INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Lars Rohde
Governor
Denmark

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, Republic of Estonia, Finland, Iceland, Republic of Latvia, Republic of Lithuania, Norway, and Sweden

Recovery is underway, albeit uneven and uncertain – urgent to ensure a faster global vaccine rollout.

1. *The global economy continues to recover supported by vaccine rollouts, increased adaptability and sustained strong policy support*. However, the divergence between countries is becoming larger and more persistent amidst differences in the coverage of vaccinations and the available policy space. Downside risks dominate in many parts of the world, with the fear of new virus variants and supply bottlenecks turning out to be more persistent. Moreover, higher and more persistent inflation could result in earlier and more rapid monetary policy normalization triggering financial volatility. On the upside, the use of accrued savings or faster than expected productivity growth could lead to higher than expected growth in several advanced economies.

2. *Containing the pandemic globally is the number one short-term priority*. Increased global attention to ensure vaccination targets can be met also in developing and low-income countries is central to fortify a lasting recovery. Unequal access to vaccines remains the main concern. It is therefore crucial to continue supporting the ACT-A collaboration and its COVAX facility to ensure global distribution of vaccines and other Covid-19 tools, while encouraging continued vaccinations in all country groups. We support the IMF's proposed goal for countries to vaccinate at least 40% of the population by the end of 2021 and at least 60% by the first half of 2022.

Fighting climate change is the largest global policy challenge of our time and policy action must be accelerated.

3. The recent IPCC report confirms the increasingly alarming threats from global warming. Meanwhile greenhouse gas emissions continue to rise, and concrete policy actions are insufficient. There is no time to waste. *Ambitions must be raised, and action accelerated to achieve net-zero CO_2 emissions and a strong reduction in other greenhouse gas emissions by 2050*. We call on all participants of the upcoming COP26 conference to commit to concrete action to meet these objectives.

4. Carbon pricing is the most cost- effective measure to curb CO_2 emission at the necessary speed and scale. We call for *agreeing on internationally coordinated carbon pricing, which provides a transparent and efficient instrument for decarbonization* and addresses challenges arising from competitiveness and carbon leakage. To ensure an equitable transition to a sustainable economy, measures are needed to mitigate the potential negative social impacts especially on vulnerable groups.

5. In addition*, fostering a smooth and swift transition to a green economy will require a broad range of policy tools and measures*. Tax policies, public investments, regulation and standards need to be geared towards accelerating investment and innovation in green infrastructure and technologies. Moreover, aligning the financial system's regulation and operations with climate objectives, providing incentives for households and businesses to reduce their carbon footprint, and taking measures to protect biodiversity will support the transition.

Policies will require careful calibration to the country specific stage of the recovery.

6. *Policies should continue to foster recovery amidst an enduring pandemic and increased uncertainty*. The optimal policy mix will depend on the country context, while it remains

important to carefully balance tradeoffs between supporting growth in the short-term and ensuring longer-term stability.

7. Sound fiscal policy and debt sustainability are prerequisites for strong and sustained public action to handle both short-term shocks and longer-term structural changes. *Fiscal support should be targeted, while firmly anchored in a credible medium-term fiscal framework*. Fiscal policy should remain counter-cyclical and improving economic conditions should be used as an opportunity to rebuild fiscal buffers.

8. Despite the uncertainty related to inflation prospects, long-term inflation expectations in advanced economies remain well-anchored. The ability to see through transitory inflation pressures is key for central banks, where a premature tightening could result in too low inflation. Nevertheless, in the case of sustained faster than expected inflation outcomes central banks should remain ready to respond. *Avoiding a de-anchoring of inflation expectations is paramount*. To this effect clear communication of the views on inflation developments and monetary policy outlook continue to be crucial.

9. Looking beyond the crisis response, *investment and structural policies to boost productivity and innovation to facilitate the green and digital transformations should be prioritized*. Moreover, focus is needed to improve the labor market situation. Investments in human capital and bolstering social safety nets will be central in creating societies with more equal opportunities. To improve resilience, financial sector policies should be calibrated and targeted to tackle the build-up of vulnerabilities, notably through pro-active use of well-designed macroprudential policies and rebuilding of financial buffers.

10. *Multilateral solutions are paramount to address contemporary global economic challenges and to ensure a broad-based recovery*. Invigorating international trade and defusing tensions should remain high on the global agenda. Strengthening our rules-based trade system, including by reforming the WTO, will be essential to foster a level playing field in the global economy. On international taxation, it is essential to agree on and enforce a floor on the effective corporate taxation to limit harmful tax competition.

IMF surveillance is central to assist members in a challenging policy environment…

11. *In an uncertain global environment, the benefits of surveillance increase*. The Fund's recently updated surveillance framework supports the membership when navigating through the re-building of buffers and the safeguarding of financial stability amidst policy normalization. Moreover, the new strategies on climate and digital money will help surveillance to focus also on the longer-term opportunities, risks and challenges arising from greening and digitalizing our economies.

12. As the more acute phase of the pandemic abates, *debt sustainability and debt transparency issues should gain importance in Fund surveillance* supported by the IMF's updated debt sustainability tools and by focusing policy measures to improve efficiency both in revenue collection and expenditures. Special focus is needed for highly indebted, fragile and low-income countries, where despite the low interest rate environment, high debt levels imply that debt service costs are increasingly crowding out development expenditure. We highlight the importance of ensuring effective implementation of the Paris Club and G20 Common Framework for debt treatments and enhanced focus on debt data transparency.

…. while IMF financing and the general SDR allocation support vulnerable countries.

13. As the pandemic lingers, the scars particularly for low-income countries are becoming more entrenched with growing financing needs. The IMF has taken important steps to this effect. First, the historic general allocation of SDRs has strengthened global access to liquidity. We welcome further steps to encourage VTA participation to improve the functioning of the VTA market. Second, the significant increase in PRGT access limits will accommodate LIC's increased financing needs and support recovery. At the same time, the role of IMF programs in fostering policies to resolve countries' balance of payment needs and catalyse financing should not be undermined. Moreover, we are concerned of the lack of consistent delivery on anti-corruption and governance commitments made under pandemic-related emergency lending and call for a judicious approach to follow-up on these issues in new lending programs.

14. Considering the diverging paths of recovery and the still precarious situation in many developing and emerging economies, we *concur that a temporary increase in financing for vulnerable countries could be justified*. Channeling SDRs could be one way to achieve this. We consider the PRGT the preferred and most straightforward solution for channeling additional resources towards the most vulnerable countries. Boosting subsidy resources to restore the self-sustainability of the framework is needed along with securing a sufficient reserve coverage.

15. We are open to explore the possibility of a new Resilience and Sustainability Trust, (RST) while ensuring alignment with the Fund's mandate, programs and expertise, and see climate change as the most promising thematic purpose for a new trust. We highlight the importance of building a risk management framework with sufficient liquidity and low enough credit risk to ensure that loans to a new trust preserve the characteristics of reserve assets. Any such trust must complement existing Fund arrangements and be linked to an upper-credit-tranche quality IMF program. In this vein, we find suggestions of much longer maturities for RST credit as compared to other Fund instruments problematic. In addition, the perimeter of its eligibility will need to be carefully assessed vis-à-vis existing instruments and backed by a clear analysis indicating a demand for financing that cannot be met from other sources. A sound governance structure is important. Close coordination with the World Bank and other MDBs based on their respective mandates and expertise should be central in this process.

The Nordic-Baltic countries support a strong, quota-based and adequately resourced IMF at the center of the global financial safety net.

16. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16^{th} Quota Review within the agreed timetable. We see the current size of the IMF resource envelope as adequate in the short and medium term and are willing to support a quota increase in the 16th Quota Review that will both reinforce the primary role of quotas in IMF resources and address underrepresentation. Such a quota increase rests on a fair, rules-based, and transparent distribution of quotas. The current formula is working well, reflects a careful balance of different objectives and delivers on the aim of realigning quota shares.