



2016

ANNUAL MEETINGS

International Monetary Fund

World Bank Group

Washington, D.C.

Governor's Statement No. 12

October 7, 2016

Statement by the Hon. **ILMĀRS RIMŠĒVIČS**,
Governor of the Fund for **REPUBLIC OF LATVIA**,
on Behalf of the Nordic-Baltic Constituency

Statement by the Hon. Ilmārs Rimšēvičs,
Governor of the Fund for the Republic of Latvia,
on Behalf of the Nordic-Baltic Constituency

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

Global recovery is not gaining strength in a desirable pace...

Global growth remains subdued, the recovery continues at a modest pace, global trade disappoints, and growth projections have been continuously revised downwards. Inflation remains below central bank targets across most advanced economies. And in addition, crisis legacies, including high levels of public and private debt, continue to weigh on growth prospects, while unemployment rates, and particularly youth unemployment, in many countries are unacceptably high.

...and the outlook is further clouded by a range of downside risks.

Rising inequality and anti-globalization sentiment risk reducing the political appetite for comprehensive reforms to reinvigorate growth in several countries. The ongoing transition in systemically important emerging market economies to a more sustainable growth model will provide positive opportunities for many countries in their nearest region and the global economy as a whole. However, there might be some bumps and setbacks along the way, including increased volatility in financial markets. A rebalancing of global growth is important. Potential capital flow reversals pose a risk to several emerging market economies. In addition, multiple shocks of noneconomic origin, such as geopolitical tensions, refugee flows, terrorism, and climate issues add to the economic uncertainty.

Risks to the global outlook increased when the United Kingdom voted for leaving the European Union. It is important to reduce the economic, political, and institutional uncertainty surrounding the Brexit negotiations, and focus on delivering inclusive growth, sustainable policies and strong democratic institutions.

Accommodative monetary policy has been supporting demand...

Monetary policy has been exceptionally accommodative in most advanced economies. Major central banks have taken significant steps aimed at reigniting lending and supporting demand. However, the effectiveness of such policies is reaching its limits and monetary policy accommodation alone cannot revive the economic growth. In addition and going forward, the prolonged period of accommodative monetary policy and very low (or negative) interest rates might have an adverse effect on the stability of the financial system. In this regard, we welcome the Fund's intention to analyze these developments in more detail.

...but the increased risks call for a broader policy response, including fiscal policies...

Many countries still have not fully resolved crisis legacies, and their public debt levels remain high. In these countries, it is of utmost importance to deploy growth-friendly fiscal consolidation, bringing debt to more sustainable levels, and underpinning structural changes. Responsible fiscal management prevents a build-up of risks in the future.

In countries where the conditions allow it, fiscal policy could be used to support investment that would boost demand, create additional jobs, and raise productivity and the long term growth potential of the economy. However, the quality, not the quantity of public investment should remain a priority. Several researchers point to the positive effects strategic public investment, particularly in infrastructure, innovation, education, and digitalization, also has on private investment. Additionally, policymakers have a responsibility to reduce economic and policy uncertainty that hampers private investment.

...that are supported by structural reforms.

Carefully prioritized and sequenced structural reforms can provide a further boost to productivity and the long-term growth potential. Successfully implemented reforms in product and labor markets, education and judicial systems can have a profound impact on the productive capacity of the economy. While it might be politically challenging to implement some of the reforms, policymakers should act now and not wait for the next crisis as a wake-up call for determined action.

The Fund should maintain a central role in the International Monetary System...

The Fund has a unique role to play in the global economy. With its near-universal membership it can provide advice and guide policymakers towards globally optimal solutions. We welcome Nauru to the IMF community as its 189th member joining this spring.

Strong domestic policies are a cornerstone for sustainable growth and should remain as a first line of defense against shocks to the economy. The IMF surveillance and timely policy advice are important in identifying potential risks and preventing a build-up of vulnerabilities, as well as having a broad cross-country perspective. The IMF should continue playing an active role, providing advice on macrocritical issues, while at the same time remaining within its mandate.

...and should be able to provide effective policy advice, financing, and support to the membership.

An adequately-financed Fund will be able to provide financing to countries with a balance of payments need. In this regard, we welcome the implementation of the long-overdue 14th Review of Quota and Governance. We remain committed to a constructive discussion on the 15th Review. These discussions should be clearly anchored in the relevant IMF bodies where the entire membership is represented to ensure legitimacy. We note that the current quota formula works well in delivering shifts that reflect members' relative position in the world economy. The Fund should remain a quota-based institution. However, given the uncertain medium-term

outlook, continued access to borrowed resources is warranted. In this regard, members' voluntary financial contributions should be recognized in the upcoming quota and governance discussions.

A strong conditionality framework and IMF policy advice should accompany financing, so that the country can get back on its feet at the end of the program. As highlighted by the recent IEO evaluation of the euro area crisis, it is important that the Fund remains rules-based, transparent and evenhanded in its surveillance and program design. The Global Financial Safety Net (GFSN) has changed significantly over the past years. The Fund should reflect further on and respond to these changes, including by developing clear guidelines for cooperation with regional financing arrangements. The proposal of adding new lending facilities to the Fund's toolkit should be discussed together with reviewing existing precautionary facilities. A thorough analysis of the demand for the new facilities, as well as the potential impact on Fund resources is necessary. Making the GFSN more coherent should not be done at the expense of removing (or reducing) conditionality.

The Fund should adapt to fundamental changes in the global economy.

The shift of the "economic centre of gravity" towards emerging market economies represents a fundamental change in the global economy. This will have significant implications, including for trade and financial flows. The inclusion of the renminbi as the fifth currency in the SDR basket as of October 1 this year is an important step to strengthen the representativeness of the SDR and further integrate China into the international monetary and financial system.

Advances in technology and new forms of organizing economic activity are increasingly affecting labor markets, macroeconomic policies, and statistics. The Fund must be ahead of the curve and take account of these changes in its surveillance and policy advice. In this regard, we welcome the intention of the Fund to conduct analytical work related to the fintech industry. In a similar vein, we would welcome increased analysis of macrocritical aspects of the "sharing economy" and the macrocritical developments in the energy sector, such as the growing share of alternative energy sources in the energy mix, and their impact on the global economy. We welcome that IMF surveillance has been broadened to cover structural reforms and emerging issues such as migration, gender and income inequality and climate change when deemed to be of macrocritical relevance. We believe that the Fund has much to contribute while staying within its mandate and competence.

To conclude

Every country of the IMF membership has an individual responsibility to implement sound domestic policies, and use all tools available to lift potential output and deliver a strong, inclusive, and sustainable growth. Let us further work together to strengthen the role of the Fund so that the institution can continue providing valuable advice and support the membership in these endeavors.