INTERNATIONAL MONETARY FUND

The Managing Director's **Global Policy Agenda** Annual Meetings 2016

Getting Growth Right

The Managing Director's Global Policy Agenda
Getting Growth Right
October 2016

Despite signs of recovery and resilience in some economies, global growth continues to disappoint, with the expected pick-up driven primarily by emerging markets. This persistent underperformance has exposed complex underlying trends in many countries—including the difficulty for some groups to adjust to rapid changes in the global economy. Policymakers should act and use a balanced mix of all policy levers to revive demand and raise productivity, and ensure the gains from technology and globalization—which have led to unprecedented global welfare gains in recent decades—are shared more broadly. A retreat from globalization and multilateralism is a serious risk at a time when international cooperation and coordination are as critical as ever. The Fund can assist by helping policymakers in their efforts by providing advice, developing capacity, and lending to countries in need, while continuing to advocate for multilateral solutions that work for all.

Current Conjuncture

Persistently weak demand combined with complex underlying trends has created a challenging policy environment.

Despite signs of recovery and resilience in some economies, global growth remains subdued.

In many advanced economies, demand is low with the post-crisis recovery being uneven across countries, and output gaps are still negative. Productivity growth has not recovered, and while the reasons are not fully understood, it is likely owing to several factors that hinder investment, including debt overhangs and low and uncertain prospects of future demand. Emerging economy growth improved overall, driven by robust activity in emerging Asia and large stressed economies showing some signs of improvement. Yet vulnerabilities, especially in the corporate sector of some large countries, have persisted. Low commodity prices continue to weigh on growth in many low-income countries (LICs). In the short term, financial sector risks have declined. Banks' balance sheets are generally stronger and financial markets passed a significant stress test in the form of the unexpected results of the UK referendum to leave the EU, and have since stabilized. In the medium term, however, uncertainty remains high and risks are rising as a result of new challenges.

Consistently disappointing growth outcomes have exposed underlying weaknesses.

Slow-moving trends that have been advancing even before the crisis have become more visible in this environment. In many advanced economies and some emerging markets, the slow adjustment to technological change and globalization has reduced wage growth for middle and low skilled workers, while increasing returns on capital and for highly educated workers. Slower growth weakened fiscal balances, limiting resources for supportive measures that facilitate the adjustment. Long-standing demographic challenges have also become more difficult to address in a low-growth environment. And low commodity prices have uncovered the need for many emerging and developing countries (EMDCs) to make difficult adjustments and diversify their economies.

Concerns around rapid globalization and technological change are becoming deeply embedded.

The global economy has benefited tremendously from globalization and technological change, particularly with regard to expanding consumers' access to goods and services and helping to lift millions out of poverty in EMDCs. With hindsight, not enough has been done to address the concerns of those who have been adversely affected, creating social tensions and political backlash. This has added to a political climate that favors inward-looking policies, makes reforms more difficult to enact, and puts at risk the well-established overall gains in productivity from globalization and technological change.

Policy Challenges and Priorities

Implementing the three-pronged approach to revive demand and raise productivity, expanding opportunities for all amidst rapid changes in the global economy, and cooperating with international partners remain essential to prevent growth from settling into the "new mediocre."

Use all policy levers to revive demand and raise growth.

Addressing the shortfall in demand in many countries remains the priority. With monetary policy stretched thin, the Spring 2016 GPA recommended a three-pronged approach. This approach should continue. Where demand is still lacking, fiscal and monetary policies can support short-term growth while accelerating the positive impact of structural reforms on growth. With policy interest rates near or at their effective lower bounds in many countries, fiscal policy has an especially vital role to play—including through additional public investment where there is fiscal space, making tax-benefit structures more efficient and equitable, and addressing private sector debt overhangs and balance sheet problems. Implementation must be anchored by strong and consistent policy frameworks to ensure debt sustainability. To avoid the risk of a hard landing, those EMDCs that were hit hard by the commodity price shock need to accelerate adjustment through a comprehensive and internally consistent set of policy measures.

Sequence and prioritize structural reforms.

Given the challenges to long-term growth, implementation of structural reforms needs to be stepped up. Since the Spring 2016 GPA, the Fund has given a more granular recommendation on structural reforms, noting that while timely and effective implementation is important, they should also be sequenced and prioritized carefully. Which structural reforms will work best for each country will depend on its performance and structural policy gaps, and on the country's specific macroeconomic circumstances (including stage of development, resource space to finance reforms, and position in the economic cycle).

Equip people with the means to thrive in a fast-changing world.

The challenge lies in ensuring that innovation and skills continue to be rewarded while sharing more broadly the gains from technological progress and globalization. While this is not an easy task, workers and communities should be given incentives and assistance to mitigate the impact of ongoing transformations and opportunity to benefit from them. For example, workers displaced by offshoring/outsourcing can be helped through education and skills development. More generally, policies to address youth and female unemployment, as well as those to integrate migrants, should be prioritized to give everyone the opportunity to gain from greater openness and rapid technological change.

Step up international cooperation. Multilateral agreements with broad participation are difficult in an increasingly multipolar world, but the gains from them are large. Comprehensive and coordinated policy actions exploit synergies, so that the whole is greater than the sum of parts—the effects of individual policy actions are amplified through positive cross-border spillovers. The G20 stimulus package put together after the financial crisis, and the growth strategies agreed at the G20 Brisbane Summit in 2014, provide recent good examples. Policymakers should continue efforts toward greater trade integration. Better coordinated actions to reduce external imbalances and manage spillovers, including by clearly communicating policy stances, also remain essential. Policymakers should consistently implement and complete the global financial regulatory reform agenda to enhance financial sector resilience. They should also implement a level-playing field regarding international taxation. Finally, it is crucial that progress is made toward building a stronger international monetary system, including an adequately-resourced Fund.

How the Fund Will Help the Membership

The Fund will help policymakers identify policy space and enhance resilience, assist in understanding and tackling the underlying causes of low productivity growth, support members to expand economic opportunities, and advocate for multilateralism that works for all.

Help policymakers identify policy space. Available policy space varies across the membership. As such, a more granular application of the three-pronged approach outlined in the Spring 2016 GPA is necessary. The fiscal space framework will therefore be finalized and used in the analysis of the fiscal stance in Article IV consultations. Staff will also continue developing and applying the framework for identifying high-priority structural reforms in line with country-specific macroeconomic circumstances and structural factors. These identified structural reform priorities will be integrated step-by-step in Article IV consultations. A deeper understanding of the synergies and tradeoffs of different policies, such as the short-term fiscal costs and benefits of structural reforms and implications of negative policy rates, will help policymakers understand the latitude and limits of available policy instruments.

Support members to enhance resilience. Policy frameworks that guide the membership need to be updated and augmented from time to time to further strengthen countries' ability to absorb and overcome shocks. To this end, the Fund—jointly with the World Bank—will reform the debt sustainability framework for LICs to strengthen its ability to assess risks. The experience with the institutional view on the liberalization and management of capital flows will also be reviewed, including how countries have handled capital flows, with a view to addressing identified gaps. Building on this review and the recent stocktaking of macroprudential policy, the Fund will bring together the work streams on capital flow management and macroprudential policies to help provide tailored and consistent policy advice to members in addressing macroeconomic and financial stability risks stemming from capital flows. Staff will explore macro-financial approaches to bilateral surveillance, analyzing linkages between the financial sector and other sectors of the economy, drawing on the recent pilot cases. Staff will also analyze how some tax systems magnify macroeconomic stability risks by favoring debt finance. Building on the experience of pilot countries, the Fund will take up macro-critical climate change issues in the next wave of countries. Laying out a policy framework for small states affected by natural disasters and climate change will help boost their resilience.

Assist policymakers in tackling the underlying causes of low productivity growth.

Uncertainty surrounding the causes and persistence of the global productivity slowdown remain high, especially in the context of ongoing technological change. As such, work will be taken forward to examine possible drivers and look to provide policy recommendations. To better quantify the impact of new technologies on economic activity, staff will work toward improving measures of productivity, including further reflection on the measurement of the digital economy. The infrastructure policy support initiative will be expanded to more pilot countries—contributing to productive capacity. Strengthening institutions remains key to raising overall efficiency in many countries. To this end, the Fund will update the policy on governance and corruption issues, paired with dedicated capacity development support in public financial management and AML/CFT.

Help members implement the regulatory reform agenda.

The Fund has played an integral role in support of the regulatory reform agenda through work with international standard setters and the Financial Stability Board. This work will continue to help bring this comprehensive agenda to completion. The Fund strongly supports consistent and timely implementation of reforms, and will continue to provide considerable technical assistance resources to assisting member countries to build capacity in this area. Macrofinancial surveillance and the in-depth Financial Sector Assessment Program evaluate the regulatory framework in member countries, ensuring that the reform agenda is being fully adopted.

Support low-income countries.

LICs will continue to receive tailored policy advice as well as significant financial and technical assistance from the Fund. The deliverables under the post-2015 Development Agenda will be integrated in Fund work, including by helping enhance domestic revenue mobilization; building fiscal capacity in small and fragile states; supporting investment needs; and advising on striking the appropriate balance between financing development needs and preserving debt sustainability. Work will continue to help those hardest-hit by the commodity price shock design a consistent set of policies that support diversification and maximize the growth rebound. The Fund will examine countries’ access to precautionary financial support and clarify current practices in regard to blending resources between the General Resources Account and the Poverty Reduction and Growth Trust (PRGT).

Focus capacity development on supporting the SDGs.

A key priority for the Fund is to further strengthen capacity development (CD) in support of Financing for Development, including in the areas of revenue mobilization and financial sector deepening, and putting in place a more resilient CD framework in fragile states. To achieve these objectives, the Fund will build on and complete the existing CD delivery architecture, including the regional centers and global thematic funds, and seek to further enhance the focus on results and flexibility in CD delivery. Among others, this will include making operational the South Asia Regional Technical Assistance and Training Center (SARTTAC) as the Fund's first combined technical assistance and training center; ramping up CD support to revenue mobilization and sound public financial management; and launching a new CD fund on Financial Sector Stability. In support of these efforts, staff will work to strengthen existing external partnerships and reach out to new external CD partners.

Collaborate with other institutions to help the membership expand economic opportunities for all.

Bilateral surveillance has increasingly focused on measures to expand opportunities and mitigate the impact of ongoing transformations—such as education and skills development as well as safety nets—and this will continue. Staff has also operationalized work on inequality in pilot countries and will deepen the focus on policy tradeoffs (between efficiency and equity objectives) in the next round of countries. Efforts to deepen expertise on inclusion will continue, including work toward identifying the reasons behind rising inequality; integrating gender analysis in surveillance; and examining factors that enhance financial inclusion, including from digitization. The Fund will work with others to mitigate potential negative spillovers from the withdrawal of correspondent banking relationships, including by intensifying AML/CFT and supervisory capacity development support, encouraging clarification of the international standard and regulatory expectations and promoting industry solutions. Staff will expand work on international taxation, including through the Platform for Collaboration on Tax (IMF, OECD, UN, WBG), and help countries strengthen their institutions to tackle illicit financial flows. The Fund will continue to assist those countries at the center of the current epidemics or refugee crises that are shouldering a burden for others.

Advocate for multilateralism that works for all.

Enhancing global economic cooperation remains central to the Fund's mandate. This includes collaboration on trade—where the Fund will analyze the drivers and policy implications of the global trade slowdown and the economic benefits of trade—and collaboration with regional financing arrangements (RFAs), including the Chiang Mai Initiative Multilateralisation Agreement, which could provide valuable lessons for work with other RFAs. Ongoing analysis and proposals to consider further enhancements to the Fund's lending toolkit seek to address gaps in the global financial safety net and help countries adjust to a more interconnected global economy. A broader role for the SDR could also contribute to the smooth functioning of the international monetary system.

Keeping the Fund strong.

A strong, quota-based, and adequately resourced Fund remains critical. To this end, the Fund will continue to work toward maintaining its overall lending capacity and securing continued adequacy of concessional lending resources and completing the 15th General Review of Quotas, including a new quota formula.

Adequate financial, capital, technological, and human resources are necessary to deliver on this policy agenda. While the Fund's budget has remained largely unchanged in real terms over the past five years, it has been able to deliver on key priorities and initiatives as a result of strategic reallocation of resources and careful budget management. Earlier buffers however have been largely eroded. Progress on the HQ1 renewal project will continue, with more than 55 percent of the project now completed. The Fund will continue improving knowledge management, building on the creation of a new unit, to make it easier for staff to find information. A transformation program, called *TransformIT*, will increase IT's agility and effectiveness in delivering capabilities to the Fund, drive greater alignment of IT to the business needs of the organization, and reduce costs in some operational areas. Promoting a more diverse staff, as well as greater gender diversity in the Executive Board, remain priorities. More broadly, the Fund will develop an HR strategy aligned to the goal of enhancing the Fund's agility, integration, and member focus.

Annex I. Implementation of Policy Priorities by the Membership

Fiscal Policy

Spring 2016 Policy Priorities: Countries with high debt, elevated sovereign spreads, low public sector savings need to implement their fiscal consolidation plan, and countries with fiscal space should commit to ease fiscal policy further. All countries (including without fiscal space) should aim for a more growth friendly composition of revenue and expenditure. Particularly, increase spending in infrastructure where needed.

Advanced Economies

Analysis of fiscal space continues. Some progress towards a more growth friendly composition of fiscal policy. Slow fiscal consolidation efforts in relevant countries. Credible medium-term fiscal adjustment paths have yet to emerge in some countries.

Emerging Market Economies

Analysis of fiscal space continues. Some notable ongoing efforts on fiscal rebalancing towards growth friendly measures. Partial or limited consolidation efforts in some countries.

Low Income Developing Countries

Analysis of fiscal space continues. Ongoing efforts in growth-friendly fiscal rebalancing, including through tax reforms and expenditure prioritization. Slow fiscal consolidation efforts in relevant countries.

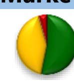
Monetary Policy

Spring 2016 Policy Priorities: In Advanced Economies, monetary policy needs to remain accommodative in countries with negative output gaps or too low inflation. Accommodative monetary policy should be accompanied by other policies to provide demand support. In Emerging Market Economies, monetary policy must grapple with the impact of weaker currencies on inflation and private sector balance sheet. All countries should use exchange rate flexibility to cushion the impact of terms of trade shocks.

Advanced Economies

Monetary policy remains accommodative in all countries. Exchange rate flexibility is fully used in all countries to cushion terms of trade shocks.

Emerging Market Economies



Monetary policy eased in countries with low inflation. Most countries used the exchange to absorb the terms of trade shock.

Low Income Developing Countries

Exchange rates were allowed to adjust in some countries.

Financial sector policy

Spring 2016 Policy Priorities: Countries should take further steps to repair private sector balance sheets and avoid protracted deleveraging process that weakens the credit channel of monetary policy, while compensating for procyclical effects. In G20 countries, further progress is needed in implementing and complementing the global regulatory framework, including policies to transform the shadow banking sector into a stable source of market-based finance, and enhancing the resilience of market liquidity. The EU banking union should be completed by putting the last pillar (common deposit guarantee scheme) in place together with efforts to reduce risks in banking systems.

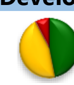
Advanced Economies

Sound private sector balance sheets in many countries and prudential measures are being introduced. Progress in strengthening the regulatory framework. Efforts toward the EU banking union has stalled.

Emerging Market Economies

Slow or partial progress in tackling excessive debt levels in the corporate sector. Ongoing efforts to strengthen the financial supervisory and regulatory frameworks in G20 countries.

Low Income Developing Countries



Continued, albeit uneven, efforts in strengthening financial supervisory and regulatory frameworks.

Structural reforms

Spring 2016 Policy Priorities: Delivery on the commitments made on structural reforms to improve productivity and potential output must be pulled forward. Countries with fiscal space should take advantage of the synergies between demand support and structural reforms, such as reducing labor tax wedge, increasing spending on R&D, implementing active labor market policies. Structural reform priorities should be sequenced according to stages of economic development and strength of institutions. Commodity exporters and low income countries should promote economic diversification and structural transformation.

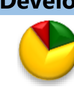
Advanced Economies

Uneven progress in undertaking labor market reforms, providing better incentives for innovation and removing product market barriers. Limited progress in delivering infrastructure investments. The use of fiscal space, when available, could be more supportive of structural reforms. Sequencing of reforms is broadly appropriate.

Emerging Market Economies

Partial delivery on improving business conditions, and implementing labor and product market reforms. Some progress in the elimination of subsidies. The sequencing of reforms is broadly appropriate, but strategies need more careful coordination, and implementation is often lagging.

Low Income Developing Countries



Ongoing efforts in improving business conditions, addressing energy infrastructure bottlenecks, implementing education and labor market reforms. Reform sequencing is broadly appropriate. Partial progress on economic diversification, delays in budget approvals, and improvements needed to the business climate.

Note: Policy priorities are drawn from the Spring 2016 Global Policy Agenda. The assessment reflects progress in implementation since then. Income groups are aggregated using PPP GDP weights. The color coding of the assessment of implementation is as follows:

Completed	Partially implemented	Little or no progress

Annex II. Key IMF Activities since the Spring Meetings

IMF provided financial assistance to members in need:

- New arrangements were approved for Iraq and Suriname (SBA); Bosnia and Herzegovina, Jordan, Sri Lanka and Tunisia (EFF); Rwanda (SCF); Afghanistan, Central African Republic, and Madagascar (ECF).
- New disbursements under the Rapid Financing Instrument were approved for Ecuador.

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

Policy Challenges:

- Explored considerations on how to assess fiscal space.
- Began systematically highlighting domestic revenue mobilization and international tax issues in surveillance.
- Deepened work on stability risks posed by tax distortions.
- Initiated the review of members' experience in dealing with capital flows to identify emerging issues.
- Issued a reference note on the Trans-Pacific Partnership to assist relevant Fund teams integrate TPP in surveillance.
- Initiated the review of LICs' debt sustainability framework.
- Described the evidence and drivers of the withdrawal of correspondent banking relationships and proposed steps to mitigate potential negative spillovers.
- Prepared, with the FSB Secretariat, the First Progress Report of the Second Phase of the G-20 Data Gaps Initiative.

Emerging Issues:

- Analyzed the impact of intense conflicts and human displacement and discussed how economic policies can mitigate the economic costs.
- Studied the experience of emigration from Central, Eastern, and Southeastern Europe and proposed policies to mitigate the adverse impact in sending countries.
- Analyzed the impact of corruption on economic performance and the elements in designing and implementing an anti-corruption strategy.

A More Resilient IMS:

- Maintained access to bilateral borrowing and began informally consulting on the NAB.
- Initiated the process of analyzing gaps in the lending toolkit of the Fund.
- Made progress on the technical work and test run of Fund-CMIM collaboration.
- Initiated the exploration of the role of state-contingent financial instruments in preventing and resolving sovereign debt crises.
- Consulted with stakeholders on modalities of debtor-creditor engagement in sovereign debt restructurings.
- Strengthened the Fund's policy on Post-Program Monitoring to capture major risks to the Fund's balances sheet, while streamlining the process.
- Began work exploring broader use of the SDR, particularly whether the SDR could address gaps in the international monetary system and complement the GFSN.
- Implemented the new SDR basket.

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 market economies.
- Continued to expand the reach of Fund training through online learning, now accounting for about 30 percent of all training participation. The largest users are in Sub-Saharan Africa and the Western Hemisphere.
- Enhanced synergies among surveillance, lending, TA and training, including through the newly created South Asia Regional Training and Technical Assistance Center.
- Continued to develop capacity in financial sector related issues, with Africa as the main recipient.
- Continued to develop a capacity building framework for fragile states to support institution building goals, strengthen outcome monitoring, and enhance coordination with other partners in a more programmatic fashion.
- Established the Platform for Collaboration on Tax with the OECD, UN, and World Bank as the central vehicle.
- Worked with partners on tackling the challenges laid out in the post-2015 development agenda, including by supporting countries' efforts for revenue mobilization by renewing and expanding the Revenue Mobilization Trust Fund and the Managing Natural Resource Wealth Trust Fund; addressing the particular issues of fragile states; and providing hands-on, field-based follow-up support through the IMF's global network of regional technical assistance centers.

Annex III. Implementation of IMF Deliverables (April–October 2016)

Provide Financial Support	
Low-Income Countries Debt Sustainability Framework[1]	Medium-Term Debt Management Strategy[1]
State-Contingent Financial Instruments[1]	Debtor-Creditor Engagement in Sovereign Debt Restructuring[1]
Fund governance and resources[1]	New Facilities
Financial Safety Net for Developing Countries[1]	Review of PRGT Interest Rate Structure[1]
Eligibility to Use the Fund's Facilities for Concessional Financing[1]	Strengthening the Framework for Post-Program Monitoring
Social Objectives in PRGT Supported Programs[1]	Role of the SDR[1]
Transition on the New SDR Basket[1]	
Identify Available Policy Space	
Fiscal	
Fiscal Space[1]	Containing Leverage[1]
Infrastructure Policy Support	Domestic revenue mobilization in developing countries
Fiscal Management in Fragile States[1]	
Monetary, Exchange Rate, and Financial Sector Policies	
Unconventional monetary policies	External balances and exchange rates[1]
Capital flow management[1]	Macro-financial analysis[1]
Private sector balance sheets[1]	Withdrawal of Correspondent Banking Relationships[1]
Data gaps	Global regulatory reforms [1]
Financial Stability[1]	Managing systemic risks [1]
Structural Reforms	
Macro-structural reforms[1]	Revitalizing trade[1]
Capacity development[1]	Governance[1]
Entity transparency	Standards and codes [1]
Address New Challenges	
Climate change[1]	Demographic transitions and migration
Gender and Inclusion [1]	Technology[1]

[1] Board papers/reports scheduled to be delivered beyond the horizon under consideration; ongoing work.
Note: IMF deliverables identified in the Spring 2016 Global Policy Agenda and Work Program. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed