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Office of the Nordic-Baltic Constituency

VIEWS AND POSITIONS ON POLICY DEVELOPMENTS IN THE INTERNATIONAL MONETARY FUND

Semi-Annual Report

Contents

1 INTRODUCTION

This report provides an overview and status of the main Executive Board discussions and other IMF-related issues during the second half of 2018 and outlines the view of the Nordic-Baltic constituency (NBC) on these issues. The first section of the report summarizes the global economic and financial developments, which provides the backdrop for the work program of the Executive Board over the next twelve months. The remaining part of the report is structured around the three pillars of the Fund's work: surveillance, lending, and capacity development. First, the Executive Board's work on surveillance and economic policy is presented, including the bilateral and regional surveillance activities of the second half of 2018, as well as some of the major economic policy items on the Board's agenda during the reporting period. The following section on lending provides an overview of the new Fund-supported programs and reviews conducted by the Executive Board during this period. The final section provides an overview of the review of the Fund's capacity development strategy.

1.1 Global Economic & Financial Developments

CONTEXT: On January 21, 2019, the IMF published its latest economic forecasts, noting that the global expansion has weakened. Global growth for 2018 is estimated at 3.7 percent (unchanged from the October 2018 World Economic Outlook (WEO) forecast), despite weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020, 0.2 and 0.1 percentage points below last October's WEO projections. Risks to global growth are tilted to the downside. An escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers, including a "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China, could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. The main shared policy priority is for countries to resolve cooperatively and quickly their trade disagreements and the resulting policy uncertainty, rather than raising harmful barriers further and destabilizing an already slowing global economy. Across all economies, measures to boost potential output growth, enhance inclusiveness, and strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives.

On September 20, 2018, the Executive Board discussed the flagship reports of the Fund: The WEO, the Global Financial Stability Report (GFSR), and the Fiscal Monitor. The October WEO noted that while the steady global expansion under way since mid-2016 continues, it has become less balanced, and growth may have peaked in some major economies. Beyond the next couple of years, as output gaps close and monetary policy settings continue to normalize, growth in most advanced economies is expected to decline to potential rates—well below the averages reached before the global financial crisis. Slower expansion in working-age populations and projected lackluster productivity gains are the prime drivers of lower medium-term growth rates.

The October GFSR found that while global financial conditions remain broadly accommodative and supportive of growth in the near term, financial conditions in some emerging market economies have tightened since the April 2018 GFSR. This tightening has been driven by a combination of country-specific factors, worsening external financing conditions, and trade tensions. As a result, near-term risks to financial stability have increased modestly, while medium-term risks remain elevated because of persistent financial vulnerabilities linked to high debt levels and stretched asset valuations. Looking ahead, a further escalation of trade tensions, as well as rising geopolitical risks and policy uncertainty in major economies, could lead to a sudden deterioration in risk sentiment, triggering a broad-based correction in global capital markets and a sharp tightening of global financial conditions. In the 10 years since the global financial crisis, regulatory frameworks have been enhanced and the banking system has become stronger, but new vulnerabilities have emerged, and the resilience of the global financial system has yet to be tested. The GFSR also warns against rolling back reforms, which might make the global financial system less safe.

The October Fiscal Monitor focused on managing public wealth. Public sector balance sheets bring together the entirety of what the state owns and owes, offering a broader fiscal picture beyond debt and deficits. Once governments understand the size and nature of public assets, they can start managing them more effectively, raising considerable additional revenue. Also, public sector balance sheet analysis allows for better risk management and policymaking. The Fiscal Monitor provides governments the tools to analyze the resilience of public finances. By identifying risks within the balance sheet, governments can act to manage or mitigate those risks early, rather than dealing with the consequences after problems occur. Balance sheet analysis raises the tenor of the policy debate, asking how public wealth can be better used to meet society's economic and social goals.

NBC VIEW: The NBC agreed with the Fund's assessment of the global economic developments. The NBC emphasized that with risks tilted to the downside, enhancing prospects for a strong and inclusive growth, building buffers, and monitoring the build-up of financial market risks had become more urgent. The NBC shared the view that escalating trade tensions and a shift away from a multilateral, rules-based trading system were key threats to the global expansion. The NBC also highlighted that international policy coordination remained critical to safeguarding global financial stability and addressing common challenges.

FURTHER READING: World Economic Outlook Update, January 2019 October 2018 World Economic Outlook October 2018 Global Financial Stability Report October 2018 Fiscal Monitor

1.2 The Work Program of the Executive Board

CONTEXT: In November, the Executive Board discussed the Managing Director's Statement on the Work Program of the Executive Board. The Work Program translates the strategic directions and policy priorities laid out in the Fall 2018 Global Policy Agenda and the International Monetary and Financial Committee Communiqué into an Executive Board agenda for the next twelve months. Within the three pillars of the Fund, surveillance, lending, and capacity development, the main policy priorities and deliverables are: (i) Advise member countries to rebuild buffers, enhance resilience, and advance structural reforms for the benefit of all to respond to mounting vulnerabilities. The Spring 2019 WEO will analyze the macroeconomic implications of increased corporate market power. The GFSR will discuss global financial risks in light of tightening financial conditions, while the Fiscal Monitor will study how improved governance in fiscal frameworks and institutions can reduce corruption vulnerabilities and improve policy outcomes. (ii) Promote cooperation to modernize the multilateral trade system and address other challenges that transcend borders. The spillover chapter of the Spring 2019 WEO will examine the determinants of trade imbalances and spillovers from different trade policies. Staff will provide a stock-take of fintech developments and study the implications for cross-border flows, financial integrity, and global monetary and financial stability. Staff will also prepare a note on the macroeconomic and fiscal implications of aging. (iii) Adapt the Fund's policy toolkits to further enhance its surveillance, lending, and capacity development. Upcoming reviews will assess the Fund's surveillance, the Financial Sector Assessment Program (FSAP), the effectiveness of Fund program design and conditionality, and proposals on adjusting the facilities for low-income countries to better meet evolving membership needs. The Fund will implement a multipronged approach to enhance debt transparency and sustainable financing practices, as well as strengthen its debt sustainability analysis. The Fund will also reflect on suggestions made in recent discussions on improving its capacity development. (iv) Improve Fund governance and modernize its operations. Work on the 15th General Review of Quotas will continue with a view to completing it by the Spring Meetings, and no later than the Annual Meetings, of 2019. The Board will discuss policies to modernize the Fund's HR policies and continue the discussions on the Fund's compensation and benefits review.

NBC VIEW: The NBC supported the policy priorities laid out in the Managing Director's statement on the Work Program. The NBC welcomed the focus on the need for urgent action to rebuild policy space, strengthen resilience, and advance structural reform, as well as the emphasis on the need to improve global cooperation. The NBC also expressed support for the Fund's work on trade and on the consequences of trade policies in an interconnected world.

FURTHER READING: Statement by the Managing Director on the Work Program of the Executive Board - November 29, 2018

2 SURVEILLANCE & 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 it with the necessary information and to consult with it when requested. During the second half of 2018, the Executive Board concluded Article IV consultations with 32 countries across all regions. For three countries, the Executive Board discussed a comprehensive Financial System Stability Assessment, which is a more resource intensive exercise conducted less frequently than Article IV consultations. In addition, the Board was briefed by the various area departments of the Fund on regional developments, and the Board discussed several economic policy issues prepared by Fund staff.

2.1 Bilateral & Regional Surveillance

Box 1. IMF Article IV consultations of NBC countries under the second half of 2018

Iceland: The Executive Board concluded the 2018 Article IV consultation with Iceland in November. The Article IV report found that Iceland is experiencing an economic slowdown that has reduced overheating concerns. Tourism growth has decelerated and the króna has stopped appreciating. Demand management has become easier, allowing the authorities to focus on medium-term priorities, including infrastructure, healthcare, education, and the environment. Risks, however, have become more evident. High fuel prices and other factors are challenging the airline business; world trade tensions are escalating; and the United Kingdom—a vital trading partner—is not yet assured of a smooth EU exit. Icelandic policies thus need to focus on further increasing its resilience to shocks. The Icelandic authorities broadly agreed with staff's assessment. They noted that important strides had been made in the last decade with the aim of enhancing the resilience of the Icelandic economy, and the reform agenda continues with the recent launch of important reforms. For more information, read the full report here.

Latvia: In August, the Executive Board concluded the Article IV consultation for Latvia. The Article IV report found that the economy has gained momentum amidst sound fundamentals. Growth in 2017 surprised with a strong and broad-based upswing driven by a recovery in investment and a supportive external environment, and the outlook is favorable. Fiscal and current account deficits remain at prudent levels, as does the public debt burden. The financial system remains stable. In the short term, the authorities need to prevent further inflationary pressures and risks to competitiveness due to rapid wage growth and EU investment fund flows. Risks related to banks servicing nonresidents also pose regulatory challenges. Demographic headwinds and weak credit growth to support investment pose a challenge to long-term growth and living standards. The Latvian authorities broadly agreed with staff's views regarding economic developments and outlook, including the assessment of ageing related headwinds to long-term growth. For more information, read the full report here.

Norway: The Executive Board concluded the 2018 Article IV consultation with Norway in September. The Article IV report found that Norway is in the midst of a healthy recovery from the 2015–16 oil-driven downturn. After growing by 1.9 percent in 2017, mainland economic activity is expected to accelerate further and to grow by about 2½ percent in 2018 and 2019. Nevertheless, population aging and labor productivity will weigh on potential growth going forward. Norway also faces important challenges to sustaining its prosperity into the future: securing competitiveness in non-oil sectors as the contribution from oil wanes and dealing with high and rising non-oil fiscal deficits, which will only worsen as aging pressures start to bite. More immediately, high household debt is an ongoing source of concern. The Norwegian authorities broadly agreed with staff's assessment. They noted that the economy has recovered from the downturn induced by the 2014 drop in the oil price and is now characterized by optimism, solid growth, and improving labor market. For more information, read the full report here.

Box 2. Selected IMF Article IV consultations under the second half of 2018

France: At the end of July, the Executive Board concluded the Article IV consultation for France. In a favorable global conjuncture, France has benefitted from a broad-based recovery in 2017, with robust growth and improving labor market trends, which have led to a decline in the fiscal deficit below 3 percent of GDP in 2017. But structural challenges persist, with still high unemployment, weak competitiveness, and high private and public debt burdens, which are hampering economic performance. Near-term prospects remain positive; however, risks have risen and are tilted to the downside, particularly related to increasing trade tensions, geopolitical uncertainty, and risks related to the euro area. The NBC agreed with the thrust of the staff appraisal and highlighted the importance of placing public debt on a sustained downward path, strengthening competitiveness through structural and labor market policies, as well as continued pro-active monitoring of vulnerabilities in the non-financial corporate sector and building bank buffers against shocks. For more information, read the full report here.

Greece: At the end of July, the Executive Board concluded the Article IV consultation for Greece. The Article IV report found that Greece has stabilized its economy and begun to grow. The authorities deserve credit for largely eliminating macroeconomic imbalances, including via a significant fiscal adjustment, and for many other reforms undertaken in recent years. Reflecting these efforts, European partners have provided significant support, agreeing to a final loan disbursement under the ESM program and additional debt relief. However, as the country exits the program era in August, crisis legacies and an unfinished policy reform agenda in most areas weigh on Greece's prospects. High public debt, weak bank balance sheets, reliance on capital controls and emergency liquidity assistance, and worrisome social indicators, including still-high unemployment, all weigh on growth and social cohesion. Fiscal adjustment has been sizable but has relied on distortionary high tax rates on still-narrow bases and growth-detrimental discretionary spending cuts, and efforts to bring down tax and spending arrears have been met with limited success. Social spending is better targeted, but many social needs remain unmet and the risk of poverty remains high. Bank credit continues to shrink. Structural reform efforts to address obstacles to growth and competitiveness—while significant—have fallen well-short of what is needed, and competitiveness indicators remain below the Euro Area average. The NBC commended the Greek authorities for the impressive macroeconomic stabilization efforts and the implementation of several key structural reforms. Nonetheless, further efforts are needed, particularly on the fiscal policy mix and structural reforms, to address crisis legacies and put the economy on a sound growth path. For more information, read the full report here.

Japan: The Executive Board concluded the 2018 Article IV consultation with Japan in November. The rapid aging and shrinking of Japan's population will dominate economic policy making in coming decades—impelling a fresh look at the objectives and tools of Abenomics. Six years of Abenomics have yielded some important results, but achieving sustained high growth and durable reflation, while also tackling debt sustainability and a shifting global economic landscape, will require strengthened policies. Underlying growth is expected to remain solid, notwithstanding the scheduled increase in the consumption tax rate, and growth will move closer to potential over the medium term. Inflation is likely to remain below the Bank of Japan's two-percent target under current policies. In line with the global outlook, the balance of risks has shifted to the downside. Japan's macro-financial vulnerabilities, fiscal consolidation needs, and limited monetary policy space make the economy vulnerable to adverse shocks—particularly over the medium term as demographic trends intensify. The NBC agreed with the thrust of the staff appraisal and highlighted the importance of continued implementation of the third arrow of Abenomics – structural reforms, especially in the labor market. For more information, read the full report here.

Russia: In September, the Executive Board concluded the Article IV consultation for Russia. The Russian economy is recovering from the 2015–16 recession. Over the past few years, the authorities have put in place a strong macroeconomic policy framework that has reduced uncertainty and helped weather external shocks. However, Russia's convergence to advanced economy income levels has stalled and its weight in the global economy is shrinking. The current policy mix is tight. Fiscal policy is appropriately focused on rebuilding fiscal buffers. Monetary policy has been geared toward supporting disinflation and anchoring inflation expectations. With the output gap closing and inflation expectations increasingly anchored by the 4 percent target, monetary policy needs to complete the transition to a neutral stance. Accelerating economic growth requires focusing policy efforts on structural challenges that remain unaddressed, including the state's large footprint, excessive regulation, lack of competition, governance and institutional weaknesses, and inadequate infrastructure. The NBC agreed with the thrust of the staff appraisal, noting that while a strong macroeconomic policy framework has served Russia well, implementing structural reforms is the key challenge in the medium term. For more information, read the full report here.

Spain: The Executive Board concluded the 2018 Article IV consultation with Spain in November. Spain's economy has continued to grow strongly, reflecting its improved fundamentals. However, the young generation still faces daunting economic challenges. In the meantime, several downside risks are clouding the medium-term outlook. Externally, they comprise sudden changes in investors' global risk appetite, escalating global protectionism, and weakening conditions in emerging economies. Domestically, they include pressure to reverse reforms, continued procyclical fiscal policy, and prolonged uncertainty related to Catalonia. These could hurt the economy particularly in an environment of high public debt and structural unemployment as well as sluggish productivity growth, which is set to slow Spain's income convergence. The NBC agreed with the thrust of the staff appraisal and encouraged the authorities to preserve the progress achieved and avoid a reversal of previous reforms, as well as to continue with new fiscal, financial, and structural reforms. For more information, read the full report here.

The United Kingdom: In November, the Executive Board concluded the Article IV consultation for the United Kingdom. The United Kingdom is set to exit the European Union in March 2019. It is now in the process of negotiating its withdrawal from the EU. Once an agreement is reached, there will be an implementation period through the end of 2020. Growth over the past year has been moderate. The post-referendum depreciation caused an increase in inflation, depressing private consumption. Business investment growth has been constrained by protracted uncertainty about the future trade regime and potential increases in trading costs. Nonetheless, slack in the economy is limited as weaker demand is matched by slower supply growth. Growth is expected to continue at a moderate pace, conditional on a smooth Brexit transition and some recovery in labor productivity. A key downside risk is an exit without an agreement with the EU, accompanied by disruptive asset price movements. While a disorderly Brexit remains the largest risk to the economy, the UK faces a raft of issues that predate the referendum, including relatively large public debt and current account deficit, and low productivity growth. The NBC agreed that a disorderly Brexit remains the biggest risk for the United Kingdom, and contingency planning may be particularly important for the stability of financial services. Fiscal consolidation remains critical to comply with the government's fiscal framework and build buffers against future shocks. For more information, read the full report here.

2.2 The Bali Fintech Agenda

CONTEXT: In September, the Executive Board approved the Bali Fintech Agenda, a set of 12 policy elements aimed at helping member countries harness the benefits and opportunities of rapid advances in financial technology that are transforming the provision of banking services, while at the same time managing the inherent risks. The Agenda proposes a framework of high-level issues that countries should consider in their domestic policy discussions and aims to guide the IMF's staff in their work and dialogue with national authorities. The 12 elements were distilled from members' own experiences and cover topics relating broadly to enabling fintech; ensuring financial sector resilience; addressing risks; and promoting international cooperation. The Agenda was launched together with the World Bank Group at the 2018 Annual meetings in Bali. Implications of the Bali Fintech Agenda for the IMF and World Bank work programs will be developed as the nature and scope of their members' needs become clearer. The IMF's initial focus will be on the implications for national and global monetary and financial stability, and the evolution of the International Monetary System and global financial safety net.

NBC VIEW: The NBC welcomed the Bali Fintech Agenda as a response to requests from the membership to outline the main opportunities and risks related to the rapid technical and digital developments in the financial sector. The NBC's view emphasized that further work, in collaboration with the FSB, BCBS, FATF, BIS, IOSCO and other global standard-setters, is necessary in the near term to find an efficient division of labor and dynamic processes for international coordination on fintech related issues, based on the different mandates of these organizations. In these discussions, the Bali Fintech Agenda can serve as a useful outline and point of departure for the IMF, the World Bank, and their member countries.

FURTHER READING: The Bali Fintech Agenda

2.3 Reinvigorating Trade and Inclusive Growth

CONTEXT: In September, the Executive Board discussed the IMF policy paper on Reinvigorating Trade and Inclusive Growth, which was a collaborative paper between the IMF, World Bank and the World Trade Organization. The paper extends the 2017 IMF policy paper 'Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment' and is a complement to the trade analysis in the Fund's Flagship reports, the External Sector Report, and the G20 Surveillance note. Although the opening of trade after World War II through the early 2000s lifted living standards and reduced poverty, trade integration remains incomplete as tariffs, regulatory differences, and other policy barriers still impede trade in goods. In addition, services comprise two-thirds of global GDP and employment, and (on a value-added basis) nearly half of global trade, yet barriers to services trade today are roughly as high as those to trade in goods a half century ago. Trade can be a powerful force for more inclusive growth, including by lowering poverty and by opening opportunities to small firms, farmers and fishermen, as well as to women more generally. The WTO's institutional and legal framework, and its near-global membership, have unique advantages. Yet nearly two decades of challenging WTO negotiations together with the recognition of a more complex trade policy landscape urgently call for advancing reforms of the multilateral trade system.

NBC VIEW: The NBC welcomed the strong message on the need to avoid protectionist measures and find cooperative solutions that promote balanced growth in goods and services trade – one of the founding objectives of the Fund.

FURTHER READING: Reinvigorating Trade and Inclusive Growth Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment

3 LENDING

3.1 Standard Lending Facilities

As of December 31, 2018, the Fund is engaged in 19 active programs and has made a total of approximately USD 180 billion available in lending commitments across the globe under the General Resources. During the second half of 2018, the Executive Board approved three new loans under the standard non-concessional lending facilities: for Barbados, Angola, and Ukraine. Among the ongoing lending arrangements, the Executive Board completed reviews of Fund-supported programs for Gabon, Argentina, Mongolia, Jamaica, Seychelles, Serbia, and Georgia. Under the Fund's precautionary arrangements, a regular review was conducted for Mexico's Flexible Credit Line Arrangement, and Morocco entered into a new two-year Precautionary and Liquidity Line Arrangement. The NBC supported requests for new programs, as well as the reviews completed during the second half of 2018. Some of the major Fund-supported programs are described in more detail below.

3.1.1 Angola

CONTEXT: In December 2018, the Executive Board approved a three-year Extended Arrangement under the Extended Fund Facility (EFF) with an amount of USD 3.7 billion to support Angola's economic reform program. The Executive Board's decision allowed a first loan tranche of USD 990.7 million to be disbursed. The EFF supported program will help Angola restore external and fiscal sustainability and lay the foundations for sustainable, private-sector-led economic diversification. The program's critical pillars include fiscal consolidation to bring debt to safer levels; increased exchange rate flexibility to regain competitiveness; and supportive monetary policy to reduce inflation. The other pillars include strengthening the banking system; enabling a better business environment; updating the AML/CFT legal framework; and improving governance.

NBC VIEW: The NBC supported the request for an Extended Arrangement under the EFF but emphasized that better governance and efforts to fight corruption should have a higher priority in program conditionality, as these are areas where Angola confronts constant challenges and thereby underperforms amongst its peers in sub-Saharan Africa.

FURTHER READING: Angola: Request for An Extended Arrangement Under the Extended Fund Facility-Press Release; and Statement by the Executive Director for Angola

3.1.2 Argentina

CONTEXT: In October 2018, the Executive Board completed the first review and on December 2018 – the second review of Argentina's economic performance under the 36-month Stand-By Arrangement (SBA). The Executive Board's decisions allowed for an amount of USD 5.7 billion and USD 7.6 billion to be disbursed respectively. As part of the first review, the Board also approved an augmentation of the Stand-By Arrangement to increase access to about USD 56.3 billion. There are early signs that the redesigned economic reform program, including a new monetary policy framework, is yielding results. The peso has stabilized and inflation, though still high, has started to decline, as the pass-through from past peso depreciation is waning. Nevertheless, the Argentine economy is still contracting and remains vulnerable to shifts in market sentiment. Economic activity is expected to start recovering in the second quarter of 2019. The passage of the 2019 budget with broad political support has helped to solidify confidence in the authorities' economic reform plan and policy continuity. Fiscal discipline created space for one-off payments that helped shield the most vulnerable from the burden of adjustment. As the economy stabilizes, it would be key to pivot the reform agenda toward boosting medium-term growth.

NBC VIEW: The NBC supported the completion of the first and second reviews but emphasized that, although short-term stabilization has been achieved, the risks around the program remain high. The NBC continued to emphasize that strengthening the central bank's institutional framework is fundamental to restore market confidence in a sustainable manner. Going forward, the NBC urged for broad political support on the main reform initiatives under the program, as this will be important to ensure a long-term stable economic outcome. Further ahead, structural reforms of the pension system, labor markets and governance will be necessary while ensuring the adequate social protection of the most vulnerable.

FURTHER READING: Argentina: Second Review under the Stand-By Arrangement; Financing Assurances Review; and Request for Modification of Performance Criterion-Press Release; and Staff Report Argentina: Stand-By Arrangement-Review under the Emergency Financing Mechanism

3.1.3 Mongolia

CONTEXT: In October 2018, the Executive Board completed the fifth review under the Extended Fund Facility (EFF). The Board's decision allowed for the next tranche of USD 36.22 million to be disbursed. The Executive Board commended the authorities for a good performance under the program. The combination of strong policy implementation and a supportive external environment has helped the authorities meet all end-September 2018 quantitative targets under the program, with significant over-performance on fiscal targets. Notwithstanding this progress, Mongolia remains vulnerable to external and domestic shocks. It is therefore crucial to further bolster fiscal and external buffers, strengthen the banking sector, and improve the investment climate. In addition, the authorities should continue efforts to protect social spending, strengthen tax administration and improve public financial management.

NBC VIEW: The NBC supported the completion of the fifth review. Nevertheless, the NBC underlined some risk that the proposed policy mix – especially for 2019 – may become overly procyclical. The NBC encouraged the authorities and staff to calibrate all economic and financial policies to avoid the risk of returning to the boom-bust economy of the past.

FURTHER READING: Mongolia: Fifth Review Under the Extended Fund Facility Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria-Press Release; Staff Report; Staff Supplement; and Statement by the Executive Director for Mongolia

3.1.4 Ukraine

CONTEXT: In December 2018, the Executive Board approved a new 14-month USD 3.9 billion Stand-By Arrangement (SBA) for Ukraine. The approval of the SBA enabled the immediate disbursement of USD 1.4 billion; the remainder will be available upon completion of semi-annual reviews. The SBA will provide an anchor for the authorities' economic policies during the 2019 election-year and focus on maintaining macro-economic and financial stability. The Ukrainian authorities have successfully restored macro-economic stability and growth, with support from the international community. Prudent fiscal and monetary policies and a flexible exchange rate regime have helped reduce fiscal and current account deficits. It will be important to resist pressures to increase spending or lower taxes, while renewing efforts to improve public financial management and revenue administration. Program implementation is subject to significant risks, both domestic and external. The authorities have taken important steps to mitigate these risks, including by adopting a sound 2019 budget, raising gas and heating tariffs, and adopting legislation to improve governance in state-owned banks.

NBC VIEW: The NBC supported the decision for a 14 months SBA with Ukraine given that all prior actions have been fulfilled. The NBC concurred that the downside risks are large, including policy slippages connected to the election and disruptions related to the conflict in the eastern part of Ukraine. The NBC welcomed that Ukraine has set up independent institutions to fight corruption and improved the legal framework and stressed the need to ensure its effective functioning.

FURTHER READING: Ukraine: Request for Stand-By Arrangement and Cancellation of Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ukraine

3.2 Precautionary Lending Facilities

3.2.1 Mexico

CONTEXT: In November 2018, the Executive Board completed its review of Mexico's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Mexico's continued qualification to access FCL resources. At the request of the Mexican authorities, the Executive Board approved the reduced FCL access to USD 74 billion. The Mexican authorities stated their intention to continue treating the arrangement as precautionary. Growth has remained resilient while inflation has declined. Fiscal policy has stemmed the rise in the public debt-to-GDP ratio, monetary policy has maintained a prudent stance, and financial regulation and supervision remain strong. The flexible exchange rate has played a key role in helping the economy adjust to external shocks. The new Mexican administration has stated its commitment to maintain very strong policies and policy frameworks, including the independence of economic-policy institutions. The administration is also committed to fostering a reform agenda to strengthen the rule of law and boost private investment. The Mexican economy remains exposed to external risks although they have decreased with the conclusion of the US-Mexico-Canada trade agreement.

NBC VIEW: The NBC supported the conclusion of the review and the request for a reduction in access under the FCL as a step towards a gradual exit from this arrangement. The NBC urged the new government to consider possible exit strategies with further reduction in access going forward, when conditions allow, in order to prevent the prolonged use of this instrument. The NBC welcomed the new government's aim to strengthen the rule of law, improve efficiency of public expenditure, and fight tax evasion.

FURTHER READING: Mexico: Review Under the Flexible Credit Line Arrangement-Press Release; and Staff Report

3.2.2 Morocco

CONTEXT: In December 2018, the Executive Board approved a two-year arrangement for Morocco under the Precautionary and Liquidity Line (PLL) for USD 2.97 billion. The access under the arrangement in the first year will be equivalent to USD 1.73 billion. The Moroccan authorities have reduced fiscal and external vulnerabilities and implemented important reforms with the support of three consecutive PLL arrangements. Growth remained robust in 2018 and is expected to accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation. External imbalances have declined substantially, fiscal consolidation has progressed, and the policy and institutional frameworks have been strengthened. Nevertheless, the outlook remains subject to external downside risks, including heightened geopolitical risks, slow growth in Morocco's main trading partners, and global financial market volatility. In this context, a successor Precautionary and Liquidity Line (PLL) arrangement with the Fund will provide valuable insurance against external risks and support the authorities' policies aimed at further reducing fiscal and external vulnerabilities and promoting higher and more inclusive growth.

NBC VIEW: The NBC supported Morocco's request for a new PLL arrangement given the risks in the external environment and as Morocco continues to meet the qualification criteria. The NBC welcomed the authorities' intention to treat the PLL as precautionary and the sound policies implemented under the previous PLL. Steadfast implementation of the reform agenda going forward will be crucial to continue to enhance the country's resilience and readiness to exit this arrangement once conditions allow.

FURTHER READING: IMF Executive Board Approves US$2.97 billion for Morocco Under the Precautionary and Liquidity Line

3.3 LIC programs

As of December 31st, 2018, the Fund is engaged in 17 active programs and has made a total of approximately USD 4.2 billion available in lending commitments across the globe under the Poverty Reduction and Growth Trust (PRGT). During the second half of 2018, the Executive Board has approved a new Fund-supported program with financial resources under the concessional lending facilities for Sierra Leone, while it completed reviews of existing Fund-supported programs for Malawi, Rwanda, Benin, Mauritania, Afghanistan, Mali, Togo, Niger, Côte d'Ivoire, Cameroon, Central African Republic, Burkina Faso, and Guinea. Overall, the NBC supported all program reviews and the request for a new program.

4 CAPACITY DEVELOPMENT

Capacity development, including technical assistance (TA) and training, is one of the three core pillars of the Fund's work. Its main objective is to help member countries build institutions and the capacity necessary to formulate and implement sound economic and financial policies. The Executive Board received regular briefings by staff from the Fund's functional departments on the ongoing delivery of capacity development. NBC countries contribute with financial resources and/or technical expertise to the Fund's capacity development work. Further details on the Fund's work on capacity development can be found here.

4.1 2018 Review of the IMF's Capacity Development Strategy

CONTEXT: In November 2018, the Executive Board concluded the 2018 Review of the IMF's Capacity Development (CD) Strategy. The 2018 CD Strategy Review examines progress under the Fund's 2013 CD Strategy and proposes a CD strategy for the next five years. The current review builds on previous staff and Independent Evaluation Office CD reviews, policy reviews on related topics, and ongoing work on operational strategies relevant to CD. It has been informed by a wide range of inputs, including broad outreach both internally and externally, including stakeholder surveys, interviews, and public consultation, as well as several background studies and commentaries by Fund staff, external experts, and an External Advisory Group. Five specific areas of recommendations support the strategy. They include clearer roles and responsibilities for key internal and external stakeholders in the CD process; continued strengthening of prioritization and monitoring; better tailoring and modernization of CD delivery with a focus on implementation of technical assistance (TA) recommendations; greater internal consultation and sharing of CD information; and further progress in external coordination, communication, and dissemination of information.

NBC VIEW: The NBC broadly supported the proposed recommendations of the 2018 Capacity Development (CD) review with the aim of strengthening the efficiency and impact of CD activities. The success of CD efforts, as well as the traction of Fund policy advice in general, is highly dependent on strong and continuous ownership by country authorities and institutions. As results from the recipient survey show, it is important for the Fund to understand the absorption capacity and resource constraints in countries for improved CD impact. From the NBC, Sweden, Norway, and Denmark contributed additional bilateral resources to Fund technical assistance and training.

FURTHER READING: 2018 Review of the Fund's Capacity Development Strategy

ABOUT

THE IMF's EXECUTIVE BOARD

The International Monetary Fund (IMF) has 189 member countries. Its highest decision-making body is the Board of Governors where all countries are represented. The Board of Governors approves only a few of the Fund's major decisions and has delegated the rest of its decision-making powers to the IMF's Executive Board where all countries are represented by an Executive Director. Some of the Executive Board's 24 chairs are single-country chairs, whereas the majority of the chairs represent multi-country constituencies. The task of the Executive Board is to conduct the daily business of the IMF in all aspects of its work, including surveillance, lending, and capacity development. The Board normally takes decisions based on consensus, but in some cases formal votes are cast. Each member country's voting power is determined predominantly by its quota, and the quota in turn is calculated to reflect member countries' relative position in the world economy.

THE OFFICE OF THE NORDIC-BALTIC CONSTITUENCY

The Nordic-Baltic Constituency (NBC) comprises Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden. The Office of the Nordic Baltic Constituency (ONBC) presents the views of our member countries in the Executive Board in close coordination with our national authorities. The office also regularly meets with representatives from the member countries' administrations or private delegations. All positions in the office rotate between the eight member countries according to an agreed schedule and all countries are represented at all times. As of December 2018, our staff includes:

Thomas Östros	Executive Director, Sweden
Kimmo Virolainen	Alternate Executive Director, Finland
Gudrun S. Gunnarsdottir	Senior Advisor, Iceland
Tove Katrine Sand	Senior Advisor, Norway
Thomas Pihl Gade	Advisor, Denmark
Nils Vaikla	Advisor, Estonia
Ieva Skrīvere	Advisor, Latvia
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