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Office of the Nordic-Baltic Constituency

VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

2023 Annual Report

Contents

1 INTRODUCTION

1.1 INTRODUCTION

In 2023, the global economy showed resilience, although growth prospects in the near and medium-term remain lower than historical averages. Successive shocks, including Russia's war against Ukraine, continued to weigh on the global economy and macro-financial stability. Tight monetary policy and lower commodity prices eased inflation, while underlying price pressures remained somewhat sticky. Global trade was hampered by increasing protectionism, and geoeconomic fragmentation added to challenges. Debt vulnerabilities were elevated, with about 60 percent of low-income countries and 25 percent of emerging market economies in or at risk of debt distress.

To help members respond to shocks and build longer-term resilience, the IMF provided support through bilateral and multilateral surveillance activities, financing arrangements, and capacity development. Financing arrangements were approved for 33 countries, totaling USD 84.6 billion. This included a USD 15.6 billion four-year arrangement for Ukraine. Thirteen countries received support for climate related reform measures under the recently established Resilience and Sustainability Facility. The IMF supported countries facing debt sustainability and restructuring challenges through program engagement, policy advice and capacity development on e.g., debt management. In cooperation with the World Bank and the Indian G20 Presidency, the Fund launched the Global Sovereign Debt Roundtable to bring together public and private creditors and debtors.

In December, the IMF's Board of Governors reached agreement on the 16th General Review of Quotas. With the conclusion of the review, the IMF's quota resources are set to increase by 50 percent while reliance on borrowed resources will decrease.

In 2023, the Nordic-Baltic Constituency (NBC) continued its steadfast support for multilateralism, emphasizing the IMF's key role at the center of the global financial safety net. Condemning Russia's war against Ukraine, the NBC stressed the need to further strengthen rules-based global economic cooperation, not least considering risks from increased geoeconomic fragmentation.

The NBC consistently stressed the importance of strong **IMF surveillance** for all member countries. The NBC called for analysis and advice on monetary-fiscal interactions, managing risks from fragmentation, and sustainably reinvigorating growth while containing inflation. The NBC welcomed policy support for members' green transition and mitigation of climate risks. Further, the NBC emphasized the importance of focus on trade, governance, public financial management, digitalization, and closing gender gaps in the Fund's surveillance activities.

To support members in a more shock-prone world, the NBC stressed the importance of **IMF lending** with strong multi-year policy programs and adequate conditionality, safeguards, and debt sustainability assessments. The NBC called for programs to include measures which foster good governance and reduce corruption. The NBC called for impactful policies to build climate resilience and accelerate the green transition as part of Resilience and Sustainability Facility arrangements. Standing firmly by Ukraine and its people, the NBC strongly supported the USD 15.6 billion program to Ukraine, commending the authorities for strong program ownership under very difficult circumstances. The NBC supported the Fund's efforts to strengthen debt sustainability in member countries, including to boost debt transparency and facilitate timely debt restructuring where needed.

The NBC acknowledged the importance of **IMF capacity development** work. The NBC underlined the importance of tailoring to country-specific needs and absorptive capacities, enhancing collaboration with other capacity development partners, and integrating capacity development effectively with the Fund's lending and surveillance activities.

In the following, the 2023 Annual Report provides an overview of the main discussions and decisions of the Executive Board in the calendar year 2023 and outlines the views of the NBC. Section 1 describes the Fund's assessment of 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, including overviews of Fund engagement on climate, debt, and digitalization. Section 4 reviews the Fund's capacity development support, and Section 5 covers the work of the Independent Evaluation Office.

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 "Navigating Global Divergencies") highlighted that the global recovery remains slow, with growing regional divergences and little margin for policy error. The forecast was for global growth to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024, well below the historical (2000–19) average of 3.8 percent. Advanced economies were expected to slow from 2.6 percent in 2022 to 1.5 percent in 2023, while emerging market and developing economies were projected to have a modest decline in growth from 4.1 percent to 4.0 percent. Global inflation was forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024, due to tighter monetary policy aided by lower international commodity prices. Core inflation was generally projected to decline more gradually, and inflation was not expected to return to target until 2025 in most cases. The report highlighted the importance of monetary policy actions and frameworks at the current juncture to keep inflation expectations anchored. Fiscal policymakers should rebuild budgetary room for maneuver and withdraw untargeted measures while protecting the vulnerable. Reforms to reduce structural impediments to growth—by, among other things, encouraging labor market participation—would smooth the decline of inflation to target and facilitate debt reduction. Faster and more efficient multilateral coordination is needed on debt resolution to avoid debt distress. Cooperation is needed as well to mitigate the effects of climate change and speed the green transition, including by ensuring cross-border flows of the necessary minerals.

The October *GFSR* (subtitled "Financial and Climate Policies for a High-Interest-Rate Era") noted that risks to global growth remain skewed to the downside as inflation remains elevated and interest rates are set to stay higher for longer. The report assessed that cracks in the financial system may turn into worrisome fault lines should the soft landing of the global economy, hoped for by market participants, not materialize. The report provided a fresh assessment of vulnerabilities in a higher-for-longer environment, using an enhanced global stress test and a set of newly developed market-based indicators. In response to the vulnerabilities that were uncovered, enhancements to supervisory practices and tightening of regulatory standards are proposed. Finally, the report noted that a broad mix of policies is required to unlock the private capital necessary to cover climate mitigation investment needs in emerging market and developing economies.

The October *Fiscal Monitor* (subtitled "Climate Crossroads: Fiscal Policies in a Warming World") took stock of mitigation policies across countries and presented the trilemma facing policymakers of balancing between achieving climate goals, debt sustainability, and political feasibility. New insights from the report show that the only way to achieve these joint goals is through a carefully calibrated mix of revenue and spending-based policies. Carbon pricing is a necessary instrument and should be part of the policy mix. However, it is not sufficient and should be complemented by policies to address market failures and catalyze private financing and investment in low-carbon technologies. Robust fiscal transfers are needed to protect vulnerable households, workers, and communities during the green transition.

NBC view: At the Executive Board meeting on the flagship reports in September, the NBC broadly agreed with staff's assessments, and stressed that the outlook is subdued by the ongoing uncertainty related to Russia's war against Ukraine. The NBC stressed that inflation remains too high in most countries, while the effects of monetary policy tightening, diminishing pandemic-era savings, and a global slowdown in manufacturing threaten to curb the recent rebound in economic activity. The NBC called for a careful calibration of the overall policy stance going forward. Fiscal policy should support monetary policy and be aimed at rebuilding buffers against an uncertain outlook and facilitating debt reduction. The NBC was concerned about the widening growth divergences among countries and regions and noted that emerging markets and low-income countries are, on average, enduring the largest scarring effects from the pandemic and Russia's war. To improve longer-term growth prospects, the NBC stressed the importance of supply-enhancing structural reforms and argued that strengthening the multilateral rules-based economic order is critical to address geopolitical fragmentation and put international trade back on a higher growth path.

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

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

Context: In July 2023, the *Managing Director's (MD) Statement on the Work Program (WP) of the Executive Board* was published. The WP translated the strategic directions and policy priorities laid out by the International Monetary and Financial Committee (IMFC) at the 2022 Annual Meetings and 2023 Spring Meetings into an Executive Board agenda for FY2024 (May 2023 to April 2024). The WP focused on supporting the membership facing complex challenges, including durably reducing inflation, safeguarding financial stability and fiscal sustainability, and bolstering medium-term growth prospects, while protecting vulnerable parts of the population. The Fund committed to providing prompt and tailored policy advice, financial assistance—buttressed by efforts to support debt restructuring processes—and capacity development. Given the continued high uncertainty, the WP is intended to remain flexible and adaptable to prioritize the membership's changing needs, while recognizing the Fund's constrained budget.

The MD´s Global Policy Agenda (GPA) titled "*Safeguard Economic Stability, Support Vulnerable Countries, Sustain Our Future Prosperity*" was discussed at the 2023 Spring Meetings. It recognized that the global economy was at a highly uncertain moment with divisions deepening within and across countries, exacerbated by rising fragmentation. The GPA called for strong policy action and a pragmatic approach to find areas of common ground to respond to shared challenges. Key priorities were to: (i) safeguard economic and financial stability as a basis for stronger growth through resolute domestic policies to reduce inflation and debt while bolstering global trade; (ii) support vulnerable countries through stepped up international financial assistance and debt relief; and (iii) sustain our future prosperity by jointly tackling climate change and investing in a more inclusive and digital future.

For the Annual Meetings in October 2023, the MD delivered the Global Policy Agenda with the title "*Building Shared Prosperity and Collective Resilience*". The GPA saw the global economy as showing resilience, while the recovery remained slow and uneven. Not all countries had managed to overcome scarring from multiple shocks and there was danger of further divergences across economies. Medium-term global growth projections remained weak in an environment of fragmented trade, high debt levels, and possibly higher-for-longer interest rates. The key priorities were to (i) safeguard macroeconomic stability and rebuild buffers while enhancing prosperity through growth-oriented and green reforms and (ii) bolster international cooperation to strengthen the global financial safety net and debt architecture and to support ongoing fundamental transitions that transcend borders and require joint action. Ending Russia's war against Ukraine remained the single most impactful action.

NBC view: The NBC broadly agreed with the policy priorities laid out in the Managing Director's statement on the Work Program which was considered appropriately calibrated to the needs of the membership in the uncertain global environment with high demand for the Fund's analysis, policy advice, financing, and capacity development. The NBC supported the messages of the Global Policy Agenda that were presented in the context of the Spring and Annual Meetings. The NBC highlighted the importance of the Fund to help the membership address high inflation, rebuild fiscal buffers, and safeguard financial stability. The NBC welcomed the Fund's focus on climate change and stressed the importance of the Fund remaining a strong advocate of an open and rules-based multilateral trade system while helping to make it more inclusive and resilient. The NBC also appreciated the Fund's support to vulnerable members facing numerous challenges.

Further reading: Statement by the Managing Director on the FY 2024 Work Program of the Executive Board (imf.org); The Managing Director's Global Policy Agenda, Spring Meetings 2023 (imf.org); The Managing Director's Global Policy Agenda, Annual Meetings 2023 (imf.org)

1.4 16TH GENERAL REVIEW OF QUOTAS

Context: On December 15, 2023, the Board of Governors (BoG) concluded the 16th General Review of Quotas and approved an increase of IMF members' quotas by 50 percent which would be allocated to all members in proportion to their existing quotas. The BoG resolution maintains the IMF's current lending capacity through a combination of the approved increase in quota resources and reduced reliance on borrowed resources. When the quota increase becomes effective, borrowed resources comprising the New Arrangements to Borrow (NAB) will be reduced and the Bilateral Borrowing Agreements will be phased out. Transitional arrangements for borrowed resources may be necessary to maintain the Fund's lending capacity until the quota increase becomes effective. Following the BoG's approval, members have been asked to provide their consent to their respective quota increases by the deadline of November 15, 2024. In many cases, this involves legislative approval.

The agreement was based on the recognition that a strong, quota-based, and adequately resourced IMF at the center of the Global Financial Safety Net (GFSN) is essential to safeguard global financial stability in an uncertain and shock-prone world. The IMF is the only GFSN layer with near-universal membership and capacity to help prevent and address country-specific, regional, and global crises through lending, surveillance, and capacity development. The approved quota increase will reinforce the primary role of quotas in Fund resources by increasing the share of quotas in total Fund resources from 49 percent to 70 percent, bringing total quotas to SDR 716 billion (USD 960 billion) with total Fund resources amounting around SDR 1020 billion (USD 1370 billion). The approved quota increase leaves the individual members' quota shares unchanged ("equiproportional quota increase").

The membership has acknowledged the urgency and importance of a quota share realignment to ensure that quota shares better reflect members' relative positions in the world economy, while protecting the voice of the poorest members. In this context, the Board of Governors asked for the development, by June 2025, of possible approaches as a guide for further quota realignment, including through a new quota formula, under the 17th General Review of Quotas.

NBC view: The NBC agreed with the proposal to increase quotas by 50 percent in proportion to members' existing quota shares while maintaining the IMF's current lending capacity by reducing the NAB and phasing out Bilateral Borrowing Agreements, once the quota increase takes effect. The NBC reaffirmed its commitment to a strong, quota-based, and adequately resourced IMF. The NBC considered the outcome beneficial in sending a strong signal of support to the Fund and its critical role at the center of the GFSN. The NBC acknowledged that an equiproportional increase of quotas was the most pragmatic way to achieve a timely conclusion to the Review but noted continued preference for a limited realignment in quota shares based on the current quota formula. The NBC stressed the importance of timely implementation of the approved quota increase through domestic procedures to deliver on the collective commitment within the timeframe set by the BoG.

Further reading: IMF Board of Governors Approves Quota Increase Under 16th General Review Quotas; Sixteenth General Review of Quotas—Report to the Board of Governors and Proposed Resolution (imf.org)

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 2023, the Fund conducted 126 Article IV consultations across all regions. For nine countries, the Fund conducted a comprehensive Financial System Stability Assessment, which is a more resource-intensive exercise conducted less frequently than Article IV consultations. The IMF is continuing to refine its bilateral surveillance activities, including refinements to consider a wider set of macroeconomic forces. For example, in 2023, climate considerations were further incorporated into IMF surveillance activities, including through the publication of Staff Climate Notes.

2.1 IMF ARTICLE IV CONSULTATIONS

2.1.1 DENMARK 2023 ARTICLE IV CONSULTATION

In June, the Executive Board concluded the 2023 Article IV consultation with Denmark. In their report, staff found that the strong Danish recovery after the pandemic added to inflation pressures from higher energy and import prices. Staff found that economic activity had started slowing, as inflation has lowered real incomes, financial conditions have tightened, and external demand has weakened, but labor markets remain relatively tight. IMF staff expect growth to slow to 1¼ percent in 2023, noting that risks to growth are broadly balanced, but upside risks dominate inflation. Staff found the priority to be bringing down inflationary pressure while achieving a soft landing of the economy amid high uncertainty. On fiscal policies, staff recommended consideration of additional fiscal tightening to lower price pressures and provide insurance against upside inflation risks. To preserve long-term sustainability, fiscal policies might have to be adjusted in line with demographic trends and the effectiveness of ongoing labor market reform measures. On financial sector policies, staff highlighted risks related to households' creditworthiness, cross-border macrofinancial exposures, and liquidity which require close monitoring. On structural policies, staff emphasized the need to boost productivity and labor supply. Reform priorities include continuing the ambitious digitalization agenda with further efforts to promote competition, reviewing the tax-benefit system, tightening early retirement conditions, and utilizing immigrant labor more effectively. Staff noted that the green tax reform will support the green transition.

The Danish authorities broadly agreed with staff's assessment of the economic outlook and key risks. The authorities assessed fiscal policy in 2023 as appropriately tight to bring down inflation. The authorities agreed on the need to recalibrate the medium-term fiscal policy in case of revenue shortfalls but overall did not see fiscal risks tilted to the downside. They assessed the financial system to be sound but acknowledged macrofinancial risks arising especially from riskier mortgages. The authorities agreed on the need to maintain high productivity and sustain the labor supply, and on the need for further measures to meet climate goals.

Further reading: Denmark: 2023 Article IV Consultation-Press Release; and Staff Report

2.1.2 ESTONIA 2023 ARTICLE IV CONSULTATION

The Executive Board concluded the 2023 Article IV consultation with Estonia in July on a lapse-of-time basis. In the Article IV report, the Fund noted that a large rise in inflation, supply chain disruptions, slower growth in key trading partners, and fiscal tightening have led to a sharp economic downturn. An accentuation of geopolitical tensions in the region may further weigh on the outlook. The economic effects of Russia's war on Ukraine have exacerbated competitiveness erosion in Estonia and may leave scarring effects. A very large fiscal impulse in 2023 is expected to support the recovery but will also increase inflationary pressures. High inflation is likely to exert pressure on wages which, combined with declining productivity growth, may further erode Estonia's competitive position. Absent tighter fiscal policy and proactive structural reforms to support productivity, staff project a more permanent scar with growth failing to return to its pre-crisis average. Staff emphasized that a much less stimulative fiscal policy should be considered. Re-calibrating current spending towards productivity-enhancing capital spending would help safeguard competitiveness. Over the medium term, fiscal policy should preserve buffers to counter future shocks and spending pressures. An increase in the share of private sector R&D would support higher value-added production and exports. To support a more ambitious green transition, staff recommended phasing out oil shale in energy production, introducing a car registration and road tax, and extending ETS coverage.

The Estonian authorities welcomed staff's views and broadly agreed with policy recommendations. They agreed that a less stimulative fiscal policy should be considered to avoid further price and wage pressures and the erosion of Estonia's competitive position. They recognized the need to find additional consolidation measures to preserve buffers against future shocks, while agreeing that public spending should prioritize productivity-enhancing investment. The authorities saw scope for a more ambitious green agenda, highlighting plans to increase investment in renewables.

Further reading: Republic of Estonia: 2023 Article IV Consultation-Press Release; and Staff Report

2.1.3 FINLAND 2022 ARTICLE IV CONSULTATION AND FINANCIAL SYSTEM STABILITY ASSESSMENT

The 2022 Article IV consultation with Finland was concluded by the Executive Board in January 2023. The report assesses that the strong post-Covid recovery of the Finnish economy is faltering as economic activity is expected to stall in 2023 before slowly recovering in 2024. Longer-term growth potential is subdued around 1¼ percent, reflecting adverse demographics and low productivity growth. Tighter financial conditions will test the resilience of Finland's financial system. The Fund's policy advice for Finland proposes a mild policy tightening in 2023 and over the medium term calls for a gradual and sustained adjustment to put public debt on a declining path. Further measures to boost employment and productivity remain key to growth and sustainability and, additionally, more action is needed to achieve the goal of carbon neutrality by 2035. In the financial sector, liquidity buffers should be strengthened, systemic buffers re-instated when conditions allow, and macroprudential toolkit should be further enhanced.

In January 2023, the Fund completed a Financial System Stability Assessment (FSSA) for Finland under the Financial Sector Assessment Program (FSAP) which is conducted every five years for countries with systematically important financial sector. According to the assessment, the Finnish banking system is resilient, well-capitalized and profitable, but banks are vulnerable to liquidity shocks and risks emanating from high household debt levels and interconnected Nordic financial systems. The non-bank financial intermediation (NBFI) sector has highly correlated portfolios and exhibits potential procyclical behavior. The Fund advises the Finnish authorities to continue strengthening oversight, supervision, and regulation of the financial system, enhance macroprudential tools to address household vulnerabilities, address procyclicality in the pension insurance sector, ensure effective crisis management arrangements, and strengthen AML/CFT supervision.

The Finnish authorities broadly agreed with staff's assessment and policy advice. The authorities agreed that the worsened fiscal outlook puts public debt on a riskier path, requiring comprehensive fiscal consolidation measures. Focus on boosting employment and productivity was considered important. Further policy measures to achieve carbon neutrality by 2035 are needed. The authorities considered the financial sector to be resilient, but agreed with the need to closely monitor risks, continue strengthening oversight, supervision, and regulation, and further enhance macroprudential toolkit.

Further reading: Finland: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Finland (imf.org); Finland: Financial System Stability Assessment (imf.org); Finland: Staff Concluding Statement of the 2022 Article IV Mission (imf.org)

2.1.4 ICELAND 2023 ARTICLE IV CONSULTATION AND FINANCIAL SYSTEM STABILITY ASSESSMENT

The Executive Board concluded the Article IV consultation with Iceland in June. This also included a discussion of the findings of the FSAP exercise for Iceland. The Article IV report emphasized the resilience of the Icelandic economy which rebounded quickly from the multiple shocks in recent years. The recovery reflects pent-up demand from the pandemic, a rebound of the tourism industry, rapid immigration, and the fact that, unlike most European countries, Iceland experienced an improvement in its terms of trade in 2022. The Article IV report found that with the economy overheating, macroeconomic policies needed to be tighter to rein in elevated inflation and external imbalances, and to restore policy buffers in the medium term. The report recommended reactivating the fiscal rules in 2025, one year earlier than envisaged, and noted that further monetary policy tightening might be needed. Following the recent tightening, macroprudential policies should remain on hold, but the materialization of systemic risk or a disorderly correction in the housing market may call for releasing capital buffers. Structural reforms were necessary, according to the report, to bolster the economy's competitiveness and resilience to shocks. At the same time, further policies were needed to improve the sustainability and productivity of traditional export sectors and accelerate the transition to a low-carbon economy. The opportunity should be taken to better align real wages and productivity growth in wage negotiations.

The FSSA stated that Iceland had made solid progress since the 2008 crisis and the last FSAP update, in restructuring banks and implementing important financial sector reforms. Iceland's robust financial system had weathered the impact of the covid pandemic, owing to substantially improved macro-financial frameworks since the global financial crisis. The FSAP found that despite important progress, further reforms are needed. Regulatory agencies should be adequately resourced; gaps identified in the policy framework should be closed; and allocation of tasks between the Central Bank and Ministry of Finance and Economic Affairs further clarified. In addition, key recommendations included strengthening pension fund oversight; refining emergency alternative domestic retail payment solutions; and implement an oversight strategy for climate-related financial risks.

The Icelandic authorities broadly agreed with staff's views on the outlook and policy advice. They saw risks for real economic activity as more broadly balanced and risks to inflation firmly on the upside. They agreed that fiscal policy should contribute to reducing inflationary pressure while rebuilding fiscal buffers. On structural policies they underscored that significant efforts are underway to improve the sustainability of the tourism sector and underscored their strong commitment to take the necessary policy measures to achieve their ambitious climate goals. The authorities welcomed the FSAP's positive assessment of the resilience of the financial system. They broadly agreed with staff's assessment of systemic risks and the macroprudential stance and found the analysis conducted on pension funds and liquidity risks useful.

Further reading: Iceland: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Iceland (imf.org) Iceland: Financial System Stability Assessment (imf.org)

2.1.5 LATVIA 2023 ARTICLE IV CONSULTATION

The Executive Board concluded the 2023 Article IV consultation with Latvia in September, welcoming Latvia's economic resilience and notable progress in energy security in the face of unprecedented shocks. The Article IV report noted that Latvia is facing an inflation shock, slow growth, and geopolitical challenges, while the long-term policy concern is to sustain the income convergence process. Growth was projected to slow to 0.9 percent in 2023 from 2.8 percent in 2022, as high inflation weighs on consumption and external demand declines. Staff recommended a tighter fiscal stance in 2023 and better targeting of energy support measures, encouraging to focus fiscal reforms on public investment, pension, and growth-enhancing tax reform. It was concluded that the financial sector has so far been resilient, though tighter financial conditions warrant close monitoring and contingency plans. While the current macroprudential stance was assessed as broadly appropriate, staff suggested considering increasing capital-based measures to further build resilience. It was noted that Latvia continues to make significant progress in strengthening its AML/CFT and anti-corruption frameworks. Staff encouraged accelerating structural reforms to build resilience and lift long-term growth.

The Latvian authorities broadly agreed with staff's economic outlook and risks, but noted that the risks will likely be balanced, as risks related to Russia have been reduced by alternative energy supply and limited economic exposure to the Russian market. On fiscal policy, the authorities broadly agreed with staff's advice and reiterated their commitment to pursue structural fiscal reforms. They emphasized that the national fiscal rule, which aims for a structural fiscal deficit of 0.5 percent of GDP will continue to guide the medium-term fiscal strategy and keep the already low public debt on a downward path. While stressing the resilience of the financial sector the authorities agreed to review the capital-based measures and assess the costs and benefits of increasing capital buffers. It was emphasized that banks' lending policy is too conservative, holding back investment by nonfinancial corporations. The authorities reiterated their strong commitment to continue pursuing further AML/CFT framework improvements and structural reforms, including to ensure energy security, advance labor market reforms and address climate change.

Further reading: Republic of Latvia: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Latvia

2.1.6 LITHUANIA 2023 ARTICLE IV CONSULTATION

The Executive Board concluded the 2023 Article IV consultation with Lithuania in August. The economy remained resilient to the negative terms-of-trade shock until the last quarter of 2022. High inflation and rising interest rates weakened disposable income which, combined with weak external demand, resulted in an economic contraction. Fiscal policy is projected to become moderately expansionary adding to inflationary pressures, while in staff's view a fiscal contraction would actively contribute to lower inflation. Rebalancing the tax system from labor towards wealth, capital, and environmental taxes can generate additional revenue and improve efficiency. Risks to the banking sector are expected to remain manageable given high liquidity, capitalization, and profitability. The levy on banks should remain temporary to avoid being perceived as a tax on foreign investment and minimize the potential negative impact on efficiency. In case a sharp downturn should cause credit supply disruptions or a disorderly correction in the real estate market, a relaxation of capital-based macroprudential and, potentially, borrower-based measures should be considered. Regarding the AML/CFT framework, further progress is needed on mitigating remaining risks in the VASP sector and on regulation and supervision of designated non-financial businesses and professions. Preserving the flexibility of the economy and advancing long-overdue structural reforms, including in education and healthcare, will be needed to support further productivity gains. Developing renewable sources of energy and improving energy efficiency are necessary for climate change mitigation and energy security.

The Lithuanian authorities agreed with the thrust of staff's findings and recommendations. The authorities reiterated their commitment to prudent fiscal policy, noting that energy support measures for both households and businesses have been gradually withdrawn. The proposed tax reform would create a better-balanced tax system that supports growth while ensuring enhanced social fairness. The authorities stressed that the levy on banks is temporary and is designed to avoid distortions and negative effects on financial stability. Reforms in education and healthcare as well as innovation and green transition will be pursued.

Further reading: Republic of Lithuania: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Lithuania

2.1.7 NORWAY 2023 ARTICLE IV CONSULTATION

The Executive Board concluded the 2023 Article IV consultation with Norway in July. Norway grew strongly in 2022 but the pace of output growth receded somewhat in 2023. Record-high energy and food prices, together with much higher interest rates put pressure on households' purchasing power. Nonetheless, mainland GDP growth is still expected to be positive, supported by strong business investment and exports. Staff argued that further monetary policy tightening is needed as inflation risks are to the upside. GDP growth and the output gap are projected to be positive, the labor market is still tight, and consumption is still resilient, backed by savings accumulated during the pandemic. Against this background, elevated inflation expectations, currency weakness, and broad-based inflation pose upside risks. The fiscal position is strong but should attend to both short- and long-term pressures. In the near term, the fiscal stance should be more supportive of disinflation efforts. While public debt is sustainable over the medium term, given aging-related spending pressures, additional measures are needed to make room for new investment and promoting climate initiatives. The banking system is strong but tightening global conditions pose risks. Progress on structural reforms has been uneven, and further efforts are needed on long-standing structural challenges, including to increase labor supply and improve housing affordability. Norway's continuing efforts in tackling climate change challenges are commendable, but further efforts are needed to fulfil Norway's 2030 ambition under the Paris Agreement.

The Norwegian authorities agreed with the thrust of staff's findings and recommendations. They highlighted the economy's resilience thus far, despite higher policy rates and noted that despite some slowdown, consumption has been resilient, given the tight labor market and savings buffers. They saw risks to growth as broadly balanced and on the upside to inflation. The authorities agreed that in a context of elevated inflation and tight labor markets fiscal policy should not add to aggregate demand. However, they emphasized that measures to preserve the real level of spending in the budget were necessary. The authorities agreed that policy rates should be flexibly adjusted to respond to economic developments and that a higher policy rate may be required if inflation pressures persist. They agreed that there are too many people outside of the labor force and pointed to ongoing initiatives, including to improve the inclusion of youth and immigrants in the labor force. The authorities agreed that further efforts were needed to fulfil the 2030 Paris Agreement goals.

Further reading: Norway: 2023 Article IV Consultation-Press Release; and Staff Report

2.1.8 SWEDEN 2023 ARTICLE IV CONSULTATION AND FINANCIAL SYSTEM STABILITY ASSESSMENT

The Executive Board concluded the Article IV consultation with Sweden in March. Following the pandemic, Sweden's economy experienced a strong recovery, which continued into 2022. Growth and the labor market improved, while general labor market shortages persisted. Global headwinds started steadily to put breaks on consumption and business confidence in the third quarter of 2022, as external demand weakened, and higher inflation and interest rates increased the burden on households and firms. Staff noted that risks were tilted to the downside, and that a mild recession was expected for 2023, on the back of slowed consumption and household grappling with higher interest rates and debt servicing costs, with inflation remaining stubbornly high. In the report, staff noted that the rapid and decisive monetary policy response targeted at reigning in record high inflation was well justified. To safeguard financial stability, staff noted that emphasis should be placed on closely monitoring the high bank exposures to household and commercial real estate (CRE) debt and on improving the collection of relevant balance sheet data. With that, the report emphasizes that banks have structurally higher profitability compared to its European peers, with higher regulatory capitals and liquidity provisions exceeding the regulatory minima. Staff also underlined that the fiscal stance is slightly contractionary in 2023, which is appropriate to support monetary policy. Staff noted that concrete progress in structural reforms is needed, with the aim at addressing long-standing shortcomings in the labor and housing market, educational gaps, employment of foreign-born and bankruptcy frameworks.

The authorities broadly shared staff's assessment. They expect a somewhat deeper recession in 2023 due to the interest rate sensitivity of households and a continuing decline in housing investment. However, they noted that there has not been a large decline in consumption yet, which makes risks more balanced. The authorities' view is that reduced inflation needs to be a priority and believe that achieving this objective will be helped by the ongoing constructive wage negotiations and their conservative monetary and fiscal policies.

The 2023 FSSA was concluded by the Board at the same time as the article IV consultation. The report's main findings were that stress tests indicate that banks are broadly resilient to simulated shocks as their capital should remain above minimum requirements. However, some scenarios, including losses due to an increase in CRE exposures, cut into capital buffers, and amplification effects (such as dislocations in corporate debt markets) could lead to starker outcomes. Banks have sufficient liquidity buffers, but some investment funds are exposed to illiquid corporate securities. The frequency and intrusiveness of onsite supervisory inspections is insufficient, and AML/CFT oversight has been weak. The fintech sector is growing rapidly in size and relevance, raising risks that some firms evade the regulatory perimeter. The introduction of CBDC could lead to structural changes in the banking sector, and potentially lower profits. The rapid digitalization of the Swedish payment system raises risks of cyber-attacks and of supervision falling behind.

The authorities agreed with the IMF team's risk assessment and that highly leveraged CRE companies constitute a key risk. They underlined that several measures have been taken to address the risks, not least the introduction of risk weight floors on CRE and residential real estate exposures as well as the reciprocation of measures by Norway and Denmark. The FSAP bank solvency stress tests indicate that the banking system appears resilient against potential shocks emanating from the CRE sector. While banks' high profitability offsets some of the effects, the higher impact on banks that are heavily exposed to the CRE sector warrants monitoring. In this respect, the authorities concurred that macroprudential policies can help attenuate cyclical and structural risks. The authorities also agreed with the FSAP's assessment of household risk given households' high indebtedness level.

Further reading: Sweden: 2023 Article IV Consultation-Press Release; Staff Report ; Sweden: Financial Sector Assessment Program–Technical Note on Crisis Management and Resolution

2.2 EXTERNAL SECTOR REPORT

Context: In July, the Executive Board discussed the *2023 External Sector Report*, subtitled "External Rebalancing in Turbulent Times". The report showed that global current account balances—the overall size of headline current account deficits and surpluses—widened for the third consecutive year in 2022. The main drivers were Russia's invasion of Ukraine, the uneven recovery from the pandemic, and the rapid tightening of US monetary policy. Concurrently, the US dollar appreciated substantially, and the uphill capital flow reappeared. The IMF's external sector assessments suggest that the overall size of excess current account deficits and surpluses had remained unchanged since 2021, after declining for several years. This highlighted the importance of efforts in both excess surplus and deficit economies to promote external rebalancing. The US dollar appreciation under the "global dollar cycle," which is driven primarily by global financial risks, had negative spillovers, especially for economic activity and imports that fall hardest on emerging market economies. More flexible exchange rates and better anchored inflation expectations could mitigate these negative spillovers.

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 the shocks triggered by Russia's war of aggression against Ukraine, including in energy and food markets. These shocks dominated the external dynamics in 2022, amplifying the uneven economic developments in the aftermath of the pandemic and posing a challenge in assessing external imbalances. 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: 2023 External Sector Report

2.3 REVIEW OF THE ROLE OF TRADE IN THE WORK OF THE FUND

Context: In April, the Executive Board concluded the *Review of the Role of Trade in the Work of the Fund*. The review outlined key changes in the global trade landscape in recent years and depicted a trade strategy for the Fund going forward. The analysis pointed to three key messages. First, while trade had been resilient vis-à-vis recent global shocks, the deteriorating trade policy environment posed risks to the current levels of prosperity. Second, the Fund had responded quickly to key trade developments in its multilateral surveillance, but attention to trade policy had declined pointing to the need for improved expertise. Third, a reinvigorated trade strategy for the Fund would help country authorities address key challenges, including adjusting to structural changes associated with climate change and new technologies; promoting policy coherence between trade and non-trade objectives such as climate, inequality, and security; and managing rising geopolitical tensions and risks of geo-economic fragmentation.

NBC view: The NBC stressed that the IMF's engagement in promoting open, stable, and transparent policies in international trade is key to preserve the wide-reaching economic gains from the rules-based multilateral system. The NBC agreed with the main challenges identified in the current trade landscape and broadly supported the proposed strategy for addressing these in line with the Fund's specific mandate. It is important that the Fund assesses and clearly communicates the spillover effects of countries' trade-restricting measures. The NBC stressed that the Fund's close collaboration with the WTO and other international organizations is critical to promote knowledge sharing, find synergies, improve data and analytical tools, and to avoid overlaps.

Further reading: Review of the Role of Trade in the Work of the Fund

2.4 REVIEW OF THE FRAMEWORK FOR FUND ENGAGEMENT ON GOVERNANCE

Context: In April, the Executive Board concluded the *Review of the Implementation of the Framework for Enhanced Engagement on Governance*. The review provided an in-depth stocktaking of the Fund's engagement on governance and corruption since the adoption of the Fund's 'Framework for Enhanced Engagement on Governance' by the Executive Board in April 2018 ('the 2018 Framework'). The Review found that Fund engagement with member countries on governance and corruption had been broadly systematic, candid, effective, and evenhanded, in line with the objectives of the 2018 Framework. The Review also provided concrete proposals to strengthen engagement in these areas, guided by macro-criticality and core expertise of the Fund. To support systematic and evenhandedness objectives, the centralized assessment of the membership would be regularly updated, maximizing the use of qualitative information. To achieve candid and substantive discussions and specific policy advice more consistently across state functions, staff planned to exploit synergies with other Fund work streams and to strengthen collaboration with the World Bank. To enhance the effectiveness of the engagement, external interactions and internal processes will be strengthened, including by (i) further developing targeted capacity development; (ii) implementing practical measures to enhance interactions and collaboration with other international organizations and civil society; (iii) fine-tuning staff guidance on governance safeguards in emergency financing; (iv) establishing mechanisms to improve monitoring of the implementation of governance-related AIV recommendations.

NBC view: The NBC expressed strong support for the Fund's enhanced engagement on governance, and broadly welcomed the proposals for further strengthening the implementation of the framework. The NBC noted that as governance reforms often face strong opposition from vested interests, measures to strengthen ownership and capacity to implement reforms are essential. The NBC emphasized that adequate governance safeguards should always accompany Fund lending and stressed that strong ex-ante conditionality should be used when appropriate to ensure ownership and mitigate risks to the Fund. The NBC emphasized the value in exploiting synergies with other Fund workstreams and welcomed the emphasis on corruption and governance challenges as key drivers of fragility in fragile and conflict affected states.

Further reading: Review of Implementation of The 2018 Framework for Enhanced Fund Engagement on Governance

2.5 2021 GENERAL SDR ALLOCATION – EX-POST ASSESSMENT REPORT

Context: In August, the Executive Board concluded the *Ex-Post Assessment Report of the 2021 Special Drawing Rights Allocation*. The report followed up on the impact of the historic USD 650 billion 2021 SDR allocation on the global economy, documenting IMF members' use of the allocation and assessing its economic effects. The report found that the allocation was beneficial for the global economy, helping meet the long-term global need for reserves and supporting market confidence. Members have used the allocation mostly to increase international reserve buffers, with some emerging market and developing countries also using it to meet fiscal and external financing needs. The allocation did not delay needed macroeconomic adjustment and reforms in a majority of countries, but for some EMDCs, particularly LICs, the allocation was seen as having led to some delays, underscoring the need for continued monitoring and policy advice to ensure that SDRs are used to pursue sustainable policies. While SDR interest costs have increased, members' capacity to service SDR obligations remains generally adequate. Members' use of the allocation was mostly in line with Fund advice, and the transparency and accountability of SDR holdings and use has been broadly appropriate, although some gaps remain (in particular transparent reporting of SDRs held by or transferred to governments often faced shortcomings). Voluntary SDR channeling from economically stronger to more vulnerable members had helped amplify the benefits of the allocation.

NBC view: The NBC agreed with the main finding in the report that the allocation was beneficial for the global economy in the midst of the pandemic, boosting international reserves and bolstering confidence in the international financial system. The NBC welcomed the overall positive findings on transparency and accountability in the use of SDRs, but expressed some concerns about the apparent lack of transparency when SDRs were used for fiscal purposes – both for SDRs originally held in central banks and by fiscal authorities. The NBC also expressed concerns that the allocation may have led to delays in needed policy adjustment and reforms in some countries, stressing that lending programs with policy conditionality should remain the workhorse tool of the IMF. The NBC stressed the need to clearly communicate the rationale for the 2021 allocation and the intended use and role of SDRs.

Further reading: 2021 Special Drawing Rights Allocation—Ex-Post Assessment Report

2.6 REVIEW OF THE FUND'S AML AND CFT STRATEGY

Context: In November, the Executive Board concluded the *Fund's Anti-Money Laundering and Combating the Financing of Terrorism AML/CFT Strategy review*, taking stock of the implementation of the Fund's AML/CFT strategy adopted in 2018 and discussing priorities for the way forward. The staff report noted that since the 2018 review, the coverage of financial integrity issues had increased across all workstreams, including coverage of AML/CFT issues in surveillance and conditionality in Fund-supported programs. Staff has enhanced its understanding of money laundering and terrorism financing risks and of the macroeconomic impact of financial crimes. The increase in regional, multi country, and thematic CD projects had resulted in assistance to a broader range of countries and enhanced flexibility for targeted, more effective, and impactful engagements. Staff's active participation in AML/CFT assessments by the FATF Global Network had effectively contributed to its assessment efforts. On the road ahead, Executive Directors agreed with the overall direction to continue to enhance staff's understanding of the nature and severity of financial integrity risks, with a greater focus on assessing and mitigating negative macroeconomic impacts. They welcomed staff's proposal to deepen engagement with a broader range of external stakeholders and leverage global and regional partnerships to maximize the impact of the Fund's AML/CFT work program while focusing on its comparative advantage. They highlighted the importance of the Fund's continued engagement in AML/CFT assessments with a focus on quality and consistency.

NBC view: The NBC broadly supported the suggested approach for the road ahead emphasizing that money laundering and terrorism financing can have severe implications for macroeconomic and financial stability. The Fund is uniquely placed to address the cross-border and multifaceted nature of AML/CFT issues. The NBC stressed that financial integrity issues should remain integrated across all workstreams, and that the Fund must remain agile to respond to new challenges to financial integrity. On surveillance, the NBC encouraged increased focus on the linkages between financial integrity issues and fiscal, financial sector, and structural priorities. It was emphasized that macro-critical financial integrity issues should continue to be covered in the Fund-supported programs. The NBC underlined the importance of maintaining the mandatory coverage of AML/CFT issues - with flexibility in scope and depth - in financial sector assessment programs and continued CD activities in line with the Fund's CD strategy. The NBC welcomed that the Fund contributes to global policy making as well as development and implementation of global standards.

Further reading: 2023 Review of The Fund's Anti-Money Laundering and Combating The Financing of Terrorism Strategy; Background Papers.

2.7: THE IMF'S ENGAGEMENT IN CLIMATE ISSUES

In 2023 the Fund continued its climate work guided by the 2021 climate change strategy, including through surveillance, analytical work, and financial support. Surveillance covered climate mitigation, adaptation, and transition aspects as well as climate-related financial sector risks in Article IV reports and FSAPs. Analytical work focused on climate mitigation, green transition, climate finance, fragmentation and energy security, climate technology innovation and diffusion. The IMF Flagship publications (Fiscal Monitor Report and Global Financial Stability Report) presented during the Annual Meetings in October 2023 focused on climate topics related to climate financing and fiscal policies. Wide ranging capacity development support was provided, including on fiscal management offering a climate module of the Public Investment Management Assessment (C-PIMA). Financing was provided through the recently established Resilience and Sustainability Trust (see section 3.10 under Lending). The Fund continued close collaboration with the World Bank on climate issues was demonstrated by a joint statement issued ahead of the G20 Leaders' Summit in September, underlining that the Bank and the Fund will promote complementarity and synergies in their climate-related work.

Further reading: Climate Change (imf.org); Climate PIMA (imf.org); Climate Crossroads Fiscal Policies in a Warming World (imf.org); Joint Statement of the IMF Managing Director and of the World Bank President.

2.8: DIGITALIZATION AND CBDCS

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

Many IMF member countries are assessing the possibility of introducing CBDCs, and a few have issued CBDCs or undertaken extensive pilots or tests. The IMF is working on a handbook, which will be published over the next four to five years, intended to serve as a reference for policymakers and experts at central banks and ministries of finance, particularly in emerging market- and lower-income countries. The handbook will offer information, experience, policy lessons, empirical findings, and frameworks to evaluate CBDC. The first chapters, published in November, are based on five fintech notes issued in September, covering the following topics: (i) why central banks should explore CBDC; (ii) how this should be done; (iii) monetary policy transmission; (iv) capital flows and CBDC and (v) financial inclusion and CBDC.

In addition, an increasing number of countries are approaching the IMF on the issue of regulating the crypto ecosystem. In February, the Board discussed *Elements of Effective Policies for Crypto Assets*. A framework of nine elements was set forth that can help members develop a comprehensive, consistent, and coordinated policy response.

NBC view: The NBC considered the suggested policy framework for Crypto Asset policies to be relevant and balanced. It stressed that the Fund, with its global mandate, has an important role to monitor risks associated with the crypto assets market as well as potential benefits and give policy advice. The NBC further emphasized that to foster data-driven analysis, closing existing data gaps is important. The NBC highlighted that due to the cross-border nature of crypto assets, countries should aim for a common regulatory approach and the Fund should support and advocate for it. At the same time, the Fund's role regarding regulation should remain complementary and closely coordinated with other standard setting bodies.

The NBC supported a dynamic decision-making framework proposed in the first chapters of the CBDC handbook, to help guide central banks in their CBDC exploration. With its near-universal membership, the IMF has a significant role to play in facilitating an appropriate and well-sequenced development of CBDCs. The Fund should continue providing a platform for global dialogue, thereby helping to build international consensus on related issues.

Further reading: Elements of Effective Policies for Crypto Assets (imf.org) Central Bank Digital Currency—Initial Considerations (imf.org) Central Bank Digital Currency (CBDC) - Virtual Handbook (imf.org) Fintech notes: How Should Central Banks Explore Central Bank Digital Currency? (imf.org) A Guide to Central Bank Digital Currency Product Development (imf.org) Implications of Central Bank Digital Currencies for Monetary Policy Transmission (imf.org) Capital Flow Management Measures in the Digital Age (2): Design Choices for Central Bank Digital Currency (imf.org) Central Bank Digital Currency's Role in Promoting Financial Inclusion (imf.org)

3 LENDING

3.1 MODIFICATION OF ACCESS LIMITS

3.1.1 TEMPORARY MODIFICATIONS TO THE GRA ACCESS LIMITS

Context: In March, the Executive Board agreed to temporarily increase the limits on members' annual and cumulative access to Fund resources in the General Resources Account (GRA). The annual limit was raised from 145 to 200 percent of quota and the cumulative limit from 435 to 600 percent of quota for a period of 12 months. The decision reflected the particularly challenging and uncertain economic environment, among others, due to spillovers from Russia's war against Ukraine and the post-pandemic tightening of global financial conditions. The temporarily higher access limits were considered beneficial to provide member countries, particularly emerging markets and developing economies facing increased financing pressures and vulnerabilities, access to higher Fund financial support without triggering the exceptional access framework. At the same time, the Executive Board underscored that access limits are key elements of the Fund's risk management framework and important safeguard to Fund resources. The Executive Board also discussed changes to the PRGT access limits to address low-income countries' high financing needs. However, given a sizable subsidy resource gap of the PRGT, it was proposed to defer this issue until progress has been made in closing the resource gap and ensuring the PRGT is more adequately financed.

NBC view: The NBC supported the temporary increase in annual and cumulative GRA access limits given the exceptional circumstances and increased financial needs of the membership due to the multiple shocks to the global economy. Nevertheless, NBC emphasized that the Fund should maintain high standards and safeguards in its lending and determination of access should continue to be guided by country-specific factors, including balance of payment needs and strength of the policy program.

Further reading: Temporary Modifications to The Fund's Annual and Cumulative Access Limits (imf.org)

3.1.2 ACCESS LIMITS UNDER THE RAPID FINANCING INSTRUMENT AND THE RAPID CREDIT FACILITY

Context: In June, the Executive Board approved an extension of the temporarily higher cumulative access limits under the Fund's emergency financing instruments, the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). Emergency financing instruments are intended to provide rapid, low-access financial assistance to countries facing urgent balance of payments needs that, if not addressed, would result in an immediate and severe economic disruption. The extension ensures that the Fund can continue to support countries that accessed the Fund's emergency financing during the COVID-19 pandemic in case of renewed emergency situations in the challenging global environment that had left many countries with depleted macroeconomic buffers. Staff's analysis showed that during the past two years the qualification requirements for RCF and RFI financing have been applied rigorously, ensuring access only when a UCT-quality program is not necessary or feasible. This is shown by the strong transition from emergency financing to multi-year UCT-quality programs since 2021.

NBC view: The NBC agreed with the extension of the higher cumulative access limits for the RFI and the RCF, while underlining the temporary nature of the policy change. The NBC stressed that emergency financing should be restricted to urgent balance of payment needs related to temporary external shocks when there is a convincing case that a fully-fledged program is not needed or feasible. The NBC underlined the importance of access limits in the Fund's risk management framework and emphasized that UCT-quality programs are the best way to address underlying challenges, foster economic stability and build resilience.

Further reading: Review of The Cumulative Access Limits Under The Rapid Financing Instrument and The Rapid Credit Facility (imf.org)

3.1.3 INTERIM REVIEW OF PRGT ACCESS LIMITS

Context: In December, the Executive Board agreed to temporarily raise the annual access limit to 200 percent of quota and the cumulative access limit to 600 percent of quota under the Poverty Reduction and Growth Trust (PRGT). The PRGT is the IMF's concessional lending arm, currently with a zero percent interest rate. The rationale for the changes were to better support the Fund's low-income members that face a particularly challenging and uncertain economic environment. The temporary increase is effective through 2024 and allows more flexibility in Fund support to countries with large balance of payments needs and facilitates the implementation of strong economic programs that help maintain or restore sustainable economic positions and inclusive growth.

The forthcoming Review of the Fund's Concessional Facilities and Financing will cover both the review of facilities, including access limits, and PRGT financing, including to ensure the long-term financial sustainability of the trust.

NBC view. While reluctantly going along with the proposed interim increase in PRGT access limits, the NBC strongly emphasized a preference for a process where the PRGT access limits would be assessed under the 2024 Review of the Fund's Concessional Facilities and Financing, underpinned by a strong and comprehensive analysis. The NBC reiterated the Nordic and Baltic countries' strong support for low-income countries in general and the PRGT in particular. The NBC argued that the extraordinary pressure on many LICs finances justified the approval. The NBC also reiterated that there should be no automatic realignment of GRA and PRGT policies, including their respective access limits, as the facilities serve different purposes and have different funding modalities.

Further reading: Interim Review of Access Limits Under the Poverty Reduction and Growth Trust and Initial Considerations for Access Limits under the General Resource Account

3.2 CHANGES TO THE FUND'S FINANCING ASSURANCES POLICY UNDER EXCEPTIONALLY HIGH UNCERTAINTY

Context. In March, the Executive Board approved changes to the Fund's financing assurance policy. The policy applies in situations of exceptionally high uncertainty and enables the Fund to provide support through Upper Credit Tranche (UCT) arrangements to meet members' urgent balance of payment needs, provided that certain safeguards are met. In particular, the Fund's financing assurances policies were modified in two ways. The first change allows official bilateral creditors to provide an upfront credible assurance about delivering debt relief and/or financing with the delivery of a contingent second-stage element of debt relief and/or financing once the exceptionally high uncertainty has been resolved. This would help ensure that medium-term viability is restored. The second change extends the use of capacity-to-repay assurances from bilateral creditors/donors from emergency financing to a UCT-arrangement context. This would help establish adequate safeguards and protect the Fund. The application of these changes would require the Fund to consider enterprise risk in situations of exceptionally high uncertainty. Therefore, the Board established a procedural safeguard implying that early engagement with the Board would be carried out for engagement under the established policy.

NBC view: The NBC supported the policy changes and noted that the circumstances underpinning the exceptionally high uncertainty were clearly described by staff. The NBC agreed that these changes provide a modified way for a set of official bilateral creditors to deliver credible upfront assurances. They would also extend the use of a capacity-to-repay assurance from emergency financing to a UCT-lending context. Assurances extended by a significant group of official creditors/donors would sufficiently complement the Fund's risk management framework and establish ex ante adequate lending safeguards.

Further reading: Changes to the Fund's Financing Assurances Policy in the Context of UCT Financing under Exceptionally High Uncertainty

3.3 RESOURCE ADEQUACY OF THE PRGT, RST, AND DEBT RELIEF TRUSTS

Context: The adequacy of the PRGT's resources was assessed in April 2023. PRGT finances were found to be strained owing to substantially stronger demand for PRGT loans and sharply higher interest rates than previously envisaged. Since the pandemic and by the time of the review, the IMF had supported more than 50 low-income countries with about USD 24 billion in interest-rate free loans. At the time of the review in April, the PRGT faced a shortfall of about USD 1.6 billion in pledges for subsidy resources and about USD 4.7 billion in loan resources. A multi-pronged strategy was proposed to complete the first stage of the 2021 funding strategy, including a push to mobilize broad-based contributions to address the gaps in the first stage, coupled with further steps during the 2024/25 comprehensive review to put the PRGT on a sustainable footing. The first phase of the PGRT funding strategy was completed at the 2023 Annual Meetings in Marrakesh.

In relation to the recently established Resilience and Sustainability Trust (RST), the staff paper highlighted strong and frontloaded demand for arrangements under the Resilience and Sustainability Facility (RSF). The Executive Board underscored the importance of building adequate RST reserves to safeguard the reserve asset status of contributor claims and called for close monitoring of reserve adequacy to enable the adoption of corrective measures in a timely manner when necessary. Regarding the implementation of RST access policy, concerns were expressed that many approved RSF arrangements had been granted at maximum access. It was emphasized that clear justification is crucial for access levels above the norm of 75 percent of quota.

NBC views: The Nordic-Baltic countries remain strongly committed in our support to low-income countries, as demonstrated by significant contributions to the Fund's concessional financing vehicles over the years. The NBC therefore expressed concerns about the considerable strains on PRGT financing and welcomed the work on options to fill the subsidy resource gap. The NBC stressed the importance of ensuring PRGT self-sustainability and argued that the starting point of the 2024/25 comprehensive review should be a realistic assessment of available resources and consideration of a broad set of possible options. The NBC encouraged a prudent approach to the use of RST resources given the strong pipeline of demand. The NBC stressed that the impact of RSF programs rests on the strength of the reforms and called for more clarity on how to assess the effectiveness and strength of the RSF supported reforms.

Further reading: 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts (imf.org) Managing Director's statement at the Annual Meetings in Marrakech on PRGT fundraising

3.4 REVIEW OF THE EXPERIENCE WITH THE FOOD SHOCK WINDOW

Context: In June, the Executive Board completed the Review of the Experience with the Food Shock Window (FSW). The FSW was approved in September 2022 for 12 months, as a complement to the tools used by the Fund to support the broader international effort to address the global food shock. The Fund had been working closely with partners to provide a coordinated international response to the global food shock, and had contributed through policy advice, technical assistance, and lending. Where needed and possible, financial support to countries affected by the global food shock had been delivered by the IMF through multi-year Fund-supported programs. The FSW complemented this support in cases where these programs were not feasible or necessary. As the global food shock and associated balance of payment pressures were expected to continue throughout 2023, the IMF extended the FSW until end-March 2024 to allow the FSW to continue to serve as a contingency tool. The review showed that disbursements under the FSW were used by the authorities to mitigate the impact of the global food shock on their populations and were supported by ex-ante governance commitments. Moreover, in most cases, the FSWs were combined with a Staff Monitored Program (SMP) or Program Monitoring with Board involvement (PMB) to foster continuous engagement and build a track record towards potential UCT-quality programs.

NBC view: The NBC noted that the FSW has proven to be an important tool for the Fund to help countries cope with the global food shock caused by Russia's war against Ukraine, which is distinct from longer-term food security issues which are best addressed by other policies and instruments and other institutions than the IMF. The NBC strongly supported the combination of an FSW with a SMP or a PMB and stressed that appropriate governance safeguards for FSW programs remain key and should be pursued to ensure transparency and accountability. The NBC noted that the FSW is a temporary window, linked to a very specifically defined shock that should only be available for a limited amount of time and be used in exceptional circumstances.

Further reading: Review of Experience with The Food Shock Window Under The Rapid Financing Instrument and The Rapid Credit Facility

3.5 FACILITATING DEBT RESTRUCTURING EFFORTS

Context: The IMF's efforts to strengthen debt sustainability in member countries are anchored in its policy advice and surveillance activities, capacity development support on e.g., debt management, and through its financing arrangements. The IMF is helping countries address large financing needs to prevent debt crises or to restore economic and financial stability for countries already in debt distress. The IMF also supports member countries' efforts to work with their creditors to address debt distress in the context of a Fund-supported program. The IMF provides underlying analysis of a country's macro-financial stability and a bottom line on its debt sustainability prospects and thus plays a key role in defining the financing or debt relief envelope.

In February 2023, the IMF in coordination with the World Bank and India's G20 presidency, launched the Global Sovereign Debt Roundtable (GSDR). The Roundtable brings together key stakeholders involved in sovereign debt restructuring to foster consensus on debt and debt-restructuring challenges and how to address them. These stakeholders include traditional creditors that are members of the

Paris Club; new creditors such as China, India, and Saudi Arabia; the private sector; and borrowing countries. It aims to support, rather than replace, existing restructuring mechanisms such as the G20 Common Framework by fostering greater common understanding of concepts and principles. It is not a forum to discuss country-specific restructurings.

The first GSDR meeting resulted in three outcomes: (i) an agreement on improving information sharing of macroeconomic projections and debt sustainability assessments at an early stage of the debt-restructuring process; (ii) a common understanding of the role that multilateral development banks can play, notably through the provision of net positive flows of concessional financing; and (iii) a clearly defined work plan, including a workshop on how to assess and enforce comparability of treatment. Discussions in workshops and seminars on various aspects of debt restructurings, including on debt restructuring perimeter, cutoff dates, use of state contingent debt instruments as a potential tool in certain restructuring contexts, debt service suspension, treatment of arrears and the comparability of treatment have helped to bring a common understanding although consensus has not been reached in all cases. Priority areas to work on going forward include further work on domestic debt restructuring and how to treat SOE debt; engagement with credit rating agencies on restructuring related issues; and analysis of the drivers of debt accumulation and ways to prevent debt build-up. Discussion on debt transparency is also high on the agenda, as well as how to support countries confronted with both climate and debt vulnerabilities.

NBC view: NBC has emphasized that debt sustainability remains a concern, especially in low-income countries. The NBC has welcomed the progress achieved under the Global Sovereign Debt Roundtable which has helped facilitate mutual understanding of issues that hinder restructurings. The NBC has also supported the Fund's proposals to further accelerate the implementation of the G20 Common Framework for Debt Treatments. The NBC has supported the Fund's initiatives to further improve public debt transparency that will facilitate good governance, contributing to debt sustainability and swifter debt resolutions for countries in debt distress.

Further reading: IMF Annual Report 2023 | IMF Annual Report 2023, Global Sovereign Debt Roundtable-Cochairs Progress Report (imf.org)

3.6 POLICY COORDINATION AND SUPPORT INSTRUMENTS

Context: In October 2023, the Executive Board completed the review of the Policy Coordination Instrument (PCI) which is a non-financing instrument supporting policies that meet high-quality standards designed to help countries demonstrate commitment to a reform agenda and unlock financing from other sources. The review showed that the PCI had served countries well and it had played a critical role in enabling countries to maintain continuous engagement with the Fund, signal commitment to reforms, and catalyze financing from official and private creditors. Notwithstanding the very positive experience, the Executive Board noted limited awareness of the PCI's benefits by non-users which may inhibit its take-up and its catalytic role. In this context, they called for external outreach to communicate these benefits to country authorities, creditors, and the public.

As part of the review, the two key refinements to the PCI were approved to make it more fit-for-purpose while maintaining its strong signaling function in the context of a challenging and shock-prone global environment, increasing flexibility of the PCI review schedule, and clarifying modalities for concurrent use. The Executive Board also approved the elimination of the Policy Support Instrument (PSI), a non-financing instrument intended for PRGT-eligible countries, given a demonstrated preference for the PCI by PRGT-eligible countries.

NBC view: The NBC supported the completion of the PCI review and agreed with the proposed refinements in order to enhance the flexibility of the PCI and clarify modalities of concurrent use. The NBC highlighted the important role of the non-financing instruments in the Fund's toolkit to ensure more efficient use of Fund resources and to help members anchor prudent policies, signal commitment to reforms and catalyze financing from other sources. NBC encouraged the Fund to make efforts to increase the awareness of the benefits of the PCI and actively engage with other international and regional institutions to further enhance the catalytic role of the instrument. The NBC supported the elimination of the PSI.

Further reading: Review of the Policy Coordination Instrument and Proposal to Eliminate the Policy Support Instrument (imf.org)

3.7 REVIEW OF THE IMF'S PRECAUTIONARY FACILITIES

Context: In October, the Executive Board endorsed staff proposals for reforms to ensure that the IMF's precautionary facilities toolkit remains fit for purpose as external risks become more prevalent, protracted, and diverse. The use of the precautionary tools (*Flexible Credit Line* (FCL), *Short-term Liquidity Line* (SLL), and *Precautionary and Liquidity Line* (PLL)) allows qualifying members to respond to balance of payments (BoP) shocks, reducing the incidence of crises and limiting contagion. Precautionary instruments had been effective in providing insurance against external risks, through positive impact on market sentiments. Strengthening the qualification framework of the FCL, SLL, and PLL was essential for strong signaling, maintaining market confidence, and safeguarding Fund resources. Important new safeguards include Board briefings after significant economic policy changes and after drawdowns of precautionary FCLs and PLLs, and a Memorandum of Understanding for budget support drawings of FCLs.

The flexibility of precautionary instruments was increased by raising the SLL and PLL access limits, allowing concurrent use of FCL and SLL, and not requiring FCL users to discuss strategies to exit in case of low-access arrangements. These reforms would allow for combined FCL and SLL access of up to 400 percent of quota without the need for a member to articulate exit strategies, as long as members qualify for the instruments, and both external risks and potential BoP needs under the respective instruments justify it.

NBC view: The NBC broadly agreed with the proposed changes to the precautionary toolkit. Precautionary lending facilities play an important role in safeguarding qualifying countries against external shocks and limiting potential adverse spillovers to the wider membership. Nevertheless, the NBC emphasized that the Fund's assistance should be designed so it encourages the membership to increase resilience when warranted, noting that having credible exit strategies in place and discussing them in the Board would be beneficial for both FCL users and the Fund. The NBC also argued that the concurrent use of SLL and FCL should only be considered in specific cases where its benefits are well articulated.

Further reading: Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform

3.8 STANDARD LENDING FACILITIES

As of December 31, 2023, the Fund was engaged in 31 active programs (including six precautionary arrangements). The IMF has approximately USD 233 billion in total lending commitments and credit outstanding under the General Resources Account. During 2023, the Executive Board approved 14 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 2023.

Further reading: IMF Financial Activities

3.8.1 UKRAINE

Context: Following Russia's full-scale invasion of Ukraine in February 2022, the IMF has been actively supporting Ukraine and remained closely engaged with the Ukrainian authorities. As part of this engagement, the Fund disbursed USD 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 October 2022, the Executive Board approved a USD 1.3 billion emergency financing disbursement under the newly established Food Shock Window (FSW). In the end of 2022-beginning of 2023 Ukraine implemented the 4-month non-financial PMB arrangement, which helped authorities to demonstrate their abilities to implement needed policy measures despite the extremely challenging circumstances and helped to pave the way to fully fledged IMF arrangement.

In March 2023, the Executive Board approved a 48-month extended arrangement under the Extended Fund Facility (EFF) of about USD 15.6 billion. The program's aim was to anchor policies that sustain fiscal, external, price and financial stability, while supporting the macroeconomic recovery and enhancing governance to promote long-term growth. The program's objectives included supporting Ukraine's economic recovery on the path to EU accession in the post-war period.

In view of Russia's full-scale aggression against Ukraine, the program operates under exceptionally high uncertainty and the IMF-supported program envisions two stages. The first stage would focus on implementing a robust budget and bolstering revenue mobilization, sustaining steady disinflation and exchange rate stability, and contributing to long-term financial stability, including by preparing a deeper assessment of the banking sector health. The program's second phase will shift focus to more ambitious structural reforms to entrench macroeconomic stability, support the recovery and early post-war reconstruction, and enhance resilience and higher long-term growth, including in the context of Ukraine's EU accession goals.

The first and second reviews of the program were approved by the Board in July and December, respectively. The Ukrainian authorities had made strong progress on implementation of program commitments over the course of the year, and the economy has shown remarkable resilience, with stronger-than anticipated growth, substantial disinflation, and a functioning financial system, although the outlook remains subject to exceptionally high war-related uncertainty.

NBC view: The NBC strongly supported Ukraine's request for an IMF program and has reiterated in the strongest possible terms its condemnation of Russia's illegal, unjustified, and brutal aggression against Ukraine. The NBC has underscored that the Russian authorities are solely responsible for the war, which has resulted in immense human suffering and loss of lives, as well as the economic hardship. NBC commended the authorities for pushing through reforms during these difficult circumstances, and for laying the ground for strong macroeconomic performance. The NBC notably welcomed the strong fiscal performance and underscored that robust fiscal action should remain at the center of the program design. We also reiterated the importance of making further efforts on anti-corruption. The NBC has supported the establishment of the capacity development work plan for Ukraine to help the authorities to fully implement reforms set out in the EFF arrangement.

Further reading: Ukraine and the IMF

3.8.2 PAKISTAN

Context: In July, the Executive Board approved a nine-month SBA for Pakistan (111 percent of quota, SDR 2,250 million, with SDR 894 million disbursed upon approval). It was noted that Pakistan's economy was experiencing unprecedented challenges, and a difficult external environment, devastating floods, and policy missteps have led to large fiscal and external deficits, rising inflation, and eroded reserve buffers in FY23. The new SBA aimed to play a crucial role in rebuilding confidence by anchoring policies ahead of the national elections and providing a framework that could catalyze support from multilateral and bilateral creditors to meet Pakistan's large financing needs. It was underlined that steadfast policy implementation would be critical for Pakistan and the program's success. This would require greater fiscal discipline to ensure debt sustainability, a market-determined exchange rate to absorb external pressures, and further progress on reforms related to the energy sector, climate resilience, and the business climate.

NBC view: The NBC supported the authorities' request for a new arrangement under the SBA noting that the risks to the program and economic outlook are exceptionally high, but close engagement with the Fund is indispensable for Pakistan at this critical juncture. The NBC urged the authorities to demonstrate stronger resolve and commitment to needed policy adjustments and reforms, paving the way for potential longer term Fund engagement if the SBA is successfully implemented.

Further reading: Pakistan: Request for a Stand-by Arrangement-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Pakistan

3.8.3 SRI LANKA

Context: In March, the Executive Board approved a 48-month arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 2.286 billion (about 395 percent of quota, or USD3 billion). It was noted that, due to consecutive economic shocks and policy missteps, Sri Lanka had been facing tremendous economic and social challenges with a severe recession amid high inflation, depleted reserves, an unsustainable public debt, and heightened financial sector vulnerabilities. The objectives of the EFF-supported program were to restore macroeconomic stability and debt sustainability, safeguard financial stability, and step-up structural reforms to unlock Sri Lanka's growth potential. In December, concluding the first review of the EFF program, the Executive Board welcomed that performance under the EFF program has been satisfactory and macroeconomic policy reforms are starting to bear fruit. The economy was showing tentative signs of stabilization, with rapid disinflation, significant revenue-based fiscal adjustment, and reserves build-up. The agreement in principle reached with the Official Creditor Committee and Export-Import Bank of China on debt treatments, consistent with the EFF program targets, was an important milestone to put Sri Lanka's debt on the path towards sustainability. Further progress with completion of Memoranda of Understanding and a resolution with external private creditors on comparable terms was needed to help restore debt sustainability over the medium term.

NBC view: Considering the upfront implementation of critical reform measures by the authorities as well as the credible and specific financing assurances on debt relief obtained from major bilateral official creditors, the NBC supported the program. The NBC underlined that its success is critically contingent on the successful implementation of program measures and debt restructuring, which also requires clear commitment and involvement of all stakeholders, including commercial and official bilateral creditors.

Further reading: Sri Lanka: Request for an Extended Arrangement Under the Extended Fund Facility

3.8.4 ARGENTINA

Context: In 2023, the Executive Board completed the fourth and the combined fifth and sixth review of Argentina's Extended Arrangement under the Extended Fund Facility (EFF), enabling disbursements of USD 5.3 and 7.5 billion. At the completion of the combined fifth and sixth reviews in August, the Board noted that Argentina's economic situation had become increasingly fragile with episodes of heightened market volatility, reflecting increasing political uncertainty. The Board assessed that key program targets were missed on account of a historic drought along with policy slippages, requiring the approval of waivers of nonobservance. Modifications to the reserve accumulation target, as well as to the primary fiscal balance and monetary financing of the deficit targets, were also approved alongside a commitment to implement a new policy package to correct policy setbacks, safeguard stability, and secure program objectives.

NBC view: The NBC expressed concern about the deterioration of the macroeconomic environment in Argentina and the disappointing program performance under the EFF arrangement. The NBC stressed the need for a coherent policy package to restore macroeconomic stability and international reserves and contain inflation. The NBC also highlighted the importance of strong program ownership and implementation by the Argentinian authorities. Moreover, the NBC emphasized the importance of appropriate contingency planning and agile policymaking to enable prompt recalibration of policies to protect program targets and maximize the chances of bringing the program back on track. The NBC noted that resolving long-standing structural weaknesses in Argentina remains central to longer-term macroeconomic stability and strength but is likely to take many years.

Further reading: Argentina: Fifth and Sixth Reviews under the EFF Argentina: Fourth Review under the EFF

3.8 PRECAUTIONARY LENDING ARRANGEMENTS

As of December 31, 2023, the Fund was engaged in seven precautionary arrangements with about USD 76 billion available in lending commitments under those arrangements. During 2023, the Executive Board approved three precautionary arrangements for Mexico, Morocco, and Jamaica, and completed reviews for Colombia, Peru, and Chile. Six of the seven arrangements have been treated as precautionary while North Macedonia has drawn USD 0.1 billion (60 percent of quota) under its Precautionary and Liquidity Line (PLL). Mexico's tenth arrangement under the Flexible Credit Line (FCL) since 2009, in the amount of about USD 35 billion (300 percent of quota), continues to be the largest. The NBC supported requests for the new arrangements, as well as the reviews completed during 2023.

3.8.1 MEXICO

Context: In November, the Executive Board approved the successor two-year arrangement under the Flexible Credit Line (FCL), Mexico's tenth consecutive FCL arrangement in the amount of SDR 26.7 billion, 300 percent of quota, and the cancellation of the previous arrangement, approved in November 2021 (SDR 35.7 billion, 400 percent of quota). The authorities continued to gradually reduce the access level. Mexico continues to meet the qualification criteria for an FCL arrangement, having a sustained track record of implementing strong macroeconomic policies and continuing to have very strong economic fundamentals and institutional policy frameworks. Staff considered that access at 300 percent of quota was justified under a plausible tail risk scenario. The FCL would support the authorities' economic strategy and, combined with an adequate level of international reserves, provide insurance against tail risks.

NBC view: The NBC supported the authorities' request for a new arrangement under the FCL but signaled its expectation for more clarity on the eventual exit, given the authorities' prolonged use of the instrument and noting that all FCL arrangements are intended to address temporary balance of payment problems. The NBC continued to emphasize potential risks related to the prolonged use of the FCL arrangements as this may signal the need for policy adjustment, noting that the FCL arrangement should support the authorities in their efforts to improve domestic resilience.

Further reading: Mexico: Arrangement Under the Flexible Credit Line and Cancellation of Current Arrangement-Press Release and Staff Report

3.8.2 MOROCCO

Context: In April, the Executive Board approved a precautionary two-year FCL arrangement for Morocco in an amount equivalent to SDR 3.7262 billion (about 417 percent of quota, or USD5 billion). Since 2012, Morocco had benefited from four successive Precautionary and Liquidity Line (PLL) arrangements, amounting each to about USD 3 billion. It was concluded that the PLL arrangements had served the country well and Morocco's very strong macroeconomic policies and institutional framework had allowed its economy to remain resilient to the multiple negative shocks that had occurred over the past three years; including the pandemic, two droughts, and the spillovers from Russia's war in Ukraine. Considering that the Moroccan economy remained vulnerable to a worsening of the global economic and financial environment, higher commodity price volatility, and recurrent droughts the FCL arrangement aimed to enhance Morocco's external buffers and provide the country further insurance against tail risks. The authorities were fully committed to maintaining prudent macro-economic policies and implementing a range of structural reforms to improve medium-term growth potential, resilience, and inclusiveness.

NBC view: The NBC supported the authorities' request for a precautionary FCL arrangement, noting that Morocco meets all the qualification criteria for an arrangement. The NBC welcomed the authorities' intention to treat the arrangement as precautionary and to exit once the arrangement expires, conditional on the evolution of risks.

Further reading: Morocco: Request for an Arrangement Under the Flexible Credit Line.

3.9 PROGRAMS IN LOW-INCOME COUNTRIES

As of December 31, 2023, the Fund was engaged in 30 active programs and had approximately USD 33 billion in total loans outstanding and lending commitments under the Poverty Reduction and Growth Trust (PRGT). During 2023, the Executive Board approved 15 new Fund-supported programs with financial resources under the concessional lending facilities. The Executive Board also completed several regular reviews of ongoing Fund-supported programs.

The NBC supported most requests for new programs, as well as the reviews completed during 2023. The NBC abstained from voting on a request from Burkina Faso on a request for an ECF program in September due to concerns about significant risks related to political instability, governance, and transparency. Three of the major new Fund-supported programs are described in more detail below.

Further reading: IMF Financial Activities

3.9.1 GHANA

Context: In May, the Executive Board approved a 36-month ECF arrangement for Ghana, with access of 304 percent of quota for a total amount of SDR 2.242 billion (USD 3 billion). Large external shocks in recent years had exacerbated Ghana's pre-existing fiscal and debt vulnerabilities, resulting in a loss of international market access, increasingly constrained domestic financing, and reliance on monetary financing of the government. Decreasing international reserves, Cedi depreciation, rising inflation and plummeting domestic investor confidence, eventually triggered an acute crisis. Ghana suspended external debt payments to official bilateral and external commercial creditors in December 2022 and applied for debt treatment under the Common Framework. The program is based on the government's Post COVID-19 Program for Economic Growth (PC-PEG), which aims to restore macroeconomic stability and debt sustainability and includes wide-ranging reforms to build resilience and lay the foundation for stronger and more inclusive growth. The government also launched a comprehensive domestic and external debt restructuring to address severe financing constraints and the unsustainable public debt. Key policies under the authorities' program include large and frontloaded fiscal consolidation to bring public finances back on a sustainable path, complemented by efforts to protect the vulnerable. The adjustment effort will be supported by ambitious structural reforms in the areas of tax policy, revenue administration, and public financial management, as well as steps to address weaknesses in the energy and cocoa sectors. Appropriately tight monetary and flexible exchange rate policies will help bring inflation back to single digits and rebuild international reserves. The program also has a strong focus on preserving financial stability and encouraging private investment and growth.

NBC view: In light of the evident need for BoP support and considering the commitment that the authorities showed by completing prior actions, the NBC supported the ECF arrangement. The NBC found the frontloaded fiscal consolidation envisaged in the program appropriate, given the need to reduce the deficit and bring public finances to a more sustainable path. At the same time, the NBC stressed the need to enhance governance and the importance of the planned structural reforms to support the consolidation efforts. The NBC also emphasized targeted social spending, protecting the most vulnerable households.

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

3.9.2 BANGLADESH

Context: In January, the Executive Board approved a 42-month ECF/EFF arrangement, with access at 77.1 percent of quota (SDR 822.82 million) under the ECF and 154.3 percent of quota (SDR 1,645.64 million) under the EFF. It was noted that Bangladesh's robust economic recovery from the pandemic has been interrupted by Russia's war in Ukraine, leading to a sharp widening of Bangladesh's current account deficit, depreciation of the Taka and a decline in foreign exchange reserves. The ECF/EFF arrangement aimed to protect macroeconomic stability and rebuild buffers, while helping to advance the authorities' reform agenda. The implementation of the domestic revenue mobilization strategy that relies on both tax policy and revenue administration reforms would allow increasing social, development and climate spending sustainably. Fiscal reforms to strengthen the management of public finance, investment, and debt would improve spending efficiency, governance, and transparency. Reducing financial sector vulnerabilities, strengthening oversight, enhancing governance and the regulatory framework, and developing capital markets would help mobilize financing to support growth objectives. Structural reforms to create conducive environment to expand trade and foreign direct investment, deepening the financial sector, developing human capital, and improving governance would help to lift growth potential. The concurrent RSF arrangement would supplement the resources made available under the ECF/EFF to expand the fiscal space to finance climate investment priorities identified in the authorities' plans, help catalyze additional financing, and build resilience against long-term climate risks. In December, completing the first review of the ECF/EFF program, the Executive Board concluded that despite a difficult external environment, program performance had been broadly on track, reflecting the authorities' strong commitment. It was underlined that to restore near-term macroeconomic stability, monetary policy should be further tightened, supported by neutral fiscal policy and greater exchange rate flexibility.

NBC view: Considering the authorities' strong commitment to accelerate macroeconomic reforms and the assessment that Bangladesh's capacity to repay the Fund is adequate the NBC supported the ECF/EFF arrangement. The NBC underlined the importance to raise revenues creating fiscal space for large development needs, modernize the monetary policy framework, reduce financial sector vulnerabilities, improve governance, and address corruption risks. Given Bangladesh's very high exposure to climate change risks, the NBC welcomed that the RSF financing will support the authorities' climate mitigation efforts and help to deal with significant adaptation challenges, catalyzing additional financing.

Further reading: Bangladesh: Requests for an Arrangements Under the EFF, ECF, and RSF

3.9.3 SOMALIA

Context. In December, the Executive Board and the World Bank's International Development Association (IDA) approved the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point (CP) for Somalia, which provides total debt service savings for the country of USD 4.5 billion. Following HIPC CP, Somalia's external debt has fallen from 64 percent of GDP in 2018 to less than 6 percent of GDP by end 2023. This debt relief will facilitate access to critical additional financial resources that will help Somalia strengthen its economy, reduce poverty, and promote job creation.

In the same meeting, the Board approved the sixth and final review of the Extended Credit Facility (ECF) arrangement for Somalia, enabling the immediate disbursement of SDR 7 million to bring Somalia's total disbursement under the ECF arrangement approved in 2020 SDR 297.43 million. To build on the progress made in Somalia, the Board approved on December 19 a new 36- month ECF arrangement of SDR 75 million, which enabled SDR 30 million in immediate budget support. Somalia's sustained track record of reform implementation over the past years, despite number our challenges, enabled the approval of the successor program. However, Somalia faced significant challenges going forward, including those stemming from economic, social, security and climate risks.

Somalia's debt servicing capacity remained constrained despite the debt relief and hence the program stresses the importance of maintaining a sustainable debt situation. As such, one important element of the program was a ceiling on contracting or guaranteeing any new external non-concessional debt. Furthermore, the successor program keeps following the progress on the roll out of the Somalia Customs Automated System (SOMCAS). Key priorities going forward would also be to maintain fiscal sustainability, increase domestic revenue mobilization and strengthen public financial management, promote financial deepening and financial inclusion as well as improving the business environment and governance.

NBC view. The NBC supported the sixth review, emphasizing that Somalia has made commendable progress to rebuild economic institutions since the war, and congratulated the authorities for reaching the HIPC CP. Given Somalia's continued balance of payment issues, the NBC strongly supported the successor ECF arrangement, to build on the established track record and enhance poverty alleviation, social protection, and climate change adaptation.

Further reading. Somalia and the IMF

3.10 RESILIENCE AND SUSTAINABILITY TRUST (RST)

Context: Since the operationalization of the RST in October 2022, demand for this arrangement has been very high with sixteen Resilience and Sustainability Facility (RSF) arrangements approved by the end of December 2023 for a total amount of SDR 5.2 billion. All approved programs were climate related, aiming to help low-income and vulnerable middle-income countries build resilience to climate shocks and ensure sustainable growth. The highest demand was from the African countries. Of the sixteen approved arrangements, eight were with sub-Saharan African countries and four with Latin American and Caribbean countries. Nine approved programs featured maximum access (i.e., the lower of 150 percent of quota or SDR 1 billion), with the two largest programs (SDR 1 billion each) approved with Bangladesh and Morocco. Four of the approved programs were with low-income (PRGT-eligible) countries (Cabo Verde, Mauritania, Niger, and Rwanda) that benefit from the most concessional terms. All countries with approved RSF programs in line with eligibility criteria have a concurrent IMF-supported UCT-quality program.

The approved programs include a wide range of reform commitments contributing to climate mitigation, adaptation, and transition efforts, including those related to public financial management (e.g., green public investment management and green budgeting), fiscal policy (e.g., carbon pricing), financial sector, natural disaster risk management, renewables, energy efficiency, and security. The Fund's C-PIMAs and the World Bank's Country Climate and Development Reports (CCDRs) provide essential input and diagnostic tools for the RSF arrangements. While no RSF request on pandemic preparedness was received in 2023, the work is ongoing at the Fund to prepare for potential arrangements in cooperation with the World Bank and WHO.

Examples of RSF arrangements approved in 2023: Bangladesh was the first Asian country to access the RSF. The RSF arrangement of SDR 1 billion complement reforms under the ECF/EFF by improving climate investment potential, strengthening institutions, and enhancing climate-spending efficiency to build resilience and catalyze additional official and private finance. Kosovo was the first European country to access the RSF, with an arrangement in the amount of SDR 61.95 million. Kosovo's energy strategy sets the objective to gradually phase out coal-based power generation and the RSF will bolster the authorities' efforts to accelerate the green transition, decrease emissions and pollution, and help exploit synergies with other donor support and catalyze additional private investment. Paraguay was the first South American country to secure access to the RSF. Reforms under the SDR 302.1 million arrangement will be aimed at increasing the resilience of public investments, developing a green taxonomy, containing climate risks to the financial sector, preserving and expanding a clean electricity matrix, decarbonizing its economy, conserving forests, and improving waste management.

NBC view: Welcoming the swift progress in operationalizing the RST, the NBC underlined the importance of ensuring that the RSF programs contain strong reform measures to help countries to reduce climate-related macro-critical risks, thus promoting their economic resilience and sustainability, and enhancing prospective BoP stability. The NBC has emphasized the importance of the implementation of reforms on both climate adaptation and mitigation, in line with the Fund's broader climate strategy. The NBC also encouraged close coordination and complementarity with the World Bank and other partners when designing and implementing the RSF programs.

Further reading: IMF Financial Activities; The Resilience and Sustainability Facility (RSF) (imf.org); Climate PIMA (imf.org); Country Climate and Development Reports (CCDRs) (worldbank.org); Bangladesh: Requests for an RSF Arrangement; Republic of Kosovo: Request for an RSF Arrangement; Paraguay: Requests for an RSF Arrangement

4 CAPACITY DEVELOPMENT

Context: The IMF's Capacity Development (CD) work, covering technical assistance and training, is one of the three core functions of the IMF (along with surveillance and lending). With a focus on areas critical to better economic management, CD activities support countries' efforts to develop more robust public fiscal management systems, improve revenue mobilization, bank supervision, and governance. The Fund's CD continues to support transformative policy actions that address longer-term challenges, including inequality, fragility, digitalization, and climate change.

The IMF regularly reviews its key policies and strategies to help enhance the impact and effectiveness of its policy advice, lending programs, and CD activities. Starting in 2023, the Fund is conducting a new review of its CD activities. The review will center around four themes: (i) enhancing the strategic and prioritization framework; (ii) ensuring that the size, composition, and funding of the CD is in line with the proposed framework; (iii) modernizing the CD delivery; and (iv) assessing the CD's effectiveness and impact.

In 2023 the Fund concluded a regional Nordic-Baltic CD project with the aim to strengthen the effectiveness of anti-money laundering/countering the financing of terrorism (AML/CFT) frameworks across the Nordic-Baltic Region (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden). This flagship project used a novel methodology to leverage data analysis to understand AML/CTF threats and vulnerabilities and their potential impact on financial stability and developed country and regional recommendations. The report recommended the ongoing monitoring of cross-border flows, with regional information exchange on macro-trends, and better identification of countries with potential money laundering risks to the Nordic-Baltic Region. To bolster AML/CFT risk-based supervision, the Report called for increased collection of cross-border data and complementary investments in advanced data analytic tools, as well as coordinated supervisory action for the highest risk banks.

NBC view: The NBC supports the Fund's ongoing CD work as 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, 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; Nordic-Baltic Regional Report Project Summary; Technical Assistance Report-Nordic-Baltic Technical Assistance Project Financial Flows Analysis, AML/CFT Supervision, and Financial Stability (imf.org).

5 INDEPENDENT EVALUATION OFFICE (IEO)

In 2023, the IEO completed an evaluation on the IMF's Emergency Response to the COVID-19 Pandemic and launched two new evaluations—on The Evolving Application of the IMF's Mandate and on The IMF's Exceptional Access Policy—targeted for completion in 2024. Charles Collyns completed his tenure as IEO Director, and the new IEO Director, Pablo Moreno, took office in May 2023. At the end of the year, the IEO conducted consultations with the Fund's management and staff, the Executive Board, external experts, and civil society on possible topics for future IEO evaluations.

In November, the Executive Board completed the Thirteenth Periodic Monitoring Report (PMR) on the Status of Management Implementation Plans in Response to Board-Endorsed IEO Recommendations. It was concluded that progress made in the implementation of management actions since the last PMR was above the pre-pandemic average but slower relative to the previous PMR. The Executive Board urged the continued prioritization and faster progress in a range of areas, including those relating to the financial sector workforce analysis and talent inventory, data items, social protection, and small developing states. The Board welcomed further progress in the development of a slippages framework rooted in the broader Fund's Enterprise Risk Management (ERM) framework.

Further reading: Possible Topics for Future IEO Evaluations, 2024–25; The Thirteenth Periodic Monitoring Report on the Status of Management Implementation Plans in Response to Board-Endorsed IEO Recommendations

5.1 IEO EVALUATION ON THE IMF'S RESPONSE TO THE COVID-19 PANDEMIC

Context: In March, the Executive Board discussed the IEO evaluation of The IMF's Emergency Response to the Covid-19 Pandemic. The evaluation assessed how well the Fund adapted its lending framework, its processes for formulating the economic outlook and policy advice, and its internal HR and budgetary practices to help countries during the emergency phase—January 2020 to April 2021—of an unprecedented global shock. The evaluation found that the Fund deserves great credit for its effective and agile response to the crisis. The Fund adopted, and adapted, over time a pragmatic strategy to provide rapid financing support to many countries through its existing instruments. The Fund's policy advice to a broad range of countries was bold, appropriate for the circumstances, clearly communicated, and avoided past mistakes, while its economic assessments of the impact of the pandemic were well founded and ended up being quite accurate overall, although there were some sizeable misses at the country level. The Fund responded nimbly with numerous HR and budgetary initiatives to support the Fund's crisis response and the abrupt shift to remote work.

Notwithstanding the Fund's effective response to an unprecedented crisis, the experience involved several strains and challenges. Emergency financing was not particularly well tailored to countries' needs or circumstances, while there were strategic differences with key partners in providing financing in some cases. The Fund's role as crisis responder required it to take on increased risks to its balance sheet, of which there was limited early analysis. Decisions on access and prior actions seemed to reflect, in a few cases, a lack of evenhandedness. Stress on staff continued at high levels as it took considerable time to shift resources to where they were most needed. The evaluation made two high-level recommendations to help ensure that the Fund is prepared for dealing with future global crises. Namely i) the Fund should develop a toolkit of special policies and procedures that could be quickly activated to help address the particular needs and circumstances of a global crisis; and ii) the Fund should reinforce institutional preparedness to deal with global crises and other large shocks.

NBC view: The NBC concurred with the IEO assessment that the Fund was agile and effective to respond to the crisis by leveraging its financing, surveillance, and capacity development activities. The NBC argued that the pandemic experience proved the Fund's lending framework to be sufficiently flexible and effective and broadly agreed with the IEO's preliminary conclusion that the framework of provision of Emergency Financing (EF) worked quite well. The NBC noted that the Fund's pandemic response had a positive impact on recipient countries by helping to meet BOP financing needs, catalyze further support and alleviate external constraints. The NBC partially supported the recommendations made by the IEO and emphasized the importance of learning from the experiences of the pandemic, especially in terms of further strengthening preparedness and institutional capacity.

Further reading: The IMF's Emergency Response to the COVID-19 Pandemic

ABOUT

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 member countries are represented. The Board of Governors approves the Fund's major decisions but has delegated the rest of its decision-making powers to the IMF's Executive Board which consists of 24 Executive Directors (chairs), representing all member countries. Some of the 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 by casting formal votes. 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 other delegations. All positions in the office rotate between the eight member countries of the constituency according to an agreed schedule. All countries are represented in the office at all times. As of December 31, our staff included:

Vitas Vasiliauskas	Executive Director, Lithuania
Anne Marcussen	Alternate Executive Director, Denmark
Bjørnar Slettvåg	Senior Advisor, Norway
Henna Karhapaa	Senior Advisor, Finland
Peter Wallin	Advisor, Sweden
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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