INTERNATIONAL MONETARY FUND

The Managing Director's **Global Policy Agenda** Spring 2017

A More Inclusive and Resilient Global Economy

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April 2017

The global economy is gaining momentum, but further progress hinges on policies to support the recovery, lift productivity growth, and enhance resilience. Against the background of rapid technological progress, a cooperative multilateral framework for trade and financial integration has served countries well, producing large economic benefits. However, some groups have not been able to share in these benefits, a trend exposed by a too-slow post-crisis recovery, which limited the room for all segments of society to experience income gains. Working within the multilateral framework, countries should strive for strong and more balanced growth and to provide economic opportunities for all. To this end, they should anticipate the effects of technological progress and economic integration, equip their populations with tools to reap the benefits, and put in place domestic policies to share them more broadly. The Fund will assist members through carefully tailored policy advice, lending to smooth adjustment, and capacity development.

Current Conjuncture

Global growth is strengthening, but sustaining the momentum requires supportive policies

Near-term growth prospects are firming up in many advanced economies, with some near full employment. Still, a number of advanced economies are operating below potential, with economic activity weighed down by debt overhangs, weak banking systems, and uncertainty over future growth. Although growth prospects diverge across emerging market and developing countries (EMDCs), overall growth is picking up, as some large economies continue to normalize supported by domestic policies, fast credit growth, and the recent recovery in oil prices. The improved near-term global outlook is, however, predicated on growth-supporting policies—e.g., a favorable mix for macroeconomic policies and taming of vulnerabilities in systemic economies—and on an undisrupted flow of global trade and finance. It is also subject to risks from political uncertainty and tighter global financial conditions triggering capital outflows from EMDCs.

Productivity growth has not yet recovered, and vulnerabilities remain high, continuing to cloud medium-term growth prospects

The productivity slowdown predates the crisis, but crisis legacies—including weak and uncertain economic prospects and sluggish private investment—have further held back productivity growth, especially in advanced economies. With growth too low for too long, enduring demographic challenges, such as aging in many advanced and emerging market economies have become more difficult to address. Vulnerabilities also persist from large external and public debt, impaired corporate and bank balance sheets, and, in some EMDCs, overheated credit and property markets. These vulnerabilities expose countries with thin policy buffers to tighter financial conditions. Notwithstanding the recent recovery, low commodity prices continue to weigh on many commodity exporters.

Trade and financial integration brought enormous benefits, but

By allowing more efficient use of global resources, trade and financial integration and technology lifted hundreds of millions out of poverty, boosted incomes, expanded access to goods and services, accelerated knowledge transfer, and

some groups are missing out on the rewards

provided new opportunities for investment. However, a too-slow post-crisis recovery, which limited the room for all segments of society to experience income gains, exposed the long-running difficulties of some groups in advanced economies to be able to adjust to the rapid pace of technological progress and integration. While returns to capital and highly-skilled labor increased, wages of low- and middle-skilled workers stagnated. The ensuing increase in inequality and anxieties about integration's effects on other aspects of life led to questions about its benefits. Some EMDCs may soon start facing similar challenges as jobs there become threatened by automation and offshoring.

The multilateral framework is being questioned in some parts of the world

By anchoring an unprecedented expansion of international trade and finance, the multilateral framework underpinned large global welfare gains. While policymakers need to facilitate adjustment to ongoing technological progress and integration, including by better addressing their costs for some segments of the population, history shows that protectionism and inward-looking policies are not the right response. While integration went hand in hand with technological change, making it difficult to disentangle their individual effects, technology appears to be a leading factor behind the falling income share of labor in advanced economies. Even if integration were reversed, technology-driven changes would persist, continuing to impact jobs. In a highly interconnected world, abandoning openness for protectionism, and multilateralism for do-it-alone policies, would reverse the well-known gains from integration, hurt domestic consumers and producers, and could threaten world prosperity and stability. Everyone would lose.

Policy Challenges and Priorities

Sustain the recovery to build a foundation for *a strong global economy*

Growth needs an impetus from supportive policies based on the three-pronged approach articulated in previous Global Policy Agendas. Monetary policy should remain accommodative where output gaps are still negative or core inflation remains too low, with macroprudential policy helping to safeguard financial stability where risks materialize. Where fiscal space is available, fiscal policy should do more to close the output gap and share the burden with monetary policy. Where the economy is close to capacity, fiscal policy should be oriented toward increasing potential output. Getting the fiscal mix right will be crucial—it should shift to growth-friendlier and more equitable tax-benefit structures, boost high-quality infrastructure investment, maintain an effective social protection system, as well as exploit synergies with structural reforms.

Lift productivity and tackle vulnerabilities for a *more resilient global economy*

Structural reforms are vital for unlocking productivity growth and seizing more benefits from economic integration. While their prioritization and sequencing should reflect country circumstances, they should aim to boost investments in innovation and human capital, promote competition and market entry, and raise employment rates. Structural reforms can be facilitated by initial fiscal support, but they can also create fiscal space by strengthening public finances through higher medium-term growth.

Economic resilience is a foundation for sustainable global growth. Policy priorities include accelerating private sector balance sheet repair and the resolution of non-performing loans; and reducing excessive leverage. EMDCs vulnerable to a tightening of global financial conditions should rebuild buffers and strengthen policy frameworks, including macro-prudential measures and policies related to capital flows. Those with flexible exchange rates should continue to allow exchange rates to buffer shocks. With debt drifting upward, many low-income countries (LICs) need to strike a better balance between supporting development spending and rebuilding fiscal buffers. Commodity exporters should accelerate adjustment to the commodity price shock and economic diversification.

Create *a more inclusive global economy* by promoting opportunities *within countries*…

Job-rich growth remains a precondition for growth that is both sustainable and that delivers broad economic welfare gains. But, in an era of rapid technological change and economic integration, ensuring that everyone has an opportunity to benefit from growth and job opportunities requires an adaptable workforce. Education and skills development, including through lifelong learning, must become a priority. Public support complemented by labor market policies—unemployment insurance, retraining and vocational training, occupational mobility and relocation support—can help assist those adversely affected by dislocations. Assisting migrants to integrate more smoothly would enable them to contribute economically in their host countries. Finally, countries should also combat tax evasion and tax avoidance so that everyone pays their share of taxes.

…sustainability *over time*

Future generations should not be left to pay for imprudent actions of the current one. Sustainable growth requires strong fiscal frameworks and debt management, as well as ensuring that, where high, debt is brought down to a safe level. Countries with exhaustible resources and those facing challenges to pension systems should take measures now toward intergenerational equity. Countries should not leave the mounting economic consequences of climate change for future generations.

…and multilateral cooperation *across countries*

Cooperation through a multilateral framework that evolves to meet the changing needs of the global economy benefits every country. Coordinated actions to boost growth can exploit synergies. At the same time, unsustainable policies in one country can spread easily to others through spillovers or contagion. This is why external surplus and deficit countries need to work within a multilateral framework to further reduce global excess imbalances. In this context, cooperation also means working together to ensure that countries observe a level playing field, including by avoiding protectionist measures as well as distortive policies aimed at securing competitive advantage. Safe financial integration requires completing and, where necessary, enhancing the global financial regulatory agenda, while preserving hard-won gains made since the crisis. No country should be left behind in making progress toward the 2030 Sustainable Development Goals (SDGs) or to cope alone with the consequences of conflicts, refugee and humanitarian crises, or natural disasters. Finally, in a rapidly changing and uncertain world, members should remain committed to a well-functioning IMS, including a strong and coherent global financial safety net (GFSN), with the Fund at its center and adequately-resourced to help countries smooth adjustment through lending.

What the Fund Will Do

The challenges outlined above require the Fund to remain agile and integrate its policy advice across several areas to respond to the needs of its members. The Fund will help members design macroeconomic policies and reforms that raise growth, expand economic opportunities, enhance resilience, and facilitate a global rebalancing. The Fund will help countries smooth adjustment through lending and capacity development, including in partnerships with other stakeholders. The Fund will advocate for multilateral cooperation as the most effective vehicle to address global challenges.

Support efforts to sustain the recovery

Based on the three-pronged approach—with monetary, fiscal, and structural actions—the Fund will continue providing member-tailored advice on the policy mix to sustain the recovery. Staff will assist countries to identify available fiscal space, review the Public Investment Management Assessment framework, expand the Infrastructure Policy Support Initiative, and explore reforms toward growth-friendly and equitable fiscal policy. Staff will further study how fiscal policy can better mitigate short-term costs and enhance long-term benefits of structural reforms.

Design policies to lift productivity and tackle vulnerabilities

Using a new toolkit to identify structural policy gaps, the Fund will make member-tailored recommendations for reforms to boost productivity, investment, and growth. Staff will continue to study the measurement challenges of the digital economy for GDP and productivity. The Fund will strengthen its efforts to provide advice on tackling debt overhangs and reducing financial sector vulnerabilities, building on studies of the impact of household debt on financial stability, bank insolvency regimes, and the evolving role of technology in financial services. The Fund will also help strengthen policy frameworks in LICs and commodity exporters to support economic diversification and adjustment strategies. To help countries affected by the withdrawal of correspondent banking relationships, the Fund will work with others to facilitate international dialogue, promote industry solutions, including to enhance respondent banks’ capacity to manage risks, and help countries strengthen their regulatory and supervisory frameworks, particularly on AML/CFT.

Promote policies toward *a more inclusive global economy* by helping expand economic opportunities *within countries*

As a means of fostering sustainable growth, the Fund will sharpen its understanding of macroeconomic and distributional effects (across income categories, employment types, economic sectors, and regions within countries) of technological progress, trade, and capital flows. Focusing on macro-relevant areas and working with other organizations, staff will explore policies that could help countries better anticipate and adjust to their long-term effects, thereby promoting economic and financial stability and sustainable growth. To this end, staff will study how fiscal policies—including the progressivity of taxation, the design of social safety nets, and a basic income grant—could help address inequality and other side-effects of economic integration and technology. Staff will also further explore the impact of structural reforms and financial sector policies on growth, income, jobs, and inequality. In partnership with other organizations, the Fund will support reforms to improve governance and to fight corruption (while taking stock of Fund experience with handling these issues), upgrade the business environment, and promote competition. These reforms remain key to reducing unemployment, tackling gender inequality, and improving the living conditions of potential migrants in their home countries.

…promoting sustainable policies *over time*

Staff will review experiences with fiscal rules and debt management strategies, refine the Fund's LIC debt sustainability framework, and explore the scope for sovereign state-contingent debt instruments. Where macro-critical, the Fund will integrate migration, gender (including the growth impact of increasing women's participation in the labor market), and climate change analysis in surveillance. The Fund will continue its work on the sustainability of pension systems.

… facilitating multilateral solutions *across countries* to meet global challenges

The Fund will provide a rigorous and candid assessment of global excess imbalances, their causes, including practices that are distortive of the IMS, and exchange rates in Article IV consultations and the *External Sector Report* (ESR). It will recommend multilaterally-consistent member-specific policies to bring about a healthy re-balancing. As the IMF Board has requested, staff will ensure effective implementation of the Fund's Institutional View on capital flows, paying greater attention to capital flow management measures and taking a clear position on whether they are warranted, while exploring the role of macroprudential policies to increase resilience to large and volatile capital flows. Staff will also strengthen the coverage of spillovers from domestic policies to the global economy, using the *Integrated Surveillance Decision* to better integrate multilateral surveillance tools into bilateral surveillance. The Fund will continue to collaborate with other multilateral institutions, including the WTO, to raise awareness about the benefits of rules-based multilateral trade and review experiences with policies aimed at reducing and mitigating adjustment costs.

Working with international standard setters—the Financial Stability Board and Bank for International Settlements—the Fund will support the global financial regulatory reform agenda and its consistent and timely implementation. Staff will also help address international taxation issues (such as base erosion and profit shifting), including through the Platform for Collaboration on Tax, and assist jurisdictions to develop capacity to tackle illicit financial flows. Staff will continue to address data gaps and keep up to date international statistical standards.

Addressing gaps in the IMS would help align it better with the global economy. To this end, the Fund is examining the current debt-creditor engagement framework in sovereign debt restructurings with a view to further facilitating orderly resolution of crises. Staff are also exploring options for strengthening the GFSN, including by collaborating with Regional Financing Arrangements, and whether a broader use of the SDR could contribute to the smooth functioning of the IMS. To further enhance the Fund's lending toolkit, staff are developing proposals for a new short-term liquidity facility and a non-financial policy instrument to provide monitoring and signaling of member policies, and exploring options for enhancing program design in currency unions. Finally, the Fund will work toward completing the 15th General Review of Quotas and a new quota formula by the 2019 Spring Meetings and no later than the 2019 Annual Meetings.

...and supporting low-income countries

LICs will continue to receive tailored policy advice as well as significant other support from the Fund. In cooperation with others, the Fund will continue to support the 2030 SDGs and the Financing for Development agenda, by supporting LICs, fragile states, and small states to strengthen domestic revenue and public financial management, deepen financial markets, and foster data availability to policy makers. The Fund will also support the G-20 Compact with Africa initiative to foster long-term investment. The Fund will assist countries in dealing with shocks, including those shouldering the burden of conflicts, refugee crises, or natural disasters. In this context, it will continue to support international initiatives to raise concessional funding for affected countries and achieve a coordinated response among international partners.

...while providing capacity development

Capacity development (CD) is one of the core pillars of the Fund's work. As the Fund prepares to review its CD strategy, the focus will be on further integrating CD with surveillance, seeking innovative ways to deliver CD, and sharing CD knowledge with the membership, including by leveraging technology and strengthening communication, and entrenching the results-based approach. In support of these efforts, staff will promote strategic partnerships by fostering cooperation with new CD partners, including non-traditional donors (such as foundations) and creating more flexible funding arrangements.

Agile, integrated, and member-focused Fund

To better serve countries in meeting their challenges, the Fund will further strengthen its agile, integrated, and member-focused support. In doing so, the Fund will operate under a zero-real growth budget, as it has done over the past six years. The Fund will manage its budget carefully, strengthen internal risk management, and promote knowledge-sharing and inclusion. The Fund will also develop and implement its HR strategy to help ensure the right mix of skills and staff diversity.

Annex I. Implementation of Policy Priorities by the Membership

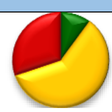
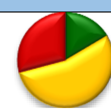
Monetary policy continues to bear the burden of supporting demand though some countries are exploring options for making fiscal policy more growth-friendly. There has been good progress in the financial sector area. Structural reforms are advancing only gradually.

Fiscal Policy

Fall 2016 GPA Policy Priorities

Countries with fiscal space should increase public investment. Countries should make tax-benefit structures more efficient and equitable. EMDCs that were hit by the commodity price shock should accelerate fiscal adjustment.

Assessment of Implementation

PPP GDP weight	Implementation shares
	

Partial or limited implementation of additional public investment in most countries with fiscal space. Some progress to make tax-benefit structures more efficient and equitable. Most EMDCs that were hit by the commodity price shock are accelerating their fiscal adjustment.

Monetary Policy

In countries where demand is still lacking, monetary policy should support short-term growth. EMDCs that were hit by the commodity price shock and where the exchange rate is not pegged should accelerate exchange rate adjustment.

Assessment of Implementation

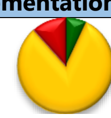
PPP GDP weight	Implementation shares
	

Monetary policy remains accommodative in most countries where appropriate. Most EMDCs without a pegged exchange rate regime have relied on exchange rate flexibility to buffer external shocks.

Financial sector policy

Countries should address private sector debt overhangs and balance sheet problems.

Assessment of Implementation

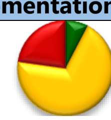
PPP GDP weight	Implementation shares
	

Significant progress in addressing private sector debt overhangs and balance sheet problems in large advanced economies. Efforts are ongoing in other parts of the world.

Structural reforms

Structural reforms implementation should be stepped up and prioritized according to country's macroeconomic circumstances. EMDCs that were hit by the commodity price shock should accelerate adjustment through a comprehensive and internally consistent set of structural reforms.

Assessment of Implementation

PPP GDP weight	Implementation shares
	

Gradual progress in many economies on the implementation and prioritization of structural reforms. Ongoing efforts to develop a comprehensive and internally consistent set of structural reforms in most EMDCs hit by the commodity price shock.

Note: Policy priorities are drawn from the Fall 2016 Global Policy Agenda. The assessment reflects progress in implementation since then. Charts in the left column show implementation assessment aggregated by PPP GDP weights; charts in the right column show the same assessment in simple count. The color coding of implementation assessment is as follows:

Completed	Partially implemented	Little or no progress

Annex II. Key IMF Activities since the Annual Meetings

IMF provided financial assistance to members in need:

- New arrangements were approved for Jamaica (SBA); Egypt (EFF); Cote d'Ivoire and Moldova (EFF/ECF); Niger (ECF); and Poland (FCL). New disbursements under the Rapid Credit Facility Instrument were approved for Haiti.

A number of major policy reviews and analytical work are ongoing or have been completed:

Help policymakers identify policy space and enhance resilience:

- Began mainstreaming the assessment of available fiscal space in surveillance;
- Initiated work to strengthen analytical tools for stepped-up surveillance of macro-structural issues;
- Analyzed the causes of the global productivity slowdown;
- Discussed macroeconomic developments and prospects for low-income developing countries;
- Issued a paper on macro-structural policies and income inequality in low-income developing countries;
- Initiated the work on the use of third-party indicators in surveillance;
- Continued to highlight domestic revenue mobilization and international tax issues in surveillance;
- Initiated the review of the LIC debt sustainability framework;
- Examined the economic and market case for state-contingent debt instruments;
- Initiated analytical work on the experiences with negative interest rate policies;
- Reviewed the experience with the Institutional View on the liberalization and management of capital flows;
- Began exploring the role of macro prudential policies in increasing the resilience to capital flows;
- Reviewed the experience with mainstreaming macro-financial surveillance;
- Discussed financial stability issues in countries with Islamic finance systems;
- Reviewed recent trends in correspondent banking relationships;
- Reviewed the role of the Fund in boosting resilience to natural disasters and the climate change in small states;
- Reviewed the experience with setting social objectives in PRGT-supported programs;
- Initiated the 2018 review of the Fund's capacity development strategy.

Make Multilateralism Work for All:

- Issued a paper on making trade an engine of growth for all;
- Reviewed financial safety net for developing countries, including access to Fund financial support;
- Developed reform proposals for a new monitoring instrument and a new liquidity instrument;
- Initiated a paper on modalities and reform options for debtor-creditor engagement in sovereign debt restructurings;
- Secured the renewal of the NAB decision through 2022 and additional commitments for bilateral lending agreements;
- Reviewed the Fund's communications strategy.

Capacity development activities supported the global policy agenda:

- Continued to grow activities, with nearly half of all technical assistance going to low-income developing countries and over half of training to emerging and middle-income market economies.
- Continued to expand the reach of Fund training through online learning, now accounting for about 30 percent of all training participation. Continued to expand online offerings, including in languages other than English.
- Enhanced synergies among Fund activities, including through the newly opened South Asia Regional Training and Technical Assistance Center and the redesign of training curriculum and course offerings.
- Continued to develop capacity in financial sector related issues, with Africa as the main recipient.
- Continued to develop a capacity development framework for fragile states to support institution-building; strengthen outcome monitoring and evaluation framework; and enhance coordination with other partners.
- In collaboration with the OECD, UN, and World Bank, continued to support work on international taxation issues, including through the Platform for Collaboration on Tax.
- Worked with partners on tackling the challenges toward reaching the 2030 Sustainable Development Goals, including by supporting revenue mobilization. To this end, renewed and expanded the Revenue Mobilization Trust Fund and the Managing Natural Resource Wealth Trust Fund. Continued to address data and financial sector issues in low-income countries, including by launching new funds on data gaps and financial stability; and continued to provide hands-on, field-based follow-up support through the Fund's network of regional technical assistance centers.

Annex III. Implementation of IMF Deliverables

(October 2016–April 2017)

Identify Available Policy Space and Enhance Resilience	
Fiscal	
The Framework for Assessing Fiscal Space	Fiscal Policy and Structural Reforms
Review of the LIC DSF[1]	Fiscal Capacity in Fragile States
Domestic Revenue Mobilization	International Taxation
Monetary, Exchange Rate, and Macro-Prudential Policies	
Capital Flows—Review of Experience	Macro-financial Analysis
Capital Flows and Macroprudential Policies	Financial Stability – Islamic Finance
Correspondent Banking Relationships	Financial Regulatory Reforms
Negative Interest Rates Policies	The Review of the MCP Policy
Finance and Technology	
Structural Reforms	
Macro-structural Reforms	Natural Disaster and Climate Change
Infrastructure Policy Initiative	Gender Issues
Promote Shared Prosperity	
Global Productivity	Global Economic Integration
Governance[1]	Macro-structural Policies and Income Inequality in LIC
Social Objectives in PRGT Programs	Capacity Development
Standards and Codes[1]	
Make Multilateralism Work for All	
Financial Safety Net for Developing Countries	Debtor-Creditor Engagement
Adequacy of the Global Financial Safety Net[1]	State-Contingent Debt Instruments
Regional Financing Arrangements[1]	Bank Insolvency Regimes[1]
Fund Governance and Resources	The Role of the SDR

[1] Board papers/reports scheduled to be delivered beyond the horizon under consideration; ongoing work.

Note: IMF deliverables identified in the Fall 2016 Global Policy Agenda and Work Program. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed

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