

# IMF Annual Report 2016

Finding Solutions Together

How can the IMF help countries improve revenues?

What is the IMF's role in the international monetary system?

How does the financial sector affect a country's economic growth?

Why did the IMF Board add the Chinese currency to the SDR basket?

How can gender equality contribute to economic growth?

How can better data help African policymakers?

What is the future of Asia's finance?

How does the IMF support Financing for Development?

How does the IMF ensure proper stewardship of its resources?

Why have 60 countries established financial inclusion as a goal?

How are IMF quotas being reformed?

What is the economic impact of the surge in refugees from the Middle East?

How has the fall in commodity prices affected the membership?

How is Europe responding to the surge in refugees?

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The IMF’s financial year is May 1 through April 30.

The analysis and policy considerations expressed in this publication are those of the IMF Executive Directors.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. On April 30, 2016, the SDR/U.S. dollar exchange rate was US\$1=SDR 0.705552 and the U.S. dollar/SDR exchange rate was SDR 1=US\$1.41733. The year-earlier rates (April 30, 2015) were US\$1=SDR 0.71103 and SDR 1=US\$1.40642.

“Billion” means a thousand million; “trillion” means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

As used in this Annual Report, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.



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## About the IMF

The International Monetary Fund is a global organization of 189 member countries set up to promote the health of the world economy. It works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The IMF, which oversees the international monetary system to ensure its effective operation, has among its key purposes to promote exchange rate stability and to facilitate the expansion and balanced growth of international trade. The IMF's mission enables countries (and their citizens) to buy goods and services from one another and is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies and approves IMF loans to help member countries address temporary balance-of-payments problems, as well as capacity-building efforts. This Annual Report covers the activities of the Executive Board and IMF management and staff during the financial year May 1, 2015, through April 30, 2016. The contents reflect the views and policy discussions of the IMF Executive Board, which has actively participated in preparation of this Annual Report.

## Message from the Managing Director



The year covered in this Annual Report was marked by difficult challenges and milestone achievements.

The IMF membership—which grew to 189 in April 2016 with the addition of Nauru—faced the difficult task of reinvigorating modest growth at a time of uncertainty about a complicated global economy. At the 2016 Spring Meetings, the membership endorsed a three-pronged approach of monetary, fiscal, and structural policies to get the world economy back on a stronger and safer growth track. This remains our highest priority, and the Fund strengthened its commitment to supporting the community of nations by taking several important steps.

First, wide-ranging IMF quota and governance reforms approved in 2010 finally went into effect. These reforms significantly increase the Fund's core resources and—crucially—make it more representative of the twenty-first century world economy by solidifying the voice of emerging market economies and developing countries.

Second, the Fund responded to the United Nations' call for attainable steps to enable developing countries to build the foundations for inclusive

and sustainable growth over the next 15 years under the United Nations (UN) Sustainable Development Goals. The IMF stepped forward at the Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia, in July 2015, offering a package of concrete commitments. These included increased financial support, enhanced policy advice, and technical assistance and other forms of capacity development focused on the unique challenges of development.

Third, to better understand the issues facing the global economy, the Fund embarked on an effort to identify the shortcomings and vulnerabilities of the international monetary system and to refine our role at the center of the global economy. This effort will continue the process of assimilating the lessons of the global financial crisis and define the policy response to new issues as they arise.

A crucial piece of this work was the completion of the regular review of the basket of currencies that make up the Special Drawing Right (SDR)—a process that ended in a decision to include the Chinese renminbi in the basket. This was an important step to integrate the Chinese economy into the international financial system and strengthen the global economy.

Fourth, there was a major unexpected event: the mass migration of refugees from Syria and other conflict-afflicted states. The movement of millions, while primarily a severe humanitarian crisis, also has serious economic repercussions. The IMF is working with the countries affected in both the Middle East and Europe to analyze the macroeconomic issues they face and to help put in place the appropriate responses.

And lastly, a number of high-profile corruption cases have fueled international concern, and with a growing consensus that corruption can seriously undermine a country's ability to deliver inclusive economic growth, addressing corruption globally—in both developed and developing countries—has become increasingly urgent. The IMF helps the membership address corruption through its policy advice on governance reforms, along with technical assistance and training.

This Annual Report highlights all of these issues, plus a wide range of policy matters that the Executive Board addressed during the year. The IMF membership speaks through the Board—literally on a daily basis—and the input of Executive Directors is at the core of our activities.

Yours sincerely,



Christine Lagarde

# FY2016 Key IMF Activities

*During the financial year from May 1, 2015, to April 30, 2016, the IMF supported its membership by becoming more agile, integrated, and member focused.*

## Agile

The IMF provided financing to countries affected by lower commodity prices and natural disasters.

Knowledge on the macroeconomic implications of emerging issues, such as migration, the global trade slowdown, and income and gender inequality, has been broadened.

Deeper analyses on structural reforms are ongoing, including a *World Economic Outlook* chapter highlighting the complementarity between structural reforms and macroeconomic policies.

The adequacy of the global financial safety net and the size of the Fund are being assessed to support a more active and forward-looking dialogue on the ongoing effectiveness of the international monetary system and the IMF.

The Fund is implementing a structured approach for capacity development in fragile states tailored to their absorptive capacity.

## Integrated

The IMF took an integrated approach to assessing transition spillovers to member countries, particularly from China's rebalancing and global low commodity prices.

Work on enhancing focus on macro-financial and macro-structural issues in surveillance is underway.

The second phase of the Group of Twenty (G20) Data Gaps Initiative began in January 2016, with increased focus on risk identification, interconnections, and spillovers.

Efforts to integrate emerging issues into surveillance continued. Analyses on climate change, gender, and inequality have been piloted in countries where these issues are macro-relevant, that is, where they may affect a country's domestic or balance-of-payments stability.

The IMF staff has developed a new tool to monitor disorderly market conditions, which can help inform country teams about domestic market issues and potential widespread stress.

Synergies between surveillance and capacity development were strengthened, including in the areas of revenue mobilization, government finance statistics standards on reporting, data gathering, inclusive growth, energy.

Activities summarized from the Managing Director's Global Policy Agenda. See end Notes for details.

# The IMF's Key Roles

## Member Focused

The Executive Board approved the expansion of the SDR basket to include the renminbi. IMF staff is working with SDR users and the Chinese authorities to facilitate a smooth transition to the new SDR basket in October 2016.

The 2010 quota and governance reforms were implemented, following their acceptance by the membership. The reforms will ensure that the Fund is better able to meet and represent its members' needs in a rapidly changing environment.

The IMF staff continued to engage with and support various forums, including the G20 industrialized economies and Association of Southeast Asian Nations, and to organize peer-to-peer events as well as high-level seminars.

In response to the 2014 Triennial Surveillance Review, the Fund published a paper clarifying the principles of evenhandedness governing Fund analysis and advice in surveillance.

Technical assistance and training were scaled up in low-income countries, particularly in the areas of domestic revenue mobilization and international taxation.

Online learning further expanded the reach of Fund training.

*The IMF focuses on three main roles:*

### Economic Surveillance

**Provide advice to members on adopting policies that can help them achieve macroeconomic stability**, thereby accelerating economic growth and alleviating poverty.

### Lending

**Make financing temporarily available to member countries** to help them address balance-of-payments problems, which include circumstances in which they find themselves short of foreign exchange because their external payments exceed their foreign exchange earnings.

### Capacity Development

**Offer technical assistance and training to countries**, at their request, to help them build and strengthen the expertise and institutions they need to implement sound economic policies.

The IMF is headquartered in Washington, D.C., and, reflecting its global reach and close ties with its members, also has offices around the world.

Additional information on the IMF and its member countries can be found on the IMF's website, [www.imf.org](http://www.imf.org).

# IMF Policy Challenges and Priorities

*The Managing Director's Global Policy Agenda (GPA) is presented twice a year to the International Monetary and Financial Committee (IMFC), which is the IMF's policy guiding body. The GPA identifies the policy challenges faced by the IMF membership, assesses progress since the previous GPA, outlines the policy responses needed at the global and country levels, and lays out how the IMF can support those policy responses.*

*The April 2016 GPA focused on policies to put the global economy back on a stronger and safer track. It said countries should boost their commitment to growth and employ a three-pronged approach of mutually reinforcing policy levers, bolstered by a well-functioning financial sector and global cooperation.*

## Monetary Policy

In advanced economies, monetary policy should remain accommodative where output gaps are negative and inflation is too low. But monetary policy needs to be accompanied by other policies in providing the necessary demand support and cannot address structural bottlenecks to growth. Unconventional monetary policies are helping to support demand, although very low—and in some cases negative—interest rates may also have direct effects on bank profitability. In emerging economies, monetary policy must grapple with the impact of weaker currencies on inflation and private sector balance sheets.

## Fiscal Policy

There is a strong case for domestic coordination across policies. While some countries continue to suffer from high debt, elevated sovereign spreads, and low public sector savings, and need to implement their fiscal consolidation plans, those with fiscal space should commit to ease fiscal policy further. For a number of creditor countries, this would also help facilitate global rebalancing. All countries can also contribute by aiming for a more growth-friendly composition of revenue and expenditure, particularly increased spending in infrastructure in some countries.

## Structural Reforms

The need for structural reforms to improve productivity and potential output is widely recognized. Many commitments have been made—including in the context of the G20—but delivery must be pulled forward. Countries with fiscal space should take advantage of synergies between demand support policies and structural reforms. Structural reforms with built-in fiscal stimulus can have positive near-term effects. Given the diversity of the structures of economies, individual structural reform priorities should be sequenced and reflect differences in stages of economic development and strength of institutions. In commodity exporters and low-income developing countries, policies to promote economic diversification and structural transformation are essential.

## Financial Sector Action

Solutions are also needed to prevent de-risking from unduly impeding access to financial services, including correspondent bank relationships. Countries should take further steps to speed up the repair of private sector balance sheets, avoiding a protracted deleveraging process that weakens the credit channel of monetary policy and raises uncertainty. It is essential that the European Union's Banking Union be completed by putting the last pillar—a common deposit guarantee scheme—in place, together with efforts to reduce risks in banking systems. Further progress is needed in consistently implementing and completing the global regulatory reform process, including policies to transform the shadow banking sector into a stable source of market-based finance.

## Global Cooperation

Each country should commit to a set of policy actions that contributes to a global package of reforms to lift both national and global growth. A three-pronged approach, taken in concert by the membership, can mutually reinforce economic activity and reduce stability risks. Global cooperation is also needed. Examples include enhancing mechanisms for adjustment and liquidity provision, shoring up global trade, tackling corruption, and furthering the regulatory reform agenda.



# Spotlights



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The reforms significantly increased the IMF's core resources, enabling the institution to respond to crises more effectively and also improve the IMF's governance by better reflecting the increasing role of dynamic emerging market economies and developing countries in the global economy.

In December 2015, the U.S. Congress adopted legislation to authorize the IMF 2010 quota and governance reforms, and all the conditions for their implementation were met in January 2016. These wide-ranging historic reforms are a crucial step that has strengthened the Fund's role in supporting global financial stability.

Implementation of the reforms, approved by the Board of Governors in 2010, has enabled a more representative, modern IMF that is better equipped to meet the needs of its member countries in the twenty-first century. The reforms built on an earlier set of institutional changes passed by the Board of Governors in 2008.

# Quota Reform

## for a More Representative, Modern IMF'

**Main Outcomes  
of the 2010 Quota  
and Governance  
Reforms**

**More than 6 percent of  
quota shares are shifted**  
to dynamic emerging market economies  
and developing countries, and  
also from overrepresented to  
underrepresented members.





**All IMF members' quotas increase**

as a result of the agreed bolstering of the Fund's quota resources (measured in Special Drawing Rights or SDRs—see next page). Total quota resources rise to about **SDR 477 billion** (about \$659 billion) from about SDR 238.5 billion (about \$329 billion).

**Four emerging market economies (Brazil, China, India, and Russia) are now among the IMF's 10 largest members,**

joining the United States, Japan, and the four largest European countries (France, Germany, Italy, and the United Kingdom).



**The quota shares and voting power of the IMF's poorest member countries are protected.**



Advanced European economies have committed to **reducing their combined Executive Board representation by two chairs.**



**For the first time, all seats on the IMF Executive Board will be held by Executive Directors elected by IMF member countries.**

Previously, five of the seats on the Executive Board were reserved for Directors appointed by the members with the five largest quotas.

**Multicountry constituencies with seven or more members may now appoint a second Alternate Executive Director**

so that their constituencies are better represented on the Executive Board.

Each IMF member country is assigned a quota, based broadly on its relative position in the world economy.

Quota subscriptions are a central component of the IMF's financial resources. A member country's quota determines its maximum financial commitment to the IMF, voting power, and access to IMF financing.

#### QUOTA FORMULA

The current quota formula is a weighted average of GDP (weight of 50 percent), openness to the global economy (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP based on market exchange rates (weight of 60 percent) and on purchasing-power-parity exchange rates (40 percent). The formula also includes a "compression factor" that reduces the dispersion in calculated quota shares across members

#### SPECIAL DRAWING RIGHTS

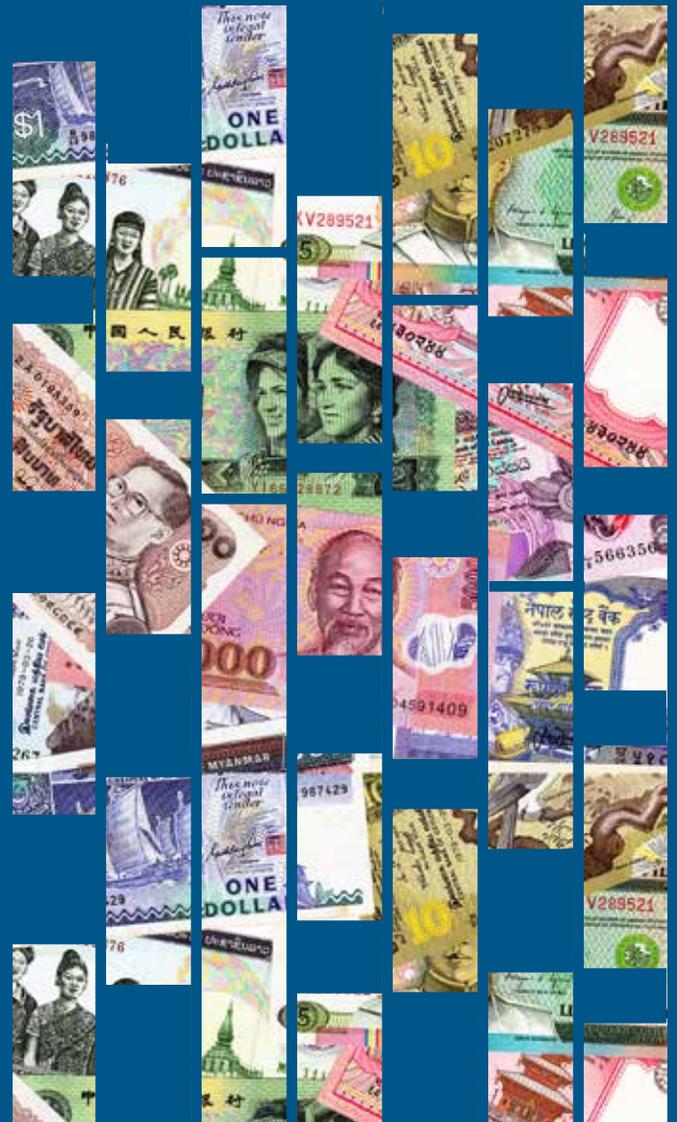
Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account. The IMF's largest member is the United States, with a quota (as of April 30, 2016) of SDR 83 billion (about \$118 billion), and the smallest member is Tuvalu, with a quota of SDR 2.5 million (about \$3.5 million).



Each member is obliged to provide financial resources based on its quota.

#### SUBSCRIPTIONS

A member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund: up to 25 percent must be paid in SDRs or other members' currencies specified by the IMF, and the rest is paid in the member's own currency.



Each member gets access to financing based on its quota.

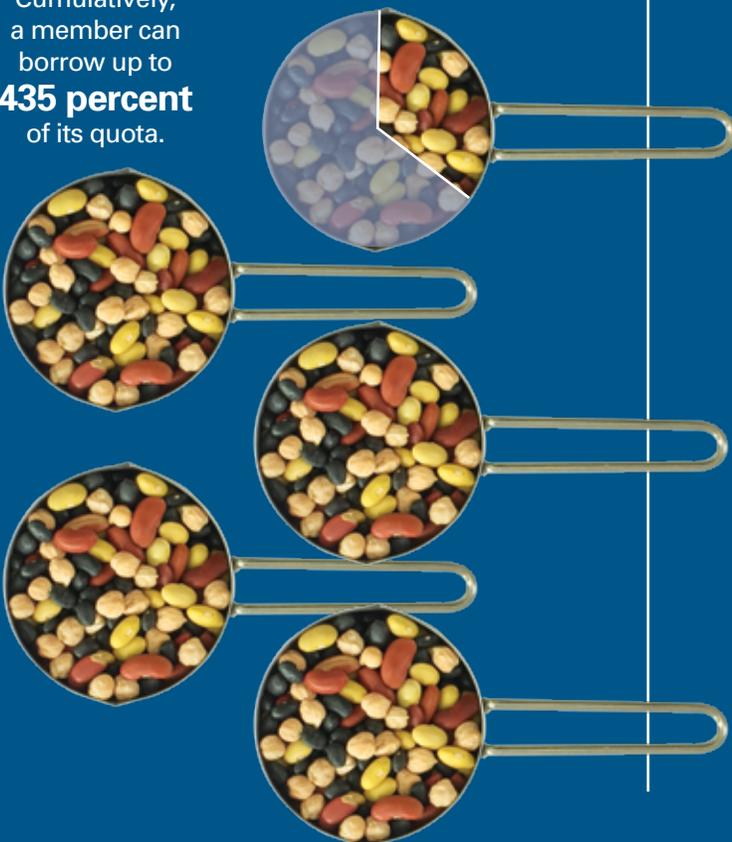
#### ACCESS TO FINANCING

The amount of financing a member can obtain from the IMF (known as its access limit) is based on its quota. For example, under certain types of loans, a member can borrow up to 145 percent of its quota annually and 435 percent cumulatively, under normal access. Above these levels, "exceptional access" can be provided if specific risk-mitigating criteria are met.

Annually, a member can borrow up to **145 percent** of its quota.



Cumulatively, a member can borrow up to **435 percent** of its quota.



A member's quota largely determines its voting power in IMF decisions.

#### VOTING POWER

Each member gets an equal share of what are called "basic votes," plus additional votes based on quota.



#### SDR ALLOCATIONS

Quotas also determine how SDRs are allocated to countries.

As the international community continues to assimilate and build upon the lessons of the global financial crisis, the IMF has embarked on a process to better understand the challenges facing the international monetary system (IMS). This process includes a review whose purpose is to identify the system's evolving shortcomings and lay the foundations for reforms that can strengthen resilience and long-term growth.

# Reform of the International Monetary System

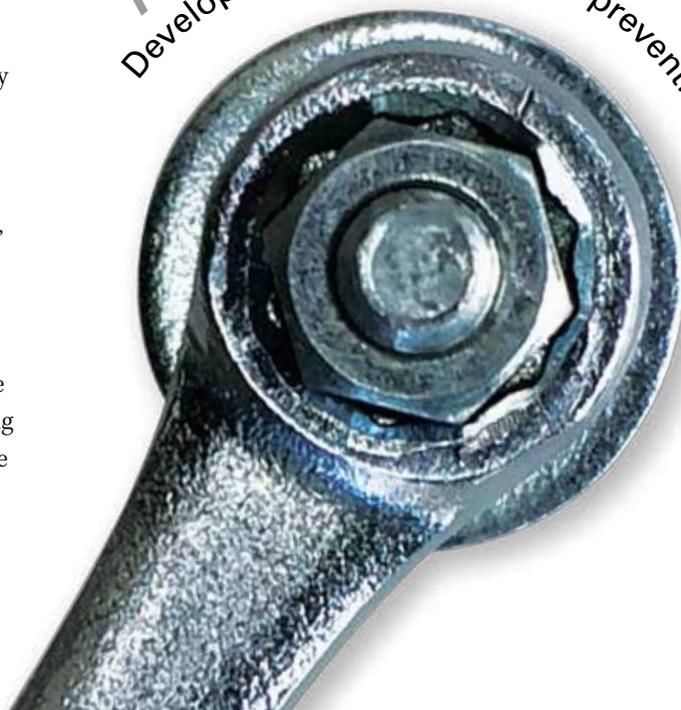
The work on the IMS also seeks to refine the IMF's role at the center of the global economy, building upon the last review conducted in 2011. The current review began with a set of papers, issued in March 2016, designed to enrich policy discussions within the Fund and in other key international settings, including at the G20. It will provide a narrative for various projects incorporated into the IMF Work Program, including the global financial safety net, the size of the Fund, the role of the SDR, the Fifteenth General Review of Quotas, and analysis of capital flows.

The IMS review follows several IMF initiatives that were part of the reforms growing out of the crisis; for example, the introduction of integrated surveillance and the strengthening of financial sector surveillance, both intended to sharpen the Fund's focus on risks and vulnerabilities; the broadening of spillover work; and the overhaul of the lending toolkit.

Build a more coherent global financial safety net



Develop mechanisms for crisis prevention and adjustment



But the process of assessing the IMS requires that new challenges be taken into account: how to enhance the process of globalization to the broad benefit of all players in the global economy, address China's rebalancing, and adjust to lower commodity prices and differences in monetary conditions among the world's major economies. In particular, as the world navigates a low-growth environment and emerging market and developing economies continue to integrate and deepen their financial markets, risks and vulnerabilities associated with interconnectedness and openness need to be managed.

While the Fund is at the center of the IMS, it is part of a larger system with central banks and other standard-setting



agencies. The Fund's role is to provide analysis and a shared understanding; it will be up to the Fund's membership to take reform forward.

The IMF also contributes to the international monetary system by providing part of a global financial safety net that is responsive to three imperatives: encouraging better policymaking, financing adjustment at a reasonable pace, and providing insurance to "innocent bystanders" that may be affected by instability. Another level of the safety net is regional financing arrangements, such as the Chiang Mai Initiative, and the IMF seeks ways to work more closely with them.

The IMF has conducted an assessment of the international monetary system. The first stage of the assessment is a set of analytical papers that the Executive Board discussed in informal sessions in March 2016. The first paper, "Strengthening the International Monetary System—A Stocktaking," examines structural shifts that underline the need to continue to strengthen the system. It identifies potential areas for reform that would bolster crisis prevention efforts and global mechanisms for adjustment, cooperation, and liquidity provision.

The paper outlined three possible areas of reform:

- Mechanisms for crisis prevention and adjustment;
- Rules and institutions for enhanced global cooperation on issues and policies affecting global stability; and
- The need to build a more coherent global financial safety net.

The second paper, "The Adequacy of the Global Financial Safety Net," assesses the strengths, weaknesses, and challenges of the matrix of measures put in place to support the global economy in times of stress. These include international reserves, central bank swap arrangements, regional financing arrangements, IMF resources, and market-based instruments.

The paper establishes that the global financial safety net today is much larger and more multilayered than before and that it has been enhanced over time, notably with refinements to the IMF's surveillance and lending frameworks. However, the study also recognizes that there is scope for improving the current configuration of the safety net to enhance the predictability, reliability, and speed of insurance and financing mechanisms against shocks and to provide the right incentives for countries to implement sound macroeconomic policies.

On November 30, 2015, the Executive Board completed a regular five-yearly review of the basket of currencies that make up the SDR. The Board decided that the Chinese renminbi met all criteria for inclusion in the SDR basket, and, effective October 1, 2016, is determined to be a freely usable currency that will be included in the SDR basket as a fifth currency, along with the U.S. dollar, euro, Japanese yen, and British pound.

# Chinese Currency Added to SDR Basket

Under the SDR valuation method, the SDR currency basket is reviewed every five years unless developments in the interim justify an earlier review. SDR reviews evaluate the currency selection criteria, the selection of currencies, the weighting methodology, and the composition of the SDR interest rate basket, with a view to making the SDR more attractive as an international reserve asset.

After the Executive Board met and approved inclusion of the renminbi in the SDR basket, Managing Director Christine Lagarde issued the following statement:

The Executive Board's decision to include the renminbi in the SDR basket is an important milestone in the integration of the Chinese economy into the global



financial system. It is also a recognition of the progress that the Chinese authorities have made in the past years in reforming China's monetary and financial systems. The continuation and deepening of these efforts will bring about a more robust international monetary and financial system, which in turn will support the growth and stability of China and the global economy.

In making the decision to include the renminbi, Executive Directors “noted the substantial increase in the international use and trading of the renminbi since the last review, across all the indicators used to inform the assessment. They agreed that the renminbi can now be considered, in fact, widely used to make payments for international transactions” and “widely traded in the principal exchange markets.”

The SDR interest rate will continue to be determined as a weighted average of the interest rates on short-term financial instruments in the markets of the currencies in the SDR basket.

### Benchmark Interest Rates, 2010 and 2016

Benchmark rates used as representative interest rates for the five currencies in the basket on October 1, 2016 (once the inclusion of the renminbi in the SDR is effective):

- U.S. dollar: market yield for three-month U.S. Treasury bills
- Euro: three-month euro yield (three-month spot rate for euro area central government bonds with a rating of AA and above published by the European Central Bank)
- Pound sterling: market yield for three-month U.K. Treasury bills
- Japanese yen: three-month Japanese Treasury discount bill rate
- Renminbi: three-month benchmark yield for China Treasury bonds (published by the China Central Depository & Clearing Co., Ltd.)

Benchmark rates used as representative interest rates for the four currencies at the 2010 review:

- U.S. dollar: market yield for three-month U.S. Treasury bills
- Euro: three-month Eurepo rate
- Japanese yen: three-month Japanese Treasury discount bill rate
- Pound sterling: market yield for three-month U.K. Treasury bills

LEARN

### Box 1.3: What is the currency weighting of the SDR basket?

The five currencies in the new SDR basket will be weighted as follows as of October 1, 2016, based on the formula agreed by the IMF Executive Board:

Figure 1.1  
SDR basket currency weighting, as of October 1, 2016

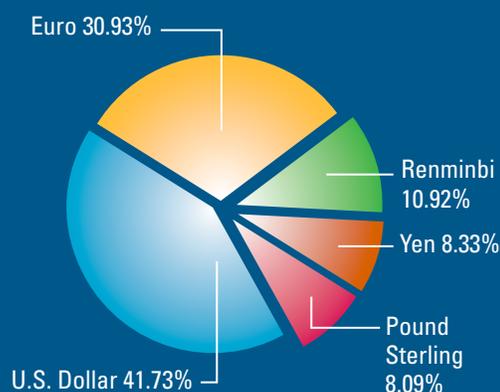
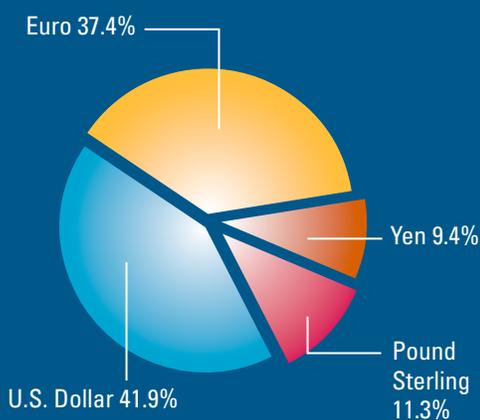


Figure 1.2  
SDR basket currency weighting, 2010



# Changing the Music

There is an African proverb: “When the music changes, so does the dance.” This year, we have the chance to take a new approach—to change the music—and put all countries firmly on the path to sustainable, inclusive growth.

— *Managing Director Christine Lagarde, in a July 8, 2015, speech at the Brookings Institution*



With 2015 designated the **Year of Development**, the international community focused on building a global partnership to enable low-income developing countries to lay the foundations for inclusive

and sustainable growth in the coming decades. At the core of the effort are the **Sustainable Development Goals (SDGs)**—a set of targets adopted by the United Nations (UN) in September 2015 that span a range of economic, social, and environmental goals. The SDGs replace the Millennium Development Goals, a set of targets for the period 2000–15 that centered on halving global poverty and improving development indicators related to health and education. The challenge for donor countries and international financial institutions is to make the accomplishment of these goals a reality.

The IMF stepped up with a package of commitments that were presented at the Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia, in July 2015. The measures were set out in two policy papers discussed by the Executive Board on July 1 and July 6. The Board approved a comprehensive approach that includes enhanced financial support and intensified policy advice, technical assistance,

 A circular inset image showing the wooden skeleton of a building under construction. The structure is made of light-colored wood and is set against a clear sky. The text "Enhanced Financial Support" is overlaid on the image.
 

Enhanced  
Financial Support

 A circular inset image showing a large conference room. Many people are seated around a long, curved table, facing a speaker who is standing at the head of the table. The room is well-lit and appears to be a formal meeting or conference. The text "Capacity Development" is overlaid on the image.
 

Capacity  
Development

and capacity development. The Fund's commitments were outlined in the speech by Managing Director Christine Lagarde to the Brookings Institution.

The Fund's commitments to the international community go beyond financing, reflecting the fact that the SDGs address a broad range of issues at the core of the IMF's mandate. These include domestic revenue mobilization, expenditure efficiency and effectiveness, attracting and managing capital flows, expanding public investment, and international policy issues such as maintaining global financial stability and international tax cooperation. Many of these issues were discussed in September 2015 when UN members gathered in New York City to launch the SDGs and were highlighted in an IMF Staff Discussion Note issued for that gathering. The IMF already devotes one-fifth of its capacity development spending to providing tax policy and tax administration assistance, and further resources will be allocated under the new measures (see Box 1.4 on IMF commitments, page 19).



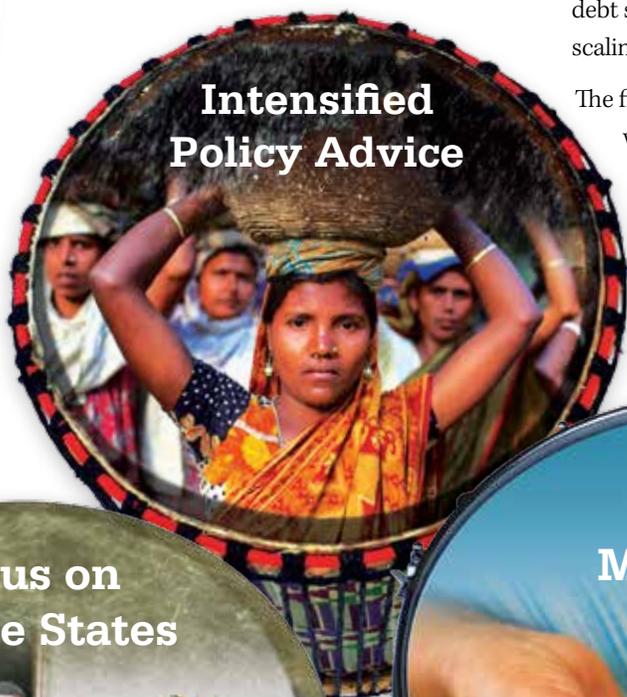
**Climate change** is inextricably linked to sustainable development because the world's poorest people are most affected by the issues raised by humans'

accelerating impact on the environment. A third international gathering on these issues took place in Paris in December 2015, producing a landmark agreement that provides a framework for meaningful progress on climate change mitigation. A Staff Discussion Note produced at that time outlined the fiscal, macroeconomic, and financial implications of climate change.

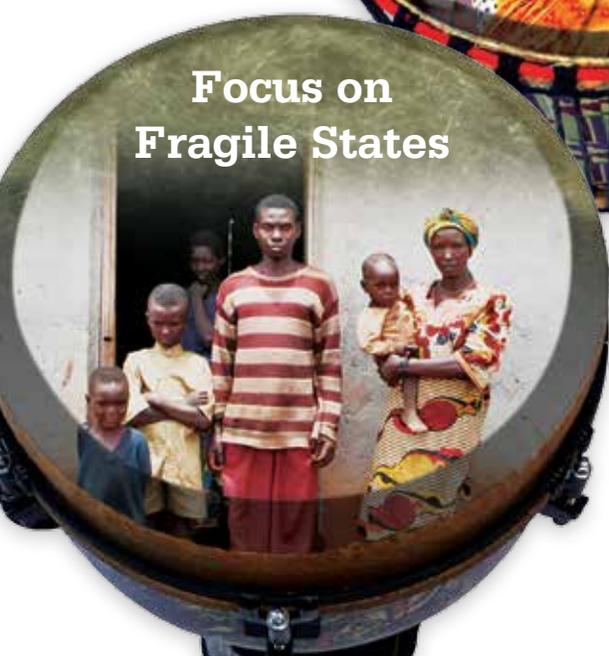
The IMF also plans to help countries address large infrastructure gaps more efficiently and sustainably by providing advice and technical assistance in key areas of public investment management needed for effective infrastructure spending. The IMF will deepen its analysis of the relationships between public investment, growth, and debt sustainability to help identify the appropriate pace for scaling up infrastructure spending.

The first steps toward inclusive and sustainable development were taken in 2015. The challenge is to continue that work into the future.

### Intensified Policy Advice



### Focus on Fragile States



### Domestic Revenue Mobilization



### Financing for Development Policy Priorities

Early in 2016, the Fund assessed the initial progress on Financing for Development at a UN meeting. Four priorities were identified:

- Each country must take the lead in establishing the economic and financial stability that is a prerequisite for sustainable development, but these efforts must be supported by international cooperation.
- Greater international cooperation on tax issues is crucial to ensure enhanced resource mobilization, particularly to limit the shifting of profits to low-tax locations. The IMF is committed to stepping up technical assistance on tax policy and administration.
- A focus on inclusive growth is needed in order to attain stronger overall economic growth. This means, for example, improving girls' education and removing disincentives and barriers to women's employment in tax and benefits systems.
- Countries need to place more emphasis on energy taxation and less reliance on energy subsidies. Fund analysis shows that worldwide subsidies total \$5.3 trillion, or 6.5 percent of global GDP. Reducing this spending will free up resources for more productive uses, including in developing countries.

## Myanmar: Reforming Taxes for Inclusive Growth

After 50 years of relative isolation, Myanmar faced the challenge of modernizing its tax system to match the demands of a more open and dynamic economic environment and to mobilize revenue to fund overdue structural and social reforms. The country's tax-to-GDP ratio stood at below 7 percent in 2012, one of the lowest in the world, and the authorities sought to boost tax revenues in a fair, equitable, and transparent manner.

The IMF helped design a reform strategy with the support of a multipartner trust fund, the Tax Policy and Administration Topical Trust Fund. The main goal of the reform is to strengthen the institutional capacity of Myanmar's tax administration and prepare both the administration and the business community for longer-term tax reforms. Outcomes include a broadened tax base and improved compliance.

From a very low base, Myanmar has made progress:



Since 2012, revenues from major taxes have increased on average more than 20 percent annually.



Compliance by large taxpayers in the areas of registration, on-time filing, and payment is nearing international good practice.



Tax policy reforms focusing on broadening the base of indirect taxes have begun, and the tax department is better positioned to begin a review of the direct-taxes base.

An important task of the reform effort is to build stronger public understanding of the role of taxation in financing essential public goods and services and also to ensure an understanding that paying taxes is a hallmark of an effective modern nation. Myanmar will need wide-ranging support in its pursuit of inclusive growth for many years, but early results look promising.

## Small States' Resilience to Natural Disasters and Climate Change

At a time of **climate change**, small island states in the Pacific Ocean and the Caribbean Sea are among the countries most susceptible to natural disasters, including cyclones, tsunamis, and floods. Climate change itself poses risks to the continued survival of some Pacific islands.

The IMF's ongoing work with small states encompasses a range of macroeconomic and related policy issues, and as the incidence of natural disasters affecting small states has increased in recent years, the focus of the work has shifted toward policies aimed at strengthening the policy response to natural disasters and climate change.

While analytical work had previously been conducted on a country-by-country basis, in June 2015 staff published the first cross-country study quantifying the impact of natural disasters: an IMF Working Paper titled "Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific."

The paper concluded that assessing the prospective fiscal costs and growth impact of natural disasters is key to

evaluating the Pacific island countries' long-term prospects. Building estimates into the macroeconomic framework before an event occurs can help enhance countries' disaster risk management and thus the ability to cope with such events, the paper said.

Integrating such prospective costs into each country's debt sustainability analysis could help determine the magnitude of the need for fiscal and financial buffers and other sources of financing. Such a process also can determine the fiscal space available for building infrastructure to address natural disasters and climate change. These steps would enable IMF policy advice to be better tailored to each country's needs.

The study will be followed in FY2017 by a policy paper on the same theme, assessing how the Fund can best support growth and boost resiliency in small states in the Caribbean and Pacific regions.

In May 2015, the staff report "Macroeconomic Developments and Selected Issues in Small Developing States" was publicly released. The paper developed the analysis from several previous papers on small states and was discussed by the Executive Board in an informal session during fiscal year 2015.

### LEARN

#### Box 1.4: What are the IMF's commitments to Financing for Development?

The core IMF financing commitments under Financing for Development announced in July 2015 include three key elements:

- Making more money available to eligible low-income countries by expanding access to IMF concessional facilities by 50 percent—a commitment that took on added importance during FY2016 as slowing growth in emerging markets and declining commodity prices put new pressure on many developing countries

- Channeling concessional financing toward the poorest and most vulnerable countries
- Setting the interest rate at zero for loans extended under the [Rapid Credit Facility](#), which is designed to assist countries hit by natural disasters and fragile/postconflict states

The IMF also supports Financing for Development through its capacity development activities.

Boosting domestic revenue mobilization is a key area in which IMF expertise—and the support of its partners—is being tapped to help its member countries achieve the UN Sustainable Development Goals.

# Capacity Development

## Tax Policy and Administration Reform

### Peru

Since October 2011, the IMF—with support from the Swiss State Secretariat for Economic Affairs (SECO)—has been providing technical assistance to Peru's revenue administration to strengthen revenue mobilization.

The core work of the project has focused on deepening taxpayer compliance. The project was developed in the customs and tax administration agency (SUNAT) and involved implementing a risk-based audit system for each taxpayer segment and an integrated taxpayer current account, centralizing systems for auditing tax and customs operations, and strengthening coordination between different levels of the agency.

During 2015, the SECO-financed program funded two IMF missions and three short-term expert assignments. A review found that the objectives had been achieved, with significant increases in tax collections (*Figure 1.3*) and substantial reductions in the value-added tax compliance gap (*Figure 1.4*).

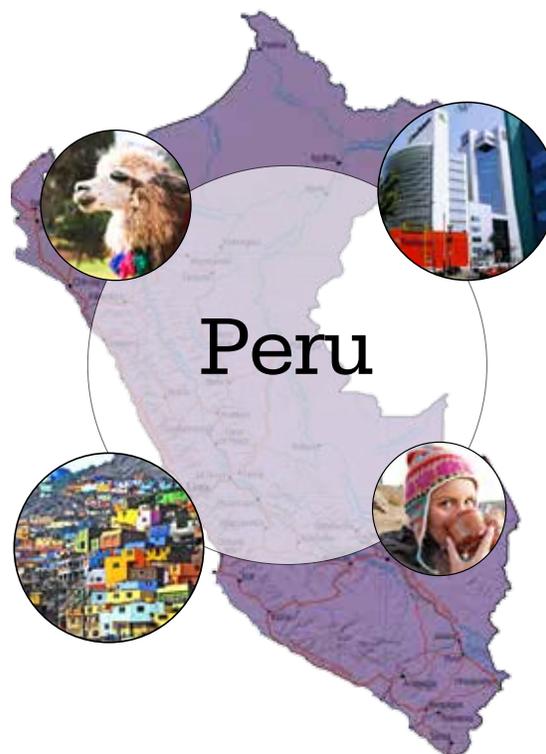
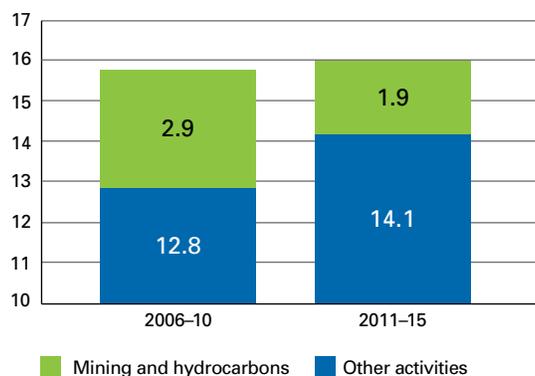


Figure 1.3

#### Peru: Five-year tax burden

(Tax collection as a percentage of GDP)

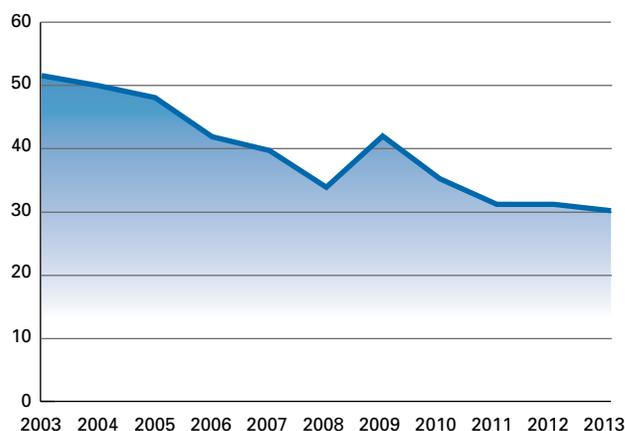


Source: SUNAT estimates.

Figure 1.4

#### Peru: VAT compliance gap, 2003-13

(Percent of potential tax revenues)



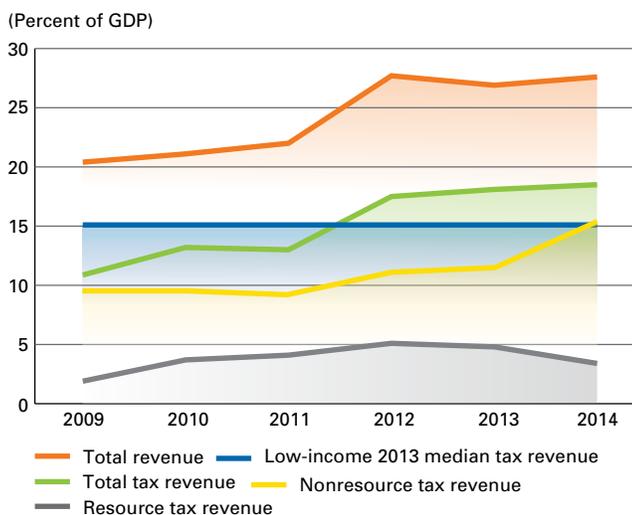
Source: SUNAT estimates.

## Mauritania

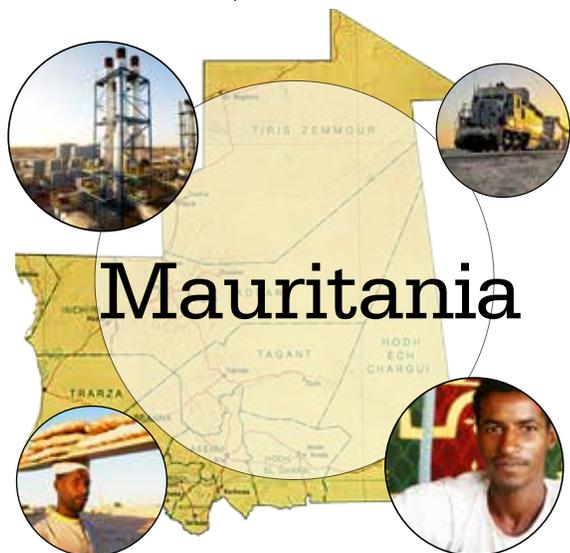
Mauritania has seen tax revenue collection increase significantly in recent years, well above the median for low-income countries. Between 2009 and 2014, total revenue increased from 20.4 percent to 27.6 percent of GDP, and total tax revenue increased from 11.5 percent to 18.5 percent of GDP (Figure 1.5). While booming mining activities drove economic growth, the country's nonresource sector contributed most to the remarkable improvement.

The increase can be partly explained by a series of actions to simplify and improve the tax system following a multiyear IMF technical assistance program. The program was supported by two IMF topical trust funds, Tax Policy and Administration Topical Trust Fund and Managing Natural Resource Wealth.

**Figure 1.5**  
**Mauritania: Government resource and nonresource revenues**  
 (Percent of GDP)



Source: WEO database, country authorities, and IMF staff calculations.



## Kosovo

As a postconflict country, Kosovo faced serious obstacles to ensuring adequate public revenues to fund services when it joined the Fund in 2009. Tax compliance had to be improved. Government institutions were new, and the economic situation was difficult.

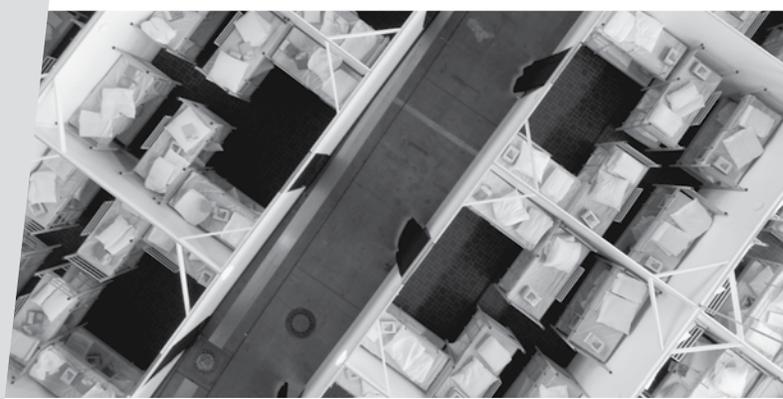
The IMF has managed a tax administration modernization project for Kosovo since 2010 with funding from the Swiss development agency SECO. Through this project, the Tax Administration of Kosovo (TAK) has substantially improved its management and organizational arrangements.

TAK's approach to tax compliance now can be considered regional best practice. Since 2012, TAK has allocated its operational resources by tailoring administrative activities to specific tax risks. The idea is to achieve the greatest impact on taxpayer behavior and administrative efficiency. A strong monitoring system has been established.

Improving fairness has also been a priority. TAK has taken steps to build trust and cooperation with taxpayers. As a result, tax collections have strengthened significantly, with revenues up 8.5 percent in 2015 compared with 2014 and a tax-to-GDP ratio that has steadily increased from 20.3 percent in 2009 to 22.2 percent in 2015.

## Special Report

The dislocation of large parts of the population of Syria and other countries facing internal conflict has presented a **humanitarian crisis** that has had an immediate economic impact across the **Middle East** and **Europe** and beyond. For the IMF, the economic ramifications affecting so many members posed a challenge across several areas of its work. At its April 2016 meeting, the International Monetary and Financial Committee called on the Fund to “be prepared to contribute within its mandate” to managing the spillovers from “large refugee flows.” During FY2016, the first step was to gain a clearer understanding of the scope of the economic challenges in both the Middle East and Europe.



# THE ECONOMIC IMPACT OF CONFLICTS AND THE SURGE IN REFUGEES

## Middle East, North Africa, Afghanistan, and Pakistan and the Role of the Fund

Conflicts continue to deepen in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region. After receding during the 1990s, the scope and intensity of conflicts increased in the early 2000s. Conflicts have increasingly been internal, thereby affecting civilians, especially because of the expanding role of violent nonstate actors such as the Islamic State of Iraq and the Levant (ISIL). The humanitarian costs have been immense. The United Nations estimates that more than 250,000 people have lost their lives and more than 1 million have been injured in the Syrian conflict alone. Conflicts displace millions: 19.3 million people were internally displaced in the region and 9.3 million MENAP citizens (not including Palestinian refugees) were registered as refugees with the UN High Commissioner for Refugees, as of mid-2015 (see *Figures 1.6–1.8*).

Conflicts have had dire economic effects for both directly affected countries and their neighbors. Syria's GDP today is less than half its prewar levels, while Yemen's real GDP per capita is estimated to have contracted by more than 40 percent since 2010. According to the World Bank, the conflict in Syria has lowered Lebanon's real GDP growth by nearly 3 percentage points every year since it started.

Conflicts affect economic activity through multiple channels. They reduce the stock of human and physical capital through casualties; the massive displacement of people; and destruction of infrastructure, buildings, and plants. They disrupt production and trade routes. They create uncertainty, thus undermining confidence. By weakening institutions and lowering stocks of human and physical capital, they also reduce potential growth. The poor and vulnerable are the most affected, as conflict-generated pressures on public budgets (for example, from increased security and military spending or—for neighboring countries—from hosting refugees) tend to crowd out social expenditure or lower the quality of public services.

The IMF has played a constructive role in mitigating the impact of conflicts, especially on neighboring countries. It has helped maintain macroeconomic stability and has supported international efforts to raise financing for countries hosting large numbers of refugees, such as Jordan. Over the long term, policy advice on coping with the economic consequences of conflicts, substantial financing, and capacity development will be critical for preventing macroeconomic collapse and supporting faster postconflict recovery and inclusive growth. In particular, the



fund's regional anchors for capacity development (the Middle East Regional Technical Assistance Center and Middle East Center for Economics and Finance) have the experience and expertise to help countries implement the reform measures needed to address structural impediments and to achieve higher and more inclusive growth.

### Europe

The sudden surge of asylum seekers into Europe in FY2016 has presented a range of economic, security, political, and social issues. The surge has exposed flaws in Europe's common asylum policy and has raised questions about the European Union's ability to quickly integrate newcomers. The Fund addressed the economic issues in a February 2016 Staff Discussion Note, titled "The Refugee Surge in Europe: Economic Challenges."

The note found that in the short term, the macroeconomic effect from the refugee surge is likely to be a modest increase in GDP growth, reflecting the fiscal expansion associated with support to asylum seekers, as well as the expansion in labor supply as the newcomers begin to enter the labor force. That effect is likely to be concentrated in the main destination countries (Austria, Germany, and Sweden).

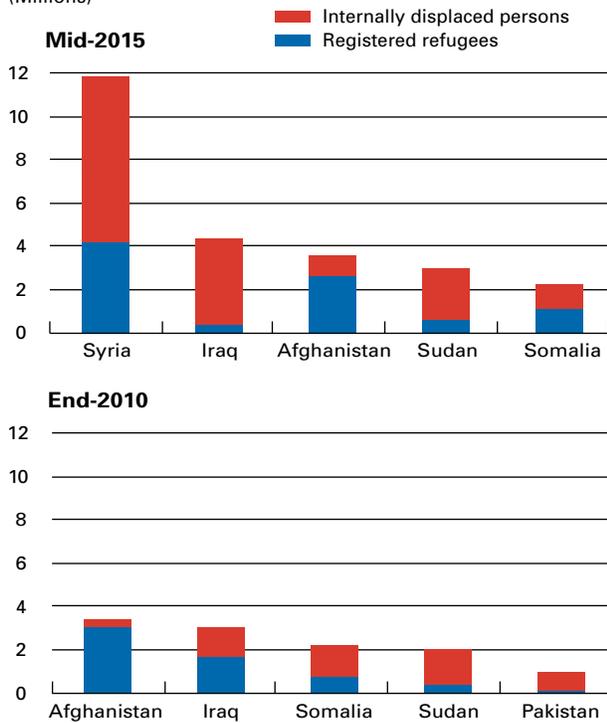
The impact of the refugees on medium- and long-term growth will depend on how they are integrated in the labor market. International experience with economic immigrants suggests that migrants have lower employment rates and wages than citizens of destination countries, though these differences diminish over time. Slow integration reflects factors such as lack of language skills and transferable job qualifications, as well as barriers to job searching.

For asylum seekers, legal constraints on work during the asylum application period also play a role. Factors that make it difficult for all low-skilled workers to take jobs—such as high entry wages and other labor market rigidities—may also be important, as may be "welfare traps" created by the interaction of social benefits and tax systems.

However, there are policies that can help open the path into the labor market: restrictions on taking work during the asylum application phase should be minimized and active labor market policies specifically targeted toward the refugees strengthened. Wage subsidies to private employers have often been effective in raising immigrant employment; alternatively, temporary exceptions to minimum or entry-level wages may also be considered. Initiatives to ease avenues to self-employment (including access to credit) and facilitate skill recognition could also help refugees succeed.

Figure 1.6

**Displaced persons in the Middle East, North Africa, Afghanistan, and Pakistan**  
(Millions)

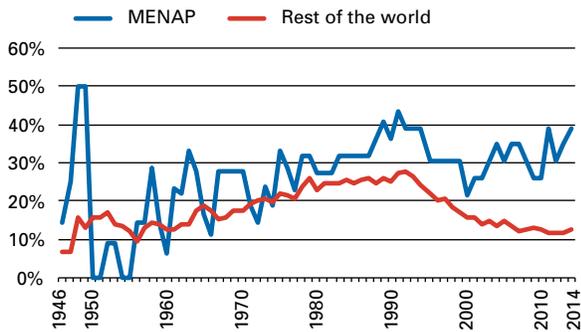


Sources: UNCHR Statistical Population Database and 2015 Mid-Year Trends; and IMF staff calculations.  
Note: Totals include those in refugee-like and IDP-like situations.



Figure 1.7

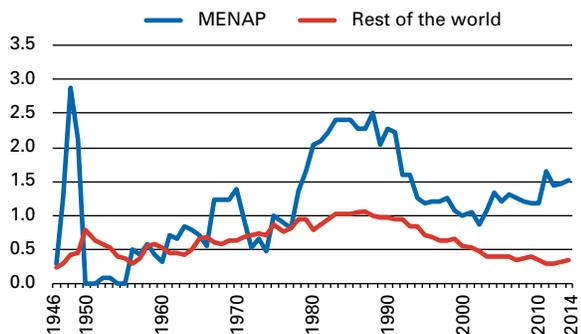
**Frequency of conflict by region**  
(Share of countries in conflict over total, by year)



Sources: Center for Systemic Peace; and IMF staff calculations.

Figure 1.8

**Average intensity of conflict by region**  
(Index, 0–14; 0 = no conflict, 14 = extreme conflict)



Sources: Center for Systemic Peace; and IMF staff calculations.



(Above) A visit to Zaatari refugee camp in Jordan in May 2014.



## Impact of Lower Oil Prices on Middle Eastern Oil Producers

Between 2004 and 2014, many oil producers in the Middle East enjoyed rapid economic growth supported by booming oil prices. With oil prices dropping more than 70 percent since mid-2014 and the expectation that they will remain “lower for longer,” these countries are facing an exceptionally challenging environment. Other factors, including regional conflicts and sluggish global growth prospects, are further complicating the outlook. How oil producers in the region could best adjust to the new oil price environment was the topic of the IMF staff’s briefing to the Executive Board on March 2, 2016.

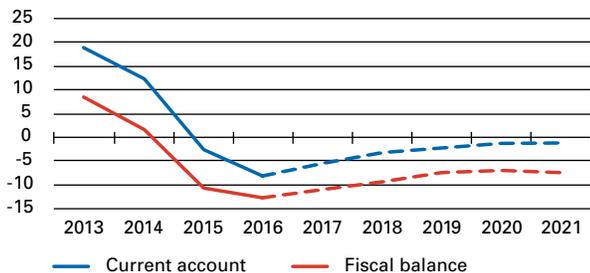
The plunge in oil prices has brought significant external and fiscal losses to the oil-producing countries in the region (*Figure 1.9*). Oil export revenues in the Cooperation Council for the Arab States of the Gulf (GCC) countries and Algeria, for example, declined by nearly \$315 billion in 2015, and a further \$130 billion decline is expected this year, with external balances projected to deteriorate by some 27 percent of GDP relative to 2013. Mirroring these losses, fiscal balances are projected to decline by some 21 percent of GDP in 2016 compared with 2013.

Initial policy responses mainly relied on the use of reserves. These were followed by significant deficit reduction measures during the second half of 2015, and this year’s budgets suggest policy efforts are intensifying. Adjustment has concentrated on reduced public spending, with several countries curbing capital expenditures, which boomed during the period of high oil prices. Many countries have also initiated substantial energy price reforms, which include raising utility prices and, in a few of them, introducing automatic pricing mechanisms. A number of countries are also considering new sources of revenue, with the GCC planning to introduce a value-added tax in the coming years.

As the impact of lower oil prices is felt through tighter fiscal policy, growth in the region’s oil producers is expected to slow down substantially in 2016 and remain subdued in the coming years (*Figure 1.10*). In this environment, the need to reduce oil dependence has become even more critical. A growth model based on continued expansion in government spending and employment is no longer sustainable. Hence, policymakers need to step up policies that boost the role of the private sector in generating much-needed jobs and sustaining long-term growth to generate opportunities for the region’s rapidly growing labor force.

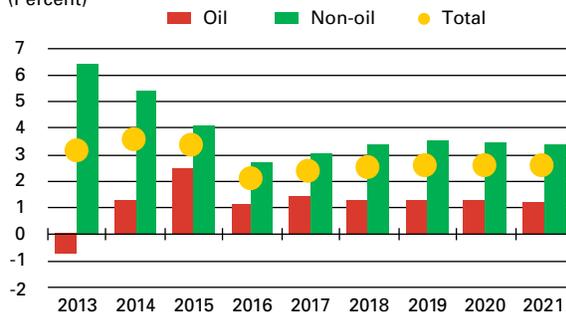


**Figure 1.9**  
**Oil-producing countries:**  
**Current account and fiscal balances**  
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.  
Note: Aggregates include GCC countries and Algeria.

**Figure 1.10**  
**Oil-producing countries: Real GDP growth**  
(Percent)



Sources: National authorities; and IMF staff calculations.  
Note: Aggregates include GCC countries and Algeria.

## Czech Republic: Sound Policies for Strong Fundamentals

Prudent fiscal, monetary, and financial policies helped the Czech Republic avoid the credit-fueled domestic demand booms that engulfed most Central and Eastern European (CEE) countries in the run-up to the global financial crisis. However, the crisis did affect the Czech economy, which experienced a double-dip recession. The IMF's annual economic reviews and policy advice served the country well: accommodative fiscal and monetary policies—in line with Fund advice—along with a favorable external environment helped the economy exit the recession in 2013 and expand at the highest growth rate in the CEE region in 2015.

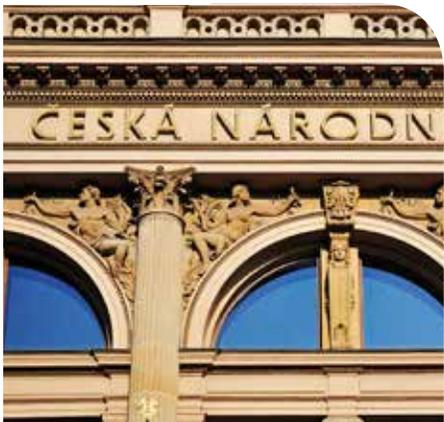
Having managed to reduce the country's fiscal deficit to below the limit of 3 percent of GDP enshrined in European Union rules in 2013, the authorities subsequently eased its fiscal policy, which then supported the economy.

Monetary policy was also supportive. The Czech National Bank threw a lifeline to the economy, as it was among the first central banks in Europe to lower its policy interest rates to the zero lower bound. In its efforts to fight disinflationary pressures, the bank introduced an exchange rate floor as an additional instrument of its monetary policy arsenal. Although inflation is still well below the bank's target, it has never fallen into negative territory.

The Czech economy is characterized by strong fundamentals. Both public and external debt are at moderate levels and on a declining path, contributing to country risk premiums at historic lows. The IMF's Financial Sector Assessment in 2012 confirmed the strength of the Czech financial sector, and the authorities subsequently implemented the assessment's recommendations. The banking sector is stable, with banks having strong capital and liquidity buffers and being mostly self-financed, with low rates of nonperforming loans. The Czech authorities have been striving toward greater transparency of policymaking.

The Czech Statistical Office has been publishing macroeconomic data in line with the IMF's Special Data Dissemination Standard (SDDS) since 1998. It recently also joined the nine other advanced economies that adhere to SDDS Plus, which addresses data gaps revealed during the global financial crisis.

With support from IMF technical assistance, the Czech National Bank became one of the world's leading inflation-targeting central banks. It is one of only five inflation-targeting central banks to publish a projected interest rate path, based on its staff forecast.



## Ireland: Fiscal Adjustment Spurs Recovery

The Irish economy collapsed in 2008–10. Like other small open European economies, it was hit hard by both the global financial crisis and the subsequent euro crisis. But in Ireland's case, the shocks came after a prolonged property boom that led to serious vulnerabilities: banks relied on flighty wholesale funding to lend aggressively to property developers, investors, and households; property prices had risen excessively; employment shifted into inflated construction and related sectors; and the government used property-driven revenues to raise spending and cut other taxes.

When the bubble burst, wholesale funding disappeared, lending seized up, property prices plummeted, and construction sites were abandoned. The unemployment rate tripled to 15 percent, revenues dropped 20 percent from 2007 to 2009, and the government faced huge deficits. Public debt soared as bank support reached 40 percent of GDP. By late 2010, Ireland had to request financial assistance from the European Union and the IMF.

The Irish authorities had plans to underpin the fiscal adjustment needed to put public finances on a sound footing by reducing the deficit to no more than 3 percent of GDP over a five-year period. The IMF-supported program included reforms to restore Ireland's banking system to health, including a bank recapitalization and a phased downsizing of bank assets—especially their foreign holdings—to bring them more in line with their deposits.

Amid the euro crisis, the economy remained weak well into 2012. But progress was made in narrowing the budget deficit; the program continually outperformed targets. By mid-2012, Ireland began to regain access to markets, first issuing Treasury bills and then lengthening maturities and expanding volumes in careful steps. By 2013, with the economy clearly recovering and confidence returning, Ireland was able to exit the IMF-supported program as scheduled. Soon after, it made early repayments to the IMF.

The Irish authorities' decisive policy implementation and their ownership of the policies implemented gradually restored the confidence needed to restart hiring, investment, and growth. Indeed, with cumulative real GDP growth of 13 percent, Ireland was the fastest-growing economy in Europe during 2014–15, and steady job creation had brought the unemployment rate down to about 8.5 percent by early 2016.



Left: Prime Minister of India Narendra Modi gives opening remarks during the “Advancing Asia Investing in the Future” conference in New Delhi, India.

Below: India’s Bank Governor Raghuram Rajan (left) and the Managing Director during the conference.

## Advancing Asia: Focusing on Asia’s Future

*Asia ... is the world’s most dynamic region and today accounts for 40 percent of the global economy. Over the next four years—even with slightly declining momentum—it stands to deliver nearly two-thirds of global growth. Given this vital economic role, making the most of Asia’s dynamism is of great interest to the entire world.*

— Managing Director Christine Lagarde at “Advancing Asia” conference in New Delhi, India

The IMF gave in-depth attention to crucial policy issues facing the Asia-Pacific region at two conferences held during FY2016, the first stage of a focus on Asia leading up to the 2018 IMF–World Bank Annual Meetings in Indonesia.

### Economic and social progress

Representatives of countries throughout the Asia-Pacific region gathered in New Delhi, India, in March 2016 for the Advancing Asia conference, jointly organized by the IMF and government of India. The three-day gathering took stock of the region’s economic performance and the issues that will have a great bearing on social and economic progress in Asia in the coming years.

Participants included senior government officials, corporate executives, the leadership of international organizations, academics, and civil society representatives. The Prime Minister of India, Narendra Modi, and Managing Director Christine Lagarde gave keynote speeches.

The topics discussed at the conference included Asian growth models; income inequality, demographic change, and gender issues; infrastructure investment; climate change; managing capital flows; and financial inclusion.

At the event, the Fund and India announced an agreement to set up the South Asia Regional Training and Technical Assistance Center (SARTTAC) to strengthen capacity development in Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. The memorandum of understanding signed by the Fund and India was a key step toward establishing a fully integrated capacity development center in New Delhi.

### Financial sector innovation

The challenges of sustaining Asia’s impressive growth performance through financial sector innovation and financial inclusion served as the centerpiece of a conference held in Jakarta, Indonesia, in September 2015. *Future of Asia’s Finance: Financing for Development*, jointly organized by the IMF and Indonesian government, focused on integrating and deepening of financial markets to enhance stability and support infrastructure investment. It also explored the policies that can enhance financial inclusion to spread the fruits of Asian prosperity more widely. The IMF published a book titled *The Future of Asian Finance* for the conference.

## Nauru Becomes 189th Member

The Republic of Nauru became the IMF's 189th member in April 2016, at a ceremony held in Washington, D.C.

Nauru will be the second-smallest member of the Fund, after Tuvalu, as measured by its quota subscription of SDR 2 million (\$2.81 million). This will be the case after it pays for its quota increase under the Fourteenth General Review, which will increase its quota to SDR 2.8 million.

The country, located in the Pacific Ocean, has a population of about 10,500 and a land area of about eight square miles. Nauru is also the smallest sovereign state in the world after Vatican City in terms of both population and area.

Nauru's economy relies on phosphate mining, the Australian Regional Processing Center for asylum seekers, and revenue from fishing license fees. In recent years, growth has been strong, mainly driven by the center's operations and phosphate exports, although it moderated in 2015.

Membership allows the IMF and other development partners—the country has also joined the World Bank—to help the authorities implement economic reforms and tackle development challenges. The country will participate in an annual IMF review of its economy and benefit from cross-country analysis and, potentially, access to IMF lending. Nauru receives technical assistance from the IMF, including through the Fund's Pacific Financial Technical Assistance Center, based in Fiji.



Republic of Nauru Finance Minister David Adeang (right), with Secretary for Finance Martin Hunt, signs the treaty for Nauru to become the IMF's newest member on April 12, 2016 in Washington, DC.



## Helping Nepal Recover from a Devastating Earthquake

Nepal is still struggling to recover from the country's worst earthquake in more than 80 years. The magnitude 7.8 earthquake struck an area northwest of the capital, Kathmandu, on April 25, 2015.

More than 300 aftershocks greater than 4.0 followed. Almost 9,000 people were killed, 2,300 more were injured, and hundreds of thousands were left homeless.

An estimated 8 million people have been affected by the disaster, poor rural areas more heavily than towns and cities because of lower-quality housing construction. Many cultural and architectural heritage sites were heavily damaged.

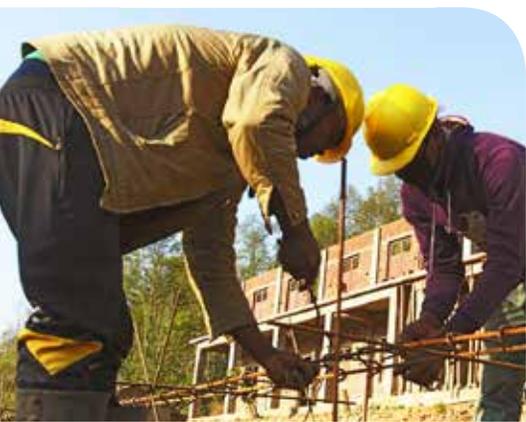
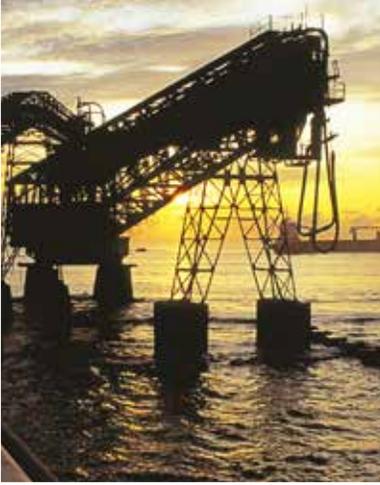
### Swift IMF response

Immediately after the earthquake, Managing Director Christine Lagarde promised to send an IMF team on short notice. The IMF mission arrived in Kathmandu two weeks after the earthquake to assess the macroeconomic impact and discuss balance-of-payments and fiscal needs associated with the rehabilitation and reconstruction effort. The mission team was meeting with Ministry of Finance officials on May 12, 2015, when an aftershock measuring 7.3 hit.

### Financial support from the IMF

At an international donor conference in June 2015, Nepal received pledges of external support for reconstruction in the form of grants and loans totaling some \$4 billion. On July 31, 2015, the IMF Executive Board approved a request from the Nepalese authorities for a \$50 million loan to help the country address the devastation. The money was provided under the Rapid Credit Facility at the Fund's concessional interest rate (currently 0 percent), with a grace period of five and a half years.





## Expanding Use of Financial Soundness Indicators

The IMF's Financial Soundness Indicators (FSIs) help assess the strengths and vulnerabilities of financial systems, providing valuable insight for financial stability analysis and the formulation of macroprudential policies. Fund staff members are required to report on FSIs as part of their regular reviews of countries' economic health.

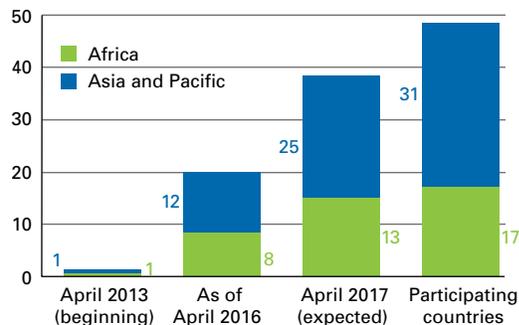
Thanks to funding from Japan, the IMF is delivering capacity-development support to 48 member countries in Africa, Asia, and the Pacific Islands to assist with the compilation and dissemination of FSIs according to international standards. After three years of project implementation, 20 of the participating countries now meet the standards, and by the end of the project period (April 2017), another 18 are expected to do so as well (see *Figure 1.11*).

Through lectures and hands-on and data-intensive workshops conducted during regional training sessions, participants learn from both IMF experts and peers. The latter are an especially effective means of delivering capacity development in regard to the indicators because regulators, who generate some of the source data, and compilers have much in common in terms of the issues they face.

The IMF has held FSI workshops in Fiji, Namibia, Senegal, and Thailand. Bilateral technical assistance is provided when a country-specific focus is a more efficient way of developing capacity.

In addition, the work on FSIs leverages the resources provided by the United Kingdom's Department of Foreign Affairs and International Development for the module on FSIs under the Enhanced Data Dissemination Initiative 2. The module covers 22 member countries in Africa and the Middle East and Central Asia.

**Figure 1.11**  
Financial Soundness Indicators:  
Participating and reporting countries



Note: Funded by the Japan Account for Selected Fund Activities. Source: IMF staff estimates.



## Africa

## Mobile Banking

Mobile money and banking have taken off in the past few years in the East African Community, especially in Kenya and Tanzania. The provision of payment services through mobile platforms—known as mobile money—has expanded access to financial services: according to the 2013 FinScope surveys, nearly two-thirds of adults in both countries now have access to the formal financial system, largely due to mobile money. Mobile money and banking has also had a positive impact on the population by reducing the cost of transfers to rural areas and improving security by replacing the previous practice of carrying cash over long distances.

Services in this area are expanding rapidly beyond simple money transfers. In Kenya, people can now build up savings deposits by linking mobile platforms to bank accounts. This allows households and small and medium-sized enterprises, which previously had difficulty qualifying for traditional bank accounts, to save and establish a track record that can help them get small loans in the future. Mobile transactions now exceed 50 percent of GDP in both Kenya and Tanzania, and there are plans to roll out additional value-added services, including capital market tools.

The IMF has played a supportive role in the evolution of mobile money and banking through its research and technical assistance, mainly in ensuring that these platforms are secure and well regulated in order to strengthen confidence. The Fund also has ongoing discussions with country authorities about the impact of mobile money and banking on member economies, and assessing, formulating, and implementing monetary policy.



### Box 1.5: How can countries learn from their peers?

Some 40 developing countries have sustained high growth rates since 1990 to achieve or move toward emerging market status. Their economic strategies have rested on integration into the global economy and creating space for small and medium-sized enterprises and foreign direct investment.

As Senegal aspires to join this group, President Macky Sall has developed the *Plan Sénégal Emergent*, which aims at enabling Senegal to achieve middle-income status by 2035.

The IMF has helped Senegal work with peers from middle-income countries in Africa to learn from their experience. In 2014 peers from Cabo Verde, Mauritius, and Seychelles,

along with World Bank and Fund experts, helped Senegalese colleagues clarify the reforms needed to implement the plan, a strategy that could be supported by a new IMF program under the Policy Support Instrument.

In early 2016, with European Union support, the IMF organized a book-writing exercise in Washington,

## African Journalists Hone Economic Reporting Skills

To help make economic and financial information more accessible to Africans and improve understanding of the Fund's work, in FY2016 the IMF organized two training workshops for journalists in the region. Twenty journalists from the eight countries in the West African Economic and Monetary Union and Guinea attended a session in Abidjan, Côte d'Ivoire, and 15 Zimbabwean journalists participated in training in Harare. The participants—from print, radio, television, and online publications—represented the broad range of private and public media in those countries.

Using a hands-on approach to the training, participants produced stories in real time. The topics included the role of a central bank and how it helps steer an economy, economic cycles and how to report economic news in a challenging environment, and debt restructurings. The journalists came away with a better understanding of how the IMF works and how to report on its activities. Participants in the Abidjan workshop subsequently moved to strengthen collaboration among journalists across the region by creating the network of West African Economic and Financial Journalists (COAJEF).



D.C., that brought together 10 Senegalese authors from government and academia, along with colleagues from the peer countries and the World Bank.

The exercise produced a first draft of a book (to be published at the end of 2016) on the political economy of reforms. The book discusses (1) creating a sound and efficient fiscal

framework through revenue-raising measures, expenditure rationalization, and more efficient public investment; (2) relieving constraints on doing business and encouraging private small and medium-sized enterprises and foreign direct investment; (3) promoting an inclusive financial sector; and (4) achieving high, sustained, and inclusive growth.

Senegal's Prime Minister subsequently chaired a ministerial meeting that mandated the Senegalese authors to formulate, with support from development partners, interventions to facilitate the political economy that would make reform implementation feasible. Budget support could then be mobilized to finance these interventions.

## Enhanced Data for Better Macro Policies

The production of timely and high-quality data is crucial in enabling all countries to better reflect changes in their economies and provide relevant tools for policy formulation and impact assessment. Africa has made headway in improving the quality of its data, but there is still room for African countries to enhance data timeliness, periodicity, coverage, reliability, and dissemination.

The production and dissemination of high-quality macroeconomic statistics is largely undermined by weak source data. Other challenges include low levels of investment in necessary skills, lack of sufficient information technology capacity, difficulties measuring the informal economy, and inadequate institutional and legislative frameworks.

To support countries' efforts to improve the quality of their data, the IMF has been providing technical assistance and training. The Fund has assisted more than a dozen countries in the last two years in rebasing their national accounts, and another dozen or so countries as they produce quarterly national accounts. Plans are underway to help countries in the East African Community prepare for another round of GDP rebasing, a rebenchmarking of the gross domestic product national account series, which helps GDP data reflect a more current snapshot of the economy.

(Top) Seth Terkper, Minister of Finance and Economic Planning of Ghana (right), gave opening remarks at the conference in Accra (at left, IMF African Department Director Antoinette Sayeh).



### Box 1.6: How can better data help African policymakers?

The IMF played a key role at the February 2016 Accra conference on “Enhanced Data for Better Macro Policies,” organized jointly with the government of Ghana, the IMF Statistics Department, and the United Kingdom’s Department for International Development. At the conference, senior officials from more than 40 African countries, as well as representatives from academia, banks, rating agencies, think tanks, and international organizations, debated the data challenges facing African policymakers. Participants committed to promoting the dissemination of data for enhanced evidence-based economic decision-making and discussed the way forward.

Topics included transparency and comparability of statistics, integrity and independence of the institutions producing statistics, and promoting the production of timely, high-quality data for the benefit of policymakers. Participants urged national authorities to take ownership of statistics and give higher priority to their production in national budgets.

Reflecting the significance that senior officials attached to this conference, Kenyan Central Bank Governor Patrick Njoroge stated, “The conference provided a unique opportunity for high-level decision-makers to exchange ideas and experiences so that we can work together to strengthen the data used for policymaking.”



In addition, the IMF is assisting central banks in eastern and southern Africa in producing high-frequency indicators to enhance monetary policy formulation. In east Africa, the IMF is helping member countries develop an action plan to implement the *Government Finance Statistics Manual 2014 (GFSM 2014)*, including an integrated statistical system that is intended as a reference volume describing the government financial statistics system. The Fund is supporting the West African Economic and Monetary Union and Central African Economic and Monetary Community in compiling a government financial

operations table that is consistent with the *GFSM 2014*. These regional efforts are expected to improve monitoring of convergence criteria in these economic communities.

With trust fund support, the IMF is developing a *Guide to Analyze Natural Resources in the National Accounts*. The guide is a tool to analyze the macroeconomic impact of natural resources on output and prices. It will provide policymakers and the public at large with key analytical information needed to understand actual or potential macroeconomic impacts of changes in natural resources. It will also assist national accounts compilers in resource-rich economies by helping to reveal errors, omissions, and inconsistencies in measuring transactions related to natural resource wealth and its extraction.

With the support of the International Labour Organization, the UN Food and Agriculture Organization, and other international organizations, the IMF's Statistics Department and the Organisation for Economic Co-operation and Development launched a joint project to collect consumer price index data. Launched in February 2016, data for more than 100 countries are available on the IMF website (<http://data.imf.org/CPI>). The project makes more data available and eases the burden on data reporters through data sharing among international organizations.

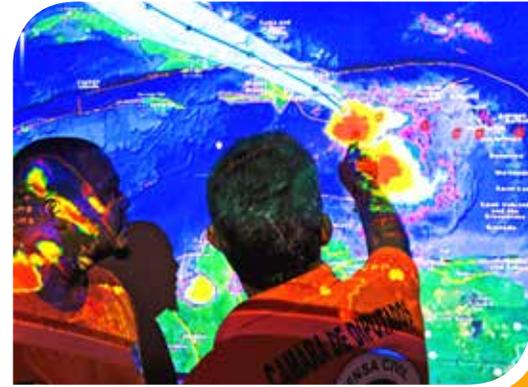
## Dominica: Tropical Storm Erika and the IMF Response

Tropical Storm Erika hit Dominica on August 27, 2015, killing dozens and causing widespread devastation. Flooding and landslides severely damaged roads, bridges, and the main airport. The storm also crippled the water and sewage network and seriously affected agriculture and tourism. The total damage and loss was estimated at 96 percent of GDP, including about 65 percent of GDP in reconstruction costs.

Soon after the storm, the Dominican government requested emergency financial assistance from the IMF. On October 28, the IMF Executive Board approved a disbursement of SDR 6.15 million (\$8.7 million), representing 75 percent of quota, the maximum annual access limit allowed at the time under the Rapid Credit Facility (RCF), to address urgent balance-of-payments and fiscal needs. The RCF provides low-access, rapid, zero-interest financial assistance to low-income countries facing an urgent balance-of-payments need so as to enable them to make progress toward achieving or restoring stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth. Unlike other IMF instruments of financial support, the RCF does not have conditionality in the form of performance criteria or structural benchmarks.

The IMF also provided technical support in developing a sustainable macroeconomic framework to accommodate the extensive storm-related expenditures and assistance required to meet pressing social needs (*Figure 1.12*). The planned reconstruction is estimated at about 50 percent of GDP over seven years, with smaller amounts thereafter. It will be financed by new fiscal measures and donor funding.

Dominica has a high level of public debt (80 percent of GDP), and the authorities intend to achieve the Eastern Caribbean Currency

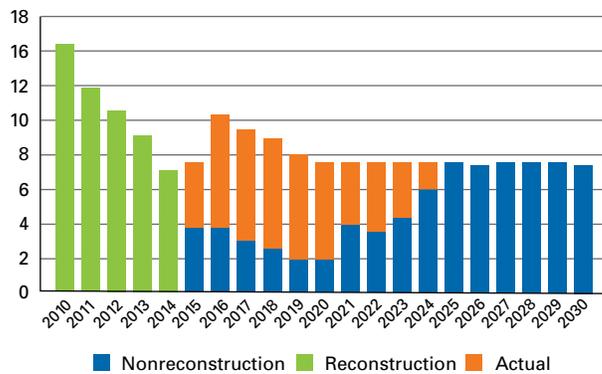




Union public debt target of 60 percent by 2030. To this end, the government is working on a medium-term plan that will include measures to improve the fiscal balance by about 6 percent of GDP over a period of five years, with the support of a macroeconomic advisor financed by Canada. A fiscal balance buffer of about 1.5 percent of GDP will provide a cushion for any additional reconstruction expenditures so that Dominica is better prepared for other natural disasters in the future.

The IMF participated in a donor conference held in Dominica on November 16, 2015, with other official creditors and representatives of several countries willing to provide financial assistance. Many bilateral partners promised generous contributions, but additional grants still need to be identified in order to finance the huge reconstruction costs. The IMF remains hopeful that the government's commitment to a sustainable macroeconomic framework will trigger additional donor support.

**Figure 1.12**  
**Dominica: Capital expenditures, reconstruction and other**  
 (Percent of GDP, fiscal years)



Sources: Dominican authorities; and IMF staff estimates and projections.

## Guatemala: Stabilizing Prices for Higher Living Standards

IMF technical assistance has helped Guatemala overcome a legacy of high inflation. The Fund's support has enabled Guatemala's central bank to sharpen its monetary policy tools and bring its monetary operational framework in line with best international practices. It contributed to the country's adoption of an inflation-targeting regime, for example, by developing capacity among central bank staff for macroeconomic analysis and forecasting.

Thanks to reforms resulting in part from the technical assistance, inflation fell to about 3 percent at the end of 2015, compared with the very high levels of the mid-1980s and early 1990s, peaking at 60 percent in 1990. The Guatemalan authorities responded with a strategy, launched in 1991, to bring down inflation and strengthen the country's external position. The strategy included fiscal adjustment, constitutional and legal reforms to prevent the central bank from continuing to finance the government either directly or indirectly, interest rate liberalization, introduction of a flexible exchange rate system, and strengthening central bank independence.

Last year, market interest rates fell by more than 10 percentage points, making it easier for borrowers to access credit. This allowed financial deepening to increase from 20 percent of GDP in 2000 to 35 percent of GDP in 2015, and the purchasing power of an average middle-income family rose from \$5,000 in 2000 to \$7,737 in 2015.

Today, Guatemala's track record for macroeconomic stability, broadly recognized internally and abroad, is one of the country's most important assets for attracting private investment and fostering economic growth for the benefit of the population.



## 2015 Annual Meetings in Lima

More than 10,000 people from around the world gathered in Lima, Peru, for the October 2015 IMF–World Bank Annual Meetings.

The meetings, the first to be held in South America since the 1967 meetings in Rio de Janeiro, Brazil, came at a time of concerns about major transitions in the global economy—particularly China’s rebalancing, low commodity prices, and a shift in U.S. monetary policy. In response, the Fund called for a “policy upgrade” to respond to the uncertain outlook, advising policymakers to focus on supporting demand, financial stability, and structural reforms.

Managing Director Christine Lagarde spoke at the Annual Meetings on the importance of strengthening the IMF by making it a more agile, integrated, and member-focused institution (a set of goals shortened to “AIM”). “Working together, I know that we can—and will—deliver,” she said. Lagarde also highlighted the importance of enacting the 2010 quota reforms, which reached the necessary thresholds for approval by the membership soon after the Annual Meetings.

As with other Annual Meetings, a center of attention for attendees was the Program of Seminars, which featured seven IMF flagship events that addressed topics ranging from climate change to financial inclusion to the Post-2015 Development Agenda to public sector governance.

The meetings also shone a spotlight on changes and challenges in Latin America. In various settings—including the Program of Seminars—the Fund and outside experts explored the need for the region to develop new opportunities to strengthen economic growth while preserving and enhancing social gains.

The Annual Meetings also served as an occasion to showcase Peru’s economic achievements and to celebrate its traditions and rich cultural diversity.



Far left: Agustín Carstens, IMFC Chair and Governor of Banco de México, speaks at a seminar on the future of central banking in Latin America

Left: Peruvian President Ollanta Humala (left) greets the Managing Director at the Presidential Palace in Lima.

Below: First Deputy Managing Director David Lipton speaks at a seminar on integrity in public sector governance.

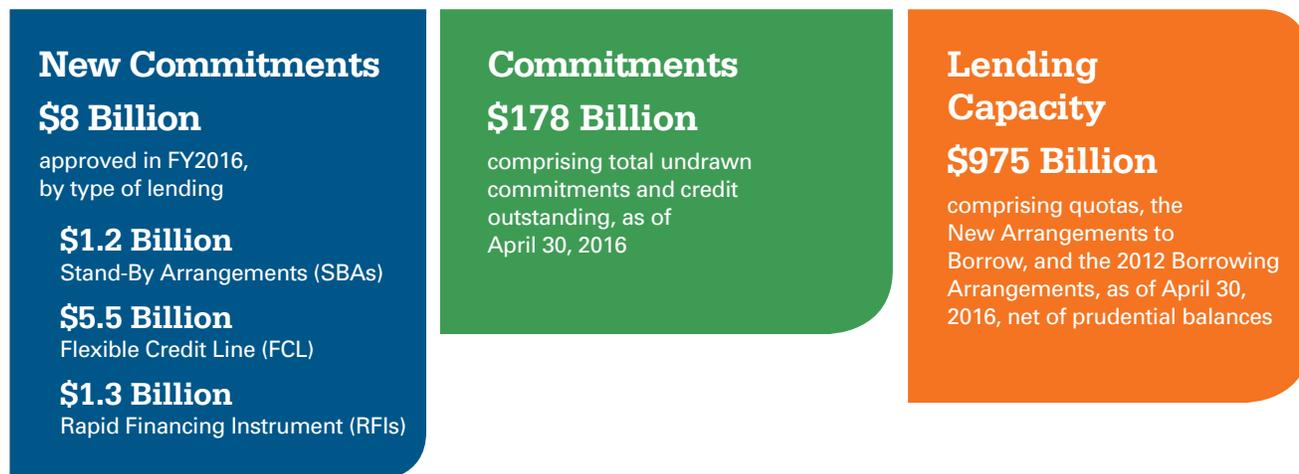


## IMF Lending at a Glance

In broad terms, the IMF has two types of lending—loans provided at market-related (nonconcessional) interest rates and loans provided to low-income countries on concessional terms, for which interest rates are low or in some cases zero.

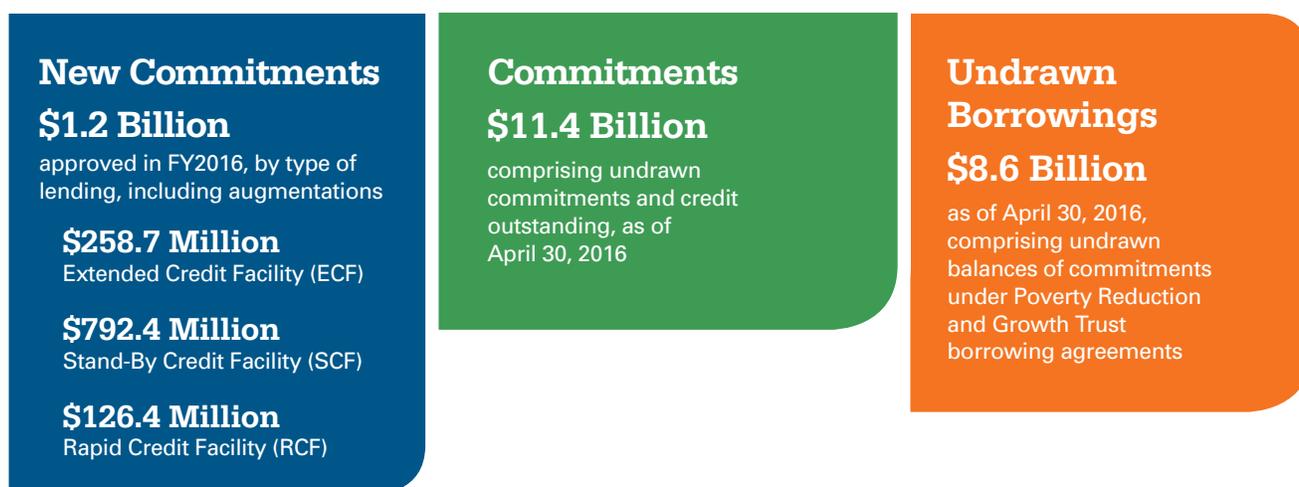
### Nonconcessional Lending

Under the General Resources Account



### Concessional Lending

Low- or zero-interest-rate loans for low-income developing countries under the Poverty Reduction and Growth Trust



### The IMF has three main roles

#### Economic Surveillance

117

country health checks



The IMF oversees the international monetary system and monitors the economic and financial

policies of its 189 member countries. As part of this surveillance process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments.

#### Lending

\$9.2B

to 16 countries, including \$1.2 billion in low- or zero-interest loans to 13 low-income developing member countries



The IMF provides loans to member countries experiencing actual or potential

balance-of-payments problems to help them rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while correcting underlying problems.

#### Capacity Development

\$256M

for expert advice and training



The IMF helps its member countries design economic policies and manage their financial affairs

more effectively by strengthening their human and institutional capacity through expert advice known as “technical assistance” and training, which together it calls “capacity development.”



There are two main aspects to the IMF’s surveillance: **bilateral surveillance**, or the appraisal of and advice on the policies of each member country, and **multilateral surveillance**, or oversight of the world economy. By integrating bilateral and multilateral surveillance, the IMF can ensure more comprehensive, consistent analysis of “spillovers”—how one country’s policies may affect other countries.

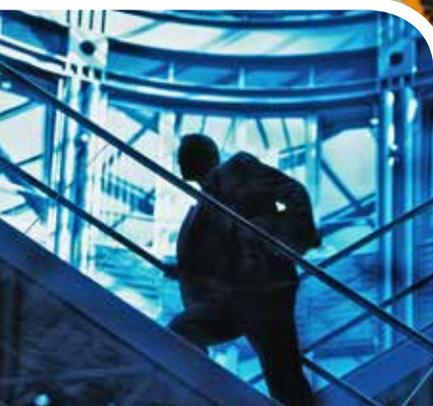
**The centerpiece of bilateral surveillance is the Article IV consultation, named after the article of the IMF’s Articles of Agreement that requires a review of economic developments and policies in each of the IMF’s 189 member countries.** Article IV consultations cover a range of issues considered to be of macrocritical importance—fiscal, financial, foreign exchange, monetary, and structural—focusing on risks and vulnerabilities and policy responses. Hundreds of IMF economists and other IMF staff members are involved in the Article IV process.

The consultations take the form of a two-way policy dialogue with the country authorities, rather than one-sided IMF assessments. The IMF team typically meets with government and central bank officials, as well as other stakeholders such as parliamentarians, business representatives, civil society, and labor unions, to help evaluate the country’s economic

policies and direction. The staff presents a report to the IMF’s Executive Board, normally for discussion, after which the consultation is concluded and a summary of the meeting is transmitted to the country’s authorities. In most cases and subject to the member country’s agreement, the Board’s assessment is published as a press release, along with the associated staff reports. In FY2016, the IMF conducted 117 Article IV consultations (see *Web Table 2.1*).

Following the global financial crisis, the IMF has also conducted financial sector assessments as part of surveillance for countries with systemically important financial sectors.

**Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members’ policies onto the global economy.** As part of its World Economic and Financial Surveys, the IMF publishes flagship reports on multilateral surveillance twice a year: *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Fiscal Monitor* (FM). The WEO provides detailed analysis of the state of the world economy, addressing issues of pressing interest such as the protracted global financial turmoil and ongoing economic recovery from the global financial crisis. The GFSR provides an up-to-date assessment of global financial markets and prospects and highlights imbalances and vulnerabilities that could pose risks to financial market stability. The FM updates medium-term fiscal projections and assesses developments in public finances. The IMF also publishes *Regional Economic Outlook* (REO) reports as part of its World Economic and Financial Surveys.





## BILATERAL SURVEILLANCE

### The Article IV Consultation Process: The Annual Economic Policy Assessment

The Article IV consultation process for a particular member country unfolds over a period of several months, beginning with an internal review of key policy issues and surveillance priorities across IMF departments and with management, set out in a briefing document known as the Policy Note.

The Policy Note elaborates on key economic policy directions and recommendations to be discussed with the member country's government. Review of the Policy Note with all IMF departments to build consensus about a country ahead of the consultation culminates in a Policy Consultation Meeting, and then the Policy Note goes to IMF management for approval. After Policy Note approval, the Article IV team travels to the country for its meetings with government officials and stakeholders. Upon the team's return to IMF Headquarters, a staff report is prepared that again proceeds through departmental and management review before being considered by the IMF Executive Board.

### Annual Report on Delayed Article IV Consultations

In line with a framework introduced in 2012 for addressing excessive delays in the completion of Article IV consultations, the Fund releases annually a list of member countries for which such consultations have been delayed longer than 18 months. The Fund staff groups the reasons for the delays into the following categories: program-related issues, further discussions, political/security situation, government change, staffing constraints, authorities' request, no agreement on mission dates/modalities, and miscellaneous.

The most recent list, issued in April 2016, included the following countries:

- Venezuela (no agreement on mission dates/modalities)
- Argentina (miscellaneous—the Argentine authorities have confirmed their intention to restart Article IV consultations in 2016)
- Eritrea (no agreement on mission dates/modalities)
- Syrian Arab Republic (political/security situation)
- Central African Republic (political/security situation)
- Guinea (miscellaneous)
- Libya (political/security situation)

## TRIENNIAL SURVEILLANCE REVIEW

*The 2014 Triennial Surveillance Review (TSR), part of the IMF's regular review of the effectiveness of how it monitors economic developments and provides policy advice across its member countries and the global economy, discussed in the 2015 Annual Report, highlighted a number of issues related to bilateral and multilateral surveillance conducted by the IMF. As a follow-up to TSR recommendations, the Executive Board and the Fund staff initiated a set of policy reviews intended to strengthen surveillance work. Three papers prepared during FY2016 followed through on this work: "Mainstreaming Macro-Financial Surveillance," "Balance Sheet Analysis in Fund Surveillance," and "Evenhandedness of Fund Surveillance."*

### Mainstreaming Macro-Financial Surveillance

The global financial crisis demonstrated that national and regional financial linkages could adversely affect macroeconomic performance and transmit spillovers across the global economy. Many of the financial problems that emerged—including flight from credit instruments, extreme illiquidity in key markets, and institutional stress and failure—had not been foreseen and were not easily incorporated into the models that the Fund and others were using.

The IMF has been working to understand these macro-financial issues and how better to incorporate related developments and linkages into its work. This was a key element of the 2014 Triennial Surveillance Review, which recommended the mainstreaming of macro-financial surveillance. In so doing, the Fund is moving beyond treating the financial sector as an isolated element in its analytical framework, giving more consideration to how financial issues affect other sectors, and, in turn, how those sectors influence financial developments.

## THE ROLES OF IMF AREA AND FUNCTIONAL DEPARTMENTS

Surveillance work at the staff level is led by the Fund's area departments, which cover sub-Saharan Africa, Asia and the Pacific, Europe, the Middle East and Central Asia, and the Western Hemisphere and conduct analysis and formulate policy advice. During FY2016, several specific issues were incorporated into country analyses, including how the recent oil price shock will affect bank health and lending, how very low inflation feeds through balance sheets to the financial system, the capacity of local banks to finance very large public-private partnership programs, and policies to overcome the impediments small and medium-sized enterprises face in accessing finance. Enhanced training, knowledge sharing, and greater use of good-practice examples are complementing Article IV work in this area.

The Fund's functional departments, which include the Research Department, Monetary and Capital Markets Department, the Institute for Capacity Development, Statistics Department, and Legal Department, also contribute expertise, increasing the number of country teams supported in their macro-financial analysis to around 60 Article IV consultations. Functional departments are also developing new analytical tools:

- Sound credit growth forecasts are important in assessing how the financial sector affects baseline outlooks. The Research Department has developed a desktop toolkit to check consistency between real sector and financial sector forecasts.
- The Monetary and Capital Markets Department has revamped its financial analytics, including tools to assess changes in the macro-financial environment and measure financial sector resilience.





- To support balance sheet analysis, the Statistics Department has developed a template to generate the balance sheet approach matrix following the format of the 2014 Triennial Surveillance Review, populated using in-house data.
- Staff training is also a priority to build up the Fund's capacity and familiarity with the issues involved. The Institute for Capacity Development has launched a five-module course for Fund staff on key macro-financial topics.

### Balance Sheet Analysis in Surveillance

The global financial crisis dramatically illustrated the importance of incorporating balance sheets into assessments of the economic outlook and risks. The 2014 Triennial Surveillance Review reinforced the importance to Fund surveillance of stability risks and the need to devote greater attention to national balance sheets in assessing vulnerabilities. The TSR called on the Fund to develop and adapt its balance sheet analysis using more-detailed data.

A staff report discussed by the Executive Board in an informal session on June 19, 2015, reviewed the use of balance sheet analysis in the Fund's bilateral surveillance and introduced practical examples of how it can be deepened. The work was placed in the context of the Fund's more intensive coverage of macro-financial issues.

The report was a first step to highlight useful examples of such analysis conducted by the IMF staff over the past decade. It documents the data and tools that have been used and outlines some limitations. In addition, it discusses recent improvements in the coverage and quality of balance sheet data through initiatives launched in the wake of the crisis, as well as key remaining gaps that need to be addressed through international collaboration.

The paper suggests focusing additional work in two broad areas:

- Addressing key data gaps hampering surveillance—especially related to nonbank financial institutions, nonfinancial corporations, governments, and households—and information related to currency and maturity breakdown, counterparties, and off-balance-sheet exposures. Efforts are also needed to increase coverage of balance sheet data for low-income countries and to better capture increasingly complex financial instruments in more advanced economies.

### Box 2.1: U.S. Financial Sector Assessment

The U.S. financial sector—the largest in the world—plays a crucial role in ensuring global financial stability. In 2010, in the wake of the global financial crisis, the IMF Executive Board decided to mandate an assessment under the Financial Sector Assessment Program (FSAP) of the world's top 25 financial systems every five years. The list was expanded to 29 countries in 2013.

The FSAP is a comprehensive, in-depth analysis of the country's financial sector. In its 2015 assessment of the U.S. financial system, conducted as part of the mandatory financial stability assessment, the IMF determined that the country's banks appeared healthier and stronger than at the time of the previous assessment in 2010. The report highlighted, however, pockets of vulnerabilities in the fast-growing nonbank sector.

The IMF based its findings in part on stress tests conducted to assess the stability of the U.S. financial system. The tests found that the banking system is resilient to severe shocks, similar in magnitude to the crisis. The Fund analysis also indicated that insurance companies, hedge funds, and other managed funds contribute to overall financial risks to an extent larger than suggested by their size, and therefore deserve greater attention.

- Designing more tools to help the IMF staff analyze balance sheets and deepen the assessment of macro-financial linkages and spillovers. Some new approaches along those lines are introduced in the paper.

### Evenhandedness of Fund Surveillance

Following recommendations in the 2014 Triennial Surveillance Review, the IMF Executive Board agreed to move forward with a framework to help ensure the evenhandedness of Fund surveillance.

The framework that the Executive Board adopted has two key elements, as outlined in the staff paper "Evenhandedness of Fund Surveillance—Principles and Mechanisms for Addressing Concerns," which the Board discussed on February 22, 2016.



First, the framework articulates principles of what it means to be evenhanded. Second, it establishes a mechanism for reporting and assessing specific concerns about any lack of evenhandedness in surveillance.

The evenhandedness of IMF analysis and advice is critical to the institution's credibility and the effectiveness of its engagement with member countries. The TSR examined the issue in detail, including through an external study. While it did not find a systematic lack of evenhandedness, it identified instances in which differences in surveillance across countries were not justified by country circumstances. The TSR also highlighted long-standing perceptions that the Fund is not evenhanded.

The new framework aims to address both perceptions and instances of lack of evenhandedness transparently, while safeguarding the independence and candor of staff advice. By forging a common understanding of evenhandedness, the principles can support a deeper dialogue through which evenhandedness issues can be identified earlier and discussed more candidly in the surveillance process.

Executive Directors supported the establishment of a mechanism for authorities to report concerns about lack of evenhandedness. The mechanism is intended to serve as a backstop to assess remaining concerns and identify lessons to promote better practices. In this respect, the evenhandedness framework also supports the TSR's broader goals to strengthen and promote more member-focused surveillance.

Directors emphasized that the agreed framework for guiding evenhanded surveillance was a new and untested approach that would need to adapt and evolve as the Fund gains experience. They agreed that the 2019 Review of Surveillance would provide the appropriate opportunity for a thorough evaluation of the newly established principles and mechanism.

### Surveillance of Countries with Common Policies

The IMF's surveillance work at the country level is augmented by policy discussions at a regional level in several cases in which a country belongs to a currency union. The Fund staff holds regular consultations with regional institutions responsible for common policies of currency union member countries to strengthen the bilateral discussions held under the Article IV process.

A staff report is prepared on each of the regional groupings, and those reports are submitted to the Executive Board for discussion. The views expressed by Executive Directors are made public in a press release, which is published along with the staff report. These reports are part of the Article IV consultations with the individual member countries of each regional group.

Such regional policy discussions are held with the following groupings: the Central African Economic and Monetary Community (CEMAC), the Eastern Caribbean Currency Union (ECCU), the euro area, and the West African Economic and Monetary Union (WAEMU).

In January 2016, Managing Director Christine Lagarde addressed policy challenges facing CEMAC member countries during a visit to Cameroon.

### Box 2.2: Completion of 2015 Islamic Republic of Iran Article IV Consultation

The IMF Executive Board concluded the IMF's Article IV consultation with the Islamic Republic of Iran in December 2015. The Board assessment indicated that the "sharp decline in global oil prices, tight corporate and bank balance sheets, and postponed consumption and investment decisions ahead of the expected lifting of economic sanctions have significantly slowed down economic activity since the fourth quarter of 2014/15."

The Board assessment continued: "Real GDP growth is projected to decline from 3 percent in 2014/15 to somewhere between 0.5 and -0.5 percent in 2015/16. Twelve-month (point-to-point) inflation has declined to about 10 percent in recent months, largely reflecting lower food and beverage inflation, and the inflation rate is expected to remain close to 14 percent by year end.

"Prospects for 2016/17 are brighter, owing to the prospective lifting of economic sanctions. Higher oil production, lower costs for trade and financial transactions, and restored access to foreign assets are expected to lift real GDP to about 4-5.5 percent next year."

### 2015 External Sector Report

The IMF's "Fourth External Sector Report," issued in July 2015, assesses the largest economies' external sector positions and policies in 2014 and early 2015. The Executive Board discussed the report in an informal session, along with its companion paper on "Individual Economy Assessments."

Together with the 2015 Spillover Report and Article IV consultations, the report is part of an effort to ensure that the IMF is able to address the possible effects that spillovers from members' policies could have on global stability and to monitor the stability of members' external sectors in a comprehensive fashion. The reports provide an assessment of exchange rates, current accounts, reserves, capital flows, and external balance sheets.

#### KEY FINDINGS

- After narrowing modestly in 2013, the global scale of current account imbalances and excess imbalances held steady in 2014. While the country composition of imbalances has rotated, little overall progress has been made in reducing excess imbalances.
- Several significant developments were seen as affecting external positions in 2015: sharply lower oil prices, cyclical divergence and different monetary policies among the major economies, and related currency movements.
- The pattern of projected near-term changes in current accounts is dominated by the effects of the oil price decline, though these will be partly offset by related currency movements and by eventual expenditure responses. Changes in real effective exchange rates—nearly 10 percent in some cases—also will affect current accounts.
- The currency shifts associated with economic and monetary policy divergence among the major economies are reflections of an incomplete recovery and the need for broader policy action to support demand and growth. Implementation of the full policy agenda—including demand-supporting policies beyond monetary policies—would likely affect exchange rates but, more importantly, would improve prospects for sustained global growth and financial stability. Efforts by both surplus and deficit economies would be mutually reinforcing and support growth.

- The global financial environment will be complicated by the diverse risks associated with especially accommodative monetary policies and by the process of exit from those policies, with the potential to disrupt markets. Policymakers should be prepared to respond flexibly to changing financial conditions using a range of tools.

### 2015 Spillover Report

The 2015 Spillover Report, prepared in conjunction with the External Sector Report, analyzes the potential cross-border impact of macroeconomic and macro-financial developments in systemically important member countries. The report was discussed in an informal Executive Board session on June 22, 2015.

The report focuses on the implications and spillover effects of monetary policy actions in advanced economies



#### Box 2.3: The Early Warning Exercise

In 2008, the Group of Twenty industrialized economies asked the IMF and Financial Stability Board (FSB) to collaborate on regular Early Warning Exercises (EWEs). The EWEs assess low-probability, but potentially high-impact, risks to the global economy and identify policies to mitigate them.

The EWEs integrate macroeconomic and financial perspectives on systemic risks, drawing on a range of quantitative tools and broad-based consultations. The EWEs are conducted semiannually, drawing on a broad range of inputs, including the *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor*, the IMF's flagship publications on global surveillance. The IMF's bilateral and multilateral surveillance activities are used to follow up on EWE findings and policy recommendations.

After discussions at the IMF Executive Board and with the FSB, the EWE's findings are presented to senior IMF officials during the IMF–World Bank Spring and Annual Meetings.

and the decline in world oil prices, which created what the report terms a “spillover-rich” environment.

The report describes the challenges that many systemically important advanced economies face in closing output gaps and raising potential output growth. Addressing these challenges, the report says, requires a package of macroeconomic, financial, and structural policies that will boost both aggregate demand and aggregate supply, while closing the shortfall between demand and supply. It concludes that each element of the policy package is important and that one cannot substitute for the other. It states that easy monetary policy will not raise potential output just as structural reforms will not close output gaps.

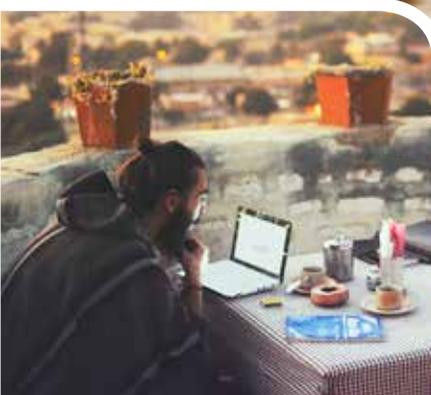
### Virtual Currencies

New technologies—supported by advances in encryption and network computing—have the potential to drive change in the global economy, including in how goods, services, and assets are exchanged. An important development in this process has been the emergence of virtual currencies and the underlying distributed ledger technologies.

A Staff Discussion Note, “Virtual Currencies and Beyond: Initial Considerations,” was released in January 2016 to address the challenges of achieving a balanced regulatory framework that guards against potential risks such as money laundering, terrorism financing, and tax evasion, without stifling innovation.

The note provides an overview of virtual currencies, how they work, and how they fit into monetary systems, both domestically and internationally. It discusses the potential implications and benefits of the technological advances underlying virtual currencies, such as the distributed ledger system, before examining the regulatory and policy challenges in the areas of consumer protection, financial integrity, taxation, financial stability, exchange and capital controls, and monetary policy. The paper also sets out principles for the design of regulatory frameworks for virtual currencies at both the domestic and international levels.

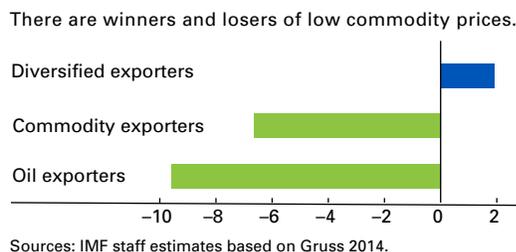
A key conclusion of the note is that the distributed ledger concept has the potential to change finance by reducing costs and allowing for deeper financial inclusion. This could prove especially important for remittances, which can involve high transaction costs. The potential for transformational change means that policymakers need to continue to closely monitor developments in virtual currencies and distributed ledger technologies.





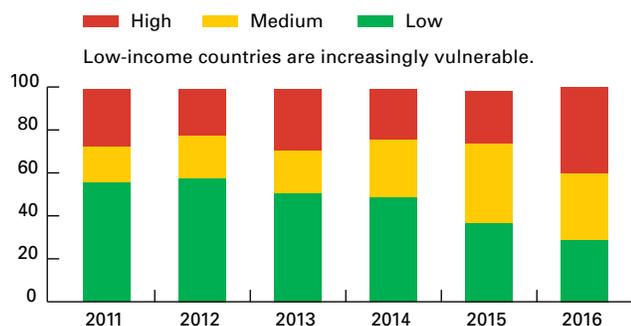
**Figure 2.1**  
**LIDCs—Net commodity price index by country groups**

(Percent of GDP, June 2014–June 2015)



**Figure 2.2**  
**LIDCs—Rising vulnerabilities**

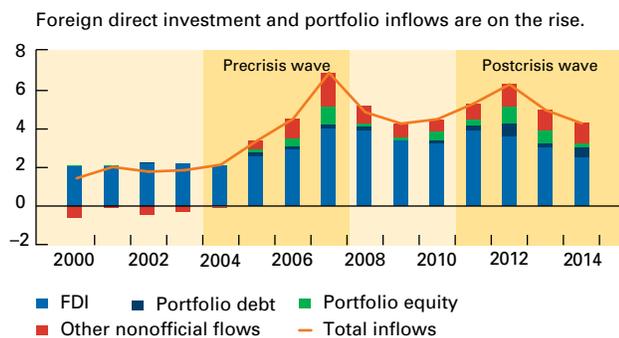
(Percent)



Sources: WEO, IFS, Debt Sustainability Analysis, and IMF staff reports; World Bank and Emergency Events Database.

**Figure 2.3**  
**LIDCs—Capital inflows**

(Percent of GDP, weighted averages)



## Macroeconomic Developments and Prospects in Low-Income Developing Countries

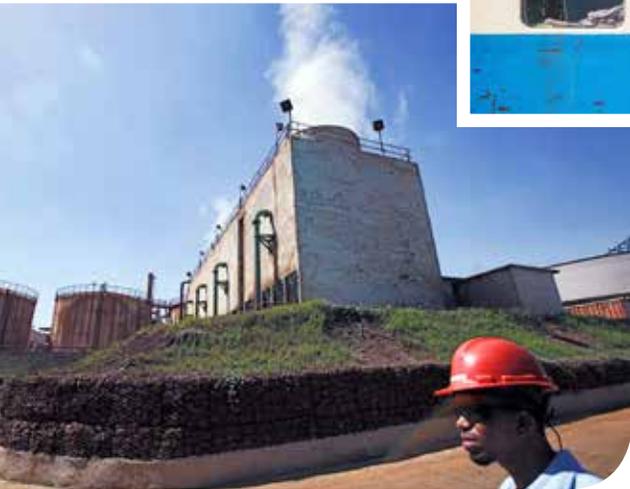
“Macroeconomic Developments and Prospects in Low-Income Developing Countries: 2015,” the second annual staff paper on this topic, discussed by the Executive Board on December 9, 2015, examines the implications of the sharp decline in commodity prices and the expected low-price environment into the medium term. The report also analyzes the experience of **low-income developing countries (LIDCs)** with capital inflows over the past decade.

During their discussion, Executive Directors saw merit in having an annual formal Board discussion of macroeconomic developments in LIDCs, while stressing the importance of consistent messages. Directors also welcomed the effort to differentiate between LIDC subgroups, which should provide useful guidance for tailored policy advice, financial support, and technical assistance, while noting country-specific circumstances, even within subgroups.

Directors broadly agreed with the assessment of recent economic developments in LIDCs against the backdrop of a more challenging external environment. They noted that the impact of the sharp fall in commodity prices has varied. Many commodity-dependent exporters, especially oil producers, have been hit hard, whereas countries less dependent on commodity exports have gained from falling import prices, notably through lower oil import bills (see *Figure 2.1*).

While growth has slowed in many commodity-dependent exporters, economic performance has typically remained robust in countries with more diversified trade structures. Moreover, several LIDCs have been badly hit by domestic supply shocks, including from natural disasters and epidemics (such as Ebola) and worsening security conditions.

Directors noted that, while several diversified exporters have maintained strong fundamentals, short-term economic vulnerabilities have increased across a significant number of LIDCs (*Figure 2.2*). In part this reflects the economic shocks experienced by commodity exporters, but it also reflects the erosion of policy buffers in some countries less dependent on commodity exports. Directors underscored the importance of using good times to build the fiscal and external buffers needed to allow countries to handle future adverse shocks effectively.



Deputy Managing Director Mitsuhiro Furusawa hosts a session on sustainable development in low-income developing countries during the 2016 IMF/World Bank Spring Meetings in Washington.

Directors noted that, in recent years, portfolio inflows to LIDCs have risen markedly alongside foreign direct investment (*Figure 2.3*). They recognized that, while global financial conditions have provided a supportive environment, improved domestic fundamentals have played an essential role in attracting inflows.

### **Evolving Monetary Policy Frameworks in Low-Income Countries**

Many low- and lower-middle-income countries have improved control over fiscal policy, liberalized and deepened financial markets, and stabilized inflation at moderate levels over the past two decades. Monetary policy frameworks that have helped achieve these ends are facing challenges from financial development and increased exposure to global capital markets.

A staff report, “Evolving Monetary Policy Frameworks in Low-Income and Other Developing Countries,” was discussed in an informal Executive Board session on November 9, 2015. An accompanying paper examines country experiences with monetary policy issues.

The report describes the improvements countries are considering and implementing in their monetary policy frameworks. Among the report’s findings:

- Countries should develop coherent and transparent monetary policy frameworks. Central banks should have a clear mandate that assigns primacy to price stability while fostering macroeconomic and financial stability.
- An explicit inflation objective should serve as the cornerstone for monetary policy actions and communications. Such an objective anchors inflation and provides a clear benchmark for measuring central bank performance.

- Trade-offs between price stability and other policy goals are difficult to manage, though credibly establishing the primacy of the price stability objective can give central banks more room to take other objectives into account in policy decisions.
- Central bank procedures for implementing monetary policy should be framed in terms of a specific short-term interest rate. Such operating procedures can reduce interest rate volatility, promote financial market development, and enhance the transmission of monetary policy to the broader economy.

The Fund will continue to support low- and lower-middle-income countries in strengthening and modernizing their frameworks through policy advice, in both surveillance and program contexts, as well as technical assistance and training.

### **Public Debt Vulnerabilities in Low-Income Countries**

The IMF and World Bank in 2015 prepared their first joint report on public debt vulnerabilities in low-income countries (LICs). The report, which was presented to an informal session of the Executive Board in November 2015, examines debt-related developments and their underlying causes since the onset of the global financial crisis. The report’s findings will inform an upcoming review of LIC debt sustainability.

The report, which examines 74 countries, determines that more diverse financing sources that have become available to LICs in recent years can offer new opportunities but also pose risks. It shows that public debt trends have changed significantly over the past decade. Debt relief programs, strong growth, and high demand for commodities reduced the average debt-to-GDP ratio from 66 percent in 2006 to about 48 percent at the end of 2014.

Good macroeconomic performance in many low-income countries—especially frontier market economies—helped expand financing sources in external markets. The report documents that the share of nonconcessional to total external debt broadly doubled between 2007 and 2014 for frontier market economies and commodity exporters.

### Box 2.4: Small Middle-Income Countries in Africa

The IMF African Department in January 2016 issued a book titled *Unlocking the Potential of Small Middle-Income States*, and held a conference on the topic in Gabarone, Botswana.

In recent years, small middle-income countries (SMICs) in sub-Saharan Africa have enjoyed stronger growth and economic development than most other countries in the region. Their governments have also effectively addressed development challenges such as narrowing the infrastructure gap and improving access to education and health.

However, a number of recent external developments have created headwinds and slowed economic activity. As a result, SMICs need to adjust their policies to preserve stability and restore growth. At the same time, they must decide on the structural reforms that could lay the foundation for long-term growth. The policies discussed in the book set out a possible road map for implementing reforms to eventually propel SMICs to advanced economy status.

For the period under examination, debt vulnerabilities remain generally lower than before the crisis. Between 2007 and 2015, the proportion of countries at high risk of external debt distress (or in distress) fell from 43 to 26 percent. At the same time, liquidity buffers narrowed and debt-to-GDP ratios edged higher, reflecting countercyclical policies as well as some utilization of borrowing headroom to finance priority spending.

The paper highlights the importance of greater vigilance as LICs navigate shifting market conditions and a weaker global outlook. Their closer integration into the global economy, greater exposure to market risks, and reduced fiscal buffers place a premium on prudent fiscal policies and enhanced debt management. These policies are likely to be tested by lower global commodity prices, less favorable global lending conditions as monetary policies normalize, and currency pressures.

### Options for Low-Income Countries' Effective Use of Tax Incentives

IMF staff members joined staff members from the World Bank, Organisation for Economic Co-operation and Development, and United Nations to prepare a background paper for the G20, "Options for Low-Income Countries' Effective and Efficient Use of Tax Incentives for Investment."

The paper—which was presented to the Development Working Group of the G20 in September 2015 and to the IMF Executive Board the following month—describes tools that low-income countries can use to assess tax incentives:

- An application of cost-benefit analysis provides an overarching framework for assessing tax incentives.
- Three tools—tax expenditure assessment, corporate micro-simulation models, and effective tax rate models—address aspects of cost-benefit analysis.
- Two others assess the transparency and governance of tax incentives.

### Financial Integration in Latin America

Many Latin American economies have experienced significant reductions in growth in the past few years as a result of the sharp decline in commodity prices, the rebalancing of China's

### Box 2.5: Economic Linkages between Latin America and Asia

Trade and financial integration between Asia and Latin America were the focus of a conference held at IMF headquarters on March 3, 2016. Economic integration involving the two regions has deepened over the past decade, particularly as Asia—led by China—has become a major export market for Latin American commodities. Investment flows also have been growing, mainly from Asia to Latin America.

As the Chinese economy undergoes an important rebalancing and its demand for commodities slows, trade and investment linkages are expected to evolve. The conference explored the main opportunities and challenges for these evolving trade and financial ties, including an assessment of the implications of the Trans-Pacific Partnership.

growth, and the protracted sluggish growth in advanced economies. In addition, since the global financial crisis, many multinational banks have withdrawn from the region, potentially worsening access to credit or reducing competition in the financial sector.

An IMF staff report, “Financial Integration in Latin America,” released in March 2016, makes the case that the timing may be appropriate for Latin American economies to work toward greater regional financial integration. The Executive Board discussed the report in an informal session in March 2016.

The report states that regional financial integration would not be a substitute for wider integration in the world economy. However, given the retrenchment by multinational banks and limited agreement on global initiatives, regional integration could be a step toward achieving global integration.

For example, regional financial integration could facilitate the adoption of best practices by Latin American economies in such areas as supervision and accounting. It could also facilitate inward investment, enable markets to achieve minimum viable size, and add a dimension of diversification so that the economies would not rely solely on domestic or global developments. Instead, they could reap benefits from the economic stability of other countries in the region.

The report suggests preconditions that would enable integration to proceed safely, along with barriers that could be progressively reduced and eliminated to facilitate integration.

## POLICY ADVICE

### Financial Inclusion

Financial inclusion is rapidly moving up the economic reform agenda as an important means to improve people’s livelihoods, reduce poverty, and advance economic development. More than 60 governments have established financial inclusion as a policy goal, and the United Nations’ Sustainable Development Goals give financial inclusion a prominent role.

The Fund’s own work on inclusive growth also takes financial inclusion into account in ongoing analytical and statistical work and policy advice to member countries. The issue gained crucial attention during FY2016 with the issuance of a Staff Discussion Note, “Financial Inclusion: Can It Meet Multiple Macroeconomic Goals?,” followed by a flagship seminar on the topics at the Annual Meetings, and a major conference, “The Future of Asia’s Finance,” held in Jakarta, Indonesia, in September 2015. A conference on financial inclusion in Central Africa was held in March 2015. In April 2016, the IMF also co-organized a major conference in Washington on “Financial Inclusion: Macroeconomic and Regulatory Challenges.”



“Financial inclusion is not just a matter of products or regulations,” observed Managing Director Christine Lagarde in a keynote address to the Jakarta conference. “It is the provision of services and the creation of opportunities where there is inequality—inequality of income and gender, education, and health.”

The Staff Discussion Note findings show that financial inclusion—as part of the process of financial deepening in emerging market and developing economies—brings substantial economic benefits such as higher GDP growth. At the same time, the benefits are shown to decline with advances in financial deepening. The note draws upon comprehensive global data from the Fund’s Financial Access Survey (compiled on an annual basis with support from the Netherlands and the Bill and Melinda Gates Foundation) and other data sets.

The world has seen improvements in financial inclusion, but considerable gaps remain. The percentage of adults with bank accounts increased from 50 percent to about 60 percent worldwide between 2011 and 2014. However, some 2 billion adults remain “unbanked.” In addition, nearly 40 percent of the banked population do not effectively use their accounts to make deposits or withdraw money.

The note also shows that bank stability risks increase when access to credit expands, especially without adequate regulation and supervision. So greater emphasis has to be placed on enhanced supervision and regulation. However, increased access to other financial services such as automated teller machines (ATMs), branches, and payment of salaries and pensions through bank accounts does not have a strong impact on banking stability.

### Financial Inclusion and Gender Inequality

IMF staff research shows that financial exclusion is closely associated with gender inequality. Worldwide, men are 7 percent more likely than women to have bank accounts and 9 percent more likely in developing countries.

Globally, 58 percent of women hold accounts, compared with 65 percent of men. While there is no gender gap in the advanced economies of the Organisation for Economic Co-operation and Development, where 94 percent of all adults have an account, the gap is particularly large in South Asia, where only 37 percent of women have accounts, compared with 55 percent of men.

The gender gap is even higher when one moves beyond account ownership to overall usage of financial services. For instance, women entrepreneurs are more likely than men to face barriers in financial access: an estimated 70 percent of women-owned small and medium-sized enterprises in developing countries are unserved or underserved by financial institutions.

On the credit supply side, women often face more restrictive collateral requirements, shorter loan maturities, and higher interest rates. On the demand side, illiteracy and lack of control over household financial resources are barriers to obtaining loans.

There is also a gender gap within the financial services industry. Across various regions, less than 20 percent of bank directors are women. Moreover, only 15 of some 800 banks across 72 countries had women chief executive officers in 2013. Similarly, the share of women on boards of directors of bank supervisory and regulatory agencies is low.



### Financial Inclusion in Bangladesh

Bangladesh has experienced a rapid increase in financial inclusion over the past decade as its authorities have taken several measures to enhance access to financial services. The policies—which build on advances in the provision of microcredit since the 1970s—specifically target those excluded from or having little access to the mainstream financial sector.

Policies include introducing financial services via mobile banking, requiring that banks open at least 50 percent of their branches in rural areas, agent-based banking to provide services in the remotest areas, floors on credit to the agricultural and

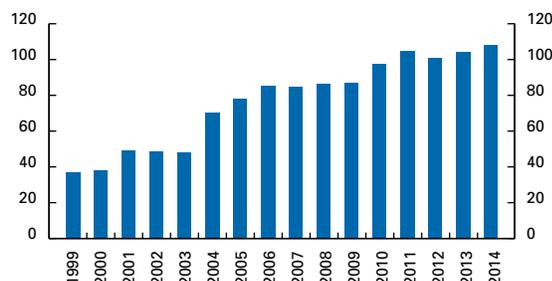
rural sectors backed by credit lines on concessional terms, support for small and medium-sized enterprises and women entrepreneurs, programs aimed at shifting slum dwellers to rural areas, and no-frills bank accounts.

As a result, the percentage of bank deposit accounts in the adult population, the amount of credit provided to small and medium-sized enterprises run by women, the actual number of women entrepreneurs, and the number of active mobile money accounts have all increased sharply, while geographic and demographic access to ATMs and bank branches has widened (see Figure 2.4).

Figure 2.4

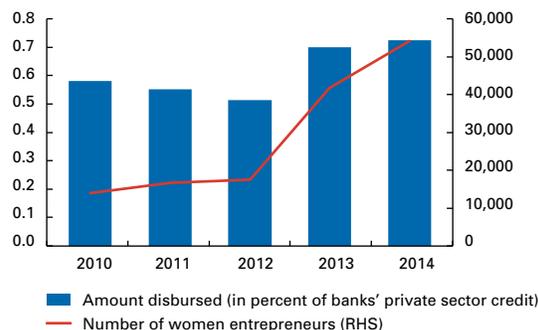
#### Bangladesh: Deposit accounts

(Percent of adult population)



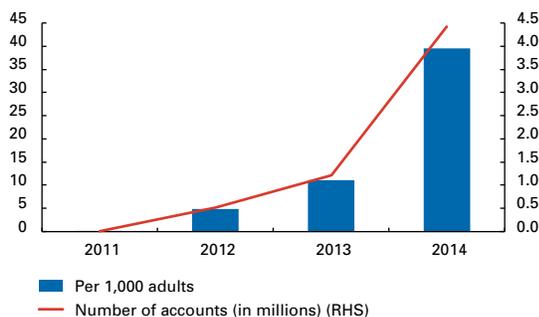
Sources: Bangladesh Bank; and IMF staff calculations.

#### Bangladesh: Credit to women entrepreneurs



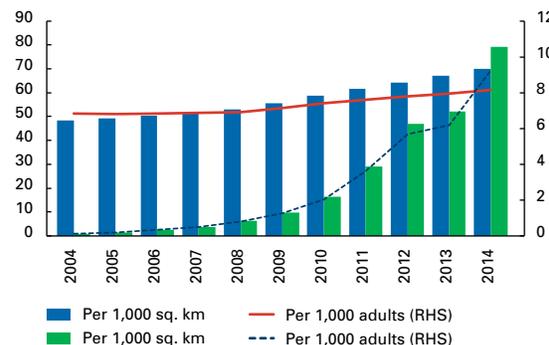
Sources: Bangladesh authorities; and IMF staff calculations.

#### Bangladesh: Number of active mobile money accounts<sup>1</sup>



Source: IMF, Financial Access Survey database.  
<sup>1</sup> Active mobile money account refers to a mobile account that has been used to conduct a money transaction over the past 90 days.

#### Bangladesh: Number of commercial bank branches and ATMs



Source: IMF, Financial Access Survey Database.

## Financial Inclusion and Growing the Palestinian Economy

For many countries around the world, financial inclusion—the access to and use of financial services by households and firms—is a vital ingredient for economic development and poverty reduction. This is especially true in the West Bank and Gaza, where restrictions on the circulation of people, goods, and money pose an added challenge for policymakers.

The Palestine Monetary Authority (PMA), with technical support from the IMF and other donors, has championed financial inclusion and stability as the centerpiece of its efforts to increase growth and create jobs in a private sector–led economy. Over the past decade, the PMA has made important strides in improving access to financial services and the health of the banking system. In addition to increasing the number of bank branches, the PMA has promoted the use of e-banking services and tried to close gender gaps in account usage. In Gaza, improved access to ATMs and the use of mobile banking enabled banks to continue serving clients during the 2014 conflict.

Financial inclusion is, of course, only one element of the growth equation, and the IMF’s technical advice has covered a range of economic policy issues. However, more targeted IMF technical assistance helped the PMA establish a credit registry and strengthen risk-based supervision. Credit registries, which

monitor loans above a certain threshold and are usually managed by central banks or bank supervision agencies, are used by policymakers, regulators, and other officials in macroprudential regulation and oversight. As a result, credit to the private sector has grown by double digits since 2009.

Despite these successes, policymakers in the West Bank and Gaza recognize there is a long way to go to ensure that financial inclusion supports broad-based economic progress, for example by expanding banking services to the large informal sector. With this goal in mind, the PMA launched its first Financial Inclusion Strategy in 2015—and the Fund will continue to help.

## Fiscal Policy and Long-Term Growth

A major IMF policy paper on “Fiscal Policy and Long-Term Growth,” discussed by the Executive Board in June 2015, highlighted the role that fiscal policies can play in lifting potential growth. The study, released at a time of disappointing global growth, finds that fiscal reforms, especially when complemented by supportive changes in other economic policies, can help achieve strong and equitable growth. IMF Fiscal Affairs Department Director Vitor Gaspar presented the paper at the Peterson Institute for International Economics on June 30.

The paper draws on the existing literature and the Fund’s extensive technical assistance on fiscal reforms, as well





as several analytical studies. They include case studies of successful fiscal reform across advanced, emerging market economies, and low-income countries; a statistical analysis of growth accelerations following fiscal reforms; and simulations of an endogenous growth model. The paper includes a supplement on case studies.

The paper determines that fiscal policy promotes growth through macro and structural tax and expenditure policies. At the macro level, it plays an important role in ensuring macroeconomic stability, which is a prerequisite for achieving and maintaining economic growth. At the micro level, through well-designed tax and spending policies, it can boost employment, investment, and productivity. Findings include:

- Lowering the tax wedge and improving the design of labor taxes and social benefits can strengthen work incentives and induce a positive labor supply response.
- More equitable access to education and health care contributes to human capital accumulation, a key factor for growth.
- Reforming capital income taxes reduces distortions and encourages private investment; well-targeted tax incentives can stimulate private investment and enhance productivity through research and development.
- Efficient public investment, especially in infrastructure, can raise an economy's productive capacity.
- If growth-friendly reforms require fiscal space, revenue measures should focus on broadening the tax base and minimizing distortions, and expenditure measures should aim at rationalizing spending and improving efficiency.

### Managing Capital Outflows— Further Operational Considerations

In 2013 IMF management issued a “Guidance Note for the Liberalization and Management of Capital Flows,” which provides operational guidance to staff on appropriate policies with respect to the liberalization of capital flows and the management of disruptive capital inflows and outflows.

In December 2015, management issued a note elaborating on the original guidance and laying out possible configurations of capital flow policies. The note, titled “Managing Capital Outflows—Further Operational Considerations,” elaborates on the guidance to staff regarding the appropriate macroeconomic and financial policy response to capital outflows in noncrisis-type circumstances, based on the IMF’s institutional view on the liberalization and management of capital flows approved by the Board in 2012 and the 2013 Guidance Note. The 2015 note was considered particularly topical because capital outflows have become a more relevant policy challenge for member countries. It was issued to the Executive Board on a for-information basis.

### External Balance Assessment Methodology

The IMF took important steps to enhance its external sector assessments in 2012 with the launch of the External Balance Assessment (EBA) methodology and the External Sector Report. The EBA methodology assesses current accounts and exchange rates of the external positions and policies of 49 economies plus the euro area. The External Sector Report discusses the staff assessments of the external positions of 29 systemically important economies, in tandem with bilateral surveillance, in a multilaterally consistent manner. The 2014 Triennial Surveillance Review (TSR) called for the application of the EBA’s innovations to a broader set of countries.



The Managing Director's Action Plan in response to the TSR proposed the development of "EBA-lite" to meet that goal. In fall 2014, the launch of the EBA-lite methodology for current account assessments provided the first extension of the EBA to non-EBA countries. In summer 2015, the real exchange rate index model and the external sustainability approach were added to the framework.

A note issued in February 2016 to the Executive Board for information serves as a reference for the EBA-lite methodology. The note provides:

- Motivations for developing EBA-lite and guidance for its use
- Technical explanations of three EBA-lite approaches
- Suggestions on how to articulate staff assessments of the external sector informed by model results.

### Structural Reforms and Macroeconomic Performance

The 2014 Triennial Surveillance Review (TSR) called for further work to enhance the Fund's ability to selectively provide more expert analysis and advice on structural issues, particularly where there is broad interest among member countries. In response, a staff report on "Structural Reforms and Macroeconomic Performance: Initial Considerations for the

Fund" was published in November 2015 after presentation to the Executive Board during an informal session in October.

The paper was intended to engage the Board on staff's post-TSR work toward strengthening the Fund's capacity to analyze and, where relevant, offer policy advice on topical structural issues. The paper was accompanied by a policy paper on country cases relevant to the analysis of structural policies.

Structural policies have become a prominent feature of the current macroeconomic policy discussion. For many countries, lackluster economic growth and high unemployment have clouded the economic outlook. With fewer traditional policy options, policymakers are increasingly focused on the complementary role of structural policies in promoting more durable, job-rich growth. In particular, the G20 has emphasized the essential role of structural reforms in ensuring strong, sustainable, and balanced growth.

An extensive range of work on structural policies is underway across the IMF. For example, the Spring 2016 *World Economic Outlook* contained a chapter on the "Macroeconomic Effects of Labor and Product Market Reforms in Advanced Economies." The paper presented considerations to help frame a more strategic approach on structural issues that

would better support the range of macro-structural needs of member countries. While the paper does not signal a dramatic shift in the Fund’s agenda or coverage of structural issues, it highlights the need to account for overall business cycle conditions and available macroeconomic policy space when determining structural reform priorities—two issues that were also highlighted in the staff note for the G20 on “A Guiding Framework for Structural Reforms,” which built largely on the chapter’s key findings. Indeed, the main finding from the chapter is that while reforms pay off over the medium term, their short-term impact varies across different types of reforms and, in some cases (labor market reforms), depends on the cyclical position of the economy and the stance of macroeconomic policies.

Another paper covering the broad membership finds that structural reforms matter for growth and that their benefits tend to increase when they are bundled together. It also determines that the potential productivity payoff from different types of reforms varies across income groups—structural reforms that are typically more effective for a low-income country might not have the same impact in a country that is further along the development curve.

Building on these recent efforts, the IMF plans to continue to develop a richer analytical foundation and range of diagnostic tools that country teams can leverage in their analysis and dialogue with member countries. This in turn will help to leverage and share policy experiences across different countries. As the work develops, the expectation is that the Fund will:

- Be equipped to recognize all structural issues that are critical to the macroeconomic health of IMF member countries and highlight the macroeconomic implications and interplay with other policies in country consultations

- Limit its policy advice to areas where staff has the necessary expertise, but explore the possibility of building expertise in select areas of high impact and high demand, such as infrastructure and labor market issues
- Strengthen collaboration with other agencies on structural reforms that are outside the IMF’s core areas of expertise

### Engagement with Postconflict and Fragile States

A core element of the Fund’s work with low-income developing countries is the interaction with countries in postconflict and fragile situations. Work with these countries was also an important element of IMF commitments to the international community at the July 2016 Financing for Development conference in Addis Ababa.

In May 2015 the Executive Board discussed, at an informal session, a paper titled “IMF Engagement with Countries in Post-Conflict and Fragile Situations—Stocktaking.” It examines the experience implementing lessons drawn in a 2011 Board paper and an ensuing 2012 Guidance Note, and discusses how the IMF can strengthen its engagement with fragile states. The recommendations focus on three areas:

- **Capacity building:** Fragile state governments expressed a preference for capacity building adapted to their absorptive capacity, with a stronger focus on training and support through resident advisors. The paper proposes a new pilot approach that would provide support through a framework of goals for institution building, identify immediate and planned technical assistance and training from the Fund and other development partners, and allow for fine-tuning of support.



Deputy Managing Director Min Zhu speaks during a panel discussion on the political economy of structural reforms at the 2016 IMF/World Bank Spring Meetings in Washington.

- Fund facilities and program design:** Use of the Rapid Credit Facility (RCF) by fragile states has increased, substituting in some cases for the use of staff-monitored programs. Fragile states' authorities highlighted inadequate levels of IMF financing as the key shortcoming of the Fund's existing facilities, with access under the RCF particularly low. The paper noted ongoing work on options to increase IMF financial resources to fragile states and tilt the Fund's concessional resources towards the poorest and most vulnerable members—including through commitments at the Financing for Development conference—subject to maintaining the self-sustaining nature of the Poverty Reduction and Growth Trust. The paper noted that more substantive changes in facilities will be considered in the next facilities review. It also proposed steps to protect priority social spending in Fund-supported programs through targeted spending floors and adoption of contingency plans to protect such spending against fiscal shocks. The Fund increased resources available to the poorest and most vulnerable members in July 2015.

- Policy support:** Fragile state governments view the Fund's policy support as high quality, but would like to see Fund teams bring greater peer experience to assist in developing alternative policy solutions. The paper calls for staff training on political economy issues to be continued and knowledge sharing on fragile states fostered.

### Income Inequality and Labor Market Share

As part of the IMF's interaction with the G20 countries, staff regularly prepare research papers on issues of concern to the G20 authorities, often in collaboration with other international institutions.

In August 2015 IMF staff, working with the International Labour Organization, the Organisation for Economic Co-operation and Development, and the World Bank, prepared



a paper on "Income Inequality and Labor Income Share in G-20 Countries—Trends, Impacts and Causes." The paper was presented to the IMF Executive Board on a for-information basis.

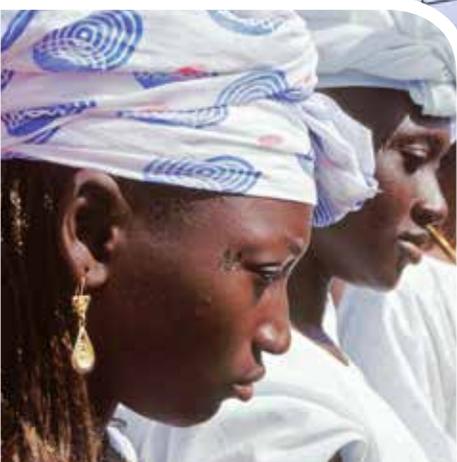
Turkey, which held the G20 presidency during 2015, had made inclusiveness one of three policy priorities during its presidency. The G20 "Sherpas"—representatives of heads of state or government at an international summit—and the G20 Employment Working Group asked the organizations to prepare the paper, which addressed the consequences of rising inequality and falling labor income shares.

### Making Public Investment More Efficient

Public investment supports the delivery of public services and provides economic opportunities through the construction of schools, hospitals, ports, power generation facilities, and other projects. By providing social and economic infrastructure, public investment can serve as a catalyst for growth.

IMF staff in June 2015 presented to an informal meeting of the Executive Board a paper on "Making Public Investment More Efficient." The paper highlights the importance of efficiency in public spending. A comparison of the value of public capital and





measures of infrastructure coverage and quality across countries revealed average inefficiencies in public investment processes of about 30 percent. The economic dividends from closing this efficiency gap are substantial: the most efficient public investors get twice the output “bang” for

their public investment “buck” than the least efficient.

To help countries evaluate the strength of their public investment management practices and identify areas for reform, the IMF developed the Public Investment Management Assessment (PIMA), a tool that was introduced in July 2015 in the context of the UN Financing for Development Conference in Addis Ababa. The PIMA evaluates institutions that shape public investment decision-making at three key stages:

- **Planning** sustainable investment across the public sector
- **Allocating** investment to the right sectors and projects
- **Implementing** projects on time and on budget

The PIMA covers the full public investment cycle, including national sectoral planning, investment budgeting, project appraisal and selection, and managing and monitoring of project implementation. It is relevant to countries at all levels of development by reflecting advanced practices in the areas of fiscal rules, oversight of public-private partnerships (PPPs), and

monitoring of public assets. Finally, PIMA offers an accessible summary of strengths and weaknesses through charts showing how a country’s assessments compare with those of its peers.

As part of the IMF’s role in helping countries to become more efficient public investors, it plans to develop the PIMA into a comprehensive assessment of public investment management practices. Through the PIMA process, reform priorities will be identified and capacity-building strategies developed in collaboration with other institutions, particularly the World Bank.

As a way to complement its fiscal assessment tools, in April 2016, the Fund, in collaboration with the World Bank, launched a new analytical tool, the PPP Fiscal Risk Assessment Model, to assess the potential fiscal costs and risks arising from PPP projects. Without rigorous affordability checks, governments may end up procuring projects that either cannot be funded within their budgetary envelope or that expose public finances to excessive fiscal risks. To address these concerns, the model was developed to quantify the macro-fiscal implications of PPP projects, for use not only in the context of IMF and World Bank technical assistance, but also by PPP units in ministries of finance.

### **Monetary Policy and Financial Stability**

The issue of using monetary policy for financial stability purposes is contentious. The global financial crisis served as a reminder that price stability is not sufficient for financial stability, that financial crises are costly, and that monetary policy should aim to reduce the likelihood of crises and not rely only on dealing with their repercussions once they occur.

The IMF Executive Board, meeting in an informal session, discussed a staff paper on “Monetary Policy and Financial Stability” in September 2015. The paper sought to bring clarity to some of the issues that have arisen surrounding the topic.

Many of the same issues are addressed over time in the flagship *Global Financial Stability Report*, which is issued twice a year in April and October, with updates to the Executive Board in January and July. Monetary policy and financial stability are also central to other Fund surveillance. In addition, a high-level seminar on monetary policy frameworks and financial stability was held during the 2015 Annual Meetings in Lima, Peru.

While the staff paper does not seek to provide final answers, it is designed to help policymakers assess the value and implications of using monetary policy to support financial stability. It provides a framework to conceptualize and clarify the channels of transmission and policy tradeoffs, gives initial policy guidance based on the most recent empirical findings, and emphasizes the gaps that need to be filled before more definitive policy advice can be formulated.

Among its conclusions, the paper states that monetary policy in principle should deviate from its traditional response only if costs are smaller than benefits. Costs arise in the short term from lower output and inflation, the paper explains. Benefits materialize mainly in the medium term, as financial risks are mitigated, though effects are more uncertain. Based on current knowledge, the case for “leaning against the wind” is limited, as in most circumstances costs outweigh benefits.

However, the current understanding of the channels through which monetary policy affects financial stability domestically, across borders, and over the business cycle is rapidly evolving.



## DATA

### Ninth Review of the Data Standards Initiatives

In May 2015, the Executive Board discussed the Ninth Review of the IMF’s Data Standards Initiatives. The review found that the Special Data Dissemination Standard (SDDS) is at a mature stage, with no changes needed; its focus is on increasing the number of its subscribers. The SDDS Plus was launched with adherence of the first nine countries in February 2014.

The review also found that the General Data Dissemination System (GDDS) has remained largely unchanged since its establishment in 1997 and that a lack of incentives to disseminate data inhibits statistical development. The review proposed addressing this issue by enhancing the GDDS (e-GDDS) to refocus the framework on the publication of data essential for surveillance by the IMF and markets, while leveraging the Article IV consultation dialogue to direct the authorities’ attention on progress toward subscription to the SDDS.

Executive Directors broadly shared the staff assessment and approved the proposal to replace the GDDS with the e-GDDS in order to support transparency, encourage statistical development, and help create strong synergies between data dissemination and surveillance.



### ENHANCED GENERAL DATA DISSEMINATION SYSTEM

During the year, Botswana, Lesotho, and Nigeria became the first IMF member countries to implement the recommendations of the e-GDDS, which replaced the GDDS in May 2015. The three countries hosted an e-GDDS mission and subsequently published a National Summary Data Page (NSDP). The NSDP, which is supported by the Open Data Platform, serves as a one-stop publication vehicle for key macroeconomic data.

### SPECIAL DATA DISSEMINATION SYSTEM

China and Sri Lanka subscribed to the SDDS in 2015, bringing the total number of countries graduating from the GDDS (now the e-GDDS) to 15. Subscription to the SDDS enhances the availability of timely statistics, thereby contributing to sound macroeconomic policies and the more efficient functioning of financial markets.

### DATA GAPS INITIATIVE

Given the significant progress made to address data gaps revealed by the global financial crisis, the G20 Finance Ministers and the Central Bank Governors in September 2015 endorsed the second phase of the Data Gap Initiative (DGI-2), which focuses on data that support financial sector risk analysis and the interlinkages across the economic and financial system. In September 2016, the first progress report on the second phase, including the finalized five-year action plans for DGI-2 implementation, will be presented to the G20 Finance Ministers and the Central Bank Governors.

### STATISTICS FOR GLOBAL ECONOMIC AND FINANCIAL STABILITY

The Statistics Department disseminates to the general public internationally comparable data on its member countries' financial sectors, helping to monitor financial stability at a national and global level. Monetary statistics constitute the main tool for analyzing monetary developments and formulating monetary policy. The challenge now is to substantially expand the coverage of nonbank financial institutions, beyond the 43 countries currently reporting these data. Financial soundness indicators, which reflect the health of a country's financial sector and its clients, for 108 countries are posted on the IMF's external website, with plans to steadily increase their number.





## Lending

*IMF loans are meant to help member countries tackle balance-of-payments problems, stabilize their economies, and restore sustainable economic growth. This crisis resolution role is at the core of IMF lending. At the same time, the global financial crisis has highlighted the need for effective global financial safety nets to help countries cope with adverse shocks. A key objective of recent lending reforms has therefore been to complement the traditional crisis resolution role of the IMF with additional tools for crisis prevention. Unlike development banks, the IMF does not lend for specific projects, but to countries that may experience a shortage of foreign exchange, to give them time to rectify economic policies and restore growth without having to resort to actions damaging to their own or other members' economies. In broad terms, the IMF has two types of lending —loans provided at nonconcessional interest rates and loans provided to poorer countries on concessional terms, for which interest rates are low or in some cases zero.*

## NONCONCESSIONAL FINANCING ACTIVITY

In FY2016, the Executive Board approved three arrangements under the IMF's nonconcessional financing facilities in the General Resources Account (GRA), for a gross total of SDR 4.73 billion (\$6.70 billion not netted for canceled arrangements, and converted to United States dollars at the SDR/\$ exchange rate on April 29, 2016 of 0.705552). A precautionary arrangement under the Flexible Credit

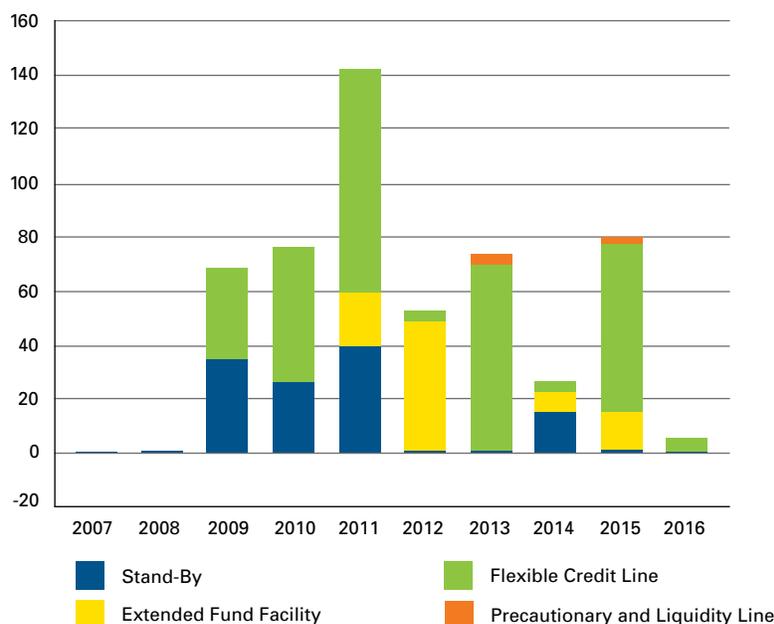
Line (FCL) for Colombia (SDR 3.87 billion) accounted for 82 percent of these commitments. The FCL approved for Colombia and the precautionary Stand-By Arrangement for Kenya (SDR 0.71 billion) were successors to previous arrangements that were expiring. In addition, the Board also approved a Stand-By Arrangement for the Republic of Kosovo totaling SDR 0.15 billion, and, at the request of the authorities, reduced the FCL for Poland by SDR 2.5 billion. *Table 2.1* details the arrangements approved during the year, and *Figure 2.5* the arrangements approved over the past 10 years.

**Table 2.1**  
**Arrangements approved in the General Resources Account in FY2016**  
(Millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
<b>NEW ARRANGEMENTS</b>			
Kosovo	22-month Stand-By	July 29, 2015	147.5
Kenya	24-month Stand-By	March 14, 2016	709.3
Colombia	24-month Flexible Credit	June 17, 2015	3,870.0
<b>Total</b>			<b>4,726.8</b>

Source: IMF Finance Department.

**Figure 2.5**  
**Arrangements approved in the General Resources Account during financial years ended April 30, 2007–16**  
(Billions of SDRs)



Source: IMF Finance Department.

Table 2.2

**Financial terms under IMF General Resources Account credit**

This table shows major nonconcessional lending facilities. Stand-By Arrangements have long been the core lending instrument of the institution. In the wake of the 2007–09 global financial crisis, the IMF strengthened its lending toolkit. A major aim was to enhance crisis-prevention instruments through the creation of the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL). In addition, the Rapid Financing Instrument (RFI), which can be used in a wide range of circumstances, was created to replace the IMF's emergency assistance policy.

Credit facility (year adopted) <sup>1</sup>	Purpose	Conditions	Phasing and monitoring
<b>CREDIT TRANCHES AND EXTENDED FUND FACILITY<sup>3</sup></b>			
<b>Stand-By Arrangements (SBA) (1952)</b>	Short- to medium-term assistance for countries with short-term balance of payments difficulties	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Generally quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions
<b>Extended Fund Facility (EFF) (1974) (Extended Arrangements)</b>	Longer-term assistance to support members' structural reforms to address long-term balance of payments difficulties	Adopt up to 4-year program, with structural agenda and annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions
<b>Flexible Credit Line (FCL) (2009)</b>	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period, subject to a midterm review after 1 year
<b>Precautionary and Liquidity Line (PLL) (2011)</b>	Instrument for countries with sound economic fundamentals and policies	Sound policy frameworks, external position, and market access, including financial sector soundness	Large front-loaded access, subject to semiannual reviews (for 1- to 2-year PLL)
<b>SPECIAL FACILITIES</b>			
<b>Rapid Financing Instrument (RFI) (2011)</b>	Rapid financial assistance to all member countries facing an urgent balance of payments need	Efforts to solve balance of payments difficulties (may include prior actions)	Outright purchases without the need for full-fledged program or reviews

Source: IMF Finance Department.

<sup>1</sup> The IMF's lending through the General Resources Account (GRA) is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in Special Drawing Rights (SDRs) or the currency of another member acceptable to the IMF and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchase of foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchase of its currency from the IMF with foreign currency.

<sup>2</sup> The rate of charge on funds disbursed from the GRA is set at a margin over the weekly SDR interest rate (currently 100 basis points). The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 115 percent of quota; 30 basis points for amounts in excess of 115 percent and up to 575 percent of quota; and 60 basis points for amounts in excess of 575 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By Arrangement, Flexible Credit Line, Precautionary and Liquidity Line, or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

Access limits <sup>1</sup>	Charges <sup>2</sup>	Repayment schedule (years)	Installments
Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) <sup>4</sup>	3¼–5	Quarterly
Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 51 months) <sup>4</sup>	4½–10	Semiannual
No preset limit	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) <sup>4</sup>	3¼–5	Quarterly
125% of quota for 6 months; 250% of quota available upon approval of 1- to 2-year arrangements; total of 500% of quota after 12 months of satisfactory progress	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) <sup>4</sup>	3¼–5	Quarterly
Annual: 37.5% of quota; cumulative: 75% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) <sup>4</sup>	3¼–5	Quarterly

<sup>3</sup> Credit tranches refer to the size of purchases (disbursements) as a proportion of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the first credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as upper-credit-tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are typically associated with a Stand-By or Extended Arrangement.

<sup>4</sup> Surcharges were introduced in November 2000. A new system of surcharges took effect August 1, 2009, and updated on February 17, 2016, with some limited grandfathering of existing arrangements.

Table 2.3

**Concessional lending facilities**

Three concessional lending facilities for low-income developing countries are available.

	<b>Extended Credit Facility (ECF)</b>	<b>Standby Credit Facility (SCF)</b>	<b>Rapid Credit Facility (RCF)</b>
<b>Supersedes</b>	Poverty Reduction and Growth Facility (PRGF)	Exogenous Shocks Facility–High-Access Component (ESF-HAC)	Exogenous Shocks Facility–Rapid Access Component (ESF-RAC), subsidized Emergency Post-Conflict Assistance (EPCA), and Emergency Natural Disaster Assistance (ENDA)
<b>Objective</b>	Help low-income countries achieve and maintain a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth		
<b>Purpose</b>	Address protracted balance of payments problems	Resolve short-term balance of payments needs	Low-access financing to meet urgent balance of payments needs
<b>Eligibility</b>	Countries eligible under the Poverty Reduction and Growth Trust (PRGT)		
<b>Qualification</b>	Protracted balance of payments problem; actual financing need over the course of the arrangement, though not necessarily when lending is approved or disbursed	Potential (precautionary use) or actual short-term balance of payments need at the time of approval; actual need required for each disbursement	Urgent balance of payments need when upper-credit-tranche (UCT) program is either not feasible or not needed <sup>1</sup>
<b>Poverty Reduction and Growth Strategy</b>	IMF-supported program should be aligned with country-owned poverty-reduction and growth objectives and should aim to support policies that safeguard social and other priority spending		
	Submission of Poverty Reduction Strategy (PRS) document	Submission of PRS document not required; if financing need persists, SCF user would request an ECF arrangement with associated PRS documentation requirements	Submission of PRS document not required
<b>Conditionality</b>	UCT; flexibility on adjustment path and timing	UCT; aim to resolve balance of payments need in the short term	No UCT and no conditionality based on ex post review; track record used to qualify for repeat use (except under shocks window)

Source: IMF Finance Department.

<sup>1</sup> UCT standard conditionality is the set of program-related conditions intended to ensure that IMF resources support the program's objectives, with adequate safeguards to the IMF resources.

<sup>2</sup> Access norms do not apply when outstanding concessional credit is above 150% of quota. In those cases, access is guided by consideration of the access limit of 225% of quota (or exceptional access limit of 300% of quota), expectation of future need for IMF support, and the repayment schedule.

<sup>3</sup> The IMF reviews interest rates for all concessional facilities under the PRGT every 2 years; the last review happened in December 2014, where the Executive Board approved the extension of the interest waiver on concessional loans through the end of December 2016 in view of the prolonged effects of the global economic crisis. In July 2015, the Executive Board set the interest rate on the RCF to zero.

<sup>4</sup> SCFs treated as precautionary do not count toward the time limits.

	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
<b>Access policies</b>	Annual limit of 75% of quota; cumulative limit (net of scheduled repayments) of 225% of quota. Limits are based on all outstanding PRGT credit. Exceptional access: annual limit of 100% of quota; cumulative limit (net of scheduled repayments) of 300% of quota		
	Norms and sublimits <sup>2</sup>		
	The access norm is 90% of quota per 3-year ECF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 3-year arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	The access norm is 90% of quota per 18-month SCF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 18-month arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	There is no norm for RCF access. Sublimits (given lack of UCT conditionality): total stock of RCF credit outstanding at any point in time cannot exceed 75% of quota (net of scheduled repayments). The access limit under the RCF over any 12-month period is set at 18.75% of quota and, under the shocks window at 37.5% of quota. Purchases under the RFI made after July 1, 2015, count towards the applicable annual and cumulative limits.
<b>Financing terms<sup>3</sup></b>	Interest rate: Zero Repayment terms: 5½–10 years	Interest rate: 0.25% Repayment terms: 4–8 years Availability fee: 0.15% on available but undrawn amounts under precautionary arrangement	Interest rate: Zero Repayment terms: 5½–10 years
<b>Blending</b>	Based on income per capita and market access; linked to debt vulnerability		
<b>Precautionary use</b>	No	Yes, annual access at approval is limited to 56.25% of quota while average annual access at approval cannot exceed 37.5% of quota.	No
<b>Length and repeated use</b>	3–4 years (extendable to 5); can be used repeatedly	12–24 months; use limited to 2½ of any 5 years <sup>4</sup>	Outright disbursements; repeated use possible subject to access limits and other requirements
<b>Concurrent use</b>	General Resources Account (Extended Fund Facility/Stand-By Arrangement)	General Resources Account (Extended Fund Facility/Stand-By Arrangement) and Policy Support Instrument	General Resources Account (Rapid Financing Instrument and Policy Support Instrument); credit under the RFI counts towards the RCF limits

By end-April 2016, disbursements under financing arrangements from the GRA, referred to as “purchases,” totaled SDR 4.68 billion (\$6.64 billion), with two-thirds of the purchases made by Cyprus, Pakistan, and Ukraine. In addition to these GRA arrangements, on July 29, 2015, the Executive Board approved an SDR 891.3 million (about \$1.24 billion) purchase for Iraq under the Rapid Financing Instrument.

Total repayments, termed “repurchases,” for the financial year amounted to SDR 12.1 billion (\$17.2 billion), including advance repurchases, mainly from Portugal for SDR 3.1 billion (\$4.2 billion). As a result of sizable repurchases and stalled purchases associated with program delays, the stock of GRA credit outstanding declined to SDR 47.8 billion (\$68 billion) from SDR 55.22 billion (\$78 billion) a year earlier. *Figure 2.6* offers information on nonconcessional financing amounts outstanding over the past 10 years.

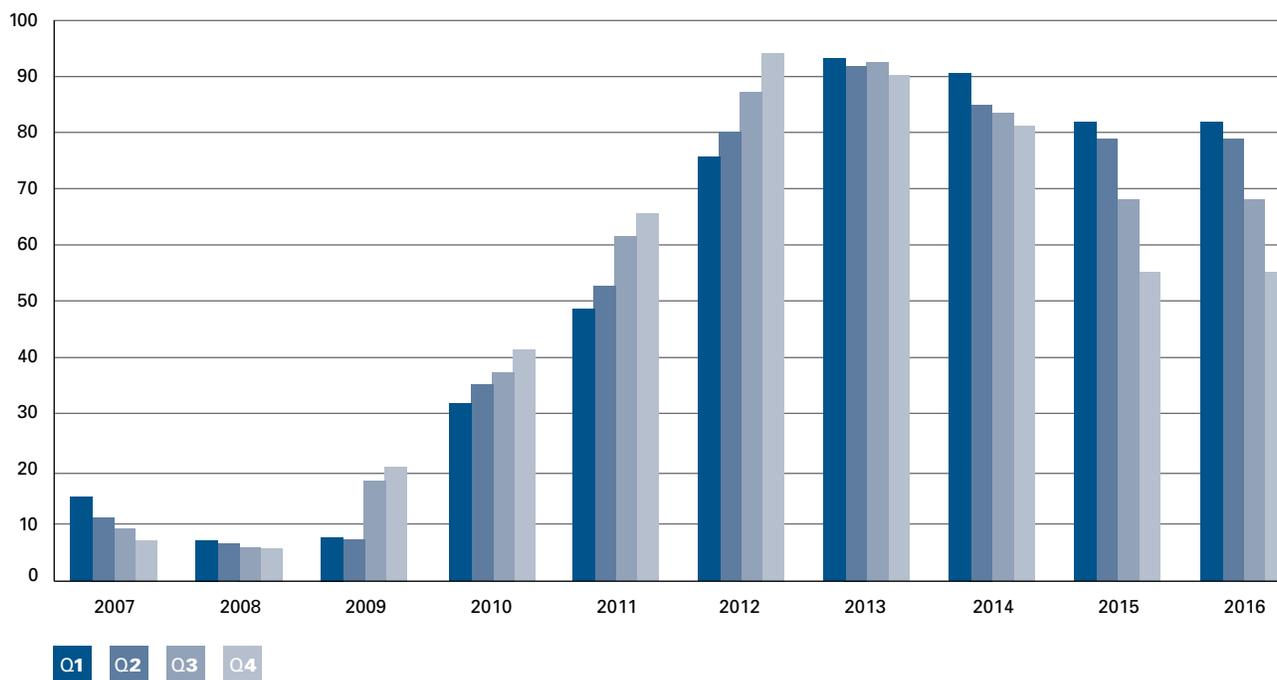
## CONCESSIONAL FINANCING ACTIVITY IN FY 2016

In FY2016, the IMF committed loans amounting to SDR 0.83 billion (\$1.2 billion) to its low-income developing member countries under programs supported by the Poverty Reduction and Growth Trust (PRGT). Total concessional loans outstanding to 56 members amounted to SDR 6.5 billion at end-April 2016. *Table 2.4* provides detailed information on new arrangements and augmentations of access under the IMF’s concessional financing facilities. *Figure 2.7* illustrates amounts outstanding on concessional loans over the past decade.

While the Heavily Indebted Poor Countries (HIPC) Initiative has been largely completed with 36 out of 39 eligible countries benefiting, including Chad—the latest beneficiary that received debt relief in April 2015—the IMF can also provide grants

**Figure 2.6**  
**Nonconcessional loans outstanding, FY2007–16**

(Billions of SDRs)



Source: IMF Finance Department.

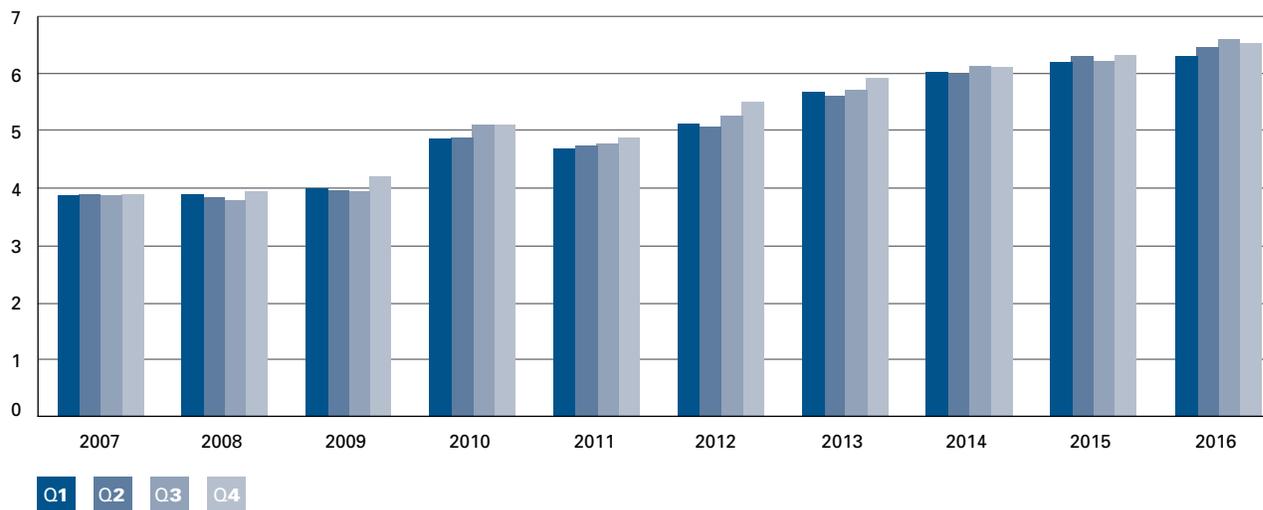
for debt relief to eligible countries through the Catastrophe Containment and Relief Trust (CCRT) established in February 2015. The CCRT provides exceptional support to countries confronting major natural disasters, including life-threatening, fast-spreading epidemics with the potential to affect other countries, but also other types of catastrophic disasters such as massive earthquakes. The CCRT is financed with the balance of the Post-Catastrophe Debt Relief Trust, the accounts left over from the financing of the Multilateral Debt Relief Initiative, and contributions from donors. As of end-April 2016, the IMF had provided grants under this trust to cover debt relief of SDR 68 million to the three countries worst hit by the Ebola epidemic (Guinea, SDR 21.42 million; Liberia, SDR 25.84 million; and Sierra Leone, SDR 20.74 million).

In July 2015, the IMF introduced measures to further enhance the financial safety net of low-income countries as part of the international community's wider effort to support countries in

pursuing the post-2015 Sustainable Development Goals. These measures include: (1) a 50 percent increase in access norms and limits to PRGT concessional facilities; (2) rebalancing the funding mix of concessional to nonconcessional financing from 1:1 to 1:2 for better-off countries that receive financial support from the IMF in the form of a blend of concessional and nonconcessional financing, recognizing that these countries typically have significantly greater access to market funding than envisaged when the current facilities were established; and (3) increasing access to fast-disbursing support under the RCF to assist countries in fragile situations, hit by conflict, or affected by natural disasters and increasing the level of concessional support by setting the interest rate on RCF loans permanently at zero percent.

In November 2015, a fundraising round was launched to raise up to SDR 11 billion in new PRGT loan resources, which are needed to support continued concessional lending by the

**Figure 2.7**  
**Concessional loans outstanding, FY2007–16**  
 (Billions of SDRs)



Source: IMF Finance Department.

IMF to its poorest and most vulnerable members. The IMF has approached 14 members that are current lenders to the PRGT and an equal number of potential new lenders, including major emerging markets. Expressions of interest received so far, including from three potentially new loan providers, amount to about three-quarters of the target, and responses from five members are pending. Successful completion of the current loan mobilization effort would allow the PRGT to continue to provide loans into the next decade.

**Table 2.4**  
**Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2016**  
(Millions of SDRs)

Member	Effective date	Amount approved
<b>NEW THREE-YEAR EXTENDED CREDIT FACILITY ARRANGEMENTS<sup>1</sup></b>		
Guinea-Bissau	July 10, 2015	17.0
Haiti	May 18, 2015	49.1
São Tomé and Príncipe	July 13, 2015	4.4
<b>Subtotal</b>		<b>70.6</b>
<b>AUGMENTATIONS OF EXTENDED CREDIT FACILITY ARRANGEMENTS<sup>2</sup></b>		
Burkina Faso	June 5, 2015	24.1
Niger	November 30, 2015	41.1
Sierra Leone	November 16, 2015	46.7
<b>Subtotal</b>		<b>111.9</b>
<b>NEW STAND-BY CREDIT FACILITY ARRANGEMENTS<sup>2</sup></b>		
Kenya	March 14, 2016	354.6
Mozambique	December 18, 2015	204.5
<b>Subtotal</b>		<b>559.1</b>
<b>DISBURSEMENTS UNDER RAPID CREDIT FACILITY</b>		
Central African Republic	September 14, 2015	8.4
Dominica	October 28, 2015	6.2
Madagascar	November 18, 2015	30.6
Nepal	July 31, 2015	35.7
Vanuatu	June 5, 2015	8.5
<b>Subtotal</b>		<b>89.2</b>
<b>Total</b>		<b>830.8</b>

Source: IMF Finance Department.

<sup>1</sup> Previously the Poverty Reduction and Growth Facility.

<sup>2</sup> For augmentation, only the amount of the increase is shown.

## PROGRAM DESIGN

### Review of Fund-Supported Programs during the Global Financial Crisis

The IMF Executive Board in December 2015 concluded a review of the design and outcomes of Fund-supported programs undertaken during and following the global financial crisis. The discussion was informed by a staff paper.

The review provided an updated assessment of 32 programs supported from the Fund's GRA for 27 countries between September 2008 and June 2013. Drawing on lending instruments totaling SDR 420 billion (about \$577 billion), the Fund supported euro area countries as they built firewalls against financial contagion, emerging market economies, and small states as they addressed the collapse of trade and financing flows in 2008–09, and the economies of the Middle East and North Africa as they implemented reforms after the 2011 Arab Spring.

The International Monetary and Financial Committee had requested the follow-up review of Fund-supported programs with a view to improving IMF advice and future arrangements. The first such review took place in 2009, with updates in 2010–12.

Executive Directors concurred with the 2015 paper's conclusion that by boosting confidence and providing resources, alongside other global efforts, Fund-supported programs helped limit the damage from and chart a path through the global financial crisis. Directors noted that Fund financial support helped allow the necessary adjustment to be more gradual. They saw the programs as helping countries gain needed time to address deeper-rooted problems, start unwinding macroeconomic imbalances, and repair balance sheets.

Directors welcomed efforts to learn from program outcomes when designing later programs. They recognized changes in program design that included moving to a slower, albeit still appropriate, pace of fiscal consolidation in some programs; strengthened efforts to achieve internal devaluation; enhanced incentives for debt restructuring to address private debt overhangs; and included sovereign debt restructuring where necessary in some later and successor programs.

### Exceptional Access Lending Framework Reforms

The IMF Executive Board in January 2016 approved reforms to the Fund’s exceptional access lending framework to make the policy more calibrated to members’ debt situations, while avoiding unnecessary costs for members, creditors, and the financial system as a whole. The exceptional access framework governs access above the IMF’s normal financing limits, which are based on the size of member countries’ quotas.

The reforms were proposed in an April 2015 staff paper, “The Fund’s Lending Framework and Sovereign Debt—Further Considerations,” and followed a preliminary Board discussion on the topic in 2014. Along with the reform of the IMF’s policy on non-tolerance of arrears approved in December 2015, the reform is a component of the four-pronged work program on sovereign debt crisis resolution endorsed by the IMF’s Executive Board in 2013. The reforms are designed to strengthen incentives for collective action when official sector support is required and prevent noncontributing official bilateral creditors from blocking an IMF-supported program.

The reforms include the elimination of the “systemic exemption” introduced in 2010, an increase in flexibility for members where debt is assessed to be sustainable but not with high probability, and a clarification to the criterion related to market access. Where debt is assessed to be sustainable but not with high probability, the reform also gives the IMF appropriate flexibility to make its financing conditional on a broader range of debt operations, including the less disruptive option of a “debt reprofiling”—that is, a short extension of maturities falling due during the program, with normally no reduction in principal or coupons.

Executive Directors favored the removal of the systemic exemption for several reasons:

- To the extent that a member faces significant debt vulnerabilities despite its planned adjustment efforts, the use of the systemic exemption to delay remedial measures risks impairing the member’s prospects for success and undermining safeguards for the Fund’s resources.
- From the perspective of creditors, the replacement of maturing private sector claims with official claims, in particular IMF credit, will effectively result in the subordination of remaining private sector claims in the event of a restructuring.
- The systemic exemption aggravates moral hazard in the international financial system and may exacerbate market uncertainty in periods of sovereign stress.
- It is far from clear that invoking the systemic exemption to defer necessary measures on debt can be relied on to limit contagion, since the source of the problem—namely, market concerns about underlying debt vulnerabilities—is left unaddressed.

The changes to the Fund’s exceptional access framework went into effect immediately and apply to all future completion of reviews under existing arrangements or approval of new IMF arrangements.

### POLICY SUPPORT INSTRUMENTS

*Policy Support Instruments (PSIs) offer low-income countries that do not want—or need—IMF financial assistance a flexible tool that enables them to secure Fund advice and support without a borrowing arrangement. These nonfinancial instruments are a valuable complement to the IMF’s lending facilities under the PRGT. PSIs help countries design effective economic programs that deliver clear signals to donors, creditors, and the general public on the strength of a member’s policies.*

In June 2015, the Executive Board approved a three-year Policy PSI for Senegal. The PSI supports implementation of a three-year program of macroeconomic reforms designed to advance the *Plan Sénégal Emergent*, the authorities’ strategy to increase growth and reduce poverty while preserving macroeconomic stability and debt sustainability.

The authorities plan to focus on increasing tax revenues by broadening the tax base, as well as on rationalizing current expenditures to create fiscal space for financing infrastructure and social expenditure. Attention will be paid to the quality of expenditure, including investment, and to strengthening public financing, transparency, and economic governance. The authorities intend to accelerate structural reforms to foster a more attractive business environment, thereby promoting development of the private sector.

To date, the Executive Board has approved 18 PSIs for seven members: Cabo Verde, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, and Uganda.



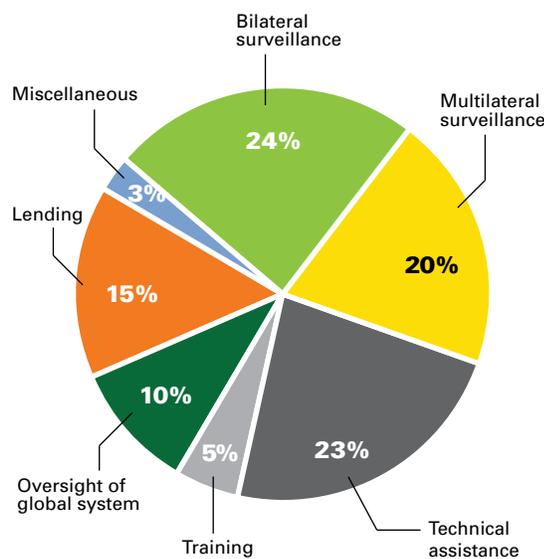
## Capacity Development

*The IMF provides technical assistance and training to officials in member countries—what it calls “capacity development”—to help countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. Capacity development, which is closely linked to the IMF’s surveillance and program engagement, is demand-driven, responsive, and highly appreciated by member countries.*

In response to demand from member countries, and with strong support from external partners, the IMF’s technical assistance and training activities—capacity development—have expanded rapidly in recent years. Capacity development represented over a quarter of the IMF’s administrative spending in FY2016. Most of this spending was on technical assistance, which represents 23 percent, while training accounts for 5 percent (see *Figure 2.8*).

IMF capacity development activities continued to grow in FY2016, mainly reflecting greater delivery to the Middle East and Central Asia, as well as the Western Hemisphere and sub-Saharan Africa. Delivery of technical assistance on monetary and financial topics and fiscal topics increased. Total direct spending on capacity development activities (externally and IMF-financed) was \$256 million in FY2016, compared with \$242 million in FY2015, a growth of 6 percent (*Figure 2.9*). The externally funded component amounted to \$127 million, or 49 percent of the total, and grew by almost 8 percent in FY2016.

**Figure 2.8**  
Share of costs of major IMF activities, FY2016



Source: IMF Office of Budget and Planning, Analytic Costing and Estimation System (ACES).

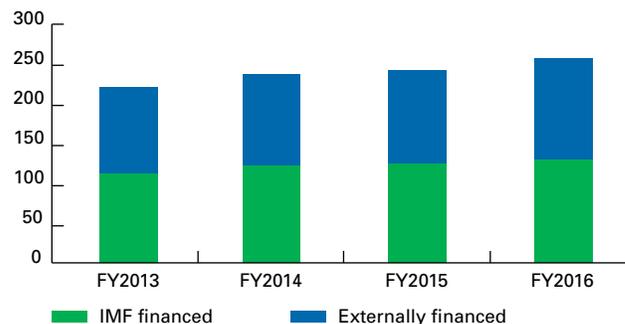
In March 2016, the IMF signed a memorandum of understanding with the Indian government for a new South Asian Regional Training and Technical Assistance Center (SARTTAC), to be based in New Delhi. The center will be the first that fully integrates IMF training and technical assistance and is a model for the IMF’s future capacity development work. It will serve Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka in a wide range of areas, including macroeconomic and fiscal management, monetary operations, financial sector regulation and supervision, and macroeconomic statistics. SARTTAC was made possible by early financial commitments from India, the Republic of Korea, and Australia.

### TECHNICAL ASSISTANCE

Technical assistance delivery increased in FY2016, mainly in the sub-Saharan African, Middle East and Central Asia, and Western Hemisphere regions (*Figure 2.10*). Nearly half of all IMF technical assistance continues to go to low-income developing countries (*Figure 2.11*).

In FY2016, sub-Saharan Africa received the largest share of technical assistance, reflecting the high number of low-income developing countries in this region. Delivery of technical assistance on monetary and financial topics and on financial

**Figure 2.9**  
Spending on capacity development  
(Millions of U.S. dollars)



Source: IMF Office of Budget and Planning, Analytic Costing and Estimation System (ACES).

and fiscal topics increased, in response to demand from the membership (Figure 2.12). Fiscal topics continued to constitute about half of the technical assistance provided by the IMF.

### HIGHLIGHTS OF FISCAL CAPACITY BUILDING

IMF capacity development activities are integrated with the policy dialogue between member countries and the Fund that take place under surveillance or Fund-supported programs. The IMF continued in FY2016 to assist countries under Fund-supported programs. In **Jamaica**, the IMF reviewed the impact of a recent tax reform and the taxation of financial and telecoms sectors, and assisted in developing options to improve the neutrality of the tax system. In **Malawi**, which was seeking to reduce its reliance on volatile grants, the IMF developed policy options for revenue mobilization, including rebalancing the tax burden from income to consumption taxes by reducing the corporate income tax rate and rationalizing tax preferences. In **Tunisia**, the IMF provided advice on a postrevolution tax reform that focused on simplifying the tax system, instilling more neutrality and progressivity, while generating additional revenues.

The Fund continues to provide capacity development designed to steadily enhance institutional and policymaking capacity in member countries, in particular low-income and

fragile countries, and small states. In **Mali**, in response to the need for a fiscal decentralization framework underpinning the 2015 Peace Agreement, the IMF provided intensive technical assistance to help ensure a gradual transfer of 30 percent of government revenue to the country’s regions by 2018.

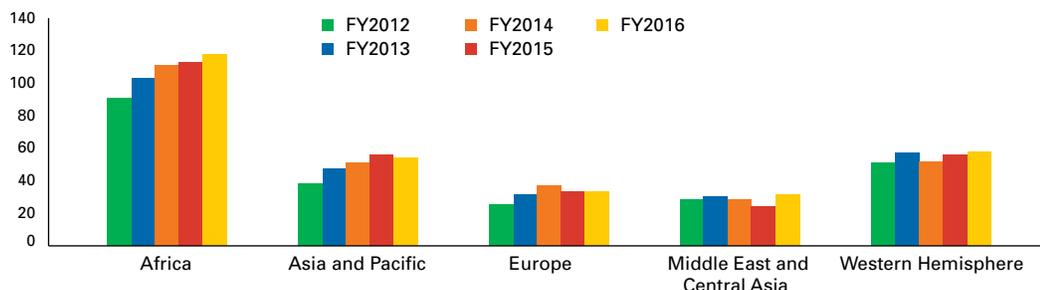
In **Guinea**, following the Ebola crisis, the IMF has continued its intensive engagement with the country, providing on-the-ground support to build capacity in treasury management and accounting systems, with the support of a resident advisor. In the **Central African Republic**, after three years of political disruption, the IMF responded quickly to the country’s request for technical assistance by fielding a mission focused on restoring core public financial management functions. For **Somalia**, improving governance in key state institutions is critical for progress on economic reconstruction and development. At an IMF workshop in Nairobi, the Somalian authorities prepared a draft reform strategy and action plan for public financial management covering the period 2016–20. The plan focuses on four critical areas: revenue mobilization (tax and customs), internal control (including arrears), cash forecasting and management, and accounting and fiscal reporting.

Domestic resource mobilization was among the fiscal topics most in demand during the year. In **Côte d’Ivoire**, a three-year project funded by the Tax Policy and Administration Topical Trust Fund has supported the authorities’ efforts to establish

Figure 2.10

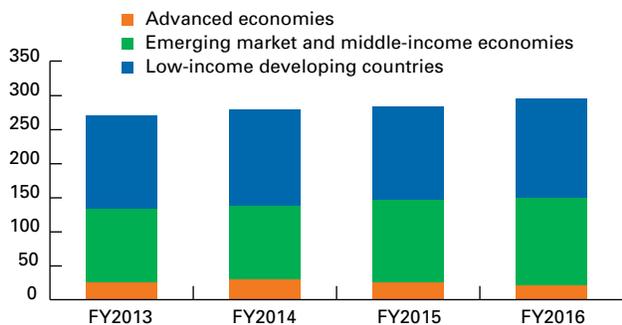
### Technical assistance delivery by region

(Person-years of field delivery)



Source: IMF Travel Information Management System (TIMS).

**Figure 2.11**  
**Technical assistance delivery by income group**  
 (Person-years of field delivery)



Source: IMF Travel Information Management System (TIMS).

a function-based tax administration headquarters, restructure the office network based on taxpayer segmentation principles, and implement a comprehensive compliance improvement plan. As a result, the authorities were able to achieve significantly improved compliance rates for large and medium-sized taxpayers. In **Grenada**, the IMF assisted the revenue department in its reform to help ensure fiscal sustainability and a stable macroeconomic environment for growth. Reform measures included a dedicated tax compliance unit for large and medium-sized taxpayers, writing off uncollectible tax debts and taking effective enforcement action, refocusing the audit plan on major compliance risks, and strengthening managerial capacity. In **Kuwait**, the IMF has assisted in designing its non-oil tax system since late 2011, well before oil prices started to plummet. The assistance included conducting diagnostic studies, designing policies for consumption and income taxes, and drafting new tax laws.

Among the IMF's capacity-building activities in resource-rich countries, in **Ukraine**, the IMF assisted in the design and implementation of a new gas fiscal regime. In **Ghana**, it held interactive workshops with the authorities on fiscal modeling and revenue forecasting for natural resource revenues, with the support of the multipartner Managing Natural Resource Wealth Topical Trust





Fund. In **Uganda**, recently passed legislation largely reflects IMF advice in key areas, including a new model for production sharing agreements, application of value-added tax to the extractive sector, and computation of taxable income for petroleum licensees. The IMF and the Ministry of Finance of **Colombia** jointly hosted a conference on “Determining the Tax Base for Extractive Industries in the Andean Region,” sharing experiences and views on effective tax base protection from tax planning, more responsive and flexible fiscal regimes for petroleum and mining, and improving regional cooperation.

The IMF has also been developing a suite of **fiscal assessment tools** to strengthen the analytical basis for fiscal surveillance, guide structural fiscal reforms, and set priorities for technical assistance. During FY2016, the Tax Administration Diagnostic Assessment Tool was launched with a wide range of partner agencies and has become an important basis for IMF technical assistance in revenue administration. The new Public Investment Management Assessment tool was also presented to the IMF’s Board during FY2016 and is being piloted in a range of countries in cooperation with the World Bank.

#### **HIGHLIGHTS OF MONETARY AND FINANCIAL SECTOR CAPACITY BUILDING**

Technical assistance on monetary and financial topics has continued to evolve, reflecting the changing needs of the membership and the increasingly interconnected and complex global financial system. New areas of IMF expertise have been added, including risk-based supervision, implementation of the Basel II/III capital requirements, and macroprudential policies, while work has continued in traditional areas such as financial regulation and supervision, crisis prevention and management, monetary and exchange-rate policies, and central bank operations.

In Africa, IMF technical assistance focused on fragile and postconflict countries, as well as other developing jurisdictions. For instance, in **South Sudan**, the Fund has been implementing a five-year multipartner trust fund program to support financial and macroeconomic stability by strengthening the central bank’s institutional capacity and frameworks. More broadly, substantial work in sub-Saharan Africa is supported through five Technical Assistance Centers located throughout the region. In Asia and the Pacific,

### Box 2.6: IMF Support for Ukraine Monetary and Financial Sectors

The Ukrainian economy and financial sector are emerging from their deepest crisis since independence, which was due to both the military conflict in the east of the country and large-scale structural imbalances accumulated over several decades. For a long time, the financial sector lacked adequate regulation and effective supervision, which contributed to a rapid increase in the number of financial institutions, many of which were used solely as funding instruments for related businesses, resulting in underprovisioning and overstated capital ratios. Compounding the situation was inadequate legal protection for creditors.

To strengthen the financial system, measures had to be taken concurrently on a number of fronts to improve the legal framework; financial system regulation and supervision; and monitoring, assessing, and addressing financial system risks. In the context of a comprehensive and ambitious IMF-supported reform program undertaken by the government to tackle macroeconomic imbalances and structural weaknesses, the Fund has been providing extensive technical assistance on monetary and financial sector issues to Ukraine. This technical assistance is being delivered under a capacity-building project financed by

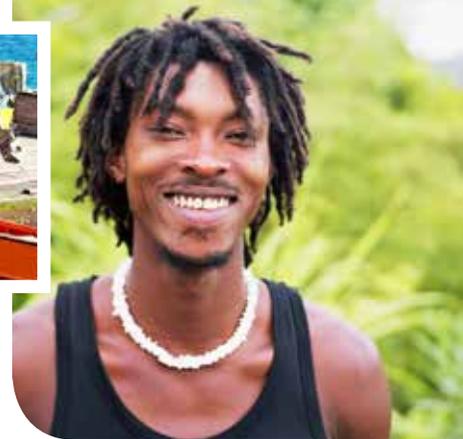
Global Affairs Canada that provides support to the National Bank of Ukraine (NBU), the Deposit Guarantee Fund, and the National Securities and Stock Market Commission.

While further improvements still need to be made, notable progress during FY2016 includes:

- Legal and regulatory changes to enhance the institutional and financial independence of the NBU, increase transparency of the banking sector, and introduce best international practices to improve banks' ability to withstand shocks and challenges;
- Technical support for an ambitious and detailed diagnostic study of the 20 largest banks, including asset quality reviews and stress-testing;
- Improvements in banking regulation and supervision, including moving to a risk-based approach to supervision, better early warning systems and on-site inspection processes, tightened regulation and supervision of related-party activities, and adoption of International Financial Reporting Standards; and
- Improvements in monetary policy decision-making processes, including strengthening monetary policy formulation and communication, rationalizing and phasing out some of the most stringent foreign exchange market restrictions, and rationalizing monetary operations.

technical assistance for banking supervision in **Cambodia**, **Myanmar**, and **Nepal** has focused on establishing the fundamental regulatory framework and supervisory skills for safeguarding financial stability, while assistance to **Indonesia** and the **Philippines** has supported the shift to risk-based supervision. Diagnostic assessments of financial stability, an area of increasing emphasis, were provided to **Sri Lanka** and **Sudan**. In Europe, IMF assistance to **Ukraine** has aimed at enhancing bank supervision, the foreign exchange market, domestic debt issuance, monetary policy, and the structure of the central bank (see Box 2.6).

In the Middle East and Central Asia, IMF support helped strengthen crisis management in **Morocco**, improve bank supervision in the **Kyrgyz Republic** and **Tunisia**, and modernize the central bank's analysis and research in **Turkmenistan**. In the Western Hemisphere, technical assistance for the **Eastern Caribbean Central Bank** focused on banking supervision, bank resolution, and crisis prevention to support the currency union. Assistance to **Paraguay** centered on implementing risk-based supervision and implementing inflation targeting.



### HIGHLIGHTS OF STATISTICS CAPACITY BUILDING

Member countries need high-quality macroeconomic statistics as the foundation for their economic decision-making. The IMF's Statistics Department provides technical assistance and training to the membership, with an emphasis on low-income and fragile economies. This support has led to more and better macroeconomic data, as well as better access to data for senior policy officials, capital market players, and other stakeholders, including the general public. In the past five years, capacity development in statistics grew by more than 70 percent, with funding from bilateral and multilateral partners. Training now includes cutting-edge topics, such as balance sheets, real estate property price indices, and cross-border position statistics, in addition to standard courses on macroeconomic statistics.

The largest capacity development project for statistics covers 44 countries in the Africa and the Middle East and Central Asia regions under the Enhanced Data Dissemination Initiative. It is financed by the United Kingdom's Department for International Development and began its second phase in May 2015. Results have included the completion of new private capital flow surveys leading to improvements in external sector statistics and the rebasing of national accounts, which provided policymakers with a more accurate and often sharply different picture of the size and structure of the economy.

Three Central Asian countries—**Azerbaijan**, the **Kyrgyz Republic**, and **Tajikistan**—have improved their external sector statistics with support from IMF statistics capacity development. With financing from Switzerland's State

Secretariat for Economic Affairs, they built on their compilation systems to enhance the comprehensiveness, consistency, timeliness, and accuracy of their statistics. By March 2016, the three countries had implemented the latest methodology (based on the sixth edition of the *Balance of Payments and International Investment Position Manual*, BPM6) in balance of payments statistics and two had begun compiling and disseminating quarterly International Investment Position and external debt statistics on a BPM6 basis.

The IMF has leveraged technology to enhance data dissemination, thereby broadening the availability and predictability of macroeconomic statistics. In May 2015, the IMF Executive Board endorsed the enhanced General Data Dissemination System (e-GDDS), which is designed to assist participants in improving data transparency and governance by publishing essential data for the analysis of macroeconomic conditions. In collaboration with the African Development Bank, the IMF implemented an Open Data Platform that greatly enhances data dissemination in about 20 countries in Africa. IMF technical assistance has already led two countries to implement the e-GDDS: **Botswana** in November 2015 and **Nigeria** in February 2016.

### HIGHLIGHTS OF LEGAL CAPACITY BUILDING

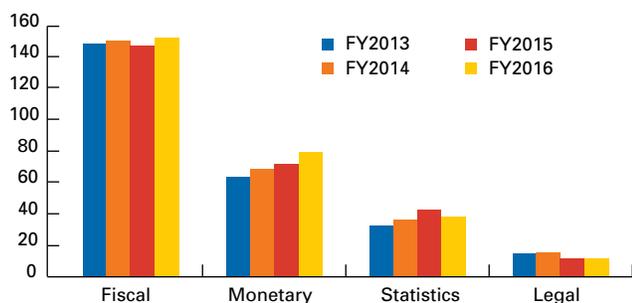
Demand for technical assistance on legal issues in both program and nonprogram countries continued in FY2016 in the areas of anti-money laundering and combating the financing of terrorism (AML/CFT), financial and fiscal law, insolvency, and claims enforcement.

The IMF continued its work in AML/CFT with the Financial Action Task Force (FATF), the World Bank, the Egmont Group of Financial Intelligence Units, and FATF-style regional bodies. The Fund led the assessment of Canada under the revised international standard. It continued the successful global program of technical assistance under the multipartner AML/CFT Topical Trust Fund; delivered technical assistance in Myanmar and Ukraine funded by Japan and Canada, respectively; increased engagement in Gulf states and on terrorism financing; and continued to coordinate its work both internally and with a large number of international assistance providers.

Figure 2.12

#### Technical assistance delivery by topic

(Person-years of field delivery)



Source: IMF Travel Information Management System (TIMS).



In the area of financial and fiscal law, technical assistance on central banking, bank regulatory and supervisory frameworks, and bank resolution and crisis management were maintained at previous levels. In contrast, technical assistance was minimal on market infrastructures (payment system) but continued to grow on legal frameworks for public financial management, as in previous years.

Technical assistance on tax law continued to see strong demand in the main areas of income tax, value-added tax, and tax procedures, with a particular emphasis on international aspects, reflecting the increased global attention to international tax issues. Similarly, international tax law design issues were at the core of both a headquarters-based seminar and a training session in Kuwait, the latter focusing specifically on regional issues.

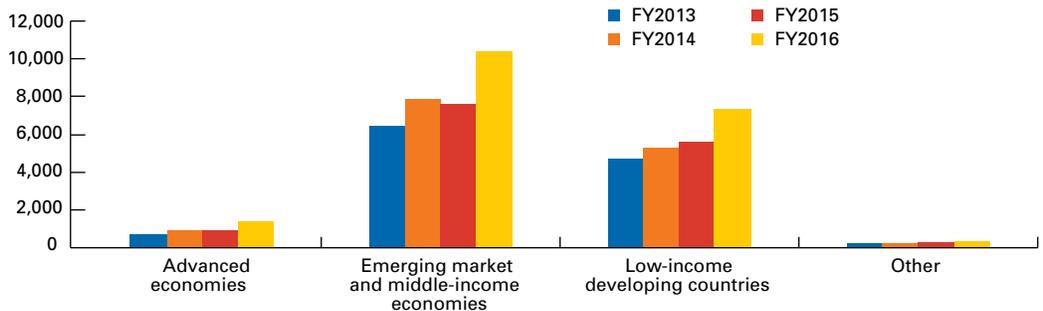
The IMF continued to provide technical assistance to its members in the area of corporate and household insolvency and claims enforcement to help ensure the early and rapid rehabilitation of viable businesses and the liquidation of nonviable businesses, and to improve the process of claims enforcement. The Fund also organized two workshops for high-level officials at the Joint Vienna Institute, one on corporate and household insolvency and the other on certain aspects of claims enforcement.

**TRAINING**

The IMF's training program is an integral part of the IMF's capacity development mandate and strives to respond to evolving global macroeconomic developments and policy challenges, membership demands, and technological innovations. The courses provide theoretical lectures, analytical tools, and hands-on workshops. The IMF's online learning courses, which are free and open to anyone with an Internet connection, continued to grow, with the addition of a Financial Programming and Policies, Part 2 course and a Financial Market Analysis course; Spanish and Russian versions of the Financial Programming and Policies, Part 1 course; and a French version of the Debt Sustainability Analysis course, adapted to focus on debt sustainability and debt management issues facing low-income countries. Online training participation grew sharply by 218 percent to 30 percent of total IMF training in FY2016.

During FY2016, the IMF delivered 375 training events, in which 14,457 officials from member countries participated. Most of these events were delivered through the IMF's network of regional training centers and programs, with the remainder delivered at IMF headquarters or other overseas locations. A wide range of topics meet different needs, spanning macroeconomic policies, forecasting and macroeconomic

**Figure 2.13**  
**Training participation by income group**  
(Participant-weeks)



Source: IMF Participant and Applicant Tracking System (PATS).



modeling, financial programming and policies, financial sector issues, specialized fiscal courses, macroeconomic statistics, assessments, and legal issues. Emerging market economies received the largest share of IMF training, 53 percent of the total for the year (Figure 2.13). Regionally, the share of sub-Saharan Africa was the largest at 28 percent, followed by Asia and Pacific and the Middle East and Central Asia (Figure 2.14).

### The User Experience

The IMF gathers views of external training participants' sponsoring agencies on the effectiveness of the IMF training program and future training needs through independently administered surveys conducted every three years. The latest triennial survey, covering the training provided during 2012–14, yielded highly positive results, including a 97 percent overall satisfaction rate (Figure 2.15). Overall, the IMF Institute has a very strong reputation among agencies.

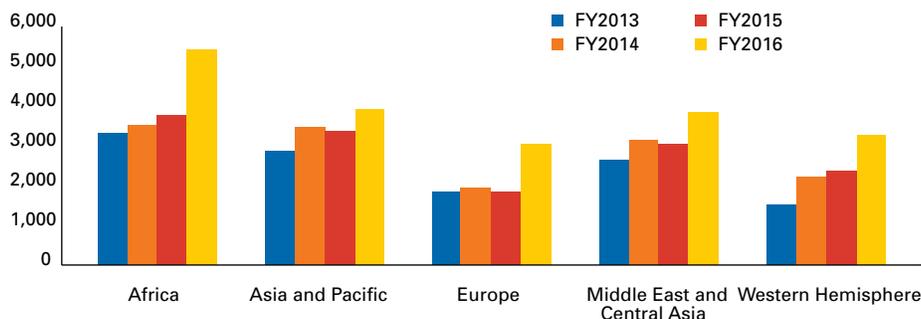
To harness synergies between technical assistance and training, staff have initiated customized training pilots on monetary policy, working with the central banks of Ghana, Mozambique, the East African Community region, and Sri Lanka on developing a forecasting and policy analysis system to strengthen their monetary policy frameworks. Regional workshops are being organized for peer-to-peer learning and sharing of experience.

**Figure 2.15**  
**Triennial Survey on IMF Training, 2015**



Source: IMF Institute for Capacity Development.

**Figure 2.14**  
**Training participation by region**  
(Participant-weeks)



Source: IMF Participant and Applicant Tracking System (PATS).



## PARTNERSHIPS FOR CAPACITY DEVELOPMENT

In FY2016, new contributions to IMF capacity development totaling \$126.3 million were received, and activities financed by partners totaled \$142 million. The top five partners are **Japan**, the **European Union**, **Switzerland**, the **United Kingdom**, and the **Netherlands**. Japan, the largest partner, made new contributions totaling \$30.4 million to finance technical assistance and training, including two scholarship programs, while Switzerland signed a new agreement for approximately \$24.2 million to cover bilateral projects through 2020.

During FY2016, the IMF continued to expand its global network of regional technical assistance centers. The **Caribbean Regional Technical Assistance Center**, CARTAC, laid the ground for the new phase, with key partners and member countries committing their support in April 2016. The **Pacific Regional Technical Assistance Center** (PFTAC) will start its fifth phase of operations in November 2016, while the **Middle Eastern Regional Technical Assistance Center** (METAC) will have started its new phase in June 2016. The **Central American Regional Technical Assistance Center** (CAPTAC-DR) entered the second year of its second five-year cycle with a confirmed pledge of \$8.4 million (10 million Canadian dollars) from **Canada**, which, with top-up contributions made by existing partners, such as **Luxembourg**, allowed the center to deliver capacity development as planned.

Strategic consultations were held during the year to lay the ground for a new five-year phase for the **West African, Central African, and Southern African Regional Technical Assistance Centers** (AFW, AFC, and AFS), set to begin between May and November 2017. As mentioned in the “Regional Highlights” section on Asia, in March 2016 the IMF and India announced an agreement to set up the South Asia Regional Training and Technical Assistance Center (SARTTAC) to strengthen capacity development in **Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka**.

In August 2015, the IMF and the **U.S. Agency for International Development** (USAID) signed the first memorandum of understanding between the two organizations. The framework for enhanced cooperation in capacity development will enable the two institutions to join forces to tackle global economic challenges in the context of the post-2015 Addis Ababa development agenda. For their first joint project, USAID provided funding for a training course on public financial management (face-to-face and online) developed by the IMF’s Fiscal Affairs Department. The IMF also signed a new memorandum of understanding with the **European Investment Bank** to bolster their existing partnership.

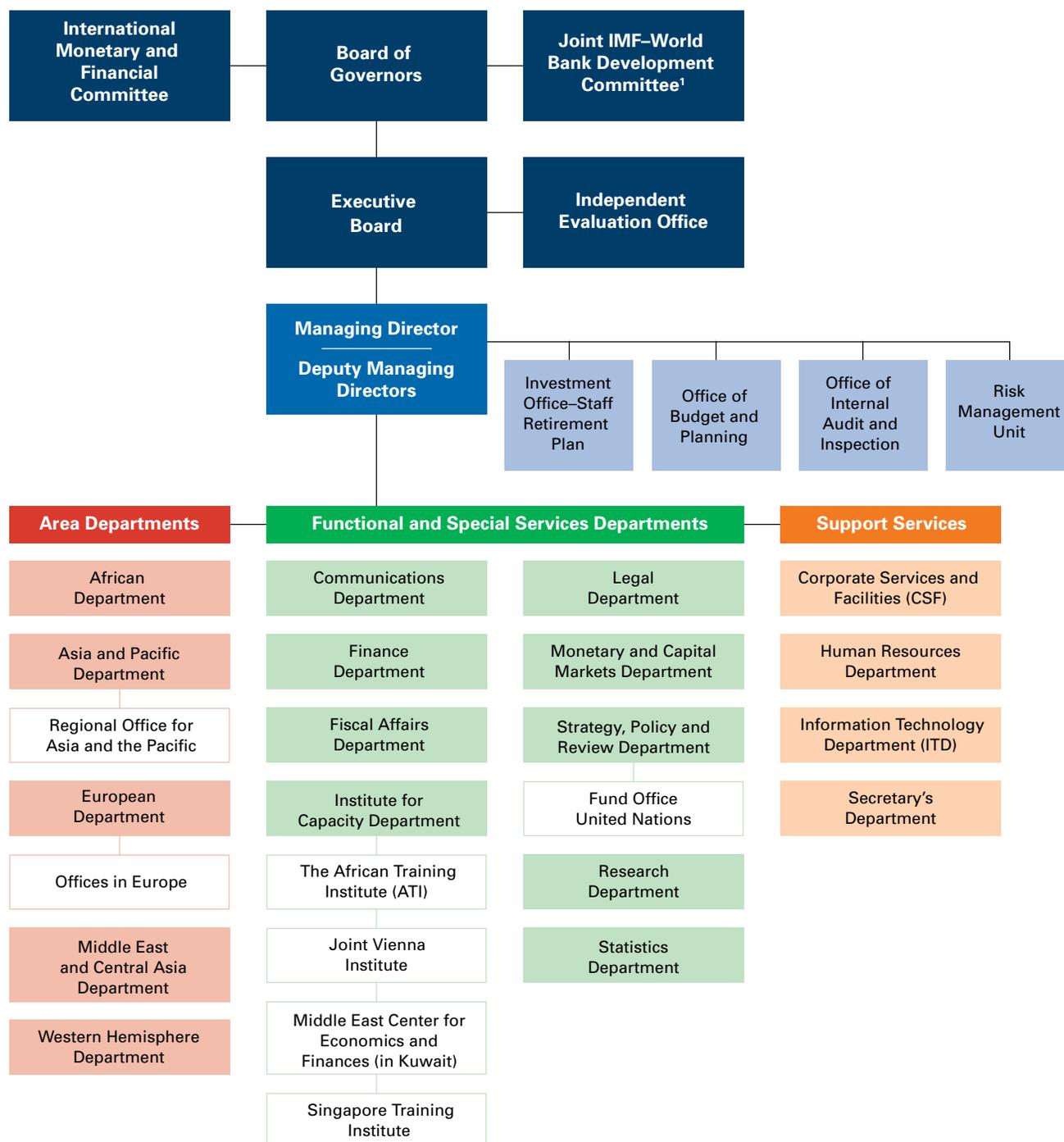
The Addis Ababa Tax Initiative highlighted the critical need to boost the capacity of less-developed countries to finance their Post-2015 Development Agenda. The IMF is contributing concrete solutions through its **Revenue Mobilization Trust Fund** and the **Managing Natural Resource Wealth Trust Fund**. The latter will help low- and lower-middle income countries derive the maximum benefit from their oil, gas, and mineral resources, so they can meet their goals for economic development and poverty reduction.

Another element of the IMF response to the Financing for Development Agenda is to establish a **Trust Fund on Financial Sector Stability**. Financial sector stability is a precondition for the key development goals of financial inclusion and deepening. The Trust Fund will support Financial Sector Stability Reviews and capacity development work in low- and lower-middle-income countries by providing a diagnostic assessment as a basis for prioritized financial sector reforms.

The **European Commission’s Directorate General for International Cooperation and Development** (DG DEVCO) and the IMF have agreed on a new strategic partnership framework for developing countries that will enhance policy dialogue and coordination between the two institutions, with DG DEVCO committed to contributing about €200 million in financing to IMF capacity development initiatives in 2016–20. The IMF also actively works with other EC Directorate Generals to meet the high demand for capacity development in EU member states and prospective members.

# IMF Organization Chart

as of April 30, 2016



<sup>1</sup> Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

## The IMF Board at Work

The IMF's 24-member Executive Board takes care of the daily business of the IMF. Together, the 24 Board members represent all 189 member countries. Large economies, such as the United States and China, have their own seat at the table, but most countries are grouped in constituencies representing four or more countries. The largest constituency includes 23 countries.

### of the Board

Dean



Aleksei Mozhin, Executive Director for Russia, became Dean of the Executive Board in January 2015 as the longest-serving Director. He came to the IMF in 1992 as an Alternate Executive Director when the Russian Executive Director's office was created and was elected as the principal in 1996.

Mr. Mozhin holds a B.A. and Ph.D. in economics from Moscow State University and did postgraduate studies at the State University of New York at Albany. Prior to joining the IMF he was a research fellow at the Russian Academy of Sciences and head of the Russian government's Department for Interaction with International Financial Institutions.

Of his work at the Fund, Mr. Mozhin says, "I'm a true believer in the Fund's mission and in the need to enhance international cooperation to improve the quality of global governance."

## formal Board meetings

210



The Board usually meets several times each week. It carries out its work largely on the basis of papers

prepared by IMF management and staff. The Board discusses everything from the annual health checks of member countries' economies to economic policy issues relevant to the global economy.

## Board meetings on countries

164



The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

Informal discussions may be held to discuss complex policy issues still at a preliminary stage.

## Finances, Organization, and Accountability

### BUDGET AND INCOME

#### Medium-Term Budget

In April 2015, in the context of the FY2016–18 medium-term budget, the Executive Board authorized a total net administrative budget appropriation for FY2016 of \$1,051.5

million. The Board also approved a limit on gross expenditures of \$1,289.8 million, including up to \$42.5 million in carry-forward of unspent FY2015 resources for possible spending in FY2016. It also approved a capital budget of \$42.1 million for building facilities and information technology capital projects (*Table 3.1*).

**Table 3.1**  
**Budget by major expenditure category, FY2015–19**  
(Millions of U.S. dollars)

	FY2015		FY2016		FY2017 Budget	FY2018 Budget	FY2019 Budget
	Budget	Outturn	Budget	Outturn			
<b>ADMINISTRATIVE EXPENDITURES</b>							
Personnel	896	862	908	896	938	...	...
Travel <sup>1</sup>	128	112	130	120	123	...	...
Buildings and other	193	204	199	199	201	...	...
Contingency reserves	7	...	10	...	11	...	...
<b>Total gross expenditures</b>	<b>1,224</b>	<b>1,177</b>	<b>1,247</b>	<b>1,215</b>	<b>1,273</b>	<b>1,310</b>	<b>1,365</b>
Receipts <sup>2</sup>	-197	-167	-196	-176	-200	-214	-238
<b>Total net budget</b>	<b>1,027</b>	<b>1,010</b>	<b>1,052</b>	<b>1,038</b>	<b>1,072</b>	<b>1,096</b>	<b>1,127</b>
Carry-forward <sup>3</sup>	42	...	42	...	43		
<b>Total net budget including carry-forward</b>	<b>1,069</b>	<b>1,010</b>	<b>1,094</b>	<b>0</b>	<b>1,115</b>	<b>1,096</b>	<b>1,127</b>
<b>Capital</b>							
<b>Facilities and Information Technology</b>	<b>52</b>	<b>136</b>	<b>42</b>	<b>131</b>	<b>61</b>	<b>61</b>	<b>60</b>
of which: HQ1 Renewal		96		90			

Source: IMF Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

<sup>1</sup> FY2016 include travel to the Annual Meetings held abroad.

<sup>2</sup> Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, parking, and other miscellaneous revenue.

<sup>3</sup> Resources are carried forward from the previous year under established rules.

### Box 3.1: HQ1 Building Renovation Progress

Renovation of the older of the two IMF headquarters buildings (HQ1) in downtown Washington, D.C., continued throughout the year. This extensive project is designed to replace aging building systems, including air conditioning, boilers, water pumps, 12 miles of water piping, hot water heating, building controls, and 35,000 light fixtures. The renovation will also support more energy-efficient and sustainable operations and improve work spaces by creating more modern, flexible, multifunctional facilities with more natural light, to help meet the IMF's business needs over the next 20–25 years.

The project has experienced some challenges due to unexpected and complex technical conditions, as well as the discovery of additional asbestos that increased the scope of work. In January 2016, the Executive Board approved additional funding and project completion is now anticipated in 2020.

Considerable progress was made in FY2016 toward completing phase 1 of the project, which represents more than 50 percent of the overall square footage of the building.

The IMF FY2016 work program continued to support the gradual postcrisis stabilization of the global economy, amid growing uncertainties about the speed of recovery and vulnerabilities. While the number of IMF-supported programs was lower than the peak levels of FY2011/12, the growing complexities of the global economy and financial system had placed pressure on the Fund's surveillance work and had resulted in increased requests for technical assistance. The institution was able to deliver on these demands within a flat budget in real terms thanks to the implementation of a cross-cutting streamlining initiative agreed as part of the FY2016 budget, together with ongoing departmental reprioritization efforts. Actual administrative expenditures in FY2016 totaled \$1,038.3 million, \$13.2 million below the total net budget. Average vacancy rates continue to decline and are now considered to be at a frictional level. Spending on physical security, both at headquarters and overseas, and on information technology security grew further, in line with the trend observed in recent years.



Deputy Managing Director Carla Grasso (right) inspects progress on HQ1 renovation.

Several public spaces were prepared for reopening in FY2017, including the atrium, gallery, bistro, cafeteria, and meeting spaces. Renovation of two office floors was completed and readied for staff to return and the next office floor was vacated for renovation. During construction, some staff have been temporarily relocated to the IMF's other building (HQ2) or to leased space nearby.

The project aspires to Leadership in Energy and Environmental Design (LEED) certification and incorporates green building design and construction practices that will have a lower impact on the environment and lay the foundation for ongoing sustainable operations and maintenance.

Capital budget expenditures for facilities and information technology totaled \$131 million, including amounts appropriated from prior years. The HQ1 Renewal Program continued to progress, with several areas of the building in the final stage of testing and commissioning before reopening. In January 2016 the Executive Board approved supplemental funds for the HQ1 Renewal Program to cover unforeseen costs. Information technology capital spending totaled \$25.9 million, mainly to improve knowledge management, enhance data management and analysis capacity, and streamline access to information for use within the Fund and by country officials.

For financial reporting purposes, the IMF's administrative expenditures are accounted for on an accrual basis, in accordance with International Financial Reporting Standards (IFRS). These standards require accounting on an accrual basis and the recording and amortizing of employee benefit costs based on actuarial valuations. *Table 3.2* provides a detailed reconciliation between the FY2016 net administrative budget outturn of \$1,038 million and the IFRS-based administrative expenses of \$1,326 million (SDR 951 million) reported in the IMF's audited financial statements for the year.

Table 3.2

**Administrative expenses reported in the financial statements, FY2016**

(Millions of U.S. dollars, unless otherwise indicated)

FY2016 NET ADMINISTRATIVE BUDGET OUTTURN	1,038
<b>TIMING DIFFERENCES</b>	
Pension and postemployment benefits costs	312
Capital expenditure—amortization of current and prior years' expenditure	38
<b>AMOUNTS NOT INCLUDED IN THE ADMINISTRATIVE BUDGET</b>	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	17
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust, Catastrophe Containment and Relief Trust [formerly the Post-Catastrophe Debt Relief Trust], and Special Drawing Rights Department)	(79)
<b>TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS</b>	<b>1,326</b>
<b>MEMORANDUM ITEM</b>	
Total administrative expenses reported in the audited financial statements (millions of SDRs)	951

Sources: IMF Finance Department and Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Conversions are based on the effective weighted average FY2016 U.S. dollar/SDR exchange rate for expenditures of about 1.39.

In April 2016 the Board approved a budget for FY2017, comprising a net administrative expenditure of \$1,072.5 million and a limit on gross expenditure of \$1,316.1 million. The FY2017 budget also includes up to \$43.3 million in carry-forward of unspent FY2016 resources. As is customary, small adjustments were made in the budget to accommodate increases in the salary structure and in the cost of nonpersonnel expenses, in line with price increases. In addition, after four years of zero real growth, the FY2017 budget includes an increase of 0.5 percent in constant dollar terms to cover the institution's rising information technology and physical security costs. The capital budget was set at \$60.5 million, comprising \$32.5 million for building facilities and \$28 million for information technology. Indicative budgets for FY2018 and FY2019 were also presented to the Board, with early indications of upward pressure to cope with rising demands from the membership.

**INCOME MODEL, CHARGES, REMUNERATION, BURDEN SHARING, AND NET INCOME****Income Model**

Since its establishment, the IMF has relied primarily on its lending activities to fund its expenditures. To generate additional income, the IMF established the Investment Account in 2006 and invested its reserves. In 2008, the Executive Board endorsed a new income model that involved the establishment of an endowment funded from the profits from the limited sale of the IMF's gold holdings. Along with the new income model, the Fifth Amendment to the Articles of Agreement, which became effective in February 2011, authorized the broadening of the IMF's investment mandate to enhance the expected returns on its investments and further strengthen its finances over time. In January 2013, the Executive Board adopted Rules and Regulations for the Investment Account. The Board reviewed the investment strategy of the Fund's reserves in August 2015 and adopted new Rules.

**Charges**

Reflecting the high levels of lending activities and the current low returns on its investments, the IMF's main source of income continues to come from charges levied on the outstanding use of credit. The basic rate of charge (the interest rate) on IMF financing comprises the SDR interest rate plus a fixed margin expressed in basis points. Under the rule adopted by the Executive Board in December 2011, the margin is reviewed every two years and is set so as to cover the IMF's financing-related intermediation costs and allow for a buildup of its reserves. The rule also includes a cross-check to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions. In April 2016, the Executive Board agreed to maintain the margin for the rate of charge at 100 basis points.

The IMF also levies surcharges on the use of large amounts of credit in the credit tranches and under Extended Arrangements. Following the effectiveness of the Fourteenth General Review of Quotas, the Executive Board revised the quota-based thresholds at which surcharges are applied to mitigate the effect of the doubling of quotas. Surcharges, referred to as level-based surcharges, of 200 basis points are levied on the use of credit above 187.5 percent of a member's

quota. Time-based surcharges of 100 basis points are levied on outstanding credit above the same threshold for more than 36 months in the credit tranches or 51 months under the Extended Fund Facility.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the General Resources Account (GRA). A refundable commitment fee is charged on amounts available under GRA arrangements, such as Stand-By Arrangements, as well as Extended, Flexible Credit Line, and Precautionary and Liquidity Line Arrangements, during each 12-month period. Commitment fees are levied at 15 basis points, 30 basis points, and 60 basis points on amounts available for drawing up to 115 percent, between 115 and 575 percent, and over 575 percent of quota, respectively. Commitment fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are past due by less than six months.

### Remuneration and Interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as remunerated reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, nor less than 80 percent of that rate. The basic rate of remuneration is currently set at the SDR interest rate, which is based on a weighted average of representative interest rates on short-term financial debt instruments in the money markets of the SDR basket currencies, subject to a floor of 5 basis points. The IMF also pays interest at the SDR interest rate on outstanding borrowings under the bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangements to Borrow.

### Burden Sharing

The rates of charge and remuneration are adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations to the IMF's GRA equally between debtor and creditor members. Income loss due to unpaid interest charges that are overdue for six months or more is recovered via burden sharing by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the unpaid charges are settled.

In FY2016, the adjusted rates of charge and remuneration averaged 1.051 percent and 0.045 percent, respectively.

### Net Income

The IMF's net income in FY2016 was SDR 998 million, reflecting primarily income from the high levels of lending activity and income from its investments held in the Investment Account. As required by International Financial Reporting Standards (amended International Accounting Standard 19, Employee Benefits), the net income for the financial year includes a gain of SDR 543 million arising from the immediate recognition of the effects of changes in actuarial assumptions used in determining the IMF's defined benefit obligation of postemployment employee benefit plans.

### Arrears to the IMF

Overdue financial obligations to the IMF declined slightly from SDR 1,290.8 million at end-April 2015 to SDR 1,285.7 million at end-April 2016 (*Table 3.3*). At end-April 2016, three members—Somalia, Sudan, and Zimbabwe—remained in protracted arrears to the IMF (outstanding for more than six months). Somalia and Sudan have accumulated arrears dating back to the mid-1980s, accounting for about 18 and 76 percent of the total arrears, respectively. Zimbabwe, which has been in arrears to the Poverty Reduction and Growth Trust (PRGT) since February 2001, accounted for the remaining 6 percent. One-third of total arrears as of end-April 2016 consisted of overdue principal, and the remaining two-thirds, of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the Trust Fund and the PRGT. Zimbabwe is the only country with protracted arrears to the PRGT. Due to the SDR allocations in August/September 2009, all protracted cases have remained current in the SDR Department.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been taken to address the protracted arrears. At the end of the fiscal year, Somalia and Sudan remained ineligible to use GRA resources. Zimbabwe is not able to access GRA resources until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of IMF's technical assistance, and the removal from the list of PRGT-eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT.

Table 3.3

**Arrears to the IMF of countries with obligations overdue by six months or more and by type, as of April 30, 2016** (Millions of SDRs)

	Total	By Type		
		General Department (including Structural Adjustment Facility)	Trust Fund	Poverty Reduction and Growth Trust
Somalia	236.8	228.5	8.3	...
Sudan	970.1	887.7	82.4	...
Zimbabwe	78.8	...	...	78.8
<b>Total</b>	<b>1,285.7</b>	<b>1,116.2</b>	<b>90.7</b>	<b>78.8</b>

Source: IMF Finance Department.

## HUMAN RESOURCES POLICIES AND ORGANIZATION

### Human Resources

To be effective in the global economy, the IMF must recruit and retain a highly qualified and diverse international staff. In FY2016, the IMF introduced a comprehensive compilation of rules governing staff employment in a *Staff Handbook*, conducted a review of compensation practices, focused on leadership development, and conducted a staff survey.

### WORKFORCE CHARACTERISTICS

As of April 30, 2016, the IMF employed 2,223 professional and managerial staff, and 449 support staff. A list of the institution's senior officials is on page 106 and its organizational chart can be found on page 84.

Recruitment of 182 total new staff in 2015 was slightly higher than the 2014 level of 174. In 2015, four managerial staff, 139 professional staff and 39 support staff were hired. The IMF requires economists to have advanced analytical and policymaking experience, and in 2015 recruited 19 top university graduates through the Economist Program (EP) and 56 experienced mid-career economists. Two-thirds of mid-career hires were macroeconomists, and the rest experts in fiscal policy and the financial sector. During the year 489 contractual employees were hired.

In 2015, seven appointees from four countries were hired under the Externally Financed Appointee hiring program (EFA), bringing the total number of appointees to 13. The EFA was designed to provide up to 15 member-country governments with two years of IMF work experience. Costs are financed by member countries through a multipartner trust fund.

### DIVERSITY AND INCLUSION

The IMF strives to ensure that the staff is diverse in terms of geographic region, gender, and educational background, but challenges remain. Of the IMF's 189 member countries, 148 were represented by staff as of end-April 2016.

Hiring of nationals from underrepresented regions stood at 48 percent of all external hiring at the professional level for 2015.

More statistics and information on ongoing efforts to improve diversity and inclusion at the IMF are available on the last page of this report and in the "2015 IMF Diversity Annual Report."

### MANAGEMENT APPOINTMENTS AND CHANGES

**Christine Lagarde** was reappointed as the Managing Director of the IMF for a second five-year term beginning July 5, 2016.

**David Lipton** was reappointed as the First Deputy Managing Director for a second five-year term beginning on September 1, 2016.

In early FY2017, Deputy Managing Director **Min Zhu** announced his intention to leave the IMF when his term expired in late July. The Managing Director praised his outstanding contributions to the Fund for the past five years and before that as a Special Advisor to the Managing Director. "His down-to-earth style, wonderful sense of humor, and warm personality served to reinforce his formidable intellect and passion for economics, and enabled him to provide strong leadership across a large range of issues," she said. The Managing Director's announcement also noted that a process was underway to identify a candidate to succeed him.

In July 2016, the Managing Director announced she had nominated **Mr. Tao Zhang**, Deputy Governor of China's central bank (PBOC), to serve as an IMF Deputy Managing Director effective August 22. Zhang had previously served for four years as China's Executive Director at the IMF. At the PBOC he held several positions,

including head of the bank's legal affairs department and head of its financial survey and statistics department. He also has worked at the World Bank and the Asian Development Bank. "Mr. Zhang brings a strong combination of international economic expertise, public sector policymaking, and diplomatic skills," Christine Lagarde said. "He also has extensive experience with international financial institutions, excellent communication and negotiating skills, and a superb knowledge of IMF policies and procedures."

#### MANAGEMENT STRUCTURE AND SALARIES

The Executive Board reviews IMF management remuneration periodically. The Board of Governors approves the Managing Director's salary. Annual adjustments are made based on the Washington, D.C., consumer price index. As of July 1, 2015, the salary structure for management was as follows:

Managing Director:	\$494,660
First Deputy Managing Director:	\$430,120
Deputy Managing Directors:	\$409,650

#### SENIOR STAFF CHANGES

On July 20, 2015, IMF Managing Director Christine Lagarde appointed Maurice Obstfeld as Economic Counsellor and Director of the IMF's Research Department, after his predecessor Olivier Blanchard retired from the Fund.

In March 2016, Director of the Human Resources Department Mark Plant announced his retirement, and Lagarde appointed Kalpana Kochhar as his replacement, effective June 13, 2016.

### Box 3.2: Profiles of outgoing and incoming senior staff



**OLIVIER BLANCHARD'S** distinguished career, insightful analysis, and original ideas have made him one of the world's most cited economists. He was appointed as the IMF's Economic Counsellor and Director of the Research Department in 2008. He stepped down in September 2015 after leading research at the IMF through the stormy days of the global financial crisis. A citizen of France, Mr. Blanchard obtained his Ph.D. in economics at the Massachusetts Institute of Technology (MIT) and taught at Harvard University before returning to MIT, where he served as Chairman of MIT's Economics Department.



**MARK PLANT** During his 24-year career at the IMF, Mark Plant worked in the African Department and the then-Policy Development and Review Department, where he oversaw the review of IMF lending to low-income countries (LICs) and LIC policy development work. He returned to the African Department as Deputy Director before being appointed Director of the Human Resources Department in 2011. A U.S. citizen, Mr. Plant received his B.A. in economics and mathematics at the University of Virginia and his M.A. and Ph.D. in Economics at Princeton University.



**MAURICE OBSTFELD** took over as Economic Counsellor and head of the IMF's Research Department in September 2015. A former Chair of the Department of Economics at the University of California at Berkeley, Mr. Obstfeld has advised many governments and consulted at central banks all over the world, as well as serving as a member of President Obama's Council of Economic Advisers. A citizen of the United States, Mr. Obstfeld received his Ph.D. in economics from MIT after earning a B.A. from the University of Pennsylvania and an M.A. from Cambridge University. He was a Research Fellow at the IMF on four separate occasions.



**KALPANA KOCHHAR** has had an impressive career at the IMF, spanning more than 25 years and several departments. She took over as head of Human Resources in June 2016. Previously, she served as Deputy Director in the Asia and Pacific Department and in the Strategy, Policy and Review Department, and as Senior Advisor in the Research Department. She was also the Chief Economist for the South Asia Region at the World Bank. A citizen of India, Ms. Kochhar holds a Ph.D. and an M.A. in economics from Brown University, an M.A. in economics from Delhi School of Economics in India, and a B.A. in economics from Madras University in India.

## NEW OFFICE OF INTERNAL INVESTIGATION

In July 2016, the Managing Director announced the appointment of Sabina Blaskovic to the new position of Internal Investigator at the Fund. The Office of the Ethics Advisor, led by Olivia Graham as of October 2015, now focuses exclusively on advice, training, and outreach to promote the Fund's ethics standards, whereas the separate Office of Internal Investigations, led by Blaskovic, takes responsibility for ethics investigations. This new division of responsibilities will enhance the efficiency of both the advisory and investigative functions through greater specialization.

Blaskovic had previously held senior investigative positions at the International Fund for Agricultural Development, the United Nations Office of Internal Oversight Services, and in New York City government departments. Graham's distinguished career in ethics includes more than 20 years of experience in international settings, such as the World Bank and the International Fund for Agricultural Development, where she was Director of Ethics.

## ACCOUNTABILITY

### Risk Management at the Fund

By virtue of its role, as established in the Articles of Agreement, the IMF faces a range of financial and nonfinancial risks. In February 2016, the Executive Board approved a risk acceptance statement indicating the degree of risk the IMF is willing to tolerate across the Fund's activities and has the capacity to successfully manage over an extended period of time. The statement will be reviewed periodically to reflect any changes in existing policies and processes, a set of strategic decisions made by the Executive Board and Management in setting the Fund's philosophy on risk, given its unique institutional role and business model.

The IMF uses three lines of defense to actively manage risks. Departments conducting day-to-day operations establish and maintain systems of internal controls for identifying and managing the risks inherent in those operations (see *Box 3.3* on some elements of risk management). In specific areas, cross-departmental committees provide additional risk oversight. An independent Risk Management Unit is responsible for developing and maintaining the risk management framework, devising tools to assess risk, and reporting to management and the Board on the IMF's overall risk profile, highlighting areas where additional mitigation efforts are required.

The Risk Management Unit's periodic risk assessment feeds into the Fund's strategic and budget planning cycle. The Office of Internal Audit and Inspection (OIA) provides independent assurance on the effectiveness of governance, risk management, and internal controls (see section on OIA below). Ultimate responsibility for maintaining effective risk management and mitigation lies with management and the Executive Board.

The IMF monitors and actively manages risks across four broad areas: strategic, core, cross-functional, and reputational. Managing *strategic risk* requires establishing a clear strategic framework and responding to the evolving external environment. Strategic direction is guided by the Managing Director's Global Policy Agenda, informed by continuous analysis of emerging issues affecting the international monetary system.

Risks in the IMF's *core functions* relate to aligning the IMF's three main areas of activity—surveillance, lending, and capacity development—with the Fund's strategic direction and underlying objectives, while also ensuring that its financing model remains safeguarded. In managing credit risks, the IMF employs a multilayered framework with the primary tools focused on access, program design, and conditionality. An adequate level of precautionary balances and the Fund's de facto preferred creditor status are also an integral part of this framework. In February, 2016, the Executive Board conducted a biennial review of the adequacy of the precautionary balances. The Executive Board supported retaining the current medium-term indicative target for precautionary balances of SDR 20 billion and raising the minimum floor for precautionary balances, from SDR 10 billion to SDR 15 billion.

Risks in its *cross-functional assets* refer to the capacity of the IMF's human capital, technology, physical assets, and other supporting elements to enable implementation of the strategic direction and avoid any disruption in effective performance of the institution's core functions. Cross-functional risk also concerns other financial risks, such as income and investment risks. *Reputation risk* refers to the possibility that stakeholders might take a negative view of the IMF, resulting in damage to its credibility, traction, and effectiveness.

## AUDIT MECHANISMS

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that, under the IMF's By-Laws, exercises general oversight over the annual audit.

### EXTERNAL AUDIT COMMITTEE

The three members of the EAC are selected by the Executive Board and appointed by the Managing Director. Members serve three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different member countries and must possess the expertise and qualifications required to oversee the annual audit. Typically, EAC members have significant experience in international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. It meets in Washington, D.C., each year, normally in January or February to oversee the planning for the annual audit, in June after the completion of the audit, and in July to brief the Executive Board. The IMF staff and the external auditors consult with EAC members throughout the year. The 2016 EAC members were Daniel Loeto Gonzalo (chair), a chartered accountant and the chief accountant of the Bank of Botswana; Mary Barth, a professor of accounting at Stanford University; and Kamlesh Vikamsey, a chartered accountant and senior partner in an accounting firm in India.

### EXTERNAL AUDIT FIRM

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for conducting the IMF's annual external audit and expressing an opinion on the IMF's financial statements, including the accounts administered under Article V, Section 2(b), of the Articles of Agreement and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors.

The external audit firm is appointed for a term of five years, which may be renewed for up to an additional five years. PricewaterhouseCoopers was appointed as the IMF's external audit firm in November 2014, following the mandatory rotation of the predecessor firm Deloitte & Touche LLP after 10 years. The external audit firm can perform certain consulting services, except for a blacklist of prohibited services and subject to robust safeguards to protect the audit firm's independence. These safeguards involve oversight of the EAC and, for consulting fees above a certain threshold, the Executive Board's approval.

### OFFICE OF INTERNAL AUDIT AND INSPECTION

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the IMF's governance, risk management, and internal control processes. In line with best practice, OIA reports to IMF management and to the EAC, thus ensuring its objectivity and independence.

OIA's FY2016 work included assurance and advisory engagements that assessed the adequacy of controls and procedures to mitigate risks to the achievement of the Fund's institutional and departmental goals. Engagements included audits and advisory reviews covering the adequacy of controls to select and contract the IMF's service providers, the adequacy of the IMF's business continuity planning, information technology work to evaluate the adequacy of the controls that protect the Fund's information assets, and a review of the IMF's capacity development activities.

In addition, OIA delivered the Seventh Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed Recommendations of the IMF's Independent Evaluation Office (IEO). This was the second such report prepared by OIA under the procedure recommended by the external evaluators of the IEO and approved by the Board in February 2013. On the grounds that no new Management Implementation Plans had been issued during the year, the report focused on a discussion of progress made on the four plans reviewed in the previous report. The Executive Board's Evaluation Committee reviewed the Seventh Periodic Monitoring Report in September 2015, and the full Board approved it in October 2015.

The Board is informed of OIA activities twice a year in an activity report that includes information on audit results and the status of audit recommendations. The most recent informal Board briefing on these matters took place in January 2016.

### Independent Evaluation Office

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities. Under its terms of reference, the IEO is fully independent of IMF management and staff and operates at arm's length from the Fund's Executive Board. Its mission is to enhance the learning culture within the IMF, strengthen the IMF's external credibility, and support institutional governance and oversight.

## Executive Board Reviews of IEO Reports and Recommendations

### SELF-EVALUATION AT THE IMF

In September 2015, the IEO released its report, “Self-Evaluation at the IMF: An IEO Assessment.” The IEO found that considerable self-evaluation takes place at the IMF, that many IMF self-evaluation activities and reports were of high technical quality, and that self-evaluation informed reforms in policies and operations. Yet, there are gaps in coverage, weaknesses in quality, and shortcomings in distilling and disseminating lessons, in part because of the absence of an explicit, conscious, institution-wide approach to this work. Moreover, the evaluation found that recent decisions made as part of a cost-saving exercise may weaken the self-evaluation framework.

To help address these concerns, the evaluation recommended that the IMF adopt an overall policy for self-evaluation. Such a policy should be general to allow practices to evolve with the operational environment, while also setting out the goals, scope, key outputs, and expectations for utilization and follow-up.

The evaluation also recommended that all lending programs undergo some form of self-assessment, to provide the platform for learning from experience, as well as to enhance transparency on the use of IMF resources. Finally, the evaluation called on IMF management to develop products and activities to distill and disseminate the findings and lessons of evaluations in ways that highlight their relevance for staff work and enhance learning.

In discussing the report, the Executive Board welcomed this first assessment of self-evaluation at the IMF and agreed on the importance of having a clearly articulated approach to self-evaluation and on the need to better disseminate lessons from self-evaluation.

### BEHIND THE SCENES WITH DATA AT THE IMF

In March 2016, the IEO released its report, “Behind the Scenes with Data at the IMF: An IEO Assessment.” The report examined whether the IMF’s policies and practices with respect to data and statistics are adequate for fulfilling the IMF’s mandate in a rapidly evolving global economy.

### Box 3.3: Managing Risks with Safeguards Assessments

When the IMF provides financing to a member country, a safeguards assessment is carried out to obtain reasonable assurances that the country’s central bank is able to adequately manage the resources received from the IMF and provide reliable monetary data on the IMF-supported program. Safeguards assessments are diagnostic reviews of central banks’ governance and control frameworks, and complement the IMF’s other safeguards, which include limits on access, conditionality, program design, measures to address misreporting, and postprogram monitoring. They involve an evaluation of central bank operations in five areas: the external audit mechanism, the legal structure and autonomy, the financial reporting framework, the internal audit mechanism, and the system of internal controls.

As of end-April 2016, 283 assessments had been conducted, covering 94 central banks, 11 assessments of which were completed in FY2016. In addition, safeguards activities include monitoring progress in implementing recommendations and addressing other developments in central banks’ safeguards frameworks for as long as IMF credit remains outstanding. About 60 central banks are currently subject to monitoring.

In October 2015, the IMF Executive Board concluded a five-yearly review of the safeguards policy. The review confirmed the policy’s effectiveness and its positive contribution to the Fund’s overall risk management framework. It also recognized that the safeguards process has helped central banks improve their control, audit, and reporting practices. No significant changes were made to the framework for conducting the safeguards work, as it was found to remain relevant and adequate. A new element introduced to the safeguards policy was that for cases involving direct budget financing, a risk-based approach for fiscal safeguards reviews of state treasuries would be conducted. The reviews will only apply for arrangements where a member requests exceptional access to Fund resources and a substantial portion of the funds, at least 25 percent, is directed to financing the state budget.

In addition, regional safeguards seminars were conducted during FY2016 at the Joint Vienna Institute in Austria, Joint Partnership for Africa in Pretoria, South Africa, and at the IMF-Middle East Center for Economics and Finance in Kuwait. The seminars highlighted international leading practices in safeguards areas and provided a forum for central bank officials to share experiences.

The evaluation found that data provision from member countries has improved markedly over time, allowing the institution, to a large extent, to keep abreast of the growing complexity and interconnectedness of the world economy. However, the evaluation concluded—as had other reports in the past—that data deficiencies still affect the Fund’s strategic operations. In particular, problems with data and data practices have, at times, left the IMF less than fully equipped to play its critical role of helping to secure global macro-financial stability.

In the aftermath of crises, data have often been put at the forefront, prompting important changes in the Fund’s approach to data. Yet, once the crises subside, the data issues typically receive low priority, being viewed as mere support activities to the Fund’s strategic operations. The causes of some data deficiencies lie outside the IMF itself. Nonetheless, internal institutional constraints, data management structures, incentive systems, and quality control mechanisms have hampered effective flows and utilization of data. Some steps are underway, including a new data management governance structure and initiatives to fill data gaps revealed by the global financial crisis, but these efforts fall short of a clear, comprehensive strategy that recognizes data as an institutional strategic asset, not just as an input for other work.

During its discussion, the Executive Board welcomed the report. Directors broadly supported the report’s main findings and endorsed the recommendation that the IMF develop a long-term strategy for data and statistics that provides a common institutional objective and acknowledges data as a strategic asset. They also supported the IEO’s call for the IMF to define and prioritize its data needs, clarify the role and mandate of the Statistics Department, reexamine incentives for staff with respect to data management, and make clear the degree to which the institution takes responsibility for the quality of the data it disseminates.

### The IEO Work Program

During FY2016, in addition to issuing the two reports discussed above, the IEO continued its work on the evaluation of the IMF and the euro area crisis. The evaluation focuses on the IMF’s role during the banking and sovereign debt crises of Greece, Ireland, and Portugal, as well as IMF surveillance and technical assistance in these and other euro area countries and institutions. The IEO plans to issue the report before the 2016 Annual Meetings.

The IEO also launched a new evaluation on IMF work on social protection, with the draft issues paper discussed by Executive Directors in an informal seminar in March 2016. During FY2017, the IEO intends to begin work on an evaluation of the IMF’s work on fragile states. Completed evaluations, issues papers, IEO Annual Reports, and other documentation can be found on the IEO website at [www.ieso-imf.org](http://www.ieso-imf.org).

### Implementation of Board-Endorsed Recommendations

Management Implementation Plans for two IEO evaluations—“IMF Forecasts” and “Recurring Issues from a Decade of Evaluation”—were approved by the Executive Board in September 2015. As mentioned above, the Seventh Periodic Monitoring Report was approved by the Board in September. In October 2015, Executive Directors, after consulting with management and staff, determined that Management Implementation Plans should be presented to the Board within six months after completion of an IEO evaluation, in line with a recommendation from the 2013 External Evaluation of the IEO.

In December 2015, the Board approved Management’s plan to follow up on the IEO evaluation of the “IMF Response to the Financial and Economic Crisis” by ensuring that the IMF as a quota-based institution has sufficient resources to contribute to future crisis resolution, developing guidelines for structuring engagement with other organizations, and consolidating and simplifying the current framework to identify and assess risks and vulnerabilities. In March 2016, the Board’s Evaluation Committee discussed the Management Implementation Plan for the IEO’s assessment of “Self-Evaluation at the IMF.” Implementation plans and monitoring reports are available on the IMF and IEO websites.

### OUTREACH AND ENGAGEMENT WITH EXTERNAL STAKEHOLDERS

The objectives of IMF outreach are twofold: first, to listen to external stakeholders to better understand their concerns and perspectives, with the aim of improving the relevance and quality of IMF policy advice; and second, to strengthen the outside world’s understanding of IMF objectives and operations. The IMF’s Communications Department has primary responsibility for conducting the IMF’s outreach activities and its engagement with external stakeholders.

The communications strategy has developed over time. Over the past decade, the Fund’s approach has evolved from increased transparency to more proactive engagement with the media and

other stakeholders: to explain the IMF's policies and operations; to enable the IMF to participate in, and contribute to, intellectual debate on important economic issues; and to better facilitate two-way learning and dialogue with the IMF's global membership.

Like most modern organizations, the IMF now uses communications as a strategic tool to help strengthen its effectiveness. Strategic engagement through new technologies such as social media, videos, blogs, and podcasts has formed an increasing part of the IMF's communications strategy. At the same time, in today's rapidly changing world, the Fund is reaching out to a new set of influencers, including civil society organizations (CSOs) and private sector networks.

The IMF engages with **parliamentarians**—a group that plays an important role in their countries' economic decision-making process—mainly through the Parliamentary Network of the World Bank and the International Monetary Fund, but also through targeted in-country and regional engagement on such issues as extractive industries, structural reforms, and inequality. During the past year, the IMF conducted significant in-country outreach to the U.S. Congress, explaining the work of the IMF and the need for the 2010 Quota and Governance reforms, which became effective in January 2016.

The IMF also organized a special seminar for parliamentarians from central, east, and southeast Europe at the Joint Vienna Institute. The seminar, which was offered in various languages, including Romanian, Russian, and Serbian, featured presentations on key economic issues in the region and the IMF's work. During the IMF's Spring Meetings, about 250 members of parliament from more than 80 countries gathered for this year's Parliamentary Network Global Conference. Among the topics of discussion were such pressing issues as climate change, the migration crisis, tax evasion and tax havens, and capacity development. Some parliamentarians also had bilateral meetings with IMF and World Bank representatives of their countries and regions.

In its ninth year, the IMF **Civil Society** Fellowship program sponsored the participation of 60 very engaged CSOs from developing economies in the Spring and Annual Meetings. Overall, about 1,000 CSO representatives attended the meetings. On the margins of the meetings, the IMF, the World Bank, and the CSOs organized some 100 sessions at the CSO Policy Forum on a broad range of issues that included debt sustainability, inequality, climate change, conditionality, responsible taxation,

and gender. The IMF has also worked toward increasingly including CSOs in the Program of Seminars: this year, for instance, Oxfam's International Executive Director Winnie Byanyima participated in a panel on international taxation with IMF Managing Director Christine Lagarde.

The IMF engages with CSOs beyond the Spring and Annual Meetings through meetings and consultations at headquarters on thematic issues (financing for development, quota reforms, inequality, gender, debt), frequent meetings with local CSOs during staff missions (Ghana, Tunisia, Ukraine), regional events (conferences in Mozambique and India), and country visits by IMF management.

The IMF continued to step up its engagement with **youth**—the next generation of policymakers and world leaders—through the Annual Meetings, introductory seminars for students on the IMF, university visits by IMF management, and youth events with senior staff. This year, for example, the Managing Director met with 200 students, young entrepreneurs, and youth leaders at Zayed University in Dubai, United Arab Emirates, to discuss the economic challenges facing today's youth and, more specifically, the issues faced by youth in the Middle East.

Given the significant impact of the global financial crisis on jobs, the IMF continued to regularly engage with **labor organizations** on a number of levels. At headquarters, the IMF hosted the biennial, high-level meeting with the International Trade Unions Confederation, and held formal and informal discussions with labor organizations on jobs and growth, inequality, and collective bargaining.

### **Regional Office for Asia and the Pacific**

As the IMF's window to Asia and the Pacific, a region whose importance in the global economy continues to grow, the Regional Office for Asia and the Pacific (OAP) monitors economic and financial developments to help bring a more regionally focused perspective to IMF surveillance. It seeks to enhance understanding of the IMF and its policies in the region and to keep the IMF informed on regional perspectives on key issues. In this capacity, OAP is engaged in bilateral surveillance—currently on Japan, Nepal, and Thailand—and has stepped up its participation in regional surveillance. OAP staff actively participate in forums in Asia, including the Association of Southeast Asian Nations plus China, Japan, and Korea (ASEAN+3), Asia-Pacific Economic Cooperation (APEC), and Executives' Meeting of East Asia Pacific Central Banks (EMEAP).

OAP contributes to capacity development in the region through the Japan-IMF Scholarship Program for Asia, the Japan-IMF Macroeconomic Seminar for Asia, and other seminars on macroeconomic and financial issues. Highlights during the year included an October 2015 seminar on financial sector stability organized jointly with the State Bank of Vietnam and the IMF's Monetary and Capital Markets Department and a January 2016 seminar on integrated macroeconomic statistics and the balance sheet approach organized jointly with the National Bank of Cambodia and the IMF's Statistics Department.

The office also conducts outreach and recruiting activities in both Japan and the rest of the region and engages in dialogue with Asian policymakers by organizing conferences and events on current policy issues central to the IMF's work. A high-level conference co-organized with the Bangkok Stock Exchange in November 2015 focused on developing capital markets in the Mekong Region, and a conference jointly organized in Tokyo with Hitotsubashi University in March 2016 discussed progress and future challenges in economic integration in Asia, including in the areas of trade, financial markets, and labor markets.

### Regional Office in Paris and Brussels

The IMF Europe Office, located in Paris and Brussels, serves as liaison to European Union (EU) institutions and member states, as well as international organizations and civil society in Europe. The office engages with institutions such as the European Commission, the European Central Bank, the European Stability Mechanism, and the European Parliament, as well as the Economic and Financial Committee and the Eurogroup Working Group, on euro area and EU policies and EU-IMF country programs. It represents the IMF at the Organisation for Economic Co-operation and Development.

The office also supports the IMF's operations in Europe, including economic surveillance, IMF-supported programs, and technical assistance, and helps to coordinate communication and outreach activities across the region. More broadly, it fosters the dialogue on global economic issues with EU institutions, international organizations, governments, and civil society in Europe, and meets frequently with representatives from industry associations, trade unions, think tanks, financial markets, and the media.

The office has organized several joint workshops and events, including a workshop with the Centre for European Policy

Studies on the effectiveness of structural reforms and a conference with the Fund's Fiscal Affairs Department on fiscal governance. The office convenes high-level policy lunches twice a year in Paris, Brussels, London, and Berlin to discuss the Fund's views on key challenges facing the European economy. Staff members had speaking roles at international conferences in Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, and the United Kingdom.

As part of the office's role in supporting capacity development and outreach, it co-sponsored a workshop at the Joint Vienna Institute (JVI) for parliamentarians from several EU countries and staff spoke at various other JVI events. The office's outreach activities include an external office newsletter that provides regular updates on IMF events and publications to key European stakeholders and an active Twitter feed. Finally, the office supports IMF recruiting efforts by interviewing candidates at universities in several European countries.

### Outreach by Resident Representatives

The IMF has Resident Representatives in 85 countries across the globe who conduct a variety of outreach activities designed to improve understanding of the IMF's work and macroeconomic issues, often in collaboration with local universities, governments, and nongovernmental organizations.

In Jamaica, for example, to help maintain and build support for the country's comprehensive, IMF-supported economic reform program, Resident Representative Bert van Selm conducted extensive outreach during the year, giving several radio and TV interviews and public presentations, contributing newspaper op-eds, and organizing a quarterly outreach seminar in collaboration with the University of the West Indies, with participation of key opinion leaders from the media, civil society, academia, and the private sector.

In Zimbabwe, the IMF Resident Representative, Christian Beddies, joined participants from embassies, international organizations, and nongovernmental organizations in September 2015 for the inauguration of *The Space*, a platform through which about 2,000 young Zimbabweans discussed the nation's current and future challenges and devised strategies for inclusive growth. Subsequently, the IMF office contributed to a series of free lectures on basic economics and development economics, and plans to participate in a program organized by *The Space* that includes panel discussions, economic lectures, and possible short internship programs.

### Box 3.4: Reaching Out to Trade Unions in Guinea

Following the February 2016 general strike, IMF Resident Representative in Guinea Jose Sulemane met with civil society organizations and unions that called for the strike to discuss their demands for fuel price cuts. He presented Guinea's fuel price structure, shared information on pump prices in neighboring countries, and explained the economic implications of a cut in pump prices.

In April, he organized a half-day workshop with CSOs and unions to explain the role of the IMF in Guinea. He

described the broad lines of the country's 2016 budget and the importance of the government's revenue mobilization efforts, encouraging attendees to tap information available in his office to improve their understanding of economic issues and enhance their dialogue with the government.

Reactions to these initiatives were very positive: CSO and union leaders welcomed the IMF's 2016 Article IV consultation mission and invited Sulemane to their retreat scheduled in mid-May 2016 to train them on economic policies.

During the year, the Fund upgraded all 123 Resident Representative websites to improve design and consistency as part of an effort to enhance local and regional communication.

In Armenia, Resident Representative Teresa Daban Sanchez partnered with the Leadership School Foundation, a leading academic organization, to provide lectures and workshops on such issues as the global economic outlook, perspectives on the Armenian economy, women's labor market participation and gender issues, and collective action. In June 2015, for example, Masood Ahmed, IMF Director of the Middle East and Central Asia Department, gave a lecture at the school titled "Policy Challenges and Opportunities for Armenia in the Context of Regional and Global Economic Shocks" that was very well attended and generated a lively exchange of views with students.

As part of IMF outreach in Georgia, Resident Representative Azim Sadikov has been making a concerted effort to engage the country's future leaders. The activities included presentations and roundtable discussions with students from Tbilisi State University, St. Andrew University, and the School of Political Sciences. Topics covered ranged from the economic challenges facing Georgia and the region to the forces shaping the global economy and the Fund's evolving role.

In Malaysia, the IMF held a two-day workshop in Kuala Lumpur on the ongoing process of economic and financial integration in the Association of Southeast Asian Nations (ASEAN) in November 2015. Hosted by the Malaysian Ministry of Finance and cosponsored by the Malaysian Institute for Economic Research, the seminar drew 25 participants from think tanks and academia from nine ASEAN countries, as well as representatives

from the ASEAN Secretariat, World Bank, and Asian Development Bank. Held at a critical juncture, with the launch of the ASEAN Economic Community during the ASEAN Leaders' Summit, the event helped strengthen the Fund's outreach to an important group of influencers in ASEAN, a large, dynamic, and strategically important region with 630 million people and a GDP of \$2.6 trillion.

Kosovo has a Stand-By Arrangement with the IMF that is supporting the authorities in their efforts to preserve macro-financial stability and improve Kosovo's growth prospects. The Fund's Resident Representative based in Pristina, Ruud Vermeulen, gives guest lectures at universities, speaks at a range of events, and engages with the local media through television and radio interviews, press conferences, and newspaper and magazine articles. These activities reach a wide audience and help raise public awareness about the need for key reforms. Positive feedback suggests that this outreach also helps build a better understanding of what the Fund does in general and what it is doing in Kosovo in particular.

## QUOTAS AND GOVERNANCE

### IMF Quota Reform

As described in the "Spotlight" on quota reform, in January 2016, wide-ranging IMF quota and governance reforms went into effect—a crucial step that strengthened the Fund's role in supporting global financial stability. The reforms significantly increased the IMF's core resources, enabling the institution to respond to crises more effectively, and also improved the IMF's governance by better reflecting the increasing role of dynamic emerging and developing countries in the global economy.

Enactment of the reforms, originally approved by the Board of Governors in 2010, has enabled a more representative, modern IMF that is better equipped to meet the needs of its member countries in the 21st century. The reforms built on an earlier set of institutional changes passed by the Board of Governors in 2008.

As of April 30, 2016, 177 members, accounting for 99.3 percent of total quotas, had consented to quota increases and 167 members had completed the payments of their quota increases. With these payments, total quotas in the IMF reached SDR 471.6 billion.

### Nauru Becomes 189th IMF Member Country

The Republic of Nauru became the 189th member country of the IMF in April 2016, at a ceremony held in Washington, D.C.

Nauru will be the second-smallest member of the Fund, after Tuvalu, as measured by its quota subscription of SDR 2 million (\$2.81 million). This will be the case after it pays for its quota increase under the Fourteenth General Review, which will increase its quota to SDR 2.8 million. The country, located in the Pacific Ocean, has a population of about 10,500 and a land area of about eight square miles. Nauru is also the smallest sovereign state in the world after Vatican City in terms of both population and area.

Nauru's economy relies on phosphate mining, the Australian Regional Processing Center (RPC) for asylum seekers, and revenue from fishing license fees. In recent years, growth has been strong, mainly driven by RPC operations and phosphate exports, although it moderated in 2015.

Membership allows the IMF and other development partners—the country has also joined the World Bank—to help the authorities implement economic reforms and tackle development challenges. The country will participate in an annual IMF review of its economy and benefit from cross-country analysis and access to IMF lending. Nauru receives technical assistance through the IMF's Pacific Financial Technical Assistance Center, based in Fiji.

## TRANSPARENCY

*Transparency in economic policy and the availability of reliable data on economic and financial developments are critical for sound decision-making and for the smooth functioning of an economy. The IMF has policies in place to ensure that meaningful and accurate information—about both its own role in the global economy and the economies of its member countries—is provided in real time to its global audiences.*

Transparency helps economies function better and makes them less vulnerable to crises. **Greater openness on the part of member countries** encourages more widespread public discussion and examination of policies, enhances the accountability of policymakers and the credibility of policies, and facilitates efficient and orderly functioning of financial markets. **Greater openness and clarity by the IMF** about its own policies and the advice it provides to its member countries contributes to a better understanding of the IMF's own role and operations, building traction for the Fund's policy advice and making it easier to hold the institution accountable. Outside scrutiny should also support the quality of surveillance and IMF-supported programs.

The IMF's approach to transparency is based on the overarching principle that it will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure. The principle respects the voluntary nature of publication of documents that pertain to member countries.

Publication of country documents prepared for consideration by the IMF Executive Board ("Board documents") is typically "**voluntary but presumed**," meaning that, while voluntary, the publication of these documents is encouraged. A member's consent to publication of a Board document is typically obtained on a non-objection basis. The publication of policy papers is presumed but is subject to Board approval, while the publication of multicountry documents requires consent from either the Board or the involved members depending on the type of document involved.

The IMF's efforts to improve the understanding of its operations and engage more broadly with the public has been pursued along four broad lines: (1) transparency of surveillance and IMF-supported programs, (2) transparency of its financial operations, (3) external and internal review and evaluation, and (4) external communications. The Fund's Transparency Policy is reviewed every five years: the last review was in 2013. See also the sections on "Accountability" and "Outreach and Engagement with External Stakeholders" above.

# IMF Executive Directors

(as of April 30, 2016)



*Back row (left to right):* Fernando Jiménez Latorre, Carlo Cottarelli, Ibrahim Halil Çanakci, James Haley (as of June 3, 2016), Daniel Heller, Subir Gokarn, Steffen Meyer

*Middle row:* Menno Snel, Fahad Alshathri, Hazem Beblawi, Jafar Mojarad, Nguéto Tiraina Yambaye, Sunil Sabharwal, Thomas Ostros, Marzunisham Omar

*Front row:* Otaviano Canuto, JIN Zhongxia, Masaaki Kaizuka (as of June 13, 2016), Chileshe M. Kapwepwe, Aleksei V. Mozhin, Barry Sterland, Héctor Torres, Stephen Field, Hervé de Villeroché

*(See list of constituencies on page 104.)*



## Management Team



*(From left to right):*

**Carla Grasso**, Deputy Managing Director and Chief Administrative Officer

**Christine Lagarde**, Managing Director

**Mitsuhiro Furusawa**, Deputy Managing Director

**David Lipton**, First Deputy Managing Director

**Min Zhu**, Deputy Managing Director

(Tao Zhang replaced Min Zhu at the end of his term, effective August 22, 2016)



## Executive Directors and Alternates (as of April 30, 2016)

Vacant <i>Sunil Sabharwal</i>	United States
<b>Mikio Kajikawa</b> <i>Tetsuya Hiroshima</i>	Japan
<b>JIN Zhongxia</b> <i>SUN Ping</i>	China
<b>Menno Snel</b> <i>Willy Kiekens</i> <i>Oleksandr Petryk</i>	Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine
<b>Steffen Meyer</b> <i>Klaus Merk</i>	Germany
<b>Fernando Jiménez Latorre</b> <i>María Angélica Arbeláez</i> <i>Carlos Hurtado López</i>	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, República Bolivariana de Venezuela
<b>Marzunisham Omar</b> <i>Pornvipa</i> <i>Tangcharoenmonkong</i>	Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam
<b>Carlo Cottarelli</b> <i>Michalis Psalidopoulos</i>	Albania, Greece, Italy, Malta, Portugal, San Marino
<b>Hervé de Villeroché</b> <i>Schwan Badirou-Gafari</i>	France
<b>Stephen Field</b> <i>Vicky White</i>	United Kingdom
<b>Barry Sterland</b> <i>Kwang Choi</i> <i>Vicki Plater</i>	Australia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu
<b>Serge Dupont</b> <i>Michael McGrath</i>	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
<b>Thomas Ostros</b> <i>Kimmo Virolainen</i>	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

<b>Ibrahim Halil Çanakci</b> <i>Christian Just</i> <i>Szilárd Benk</i>	Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey
<b>Subir Gokarn</b> <i>Rupasinghe Gunaratne</i>	Bangladesh, Bhutan, India, Sri Lanka
<b>Otaviano Canuto</b> <i>Matheus Cavalleri</i> <i>Jose Fachada</i>	Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago
<b>Chileshe M. Kapwepwe</b> <i>Maxwell Mkwezalamba</i> <i>Fundi Tshazibana</i>	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, Republic of South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
<b>Daniel Heller</b> <i>Ludwik Kotecki</i>	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan
<b>Aleksei V. Mozhin</b> <i>Lev Palei</i>	Russian Federation
<b>Hazem Beblawi</b> <i>Sami Geadah</i>	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
<b>Jafar Mojarad</b> <i>Mohammed Daïri</i>	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
<b>Fahad Alshathri</b> <i>Hesham Alogeel</i>	Saudi Arabia
<b>Nguéto Tiraina Yambaye</b> <i>Mamadou Woury Diallo</i> <i>Mohamed Lemine Raghani</i>	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo
<b>Héctor Torres</b> <i>Oscar Hendrick</i>	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

## Senior Officers (as of April 30, 2016)

### AREA DEPARTMENTS

<b>Antoinette Monsio Sayeh</b>	Director, African Department
<b>Chang Yong Rhee</b>	Director, Asia and Pacific Department
<b>Poul Thomsen</b>	Director, European Department
<b>Masood Ahmed</b>	Director, Middle East and Central Asia Department
<b>Alejandro Werner</b>	Director, Western Hemisphere Department

### FUNCTIONAL DEPARTMENTS

<b>Gerard T. Rice</b>	Director, Communications Department
<b>Andrew J. Tweedie</b>	Director, Finance Department
<b>Vitor Gaspar</b>	Director, Fiscal Affairs Department
<b>Sharmini A. Coorey</b>	Director, Institute for Capacity Development
<b>Sean Hagan</b>	General Counsel and Director, Legal Department
<b>José Viñals</b>	Financial Counsellor and Director, Monetary and Capital Markets Department
<b>Maurice Obstfeld</b>	Economic Counsellor and Director, Research Department
<b>Louis Marc Ducharme</b>	Director, Statistics Department
<b>Siddharth Tiwari</b>	Director, Strategy, Policy, and Review Department

## INFORMATION AND LIAISON

<b>Odd Per Brekk</b>	Director, Regional Office for Asia and the Pacific
<b>Axel Bertuch-Samuels</b>	Special Representative to the United Nations
<b>Jeffrey Franks</b>	Director, Offices in Europe/Senior Resident Representative to the European Union

## SUPPORT SERVICES

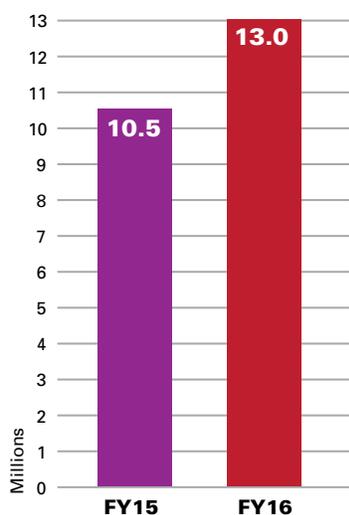
<b>Chris Hemus</b>	Director, Corporate Services and Facilities Department
<b>Mark W. Plant</b>	Director, Human Resources Department
<b>Susan Swart</b>	Chief Information Officer and Director, Information Technology Department
<b>Jianhai Lin</b>	Secretary of the Fund, Secretary's Department

## OFFICES

<b>Clare Brady</b>	Director, Office of Internal Audit and Inspection
<b>Daniel A. Citrin</b>	Director, Office of Budget and Planning
<b>Kenneth Miranda</b>	Director, Investment Office
<b>Moisés Schwartz</b>	Director, Independent Evaluation Office

## FY2016 Digital Year in Review

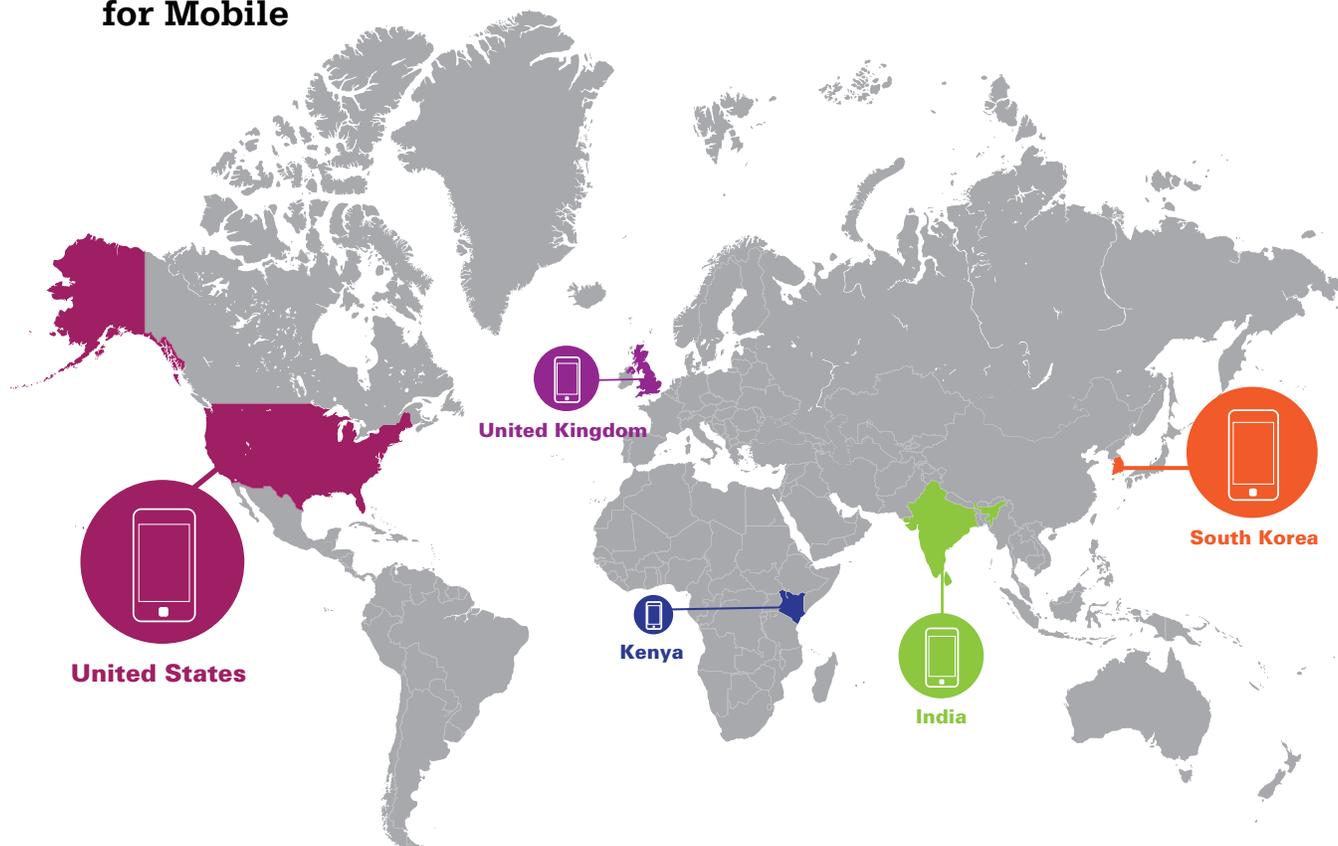
### 26% Increase in Unique Visitors to imf.org



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1. United States
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9. Canada
10. Mexico

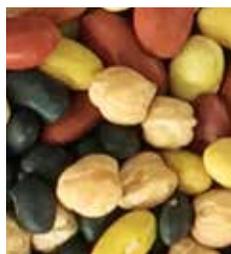
### Top Five Countries for Mobile



## Part 4

# Looking Ahead

Key IMF work under way in FY2017 includes a quota review, financial sector assessments, fiscal risk, tax policy, income and gender inequality, climate change, and anti-corruption strategies.



### Quota Review

With the previous review becoming effective in January 2016, the IMF turned its attention to completing the next review, which will include a new quota formula.



### Financial Sector Assessment

IMF teams will focus their analysis on systemic risks, interconnectedness, and macroprudential and crisis-management policies.



### Fiscal Work

IMF papers explain how countries need a more complete understanding of the potential threats to their fiscal position and the effects of various tax policy designs on macroeconomic stability.



### Income and Gender Inequality

IMF work analyzes the linkages between income inequality and growth, the impact of fiscal policy, and gender inequality.



### Climate Change

IMF work has focused on the fiscal, macroeconomic, and financial implications of climate change, and on energy pricing.



### Anti-Corruption Strategies

Priority needs to be given to transparency, the rule of law, and effective institutions.

## Looking Ahead

### FIFTEENTH GENERAL REVIEW OF QUOTAS

With the January 2016 effectiveness of the Fourteenth General Review of Quotas and the entry into force of the Amendment on the Reform of the Executive Board, the IMF turned its attention to the completion of the next review by October 2017.

The Executive Board's work on the Fifteenth Review was postponed due to the delay in effectiveness of the package of quota and governance reforms—known as the 2010 reforms—in the context of the Fourteenth Review.

On February 1, 2016, the Executive Board notified the Board of Governors that on January 26, 2016, the Board Reform Amendment entered into force, which would allow the quota increases under the Fourteenth Review to become effective. As the Executive Board had not yet formed a view on the adequacy of quotas in the context of the Fifteenth Review, it proposed that the Board of Governors continue the Fifteenth Review. On February 19, 2016, the Board of Governors adopted a Resolution, expressing regret that the Fifteenth Review had not been completed and calling on the Executive Board

to work expeditiously on the Fifteenth Review in line with previous understandings, with the aim of completing the review by the 2017 Annual Meetings.

On April 16, 2016, the IMF International Monetary and Financial Committee (IMFC) strongly welcomed “the effectiveness of quota increases” of the Fourteenth Review and of the Amendment on the Reform of the Executive Board. The



#### Box 4.1: The Quota Formula

The current quota formula was agreed in 2008. It includes four variables (GDP, openness, variability, and reserves), expressed in shares of global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares with a greater impact on large economies than small ones. The formula is:

$$CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R)k$$

where:

CQS = calculated quota share;

Y = a blend of GDP converted at market exchange rates and purchasing power parity (PPP) rates averaged over a three-year period. The weights of market-based and PPP GDP are 0.60 and 0.40, respectively;

O = the annual average of the sum of current payments and current receipts (goods, services, income, and transfers) for a five-year period;

V = variability of current receipts and net capital flows (measured as the standard deviation from a centered three-year trend over a 13-year period);

R = 12-month average over one year of official reserves (foreign exchange, SDR holdings, reserve position in the Fund, and monetary gold);

and k = a compression factor of 0.95. The compression factor is applied to the uncompressed calculated quota shares which are then rescaled to sum to 100.

A comprehensive review of the quota formula was concluded in January 2013 and important progress was made in identifying key elements that could form the basis for a final agreement on a new quota formula. It was agreed that achieving broad consensus on a new quota formula will best be done in the context of the Fifteenth Review rather than on a stand-alone basis (see “Report of the Executive Board to the Board of Governors on the Outcome of the Quota Formula Review”).



IMFC called on the Executive Board to “work expeditiously toward completion” of the Fifteenth Review, including a new quota formula, by the 2017 Annual Meetings. The IMFC said it looks forward to a progress report at its meeting during the 2016 Annual Meetings.



The IMFC communique said: “Any realignment under this [Fifteenth] Review is expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world

economy, and hence likely in the share of emerging market and developing countries as a whole. We are committed to protecting the voice and representation of the poorest members. We reaffirm our commitment to maintain a strong, quota-based, and adequately resourced IMF.”

**FINANCIAL SECTOR ASSESSMENT PROGRAM AGENDA IN FY2017**

The Fund’s Financial Sector Assessment Program (FSAP), which assesses the stability of countries’ financial systems, will turn focus on some of the largest and most connected financial systems during FY2017. IMF FSAPs are being conducted in a number of euro area countries for the first time since the transformation of the regulatory and supervisory environment by postcrisis reforms, notably the establishment of the European Banking Union.

In the wake of the global financial crisis, the IMF Executive Board agreed in 2010 that the world’s top 25 financial systems would undergo a mandatory financial check-up every five years. The FSAP underwent its most recent review in FY2015 when the list was expanded to 29 countries. The countries that will conclude their financial stability assessments under the FSAP in FY2017 include Germany and the United Kingdom along with Ireland, Mexico, Russia, and others. The assessment work on China and Spain has begun and will be completed in FY2018.

The FSAP assesses three key components of financial stability in all countries:

- The resilience of banks and other major financial institutions, including through stress tests and analysis of systemic risk factors;
- The quality of financial system oversight—including banking, securities, insurance, and other subsectors where deemed systemically important; and
- The ability of policymakers and financial safety nets to withstand and respond effectively to deep financial stress.

The overarching goal of FSAP assessments is twofold: to gauge the stability and soundness of the financial sector and to assess its potential contribution to growth and development. The IMF tailors country assessments to analyze issues of particular interest or concern in each country. In FY2017, the IMF teams will focus their analysis on systemic risks, interconnectedness, and macroprudential and crisis-management policies. FSAP findings also provide valuable input to the IMF’s broader surveillance of countries’ economies under the Article IV consultation process.



## Fiscal Work in Progress

### ANALYZING AND MANAGING FISCAL RISKS: BEST PRACTICES

As underscored by the global financial crisis and the more recent collapse in commodity prices, comprehensive analysis and management of fiscal risks can help ensure sound fiscal public finances and macroeconomic stability. Indeed, over the past quarter century, governments experienced on average an adverse fiscal shock of 6 percent of GDP once every 12 years.

The IMF is playing an important role in supporting improvements in fiscal risk analysis and management among its members. A paper, “Analyzing and Managing Fiscal Risks,” released in early FY2017, explains how countries need a more complete understanding of the potential threats to their fiscal position. A comprehensive and integrated assessment of the potential shocks to government finances, in the form of a fiscal stress test, can help policymakers simulate the effects of shocks to their central forecasts. Comprehensive, reliable, and timely fiscal data covering all public entities, stocks, and flows are a necessary foundation for such analysis.

The paper finds that countries should enhance their capacity to mitigate and manage fiscal risks by expanding their toolkits for fiscal risk management and using instruments to transfer, share, or provision for risks. In doing so, they need to weigh the possible benefits from reducing their exposure to shocks against the financial and other costs of the policies that may be needed.

Countries should make greater use of probabilistic forecasting methods when setting long-term objectives and medium-term targets for fiscal policy. These can be used to map the uncertainty around medium-term trajectories for public debt. In combination with fiscal stress tests, these tools can provide valuable information about the probabilities that a country will stay within the debt ceilings embedded in their fiscal rules.

The IMF assists the membership in assessing and managing fiscal risks by providing technical assistance on constructing public sector balance sheets, developing institutions and capacity to identify specific fiscal risks and to quantify their potential impact, conducting fiscal stress tests, and integrating risks into the design of medium-term fiscal targets.

### TAX POLICY, LEVERAGE, AND MACROECONOMIC STABILITY

A Board paper to be issued in FY2017 on “Tax Policy, Leverage, and Macroeconomic Stability” explores the macroeconomic stability effects of various tax policy designs. One key issue is how the current discrimination between debt and equity in many corporate tax systems affects the leverage choice of firms. By encouraging high corporate debt ratios, such tax incentives may increase firms’ distress and ultimately have implications for macroeconomic stability risks.

The paper examines the effectiveness and efficiency of tax policy reforms that neutralize this debt bias, such as alternative types of restrictions to the deductibility of interest, equivalent deductions for returns on equity, and combinations

of the two. Using firm-level data and a newly created database on thin-capitalization rules, the paper empirically assesses the impact of recently introduced policies on corporate debt ratios and examines the impact on broader indicators of corporate default risk. It also assesses the revenue implications of different reforms.

The paper also explores the role of corrective taxes to mitigate financial stability risks: for instance, special bank levies can stimulate capitalization of banks and thus enhance financial stability. Moreover, tax policies such as capital gains taxes, property transaction taxes, and recurrent property taxes can be used to influence property price developments, thereby possibly mitigating risks. These policies are assessed against their broader welfare implications.

### Income and Gender Inequality

In recent years, the work of the IMF on macroeconomic issues increasingly has turned to analysis and policy advice on issues related to income inequality and gender inequality. This work has come to be recognized as relevant and important to the policies developed to strengthen economic growth in the

Fund's member countries—developing, emerging market, and advanced economies alike.

In its April 2016 communiqué, the IMFC welcomed work on the issues of “income inequality, gender inequality, [and] financial inclusion,” provided they are “within the Fund’s mandate and where they are macrocritical, and by leveraging the experience of other institutions.”

While the Fund began addressing these areas with groundbreaking research early in the decade, in FY2015 and FY2016 it began to also shift toward applying the findings in pilot countries. The next phase of the work will involve deepening the Fund’s understanding of the policy implications of the analysis in a broader range of countries, and integrating that understanding more fully into policy advice.

### INCOME INEQUALITY

Considerable research has been undertaken to analyze the linkages between inequality and growth and discuss the impact of fiscal policy on inequality. Most notably papers on “Inequality and Unsustainable Growth” (2011), “Redistribution, Inequality, and Growth” (2014), and the book *Inequality and Fiscal Policy* (2015), have recently been published. Work has been extended into the IMF’s flagship publications, notably



the October 2015 African *Regional Economic Outlook*, which includes a chapter on “Inequality and Economic Outcomes in Sub-Saharan Africa,” and the May 2016 Asia and Pacific *Regional Economic Outlook*, which included a chapter on “Sharing the Growth Dividend: Analysis of Inequality in Asia.” Various Working Papers also took up the topic, notably “Sharing the Growth Dividend: Analysis of Inequality in Asia.”

During FY2016, staff analysis was discussed with the authorities of nine pilot countries and incorporated into surveillance reports, notably the annual “health check” on individual countries called the Article IV consultation report. Those reports are considered by the IMF Executive Board, and the Board’s views are transmitted to the country authorities.

Among the topics addressed in the Article IV consultation reports of the pilot countries relevant to inequality are: comparative analysis of inequality and poverty outcomes, the inclusiveness of growth, expenditure composition, subsidy reform, tax progressivity, and financial inclusion. In some cases, the Article IV analysis assessed a reform roadmap or plan already developed or under consideration by the authorities.

In the coming year, IMF work on inequality will seek to

deepen the focus on policy trade-offs, reforms, and costs. It will also tie the inequality analysis to the Fund’s work on structural reform, particularly in developing countries, where the linkages between growth-related reforms and inequality are particularly relevant. This will be a theme of a major research paper during the year on structural reform, inequality, and growth.

With the amount of work already undertaken across countries and departments, the process of “knowledge exchange” becomes more central—disseminating the work itself, the underlying methodologies and tools, and the country experiences. Considerable energy will be devoted to work inside the IMF aimed at sharing knowledge and developing synergies that will help scale up inequality work and its impact.



#### Box 4.2: Combating Climate Change

The IMFC, in its April 2016 meeting, expressed support

for the Fund’s ongoing work on climate change. Following up on the release of a Staff Discussion Note on the fiscal, macroeconomic, and financial implications of climate change in January 2016, work in this area shifted toward pilot country efforts on energy pricing—long established as an area of IMF expertise.

Energy pricing is already covered in both surveillance and technical assistance. The pilots, for countries in Africa, the Middle East, and the Western Hemisphere, focus on issues such as the distributional impact of movements toward automatic pricing and assessing taxes to address environmental costs.

Other country work has explored specific climate-related issues, such as a Selected Issues paper in the Mexico Article IV report on “A Carbon Tax Proposal for Mexico,” the introduction of a carbon tax in the context of the U.S. Article IV consultation, and a study of the macroeconomic and price effects of El Niño in 33 countries.

In the wake of the December 2015 international agreement in Paris providing a framework for progress on climate change mitigation, carbon pricing is expected to become more important in many countries. The IMF plans to develop tools to assist countries and anticipates higher priority being assigned to technical assistance in this area. Further work on policy development to address climate issues may be required going forward.



## GENDER INEQUALITY

Fund work on gender inequality is following the same model of linking groundbreaking research to country work—integrating analytical findings and methodology into the daily work of the institution.

Two important papers that deepened the Fund’s work in the area were published during FY2016: “Catalyst for Change: Empowering Women and Tackling Income Inequality,” a Staff Discussion Note; and “Unlocking Female Employment Potential in Europe: Drivers and Benefits,” which explores direct links between income and gender inequality. Another working paper, “Trends in Gender Equality and Women’s Advancement,” examined trends in selected indicators of gender inequality and women’s advancement, and gender inequality indices.

As with the work on income inequality, the pilot country work expanded during the year. An initial group of country teams analyzed gender issues and discussed findings with their counterparts in member countries. The findings then were included in the Article IV reports and discussed by the Executive Board. Most of the pilot cases involved a combination of analysis and policy recommendations, particularly in the form of Selected Issues papers issued, along with Article IV staff reports. The country cases analyze the drivers of female labor force participation and point to policy options within the scope of IMF expertise, including public infrastructure spending, the expansion of childcare services, and the role of labor market institutions.

For example, as part of the 2016 India Article IV report, a Selected Issues paper on the “Macroeconomic Impacts of Gender Inequality and Informality in India” was prepared. The paper analyzed the macroeconomic impact of gender-targeted policies on labor market outcomes for females and on aggregate economic activity.

In addition to the initial group of country pilots, several other country teams are working on gender inequality in the context of their Article IV consultations across several regions, work that will progress during FY2017.

Other work that will be carried forward in the coming fiscal year includes follow-ups on several pilot cases and cross-country studies that will include the impact of macroeconomic policies on gender gaps, and gender inequality and growth.

An important focus will be on gender budgeting, with a series of papers that will overview gender budgeting ideas and survey efforts worldwide, to provide a basis for countries to draw ideas for their own initiatives. This work will also produce a data set on gender budgeting efforts that can assist countries in developing ways to incorporate gender considerations in government programs and policies.

Finally, a major book on women, work, and economic growth addressing the intertwined challenges of growth, job creation and gender equality” will be released before the 2016 Annual Meetings.



## CORRUPTION: COSTS AND MITIGATING STRATEGIES

*While the direct economic costs of corruption are well known, the indirect costs may be even more substantial and debilitating, leading to low growth and greater income inequality. Corruption also has a broader corrosive impact on society. It undermines trust in government and erodes the ethical standards of private citizens.*

—Managing Director Christine Lagarde, in a May 2016 U.K. Policy Paper “Against Corruption: A Collection of Essays”

A recent estimate put the annual cost of bribery at about \$1.5 trillion to \$2 trillion—roughly 2 percent of global GDP. In an environment in which growth and employment prospects in many countries remain subdued and high-profile corruption cases have fueled outrage, addressing corruption globally—in both developed and developing countries—is increasingly important. There is a growing consensus that corruption can seriously undermine a country’s ability to deliver inclusive growth.

An IMF Staff Discussion Note titled “Corruption: Costs and Mitigating Strategies,” released in early FY2017, focuses on corruption that arises from the abuse of public office for private gain, whether through transactions such as bribery or through networks between business and government that effectively privatize public policy. The IMF’s experience in helping member countries address corruption suggests that priority needs to be given to transparency, the rule of law, and effective institutions.

The IMF promotes compliance with international standards for transparency and accountability in such areas as data dissemination, fiscal policy, and monetary and financial policy. It has published 11 fiscal transparency evaluations on countries that include Bolivia, Finland, Ireland, and the Philippines. Working closely with the Financial Action Task Force (FATF)

and its regional bodies, the IMF also assesses compliance with international standards to help countries prevent money laundering. It provides policy advice, expertise, and training.

The Fund also has helped countries avoid or get off the FATF’s “blacklist” of countries perceived to be noncooperative in the global fight against money laundering and terrorist financing. Recent cases in Latin America include Costa Rica, Paraguay, Peru, and Uruguay, where the presidents endorsed anti-money-laundering strategies developed with the IMF. In Ghana, Myanmar, Nepal, and Sudan, the IMF’s support helped the countries in moving off the gray list.

To embed financial integrity principles and practices into government ministries and central banks across the globe, the Fund supports institutions in such areas as financial intelligence, legislative drafting, national strategies, risk assessments, and the supervision and regulation of bank and nonbank entities. The IMF provides advice to strengthen fiscal frameworks and budget preparation with the goal of enhancing the role of the budget as the central instrument for allocating public resources. In FY2015, it sent some 100 technical-assistance missions to help member countries with public financial management, in addition to supporting countries through nine Regional Technical Assistance Centers in Africa, Asia, Latin America, and the Middle East.

# Global Challenges

Eight years after the onset of the global financial crisis, the world economy continues to face uncertain prospects. Growth in most advanced economies remains lackluster, and many emerging market and developing countries face slower growth. Not only is growth low, in many cases it has been shared unequally, which can create additional challenges, including undermining support for reforms and openness to trade and migration.

While financial markets and some commodities fell sharply early in the year, by mid-February they started recovering, but the June 23, 2016 vote in the United Kingdom to exit the European Union increased uncertainty. The turn of events caused the IMF in its July 2016 World Economic Outlook update to revised down modestly its forecast for growth in 2016 and 2017 from the April WEO.

The Fund, in a note to the July 2016 meeting of G-20 Finance Ministers and Central Bank Governors in China, identified several key policy areas in which action urgently needed to be taken to contain risk and reinvigorate growth in the short and longer terms:

## **Reducing uncertainty around “Brexit” and its repercussions.**

A smooth and predictable transition to a new relationship between the UK and EU that as much as possible preserves gains from trade is essential. While uncertainty about the outcome of negotiations remains, policymakers should stand ready to act decisively should financial market turbulence threaten the global outlook.

## **Implementing effective macroeconomic support.**

Where demand is still falling short, a broad-based approach is required that exploits policy synergies by combining structural and balance sheet reforms with continued monetary support and growth-friendly fiscal policies—including using available fiscal space, anchored by strong policy frameworks. Stronger domestic demand support, especially in creditor countries with policy space, would also help reduce external imbalances.

## **Addressing debt overhangs.**

In many advanced economies, balance sheet repair remains critical to lift investment, contain vulnerabilities, and improve monetary transmission. Addressing corporate debt and other financial risks is also important in a number of emerging economies and a key ingredient of China’s transition to a new growth model. In some cases, this might require the use of public sector resources.

## **Lifting long-term growth and making it more inclusive.**

The G-20 can lead by encouraging strong implementation of the G-20 growth strategies, and prioritizing structural reforms that have a high short-term growth impact. A staff paper prepared for the G-20 meeting outlined the priorities for structural reforms in the G-20 countries.

## **Strengthening multilateral action.**

Reinvigorating trade integration remains crucial to boost global growth, as is making sure that the gains from trade are shared widely. And it remains important to strengthen global safety nets, including by monitoring geopolitical spillovers that could threaten the global recovery.

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IMF Executive Board Approves €147.5 Million Stand-By Arrangement for Republic of Kosovo, Press Release No. 15/362: <http://www.imf.org/external/np/sec/pr/2015/pr15362.htm>

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IMF Approves 7-Month Extension of the Stand-By Arrangement for Tunisia, Press Release No. 15/229: <http://www.imf.org/external/np/sec/pr/2015/pr15229.htm>

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Managing Director Christine Lagarde Proposes Reappointment of Mr. David Lipton as First Deputy Managing Director, Press Release No. 16/138, March 28, 2016: <http://www.imf.org/external/np/sec/pr/2016/pr16138.htm>

IMF Managing Director Christine Lagarde Appoints Maurice Obstfeld as Economic Counsellor and Director of the IMF's Research Department, Press Release No. 15/343, July 20, 2015: <http://www.imf.org/external/np/sec/pr/2015/pr15343.htm>

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## PART 4—LOOKING AHEAD

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## Acronyms and Abbreviations

AML/CFT	anti-money laundering and combating the financing of terrorism	IMS	international monetary system
ASEAN	Association of Southeast Asian Nations	LIDC	low-income developing country
CCRT	Catastrophe Containment and Relief Trust	MENAP	Middle East, North Africa, Afghanistan, and Pakistan
CEE	Central and Eastern Europe	OIA	Office of Internal Audit and Inspection
EAC	External Audit Committee	PLL	Precautionary and Liquidity Line
ECF	Extended Credit Facility	PRGT	Poverty Reduction and Growth Trust
EFF	Extended Fund Facility	PSI	Policy Support Instrument
e-GDDS	Enhanced General Data Dissemination System	RCF	Rapid Credit Facility
EU	European Union	REO	<i>Regional Economic Outlook</i>
FATF	Financial Action Task Force	RFI	Rapid Financing Instrument
FCL	Flexible Credit Line	SARTTAC	South Asia Regional Training and Technical Assistance Center
FM	<i>Fiscal Monitor</i>	SBA	Stand-By Arrangement
FSAP	Financial Sector Assessment Program	SCF	Standby Credit Facility
FSI	Financial Soundness Indicators	SDDS	Special Data Dissemination Standard
FY	financial year	SDGs	Sustainable Development Goals
G20	Group of Twenty industrialized economies	SDR	Special Drawing Right
GCC	Cooperation Council for the Arab States of the Gulf	SECO	Swiss State Secretariat for Economic Affairs
GDDS	General Data Dissemination System	SUNAT	Peruvian customs and tax administration agency
GDP	gross domestic product	TAK	Tax Administration of Kosovo
GFSR	<i>Global Financial Stability Report</i>	TSR	Triennial Surveillance Review
GPA	Global Policy Agenda	UN	United Nations
GRA	General Resources Account	WEO	<i>World Economic Outlook</i>
HIPC	Heavily Indebted Poor Countries		
ICD	Institute for Capacity Development		
IEO	Independent Evaluation Office		
IMFC	International Monetary and Financial Committee		

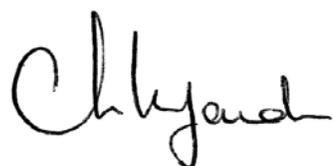
# Letter of Transmittal to the Board of Governors

July 29, 2016

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 2016, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2017, are presented in Chapter 3. The audited financial statements for the year ended April 30, 2016, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI, which appears on the CD-ROM version of the Report, as well as at [www.imf.org/external/pubs/ft/ar/2016/eng](http://www.imf.org/external/pubs/ft/ar/2016/eng). The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Loeto (Chair), Ms. Barth, and Mr. Vikamsey, as required under Section 20(c) of the Fund's By-Laws.

Yours very truly,



Christine Lagarde

Managing Director and Chairman of the Executive Board

## A Greater Role for Women

The critical role women play in the economic and social development of countries, local communities, and organizations is gaining growing recognition. At the IMF, we are confident that when our member countries make conscious efforts to enable and encourage women to participate in the workplace and enforce laws that support inclusion and economic empowerment for women, they have a better chance of thriving economically and fostering a more stable and secure future. Greater attention to gender equity and the gender implications of our work and policy advice will help us better serve our member countries and improve the quality of life for all.

Including more women in all aspects of society and all levels of leadership holds the key to many important challenges that our member countries face, but, more importantly, when women

are excluded, we lose access to at least half of the world's talent pool. In an increasingly interconnected, complex, and fast-changing world, we need the best thinking and maximum contributions from everyone (read more on IMF research on gender inequality in the "Looking Ahead" section).

In the IMF, collective intelligence is our strength and adding the voices and perspectives of talented women from all walks of life isn't new. We've been consciously working toward a better gender balance inside our organization for more than a decade and we have made significant progress. We are proud of this progress but we know there is still more to do to ensure that women and men become equal partners to fulfill our mandate in service of our membership.

IMF Diversity Advisor Nadia Younes, former Nigerian Finance Minister Dr. Ngozi Okonjo-Iweala (back row, center), and the Managing Director pose with IMF staff and young visitors after an International Women's Day event in March 2016.



This Annual Report was prepared by the Editorial and Publications Division of the IMF's Communications Department, in consultation with a working group from across the Fund. Rhoda Weeks-Brown and Jeremy Clift oversaw the work of the Report team, which was under the direction of the Executive Board's Evaluation Committee, chaired by Stephen Field. Jeremy Mark served as chief writer and S. Alexandra Russell as editor and project manager. Suzanne Alavi and Madjé Amega provided editorial and administrative assistance.

#### Photography

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Ancillary materials for the Annual Report—Web Tables, Appendixes (including the IMF's financial statements for the financial year ended April 30, 2016), and other pertinent documents—can be accessed via the Annual Report web page at [www.imf.org/external/pubs/ft/ar/2016/eng](http://www.imf.org/external/pubs/ft/ar/2016/eng). A CD-ROM version of the Annual Report, including the ancillary materials posted on the web page, is also available from IMF Publication Services.

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## IMF Women in Leadership



Women in top positions in the IMF (from bottom left, clockwise): Institute for Capacity Development Director Sharmini Coorey, Deputy Managing Director and Chief Administrative Officer Carla Grasso, African Department Director Antoinette Sayeh, Executive Director Chileshe Kapwepwe, Managing Director Christine Lagarde, Information Technology Department Director and Chief Information Officer Susan Swart, Human Resources Department Director Kalpana Kochhar (effective June 13, 2016), and Office of Internal Audit and Inspection Director Clare Brady (read more on page 126).



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