



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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Statement by Mr. Kettel Thomsen Denmark

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

Statement by Governor Christian Kettel Thomsen on behalf of Denmark, Republic of Estonia, Finland, Iceland, Republic of Latvia, Republic of Lithuania, Norway, and Sweden

The Nordic and Baltic countries are deeply concerned by the increasing geoeconomic and geopolitical tensions and conflicts, including Russia's war against Ukraine and the conflict in the Middle East, which have severe repercussions for the global economy and financial stability.

We strongly condemn Russia's continued war of aggression against Ukraine and reaffirm our support for Ukraine's independence, sovereignty and territorial integrity. We call on Russia to withdraw all its military forces from the territory of Ukraine within its internationally recognized borders. There can be no negotiations on Ukraine without Ukraine, nor negotiations that affect European security without Europe's involvement. We will continue providing Ukraine our unwavering support, including to advance reforms on its path to EU membership. The Fund's continued financial engagement with Ukraine is vital for macroeconomic stability and reform efforts, and we commend its new 48-month extended arrangement.

We express our solidarity with partners in the Middle Eastern region that have been attacked or affected, and underline the severe humanitarian toll and economic consequences, which are felt far beyond the region. We welcome the ceasefire agreed by the United States and Iran, urge all involved to fully respect the ceasefire across the region and build on these steps towards a lasting peace. We continue to call for maximum restraint, protection of civilians and full respect of international law, including the principles of the United Nations Charter, and international humanitarian law.

The Nordic and Baltic countries remain firmly committed to an open, rules-based global economy, and underscore the principles of the IMF Articles of Agreement. To fulfil its mandate, it is essential that the Fund remains a trusted provider of impartial analysis and policy advice.

Global shocks and elevated uncertainty warrant prudent policies and multilateral cooperation

1. While global growth has shown resilience, the outlook is clouded by significant uncertainty with notable risks to inflation and growth, especially for the most vulnerable countries. Alongside Russia's continued war of aggression against Ukraine, the conflict in the Middle East further intensifies impediments to economic growth, and contributes to raise global commodity prices, disruption of supply chains, and the undermining of energy security. In addition, higher oil and gas prices provides a temporary relief to Russia's state budget, enabling its ability to sustain its war against Ukraine. Trade tensions and continued trade policy uncertainty further weigh on global sentiment.
2. Ongoing structural shifts such as geoeconomic fragmentation, climate change, demographic trends, and artificial intelligence (AI) underscore the importance of multilateral cooperation and commitment to policies that foster macroeconomic and financial stability and sustainable, long-term growth. Elevated public debt and deficit levels remain a great concern and underline the importance of rebuilding fiscal space and undertaking productivity-enhancing structural reforms. Good governance, strong and independent central banks and other key economic institutions, as well as robust anti-corruption frameworks are key to building public trust and sustaining growth.

3. We encourage the Fund to make clear that protectionist policy measures are not compatible with sustained global economic growth nor a durable resolution to global imbalances. Trade wars leave all countries worse-off by reversing the economic gains from global integration and undermining multilateral cooperation needed to address global challenges.
4. Vulnerabilities in the financial sector should be promptly addressed. Strong macroeconomic policies, effective regulations and robust institutions are the first line of defence. We call for the full, timely and consistent implementation of all internationally agreed reforms and standards, including Basel III. Regulatory modernisation in the financial field should lead to simplification, and not de-regulation. We remain vigilant regarding any weakening of financial regulation.

The Fund's role is indispensable in preserving global macrofinancial stability

5. We reaffirm the Fund's unique role at the centre of the global financial safety net, its independent policy advice and capacity development activities. We want the Fund to be an effective and strong multilateral institution. Streamlining initiatives should not come at the expense of the quality of the Fund's policy advice and its role as a trusted advisor. Further, as a lender of last resort, the Fund should continue to rely on full-conditionality programs as the main instrument of its lending toolkit.
6. Persistent and excessive global imbalances warrant particular attention to which the Fund is best placed to provide impartial analysis, policy advice and promote dialogue on correcting measures. Assessments of excessive global imbalances requires a holistic approach looking at both trade in goods and services as well as capital and financial accounts. While imbalances are not inherently problematic, excessive imbalances, driven by policy distortions, particularly in large systemic economies, hinder trust, fuel systemic risks, and undermine the stability of the International Monetary System. Focus should be on domestic policy adjustments and reforms in both deficit and surplus countries that promote external rebalancing, while safeguarding global growth. A robust, transparent, and conceptually sound methodology is essential for estimating excessive imbalances, and we welcome a follow-up review to address remaining shortcomings.
7. The Fund should closely monitor the macroeconomic implications of artificial intelligence (AI), which may hold considerable potential to lift productivity, although the magnitude and pace of its impact remain uncertain. At the same time, AI could have far-reaching effects on labour markets, including shifts in demand and skills with important distributional and macroeconomic consequences, underscoring the need for policy preparedness.
8. Further, digital financial innovations, including stablecoins, warrant close monitoring of their macrofinancial risks and potential benefits in a balanced manner. The Fund is well-suited to provide evidence-based support to guide the navigation of different digital money innovations. Given its global mandate, the Fund should promote coherent, interoperable regulatory frameworks and help members mitigate cross-border arbitrage in coordination with other standard-setting bodies.
9. The Nordic-Baltic countries' strong support for the Fund's role and mission is reflected in our substantial voluntary loan and subsidy contributions, as well as financing to various Fund's capacity development initiatives.

The Fund should champion high-quality, candid and independent surveillance, policy advice

10. The Comprehensive Surveillance Review should ensure the Fund's leadership and objectivity in monetary, fiscal, exchange rate, and financial sector policy analysis and advice. Focus should be on how to strengthen traction of policy advice and better integrate structural issues, such as governance, climate change, gender and inequality into macroeconomic frameworks, when, and to the extent, these are deemed macro-critical. We underline the importance of the Financial Sector Assessment Program (FSAP) and look forward to its improved integration with the Fund's surveillance. Possible large changes into the FSAP surveillance should be done with caution.
11. The ongoing review of Program Design and Conditionality is an opportunity to improve the effectiveness and catalytic role of the Fund's programs. This requires ambitious policy packages with strong conditionality, structural reforms, country ownership, and safeguards, including more candid debt sustainability assessments. The Fund should strengthen synergies between lending, surveillance and capacity development. Staff monitored programs should help countries establish a credible track-record before moving to an IMF program with financing.

We will continue constructive engagement to strengthen the Fund as a quota-based representative multilateral institution

12. We look forward to the prompt implementation of the 16th General Review of Quotas to strengthen the quota-based nature of the Fund. We support the work on the Diriyah Guiding Principles on IMF Quota and Governance Reforms and stand ready to work constructively on a quota share realignment under the 17th General Review of Quotas. Any realignment of quota shares must ensure fair and broad burden sharing and serve the legitimacy of the Fund as a representative multilateral institution. The current quota formula reflects the Fund's mandate well, continues to capture changing economic realities and is a carefully designed compromise. A limited ad hoc realignment may offer the most pragmatic approach. In addition, we reiterate the need for further efforts to increase gender diversity in the Executive Board.