International Monetary and Financial Committee

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IMFC Statement by Claus Hjort Frederiksen
Minister of Finance, Denmark

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

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Minister for Finance, Denmark
On behalf of Denmark, Estonia, Finland, Iceland, Latvia,
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Trade-friendly policies aimed at reviving confidence and raising productivity are needed

Long-term trends, such as ageing populations, dampen global growth. In addition, economic activity is below capacity in many countries and regions. International trade and investments have slowed substantially and productivity growth has contracted. Sound national policy measures together with multilateral cooperation can counteract this development, strengthening growth and raising productivity. Labor markets should be made more efficient and inclusive. Retirement age needs to be increased in line with longer life expectancy. The IMF should analyze the slowdown in productivity growth and identify policy action to get back on a higher trajectory.

For decades, increased global trade and investments have been key drivers of growth, benefitting consumers all over the world through lower prices, transmission of technological progress and more variety of goods and services. Large gains can be derived from further opening up our markets, and we reiterate our call for global resistance to protectionist policies.

Economic growth comes with changes. The current changes – including a shift from manufacturing jobs to jobs in the services sector – are driven by many factors of which globalization is only one. Technological progress, shift in demand from manufacturing to services and urbanization also contribute to this change. Such change should be facilitated by more efficient labor markets, better education, retraining and mobility enhancing policies.

We continue to believe that the use of fiscal space depends on cyclical conditions and country-specific circumstances. That said, we agree that responsible stimulus, including infrastructure investments, to lift growth in the short term can be warranted where conditions allow and within frameworks of sound and sustainable public finances. This needs to be coupled with structural reforms to strengthen confidence and improve economic prospects in the medium and long term. Reforms could include broadening the tax base, reducing bureaucratic bottlenecks and corruption, promoting technology and innovation, and improving regulatory frameworks to facilitate deeper financial markets.

Accommodative monetary policy continues to support global growth, but potential financial stability risks need to be closely monitored. The agreed regulatory reforms to strengthen the global financial system should promptly be implemented in domestic legislation. Further, we share the views expressed in the IMF's Global Financial Stability Report that remaining reforms should be finalized without compromising the robustness and integrity of the capital framework. Also, supervisory and regulatory regimes need to further recognize the larger role of nonbank financial institutions, and an appropriate macroprudential toolkit needs to be introduced for these institutions.

We regret the outcome of the UK referendum on EU membership. The prospect of the UK leaving the EU adds another major source of economic uncertainty. In negotiating the future relations between the UK and the EU, as well as with other partners, all efforts should be made to minimize this uncertainty and to ensure continued close economic ties.

Many European banks continue to struggle with low profitability and non-performing loans which must be addressed. Also, corporate balance sheet vulnerabilities in many emerging-market economies need to be addressed and managed by strengthening insolvency regimes as well as supervision and regulatory frameworks.

We continue to support the IMF financially and call for a link between voluntary contributions and representation

We remain committed to ensure that the IMF has sufficient resources to fulfill its mandate. Countries in our constituency that have existing bilateral borrowing agreements are therefore willing to consider providing bilateral loans in line with the 2012 commitments, given broad participation and expecting a link between voluntary financial contributions and representation going forward. Formal decisions need to be taken by relevant country authorities and are also subject to parliamentary approval in some of our capitals.

In addition, countries in our constituency have consistently contributed substantial voluntary loan and subsidy resources to the Poverty Reduction and Growth Trust (PRGT). Three of our countries are currently in the process of providing new and larger loan resources to the PRGT to support the IMF's important collaboration with its low-income member countries.

The Nordic-Baltic Constituency has always been, and remains, a strong advocate of keeping the Fund a quota-based institution. At the same time, voluntary bilateral contributions have for a long time formed an important part of the Fund's resource base. Our constituency was one of the largest contributors in terms of quota shares to the bilateral loans committed to the IMF in 2012. With the additional PRGT contributions and a possible new round of bilateral loans, the case has been further strengthened for appropriately recognizing voluntary financial contributions in the upcoming quota and governance discussions, including in the 15th General Review of Quotas.

In its surveillance and policy advice, the Fund should stay alert to new developments and continue to help member countries tackle well-known challenges

We encourage the Fund to continue its focus on financial sector issues and the linkages to macro stability in its bilateral and multilateral surveillance. We strongly encourage the Fund to continue integrating macro-critical aspects of income and gender inequality, climate change and the economic effects of migration into its research and surveillance activities.

We encourage further work on structural reforms to enable the IMF to give policy advice tailored to country circumstances and facilitating strong country ownership. Furthermore, the IMF should, within its core competence, monitor developments in financial technology and in the growing digital and sharing economy.

We welcome the forthcoming stock-taking of the Fund's policy advice on capital flows and countries' policy responses. Collaboration with the OECD and G20 will serve to align recommendations and advice on macroprudential policies and capital flow management measures. Remaining data gaps on the direction of capital flows and balance sheet data should also be addressed.

The IMF is the key player in promoting an inclusive and well-functioning International Monetary System

The IMF is the key institution in the Global Financial Safety Net (GFSN). We should aim to create a stronger and more coherent safety net with broad coverage since access to the various elements of the GFSN differs between countries. The IMF should develop clearer principles for its cooperation with Regional Financial Arrangements. This will help to increase predictability, speed of action and reliability for involved parties. We welcome the forthcoming test run between the IMF and the largest Asian financing arrangement, the Chiang Mai Initiative Multilateralization (CMIM).

We are open to discuss the need for possible adjustments of the Fund's lending toolkit to fill potential gaps in the current global safety net. The discussion must take into account lessons learned from the precautionary instruments and an impact assessment on IMF resources. At the same time, any expansion of the Fund's activities should be consistent with its role as a provider of financing under strict conditionality in times of crisis, and should be mindful of possible adverse consequences of introducing prequalification to some of the facilities.

We welcome the inclusion of the renminbi in the SDR basket, in recognition of the Chinese currency's growing international use. We look forward to an assessment of the use of the SDR until now, further analysis on the possible future role of the SDR as a reserve asset and a unit of account, as well as the potentially wider use of SDR-denominated financial instruments.

The IMF must be receptive to new lessons and safeguard its legitimacy

We support work to improve diversity among IMF staff and management and welcome the strategy developed by the Executive Board to promote gender diversity within the Board.

We continue to support the important work of the Independent Evaluation Office (IEO) in scrutinizing the actions of the Fund. We welcome its recent reviews and appreciate the openness and willingness to probe difficult issues. The IEO has a pivotal role in ensuring transparency and its recommendations should continue to be duly recognized and discussed by IMF Management and the Executive Board.