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Office of the Nordic-Baltic Constituency

VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

2022 Annual Report

Contents

1 INTRODUCTION

1.1 INTRODUCTION

In 2022, the uneven recovery from the COVID-19 pandemic was upended by Russia's war against Ukraine. Setting back economic prospects and increasing risks, the war and its economic consequences greatly impacted the economic policy agenda of the IMF and its members. Inflation rose sharply on the back of increasing energy and food prices, labor shortages, and supply disruptions. Global financial conditions tightened, and public and private debt increased, adding to existing debt vulnerabilities in many countries. Escalating geopolitical tensions put a premium on strong multilateral cooperation and the Global Financial Safety Nets. Further, work continued to build resilience to shocks, tackle climate change, achieve sustainable and inclusive growth, and harness the benefits of digitalization.

Throughout the course of the year, the IMF assisted its members through surveillance of economic developments and policy advice, lending activities, and support for capacity development. Policy advice focused on how to effectively address high inflation and cushion the impact of the cost-of-living crisis on the most vulnerable populations, with limited fiscal space in many countries. Strategies were approved to strengthen the Fund's engagement on macro-critical gender issues and in fragile and conflict affected states.

IMF financing helped members tackle balance of payments problems, stabilize economies, respond to emergencies, and build precautionary buffers against future crises. In 2022, the Resilience and Sustainability Trust (RST) was established, enabling the Fund to provide financing to low-income and vulnerable middle-income countries to address longer-term challenges such as climate change and pandemic preparedness. The Food Shock Window (FSW) was added to the Fund's emergency instruments for countries facing urgent balance of payment needs related to the global food crisis.

With Russia's war in Ukraine and a more fragmented world, the Nordic-Baltic Constituency (NBC) maintained its strong advocacy of multilateralism and commitment to rules-based global economic cooperation. The NBC stressed the importance of the IMF's active role at the center of the Global Financial Safety Net, promoting the external stability of its members.

The NBC highlighted the need for strong **IMF surveillance**, helping members navigate immediate policy challenges and difficult trade-offs, while safeguarding sustainable long-term growth. The NBC promoted the Fund's focus on climate change in its macroeconomic analysis and policy advice, supporting members to accelerate the green transition and mitigate climate risks. Further, the NBC prioritized a strong focus on trade issues where the Fund's expertise and analysis is needed to strengthen the free and rules-based trading system for the benefit of the whole membership. The NBC supported IMF work on digitalization, reducing inequalities, and promoting strong governance and transparency. Also, the NBC supported new Fund strategies on gender mainstreaming and fragile and conflicted affected states.

The NBC continued to support **IMF lending** through multi-year programs with strong policy packages to achieve economic stability, sustainable growth, and to advance structural reforms. Approving the first programs financed by the RST, the NBC promoted strong policy measures to build resilience and accelerate the green transition. The NBC supported the establishment of the FSW, providing financing to members destabilized by spillovers from Russia's war against Ukraine. Standing firmly by Ukraine and its people, the NBC worked for and welcomed the approval of IMF emergency financing and policy advice to Ukraine.

In all IMF lending, the NBC continued to push for strong coordination with other IFIs, as well as for appropriate safeguards, governance, and accountability in the use of Fund resources. With rising debt vulnerabilities, the NBC stressed the importance of debt transparency and the Fund's debt sustainability assessments, including to facilitate timely and orderly debt treatments as needed. As Fund lending to low-income countries, as well as to vulnerable middle-income countries to address longer-term challenges, requires adequate and sustainable resources, NBC countries pledged additional subsidy and loan resources to the Poverty Reduction and Growth Trust (PRGT) and the RST in 2022, some conditional on domestic procedures.

To ensure effective delivery of **IMF capacity development**, the NBC stressed the need for country ownership, tailoring to country specific needs and absorptive capacities, as well as strategic allocation and evaluation of capacity development activities.

In the following, the 2022 Annual Report provides an overview of the main discussions and decisions of the Executive Board in the calendar year 2022 and outlines the views of the NBC. Section 1 outlines the Fund's views on global economic developments and reviews the priorities of the Managing Director's Global Policy Agenda (GPA) and the work program of the Executive Board. Section 2 provides an overview of the Fund's work on surveillance and economic policy, including bilateral surveillance of the eight NBC countries. Section 3 covers Fund lending activities, and section 4 reviews development in the Fund's capacity development support.

1.2 GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

Context: The IMF's three flagship reports, the World Economic Outlook (WEO), Global Financial Stability Report (GFSR), and Fiscal Monitor were issued in April ahead of the Spring meetings, and in October ahead of the Annual meetings. Shorter updates of the WEO were released in January and July.

The October WEO (subtitled "Countering the Cost-of-Living Crisis") highlighted that global economic activity was experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weighed heavily on the outlook. Global growth was forecasted to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001, except for during the global financial crisis and the acute phase of the COVID-19 pandemic. Global inflation was forecasted to rise from 4.7 percent in 2021 to 8.8 percent in 2022. The report underscored that monetary policy should stay the course to restore price stability, and fiscal policy should alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Moreover, the report argued that structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

The October GFSR (subtitled "Navigating the High-Inflation Environment") analyzed the policy response of central banks to high inflation, the risks of a disorderly tightening of financial conditions, and debt distress among emerging and frontier markets. The report noted that markets have been extremely volatile, and a deterioration in market liquidity appears to have amplified price moves. In Europe, the energy crisis was contributing to a worsening outlook, while the property sector remained a key source of vulnerability in China.

The October Fiscal Monitor (subtitled "Helping People Bounce Back") noted that governments face increasingly difficult trade-offs in tackling the spikes in food and energy prices when policy buffers are largely exhausted after two years of pandemic. The report argued that governments should prioritize protecting vulnerable groups through targeted support while keeping a tight fiscal stance to help reduce inflation. Building fiscal buffers in normal times would allow governments to respond swiftly and flexibly during adversities. Several fiscal tools, such as job-retention schemes, have proven useful to preserve jobs and income for workers. Social safety nets should be made more readily scalable and better targeted, leveraging digital technologies. Exceptional support to firms should be reserved for severe situations and requires sound fiscal risk management.

NBC view: At the Executive Board meeting on the flagship reports in September, the NBC concurred with the very bleak prospects for the global economy and the substantial negative risks further weighing on the outlook, stemming especially from Russia's war of aggression. The NBC underlined the need for multilateral cooperation and global action in working against harmful fragmentation and ensuring that the Russian invasion, along with climate-related events such as heat waves and severe droughts in other parts of the world, do not result in a global food crisis. The NBC highlighted that high inflation is an immediate challenge for the global economy and argued that central banks need to act decisively by sufficiently tightening monetary conditions and maintaining a tighter stance for long enough to bring down inflation and keep inflation expectations anchored. The NBC argued that a gradual normalization of fiscal policies implemented during the pandemic is needed to contain inflation pressures and to avoid overburdening monetary policy. The NBC acknowledged the need to tackle the cost-of-living squeeze but noted that fiscal measures should be temporary and targeted to the most vulnerable and not work against efforts to decelerate inflation.

Further Reading: World Economic Outlook reports GFSR reports Fiscal Monitor report

1.3 THE WORK PROGRAM OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR'S GLOBAL POLICY AGENDA

Context: In December 2021, the Managing Director's Statement on the Work Program of the Executive Board was published. The Work Program (WP) translates the strategic directions and policy priorities laid out at the Annual Meetings into an Executive Board agenda for the next six months. This WP laid out three policy priorities: (i) vaccinate the world to combat the pandemic everywhere; (ii) calibrate bilateral and multilateral policies to support the recovery and reduce scarring and divergences; and (iii) accelerate the transformation of the global economy to make it greener, more digital, and inclusive. The Managing Director´s Global Policy Agenda (GPA) titled "The Global Economy Under Stress: Repercussions, Response, and Resilience" was discussed at the Spring Meetings 2022 and, together with the IMFC Communiqué, laid the ground for the next Work Program issued in June. This WP aimed to help the membership tackle multiple and complex challenges—most prominently high inflation, along with elevated debt levels, energy and food security, and risks of fragmentation. The WP also focused on implementing the agreed strategies to support a more resilient, inclusive, digital, and green global economy. For the Annual Meetings in October, the MD delivered the Global Policy Agenda with the key messages "Act Now, Act Together for a More Resilient World". The focus was on the need for policymakers to prioritize the fight against inflation while protecting the most vulnerable from the cost-of-living crisis and addressing debt vulnerabilities. The GPA also stressed the need for solidarity in providing financial support to members and repeated the call for joint action to strengthen future resilience. With climate threats escalating, digital transformations accelerating, and inequality and fragility rising, the GPA focused on the need to act urgently to manage the risks and capitalize on opportunities.

NBC view: The NBC generally supported the policy priorities laid out in the Managing Director's statements on the Work Programs. The NBC especially highlighted the importance of addressing high inflation and strengthening debt sustainability as fiscal pressures, price increases, and food insecurity related to spillovers from Russia's war in Ukraine are adding to the urgency in many countries. The NBC also stressed that a strong, rules-based multilateral trade system is key for combatting the increased risk of global fragmentation, and that effective implementation of the Fund's climate strategy, as well as advancing the Fund's transformational agenda in general, remains a priority.

Further Reading: MD Statement on the Work Program, December 2021; Global Policy Agenda, Spring 2022; MD Statement on the Work Program, June 2022; Global Policy Agenda, Fall 2022

2 SURVEILLANCE AND ECONOMIC POLICY

A core part of the Fund's implementation of its mandate is to conduct economic and financial surveillance. To enable the Fund to conduct bilateral surveillance, each member of the Fund is required to provide the necessary information and to consult with the IMF when requested. During FY 2022, the Fund conducted 126 Article IV consultations across all regions. For six countries, the Fund conducted a comprehensive Financial System Stability Assessment, which is a more resource-intensive exercise conducted less frequently than Article IV consultations. In addition, the Board discussed regional developments and economic policy issues such as liberalization and management of capital flows, gender mainstreaming, and engagement in fragile and conflict affected states.

2.1 IMF ARTICLE IV CONSULTATIONS

2.1.1 DENMARK 2022 ARTICLE IV CONSULTATION

The Executive Board concluded the 2022 Article IV consultation for Denmark in June. In the Article IV report, staff emphasized that Denmark's strong recovery has raised economic activity to pre-pandemic levels, building on strong domestic demand. Staff expected the rebound in activity to continue, although uncertainty is high due to the war in Ukraine and the pandemic. Staff expected headline inflation to rise to close to 5 percent in 2022, mainly due to increasing energy prices. Staff pointed to high and rising household debt as a source of risk, as house price growth remains strong. On fiscal policy, staff supported the planned tightening, noting the need to remain flexible in light of high uncertainty. Staff recommended that flexicurity be allowed to operate at full force and measures be taken to boost the labor supply by targeting the young, low-skilled and foreign-born. Staff welcomed carbon tax proposals, calling for carbon pricing to be accompanied by fiscal incentives across sectors to catalyze private investment for the green transition. This would also help reduce the savings-investment gap in Denmark. On macrofinancial policies, staff recommended targeted policies to tighten macroprudential tools, reduce overly favorable tax incentives, and improve housing supply.

The Danish authorities welcomed staff's recommendations, generally agreeing with the assessment of the fiscal stance and policy. The authorities recognized labor market pressures, emphasizing that flexicurity and the wage-bargaining framework are conducive to alleviating pressures. The authorities acknowledged risks stemming from the property market, noting that they continue to vigilantly monitor developments. The authorities agreed that the green and digital transformation provide an opportunity to catalyze investment and raise productivity.

Further reading: Denmark: 2022 Article IV Consultation - Press Release and Staff Report

2.1.2 ESTONIA 2022 ARTICLE IV CONSULTATION

The Executive Board concluded the 2022 Article IV consultation with Estonia in August. The Article IV report emphasized that Russia's war against Ukraine and the upsurge in inflation significantly slowed Estonia's strong recovery from the COVID-19 shock. High downside risks were noted, owing to uncertainty and spillovers from the war, potential spillovers from trading partners and sanctions, and the normalization of monetary policy. The report warned that persistent supply shortages combined with upside surprises in domestic demand, and the associated entrenching of elevated inflation could create risks of a wage-price spiral and start to erode competitiveness. The authorities were encouraged to use fiscal space efficiently to meet essential spending needs created by the war and address inclusive growth challenges, including those posed by higher inflation. At the same time, it will be necessary to be vigilant to the risks of potential economic overheating exacerbating inflationary pressures. The report also recommended enhancing energy security and active labor market policies, including integration of the refugees from the war in Ukraine. The Estonian authorities generally concurred with staff's appraisal, emphasizing that possible further acceleration of wage growth could entrench core inflation and cause a sustained deterioration in external competitiveness. The authorities stressed their commitment to medium-term fiscal consolidation. The authorities voiced their support to the Ukrainian refugees by providing them short-term social support measures and facilitating their integration into the Estonian labor market and educational system.

Further reading: Estonia: 2022 Article IV Consultation – Press Release and Staff Report

2.1.3 FINLAND 2021 ARTICLE IV CONSULTATION AND 2022 ARTICLE IV CONCLUDING STATEMENT

The 2021 Article IV consultation with Finland was concluded by the Executive Board in January 2022. The report showed that Finland experienced one of the smallest contractions in economic activity in 2020 among European countries, thanks to a successful containment strategy during the pandemic and a comprehensive policy response. The economic outlook for the short term was seen as strong, but the report noted that medium-term growth prospects are constrained by adverse demographics and low productivity. The report assessed that fiscal policy had provided timely and needed support during the pandemic, but also noted that public debt has increased to close to 70 percent of GDP and is projected to remain on an increasing trajectory in the medium term. The report noted that, while banks are well-capitalized, liquid, and profitable, the banking sector is large and highly concentrated and banks are highly exposed to residential and commercial real estate.

In November 2022, IMF staff issued the Concluding Statement for the 2022 Article IV Mission to Finland. The Concluding Statement noted that the aftershocks from Russia's war in Ukraine have worsened the outlook and added fiscal pressures from measures strengthening security and partly shielding households from higher inflation. The mission noted that the additional spending adds to inflationary pressures and has put debt on a risker path over the medium term and recommended reversing the fiscal impulse next year, partly by better targeting energy support measures. The mission highlighted that structural reforms to boost long-term growth remain a priority, including changes to the collective bargaining system that would facilitate adjustment to shocks and retain a sufficient degree of coordination to safeguard competitiveness. Finally, the mission cautioned that the tightening of global financial conditions will put pressure on Finland's large and interconnected financial system with high exposure to household indebtedness, which calls for further strengthening banks' liquidity buffers, improving the macro-prudential toolkit, and—when circumstances allow—reinstating capital buffers.

Further reading: [Finland: 2021 Article IV Consultation-Press Release and Staff Report] [Finland: Staff Concluding Statement of the 2022 Article IV Mission]

2.1.4 ICELAND 2022 ARTICLE IV CONSULTATION

The 2022 Article IV consultation with Iceland was endorsed by the Executive Board in a Lapse of Time procedure in June. The Article IV report emphasized that well-designed policy measures and a solid health system eased the impact of the pandemic and allowed real GDP and employment to recover strongly. The report noted that robust domestic demand and favorable terms of trade, boosted output growth despite slower recovery in tourism. The economic outlook was deemed positive but subject to significant uncertainty. Risks to the recovery were found to arise from a potential impasse in the negotiations for a new collective bargaining agreement that could result in labor market tensions and economic dislocation. The war in Ukraine and the pandemic were also found to pose risks but the Icelandic economy remains well positioned to handle potential negative shocks with high international reserves and a sustainable debt level together with a sound banking system. Tourism and new innovative industries were also mentioned as mitigating factors which could help the economy to grow faster. The report noted that the banking sector had weathered the pandemic well but that rising systemic risks called for additional action, such as tightening of macroprudential measures and actions to address housing affordability. The report also stressed the importance of ensuring the quality of bank ownership. The planned fiscal consolidation efforts were found appropriate, and the authorities were encouraged to save potential windfall fiscal revenues and reactivate the fiscal rules on time. Monetary tightening was also welcomed, and the CBI was encouraged to continue to withdraw monetary policy stimulus. The report encouraged further efforts to diversify the economy by reducing burdens on start-ups, easing business regulations, promoting R&D investment, easing access to finance for small firms and further education reforms. The authorities broadly concurred with staff's views and recommendations but were slightly more optimistic about the growth outlook in 2022 and over the medium term, based on the relatively mild impact of the war in Ukraine, improved terms of trade and encouraging signs of recovery of the tourism sector. While the authorities recognized the high uncertainty, they viewed risks for real activity as being balanced. The authorities agreed that consolidation measures would be needed and saw room for streamlining the VAT expenditures, public consumption, and the transfer system.

Further reading: [Iceland: 2022 Article IV Consultation - Press Release; and Staff Report]

2.1.5 LATVIA 2022 ARTICLE IV CONSULTATION

In August, the Executive Board concluded the 2022 Article IV consultation with Latvia and endorsed the staff appraisal on a Lapse-of-Time basis. The Article IV report found that Latvia's economy had made a robust recovery from the pandemic, but the war in Ukraine and related sanctions on Russia will reshape the economic outlook in the short-to-medium term. Growth in 2022 was projected at 2.5

percent, or about 1½ percentage points lower than the forecast before the war started. Inflation was forecasted to persist due to high energy prices and continued supply bottlenecks. Over the medium term, staff expected output to rebound, supported by higher domestic demand and an increase in EU-financed capital spending. The report emphasized that, in the short term, fiscal policy needs to mitigate the impact of higher energy prices on the most vulnerable and deal with spending pressures due to the war, while improving the composition of spending towards public investment to ensure energy security and support the recovery and resilience of the economy. Although the financial sector had been resilient to the pandemic thus far, staff recommended that the spillovers of the war to the financial sector warrant close monitoring and contingency plan preparedness. It was noted that Latvia continues to make significant progress in strengthening its AML/CFT framework. The authorities broadly agreed with staff' s economic outlook, risk assessment, and advice. They concurred that fiscal policy should be flexible given the unusually high uncertainty and fiscal support to alleviate the impact of high energy prices should be well-targeted. The authorities underlined that direct bank exposures to Russia, Belarus, and Ukraine are low and mostly limited to a few smaller banks and macroeconomic stress test showed that the banking's sector's ability to absorb shocks remains good. They emphasized that Latvia's decade-long credit-less business cycle was characterized not only by low credit demand or some remaining institutional bottlenecks, but also conservative bank lending policy. The authorities noted that efforts to achieve energy security would enhance Latvia's green transition and reconfirmed their commitment to greater inclusiveness.

Further reading: Latvia 2022 Article IV Consultation-Press Release and Staff Report

2.1.6 LITHUANIA 2022 ARTICLE IV CONSULTATION

In July, the Executive Board concluded the 2022 Article IV consultation with Lithuania on a Lapse-of-Time basis. The Article IV report emphasized that the Lithuanian economy had avoided a recession in 2020 and rebounded vigorously in 2021, outperforming the rest of the euro area. Domestic demand, supported by low unemployment, double-digit wage growth, and a recovery of investment, was the main driver of growth which contributed to accelerating inflation. The spillovers of Russia's war against Ukraine, including the spike in global energy and food prices, compounded inflationary pressures in 2022. The report emphasized that the pass-through of higher energy prices to consumers was significant, particularly for companies. Staff projected that inflation was to remain elevated throughout 2022 and early 2023 despite a marked slowdown in growth. According to staff, the fiscal stance should be tightened after 2022 given the risk of persistently high inflation. The increase in public sector wages and the minimum wage over the next few years should be consistent with expected inflation and productivity gains to provide a strong signal to the private sector and help prevent a wage-price spiral. Efforts should also focus on improving the quality of spending, eliminating distortionary tax exemptions, and broadening environmental and housing-related taxes. The authorities broadly agreed that the tax system needs adjustments in these areas. The authorities also stressed that following the initial success in establishing a dynamic fintech sector, they will focus on further enhancing its maturity and risk management. The authorities emphasized the AML/CFT law amendment which enhanced the regulatory framework applicable to virtual asset service providers.

Further reading: Republic of Lithuania: 2022 Article IV Consultation-Press Release; and Staff Report

2.1.7 NORWAY 2022 ARTICLE IV CONSULTATION

The Executive Board concluded the 2022 Article IV consultation with Norway in September. The Article IV report noted that the economy bounced back strongly from the first wave of the Covid-19 pandemic, and that the recovery is well entrenched in 2022. However, risks to the outlook are considerable, given the uncertainty over spillovers from the war in Ukraine, the intensity of the pandemic globally, and in Europe, in particular, and supply bottlenecks. The report highlighted that given the strong fundamentals, Norway is relatively shielded and there are both upside (higher energy prices and export volumes) and downside risks (lower demand from Europe for non-energy exports). The report noted that the forecast for Norway is especially sensitive to where energy prices settle, whether energy supply to Europe will be disrupted, and Norway's capacity to increase gas supply to Europe. In terms of policy advice, the report argued that fiscal consolidation should target a return to a neutral stance in the medium term, but that if risks materialize, fiscal policy should remain the main policy tool, given Norway's ample fiscal space. Monetary policy should continue to balance overheating risks and financial stability. The authorities broadly agreed with staff's assessment and policy recommendations. They noted that there is some concern related to the budget dependence on financing from the wealth fund, and that the fiscal framework now exposes the economy mainly to asset price volatility, while commodity price volatility has gradually become a less dominant risk. Norges Bank was concerned with the risk of inflation moving higher than anticipated against the background of little spare capacity, sustained global inflationary pressures and a weaker krone. On the other hand, Norges Bank noted that there is a risk that rapid tightening abroad would lead to an abrupt slowdown in growth, with global inflation pressures easing faster than assumed.

Further reading: Norway: 2022 Article IV Consultation Staff Report

2.2 EXTERNAL SECTOR REPORT

Context: In July 2022, the Executive Board discussed the 2022 External Sector Report, subtitled "Pandemic, War, and Global Imbalances". The report shows that global current account balances—the overall size of current account deficits and surpluses—continued to widen in 2021, to 3.5 percent of world GDP, and are expected to widen again this year. The IMF's multilateral approach suggests that global excess balances narrowed to 0.9 percent of world GDP in 2021 compared with 1.2 percent of world GDP in 2020. The report shows that the pandemic continued to affect economies' current account balances unevenly through the travel and transportation sectors as well as a shift from services to goods consumption. Commodity prices recovered from the COVID-19 shock and started rising in 2021 with opposite effects on the external position of exporters and importers, a trend that Russia's war in Ukraine exacerbated in 2022. The medium-term outlook for global current account balances is a gradual narrowing as the impact of the pandemic fades away, commodity prices normalize, and fiscal consolidation in current account deficit economies progresses. However, the report stressed that the outlook is highly uncertain and subject to several risks. Policies to promote external rebalancing differ with positions and needs of individual economies.

NBC view: The NBC broadly supported the assessments in the report and the policy recommendations for excessive deficit and surplus countries, while underlining the necessity to tailor policy to country-specific needs and context. The NBC noted that policy challenges and trade-offs in the near term are particularly difficult given the worsening economic outlook and argued that agility is needed to bring down inflation while supporting growth and financial stability. The NBC highlighted the importance of multilateral cooperation and addressing global challenges through coordinated efforts. The NBC emphasized that it is crucial to avoid trade barriers and to resolve trade tensions to support a well-functioning and rules-based open trade system, robust global growth, and a non-disruptive process of external rebalancing.

Further reading: [2022 External Sector Report]

2.3 REVIEW OF THE INSTITUTIONAL VIEW ON THE LIBERALIZATION AND MANAGEMENT OF CAPITAL FLOWS

Context: In March, the Executive Board completed the review of The Institutional View (IV) on the Liberalization and Management of Capital Flows. The IV, adopted in 2012, provides the basis for consistent advice, and where relevant, assessments on policies related to capital flows. The review of the IV was informed by advances in research, notably the work on an Integrated Policy Framework (IPF), the findings of the 2020 evaluation by the Independent Evaluation Office (IEO) on IMF Advice on Capital Flows, and staff's experience with the implementation of the IV. The core premises and objectives of the IV remain unchanged, namely that the IV rests on the premises that capital flows are desirable as they can bring substantial benefits for countries, and that capital flow management measures (CFMs) can be useful in certain circumstances but should not substitute for warranted macroeconomic adjustment. With those premises in mind, the updated IV aims to help countries reap the benefits of capital flows, while managing the associated risks in a way that preserves macroeconomic and financial stability and does not generate significant negative outward spillovers. The new IV gives countries more flexibility to introduce measures that fall within the intersection of two categories of tools: capital flow management measures (CFMs) and macroprudential measures (MPMs). These measures are known as CFM/MPMs and the main update to the IV is that CFM/MPMs can be applied pre-emptively, even when there is no surge in capital inflows.

NBC View: The NBC supported the Fund's work in helping countries to manage financial and economic stability risks related to capital flows and found the review important to ensure that the Fund's framework evolves with the global environment and with new policy and academic insights. The NBC welcomed that the core premises and objectives of the IV remain unchanged and stressed the importance of strong economic fundamentals, policy frameworks and institutions as the first line of defense against volatile capital flows. The NBC saw merit in in temporary application of pre-emptive CFM/MPMs under narrow and exceptional circumstances, especially for small, open economies with shallow bond and foreign exchange markets. At the same time, the NBC stressed that it will be essential to ensure that these measures are effective for their intended purpose and eliminated when conditions allow. The NBC emphasized that CFM/MPMs should not substitute for market development or necessary structural policies, and the Fund should work actively with authorities to address underlying vulnerabilities, including through capacity development.

Further reading: Review of The Institutional View on The Liberalization and Management of Capital Flows

2.4 IMF'S STRATEGY FOR FRAGILE AND CONFLICT AFFECTED STATES

Context: In March, the Executive Board endorsed a new strategy to strengthen the Fund´s support to fragile and conflict affected states (FCS). The implications of fragility and conflict are macro-critical as they destabilize balance of payments positions, disrupt trade and financial flows, and hinder the development of productive resources. Addressing these challenges requires a well-tailored approach which factors in the drivers of fragility, political economy dynamics, and specific constraints to reform in each country, in coordination with other partners. About one fifth of Fund members are classified as FCS and the Fund has an important role to play, within its mandate, to help these countries exit from fragility and support them to achieve macroeconomic stability, enhance resilience, strengthen governance, and promote inclusive growth. The Executive Board expressed strong support for the proposed FCS strategy and its measures, which responds to the Board-endorsed recommendations of the 2018 Independent Evaluation Office Report on The IMF and Fragile States. Key measures include to further calibrate the Fund's modalities of engagement to FCS conditions and expand field presence to ensure that stepped-up capacity development provision in FCS is better tailored to local absorptive capacity and coordinated with other development partners.

NBC view: The NBC supported the FCS strategy and welcomed that the proposed engagement builds on the IMF's comparative advantages. The NBC emphasized leveraging the catalytic role of Fund programs, engagement, and partnerships in raising donor support to meet the financing needs of FCS and strongly encouraged leveraging partners' expertise, not least the World Bank´s. A close dialogue with all relevant actors in the multilateral community is important to ensure that unnecessary overlaps are avoided, cooperation is enhanced, and synergies harnessed. The NBC welcomed increasing focus on governance, anti-corruption, debt sustainability, climate adaptation and resilience building, and gender disparities.

Further reading: The IMF Strategy for Fragile and Conflict-Affected States

2.5 IMF'S STRATEGY TOWARD MAINSTREAMING GENDER

Context: In July, the Executive Board endorsed the IMF's first Strategy Toward Mainstreaming Gender which lays out how the Fund can systematically help its member countries address gender disparities in the context of carrying out its core functions—surveillance, lending, and capacity development. The strategy comprises four key pillars: first, gender-disaggregated data collection and development of modeling tools to enable staff to conduct policy analysis; second, a robust governance framework for an evenhanded approach across members based on the macro-criticality of gender; third, strengthening collaboration with external partners; and fourth, the efficient use of resources allocated to gender by putting in place a central unit for realizing scale economies and supporting country teams. The Executive Board recognized that reducing gender inequality can increase economic growth and foster economic and financial resilience. It was noted that, given the current economic uncertainties and shocks that are exacerbating pre-existing gender gaps, the Fund has an important role to play in mainstreaming gender in its core activities when it is deemed macro-critical. It was underlined that an evenhanded, tailored, and granular approach, along with engagement with country authorities will be essential for the successful implementation of the strategy.

NBC view: The NBC welcomed the Strategy Toward Mainstreaming Gender strongly emphasizing the need to ensure its robust implementation. The NBC supported its aim to focus on macro-critical aspects of gender issues in areas in which the Fund has expertise. The NBC were very supportive of deepening the Fund's analytical and policy tools on gender issues as a key step to gender mainstreaming. It was emphasized that a governance framework and internal organizational structure are important to enable a systematic approach to gender mainstreaming. The NBC underlined the importance of the collaboration with external partners to benefit from peer learning, knowledge sharing, and leveraging complementarities.

Further reading: IMF Strategy Toward Mainstreaming Gender

2.6 INSTITUTIONAL SAFEGUARDS REVIEW

Context: In December, the Executive Board endorsed the implementation plan to further strengthen the Fund's institutional governance and analytical integrity in response to the 2022 Institutional Safeguards Review (ISR), which was completed in June 2022. While the Fund has engaged in efforts in the past to upgrade and modernize its internal safeguards systems, the ISR was the first comprehensive and holistic review, in which both complementary pillars of the safeguards system— processes for data and analysis and the Fund's internal dispute resolution system (DRS)—were assessed simultaneously. While the ISR found that the Fund has robust mechanisms in place to ensure a high standard of institutional governance and analytical integrity it also identified areas that could be improved to further bolster the Fund's institutional safeguards. The Executive Board underscored that ensuring the highest standards of institutional governance and data and analytical integrity is paramount for the Fund to deliver on its mandate. They welcomed that the implementation plan entails actions by the Board, Management and staff, and outlines timelines, responsibilities, the required resourcing, as well as how outcomes will be monitored with the overarching aim of maintaining the highest standards of institutional governance and operating culture of the Fund.

NBC view: The NBC broadly agreed with the proposed recommendations of the ISR and welcomed the implementation plan underling that the highest standards of institutional governance, data integrity, and independence of analysis should be ensured and always maintained. The NBC emphasized that the Board and Management must lead by example showing commitment to durable cultural change. Effective functioning of the DRS is critical in ensuring that staff can focus on core tasks in a well-functioning and respectful work environment.

Further Reading: Review of Institutional Safeguards; Statement by the IMF Executive Board and Management on the Institutional Safeguards Review; Press Release on the Implementation Plan in response to the Institutional Safeguards Review

2.7: IMF'S ENGAGEMENT IN CLIMATE ISSUES

In line with the IMF's Climate Strategy which was approved in July 2021 climate-change related issues are being integrated more systematically into the Fund' s activities. As part of the surveillance work, adaptation and mitigation policies for managing the transition to a low-carbon economy are now regularly covered during Article IV consultations. The revised Staff Surveillance Note issued in May specified guidance on the coverage of climate change under Article IV consultations. The Note stated that climate change is an existential threat to global prosperity with significant macroeconomic and financial implications, emphasizing that for bilateral surveillance, mandatory coverage should be guided by the assessment of macro-criticality. To integrate in-depth climate-related risk assessments into the Fund's work, the IMF's Financial Sector Assessment Program (FSAP) now incorporates climate risk analysis, including stress testing where relevant. The latest FSAPs for the UK, Uruguay, Mexico, Ireland, Philippines, Chile, Colombia, and South Africa included climate risk analyses. Work is also underway to scale up climate-related capacity development. To help governments improve the effectiveness of public investment in low-carbon and climate-resilient infrastructure, a new climate module has been added to the current Public Investment Management Assessment (PIMA) framework. The "Climate-PIMA" has been tested in more than 15 countries. A new technical assistance diagnostic tool - Climate Macroeconomic Assessment Program (CMAP) also has been developed and piloted in two countries (Samoa and Madagascar). The CMAP is intended to assess the macro-fiscal risks of climate shocks and stresses, the preparedness of climate-vulnerable countries, and the implications of mitigation and adaptation policies. Staff Climate Notes have provided analysis related to the impact of climate change on macroeconomic and financial stability, including on mitigation, adaptation, and transition.

Further Reading: Guidance Note for Surveillance Under Article IV Consultations; Staff Climate Notes; IMF Strategy to Help Members Address Climate Change-Related Policy Challenges

2.8: DIGITALIZATION AND CBDCS

Since the adoption of its Digital Money Strategy in 2021, the Fund has been increasing its engagement in the areas of fintech, CBDC, and crypto assets across surveillance, capacity development, and the IMF analytical output.

Many IMF member countries are assessing the possibility of introducing CBDCs, although only a few have issued CBDCs or undertaken extensive pilots or tests. In February 2022, IMF staff issued a Fintech Note on six advanced CBDC projects, exploring the policy goals of the different jurisdictions, as well as reviewing the operational models, design features, and legal foundations of CBDC. The Institute for Capacity Development established a training course for central bank officials and other government agencies on the principles and policy considerations of CBDC. This in addition to other CD efforts and workshops to provide technical assistance facilitate best practices across the membership and support countries in understanding the big picture trade-offs related to CBDC.

In addition, an increasing number of countries are approaching the IMF on the issue of regulating the crypto ecosystem. In 2022, IMF staff issued Fintech Notes on the topic, including on the implications of crypto assets for capital flow management measures. Moreover, the IMF continued its work on developing a broad framework for effective regulation and policy responses to crypto assets which will provide further basis for the Fund's policy advice. The Executive Board discussed crypto assets and CBDCs in a few informal sessions in 2022.

NBC view: The NBC underlined the need for the IMF to support a stable evolution of the international monetary system and address the cross-border macro-financial risks related to digital money. The NBC also urged the Fund to make best use of its comparative advantages, cooperate with other IFIs and standard-setting bodies, and avoid duplication of work.

Further reading: The Rise of Public and Private Digital Money: A Strategy to Continue Delivering on The IMF's Mandate; Behind the Scenes of Central Bank Digital Currency: Emerging Trends, Insights, and Policy Lessons (Fintech Notes No 2022/004); Capital Flow Management Measures in the Digital Age: Challenges of Crypto Assets (FinTech Notes No 2022/005); Regulating the Crypto Ecosystem: The Case of Unbacked Crypto Assets (FinTech Notes No 2022/007); Regulating the Crypto Ecosystem: The Case of Stablecoins and Arrangements (FinTech Notes No 2022/008).

3 LENDING

3.1 RESILIENCE AND SUSTAINABILITY TRUST

Context: In April, the Executive Board approved the establishment of the Resilience and Sustainability Trust (RST) with the aim to help countries build resilience to external shocks and ensure sustainable growth, contributing to their long-term balance of payments stability. The RST will complement the IMF's existing lending toolkit by focusing on longer-term structural challenges – including climate change and pandemic preparedness – that entail significant macroeconomic risks and where policy solutions have a strong global public good nature. About three quarters of the IMF's membership are eligible for longer-term affordable financing from the RST, including all low-income countries, all developing and vulnerable small states, and lower middle-income countries. In October, the RST became operational following successful fundraising. Costa Rica became the first country to benefit from the RST in November, with a lending arrangement supporting the country´s policy agenda on climate change.

NBC view: The NBC supported the establishment of the RST and agreed that the Fund, within its mandate, should help vulnerable members finance reforms to address long-term structural challenges. The NBC noted that close collaboration with the World Bank and other MDBs will be crucial in these endeavors. The NBC also strongly supported the focus on climate change mitigation, transition, and adaptation from the onset. The macro-criticality of climate change is indisputable, and it is an area where the Fund has clear and growing experience and expertise. The NBC stressed the importance of focusing on the catalytic impact of RST lending, not least from the private sector, given the substantial amounts needed to address climate change challenges. The NBC agreed that pandemic preparedness is a macro-critical longer-term structural challenge, while noting that additional work is needed to fully prepare the Fund to support countries in this area.

Further reading: IMF Resilience and Sustainability Trust

3.2 FOOD SHOCK WINDOW AND PROGRAM MONITORING WITH BOARD INVOLVEMENT (PMB)

Context: In October 2022, the Executive Board approved a new, temporary Food Shock Window (FSW) under its emergency financing instruments (RFI and RCF). IMF staff estimates that about 50 countries are particularly vulnerable to the food and fertilizer price shock, most of which also suffer from acute food insecurity. The FSW provides, for a period of a year, a new channel for emergency Fund financing to member countries that have urgent balance of payment needs due to acute food insecurity, a sharp increase in their food import bill, or a shock to their cereal exports. Access is capped at 50 percent of quota and is additional to the annual access limits under the RCF/RFI. The cumulative access limits under the RFI regular window and the RCF exogenous shock window, previously at 150 percent of quota, were increased to 175 percent of quota for members that will borrow through the FSW.

The Executive Board also amended the IMF policy for Staff-Monitored Programs (SMPs) which constitute an informal agreement with a member country to monitor its economic program without IMF financing. The amendment allowed for Program Monitoring with Board involvement (PMB) as a subset of an SMP. The PMB is a policy monitoring instrument to help countries design policies and attract donor financing under complex circumstances. The Executive Board's role in the PMB arrangements will be limited to assessing the robustness of the member's policies and to monitoring program implementation. The PMB will be encouraged for countries that (i) seek to build or rebuild a track record needed for a disbursing UCT-quality (fully fledged) program, and (ii) would benefit from limited Executive Board involvement.

In 2022, Ukraine, Malawi, and Guinea accessed IMF lending under the FSW to meet urgent balance of payments needs. PMB arrangements were also approved by Management and discussed by the Board in the cases of Ukraine and Malawi.

NBC view: The NBC supported the establishment of the FSW, while noting that the unfolding global food crisis can best be alleviated by Russia stopping its war against Ukraine. The NBC stressed that the proposed qualification criteria will be key to appropriately target the financing and avoid incentivizing countries to request emergency financing in cases where liquidity needs can be better addressed by a UCT-quality program. The NBC asked for more work to strengthen governance safeguards standards when the Fund provides emergency financing. On the PMB, the NBC strongly agreed that the arrangement should be considered as a stepping-stone to a UCT-quality program.

Further reading: Proposal for a Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility (Policy Paper No. 2022/042)

3.3 REVIEW OF THE IMF'S SOVEREIGN ARREARS POLICY AND PERIMETER

Context: In May the Executive Board completed a comprehensive review of the Fund's sovereign arrears policies. The arrears policies determine the conditions under which the Fund can lend to a member in the presence of sovereign arrears i.e., after it has defaulted on a financial obligation. The Fund's legal and policy framework for sovereign debt includes a policy of non-toleration of arrears to international financial institutions and official bilateral creditors in specific circumstances (NTP), complemented by the policy on Lending Into Arrears to private creditors (LIA) and Lending Into Arrears to Official Bilateral Creditors (LIOA). The main policy changes related to four areas: (i) Increased emphasis on debt transparency in addition to streamlining the requirements by eliminating the reference to a formal negotiating framework; (ii) The Fund's existing practice governing lending to members who are not in arrears but seeking a debt restructuring was codified into a formal policy; (iii) The Fund's definition of an official bilateral claim was updated considering the recent evolution of the creditor landscape; (iv) The NTP with respect to IFIs was updated to provide clarity on how new IFIs will be treated. As is currently the case, the question of whether an IFI should benefit from the NTP will remain a judgment call informed by several factors. In addition to the existing factors—global membership, treatment by the Paris Club, and participation in the HIPC initiative—the Board will also consider whether the institution is a Regional Financing Arrangement and whether the IFI is receiving preferred creditor treatment by the official bilateral creditor community. For all other IFIs, the NTP would apply in cases when a restructuring involving official creditors is not required, while the LIOA would apply in the remaining cases.

NBC view: The NBC supported the proposed changes and welcomed the increased emphasis on transparency. It welcomed the inclusion of the categories of the Reserve Currency Union Central Banks and the Regional Financing Arrangements in the framework, as their operations strengthen the Global Financial Safety Net. The NBC expressed concerns, along with several other chairs, on the potential implications of the reclassification of MDBs for the institutions' creditor status. Some major institutions would be protected automatically under the NTP while others would now depend on the creditor committee's decision on a case-by-case basis.

Further reading: IMF Executive Board Completes Review of the Fund's Policies on Sovereign Arrears and Related Perimeter Issues

3.4 STANDARD LENDING FACILITIES

As of December 31, 2022, the Fund was engaged in 23 active programs and has approximately USD 242.9 billion in total lending commitments and credit outstanding across the globe under the General Resources Account. During 2022, the Executive Board approved 11 new loans or precautionary arrangements under the standard non-concessional lending and conducted regular reviews of ongoing programs. The NBC supported requests for new programs, as well as the reviews completed during 2022.

Further reading: IMF Financial Activities

3.4.1 ARGENTINA

Context: The Executive Board approved a 30-month arrangement under the Extended Fund Facility (EFF) for Argentina in March, amounting to SDR 31.914 billion (equivalent to US$44 billion or 1000 percent of quota). The EFF arrangement is the Fund's largest program and aims to provide Argentina with balance of payments and budget support that is backed by measures designed to strengthen debt sustainability, tackle high inflation, boost reserves, address the country's social and infrastructure gaps, and promote inclusive growth. The program has undergone three reviews during 2022 with the last one concluding in December, where the Chair noted that "continued decisive policy actions are starting to bear fruit. Against a more challenging external and domestic backdrop, resolute policy implementation, including tightening of fiscal and monetary policies, is leading to a reduction in inflation as well as improvements in the trade balance and reserve coverage. Nevertheless, macroeconomic imbalances persist, and conditions remain fragile. Continued enhanced program implementation will therefore be critical to achieve key program objectives and maintain the program as an anchor for stability."

NBC view: The NBC supported Argentina's program request and the subsequent reviews while raising concerns about the high risks, including potential financial and reputational risks to the Fund. The NBC noted that strong political commitment to the program is key for sustained improvements, especially considering the uncertain political environment in Argentina. In addition, steadfast implementation of the agreements under the program is necessary to support an effective catalytic role of the Fund and to rebuild confidence for Argentina to regain market access in the medium term.

Further reading: Board approves 30-month US$44 billion Extended Arrangement for Argentina; IMF Executive Board Completes Third Review of the Extended Arrangement Under the Extended Fund Facility for Argentina

3.4.2 UKRAINE

Context: In the aftermath of Russia's invasion of Ukraine, the IMF has been actively supporting Ukraine and remained closely engaged with the Ukrainian authorities. The immediate focus of the Fund's work was to help the Ukrainian authorities with their emergency economic policy measures and address the country's near-term financing gaps. As part of this engagement, the Fund disbursed US$1.4 billion in emergency financing to Ukraine in early March 2022, making the IMF the first IFI to provide financing after the start of the war. In early April, the Fund set up an "Administered Account" to allow donor countries to securely channel financial support (loans or grants) to Ukraine, using the IMF's payment infrastructure. In 2022, four countries disbursed a total of US$2.9 billion through the account. In October 2022, the Executive Board approved a US$1.3 billion emergency financing disbursement under the newly established Food Shock Window (FSW) to help Ukraine cope with urgent balance of payment needs from a major cereal export shortfall. Ukraine was the first IMF member to benefit from the FSW.

In December 2022, the IMF Executive Board discussed the Program Monitoring with Board Involvement (PMB) for Ukraine, following approval by Management. The 4-month PMB focuses on a targeted set of policy actions to support macroeconomic and financial stability, enhance revenue mobilization, revive domestic debt markets, and eliminate monetary financing. At the same time, the PMB seeks to preserve the hard-won gains from past Fund-supported programs, including in the areas of independence of the National Bank of Ukraine and, more broadly, governance and anti-corruption. The stated objective of the PMB is to help pave the way towards a fully-fledged IMF financial assistance program.

The IMF participated in the development of the multi-agency Donor Coordination platform for Ukraine announced by the G7 in end-2022. Through this platform, the G7 will coordinate existing mechanisms to provide ongoing short- and long-term support to Ukraine. The IMF's work in the platform will focus on the macroeconomic framework and policies, the size of the financing gap, and modalities for closing it.

NBC view: The NBC strongly supported Ukraine and the IMF's engagement with the Ukrainian authorities. In April, the NBC was among the constituencies that requested the establishment of the Administered Account for Ukraine. The NBC stressed that the IMF should play a central role in coordinating and catalyzing budget support from donors and international partners. The NBC also emphasized that, with the help of the IMF Technical Assistance, the Ukrainian authorities should fully implement policies and reforms set out in the PMB and preserve the hard-won gains from past Fund-supported programs. Strong implementation would help pave a way towards a UCT-quality (fully fledged and disbursing) arrangement for Ukraine as soon as possible.

Further Reading: Ukraine: Program Monitoring with Board Involvement-Press Release; Staff Report; and Statement by the Executive Director for Ukraine; Remarks of the Managing Director at the International Expert Conference on the Recovery, Reconstruction and Modernization of Ukraine

3.5 PRECAUTIONARY LENDING ARRANGEMENTS

As of December 31, 2022, the Fund was engaged in six precautionary arrangements with a total of approximately USD 84 billion available in lending commitments under those arrangements. During 2022, the Executive Board approved four new precautionary arrangements for Colombia, Peru, Chile, and North Macedonia, and completed reviews for Mexico and Panama. Five of the arrangements have been treated as precautionary while North Macedonia has drawn USD 0.1 billion (20 percent of quota) under its Precautionary and Liquidity Line (PLL). Mexico's ninth arrangement under the Flexible Credit Line (FCL) in the amount of USD 48 billion (400 percent of quota) continues to be the largest.

NBC view: The NBC supported requests for the new arrangements, as well as the reviews completed during 2022. The NBC has considered support under the FCL to be temporary and continued to emphasize the importance of a credible exit strategy for a timely, orderly, and well-communicated exit from the instrument.

3.6 LIC PROGRAMS

As of December 31, 2022, the Fund was engaged in 21 active programs and had approximately USD 29 billion in total loans outstanding and lending commitments under the Poverty Reduction and Growth Trust (PRGT). During 2022, the Executive Board approved new Fund-supported programs with financial resources under the concessional lending facilities for approximately USD 8.3 billion. The Executive Board also completed several regular reviews of ongoing Fund-supported programs.

NBC view: The NBC supported requests for new programs, as well as the reviews completed during 2022. Two of the major new Fund-supported programs are described in more detail below.

Further reading: Active IMF Lending Commitments as of December 31, 2022

3.6.1 TANZANIA

Context: In July, the Executive Board approved a 40-month extended arrangement under the Extended Credit Facility (ECF) for Tanzania, with access equivalent to SDR 795.58 (200 percent of quota, equivalent to US$1,046.4 million). The ECF arrangement followed Fund emergency support to Tanzania in 2021 (100 percent of quota, equivalent to US$561.5 million). Staff emphasized that spillovers from the war in Ukraine are stalling the Tanzanian economy's gradual recovery from the COVID-19 pandemic, exacerbating the country's development and reform challenges to unleash its economic potential. The ECF arrangement is centered on supporting the economic recovery from the scarring effects of COVID-19 and coping with spillovers from the war in Ukraine; preserving macroeconomic stability; and advancing the structural reform agenda toward sustainable and inclusive growth. The program draws from the key priorities of the government's Five-Year Development Plan. IMF financial support is also expected to help stimulate private sector investment and catalyze financial support from development partners.

NBC view: The NBC supported Tanzania's program request and underscored that fiscal reforms to increase revenues and improve spending efficiency will be crucial to reduce fiscal risks and create space for social spending. The NBC highlighted that large investments in education are needed to make sure that Tanzania's rapid population growth leads to a sustainable increase in potential growth and living standards. The NBC urged the authorities to take swift action to improve Tanzania's framework for anti-money laundering and to implement pending governance reforms.

Further reading: United Republic of Tanzania: Request For a 40- Month Arrangement Under The Extended Credit Facility

3.6.2 ZAMBIA

Context: In August, the Executive Board approved a 38-month Extended Credit Facility (ECF) Arrangement for Zambia to help restore macroeconomic stability and foster higher, more resilient and inclusive growth. The arrangement is in an amount equivalent to SDR 978.2 million or 100 percent of quota. Zambia is dealing with a legacy of years of economic mismanagement and has rates of poverty, inequality and malnutrition that are amongst the highest in the world. Zambia is in debt distress and needs a deep and comprehensive debt treatment to place public debt on a sustainable path. Progress on debt restructuring under the G20 Common Framework along with fiscal, governance and structural reforms is paramount for the success of the program.

NBC view: The NBC supported Zambia's program request and welcomed the progress in the debt restructuring negotiations under the G20 Common Framework that made the arrangement possible. The NBC noted that strong political support, as well as prior actions and the strong track record of repaying the Fund were important mitigating factors considering the significant risks to the program. The NBC also welcomed the focus of the program on social protection, health and education and the authorities' efforts to strengthen the anti-corruption framework.

Further reading: Zambia: Request for an Arrangement Under the Extended Credit Facility

4 CAPACITY DEVELOPMENT

Context: With a focus on areas critical to better economic management, IMF Capacity Development (CD) activities support countries' efforts to develop more robust public fiscal management systems, improve revenue mobilization, bank supervision, governance etc. The Fund's CD continues to support transformative policy actions that address longer-term challenges, including inequality, fragility, digitalization, and climate change. Since the onset of the pandemic, Fund CD has leveraged technology and created hybrid delivery models to help countries mitigate the economic impact of the crisis and support their recovery. Over 175 member countries have received CD through over 4,000 remote engagements, most of which benefited low-income countries and fragile and conflict-affected states.

NBC view: The NBC supports the Fund's ongoing CD work and regards this a key area of its operations. The NBC sees scope for enhancing the Fund's strategic and prioritization framework to achieve a more transparent approach to prioritization and allocation of CD. The NBC also sees room for the Fund to enhance collaboration with CD partners by better leveraging the knowledge of other institutions and contributing strongly with expertise within its own comparative advantages, for example on debt management and transparency. While progress has been made, the NBC believes that further work is needed to improve integration of CD with surveillance and lending activities to ensure that the core activities of the Fund complement each other.

Further reading: IMF webpage on Capacity Development; Report: IMF Capacity Development, 2022 Highlights

5 INDEPENDENT EVALUATION OFFICE (IEO)

In 2022 the IEO completed two evaluations—on IMF engagement with small developing states (SDS) and capacity development (CD). The second part of the evaluation of the IMF's Emergency Response to the COVID-19 Pandemic is in the pipeline, which the IEO is planning to complete in early 2023. Additionally, following an informal Board seminar in October and extensive consultation with Management and staff as well as external experts and civil society the IEO has decided to launch two new evaluations: (i) Exceptional Access Policy and (ii) Applying the IMF's Mandate.

Further reading: The IEO 2023 Work Program and note on possible topics for future IEO evaluations

5.1 IEO EVALUATION ON THE IMF'S ENGAGEMENT WITH SMALL DEVELOPING STATES

Context: In May, the Executive Board discussed the IEO evaluation on the Fund' s engagement with SDS. The IEO concluded that the Fund has substantially stepped up its engagement with its SDS members (38 percent of the membership) over the past decade, and that SDS country officials generally considered Fund surveillance and CD activities of high quality and well-tailored to their needs. At the same time, the IEO' s findings also indicated several challenges facing Fund engagement with SDS, including the suitability of the Fund's lending architecture to SDS needs and capacities, limited institutional capacity in SDS, difficulties in staffing SDS assignments, and political economy considerations. The Executive Board partially supported the IEO's recommendations underling the need to strengthen the value added and the impact of the Fund's engagement with SDS, while carefully weighing their budgetary implications, and building synergies with ongoing workstreams.

NBC view: The NBC agreed with the IEO's main message that a major overhaul of the Fund's SDS engagement is not needed. Nevertheless, there is scope for targeted recalibration of the Fund's work on SDS to increase the value added and impact of this engagement.

Further reading: IEO evaluation on the Fund' s engagement with SDS and the Board' s Acting Chair's Summing Up.

5.2 IEO EVALUATION ON THE IMF AND CAPACITY DEVELOPMENT

Context: In September, the Executive Board discussed the IEO evaluation on the IMF and CD and noted that the overall assessment was very positive, highlighting the achievements the authorities have made with the help of Fund CD and the value they continue to place on this area of Fund work. The report also acknowledged the significant strides that have been made in improving governance and management of CD in recent years and reaffirmed the key strengths of Fund CD, namely: its responsiveness and tailoring to members' needs, high technical quality, flexible delivery through a range of modalities, good prioritization, and adaptiveness to changing circumstances and broad effectiveness. At the same time, the report concluded that there is a need to build on progress, and further improve the strategic context, Board engagement, funding structure, field presence, and monitoring and evaluation of CD.

NBC view: The NBC welcomed the overall positive assessment of Fund CD activities and the considerable progress achieved in recent years towards meeting CD needs and fulfilling Fund objectives. The NBC noted that further strengthening the impact of CD activities is highly important, also considering that these activities account for one-third of the Fund's administrative budget. The NBC particularly highlighted the need to keep CD delivery demand driven and tailored to countries' absorptive capacity, and to further develop the Executive Board's oversight role.

Further reading: Statement by the MD on the IEO report on IMF and Capacity Development

THE IMF's EXECUTIVE BOARD

The International Monetary Fund (IMF) has 190 member countries. Its highest decision-making body is the Board of Governors where all countries are represented. The Board of Governors approves only a few of the Fund's major decisions and has delegated the rest of its decision-making powers to the IMF's Executive Board where all countries are represented by 24 Executive Directors. Some of the Executive Board's 24 chairs are single-country chairs, whereas the majority of the chairs represent multi-country constituencies. The task of the Executive Board is to conduct the daily business of the IMF in all aspects of its work, including surveillance, lending, and capacity development. The Board normally takes decisions based on consensus, but in some cases formal votes are cast. Each member country's voting power is determined predominantly by its quota, and the quota in turn is calculated to reflect member countries' relative position in the world economy.

THE OFFICE OF THE NORDIC-BALTIC CONSTITUENCY

The Nordic-Baltic Constituency (NBC) comprises Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden. The Nordic Baltic Executive Director leads the Office of the Constituency (ONBC) and presents the views of our member countries in the Executive Board in close coordination with the national authorities. The office also regularly meets with representatives from the member countries' administrations or private delegations. All positions in the office rotate between the eight member countries according to an agreed schedule and all countries are represented at all times. As of December 2022, our staff included:

Mika Pösö	Executive Director, Finland
Anne Marcussen	Alternate Executive Director, Denmark
Åsa Ekelund	Senior Advisor, Sweden
Simonas Spurga	Senior Advisor, Lithuania
Bjørnar Slettvåg	Advisor, Norway
Raido Kraavik	Advisor, Estonia
Inese Allika	Advisor, Latvia
Gudrun Ogmundsdottir	Advisor, Iceland
Maria P. Marin	Executive Assistant
Tammy Timko	Executive Assistant

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