**April, 2006**

# The Nordic-Baltic Office
# International Monetary Fund

# Report 2006/1

# The Global Economy and Recent Policy Developments in the International Monetary Fund

———————

.

# CONTENTS

LIST OF ACRONYMS

STAFF AT THE NORDIC-BALTIC OFFICE

INTRODUCTION

I. THE FUND'S MEDIUM TERM STRATEGY
Surveillance
Role in Emerging Market Countries
Role in Low-Income Countries
Capacity Building
Quotas and Voice Issues
Budget
Streamlining procedures and paper flow

II. THE GLOBAL ECONOMY AND ECONOMIC SURVEILLANCE

Global Economic Outlook
Global Financial Stability
Development in Eastern and Central European Countries
Brazil
Argentina
Turkey
Article IV Consultations with Nordic-Baltic Countries September 2005 -April 2006

III. THE MULTILATERAL DEBT REDUCTION INITIATIVE (MDRI) AND THE ESTABLISHMENT OF THE SHOCKS FACILITY AND THE POLICY SUPPORT INSTRUMENT

IV. THE FUND'S ORGANIZATION AND FINANCES

The Fund's Medium-Term Income – Outlook and Options
Employment, Compensation and Budget Review
Reorganization of the Fund's Financial Sector Work

# LIST OF ACRONYMS

| | |
|---|---|
| AfDF | African Development Fund |
| AFRITAC | Africa Regional Technical Assistance Center |
| CEEC | Central and Eastern European Country |
| CE-5 | The five largest Central and Eastern European countries |
| ESF | Exogenous Shock Facility |
| EU | European Union |
| EURIMF EU | Countries Group of IMF Executive Board Representatives |
| FSAP | Financial Sector Assessment Program |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GFSR | Global Financial Stability Report |
| GRA | General Resource Account |
| HIPC | Heavily Indebted Poor Countries |
| IDA | International Development Association |
| IEO | Independent Evaluation Office |
| IMF | International Monetary Fund |
| IMFC | International Monetary and Financial Committee |
| LIC | Low-Income Country |
| MD | Managing Director |
| MDG | Millennium Development Goal |
| MDRI | Multilateral Debt Relief Initiative |
| MFD | Monetary and Financial Systems Department |
| MTB | Medium Term Budget |
| MTS | Medium Term Strategy |
| NBC | Nordic-Baltic Constituency |
| NBMFC | Nordic-Baltic Monetary and Financial Committee |
| NBO | Nordic-Baltic Office |
| PEM | Public Expenditure Management |
| PMA | Policy Monitoring Arrangement |
| PRGF | Poverty Reduction and Growth Facility |
| PRS | Poverty Reduction Strategy |
| PRSP | Poverty Reduction Strategy Paper |
| PSI | Policy Support Instrument |
| ROSC | Reports on Observance of Standards and Codes |
| SCIMF | EU Sub-Committee on IMF matters |
| SDDS | Special Data Dissemination Standard |
| SDR | Special Drawing Right |
| TA | Technical Assistance |
| WEO | World Economic Outlook |

# INTRODUCTION

This report is prepared by the staff of the *Nordic-Baltic Office* (NBO) at the International Monetary Fund in preparation for the Spring Meeting of the *International Monetary and Financial Committee* (IMFC) on April 22, 2006. The report covers the period from the IMFC Meeting in Washington DC in September 2005 to end April 2006.

In the various sections a special reference is made to key views presented by the *Nordic-Baltic Constituency* (NBC). The main references are the *World Economic Outlook* (WEO), the *Global Financial Stability Report* (GFSR) and the *Annual Report* of the Fund. Those reports are available on the Fund's website www.imf.org.

**The Nordic-Baltic Constituency**

The *Nordic-Baltic Constituency* consists of eight countries: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The NBC has 3.52 percent of the total votes at the Fund's Executive Board. The Executive Board consists of 24 chairs representing the 184 member countries. The Managing Director, or one of the three deputies, chairs the Board meetings. The *Nordic-Baltic Office* has eleven staff members: An Executive Director, an Alternate Executive Director, three Senior Advisors, four Advisors and two permanent Administrative Assistants. Each of the member countries of the Constituency provides one staff member on a rotational basis. In accordance with the mandate of the Fund, the work at the NBO contributes to the policy formulation and decision-making of the Fund, with the aim to strengthen the role and further improve the efficiency of the institution. The NBO cooperates with national authorities to receive guidance, exchange views and provide information on discussions and developments within the Fund. Moreover, the NBO serves the interests of the *Nordic-Baltic Constituency* by promoting its views and enhancing its role within the Fund.

The NBO interacts with management, staff and other Executive Director Offices in the process of policy formulation and decision-making. Six NBO staff members from the EU countries participate in the informal cooperation between EU countries' representatives in the Fund (EURIMF).

Two permanent committees guide the work of the NBC on Fund related issues. The *Nordic-Baltic Monetary and Financial Committee* (NBMFC) is composed of two high-level officials from each country, the State Secretary/Permanent Secretary from the relevant ministry (Ministry of Finance or Ministry of Economic Affairs) and the Deputy Governor from the Central Banks. The *Group of Alternates* is composed of heads of International Departments in the Central Banks and relevant ministries. The Alternate Committee meets twice a year to discuss Fund related issues and makes proposals to the NBMFC. The NBMFC is a decision making entity that meets formally twice a year, but consults more often, e.g. in telephone conferences.

For the individual countries in the *Nordic-Baltic Constituency*, their main direct engagement with the Fund is through surveillance in accordance with the *Article IV* of the Fund's Articles of Agreement. Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden are on a 12-month cycle, i.e. the Fund's staff visits these countries once a year to assess their economic policy and provide the authorities with policy advice. Denmark is on a 24-month cycle. All the countries in the Constituency, except Denmark, have been assessed from a financial sector stability point of view within the framework of the *Financial Sector Assessment Program* (FSAP). Denmark is presently having its FSAP review which is expected to be published in the fall of 2006. All countries in the Constituency publish the reports from the *Article IV* surveillance on their Central Bank websites. The country reports are also available on the Fund's website.

## I. THE FUND'S MEDIUM TERM STRATEGY

In September 2004 the Managing Director (MD), Rodrigo de Rato, initiated a review of the Fund's Medium Term Strategy. The subject has been discussed throughout 2005, and in October after the Annual Meeting in September 2005 a decision was made to set up seven staff working groups chaired by high ranking staff members to write reports setting forth concrete proposals concerning: Surveillance, Role in Emerging Market Countries, Role in Low-Income Countries, Capacity Building, Quotas and Voice Issues, Budget, Streamlining Procedures and Paper Flow. The reports of the working groups, together with an umbrella report by the Managing Director ( The MD's report), were issued to the Board in March 2006. The implementation of the Fund's Medium-Term Strategy will be discussed by the IMFC at its upcoming Spring Meeting. It is the intention to make concrete decisions by the time of the Annual Meetings in Singapore in September 2006. In the sections below the MD's proposals are described in the first part followed by the position the *Nordic-Baltic chair* took on the various issues.

**Surveillance**
The MD's report recommends new directions and enhanced focus on surveillance. The proposals concentrate on a more global perspective, more effective country surveillance and improved communications.

In addressing increased **global challenges,** the report sets forth a number of initiatives. These include catalyzing a broader debate through multilateral consultations and greater regional perspective. The MD proposes to set up a new supplemental consultation procedure allowing the Fund to take up issues collectively with systemically important members and even with entities, such as regional groupings, that are not members. In addition, the report outlines ways to give more emphasis on exchange rate issues in Fund surveillance. Specific proposals are made to expand the multilateral assessments of exchange rates from industrial countries to cover also major emerging country currencies. As experience in gained, consideration could be given to integrating these assessments in the WEO and Article IV reports.

Greater efficiency and effectiveness of **country surveillance** would be achieved by better focusing on truly macro-relevant issues and improved planning by the use of prioritized surveillance agendas for the countries, but also by increased multilateral perspectives in country surveillance. A rather important proposal is to streamline the procedures for countries with low levels of vulnerability. Such streamlining would entail shorter and smaller missions every other year. Moreover, the MD foresees improving the surveillance by bringing the emphasis on financial sector issues on par with the fiscal and monetary policy coverage. A new department, created by merger of the International Capital Market Department (ICM) and the Monetary and Financial Systems Department (MFD) would be the center for financial sector expertise.

Last, but not least, more active **outreach**, in form of press conferences, seminars and more specific communication strategies, is proposed to build a broader consensus around Fund policy advice.

According to preliminary estimates, additional **resources** would be needed for implementing the MD’s proposals, mainly on enhanced financial sector work, but also on exchange rate surveillance and outreach. At the same time, wider use of streamlined surveillance, accompanied by gains from merger of ICM and MFD would result in some savings.

*The Nordic Baltic chair* found that enhancing the effectiveness and relevance of surveillance is the most relevant element in the Funds’s Medium Term Strategy. *The Nordic Baltic chair* agreed that there is a need to further promote a discussion of issues that are of systemic importance and that the Fund is uniquely placed to play an important role in this area. The proposal to introduce a new multilateral consultation procedure could be a vehicle to achieve this goal, but the Board would need to be fully involved in each stage of such a procedure. With respect to making bilateral surveillance more effective the *Nordic-Baltic chair* saw merit in streamlining Article IV consultations. One way to streamline is a move to a 24-month cycle when appropriate. Another option is the MD's proposal with a streamlined procedure in alternate years. The *Nordic Baltic chair* underlined that, in either case, sufficient continuity of mission members would be particularly important. Any proposals for streamlining should be carefully examined in the light of their cost-saving potential.

**The Fund’s Evolving Role in Emerging Markets**

In the recent decades, the bulk of the Fund’s lending has been to emerging economies facing balance-of-payments difficulties. During 2005 many of the Fund’s largest emerging-market borrowers reduced or paid back in full their loans (see below). However, it is the finding of the MD’s report that the Fund still continues to serve an important role in emerging markets providing advice and contributing to capacity building, and financing may still be needed in periods of stress. Financial and capital market issues need to be put at the heart of the macroeconomic analysis in emerging markets, which should be supported by priority in the Financial Sector Assessment Program and the Fund’s work on standards and codes.

Recent experiences with large-scale financing programs have exposed deficiencies in the current Exceptional Access Framework (rules applied when Fund lending to a country

exceeds normal access limits). These deficiencies have shown themselves in cases where the time needed to restore balance of payments viability has been longer than initially expected. The framework was developed for capital account crises and does not currently apply to cases where the financing need arises for reasons other than an on-going capital-account crisis. Thus, it could not encompass the financial arrangements for Turkey and Uruguay both in 2005. While recognizing that it has been difficult to predict how long it takes a country to recover from a capital account crisis, the MD has recommended that the Fund should accept and acknowledge these uncertainties on duration of a financial arrangement up front and provide clear principles for high access outside a capital account crisis. Incentives for repayment should have greater emphasis on the use of surcharges rather than relying on administrative measures.

As requested by the emerging market countries and reflecting these members' search for greater levels of liquidity through both reserve accumulation and regional arrangements, the MD's proposal suggests that a new type of arrangement for high-access contingent financing is needed. Such an instrument should be a crisis prevention tool providing members vulnerable to shocks, but not facing an imminent balance of payment need, with assurance of automatic access up to 300 percent of their quota in the event of crisis, while also ensuring appropriate safeguards for Fund resources. As a measure to adequately control the Fund's risk, members would agree on a program with conditionality focusing on addressing underlying vulnerabilities and performance criteria set to broadly indicate when policies go off-track. To qualify for the mechanism members would need to have strong macroeconomic policies, a sustainable debt situation and transparent reporting, but still face balance sheet weaknesses and other vulnerabilities. The MD's proposals also suggest that the Fund should be open to support regional and other pooling reserve arrangements.

The recent years' evolution of capital markets has challenged the Fund's role for speedy and cooperative debt restructurings. Based on recent experiences, the MD has proposed to review the procedural aspects of the Fund's policy for dealing with countries in arrears, the Lending Into Arrears policy, in order to ensure predictability and a proper balance between debtors' and creditors' interests during restructuring negotiations. For debtors it is recommended that the Fund assesses the appropriate medium-term repayment capacity and the macroeconomic framework even in the absence of a program engagement. The MD also recommends that the Fund continues its general policy on non-tolerance of arrears.

In the discussion *the Nordic-Baltic chair* emphasized the centrality of financial sector issues in emerging market countries' surveillance. While the policy for high-access lending (the exceptional access policy) has been broadly appropriate, the principles that guide these large financing arrangements outside an acute capital account crisis should be clarified. Stricter adherence to the letter of the existing access framework would also be needed. Frank and realistic analysis is the cornerstone of a credible program design, especially assessments of debt dynamics. As thorny incentive dilemmas exist for a possible contingent credit mechanism, the Nordic-Baltic chair remains skeptical towards such a lending facility. The existing instruments, *inter alia* precautionary arrangements, offer some unused potential and

any new instrument should be demand-driven. The Fund should be open to support regional and other reserve pooling arrangements.

**The Fund's Role in Low-Income Countries**

An important component of the medium-term strategy is the Fund's future work with low-income countries. The challenge ahead will be to provide good advice on macroeconomic policies, in order to achieve higher growth, reduced poverty, and move towards reaching the Millennium Developments Goals (MDGs).

The MD's report sees an important role for the Fund in enabling developing countries to make the best use of the expected rise in aid-flows, including debt relief. In order to help low-income countries, the Fund will need to focus more on essentials, and on areas where the Fund has a comparative advantage. The MD's report emphasizes a more systematic division of responsibilities among the international financial institutions and donors. The Fund should take responsibility for areas that are critical to growth and fall within its macroeconomic and financial expertise. The Fund's support should take the form of policy advice, centered around the Poverty Reduction Strategy Papers (PRSP), financial assistance, through the Poverty Reduction and Growth Facility (PRGF), and capacity building, through technical assistance (TA).

Regarding aid flows and MDGs, the MD's report sees the Fund's role as one of assessing whether expected aid flows are consistent with both macroeconomic stability and the estimated costs of achieving countries' development goals. Moreover, the Fund should inform donors if macroeconomic instability poses risks to the effectiveness of aid. The resources released by debt relief are expected to go towards poverty reduction, and a key role for the Fund will therefore be to provide TA on public expenditure management (PEM) in the countries concerned. In addition, the Fund needs to identify risks of future debt problems arising from new borrowing in the countries receiving debt relief, in order to ensure that these countries do not again accumulate excessive debt.

To facilitate a more focused role for the Fund in the low-income countries and a clearer division of labor between the international financial institutions, the MD proposes that the Fund's work be geared towards supporting policies and economic institutions conducive to sustained private-sector led growth, trade, and poverty reduction. Given the complexity of the multi-disciplinary work in low-income countries it is, however, essential to have clear division of responsibility. Fund and Bank staff, together with the country authorities and development partners, should, thus, for each country, identify the main growth-critical issues and specify the areas in which the authorities need assistance and policy advice. Each party should, thereafter, agree on the areas in which they are prepared to take the lead. The Fund should, of course, take responsibility for those areas that fall within its macroeconomic expertise. Furthermore, it has been decided that a joint Bank-Fund task force, led by a panel of outsiders, make recommendations on how to update the modalities for inter-agency coordination and division of labor set out in the 1989 Concordat (Agreement concluded in 1989 setting out the rules for the division of responsibility between the World Bank and the Fund).

To fulfill the Fund's commitments to low-income countries, as spelled out in the medium-term strategy, the MD in his proposal acknowledges that additional resources will be required. But, given budget limits, the proposal is to engage local staff in the countries concerned and explore additional external resources.

The *Nordic-Baltic chair* agreed that the Fund has an important role to play in advising low-income countries on whether the projected aid flows are consistent with the absorption capacity of the country. However, this capacity may be difficult to assess. Hence, the Fund should be careful not to overplay this role and assume the role of an umpire. The Nordic-Baltic chair also agreed that the Fund should focus its policy advice, capacity building and financial assistance on macro-critical issues and institutions relevant to financial stability and economic growth. Moreover, the Nordic-Baltic chair strongly supported the suggestions on strengthening public expenditure management systems areas where the Fund has competence. The Nordic-Baltic chair welcomed the proposal to review the modalities and division of labor between the World Bank and the Fund. Finally, the Nordic-Baltic chair recognized the budget problems associated with the proposed expansion of the Fund's operations in low-income countries. It is not clear whether the Fund will have the capability to fulfill the envisaged role, described in the medium-term strategy, since the resource implications have yet to be clarified.

**Standards and Codes and Capacity Building**

The MD identified several strategic objectives for his proposals, mostly in aligning capacity-building efforts with the needs of member countries and evolving Fund priorities. A key proposal was to limit the resources spent on ROSCs by prioritizing more strictly between countries, and to explore the possibility of charging for technical assistance in combination with a donor-financed trust fund to subsidize technical assistance for the poorest countries. It was also proposed to have technical assistance more related to the needs identified in surveillance and in ROSCs. It was also proposed that external training programs be better aligned with Fund priorities and should to a larger extent be financed by users or donors.

The *Nordic-Baltic chair* agreed with the objectives and most of the recommendations of the report, but warned against excessive centralization of technical assistance prioritization as this may have disruptive effects on long-term capacity building efforts. The chair also took a skeptical position to the external funding proposal, expecting slow progress in having donors come forward. The proposed stricter prioritization of standards and codes assessments was fully supported.

**Quotas and Voice Issues**

The MD acknowledged concerns regarding quotas and voice in the Fund. These issues can threaten its effectiveness, potentially weakening some member countries' commitment to the Fund, and its ability to facilitate cooperative and multilateral solutions to global financial problems. Three broad concerns exist: (i) the quota shares have become increasingly out of line with economic weight, failing to keep pace with the rapid evolution in the global economy; (ii) the voting shares of small low-income countries have been eroded as the share

of basic votes in total votes has declined; and (iii) the composition of the Executive Board may not provide for adequate participation of all regions, especially Sub-Saharan Africa, and the Board may have become too large for efficient decision making.

The MD suggests a two-stage approach to reach concrete progress on the issue by the time of the Annual Meetings in Singapore. An ad-hoc increase could be approved for the most underrepresented members in the near term and further steps could be taken later. An increase in basic votes, to strengthen the voice of the smallest members, can be determined in either the first or the second phase. The MD recognizes that indications are that there is not a broad consensus within the membership for changing the 24-member Board. There is also opportunity for the Board of Governors in connection with the regular election of Executive Directors to decide to increase or decrease the size of the Board, and restructuring of constituencies could take place in connection with these elections of Executive Directors (it is up to member countries to form constituencies).

The *Nordic-Baltic chair* found that for the Fund's legitimacy, it is important to ensure that all member countries have adequate representation in the Fund's decision-making process. The most viable solution will be an agreement on partial compensation for the most underrepresented countries via an ad hoc quota increase, although the *Nordic-Baltic chair* recognizes that there are other longer term issues that need to be addressed. The *Nordic-Baltic chair* also found that the issue of strengthening the voice of developing countries should be addressed as soon as possible and, together with other EU countries, they supported an increase in basic votes.

**Budget**

The Management recognizes that the decline in the Fund's lending has reduced its income to an extent that calls for decisions to ensure the long-term sustainability of Fund finances. Even with declining real spending and measures to broaden the income base in the near term, financing gaps over the medium term remain. Therefore, the current business financing model is no longer tenable and a new model that eventually leads to a steady, long-term source of income needs to be found. To catalyze developing a political consensus around any particular measure, the MD proposes to establish an external committee, headed by an eminent personality, to make recommendations.

Given the projected budgetary situation, the medium-term strategy has been made budget neutral. On the expenditure side, the MD considers a real budget envelope that declines moderately over the medium-term (unchanged real expenditure for the FY 2007 and a real decline of 1 percent in the next two years) a feasible approach. The reduction is planned to be achieved by off-shoring, outsourcing and consolidating the support services that account for a significant part of the Fund's budget. A more radical reduction of expenditures cannot be ruled out, but would, according to the MD, require a sharp curtailment of the Fund's mandate.

The *Nordic-Baltic chair* sees the medium-term income framework, together with the medium-term budget and the strategic review, as integral parts of a package that needs to be based on a coherent view of the Fund's future role in the international monetary system. The *Nordic-Baltic chair* welcomes the implementation of the proposals presented in the MTS paper in a budget envelope that declines in real terms over the medium term. However, the assessment of the impact of the MTS on the budget is very preliminary and further clarity of the resource implications will be needed going forward. The possibility of curbing the Fund's administrative expenditures must be carefully investigated further.

**Streamlining Procedures and Paper Flow**
A key objective would be to cut back on excess process and documentation in a way that allows staff to improve their products, and for the Board and Management of the institution to devote more time on consideration of strategic issues and less on routines. The MD proposed to (i) *improve the focus of staff papers*, (ii) *streamline Board procedures* and (iii) *strengthen management oversight.*

In order to *improve the focus of staff papers*, the MD suggests to concentrate on the most critical issues and to impose word limits on staff papers. The number of papers was proposed to be reduced by placing almost all Policy Reviews and Progress Reports on a standard five-year cycle, requiring greater selectivity in Selected Issues Papers and giving staff more discretion in deciding when Ex-Post Assessments and Statistical Appendices are needed. To *streamline Board procedures*, it was recommended that for small countries facing low macroeconomic and financial vulnerabilities, streamlined Article IV consultations (that would alternate with full consultations, see page 6) could be concluded within a month of the mission's return. Management also proposes to decrease the lag between the Article IV missions and the Board's consideration to at the most 60 days. To *strengthen* m*anagement oversight*, staff proposed to reduce the paper flow to Management and gradually permit more delegation to staff.

The *Nordic-Baltic chair* fully supported the aim to make more room for the Board and Management to focus on strategic issues and to set priorities. The policy reviews, except for the review of surveillance, should be placed on a standard five-year cycle. The *Nordic-Baltic chair* also found merit in streamlining Article IV consultations. The lapse-of-time procedures could be used more widely – in program reviews and misreporting cases. Shorter statements by Directors and improved modalities for collating Board views could contribute to better discussions in the Board. The work program should be a tool for prioritization and could also be used to prioritise implementation of the MTS. However, it should remain a channel for the Board to indicate priorities.

## II. THE GLOBAL ECONOMY AND ECONOMIC SURVEILLANCE

The Executive Board conducted its biannual assessments of the Fund's two main reports, the *World Economic Outlook* and the *Global Financial Stability Report*, in March 2006.

**Global Economic Outlook**
According to the World Economic Outlook (WEO) global growth continued to exceed expectations last year, despite higher oil prices and natural disasters. The preliminary data for 2005 shows that growth was 4.8 percent, up by 0.5 percentage points compared with September last year. The US economy has remained the main engine of global growth, but the activity in China, India and Russia has been higher than previously expected contributing two thirds of the upward revision. There are also signs of a more sustained recovery in the euro area and Japan than earlier anticipated. The global expansion continues to be underpinned by accommodative macroeconomic policies and favorable financial market conditions, including below average long-term interest rates. The financial market environment is being characterized by unusually low risk premia and volatility. Three features are especially notable in the prevailing favorable environment: modest inflationary pressure, large net savings among emerging markets and a further rise in the US current account deficit, matched by large surpluses in oil exporting countries and many Asian economies. Looking ahead, the forecast predicts continued strong growth with world real GDP growth projected to reach 4.9 percent in 2006 and easing to 4.7 percent in 2007.

Although activity in the global economy has been greater than expected, the WEO still sees risks skewed to the downside. The main near-term concerns for the global economy are even higher oil prices, a further rise in global short-term interest rates with related risks for households and private consumption and growing global imbalances. Although a low probability event, an avian flu pandemic is also a risk. Looking forward, policymakers' main challenges will be to address global imbalances by ensuring sustainable medium-term fiscal positions, advancing structural reforms in many industrial countries and resisting protectionist pressures. An adjustment of the imbalances will require a rebalancing of demand across countries; a reduction in the budget deficit and increased private savings in the US, structural reforms to boost domestic demand in surplus countries, and a further substantial depreciation of the US dollar matched by an appreciation in surplus countries' currencies, especially in parts of Asia and oil producing countries and finally greater exchange rate flexibility in China. Given the favorable economic environment, these challenges ought to be addressed now as it is unlikely that there will be a more favorable environment in which to tackle them.

At the Executive Board meeting, the *Nordic-Baltic chair* agreed that the global imbalances are a source of serious concern and that the progress in addressing them so far has been moderate. A purely market driven adjustment in the US, without appropriate fiscal tightening, could be highly disruptive and should be avoided. However, the global recovery is becoming more broadly based. The poorest countries in the Sub-Saharan Africa are expected to sustain high growth rates. Whereas short-term inflationary risks are moderate, the increase in a broad set of commodity prices could start feeding into consumer prices. The recycling of increased oil-revenue has played a modest role in the unusually low level of long-term interest rates, but more importantly it seems to have affected regional stock and real estate markets. Globalization has more persistently affected inflation in small, open economies with high price levels at the outset. The declining importance of the

manufacturing sector in the developed economies probably tends to reduce corporate investment ratios as production in the service sector tends to be less capital intensive.

**Global Financial Stability**

The Fund's main product to communicate its assessments regarding the financial system on a global basis is the biannual Global Financial Stability Report (GFSR). In the April issue, the financial sector is expected to remain robust and well equipped to handle a future cyclical downturn. Credit risks are becoming increasingly more dispersed and well-managed. In particular, continuous innovation in financial instruments has facilitated methods of dispersing credit risk exposures away from the banking sector. While the report recognizes that the distribution of risk is less transparent outside the banking system, it concludes that the advantages of risk reallocation and better pricing of risk outweighs the dangers of markets becoming less transparent.

The main risks to financial stability in the near future are identified by the GFSR as being rising interest rates and a turning of the credit cycle. If the recent compression of spreads and low term risk premia are due to under-pricing of risk, abrupt corrections could be the result. The report investigates possible indications of such under-pricing, but finds no solid evidence. However, the risk premia could still increase rapidly in a less benign economic environment, possibly amplifying slower growth rates and deteriorating credit quality.

The report sees inflationary expectations as low and well anchored. At the same time, interest rates are expected to remain stable. These expectations represent a stable outlook for the financial sector. However, should inflation and interest rates increase more rapidly than expected, there are several channels through which financial stability could be influenced; first, economic slowdown and deteriorating corporate profits; second, losses for large institutional investors on bond portfolios; and third, falling equity prices.

The report discusses possible indications that the current credit cycle – that is, the cost and access of credit – is about to turn. This could be particularly important for the corporate sector. The report finds that the most timely and reliable indicators signal a turning point in the credit cycle starting to materialize during 2006. There are still many signs of a financially strong corporate sector in general, and the most likely scenario for the near future is a stronger differentiation between credit quality, not implying a general "credit crunch".

As regards the household sector, the report takes a relatively sanguine view for the near-term prospects. There is some concern, most notably regarding the US, for a saturated housing market, possibly leading to lower consumption and lower credit quality. However, the report refers to the recent experiences from the UK and Australia, where house price growth had made a temporary break and now seems to have been reestablished in positive terrain. In these countries, the financial institutions were able to absorb such developments without signs of stress.

Emerging markets are in a solid position to meet a turn of the credit cycle, not least due to an ongoing consolidation of debt structures, pre-financing and the development of local

markets. There are signs that emerging market sovereign bonds are increasingly becoming a mainstream asset class, where the pricing depends more on credit quality and less on the external financial environment. This limits the likelihood of a widespread sell-off in the asset class.

The *Nordic-Baltic chair* was in broad agreement with the analysis and findings of the GFSR, in particular that cyclical risks warrant a slightly more cautious risk assessment since the last report. The chair stated that while the rapid growth in credit derivatives do represent vehicles for more efficient risk allocations, related risks and transparency issues must be followed closely. Emphasis was put on the view that bail-outs should be avoided during the expected turn of the credit cycle, to avoid moral hazard. The low risk premia on many risky assets could prove vulnerable to shifts in volatility.

**Growth in the Central and Eastern European Countries of the European Union – A Regional Review**

The Fund Board held a seminar February 27, 2006 where the basis of growth and its sustainability in Central and Eastern European countries (CEECs) were examined.

In the last 15 years CEECs have undergone a wide-ranging transition from central planning to market-oriented economies. They have also become members of the European Union. The accomplishments have been significant: after regaining pre-transition GDP and stabilization, the countries have become attractive destinations for international capital. In the past decade, growth in most of the CEECs has been clearly above the emerging market average. The three Baltic states have been in the top five of emerging market performers. The paramount economic objective of the CEECs now is to raise living standards to Western European levels.

While the CEECs have been one of the fastest growing regions in recent years, showing remarkable increases in total factor productivity, the critical question is whether such growth can be sustained. One of the most important factors for growth in CEECs has been European integration that stands to play a profound role in supporting a rapid catch-up in the CEECs. The opportunities are offered by substantial EU transfers, along with - less easy to quantify - benefits from closer institutional, trade and financial integration with Western Europe. These are already evident in growing trade volumes, low risk premia and rising use of foreign savings in the CEECs. Further changes in these directions are likely, especially for countries that commit to early euro adoption. But alongside the scope for hastening the catch-up, the risks are present that foreign savings may finance insufficiently productive spending or that the consumption smoothing turns into excessive private or government spending. Whatever the source of growth, prospects will depend on how well countries will continue with the establishment of macroeconomic and structural conditions conducive to sustained growth.

The *Nordic-Baltic chair's* view was that the nature of economic developments in each CEEC has reflected the specific features of its ongoing catch-up process. It is important to recognize that the Baltic states, having previously been part of the Soviet Union, had starting conditions

very different from the CE-5 in the beginning of their transition. At least three factors were pointed out. First, under the Soviet rule, the Baltic states did not even have the rudimentary elements of a market economy. Second, unlike the CE-5, the Baltic states inherited few public institutions. With the end of the Soviet rule, governmental and regulatory structures ceased to exist and had to be built from scratch. And third, with the collapse of the Soviet Union, the Baltic states also lost virtually their whole export market. In the Baltic states, economic policies are aimed at improving the knowledge-based developments that should encourage reasonably high capital and labour productivity growth also in the future. Going forward, the growth dynamics in the Baltic states will be supported by EU funding as well as the prospective of an early adoption of the euro. In this regard, the key aspect is whether the inflows of foreign capital and, in particular, of EU funding will be used productively.

**Important Program Countries**

Two of the Fund's largest borrowers: Brazil and Argentina repaid their loans in full during 2005 – 2006 (see table and text below). Other large borrowers have reduced their borrowing rather substantially. While this is a welcome development that signals the success of Fund programs it has also created problems because an important part of the Fund's income is generated by charging borrowers on their loans.

| | Billions of SDRs | | In percent of quota | Share of total GRA credit, percent |
|---|---|---|---|---|
| | Stock at March 31, 2006 | Change from March 31, 2005 | | |
| Turkey | 9.0 | -4.2 | 934 | 46 |
| Indonesia | 5.2 | -0.8 | 250 | 27 |
| Uruguay | 1.3 | -0.4 | 411 | 7 |
| Ukraine | 0.7 | -0.3 | 54 | 4 |
| Serbia and Montenegro | 0.7 | 0.1 | 140 | 3 |
| Argentina | 0 | -8.4 | 0 | 0 |
| Brazil | 0 | -15.4 | 0 | 0 |
| *Sub-total* | *16.9* | *-29.3* | | *87* |
| Other GRA credit | 2.6 | -1.7 | | 13 |
| *Total GRA* | *19.4* | *-30.9* | *9.1* | *100* |

***Brazil***

Brazil announced on December 13, 2005, that it would repay its entire outstanding loan of 10 billion SDRs from the Fund two years ahead of schedule. The repayment reduced the Fund's total outstanding on its General Resources Account by more than 25 percent.

Activity in Brazil slowed sharply in 2005 to a GDP growth of 2.3 percent, but the consolidated primary surplus reached 4.8 percent of GDP, well above the 4.25 percent target, reflecting a strong revenue effort.  The decision to repay the Fund prematurely was based on the recent years' strong economic performance and as a measure to reduce public debt.

***Argentina***
On December 15, 2005, Argentina announced its intention to make an early repayment of its entire outstanding obligations to the Fund amounting to SDR 6.876 billion (about US$ 9.9 billion). The outstanding obligations had been contracted under the Stand-By Arrangements approved by the Executive Board on March 10, 2000, January 24, 2003, and September 20, 2003, and included a small remaining obligation contracted under the Extended Fund Facility approved on March 31, 1992. The decision to make an early repayment to the Fund followed just two days after the Brazilian authorities had announced that they would make an early repayment to the Fund

**Turkey**
The economic conditions in Turkey have been quite favorable with a GDP growth of 7.4 percent in 2005, projected to be reduced to 6 percent in 2006. Growth is increasingly reliant on domestic demand. Inflation seems on target, but the current account balance has deteriorated, coinciding with a further real appreciation of the lira. Fiscal policy is on track, but further structural reforms, including implementation of the pension law, strengthening social security collection, income tax reform and continued improvements in bank supervision are vital to sustain recent years' strong economic performance. With some delay and granting of waivers for nonobservance, the Executive Board completed the first and second review of the Turkey program on December 9, 2005. Turkey is the Fund's largest debtor with a total outstanding to the Fund by March 31, 2006, of 9.0 billion SDR – 46 percent of the total outstanding on the General Resources Account (GRA).

**Article IV Consultations with Countries in the Nordic-Baltic Constituency during September 2005 to April 2006.**

***Estonia***
In October 2005, the Executive Board concluded the Article IV consultation with Estonia. Directors commended the authorities on the remarkable progress, which has been made possible by sound macroeconomic policies and far-reaching structural reforms. These policies have achieved sustained growth and declining unemployment, and the country is rapidly converging to EU levels. Directors considered that the economic outlook is generally favorable, but noted some signs of possible overheating, including the rapid growth in domestic credit, and the country's continuing external vulnerabilities. They emphasized that, in the context of Estonia's currency board, fiscal restraint is needed to restrict domestic demand and reduce the external imbalances. Directors noted that the banking sector remains sound, with strong bank balance sheets, good supervision, and well developed risk management systems. Directors welcomed the authorities' intention to remain vigilant and stand ready to implement any needed measures to address rapid credit growth. Many Directors observed that, while inflation is relatively high, it is not seen as a threat to competitiveness as it is declining and core inflation is under control. Nevertheless, they considered that it would be challenging for Estonia to meet the Maastricht inflation criterion in 2006, although Estonia has otherwise achieved an impressive degree of convergence toward the euro area. Directors noted that the currency board remains credible, as indicated

by Estonia's relatively high credit rating, and is a viable strategy in the run up to euro adoption.

***Finland***

In January 2006, the Executive Board concluded the streamlined Article IV consultation with Finland. Directors commended the authorities for their consistent implementation of policies that had underpinned Finland's strong economic performance. They considered that the most pressing task in the period ahead would be to strengthen the fiscal position and continue to implement reforms to cope effectively with the challenges of an aging population. While welcoming the tax cuts to boost employment, Directors called for further steps to restrain expenditure, in order to meet the goal of balanced central government finances. In addition, Directors viewed an increase in efficiency of public services as critical to address the imminent demographic challenge. Regarding the labor market, Directors considered that the centralized wage bargaining mechanism needed a greater degree of flexibility, accompanied by continued efforts to address labor market mismatches. Directors agreed that Finland's financial system is sound and well supervised, but called for monitoring of the credit growth and close cooperation among supervisors in the Nordic-Baltic region.

## III. THE MULTILATERAL DEBT REDUCTION INITIATIVE (MDRI) AND THE ESTABLISHMENT OF THE SHOCKS FACILITY AND THE POLICY SUPPORT INSTRUMENT

In June 2005, the Group of 8 (G-8) major industrial countries proposed that three multilateral institutions, the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF), cancel 100 percent of their debt claims on countries that have reached, or will eventually reach, the completion point under the IMF-World Bank Heavily Indebted Poor Countries (HIPC) Initiative. In the ensuing discussions it was decided that the MDRI should go further than the original HIPC initiative by providing full debt relief so as to free up additional resources to help these countries reach the Millennium Development Goals. Unlike the HIPC Initiative, the MDRI does not propose any parallel debt relief on the part of official bilateral or private creditors, or of multilateral institutions beyond the IMF, IDA and the AfDF.

In addition to setting up the MDRI, the G-8 countries agreed to propose to the Fund that it set up two new facilities – the Shocks Facility and the Policy Support Instrument.

Throughout the fall of 2005, various proposals were discussed by the Board and in October 2005, it was decided to establish the Policy Support Instrument (PSI). PSI is designed to address the needs of low-income members that may not need the Fund's financial assistance, but seek the Fund's endorsement and assessment of their economic policies. A PSI will be available only upon request of a member and will add to the toolkit of instruments from which low-income countries can choose their desired form of engagement with the Fund. The PSI will be a complement to, and not a substitute for, the Poverty Reduction and Growth

Facility (PRGF), which will remain the main instrument for Fund's financial support to low-income members with balance of payments needs. (So far Nigeria and Uganda have established Policy Support Instrument programs with the Fund).

In November 2005, the Exogenous Shocks Facility was approved by the Board. The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks. It is available to countries eligible for the Poverty Reduction and Growth Facility (PRGF) - the Fund's main instrument for financial assistance to low-income countries - but do not have a PRGF program in place. Financing terms are equivalent to a PRGF arrangement and more concessional than under other Fund emergency lending facilities. The Exogenous Shocks Facility became operational once the consent of all contributors to the PRGF facility had been received (January 5, 2006). As of April 2006, no country has received support under the Exogenous Shocks Facility.

**The Fund's Implementation of the MDRI**

Although the MDRI is an initiative common to three international financial institutions, the decision to grant debt relief is ultimately the separate responsibility of each institution and the approach to coverage and implementation may vary. In deciding to implement the MDRI, the Fund's Executive Board modified the proposal to fit the requirement, specific to the Fund, that the use of the Fund's resources be consistent with the principle of uniformity of treatment. Thus, it was agreed that all countries with per-capita income of US$380 a year or less (HIPCs and non-HIPCs) will receive MDRI debt relief financed by the Fund's own resources. HIPCs with per capita income above that threshold will receive MDRI relief from bilateral contributions administered by the Fund.

The Fund implemented the MDRI from the beginning of 2006 when the MDRI's legal framework became effective after the consent of the 43 country contributors to the PRGF Subsidy Account had been received. The effective date of delivery of MDRI debt relief for a given member will be determined on a case-by-case basis.

MDRI debt relief covers the full stock of debt owed to the Fund at end-2004 that remains outstanding at the time the country qualifies for such relief. There is no provision for relief of debt disbursed after January 1, 2005, or for reimbursement of payments made after January 1, 2005.

**Countries Benefiting From Fund Debt Relief**

The Fund's Board, on December 21, 2005, completed an assessment of the first group of eligible countries. The Board determined that 19 countries qualify for debt relief amounting to SDR 2.3 billion (US$3.3 billion), an amount that included remaining HIPC assistance. This relief became effective when on January 5 the consents of all 43 contributors (including the Nordic and Baltic countries) to the PRGF Trust Subsidy Account had been received. The countries include 17 HIPCs that have reached the completion point as well as the two non-HIPC countries whose per capita income is below the established threshold. The final list of eligible countries is not yet known, as this depends on which countries qualify for debt relief under the HIPC Initiative.

To qualify for MDRI relief, eligible countries must be current on their obligations to the Fund and demonstrate satisfactory performance in three key areas: macroeconomic performance; implementation of a poverty reduction strategy detailed in a Poverty Reduction Strategy Paper (PRSP) or a similar framework; and public expenditure management systems. Corrective actions will be proposed for members whose performance needs to improve. Qualification for MDRI relief would be reassessed once these remedial measures have been implemented. Countries that have not yet reached the completion point under the HIPC Initiative will qualify for MDRI relief upon reaching the completion point.

**Financing of the MDRI**

The current Fund staff estimate of the cost of full debt relief is around SDR 3.5 billion (about US$5 billion; figures are in end-2005 NPV terms), excluding potential so-called sunset clause HIPCs and the protracted arrears cases (see below). The Fund's own resources will be used to provide MDRI relief to all countries with per capita incomes below US$380, in line with the principle of uniformity of treatment. To this end, the Fund will use the profits from the 1999-2000 off-market gold transactions, which will be transferred to a special trust, the ”MDRI-I Trust”. For HIPC countries with per capita incomes above US$380, MDRI relief will be financed from existing bilateral contributions provided to the Subsidy Account of the PRGF Trust, which will be transferred to another trust, the ”MDRI-II Trust”. The remainder of the debt relief will be met through resources already earmarked under the HIPC Initiative.

The G-8 committed to ensure that the proposed debt forgiveness will not undermine the ability of the three multilateral institutions to continue to provide financial support to low-income countries, nor the institutions' overall financial integrity. The Fund staff's preliminary estimates are that additional subsidy contributions of over SDR 200 million (over US$285 million) would be needed to allow the Fund to lend all remaining PRGF loan resources to low-income countries at the PRGF concessional interest rate. Additional contributions will also be needed to cover the cost of debt relief for countries that may become eligible for the HIPC Initiative under the extended sunset clause and for the three protracted arrears cases (Liberia, Somalia and Sudan).

**Status of Contributions to the PRGF and Exogenous Shock Facility**

The Managing Director has, starting in November 2005, solicited new contributions from 51 member countries to the PRGF and the Shocks facility. The countries from which contributions were solicited were either OECD countries or oil exporting countries. So far UK, France, Japan, Canada, Russia, Saudi Arabia and Norway (SDR 25 million) have pledged contributions.

**The Nordic-Baltic Position on the MDRI**

Throughout the discussions on debt relief, the *Nordic-Baltic chair* found it important that objective criteria should be applied so that the MDRI implies equal treatment. The chair would have preferred that 6 of the 19 countries which were given debt relief should have been given more time to establish a track record, or prove that they had taken remedial action if their program had gone off track. Our chair emphasized that the six countries would not

have been excluded forever, just having the relief delayed, until a proven track record had been established. However, a majority in the Board found that the relief should be given to all the 19 countries immediately.

In addition, the Nordic-Baltic countries found it important that the Fund's LIC facilities had sufficient financing both of loans and of subsidies. The use of PRGF Trust resources for debt relief implied that new financing of subsidies for the PRGF/ESF trust will have to be found lest the lending capacity would have to be reduced substantially. The Nordic-Baltic countries, therefore, emphasized that new contributions be found from donors based on equitable burden-sharing.

**The Future of the HIPC Facility**

In September 2004 the Fund and World Bank Boards decided to extend the period, under which poor countries may establish a policy performance track record to become potentially eligible for HIPC Initiative debt relief, to the end of 2006. In early April the Boards considered an amended list of countries that have been assessed to have met the indebtedness criterion in relation to HIPC eligibility using end-2004 data. Based on the updated data eleven countries have been assessed to meet the criterion and three others, although meeting the criterion, have indicated that they do not wish to participate in the Initiative. The Fund Board agreed to close this list of countries at the end of the year, but recognized that the list may need to be amended to include countries that at a later stage meet the indebtedness criterion. Nevertheless, some of the eleven potentially eligible countries need to either establish a track record of policy performance, implement poverty reduction strategies, or start an IMF- and IDA-support program before end-2006 to qualify for debt relief under the enhanced HIPC Initiative and eventually the MDRI. In light of this, it was decided that staff should return to the Board in the coming months with possible options on how to handle the expiration date and, thus, allow potentially eligible countries, that have not yet established a policy track record in time, to benefit from the initiative. Board members also acknowledged that grant resources will need to be mobilized to finance HIPC debt relief for the countries that are newly eligible, as well as for Liberia, Somalia and Sudan, the three protracted arrears cases.

The *Nordic Baltic chair* agreed with the list of countries potentially eligible for HIPC Initiative assistance, as well as the closure of the list. However, the *Nordic Baltic chair* found it appropriate not to entirely close the door for new countries becoming eligible and to explore on a case-by-case approach the possibility of future amendments to the list. In this regard it would be important to see to it that countries are not discouraged from applying even though the list has been closed. Nevertheless, the *Nordic Baltic chair* was concerned that additional donor resources will be needed if the Fund is to provide HIPC Initiative assistance to all the ring-fenced countries.

**Establishment of a New Regional Technical Assistance Center in Central Africa**
In mid-March Management informed the Executive Board that a new regional technical assistance center will be set up in Central Africa (AFRITAC). Staff's analysis showed a vast need for capacity building in Central Africa, in the Fund's core areas of expertise, particularly for those countries that are in post-conflict reconstruction, and that a regional technical assistance center would be the most effective way to deliver capacity building assistance to the region. The center will be located in Libreville in Gabon and it is expected to be operational by January 2007.

## IV. THE FUND'S ORGANIZATION AND FINANCES

**The Fund's Medium-Term Income – Outlook and Options**
A review of the Fund's finances was initiated last Spring. It is important to regularly assess the Fund's income base to ensure stable and durable revenues, so that the institution can pursue its mandate. At that time, the Board called for further work on options for broadening the Fund's income base from a longer term perspective.

A discussion on the establishment of an investment account took place in September 2005. The Board expressed support for the idea of establishing the investment account. However, it was agreed that additional analysis of the underlying modalities of such an account was needed. It was, thus, decided that further work should be done, and the Executive Board will discuss the issue at a later stage.

In March this year, the Board had a new discussion on the Fund's income. Since last year's discussions, the income situation has changed significantly, following the sharp decline in outstanding credit after the Argentinean and Brazilian payback. The Board, of course, welcomed the success of the Fund in resolving balance of payment difficulties in member countries. But, at the same time, it now saw a pressing need to consider various options to broaden the Fund's income base. It was recognized that the existing income mechanism is not sustainable in a low-credit environment. The Board, therefore, stressed the importance of examining financing options that would be maintained over a range of different future scenarios.

There was agreement on a two-tier strategy; immediate steps to address the income gap for the next financial year and a broader long-term plan addressing the income mechanism itself. All available options should be assessed in order to place the Fund's income position on a sustainable footing. Board members emphasized the importance of linking the income side properly to expenditures through an integrated medium-term budget. The Fund's income should also be considered alongside the completion of the Fund's strategic review.

The Board agreed that it would be appropriate to suspended reserve accumulation in order to reduce the near-term income gap. Furthermore, the Board supported the establishment and funding of an investment account and asked again for more in-depth analysis on its modalities. On the medium-term, the Board acknowledged that more fundamental and far-

reaching changes will be required and was prepared to explore the options for the sale of a portion of the Fund's gold assets. Even though not all members of the Board endorsed sale of gold, everyone called for further work on the issue. Some members of the Board saw scope for charging user fees to allow for full or partial cost recovery of some of the services provided by the Fund. However, it was argued that charging for a public good could reduce the demand for Fund services in low-income counties and in areas where they are doing most good. The Board also noted that the availability of the Fund's quota-based resources presents opportunities for new financing instruments. No agreement was reached among Board members on long-term solutions, and it was decided that more in-depth analysis is needed before the Executive Board can make a decision.

The *Nordic-Baltic chair* agreed that the main source of adjustment in the near-term should be a slowing of accumulation of reserves. This approach should be complemented with setting up an investment account and reviewing potential savings in the Fund's expenditures. The *Nordic-Baltic chair* also recognized that more fundamental changes to the Fund's income mechanisms will be needed in the coming years. Against this background, it was considered important to discuss all available alternatives of the Fund's finances. Furthermore, when assessing possible long-term changes in the Fund's financing, the aim should be a system that is robust, equitable, transparent and simple. The *Nordic-Baltic chair* reiterated our constituency's earlier reservations regarding gold sales but recognized that circumstances are now different and may require a fresh assessment of the situation, and remained open for exploring all options. The *Nordic-Baltic chair* saw the scope for any income through user fees for services provided by the Fund very limited.

**The Medium-Term Budget Issues and the Review of the Fund's Employment Framework, Compensation and Benefits**

Progress has been made in strengthening the budget process in the Fund in recent years. Reforms aim to have the Medium-Term Budget (MTB) in place for the financial years FY2007–FY2009 at of the start of the financial year 2007, May 1, 2006. The MTB aims to interlink elements of the Fund's resource management: the strategy, the budget and the income position and its work planning and processes under the umbrella paper - MTB.

Furthermore, the Fund has reviewed its overall employment framework, together with the system of compensation and benefits. The aim of the ECBR has been to pursue the two overarching objectives: first, to attract and retain an international staff of the highest quality with a mix of skills and experience that will enable the Fund to fulfill its evolving mandate; and second, to manage staff effectively, in an environment that rewards excellence, fosters teamwork, and promotes cohesiveness, fairness and diversity – including geographic diversity.

The *Nordic-Baltic chair* has supported these developments and stressed the desirability of adopting a more strategic and medium-term view of the budget process. To ensure efficient every-day work in the Fund, the Fund's medium-term budgets and work plans, and the Board's work program are to be firmly linked together in the overall planning and budgeting framework.

The comprehensive review of the Fund's compensation and benefits system and its terms of reference were welcomed by the *Nordic-Baltic chair*. The Fund's salary system should be predictable, rules-based and competitive vis-à-vis a representative set of competitors. It also needs to be sufficiently transparent to allow meaningful comparisons with external benchmarks as well as allow greater flexibility in the recruitment process. The salary review process should be simplified by making adjustments more comprehensive, but less frequent. By updating salary comparators, the developments in major international macroeconomic and financial institutions (WB, OECD, BIS, ECB) should be used as additional benchmark in the context of the comprehensive salary rounds. Expatriate benefits must encourage increased diversification of skills and nationalities at the Fund. The overall level of expatriate benefits should be maintained, but the benefits should be better targeted and administrative procedures streamlined. The *Nordic-Baltic chair* also saw merit in introducing time-limited expatriate-specific spouse allowances with a phasing-out mechanism.

## STAFF OF THE NORDIC-BALTIC IMF OFFICE

AS OF JANUARY, 2006


| | | | |
|---|---|---|---|
| Tuomas Saarenheimo | FIN | Executive Director | tsaarenheimo@imf.org |
| Jon Sigurgeirsson | ICE | Alternate Executive Director | jsigurgeirsson@imf.org |
| Ole Hollensen | DEN | Senior Advisor | ohollensen@imf.org |
| Cecilia Roos Isaksson | SWE | Senior Advisor | croosisaksson@imf.org |
| Juris Kravalis | LAT | Senior Advisor | jkravalis@imf.org |
| Jon Bergundhaugen | NOR | Advisor | jbergundhaugen@imf.org |
| Timo Kosenko | EST | Advisor | tkosenko@imf.org |
| Lasse S. Lindegaard | DEN | Advisor | llindegaard@imf.org |
| Justas Minkevicius | LIT | Advisor | jminkevicius@imf.org |
| Maud Ljung-Lapychak | SWE | Adm. Assistant to ED | mlapychak@imf.org |
| Kari Romdahl | NOR | Adm. Assistant to ED | kromdahl@imf.org |

International Monetary Fund. Tel.: 1 202 623 7000
Nordic-Baltic Office. Tel.: 1 202 623 4571, Fax: 1 202 623 5385