

THE MANAGING DIRECTOR'S

G L O B A L P O L I C Y A G E N D A

Spring 2018

UPDATE



The Window
of Opportunity
Remains Open

THE WINDOW OF OPPORTUNITY REMAINS OPEN

This Global Policy Agenda (GPA) provides an update from the Fall 2017 GPA.

The momentum behind the cyclical global expansion remains strong. But escalating trade conflicts and financial market volatility highlight downside risks beyond the next several quarters.

To sustain the upswing, policy makers need to enhance financial sector resilience, start rebuilding policy space, and implement structural reforms—including on corruption and governance.

Countries should work to promote an open and rules-based multilateral trade system that works for all, and to durably reduce excess global imbalances. A cooperative approach to regulation will reap the benefits of financial technology, while addressing risks to stability and integrity.

The Fund is embarking on major policy reviews, including on surveillance, the Financial Sector Assessment Program, program conditionality, concessional lending tools, debt sustainability analysis, and capacity development. We have also launched a comprehensive work program on the opportunities and challenges from digitalization.



Economic activity continues to strengthen. But rising financial market risks and subdued medium-term prospects highlight the need for action.

Momentum continues to gather behind a broad-based upswing, aided by a rebound in global trade and investment. Escalating trade conflicts could threaten that momentum. Procyclical fiscal policies in some countries with excess current account deficits—combined with persistent excess current account surpluses in others—will likely widen global imbalances, posing a medium-term risk. Also, population aging and sluggish reforms are dampening potential growth in advanced economies, while structural challenges are delaying income convergence of many emerging and developing economies toward advanced economies. Growth also needs to become more inclusive as income disparities have widened.

The road ahead could be bumpy, as illustrated by recent equity market volatility. Financial market vulnerabilities, including from stretched valuations and rising leverage could be exposed by a sudden adjustment in market expectations about the future path of monetary normalization. Countries with limited room to maneuver—including due to high debt—could be hit hardest if market conditions turn. Many low-income countries (LICs) and fragile states striving to meet development goals are also affected by conflicts and natural disasters.

To sustain the cyclical upswing, policymakers should enhance financial sector resilience, rebuild policy space, and undertake necessary structural reforms.

As described in the Fall 2017 GPA, the upswing provides a window of opportunity to strengthen macroeconomic resilience, and the Fund will help members calibrate an appropriate policy mix tailored to country circumstances. In many countries, fiscal policy should rebuild buffers, improve government



balances and anchor public debt, while addressing infrastructure needs, investing in workforce skills, and supporting medium-term growth. Monetary policy stimulus should be gradually withdrawn where inflation looks set to return to the central bank's target. Gaps in macroprudential toolkits need to be filled to complement microprudential measures to counter financial market risks, including from prolonged low interest rates. Forthcoming analysis will also help illustrate remaining crisis legacies and policy gaps ten years after the global financial crisis.

Structural reforms should raise medium-term growth prospects, combat slowing income convergence, support diversification, and ensure that the benefits of technology and global integration are widely shared. To identify priorities, the Fund will continue **discussions on governance** with analysis of the growth effects of governance and corruption. We will assess the impact of demographics on pension system sustainability; study how gender diversity and higher female labor force participation impact structural change and growth; and highlight robust fiscal policies for climate change mitigation and adaptation.

Building on previous work, such as the **measurement of the digital economy**, we will develop a comprehensive work program to assess the opportunities and challenges of technological progress and digitalization, including on productivity, labor and financial markets, fiscal policy, and the effectiveness of monetary policy. This will involve significant collaboration with other international and national institutions, as well as the private sector.



CONTRIBUTIONS TO GLOBAL STABILITY

Countries should collaborate on trade within an open and rules-based multilateral system, tackle risks from excess global imbalances, and address shared challenges.

To protect the gains from integration and foster global prosperity and stability, the Fund will continue to highlight the benefits of an open and rules-based multilateral trade system that works for all, and of resolving tensions in that system, while encouraging further dismantling of trade and non-trade barriers, including in services. We will conduct a rigorous, evenhanded, and candid assessment of excess global imbalances and exchange rates in the 2018 External Sector Report, based on an **updated External Balance Assessment methodology**. The Fund will continue to learn from experience with the Institutional View

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Green highlighted text refers to selected key IMF activities that have been completed since October (see Annex).



on capital flows to offer guidance on its application; foster cooperation with Regional Financing Arrangements; and analyze the challenges presented by an evolving global economy for the international monetary system and the global financial safety net (GFSN).

We will support the work of standard setters to complete the global financial regulatory reform agenda and leverage global expertise on topics including financial technology, crypto assets, and cyber threats, to benefit the membership at large. Following **discussions of corporate taxation**, the Fund will continue to engage in the international tax debate. We will adopt a multi-pronged approach to enhance debt transparency and address LIC debt problems, including by supporting domestic resource mobilization. Staff will continue to monitor developments in correspondent banking relationships—promoting practical solutions alongside other stakeholders—and establish a framework to guide Fund engagement in social protection issues with other institutions.

The Fund will provide diagnostics and policy recommendations on the G-20's progress toward strong, sustainable, balanced and inclusive growth, and support the Argentinean Presidency to address other topical issues, including the **future of work**. We remain committed to support progress toward the 2030 sustainable development goals (SDGs), including by analyzing the fiscal implications of health, education and infrastructure reforms; working with the UN, OECD, and World Bank on the Platform for Collaboration on Tax; supporting the G-20's Compact with Africa; and strengthening support for countries vulnerable to natural disasters.

FUND POLICIES

The Fund's policy tools will evolve with changes in the economic environment to support its global mandate and members' needs.

Building on the **Interim Surveillance Review**, the Fund will improve its **surveillance** to enhance traction and adapt to emerging challenges. Work with the FSB on the G-20 Data Gaps Initiative and implementation of the **Fund's strategy for data and statistics for surveillance** will strengthen risk monitoring. We will continue to support efforts to enhance financial integrity and resilience, including through the review of the Fund's AML/CFT program. The Fund will analyze how to manage risks to public sector balance sheets, study the effectiveness of macroprudential policies in mitigating

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financial risks, review the debt sustainability framework for countries with market access, and consider refinements to policies on multiple currency practices.

Conditionality and the design of Fund-supported **programs** will be reviewed to enhance traction and performance. The **LIC Debt Sustainability Framework** will be implemented, and modifications to the Fund's LIC facilities, including enhanced support for small and fragile states, considered.

The Fund will continue to further strengthen **capacity development** (CD) activities, benefiting from strategic partnerships with a wider group of donor countries. We will further integrate CD with surveillance and policy advice in a results-based framework to help members meet the SDGs and other challenges, and operationalize a new China-IMF CD center.

GOVERNANCE AND FINANCING

The 15th General Review of Quotas is due to be completed in 2019.

Work will build on **discussions of the size and composition of Fund resources and the quota formula** to maintain a strong, quota based and adequately resourced Fund at the center of the GFSN, realigning quota shares with members' relative positions in the world economy while protecting the share of our poorest member countries. We aim to complete the 15th Review by the Spring Meetings, and no later than the Annual Meetings, of 2019.

INTERNAL ORGANIZATION

The Fund will leverage institutional experience and modernize its operations.

The Fund is developing a new human resource strategy for an agile, diverse, and inclusive workforce, focused on modern performance management and career development. A new knowledge management strategy will better leverage institutional experience. Together with strengthened internal risk management and progress toward a digital platform, this will facilitate policy consistency and cross-country work, and enhance process and operational efficiency.

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Annex. Key IMF Activities since the Fall 2017 GPA



POLICY ADVICE AND ECONOMIC ANALYSIS

- ⊙ Examined drivers and prospects of labor force participation in advanced economies.
- ⊙ Investigated the implications for poverty and inequality of declining manufacturing jobs.
- ⊙ Examined Second Generation Fiscal Rules.
- ⊙ Studied the impact of globalization on international technology diffusion.
- ⊙ Investigated the potential impact of digitalization on fiscal policy.
- ⊙ Explored whether the riskiness of credit allocation is a source of financial vulnerability.
- ⊙ Examined the role for financial factors in international house price synchronization.
- ⊙ Continued work on measurement issues in a digital economy.
- ⊙ Examined trade-offs in bank resolution.
- ⊙ Studied inequality and poverty across generations in Europe.
- ⊙ Held the 18th Annual Research Conference on The Global Financial Cycle.
- ⊙ Held the Opportunity for All Conference to promote inclusive growth in the Arab World.



CONTRIBUTIONS TO GLOBAL STABILITY

- ⊙ Presented methodological and presentational refinements to external assessments.
- ⊙ Delivered a paper for the G-20 on the Future of Work.
- ⊙ Discussed trends in, and the impact of digitalization for, international taxation.
- ⊙ Discussed trends in correspondent banking relationships.
- ⊙ Considered the role of the SDR in the international monetary system.
- ⊙ Published a database on macroprudential measures.



FUND POLICIES

- ⊙ Conducted the Interim Surveillance Review.
- ⊙ Updated and clarified the role of the Fund in governance issues.
- ⊙ Discussed a framework for the use of third party indicators in Fund reports.
- ⊙ Set out an overarching strategy for data and statistics at the Fund in the digital age.
- ⊙ Reviewed the Flexible Credit Line and Precautionary and Liquidity Line.
- ⊙ Discussed program design in Currency Unions.
- ⊙ Issued guidance on the new LIC debt sustainability framework.



GOVERNANCE AND INTERNAL ORGANIZATION

- ⊙ Continued work on the 15th General Review of Quotas.
- ⊙ Initiated work on the Fund's digital strategy, including an internal digital platform.
- ⊙ Progressed work on human resource and knowledge management strategies.

