the 15th General Review of Quotas. The outcome of the Review should be broadly acceptable and beneficial for all Members. The results should not serve the interests of the largest member countries at the expense of small and medium open economies, as it would threaten the credibility and legitimacy of the Fund.

To conclude, we face changes in the global economy and live in the environment which requires us to think and operate in the frame of an appropriate policy mix of structural reforms, fiscal, macroprudential, as well as monetary policies. The Fund has a crucial role in advising countries and ensuring a smooth transition through cyclical as well as systemic changes. The Fund's contribution in multilateral cooperation remains significant and especially relevant when facing possible threats of protectionism. The Fund should stay alert to long-term tendencies in the global economy. We stand ready to cooperate.