

INTERNATIONAL MONETARY FUND

The Managing Director's **Global Policy Agenda** Annual Meetings 2017

A Window of Opportunity

## THE MANAGING DIRECTOR'S GLOBAL POLICY AGENDA A WINDOW OF OPPORTUNITY

*The global recovery continues. Although it is not yet complete, the more favorable conjuncture offers an opportunity to tackle key policy challenges to stave off medium-term downside risks, rebuild buffers, and raise potential output. Countries should undertake well-sequenced reforms to increase productivity, improve governance, and reduce policy uncertainty and future risks. Reforms should also aim to harness the benefits of technology and economic integration and ensure that they are widely shared. Tackling challenges to the global economy continues to require cooperation and joint action across the membership. The Fund will assist members through tailored policy advice and capacity development, and stands ready to provide financial assistance to support adjustment programs.*

<b>Current Conjuncture</b>	
<b>The global upswing in economic activity continues...</b>	<p>The baseline outlook is gradually strengthening, with notable pickups in investment, trade, and industrial production together with strengthening confidence. Near-term risks are broadly balanced, but tilted to the downside over the medium term, including from financial tensions; uncertainty over the direction of financial regulation; rising geopolitical tensions; and concerns over restrictive trade practices. Furthermore, while necessary to support growth and a return of inflation to target, continued monetary accommodation has encouraged the build-up of some financial stability risks. Low productivity growth continues to limit the longer-term growth outlook.</p> <p>In advanced economies (AEs), output gaps are decreasing and deflationary pressures are receding, but inflation is still below target. Moreover, growth is still too low in many AEs and remains dependent on supportive macroeconomic policies. Growth in emerging market and developing economies (EMDEs) is generally increasing as external demand recovers, several large commodity exporters gradually stabilize, and others benefit from macroeconomic policy support. But prospects for many EMDEs remain modest, and the outlook for commodity exporters, especially fuel, remains challenging. Medium-term risks include possible capital flow reversals, and mounting pockets of vulnerability related to credit growth and balance sheet weaknesses.</p>
<b>...offering an opening for policies to boost resilience, and raise medium-term growth, and</b>	<p>The welcome upturn in global activity provides a window of opportunity to tackle key policy challenges and stave off downside risks, including by ensuring appropriate buffers, and to maximize returns on structural reforms to raise potential output. Higher cyclical growth increases the effectiveness of structural reforms, such as product market liberalization, job protection and unemployment benefits, and provides room to</p>

<p><b>manage the challenges from technology and integration.</b></p>	<p>implement policies that raise labor force participation and productivity growth, especially in AEs.</p> <p>This can improve medium-term prospects, which continue to be weighed down by population aging, elevated public and private debt levels, high economic and policy uncertainty, and weak governance.</p> <p>Stronger growth also creates space to implement policies that ensure the benefits from technological progress and global economic integration are shared more widely. As highlighted in the Spring 2017 GPA, technological progress has supported trade and financial integration, which raised global living standards, accelerated knowledge transfer, and created opportunities for investment. However, these structural shifts have also led to labor market displacements, higher inequality, and a fraying of social cohesion primarily in advanced economies. The lack of clear cut policy solutions has weakened trust in institutions at a time when strong and dependable structures are needed.</p>
<p><b>Policies and priorities</b></p>	
<p><b>Support the recovery and use the opportunity to reinvigorate medium-term growth prospects and reduce excess external imbalances.</b></p>	<p>Supporting the recovery requires adjusting policies in line with the evolving macroeconomic environment and countries' varying cyclical positions. In <b>advanced economies</b>, monetary policy should chart an accommodative course given low inflation and remaining slack in most countries. Where fiscal space is available, fiscal policy should help support growth. Where space is constrained by the need to avoid potentially destabilizing debt dynamics, the upswing offers an opportunity to rebuild buffers—although policies should be calibrated to support growth and social equity as much as possible. Structural policies—more potent during economic upswings—are vital to unleash productivity growth and raise growth prospects. For many countries, lowering barriers in labor and product markets will help allocate resources more efficiently. Priority should also be given to boosting labor supply and high-quality infrastructure investment. Some AEs with infrastructure deficits can add to, as well as improve, the quality of existing infrastructure. Calibrating countries' policy mix, as discussed above, can help reduce excess external imbalances—now increasingly concentrated in AEs—in a growth-friendly fashion.</p> <p>In <b>emerging and developing economies</b>, priorities vary with the heterogeneity in cyclical positions and medium-term impediments. Growth-friendly fiscal consolidation is necessary in some countries, particularly in commodity exporters and high-debt countries. Structural priorities also vary, but countries should generally aim at raising public spending efficiency, improving the business climate to catalyze private</p>

	<p>investment and help close the infrastructure gap, strengthening governance, and undertake broad product and labor market reforms.</p> <p>Strengthening financial resilience remains an overarching policy priority for most countries given elevated asset prices. Macro-prudential policies can complement micro-prudential supervision and regulation to guard against risks, including from monetary policy normalization and capital flow volatility. Exchange rate flexibility can also serve as a key shock absorber. And accelerating the repair of private sector balance sheets and resolution of non-performing loans can help unlock investment and keep downside risks in check.</p> <p>For <b>low-income countries</b>, enhancing domestic revenue mobilization and developing local financial markets remain key to financing development needs, while maintaining fiscal sustainability. Some commodity exporters also need to implement policies to facilitate economic diversification.</p>
<p><b>Fully harness the benefits of technology and integration.</b></p>	<p>The global upswing makes it easier to undertake difficult, but necessary, reforms aimed not only at raising productivity, but also to enhance inclusion and minimize disruptions to help ensure that everyone shares in the gains from technological progress and integration. Job-rich growth in an era of rapid technological advances requires a workforce with the flexibility to adjust to economic shifts. Priorities include expanding financial inclusion, high-quality health services, education, and skills development, including life-long learning, facilitating internal mobility, and providing opportunities for social mobility. Cooperation between governments and employers, e.g., on structured vocational training and affordable childcare, can promote labor force participation by young people and women, raising growth and helping reduce gender and overall inequality. Adequate social safety nets can help those adversely affected by structural change and unemployment.</p>
<p><b>Promote resilience and build trust in institutions.</b></p>	<p>Countries will need credible policy frameworks, backed by strong and effective institutions, to maintain economic and social cohesion as technological progress and global integration expose economies and individuals to shocks and economic uncertainty. Committing to sound policy frameworks to manage large and volatile capital flows, rebuild fiscal buffers where warranted, or confront adverse demographics and lower commodity revenue, will help policymakers respond effectively to changing cyclical conditions. Strengthening governance is essential in building support for reforms needed to raise long-term growth and ensure a domestic level-playing field. Stronger efforts are needed to fight common challenges such as tax evasion and tax avoidance, corruption, money laundering, and terrorist financing.</p>

<p><b>Cooperate to tackle shared challenges.</b></p>	<p>A cooperative multilateral framework promoting openness over protectionism has underpinned the unprecedented expansion of international trade and finance, which has brought considerable gains to consumers and producers. Benefits from further integration can be maximized by cooperating within a rules-based and open trading system that, together with institutions, adjusts to changes in the global economy and achieves a level-playing field. Collective action is also needed to address shared medium-term challenges. External surplus and deficit countries need to work together within a multilateral framework to reduce global excess imbalances which, if unchecked, can dampen global growth and raise the risk of disruptive corrections down the road. Progress is needed toward the 2030 Sustainable Development Goals (SDGs), and global efforts are required to cope with the consequences of pandemics, cyber risks, climate change and natural disasters, conflict, migration, and refugee and other humanitarian crises.</p>
<p><b>What the Fund Will Do</b></p>	
<p><b>The Fund will remain agile and develop country-specific yet integrated policy advice to help members take advantage of this window of opportunity. Working with others, the Fund will help countries identify the right policy mix to bolster growth, harness the benefits of technology and integration for all, while promoting resilience.</b></p>	
<p><b>Help policymakers sustain the recovery and tackle vulnerabilities.</b></p>	<p>The Fund will provide member-tailored advice on the policy mix to help support the global recovery, including assisting the identification of fiscal space. The Fund will enhance its surveillance activities, including by embedding analysis of macro-financial issues in its surveillance products and refine its assessment of external imbalances. The forthcoming Interim Report will assess the implementation of the 2014 Surveillance Review, identify emerging pressure points, and help shape the next comprehensive review. Work on the impact of prolonged low interest rates and the role of macroprudential policies will help guard against financial risks and increase resilience to capital flow volatility. The Fund will support continued progress toward addressing data gaps to aid monitoring of financial sector risks.</p>
<p><b>Assist in raising prospects for sustained growth.</b></p>	<p>The Fund will conduct further analysis of the productivity slowdown, including measurement challenges in a digital economy, and identify structural reform priorities to boost productivity, investment, and growth. Staff will also deepen the analysis of the impact of structural reforms on macroeconomic resilience to shocks. Given the large infrastructure gaps in many countries, the Fund will consider lessons from the Infrastructure Policy Support Initiative in surveillance, update</p>

	the framework for assessing public infrastructure management, and support the G-20 Compact with Africa initiative.
<b>Support low-income countries.</b>	To help LICs counter lackluster prospects, the Fund will identify policies to unlock their growth potential and enhance resilience to shocks, including through advancing economic diversification, enhancing domestic revenue mobilization, and containing rising public debt vulnerabilities. To support such efforts, the Fund is integrating the 2030 SDGs and the Financing for Development Agenda into its work where relevant to its mandate, including by scaling up capacity development (CD) on domestic revenue mobilization; continuing to build fiscal capacity in fragile states; deepening financial markets; and fostering data quality and availability. And, as it reviews its LIC facilities, the Fund will examine its role in helping countries, including small states, deal with the burdens of natural disasters and conflicts, while ensuring that the Poverty Reduction and Growth Trust's (PRGT) self-sustaining framework is maintained. Work will also continue to ensure sufficient Fund loan resources for concessional lending.
<b>Help broaden the benefits from technological progress and integration.</b>	The Fund will help members achieve inclusive growth, working with other institutions to analyze the macroeconomic and fiscal implications of technology and integration. Staff will build on the recent studies of policies to tackle inequality and other associated adjustment costs, including by deepening analysis of youth labor market prospects. To promote sustainable policies, staff will explore how to shape, where macro-relevant, policies on climate change, inequality, gender, migration, population-ageing, and access to financial services.
<b>Support policies that can bolster trust and resilience.</b>	Strong institutions and policy frameworks are central to promoting trust and resilience. The Fund will strengthen its engagement on governance and corruption issues, including by bolstering its framework for assessing corruption and its macroeconomic impact. The Fund will develop new analytic tools to support a candid assessment of corruption where it is undermining macroeconomic performance and allow for more granular policy advice to help tackle corruption while ensuring evenhanded treatment across the membership. Key areas include enhancing public financial management, fiscal transparency, and regulation. The Fund will also assist members' efforts to strengthen regulatory and supervisory frameworks, particularly on AML/CFT, as well as fiscal frameworks to manage risks to public sector balance sheets. Staff will analyze adaptations made to fiscal rules since the global financial crisis; the sustainability of pensions systems; and the opportunities and challenges from digital technology for fiscal policy. The Fund will also review the debt sustainability framework for countries

	with market access, and develop staff guidance on the updated Fund/Bank LIC debt sustainability framework.
<p><b>Promote cooperation across countries.</b></p>	<p>The Fund will continue to promote a multilateral system that adjusts to an increasingly connected global economy. Staff will collaborate with other institutions to monitor trade policies, and promote an open multilateral trading system in support of global growth. The Fund will provide rigorous, evenhanded, and candid assessments of imbalances and exchange rates; refine the external sector assessment methodologies; and review policies on multiple currency practices. This analysis can help efforts to avoid exchange rate instability and reduce excess current account imbalances in a growth-friendly fashion.</p> <p>Staff will help members safely harness the benefits of financial integration by offering enhanced communication on, and ensuring effective and consistent implementation of, the Fund’s Institutional View on capital flows, paying attention to the use and appropriateness of capital flow management measures. Multilateral analysis of global spillovers from domestic policies will also be integrated into surveillance. The Fund’s Annual Research Conference will analyze the global financial cycle and its implications on handling capital flows.</p> <p>The Fund will study the impacts of advances in financial technology and work with international standard setters to complete the global financial regulatory reform agenda and reduce regulatory uncertainty. Staff will monitor developments in correspondent banking relationships and work with stakeholders to find solutions to their withdrawal. Developments in international taxation will continue to be considered in surveillance, and the Fund will assist jurisdictions strengthen capacity to tackle illicit financial flows. The Fund will also continue to assist those countries affected by conflict and refugee crises.</p>
<p><b>Further strengthen the GFSN.</b></p>	<p>To aid crisis prevention and help members adjust to shocks, a strong, and coherent global financial safety net (GFSN) with reliable access will be important. Staff will move forward work streams on various elements of the GFSN, including: clarifying collaboration between Regional Financing Arrangements and the Fund; exploring possible enhancements to the Fund’s lending toolkit, including for short-term liquidity support, and completing the FCL/PLL review; and assessing whether broader use of the SDR could support the functioning of the IMS. The Fund will also undertake a review of Fund-supported programs and use of conditionality. To maintain a strong, quota-based and adequately resourced Fund at the center of the GFSN, and continue the process of realigning members’ quota shares in line with their relative positions in the world economy, work will continue toward completing</p>

	the 15 <sup>th</sup> General Review of Quotas and a new quota formula by the Spring Meetings, and no later than the Annual Meetings, of 2019.
<b>Provide capacity development activities.</b>	To help members improve policy formulation and implementation, the Fund will strengthen its CD work, including in support of the SDGs. A forthcoming review will focus on further integrating CD with surveillance and policy advice and better target country needs, supported by a focus on results and innovative delivery which leverages technology, such as massive open online courses to maximize traction within a results based-framework. Staff will also strengthen strategic partnerships with existing external partners, develop new CD partners, and create more flexible funding arrangements.
<b>Maintain an agile, integrated and member-focused Fund.</b>	Key priorities and initiatives have been successfully delivered while operating under a flat real budget over the past six years through strategic reallocation of resources and careful budget management. The Fund will continue those efforts and seek to strengthen its functioning by carefully assessing risks, stress testing the Fund's business model against long-term trends, continue to work on implementing its new human resource and knowledge management strategies, and promoting greater inclusion and diversity, including at the Executive Board.

## Annex I. Implementation of Policy Priorities by the Membership

Monetary policy continues to bear the burden of supporting demand while some countries are exploring options for making fiscal policy more growth-friendly. There has been good progress in the financial sector area. Structural reforms are advancing only gradually.

Fiscal Policy	
Spring 2017 GPA Policy Priorities	
Countries with fiscal space should implement measures to close the output gap and share the burden with monetary policy. Countries should make tax-benefit structures more growth-friendly and equitable, boost high-quality infrastructure investment, maintain an effective social protection system, and exploit synergies with structural reforms.	
Assessment of Implementation	
PPP GDP weight	Country Count
	
Monetary Policy	
In countries where the output gap is still negative or core inflation remains too low, monetary policy should remain accommodative, and macroprudential policy should help to safeguard financial stability where risks materialize. EMDCs with a flexible exchange rate regime and vulnerable to a tightening of global financial conditions should continue to allow the exchange rate to buffer shocks.	
Assessment of Implementation	
PPP GDP weight	Country Count
	
Financial sector policy	
Countries should address private sector debt overhangs and balance sheet problems. EMDCs vulnerable to a tightening of global financial conditions should rebuild buffers and strengthen their policy framework, including macro-prudential measures and policies related to capital flows.	
Assessment of Implementation	
PPP GDP weight	Country Count
	
Structural reforms	
Structural reforms implementation should be prioritized according to countries macroeconomic circumstances and should aim to boost investments in innovation and human capital, promote competition and market entry, and raise the employment rate. Commodity exporters should accelerate adjustment to the commodity price shock and economic diversification.	
Assessment of Implementation	
PPP GDP weight	Country Count
	
<p>Note: Policy priorities are drawn from the Spring 2017 Global Policy Agenda. The assessment reflects progress in implementation since then. Charts in the left column show implementation assessment aggregated by PPP GDP weights; charts in the right column show the same assessment in simple count. The color coding of implementation assessment is as follows:</p>	
<p>Completed      Partially implemented      Little or no progress</p>	

## Annex II. Key IMF Activities since the Spring Meetings

### **Financial support**

- New arrangements were approved for Cameroon, Chad, Sierra Leone, Togo (ECF); Gabon and Mongolia (EFF). Disbursement under the Rapid Credit Facility Instrument was approved for Gambia.

### **Policy reviews and analytical work to sustain the recovery and enhance resilience**

- Continued to mainstream macro-structural issues and the assessment of fiscal space in surveillance;
- Initiated work on the Measurement of the digital economy;
- Discussed the potential challenges and statistical implications of Big Data;
- 2<sup>nd</sup> Progress Report of the Second Phase of the G-20 Data Gaps Initiatives (with the FSB Secretariat).
- Examined the impact of household debt on financial stability;
- Investigated the links between financial conditions and risks to future growth;
- Reviewed the Role of the Fund in Governance Issues;
- Discussed building fiscal capacity in fragile states;
- Identified initial considerations on Fintech and Financial Services;
- Reviewed the LIC debt sustainability framework;
- Examined the role of macroprudential policies to increase resilience to capital flows;
- Reviewed the Standards and Codes Initiative.

### **Promote policies for a more inclusive global economy:**

- Examined the role of fiscal policy to tackle inequality;
- Reviewed the drivers and implications of recent wage dynamics in advanced economies;
- Explored how Low-Income Countries can cope with the economic effects of weather shocks;
- Reviewed social safeguards in Fund-supported programs in Low-Income Countries;

### **Work to strengthen international cooperation**

- Made proposals for Toolkit Reform leading to the creation of a new Policy Coordination Instrument;
- Analyzed external positions within the ESR's multilaterally consistent framework;
- Analyzed the IMF's Role on Compact with Africa;
- Issued a paper on collaboration between Regional Financing Arrangements and the IMF, and initiated work on program design in currency unions;
- Commenced work on the 15th General Review of Quotas.

### **Capacity development activities supported the global policy agenda:**

- Continued to grow activities, with nearly half of all technical assistance (TA) going to low-income countries and over half of training to emerging and middle-income market economies.
- Continued to expand the reach of IMF training through online learning, now accounting for about 30 percent of all training participation.
- Assessed capacity development efforts supporting the Medium-Term Debt Management Strategy;
- Enhanced synergies among surveillance, lending, TA and training, including through the newly created South Asia Regional Training and Technical Assistance Center.
- Continued to develop capacity in financial sector related issues, with Africa as the main recipient.
- Continued to develop a capacity development framework for fragile states to support institution building goals, strengthen outcome monitoring, and enhance coordination with other partners.
- In collaboration with the OECD, UN, and World Bank, continued to support work on international tax issues, including through the Platform for Collaboration on Tax.
- Worked with partners on tackling the challenges laid out in the post-2015 development agenda, including by supporting countries' efforts for revenue mobilization.

## Annex III. Implementation of IMF Deliverables

(April-October 2017)

Support Efforts to Sustain the Recovery, Lift Productivity and Increase Resilience	
<i>Fiscal</i>	
 Assessing Fiscal Space-An Update and Stocktaking <sup>1</sup>	 Fiscal Capacity Building <sup>1</sup>
 Review of the LIC DSF	 Review of the MAC DSF <sup>1</sup>
 Domestic Revenue Mobilization	 International Taxation
<i>Monetary, Exchange Rate, and Macro-Prudential Policies</i>	
 Capital Flows and Macroprudential Policies	 Macro-financial Analysis
 Correspondent Banking Relationship	 Assessable Standard on Islamic Finance <sup>1</sup>
 Finance and Technology	 Financial Regulatory Reforms
 Review of Mandatory Financial Stability Assessment	 The Review of the MCP Policy
<i>Structural Reforms</i>	
 Macro-structural Reforms	 Natural Disaster and Climate Change
 Infrastructure Policy Initiative	 Gender Issues
Promote Sustainable Policies Toward a More Inclusive Global Economy	
 Standards and Codes <sup>1</sup>	 Use of Third-Party Indicators in Fund Work
 Governance	 Macro-structural Policies and Income Inequality in LIC
 Social Objectives in PRGT Programs	 Capacity Development
 LIC Facilities Review <sup>1</sup>	 Interim Comprehensive Surveillance Review <sup>1</sup>
Facilitate Multilateral Solution Across Countries to Meet Global Challenges	
 Adequacy of the Global Financial Safety Net	 Debtor-Creditor Engagement <sup>1</sup>
 Regional Financing Arrangements <sup>1</sup>	 Bank Insolvency Regimes <sup>1</sup>
 Fund Governance and Resources	 The Role of the SDR
 Program Design in Currency Unions <sup>1</sup>	

<sup>1</sup> Board papers/reports scheduled to be delivered beyond the horizon under consideration are deemed ongoing work. Note: IMF deliverables identified in the Spring 2017 Global Policy Agenda and Work Program. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed
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