



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Second Meeting October 15, 2020

**IMFC Statement by Jan Tore Sanner
Minister of Finance
Norway**

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

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The global economy is in the midst of a recession of historic proportions, where the path to full recovery is likely to be uneven and uncertain

1. The COVID-19 pandemic has pushed the global economy into a recession of historic proportions. While a partial economic rebound is underway, supported by unprecedented policy responses worldwide, the outlook remains highly uncertain and risks are elevated. The nascent recovery is likely to be uneven. Countries with a severe epidemic situation, weak economic fundamentals and limited policy space face a particularly difficult challenge.
2. The loss of human capital, rising public and private debt levels, increasing financial vulnerabilities, and surging poverty and inequality can constrain recovery and may inflict lasting scars to the global economy. The depth of the scars and their longer-term effects on growth potential are highly dependent on the length of the pandemic and the adequacy of the policy response.
3. Overcoming the pandemic is a prerequisite for a strong and durable economic recovery. International cooperation on supply and distribution of medical treatment and vaccines is pivotal for achieving this in the near future. We welcome the ACT-A collaboration to accelerate development, production and equitable access to COVID-19 tests, treatments, and vaccines. Furthermore, renewed commitment to multilateral cooperation, open markets, avoiding protectionism, and modernizing the rules-based trading system is central for the recovery, increasing trust and the longer-term prosperity of our economies.

Policies need to remain supportive, but responsive to new developments and tailored to country-specific contexts

4. The on-going substantial policy response fits the magnitude of the crisis. Policies should remain concentrated on limiting damages, securing resources to healthcare and protecting the vulnerable, while supporting recovery where reopening is underway. Continued supportive fiscal and monetary policies that are complemented by macroprudential and financial regulatory action tailored to country-specific circumstances, are essential to limit and eventually repair pandemic related damages.
5. A central challenge for policymakers' in this period of exceptional uncertainty lies in finding the correct time and sequence to carefully unwind supportive measures in an environment where uncertainty is likely to prevail. Withdrawing too early could stifle the fragile recovery and lead to renewed liquidity shortages and a possible wave of insolvencies. On the other hand, support measures entail costs in the form of diminished policy buffers, increasing debt, and possibly preventing resource re-allocation that would support necessary structural change and future productivity growth. The on-going crisis is a clear reminder of the role of fiscal buffers and sound public finances in responding to economic shocks.

The crisis is an opportunity to foster structural change towards more resilient, green, inclusive, and digitalized economies

6. Alongside the necessary crisis response, countries must build modern economies better equipped for future challenges. The accommodative policy environment provides a unique opportunity to facilitate economic transformation and boost productivity growth. Stimulus should be complemented by ambitious structural policies consistent with the objectives of growth and equity. A key area of focus is investment in education both to mitigate pandemic induced human capital loss and to boost equality of opportunities. Furthermore, pursuing labor market policies to support participation and underpin sound reallocation, safeguarding social safety nets, and facilitating digitalization are important priorities.
7. Greater policy ambition regarding CO₂ emission reduction is needed. Stimulus measures should be directed to enhancing green infrastructure in order to mitigate future costs of transitioning to a green economy. Furthermore, steady increases in the price of carbon to internalize externalities and to incentivize the needed emission reductions is the most efficient and effective way to fight climate change.

The IMF should continue to provide timely and flexible financial support to its members....

8. We commend the IMF for quickly and decisively channeling substantial emergency support to the members most in need. Once the initial shock has passed, countries with continuing financing needs will benefit from higher quality programs, where policies and conditionality are designed to facilitate macroeconomic stabilization and future recovery. The Nordic-Baltic Constituency supports the full use of the existing flexibility in the IMF's lending toolkit and is open to consider necessary fine-tuning, under sufficient safeguards and reforms.
9. At the same time, we emphasize the importance of fully adhering to the mandate and key principles of the IMF, including safeguarding the revolving nature of Fund resources and their catalytic character – as well as ensuring members' capacity to repay. Appropriate conditionality, including governance and anti-corruption safeguards, is crucial to this end. Moreover, IMF financing primarily aims at alleviating short-term balance of payments problems, while it is the role of other institutions to meet long-term financing needs.
10. Low-income countries (LICs) bear a particularly heavy economic and social burden in the Covid-19 pandemic. Supporting vulnerable countries through concessional financing together with appropriate policy programs to foster recovery and catalyze financing is a key priority in the IMF's crisis response. The Fund's ability and scope to sustainably assist LICs is underpinned by a strong and self-sustainable PRGT framework. Going forward, it is essential to ensure that increases in PRGT lending are done within a sustainable framework, and we call for broad burden sharing to facilitate this. The Nordic-Baltic countries' contributions to the Poverty Reduction and Growth Trust (PRGT) and the Catastrophe Containment and Relief Trust (CCRT) confirm our commitment to support vulnerable countries. We are open to consider a new general SDR allocation, if deemed helpful to members in crisis.

..... and offer relevant and country-specific policy advice

11. Good policy advice is particularly valuable in the current circumstances. We commend the Fund for quickly responding to the challenge, through initiatives such as the global policy tracker and the COVID-19 guidance notes. Going forward, we highlight the importance of resuming normal bilateral surveillance. To ensure the surveillance framework functions in the current environment, work under the Comprehensive Surveillance Review and Financial Sector Assessment Program Review should be continued, noting that the Executive Board's oversight remains essential to the legitimacy and evenhandedness of the Fund's surveillance as a global public good.
12. The crisis has fueled global spillovers underlining the importance of robust macro-financial policies. We support the IMF's work under the Integrated Policy Framework on developing an integrated approach to macroeconomic policies supporting financial and economic stability in the context of external shocks. Policies to mitigate and adapt to climate change should regain focus in IMF surveillance, including promoting effective carbon pricing as a key policy tool to reduce emissions.

Risks of larger scale solvency issues and debt crises are elevated

13. In the current environment, the risks of increased solvency problems leading to a broader debt crisis are elevated especially amongst LICs. The IMF has a central role in providing comprehensive analysis of the evolving situation and in supporting the membership in enhancing debt transparency and debt management capacity. IMF lending policies should aim to support early and orderly debt profiling/restructuring where necessary and feasible. We welcome the IMF's and the World Bank's cooperation under the multi-pronged approach to address debt vulnerabilities as well as their support to the G20-Paris Club Debt Service Suspension Initiative (DSSI). Moreover, IMF analysis and advice will be central in supporting the development of the global architecture for sovereign debt restructuring

The Nordic-Baltic countries are committed to a strong, quota-based, and adequately resourced IMF

14. A strong and sufficiently funded IMF at the center of the global financial safety net is a much-needed common good. Maintaining the current level of IMF resources is particularly important at a time of exceptional uncertainty and elevated risks. We are in the process of implementing the agreed changes to double the New Arrangements to Borrow (NAB) and extend the Bilateral Borrowing Agreements (BBAs) and call for all others to do the same. We are committed to revisiting the adequacy of quotas and a timely, fair, and rules-based completion of the 16th Quotas Review.
15. We welcome the Managing Director's Global Policy Agenda geared toward overcoming the crisis and building a more resilient and inclusive global economy.