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Statement by Mr. Hansson
Republic of Estonia

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

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

The positive growth momentum provides an opportunity for countries to build fiscal buffers and embark on structural reforms to ensure that the gains from globalization, trade and technological advancements are spread more broadly. Monetary policy continues to play a key role in supporting the recovery. The IMF, at the centre of the International Monetary System, has an important role in promoting multilateralism and openness – pivotal to inclusive growth.

The upswing in global growth offers an opportunity to tackle key policy challenges…

1. Global integration, trade and technological innovation have brought great economic gains and increased living-standards worldwide. We support the Managing Director's Global Policy Agenda which highlights the need for a revived **spirit of multilateralism and openness** – essential to fight protectionism and preserve the benefits of international trade and finance.

2. As growth gains momentum, top priority must be to strengthen policies that boost potential output and ensure opportunities for all. **Inclusive societies** and sustainable economic growth represent paramount goals for countries in the Nordic-Baltic constituency. Accessible child care, universal access to high-quality education, and active labour market policies can help the workforce increase productivity and adapt to change.

3. **Advances in technology** and automation are important for long-term growth and we must embrace structural changes in their wake whilst also being attentive to potential adjustment challenges. Sound and targeted structural policies that underpin market flexibility, together with a well-functioning social safety net, can mitigate potential short-term negative effects and enable all to benefit from the long-term gains of increased productivity.

… and to build buffers and pursue reforms to increase resilience

4. Stronger growth provides an opportunity for many countries to build **fiscal buffers and improve sustainability**, taking into account country specific circumstances and their cyclical position. Countries facing sustainability issues and debt levels significantly above pre-crisis levels need to accelerate consolidation efforts.

5. The pick-up in economic activity also provides an opportunity to implement key **structural reforms** aimed at boosting potential output and ensuring that economic gains are more broadly shared, as well as to build resilience against downside risks. In this regard, many countries would benefit from reforms that promote increased female labour force participation and better integration of migrants in the economy. We reiterate our support for an active role for the Fund in promoting and giving advice on essential structural reforms.

6. **Monetary policies** aimed at bringing or keeping inflation in line with central bank targets under subdued inflation pressures, continue to play a key role in supporting the recovery. However, the low interest rate environment has also contributed to building some financial stability risks, for example inducing some investors and financial companies to take on greater risks in the hope of higher returns. Increasing leverage in the private sector and stretched asset valuations require close monitoring, with proactive micro- and macroprudential supervision and regulation. With inflationary pressures still subdued, monetary policy normalization should be gradual and well-communicated to minimize potential adverse consequences related to financial stability.

7. Since the Global Financial Crisis, comprehensive **regulatory reforms** have strengthened the global financial system and we note that the health of global banks is improving. Progress to date must be safeguarded by ensuring full, timely and consistent implementation of reforms. Remaining reforms should be finalized and any moves towards a weakening of regulatory standards and oversight activities need to be resisted.

8. Looming risks to macroeconomic and financial stability include the high and increasing levels of **household debt** as well as increasing leverage in the **non-financial corporate sector** in some countries.

The Fund's broader surveillance perspective is necessary to catch macro-critical developments

9. The Nordic-Baltic constituency has been a strong proponent of the Fund having a key role in conducting **financial surveillance**, and identifying risks and challenges from a country level to the global level. The Fund has made notable progress since the adoption of the Financial Surveillance Strategy and Integrated Surveillance Decision and we strongly support continued efforts to enhance expertise in analysing spill-over effects, macro-financial linkages, macroprudential policy and capital flows. We look forward to a stock-taking of these initiatives in the forthcoming Interim Surveillance Report.

10. The Fund's traditional role in assessing the **external sector** remains an important objective. We strongly support the Fund's ambition to further improve and expand this work. We encourage the Fund to retain a high degree of flexibility when assessing external imbalances and take into account country-specific developments.

11. We continue to support IMF engagement in assessing the macro-economic implications of **inequality, climate change, migration and corruption**. Macro-criticality and division of labor with other institutions should be guiding parameters in defining the scope of the IMF's work in these fields. We support a continued active role for the IMF to help countries address the decline in correspondent banking relationships.

12. **Financial technology** has the potential to contribute to a more efficient financial system and to facilitate broader access to financial services in a spirit of financial inclusion. However, it can also disrupt, for example compliance of anti-money laundering, as well as the fight against terrorism financing, and increase vulnerability to cyber security threats. We therefore support that the Fund continues to deepen its analysis of these issues and welcome that the IMF High Level Advisory Group on FinTech will study the economic and regulatory implications of developments in the area of finance and technology.

The Fund remains the key institution in the Global Financial Safety Net (GFSN)

13. We reaffirm our support for the IMF as the key institution in the GFSN, and welcome the recent initiatives to strengthen the collaboration with the different actors in the GFSN. Over the years **Regional Financing Arrangements** have gained importance, reaching an aggregate size comparable to that of the IMF. We welcome the principles and modalities put forward by the Fund to reap the mutual benefits of collaboration.

14. We welcome the Fund's new **Policy Coordination Instrument** as a way for countries to improve coordination with other financial contributors and also to send a strong signal to private sector investors on sound economic policies and commitment to a reform agenda. We also support ongoing efforts to strengthen the IMF lending toolkit, with the objective that any present or new tools should be designed to reflect the needs of the membership while having a clear incentive structure as well as a sound basis in the IMF's mandate.

15. The distribution of quotas should be based on the mandate and role of the IMF, to promote a strong and open world economy, and be anchored in the entire membership. We remain committed to engage in constructive discussions on the **15th quota review**. The current formula is a carefully calibrated midpoint, balancing the interests of countries of varying size, level of development and openness. Recent data updates have confirmed its continued relevance. One country, China, stands out in terms of a particular underrepresentation. New allocations resulting from the review should help better align members' actual quota share with calculated quota. The Fund should be adequately resourced and countries in our constituency have supplemented the IMF's lending capacity when needed. It is our intention to continue to do so. However, in the end, there needs to be a clear link between financial contributions and representation.

Endeavouring to keep the IMF agile and responsive to the membership's needs

16. As global growth gains momentum, the priority for many **low-income countries (LIC)** should be to reduce macro-economic imbalances and build buffers. Further, and in line with many advanced and emerging economies, LICs will gain from diversifying their economies, pursuing reforms to boost future growth and improving economic inclusion. The IMF should be a natural partner in supporting such reforms. We welcome the review of the LIC Debt Sustainability Framework, against the background of a changing landscape for the countries' debt situation, and increased integration in the global capital markets.

17. The Fund plays an important role in helping countries strengthen their economies, improve inclusive growth and create jobs through various **capacity building** initiatives. In this regard, we look forward to the 2018 Capacity Development Quinquennial Review.

18. The **Independent Evaluation Office (IEO)** is critical to the credibility and effectiveness of the Fund. We continue to support the important work of the IEO and welcome the forthcoming Third External Evaluation of the IEO.