International Monetary and Financial Committee

Thirty-Seventh Meeting
April 20–21, 2018

IMFC Statement by Már Guðmundsson
Governor of the Central Bank of Iceland
Iceland

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

Statement by Mr. Már Guðmundsson
Governor of the Central Bank of Iceland
on behalf of Denmark, Estonia, Finland, Iceland, Latvia,
Lithuania, Norway and Sweden

The continued strengthening of global economic activity provides an excellent opportunity to rebuild fiscal buffers, implement structural reforms, and further strengthen the resilience of our financial systems. It is essential that the global economy remains on a path towards greater openness and integration, and that the rules-based international trading system is preserved. The IMF has a central role in promoting multilateralism and openness, and in assisting countries to reap the benefits from globalisation and technological progress in an inclusive way. The Managing Director's Global Policy Agenda provides important guidance for the work ahead.

An open and rules-based multilateral trade system, together with productive technological and structural change, are key foundations for sustainable and inclusive growth

- **Trade openness** constitutes a central driver of global growth. We strongly reject moves towards protectionism and away from the rules-based international trade order. Unilateral trade restrictions will only inflict harm on the global economy. The IMF's core mandate is to facilitate the expansion of international trade to promote and maintain high levels of employment and real income. Today, this role to protect and promote free international trade and open economies, which are key drivers of mutually shared prosperity and reduced poverty, remains as valid as ever. We should send a clear message of support for these objectives from the IMF Spring Meetings.

- **Technological innovation and trade** are crucial for long-term growth, productivity, and improved living standards. With sound national policies supporting adaption to change, new jobs and opportunities will be created, to the benefit of all. Inclusive societies and sustainable economic growth are paramount goals that can be reached through structural policies. Important policy initiatives include those that underpin market flexibility, job creation, and increased productivity, together with equal opportunities to life-long education and training, and a well-functioning social safety net.

Building buffers and pursuing needed structural and financial sector reforms will underpin sustained economic growth and mitigate medium-term risks

- With global growth continuing to strengthen, economic policies need to focus on implementing structural reforms, strengthening the resilience of our financial systems, and rebuilding fiscal buffers to safeguard against future downturns. We should **avoid pro-cyclical fiscal policies** that delay fiscal consolidation and increase risks and imbalances.

- Accommodative monetary policy continues to be appropriate in countries where inflation pressures remain subdued. In other countries, with improving inflation dynamics, steps towards **monetary policy normalisation** are warranted. It is important to be alert to potential financial stability risks and the possibility of capital flow volatility. A gradual and well-communicated normalisation will minimise potential adverse consequences.

- Stretched asset valuations and high debt levels increase the risk of sudden corrections and present potential **challenges to financial stability** amid tightening global financial conditions. Strong global and regional interconnections could quickly transmit bouts of market volatility, and rising interest rates in key markets may have important spillover effects. Efforts to strengthen financial resilience should be continued. Proactive use of macro- and microprudential policies would help guard against systemic risks and curb build-up of financial vulnerabilities stemming, inter alia, from volatile capital flows.

- At the same time, the important **financial sector regulation** reforms of recent years must not be rolled back. Progress to date must be safeguarded by ensuring full, timely, and consistent implementation of reforms. We welcome the recent agreement on the finalisation of Basel III. More progress needs to be made on cross-border bank resolution, and further efforts are necessary to curb money laundering, and to tackle rapidly evolving challenges such as cyber security.

The IMF should continue to adapt its surveillance to evolving challenges faced by its members

- We welcome the recent Interim Surveillance Review and the important advances in Fund surveillance in recent years. We encourage the Fund to continue to build on progress made in integrating macro-financial linkages into bilateral and multilateral surveillance. The **2019 Quinquennial Surveillance Review** will need to build on lessons learned when defining surveillance priorities into the next decade. The IMF's bilateral surveillance has traction and produces the most added value when focused on country-specific concerns. The IMF is well placed to draw on cross-country experiences, including the regional dimension, when formulating country-specific advice, and this can serve to enhance traction.

- As a strong supporter of increased **financial sector surveillance**, we consider the forthcoming 2019 FSAP Review very important. FSAPs are a core part of IMF surveillance. Identification of countries with systemically important financial sectors should be risk-based and supported by clear, comparable, and transparent modelling.

- We look forward to the 2018 Review of Conditionality. The Nordic-Baltic Constituency continues to advocate **strict conditionality** that addresses imbalances and economic distortions of critical macro-economic relevance and restores debt sustainability. A key priority should be to ensure strong country ownership.

- We strongly support the Fund's ambition to further improve its analysis of **external balances**. We encourage the Fund to retain the high degree of flexibility needed when assessing external imbalances, taking country-specific developments into account.

Properly gauging the growing role of multinational firms is an important challenge in these assessments.

- The development of a framework for assessing what is critical for the macro-economy will be necessary for the IMF as it expands its coverage of macro-economic implications of **income and gender inequality, climate change, migration and corruption**. We support this work, which needs to be guided, inter alia, by relevance for the membership and cooperation with other institutions based on their respective mandates.

- **Fintech and digitalisation** are rapidly advancing. Skills and knowledge must be advanced to better understand developments in this area and to ensure appropriate policy responses that facilitate, and do not impede, the opportunities that technological progress presents. International collaboration will be vital and the Fund, with its global membership and expertise, will be an important forum for discussion and cooperation.

The Fund is the key institution in the International Monetary System

- We reiterate our strong support for the IMF as the key institution in the **International Monetary System and the Global Financial Safety Net (GFSN)**. We support regular reviews of the adequacy of the GFSN, including the need to identify and reduce gaps in coverage and enhance collaboration with regional financial arrangements.

- The Nordic-Baltic Constituency is a large contributor to the IMF and is ready to work towards the completion of the **15th Quota Review** within the agreed timetable. We have always supported maintaining the Fund as a strong, quota-based, and adequately resourced institution. The current quota formula is a carefully calibrated mid-point, balancing the interests of countries of varying size, level of development, and openness. Recent data updates have confirmed its continued relevance, showing large relative shifts of quotas to emerging market and developing countries, reflecting their increased role in the global economy. One country, China, stands out in terms of a particular underrepresentation.

- We are concerned about the increasing debt-related challenges in a number of **Low Income Developing Countries (LIDCs)**, which constitute a key risk and may hamper progress in achieving sustainable development. Concerted efforts from the multilateral community and country authorities are needed to bring debt down to sustainable levels. We stress the importance of adhering to the principles for sustainable lending and borrowing. The IMF and the World Bank should further intensify their collaboration in these countries, especially on capacity development.

- We look forward to **the IEO's evaluations** of IMF Financial Surveillance and of IMF Advice on Unconventional Monetary Policy, both embedded core competences of the Fund. We also look forward to the external evaluation of the IEO itself.

- We extend our appreciation to Mr. Agustin Carstens for his dedicated leadership of the IMFC, and welcome the **new Chairman of the IMFC**, Mr. Lesetja Kganyago. We are confident that Mr. Kganyago will continue to enhance the role of the IMFC as the principal global forum for international economic and financial cooperation, representing 189 member countries.