INTERNATIONAL MONETARY FUND

The Managing Director's **Global Policy Agenda** Spring 2016

Decisive Action, Durable Growth

The Managing Director's Spring Global Policy Agenda
Decisive Action, Durable Growth
April 2016

The global economy is expanding moderately but the outlook has weakened further since October, and risks have increased. The global economy has been impaired from growth that has been too slow for too long, and at this rate a sustained recovery—with the expected higher living standards, lower unemployment and declining debt levels—may not be delivered. However, some recent improvement in data releases, somewhat firmer oil prices, reduced pressures on outflows from China, and actions by major central banks have all contributed to improving sentiment. Building on these recent positive developments, the global economy can get back on a stronger and safer track, but the current policy response will need to go further. Countries must reinforce their commitment to durable global growth and employ a more potent policy mix. A three-pronged approach with monetary, fiscal, and structural actions can work as a virtuous trinity, lifting actual and potential growth, averting recession risks, and enhancing financial stability. The IMF will support this commitment by helping countries identify space, craft appropriate policies, and build capacity to deliver on these policies; providing a strong financial backstop for policy implementation; and assisting members with new challenges.

Current Conjuncture

The outlook for the world economy has weakened further and risks have increased.

The global recovery has weakened.

The global recovery continues but has weakened. Globally, the impact of lower commodity prices on commodity importers is less positive than expected. Commodity exporters have to adjust their economies in a more difficult environment. Nonetheless, terms of trade developments have led to a narrowing of global imbalances, even as net creditor and debtor positions continue to expand.

The recovery in advanced economies is moderate.

Recoveries in AEs are restrained by weak demand and low potential growth, partly held down by unresolved crisis legacies, as well as unfavorable demographics and low productivity growth. Growth in the United States, the main driver of recent global growth, is flat, owing in part to a strong dollar. Low investment, high unemployment, weak balance sheets, and more recently subdued demand from emerging markets (EMs) weigh down growth in some euro area countries. In Japan, growth and inflation are weaker than expected, reflecting in particular a sharp fall in private consumption.

Emerging and developing economies are slowing further.

Activity in emerging economies, which have contributed the bulk of global growth since the crisis, continues to cool as a result of deep recessions in Brazil and Russia, modest recoveries in advanced economies, exposure to China's rebalancing, and tightening financial conditions. Ongoing transitions will continue to slow China's growth, particularly in the manufacturing sector, but make it more sustainable. India remains a particular bright spot, with rising real incomes and confidence boosting domestic demand. The ASEAN-5 countries—Indonesia, Malaysia, Philippines, Thailand, and Vietnam—are also still growing strongly, while countries such as Mexico and Turkey continue to grow at a moderate pace. Activity in developing economies remains weak, owing to unfavorable external conditions.

Risks to global financial stability have increased.

Financial market volatility and risk aversion have risen, tightening financial conditions. This reflects economic, financial and political risks, as well as lower confidence in the effectiveness of policies. Rising vulnerabilities in EMs, persistent legacies in AEs (nonperforming loans) and weak systemic market liquidity represent key challenges. Against this background, and despite a partial recovery in recent months, global financial stability is not yet assured.

A durable recovery is becoming elusive.

Growth is being dragged down by persistently high unemployment, high debt, and low investment in some countries, in addition to a long-term decline in productivity growth that predates the crisis. Public investment remains at historic lows in advanced economies, and emerging markets and developing countries have sizable infrastructure gaps. Public investment efficiency can also be improved. Trade growth has slowed significantly and spillovers through the trade-channel risk exacerbating the global weakness in activity. Shocks from geopolitical conflicts, terrorism, refugee flows, a potential U.K. exit from the European Union, and global epidemics further complicate the global environment with direct and indirect economic ramifications.

Policy Challenges and Priorities

Countries should boost their commitment to growth and employ a three-pronged approach of mutually reinforcing policy levers.

Monetary policy needs support.

In advanced economies, the monetary policy stance remains appropriately accommodative (Annex I). This needs to continue 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. Exchange rate flexibility, where feasible, should be used to cushion the impact of terms of trade shocks.

Other policy levers are needed to lift demand.

There is a strong case for domestic coordination across policies, with fiscal policy needing to do more in some cases. 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, which would benefit them, and support global demand. With its recent budget, Canada stands out as one such country taking advantage of this space. For a number of creditor countries, this would also help facilitate global rebalancing. All countries, including those without fiscal space, can also contribute by aiming for a more growth-friendly composition of revenue and expenditure, particularly increased spending in infrastructure in some countries.

Delivering on structural reforms is critical.

In addition to fiscal policy, 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, which can be mutually reinforcing. Structural reforms with built-in fiscal stimulus—such as reducing the labor tax wedge, increasing spending in R&D, and active labor market policies—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.

A well-functioning financial sector is vital to growth.

Solutions are also needed to prevent de-risking from unduly impeding access to financial services in affected jurisdictions, 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, while also compensating for procyclical effects. It is essential that the EU 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, and enhancing the resilience of market liquidity.

Policymakers should jointly take decisive action.

Each country should commit to a set of policy actions—as determined by available policy space—that contributes to a global package of reforms to lift both national and global growth. A three-pronged approach with monetary, fiscal and structural actions, taken in concert by the membership, can work as a virtuous trinity, mutually reinforcing economic activity and reducing 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.

How the Fund will Help the Membership

Building on the agile, integrated, and member-focused support the Fund has sought to provide to the membership (Annex II and III), more will be done to help members meet their reinforced commitment to growth. Surveillance will focus on providing candid advice on policy setting and identifying where countries have the space to do more, while also responding to new challenges member countries are confronting. Capacity development will target priority reforms identified through surveillance work. The Fund's financial resources will be available to underpin more forceful policy implementation while preserving financial stability and protecting those that are vulnerable to the current environment. To effectively fulfill these and other tasks under its mandate, it will be essential to keep the Fund adequately resourced.

Clarifying the contours of available policy space

Push to rebalance the policy mix. The Fund will more proactively identify policy space and necessary measures. In particular, it will continue analyzing the implications of easing the zero lower bound constraint on policy rates. Given the need to move to a better policy mix, the Fund will promote a concerted approach, identifying cases where fiscal policy can play a bigger role in both supporting demand and augmenting structural reforms. The Fund will continue to deepen analysis of the impact of structural reforms on growth, employment, and macroeconomic stability, and on principles to guide prioritization. The Fund will also review members' experiences and policies in dealing with capital flow pressures.

Facilitate efficient infrastructure spending. More needs to be done to support efficient infrastructure investment in all countries. The new infrastructure policy support initiative will be piloted this year and will help identify macro and financial implications of alternative approaches to scaling up infrastructure spending, and assess and improve institutional capacity.

Support healthier private sector balance sheets. The Fund will assess the size and implications of the problem, and examine options to reduce the risk of adverse balance sheet effects from rising private sector indebtedness and unresolved crisis legacies in banks. Drawing on country experiences with managing domestic financial cycles and avoiding high leverage, work will focus on measures to promote longer-term equity finance (e.g. removing the tax bias in favor of debt financing) and the use of macroprudential policies to avoid dangerous increases in leverage through financial cycles. The Fund will contribute to facilitate the adoption of financial regulatory reforms in member countries.

Providing financial support

Contribute to a strong and coherent global financial safety net. While strong policies and effective Fund surveillance remain the cornerstone of crisis prevention, a large enough and more coherent global financial safety net—with a well-resourced Fund—will be particularly important. Uneven and costly safety net coverage across countries and discomfort in coming to the Fund are some of the challenges that need to be overcome. To this end, the Fund will explore reforms, including strengthening coordination with Regional Financial Arrangements and revisiting its lending toolkit. Coordination in general could be facilitated by policy signaling for emerging and advanced economies. The Fund will also examine a broader use of the SDR.

Backstop good policy implementation. The Fund will support countries' efforts, using its resources to provide a strong financial backstop for policy implementation during this volatile period. In particular, the Fund will provide tailored policy support, and consider enhancing financial support, to assist with diversification and adjustment in those countries hit by the commodity price decline, many of which are low income countries, as well as countries critically affected by El Niño. In a world with prolonged volatility, as major economies normalize and China rebalances, quick, predictable, and reliable liquidity support could help ring fence eligible members hit by liquidity shocks and limit the potential for contagion.

Assist in managing spillovers from non-economic sources. Countries at the center of the current epidemics or refugee crises are shouldering a burden for others. A coordinated global initiative to provide financial support, with multilateral agencies, including the Fund, and those at risk from spillovers contributing necessary resources, could support these countries. The Fund will help reassess how resources can be channeled to areas of greatest need.

Tailor support for low income countries. The Fund will continue to assist low income countries, by integrating the deliverables under the post-2015 development agenda, as well as specific issues facing fragile states. An initiative is also underway to assess how the Fund can best support growth and boost resilience in small states affected by natural disasters. In addition, the Fund will examine the scope for precautionary financial support and blending GRA with PRGT resources.

Continuing to address new challenges

Propose solutions to de-risking. The Fund will continue to collaborate with other international institutions to facilitate dialogue among stakeholders to solidify a view on the drivers, magnitude, and impact of de-risking. The Fund will also support affected countries through policy advice, standards assessments, and tailored capacity development, including on AML/CFT, as well as promote dialogue between country authorities, standards setters and the private sector on regulatory expectations, industry solutions and public sector support.

Strengthen policy advice on emerging issues. The Fund will continue to build expertise in emerging macro-critical issues that can be addressed by economic policy and are within the mandate of the Fund. The Fund will examine the impact of migration on growth, labor markets, and fiscal positions in both recipient and sender countries. The Fund will also assess how redistributive fiscal policies affect domestic demand, potential growth, and income inequality, and cover inequality and gender issues in more country surveillance reports, with countries' consent. The Fund will continue to analyze the macroeconomic and financial stability impact of climate change and assist countries in devising appropriate policies and instruments to address it. With potential growth softening in recent years, the Fund will examine factors that impact medium- and long-term growth, including demographic shifts, gender, governance (particularly, corruption), and technology. The evenhandedness of the Fund's analysis and advice is critical to the institution's credibility and effectiveness. The new principles for evenhanded surveillance provide a basis for assessing how well it is calibrated to country circumstances and the reporting and assessment mechanism will be used to help assess concerns and identify lessons going forward.

Integrate capacity development into the policy mix.

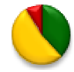
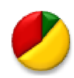
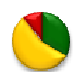
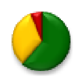
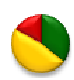
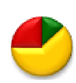
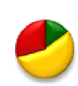
The Fund will provide technical assistance and training to complement policy analysis and advice and will strengthen the monitoring of results. The Fund will focus on assisting low income countries in international tax issues and through concerted efforts with the World Bank, to boost their domestic resource mobilization efforts. By strengthening institutions, the Fund will continue helping countries tackle illicit flows. It will also work to close data gaps to support enhanced policy analysis. The Fund will strengthen knowledge management, including making available high-quality, web-based information on critical topics.

Keeping the Fund strong

Ensuring adequate resources.

The entry into force of the 14th General Review of Quotas and the Board Reform Amendment have been crucial steps forward in strengthening the effectiveness, credibility, and legitimacy of the Fund. Given the importance of a strong, quota-based, and adequately resourced IMF, the Fund will continue to work expeditiously toward completion of the 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings. Pending the outcome of the 15th Review, the Fund's current overall lending capacity should be maintained. Providing agile, integrated, and member-focused support to the membership will require adequate financial, human, and technological resources. It also requires more diverse staffing and gender diversity in the Executive Board.

Annex I. Implementation of Policy Priorities by the Membership

Spring 2015 GPA Policy Priorities		Assessment of Implementation
Advanced Economies		
Fiscal policy: More supportive fiscal policy where conditions allow. Credible medium-term budget plans in some countries. Clear and effective communication about policy stances.		More fiscal policy support needed in some countries. Credible medium-term fiscal consolidation plan still missing in most countries. More clarity provided on policy stances in major advanced economies.
Monetary policy: Accommodative monetary policy in the euro area and Japan. Clear and careful communication about policy stances in the euro area, Japan, the United Kingdom and the United States.		Accommodative policy stance, including the expansion of the asset purchase program in the euro area and the introduction of negative interest rates in Japan. Clear and careful communication by major central banks.
Financial sector policies: Strengthening of regulation and supervision of financial activities outside the banking system. Swift implementation of the global regulatory reform agenda. Measures to address low structural market liquidity in the United States. Reduction of non-performing loans as well as improved and harmonized insolvency rules in the euro area.		Progress in strengthening regulation and supervision of the non-bank financial sector. Continued implementation of the global regulatory reform agenda. No significant progress in addressing low structural market liquidity. Ongoing efforts to reduce non-performing loans and limited progress in harmonizing insolvency rules in the euro area.
Structural reforms: Lower tax wedges, targeted labor market policies, immigration reforms and the removal of labor market barriers. Better incentives for innovation. Infrastructure investments. Removal of product market barriers.		Uneven progress in undertaking labor market reforms, providing better incentives for innovation and removing product market barriers. Limited progress in delivering infrastructure investments.
Emerging Market Economies		
Fiscal policy: Demand support in countries with policy flexibility, including to smooth adjustment to lower commodity prices. Growth-friendly fiscal rebalancing, including tax reforms, energy prices reforms and expenditure prioritization, in other countries. Clear and effective communication about policy stance in China.		Use of fiscal buffers to smooth spending in some commodity exporters. Uneven progress in using policy space to support demand in other countries. More progress needed on growth-friendly fiscal rebalancing in most countries.
Monetary policy: Demand support in countries with policy flexibility, including to smooth adjustment to lower commodity prices. Exchange rate flexibility to serve as shock absorber. Temporary role for capital flow management measures on outflows as part of a broad policy response to crises. Clear and effective communication about policy stance in China.		Further monetary easing in some oil-importing countries. Exchange rates allowed to serve as shock absorbers in several countries. New capital flow management measures in only a few countries. Active communication about policy stance in China.
Financial sector policies: Solid policy frameworks, including ensuring adequate provisioning of bad loans, flexible insolvency procedures and avoiding market dysfunction. Swift implementation of the global regulatory reform agenda. Upgrading the policymaking framework, broader financial sector reforms and a more market-based financial system in China.		Ongoing efforts in strengthening financial supervisory and regulatory frameworks. Sustained implementation of the global regulatory reform agenda. Continued financial sector reforms, including the liberalization of deposit rates, in China.
Structural reforms: Energy infrastructure investments, improved business conditions, education, labor and product market reforms, economic diversification in commodity exporters, fiscal, social security and state-owned enterprise reforms in China.		Some steps taken to address energy infrastructure bottlenecks. Limited and uneven progress in improving business conditions as well as implementing labor and product market reforms. More progress needed in undertaking education reforms and promoting economic diversification. Some progress on fiscal, social security and state-owned enterprise reforms in China.
Low Income Developing Countries		
Fiscal policy: Demand support in countries with policy flexibility, including to smooth adjustment to lower commodity prices. Growth-friendly fiscal rebalancing, including tax reforms, energy price reforms and expenditure prioritization, in other countries.		Limited fiscal space to support demand in most countries. Ongoing efforts in growth-friendly fiscal rebalancing, including through tax reforms and expenditure prioritization.
Monetary policy: Demand support in countries with policy flexibility, including to smooth adjustment to lower commodity prices. Exchange rate flexibility to serve as a shock absorber. Temporary role for capital flow management measures on outflows as part of a broad policy response to crises.		Limited policy flexibility to support demand in most countries. Exchange rates allowed to adjust in some countries. Uneven progress in the use of capital flow management measures.
Financial sector policies: Solid policy frameworks, including ensuring adequate provisioning of bad loans, flexible insolvency procedures and avoiding market dysfunction. Swift implementation of the global regulatory reform agenda.		Ongoing efforts in strengthening financial supervisory and regulatory frameworks, suited to the national context. Continued, albeit uneven, implementation of the global regulatory reform agenda.
Structural reforms: Energy infrastructure investments, improved business conditions, education, labor and product market reforms, economic diversification in commodity exporters.		Ongoing efforts in improving business conditions. Uneven progress in addressing energy infrastructure bottlenecks, implementing education and labor market reforms, and promoting economic diversification. Limited progress in undertaking product market reforms.

Note: Policy priorities in the first column are drawn from the Fall 2015 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 Annual Meetings

Over the last six months, the Fund has supported its membership with new AIM by becoming more agile, integrative and member-focused.

Agile

- **The IMF provided financing to countries affected by lower commodity prices and natural disasters**. New disbursements under the Rapid Credit Facility were approved for *Central African Republic, Dominica, and Madagascar*, and a new Standby Credit Facility arrangement for *Mozambique*.
- **Knowledge on emerging issues, such as migration, de-risking, and the global trade slowdown, has been broadened.** A number of analytical papers were completed or are underway, including a Staff Discussion Note on the economic implications of the refugee surge in Europe, the extent, scope, and impact of de-risking, and factors behind the global trade slowdown as well as proposals to reinvigorate global trade integration.
- **Deeper analyses on structural reforms are ongoing**, including a WEO chapter highlighting the complementarity between structural reforms and demand-side policies and a toolkit in prioritizing structural reforms.
- **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, in light of ongoing global economic and financial changes.
- **The Fund has begun implementing a structured approach for capacity development activities in fragile states** tailored to their absorptive capacity with a focus on training and follow-up and results-based monitoring.

Integrated

- **Staff took an integrated approach to assessing transition spillovers to member countries,** particularly from China rebalancing and low commodity prices.
- **Work on enhancing focus on macrofinancial and macrostructural issues in surveillance are underway.** Macrofinancial pilots commenced in 67 country staff reports. Staff also published a macrostructural report identifying structural reforms areas that are more likely to have macroeconomic implications.
- **The second phase of the G20 Data Gaps Initiative began in January 2016**, with increased focus on risk identification, interconnections, and spillovers.
- **Efforts to integrate emerging issues into surveillance started.** Analyses on climate change, gender, and inequality have been piloted in a few countries where these issues are macro-relevant.
- **Staff has developed a new tool to monitor disorderly market conditions,** which can help inform country teams about domestic market developments and potential widespread stress. Staff has also provided a conceptual approach to assess the appropriateness of unconventional monetary and FX intervention policies, under such conditions.
- **Synergies between surveillance and capacity development were strengthened**, including in the areas of revenue mobilization, GFS standards on reporting, data-gathering, inclusive growth, energy subsidy reform, social safety nets, and Islamic finance. In addition, staff has advanced the training curriculum review to align it better with surveillance.

Member-focused

- **The Board approved the expansion of the SDR basket to include the renminbi.** 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 reform was implemented**, following its acceptance by the membership. The reforms will ensure that the Fund is able to better meet and represent the needs of its members in a rapidly changing environment.
- **Staff continued to engage with and support various fora**, including the G20, ASEAN, and organize peer-to-peer events (CCA, MENA, SSA) as well as high-level seminars (Argentina, Brazil, Canada, Cuba, Ghana, Venezuela) on topics of interest to countries.
- **The Fund published a paper clarifying the principles of evenhandedness of Fund analysis and advice in surveillance,** in response to evidence in the 2014 TSR that it is not evenhanded. The paper also sketches out a possible mechanism for reporting and assessing specific concerns by country authorities.
- **Technical assistance and training were scaled up in low income countries,** particularly in domestic revenue mobilization and international taxation. In addition, staff has reached out to development partners for a significant scaling up of capacity development in support of the Financing for Development agenda.
- **Online learning further expanded the reach of Fund training.** Two new online courses, Financial Programming and Policies Part 2 and Macroeconomic Forecasting, were delivered. The Spanish and Russian versions of the Financial Programming and Policies course were also launched to better serve the needs of members.

Annex III. Implementation of IMF Deliverables (November 2015–April 2016)

	Lending, Debt Sustainability, and Restructuring	
Agile	Crisis Program Review	Strengthening the Post-Program Monitoring Framework [1]
	Reforming the Policy on Non-Toleration of Arrears to Official Creditors	The Fund's Lending Framework and Sovereign Debt[1]
	Public Debt Vulnerabilities in LICs	
	Surveillance	
Integrated	*Fiscal*	
	Institutional frameworks[1]	Enhancing policy efficiency[1]
	Domestic revenue mobilization, including international taxation[1]	
	Monetary, Macroprudential, and Exchange Rates	
	Policy frameworks	External balances and exchange rates[1]
	Reserve adequacy	Macroprudential policies
	Capital flow management[1]	
	Financial Sector Policies	
	Global regulatory reforms[1]	Macrofinancial analysis
	Financial stability	Managing Systemic Risk
	Assessing de-risking pullbacks from international banks	Financial development and inclusion
	Islamic Finance	Data gaps[1]
	Structural Reforms and Emerging Issues	
	Reforms and upgrade of economic structures	Revitalizing trade
	Benefits of financial integration	Implications of climate change
	Demographic transitions, migration, and refugees	Inclusion and equity
	Multilateral Cooperation	
Member Oriented	Fund governance and resources[1]	Strengthening the International Monetary System
	Standards and Codes[1]	
	General Operations	
	Evenhandedness[1]	Implementation of the IMF Communications Strategy

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

Note: IMF deliverables identified in the Fall 2015 Global Policy Agenda and Work Program. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed