

Managing Director's Action Plan IMFC, September 2011

1. ***The risks ahead and the role of the Fund.*** Global growth is flagging. In the advanced country core of the international monetary system, fiscal and financial vulnerabilities and uncertain growth prospects are feeding on each other, posing instability risks to a world with diminished policy buffers. The Fund's policy advice on tackling this situation is outlined in the Consolidated Multilateral Surveillance report. While responsibility of implementing the right policies lies with members, the Fund has a responsibility to help—by working out specifics, and finding and coordinating global solutions to immediate threats to global stability. At the same time, we cannot lose sight of the longer-term structural issues in the international monetary system, where at least visible progress if not closure is needed.

I. IMMEDIATE THREATS TO GLOBAL STABILITY

Surveillance—growth, vulnerabilities, and spillovers

2. ***Focus.*** To support members in dealing with the current vicious cycle of fiscal stresses, bank risk, and sagging growth, the Fund's policy advice in surveillance will stress:

- ***Fiscal consolidation and debt sustainability.*** Provide input into appropriate phasing to ensure medium-term sustainability but also accommodate near term growth; assess employment and social effects; draw implications for macro-economic policy mix.
- ***Repairing banks.*** Assess capital needs and advise on how these can be met without triggering further deleveraging. Propose modalities for cross-border bank resolution (a very difficult topic that the FSB too has been trying to tackle) and macro-prudential tools for systemic stability. Assess progress in the financial core.
- ***Structural measures.*** Advise on steps to revive growth and boost job creation in a context of fiscal consolidation and private sector deleveraging; and to rebalance growth towards domestic consumption from exports-led models where relevant.

Global safety net: avoiding gaps in coverage and funding

3. ***Lending.*** Fund-supported programs will continue to play a critical role in containing and resolving crises. But we need to be sure that our instruments address the differing needs of members. The upcoming review of conditionality and early review of FCL and PCL will help determine where changes may be needed. Issues arise in particular for crisis by-standers (those with good fundamentals) and middle-income countries in emergency/transition situations (e.g., in the Middle-East). Options for discussion include:

- A global stability framework for systemic crises, involving higher access (and a choice between a global or a case-by-case approach) and a general SDR allocation.
- More flexible terms in existing facilities, including with regard to the liquidity needs of crisis bystanders and emergency situations.

4. **Resources.** The Fund's credibility, and hence effectiveness, rests on its perceived capacity to cope with worst case scenarios. Our lending capacity of almost \$400 billion looks comfortable today but pales in comparison with the potential financing needs of vulnerable countries and crisis bystanders. It will be useful to discuss, soon, the needs and contingency options. In any case, this situation heightens the importance of prompt entry into force of the 2010 quota increase and of the next review of quotas (see further below).

LICs: effective support and vigilance

5. **Vulnerabilities.** A strong recovery has been underway since 2010 but vulnerabilities could reappear quickly in the event of global shock. In some respects, LICs are more exposed now than before the 2009 recession, as fiscal buffers have eroded and not yet been rebuilt; aid budgets would be unlikely to expand as they did in 2009.

6. **Financial support.** We must be prepared to respond rapidly, flexibly and possibly on a larger scale. The first priority should be to implement the near-term financing package for the PRGT agreed in 2009, including gold distribution and bilateral contributions. We can later return to the discussion of whether to use gold for self-sustained PRGT financing.

7. **Policy advice.** With sound macro-management key, advice provided in bilateral surveillance, technical assistance, and programs must focus on rebuilding policy buffers and responses to shocks. The new vulnerability exercise for LICs can identify emerging risks and vulnerabilities. An improved debt sustainability framework will help better assess and manage debt vulnerabilities in a context of high public investment needs. Availability of contingent financial instruments from the official sector and private markets could also help.

II. LONG-TERM HEALTH OF THE INTERNATIONAL MONETARY SYSTEM

Fund surveillance apparatus: mitigating risks

8. **Gaps.** The Triennial Surveillance Review (TSR) identifies progress in strengthening Fund surveillance but also important gaps, especially from the perspective of members and outside users. The main gaps relate to the analysis of cross-country spillovers/comparisons, risks, financial and external stability, and our uneven influence on policies.

9. **Remedies.** If surveillance is to be as interconnected as the real world is, focused efforts and new initiatives will be needed. In addition to better integration of key messages for top policy makers, which we have started to address with the Consolidated Multilateral Surveillance Report to the IMFC, key proposals in the TSR for the IMFC's reactions include:

- Regular spillover and cross-country analysis in existing and dedicated reports.
- Much more systematic risk analysis, both in bilateral surveillance and in the multilateral flagship reports (WEO, GFSR and Fiscal Monitor).

- Deeper financial and external stability assessments in Article IVs and flagships; this requires further progress in addressing data gaps and data provision to the Fund.
- Efforts to gain traction in surveillance, including with attention to macro-social issues, which have come to the fore across the world and especially in the MENA region.
- Reform of the legal framework for surveillance.

10. ***Next steps on the TSR.*** Based on feedback from the IMFC, it is proposed that the Executive Board will discuss an action plan that addresses specific remedies in the above areas. The Fund's work program will also cover the analytical building blocks of enhanced surveillance, including analysis of interconnections, data gaps, and macro-financial linkages.

Common understandings to buttress stability

11. ***Structural change.*** The importance of large and volatile capital flows and the rise of emerging market countries (but not yet in the role of their currencies) represent two major structural shifts in the international monetary system. The Fund has a special responsibility in helping the system adapt to these developments and their bearing on global stability:

- *Capital flows.* To complement earlier work on the management of capital inflows and progress toward the "comprehensive and balanced framework" envisioned at the turn of last year, we will discuss in several weeks possible principles related to source country gross outflows, and later to net outflows and liberalization.
- *Reserves currencies.* Agreeing on clear, rules-based indicators to chart the way for entering the SDR basket can facilitate the integration of large and fast growing emerging markets into the core.

Further reform of governance is crucial to legitimacy and effectiveness

12. ***Delays in governance reform.*** Progress in implementing the 2010 quota reform and re-composition of the Executive Board is moving slowly. At roughly half-time to the agreed deadline (2012 Annual Meetings), only 20 members with 19 percent of voting power have consented to the 2010 quota reform (as opposed to the required 113 countries and 85 percent of voting power). At this pace, the risk of disappointing expectations at the target date of October 2012 is high. A stronger political effort will be needed if we are to meet the January 2013 deadline for the review of the quota formula, which will be an important landmark towards the 15th general review of quotas. Last, but by no means least, I am deeply committed to enhancing the diversity of the Fund's staff, along all its various dimensions.

13. ***IMFC engagement.*** I hope this Action Plan is seen as a collective one, and that it will facilitate ministerial engagement and strategic directions-setting by the IMFC.