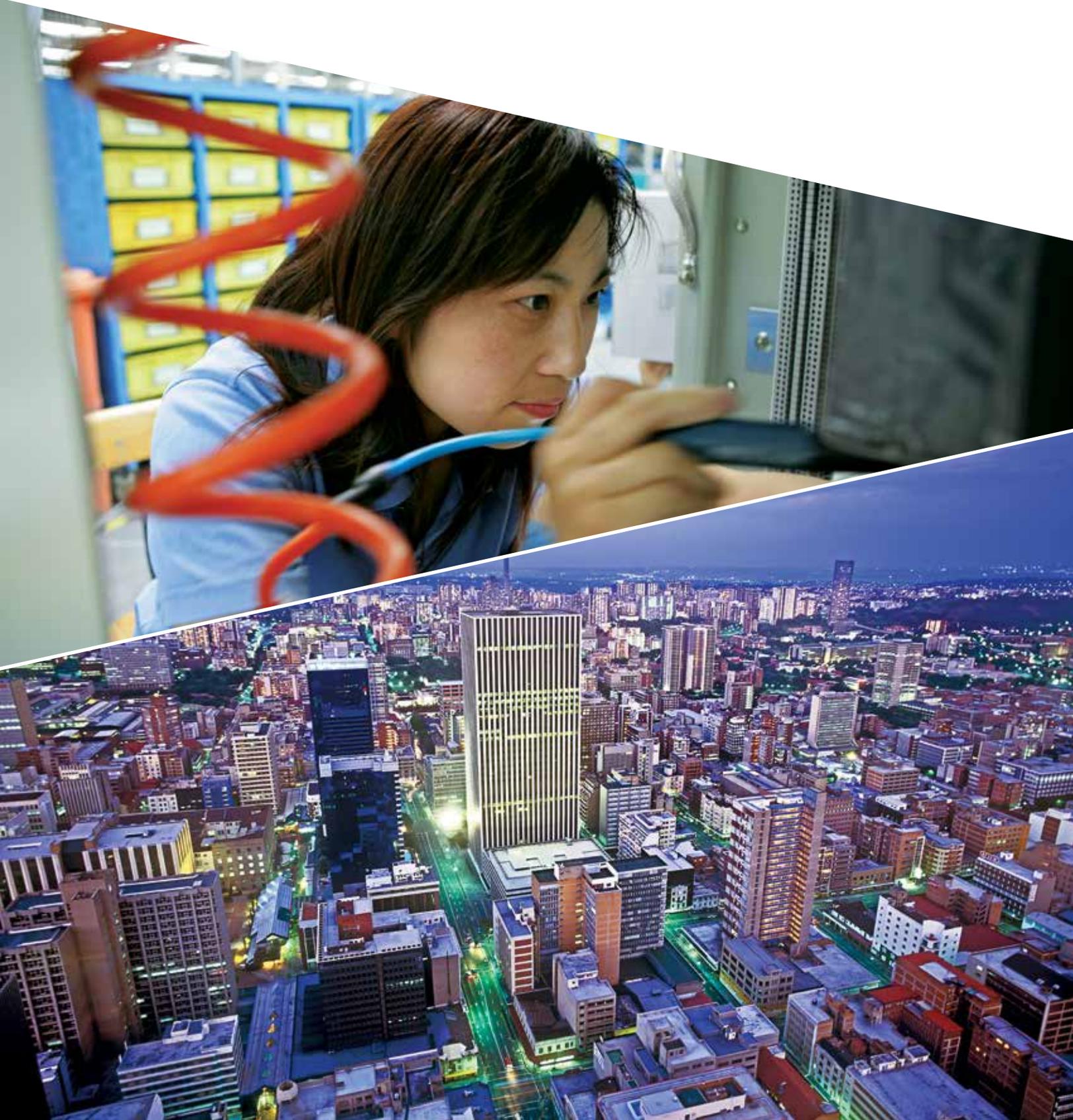
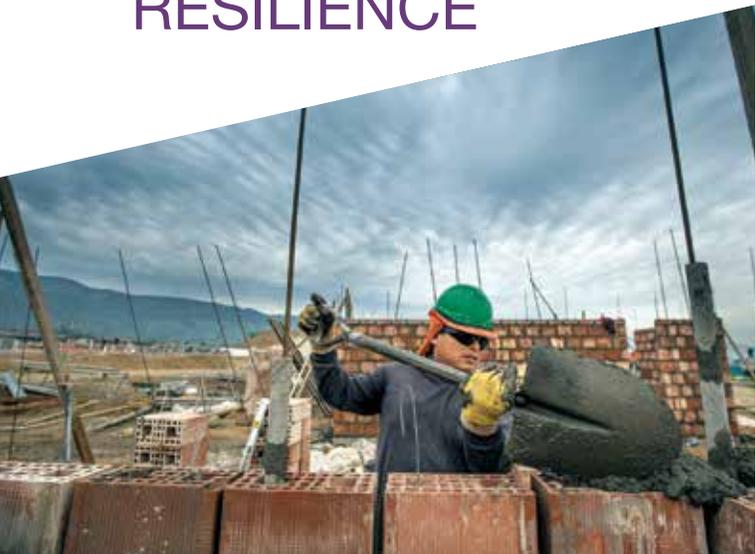


4 SUPPORTING A SUSTAINABLE RECOVERY AND RESTORING RESILIENCE



SUPPORTING A SUSTAINABLE RECOVERY AND RESTORING RESILIENCE



POLICY ADVICE

In the course of overseeing the international monetary system, underpinning programs in member countries, helping countries strengthen their institutions and capacities, and monitoring member countries' economies, the IMF provides policy advice to member countries on a variety of issues pertaining to economic stability.

Fiscal policy

Reassessing the role and modalities of fiscal policy in advanced economies

In the wake of the global financial crisis, advanced economies have experienced much larger shocks than was previously thought possible, and sovereign-bank feedback loops have amplified sovereign debt crises. This has led to reassessing what constituted “safe” sovereign debt levels for advanced economies and prompted a more risk-based approach to analyzing debt sustainability. Precrisis views about the interaction between monetary and fiscal policy have also been challenged by the surge in central bank purchases of government debt. This surge has helped restore financial market functioning, but to minimize the risk of fiscal dominance, it is critical that central bank support be a complement to, not a substitute for, fiscal adjustment.

At an informal meeting in July 2013, the Executive Board was briefed on how developments during and after the global financial crisis had changed economists' and policymakers' views on fiscal risks and fiscal sustainability, the effectiveness of fiscal policy as a countercyclical tool, the appropriate design of fiscal adjustment programs, and the role of fiscal institutions. According to the IMF staff paper prepared for the briefing,³³ the crisis provided evidence that fiscal policy is an appropriate countercyclical policy tool when monetary policy is constrained by the zero lower bound, the financial sector is weak, or the output gap is particularly large. Nevertheless, a number of reservations regarding the use of discretionary fiscal policy tools remain valid, particularly when countries face “normal” cyclical fluctuations.

In the design of fiscal adjustment programs, given the nonlinear costs of excessive front-loading or delay, the paper found that countries not under market pressure could proceed with fiscal adjustment at a moderate pace under a medium-term adjustment plan to enhance credibility. Front-loading is more justifiable in countries under market pressure, the paper found, though even these countries faced “speed limits” that governed the desirable pace of adjustment. The proper mix of expenditure and revenue measures is likely to vary, depending on the initial ratio of government spending to GDP, and must take into account equity considerations.

The crisis also revealed the challenges involved in establishing credible medium-term budget frameworks and fiscal rules to

underpin fiscal policy that are flexible enough to respond to cyclical fluctuations, according to the paper. Shortcomings in fiscal reporting also point to a need for reassessing the adequacy of fiscal transparency institutions.

Fiscal policy and income inequality

Rising income inequality in advanced and developing economies has coincided with growing public support for income redistribution, at a time when fiscal restraint is an important priority in many countries. At an informal meeting in February 2014, the Executive Board discussed an IMF staff paper³⁴ on fiscal policy as the primary tool for governments to affect income distribution, including options for reform of expenditure and tax policies to help achieve distributive objectives efficiently in a manner consistent with fiscal sustainability and recent evidence on how fiscal policy measures can be designed to mitigate the impact of fiscal consolidation on inequality.

Both tax and expenditure policies need to be carefully designed to balance distributional and efficiency objectives, according to the paper, including during fiscal consolidation. The appropriate mix of instruments will depend on administrative capacity, as well as on society's preferences for redistribution, the role envisaged for the state, and political economy considerations. In advanced economies, options include using means testing, with a gradual phasing out of benefits as incomes rise to avoid adverse effects on employment; raising retirement ages in pension systems, with adequate provisions for the poor whose life expectancy could be shorter; improving the access of lower-income groups to higher education and maintaining access to health services; implementing progressive personal income tax rate structures; and reducing regressive tax exemptions.

Options in developing economies, the paper found, are consolidating social assistance programs and improving targeting, introducing and expanding conditional cash transfer programs as administrative capacity improves, expanding noncontributory means-tested social pensions, improving access of low-income families to education and health services, and expanding coverage of the personal income tax. Innovative approaches, such as the greater use of taxes on property and energy (such as carbon taxes) could also be considered, the paper noted, in both advanced and developing economies.

International taxation and the role of the IMF

In the discussion of the Executive Board work program in June 2013, it was urged that the IMF increase its presence in discussions on international tax issues. At an informal meeting in July 2013, the Board reviewed key issues and initiatives in this area and considered a work plan based on the IMF's mandate and macroeconomic expertise, which would complement the work of other institutions, notably the Organisation for Economic Co-operation and Development (OECD).³⁵

The IMF Staff has carried out this work plan, focusing on macro-relevant cross-country spillovers from national tax design and practices (e.g., tax avoidance by multinationals). The work explores understudied aspects of the spillover issue, such as quantifying magnitudes. Drawing on the Fund's extensive analytical and technical expertise in the economics and practicalities of international taxation, including its technical assistance and its near-universal membership, the staff also assessed issues of special importance for developing countries under the current international tax architecture and arrangements. The staff has cooperated closely with the OECD, as well as the United Nations

Previous top A switch production technician in Shanghai, China
Previous bottom Johannesburg, South Africa, at dusk **Far left** A construction worker in Santiago, Chile **Far right** All-female staff at Bharatiya Mahila Bank in India **Left** An Egyptian archeological technician restores pottery in Giza, Egypt **Right** Workers at a shoe factory in Ethiopia



and European Commission, and conducted extensive outreach to civil society organizations and the private sector.

Standardized assessment tools

Countries at all income levels often grapple with conflicting demands for both higher spending and lower taxes. In these circumstances, measures to strengthen tax administration effectiveness are critical if the necessary fiscal space is to be found to improve public services, reduce poverty, and improve social outcomes, while collecting taxes fairly, efficiently, and transparently. While much has been achieved in reforming and modernizing tax administrations, there is still no single effective approach to assessing the relative strengths and weaknesses of a tax administration.

The IMF established the Code of Good Practices on Fiscal Transparency in 1998, in the wake of the Asian financial crisis. Its aim was to help governments provide a clear picture of their structure and finances.³⁶ Despite steady improvements in the comprehensiveness and quality of fiscal reporting, the recent economic crisis revealed many shortcomings in understanding government fiscal positions. A 2012 IMF study identified a need to strengthen fiscal reporting and introduce more comprehensive

assessments of fiscal risks. A revised draft Fiscal Transparency Code has been developed to strengthen surveillance activities related to fiscal transparency (see Box 4.1). It includes a new Fiscal Transparency Evaluation that will replace the fiscal module of the Report on the Observance of Standards and Codes (fiscal ROSC).

The new evaluation takes a more analytical, modular, and graduated approach to evaluating countries' fiscal reporting practices and outputs. The IMF has developed other new tools for assessment and surveillance described in Box 4.2. For a discussion of how the global financial crisis changed views on fiscal policy in advanced economies, see "Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies" earlier in this chapter.

Fiscal sustainability

Unification of discount rates used in external debt analysis for low-income countries

Following an extended period of historically low interest rates in advanced economies, the discount rate used in World Bank–IMF debt sustainability analyses (DSAs) became a weak measure for

Box 4.1

Update of the Code of Good Practices in Fiscal Transparency Initiative

Fiscal transparency allows better-informed debate by both policymakers and the public about the design and results of fiscal policy and helps establish accountability for its implementation. By strengthening understanding of macroeconomic policies and choices, fiscal transparency can improve access to domestic and international capital markets. It also helps to highlight risks to the fiscal outlook, allowing an earlier and smoother policy response to changing economic conditions, thereby reducing the incidence and severity of crises.

The new Fiscal Transparency Code^a provides information needed for good fiscal management and decision making in three main areas: fiscal reporting, budgeting and fiscal forecasting, and fiscal risk analysis and management. The enhanced focus on fiscal risk is a particular improvement on the original code, which devoted relatively little attention to the area. This shortcoming became evident during the global financial crisis when the realization of contingent liabilities was a major factor behind the deterioration in fiscal positions. The Code places greater emphasis on the quality of published information, rather than the procedures and laws underlying them. It also takes into account different levels of institutional capacity across member countries, differentiating between basic practices, achievable by all members; good practice, providing an intermediate goal and requiring stronger institutional

capacities; and advanced practice, reflecting international standards, in line with the current state of the art.

The Fiscal Transparency Evaluation (FTE) takes a more analytical, quantitative approach to assessing published fiscal data and sources of fiscal risk, identifying not just the weaknesses in a country's practices, but also the size of the reporting gaps. These quantitative measures help distinguish between more and less macro-critical shortcomings in fiscal transparency, allowing for more targeted recommendations. The FTE provides an accessible summary of the strengths and weaknesses of country practices and the option of a fiscal transparency action plan to lay out the concrete steps to better support technical assistance by the IMF and other partners.

A draft of the Fiscal Transparency Code was released for public consultation in July 2013, and eight FTEs have been undertaken in countries in a range of income levels and regions. Based on the findings of these evaluations and feedback from consultations with key stakeholders and the public, a final version of the Code will be submitted to the Executive Board for approval and publication in 2015.

^a The Code is available at www.imf.org/external/np/fad/trans/code.htm.

discounting cash flows over the longer term. Estimates of the burden of debt service were inflated, leading to an unjustifiable narrowing of the assessed borrowing space available to countries under the joint Debt Sustainability Framework for Low-Income Countries (DSF).

In October 2013, the Executive Board approved a proposal for the unification of discount rates used in external debt sustainability analysis for low-income countries.³⁷ The proposal was also approved by the Executive Board of the World Bank. The unification simplifies the system used by the two institutions in analyzing external debt issues in low-income countries by replacing the different methodologies previously used with a single discount rate. Analytical tools affected by these changes include the Debt Sustainability Analysis and the calculation of concessional lending rates. The new unified discount rate was set at 5 percent, a level broadly aligned with the discount rate currently used for calculating the grant element of long-term U.S. dollar-denominated loans, and will remain unchanged until the completion of the next review of the DSF by the Executive Boards of the World Bank and the IMF in 2015.

Sovereign debt restructuring: Recent developments and implications for the Fund's legal and policy framework

Since the 2005 Board review of sovereign debt restructuring, there have been important developments in the area. In 2012, Greece launched the largest sovereign debt restructuring in history. Other recent restructurings include those in Belize, Jamaica, and St. Kitts and Nevis. Separately, ongoing litigation against Argentina could have pervasive implications for future sovereign debt restructurings. In May 2013, the Executive Board discussed an IMF staff paper on recent developments in sovereign debt restructuring and their implications for the Fund's legal and policy framework.³⁸

Executive Directors broadly supported IMF staff plans to proceed on four areas for follow-up work identified in the paper. First, debt restructurings had often been too little and too late, thus failing to reestablish debt sustainability and market access in a durable way. Overcoming these problems was likely to require addressing the timeliness and scope of debt restructurings action on several fronts. This could be achieved, it was observed, by enhancing the rigor and transparency of debt sustainability and market access assessments and taking measures to alleviate the costs associated with restructurings. In addition, it would be useful to explore possible reforms to the Fund's lending framework that would allow for a more calibrated approach in high debt situations, prevent the use of Fund resources to bail out private creditors ahead of a restructuring, and ensure better outcomes for the membership.

Second, while creditor participation had been adequate in recent restructurings, the contractual, market-based approach to debt restructuring in evidence at the time of the discussion was

becoming less potent in overcoming collective action problems, especially in predefault cases. In response, consideration could be given to making the contractual framework more effective, including through the introduction of more robust aggregation clauses into international sovereign bonds, bearing in mind the intercreditor equity issues that such an approach may raise. The IMF could also consider ways to condition use of its financing more tightly to the resolution of collective action problems, it was noted.

Third, the growing role and changing composition of official lending called for a clearer framework for official sector involvement, especially with regard to non-Paris Club creditors,³⁹ for which the modality for securing program financing commitments could be tightened. Fourth, although the collaborative, good-faith approach to resolving external private arrears embedded in the lending-into-arrears policy remained the most promising way to regain market access postdefault, a review of the effectiveness of the lending-into-arrears policy was in order in light of recent experience and the increased complexity of the creditor base. Consideration could also be given to extending the lending-into-arrears policy to official arrears.

Public Debt Management Forum and U.S. Treasury Roundtable on Treasury Markets and Debt Management

The global financial crisis brought to light a number of previously underappreciated areas of interconnectedness and vulnerabilities in both the financial and sovereign spheres that have to be taken into account to keep markets liquid and deep. Senior debt managers, treasury officials, and central bankers from 40 advanced and emerging market economies, together with private market participants and academics, met in Washington, D.C., in June 2013 for the Thirteenth International Monetary Fund Public Debt Management Forum and Third U.S. Treasury Roundtable on Treasury Markets and Debt Management.⁴⁰ Hosted by the IMF, the event drew senior representatives from the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the World Bank.

Participants discussed the definition and measurement of liquidity in government bond markets and the benefits of having a liquid bond market. Fostering liquid government bond markets is a key policy objective for debt management, but it also involves trade-offs. In countries where the priority is market access to ensure that the government's financing needs are met, liquidity might be sacrificed in favor of offering diverse products demanded by nontraditional investors. Participants agreed that as the world enters uncharted territory with respect to the exit from unconventional monetary policy, efforts to strengthen the resilience of debt portfolios and to foster deep and liquid debt markets would continue to be a priority. (See also section on monetary policy in this chapter.)

Revision of the IMF–World Bank Guidelines for Public Debt Management

As a result of financial sector and macroeconomic policy developments, especially in response to the recent financial crisis, many countries' debt portfolios have undergone structural changes in terms of both size and composition over the last decade. At their meeting in Moscow in February 2013, the G20 finance ministers and central bank governors requested a revision of the original 2001 Guidelines for Public Debt Management and their 2003 amendments. The IMF and World Bank staffs, with inputs from the OECD, issued Revised Guidelines for Public Debt Management in April 2014.⁴¹ The new guidelines are designed to strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce member countries' external vulnerabilities. They will be used by the two institutions as a framework for technical assistance and by the IMF as background for discussions in the context of its surveillance activities. They may also be used as reference material by third-party consultants and experts dealing with public debt management issues.

Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries

To address shortcomings in identifying fiscal vulnerabilities and assessing risks to debt sustainability against the backdrop of increased concerns over fiscal policy and public debt sustainability in many advanced economies, the framework for fiscal policy and public debt sustainability analysis in market access countries was reviewed by the Executive Board in August 2011.⁴² The review identified several areas for improvement: the realism of baseline assumptions, risks associated with the debt profile (financing structure), analysis of macrofiscal risks, vulnerabilities related to the level of public debt, and coverage of fiscal and public debt aggregates. The review called for a risk-based approach and discussed the importance of contingent liabilities as a source of risk and the use of fan charts as complementary tools.

A Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries reflecting the issues highlighted above was issued in May 2013. It called for more analysis in countries facing greater potential vulnerability and commensurately less in countries facing lower risks. This approach is also in line with the recommendations of the 2011 Triennial Surveillance Review to focus on a more granular assessment of risks and macrofinancial linkages. (See also the proposed reforms to the Fund's debt limit policy in the section on debt limits in Fund-supported programs in Chapter 3.)

Monetary policy

Global impact and challenges of unconventional monetary policies

Prior to the crisis, central banks in major advanced economies set monetary policy in the context of an established framework, largely built on a stable banking system. With the downturn in the real economy and risks of deflation, optimal short-term interest rates became negative. Central banks could thus no longer rely on their traditional instrument—the short-term policy rate—to loosen monetary conditions and provide needed support for demand. Central banks turned to unconventional monetary policies (UMPs) to restore market functioning and intermediation, and to provide support to economic activity at the zero lower bound on short-term interest rates.

At an informal meeting in September 2013, the Executive Board discussed an IMF staff paper on the global impact and challenges of UMP.⁴³ The paper found that UMP to support activity at the zero lower bound on short-term interest rates had reduced long-term rates and had positive effects on economic activity and inflation in UMP countries. However, continued UMP of this type was associated with risks: complacency in the reform agenda, financial stability, and central bank credibility. It also presents policy challenges for many emerging markets that have been struggling with the management of large and volatile flows of capital following the global financial crisis. Overall, however, the paper found, UMP had so far been beneficial both for UMP countries and on a global basis. Stronger structural, financial, and fiscal reforms were needed in UMP and non-UMP countries to lay the foundation for strong and sustained medium-term growth, and to reduce the burden on UMP. While UMP had been—and remained—critical, it could not substitute for other policies and reforms of a more structural nature.

Exit from UMP to support market functioning and intermediation should by and large occur seamlessly as markets normalized, according to the paper. Exit from policies to support activity, eventually leading to rate hikes, was not yet warranted given economic conditions at the time the paper was issued. Exit would lead to some normal interest rate changes, both in UMP and non-UMP countries, but there could be additional volatility due to market reactions beyond the control of the central bank. This volatility could have significant spillovers to the rest of the world, the paper noted, with risks to macroeconomic and financial stability. Non-UMP countries should take measures, the paper advised, to safeguard their stability in preparation for exit and lay the foundation for sustained medium-run growth. If instability occurred, they should use buffers as well as appropriate policies to limit risks.

International policy coordination could in principle improve global outcomes by mitigating negative cross-border externalities

from UMP, according to the paper. The IMF could support UMP policy implementation and exit by providing a global perspective on these policies through surveillance, policy buffers to avoid potential side effects, and objective analysis of the potential gains from international policy cooperation.

At an informal meeting in May 2013, the Executive Board was briefed on recent experiences and prospects in regard to unconventional monetary policies. According to the IMF staff paper that formed the basis for the briefing,⁴⁴ central banks in the euro area, Japan, United Kingdom, and United States had adopted a series of unconventional monetary policies that had largely succeeded in restoring the functioning of financial markets and intermediation.

However, the policies had had a mixed effect on the rest of the world. Early announcements had buoyed asset prices globally, and likely benefited trade, whereas later announcements had had smaller effects and increased capital flows to emerging markets, with a shift to Latin America and Asia. Fiscal, structural, and financial sector reforms were found to be essential to ensuring macroeconomic stability and entrenching the recovery, eventually allowing for the unwinding of unconventional monetary policies.

At an informal meeting in July 2013, the Executive Board was briefed on credit and funding indicators of global liquidity. A note prepared for the Board briefing⁴⁵ reviewed concepts of global liquidity and discussed measurement approaches used by various interlocutors, including the Bank for International Settlements, academics, and the IMF staff. Some measures that could be regularly monitored by policymakers were also presented.

Macroprudential policy

Key aspects of macroprudential policy

The crisis underscored the costs of systemic instability at the national and global levels and highlighted the need for macroprudential policies to achieve financial stability. In July 2013, the Executive Board concluded discussions of an IMF staff paper on key aspects of macroprudential policy.⁴⁶ Executive Directors welcomed the analysis and the general approach to this relatively new policy area, recognizing the still-limited experience and the range of challenges in ensuring the effectiveness of macroprudential policy. They noted that the staff paper provided useful insights for policy discussions and a good basis for the Fund's advice on macroprudential policy in its regular surveillance, financial sector assessments, and technical assistance.

Nonetheless, Executive Directors considered that developing macroprudential policy remained a work in progress and urged the staff to continue to sharpen its analytical work, accumulate experiences, and advance understanding of macrofinancial linkages and conditions for effective macroprudential policy. Executive Directors stressed that macroprudential policy should be used to contain systemic risk, including systemic vulnerabilities from procyclical feedback between credit growth and asset prices and from interconnectedness within the system, but that it should not be overburdened with other objectives.

Executive Directors also emphasized that macroprudential policy could not substitute for sound macroeconomic policies and that



Left Employees at a cooperative make ceramics in Uruguay
Right A store announces discounts in Sintra, Portugal





Left A man picks tea leaves in Uganda **Right** Construction in Hong Kong SAR

to be effective, it needed to be complemented by appropriate monetary, fiscal, and other financial sector policies, and supported by strong supervision and enforcement. Operationalizing it required an ability to assess systemic risk, assemble and deploy macroprudential tools suitable for the goals, and monitor and close regulatory gaps. Executive Directors emphasized that strong institutional and governance frameworks were essential for the effective conduct of macroprudential policy, although the appropriate arrangements would clearly depend on individual country circumstances, including legal frameworks. Executive Directors generally considered that the central bank has an important role to play in conducting macroprudential policy, but that care must be taken to ensure that its independence is not undermined.

Noting that macroprudential action, or lack thereof, could create potential spillovers, Executive Directors highlighted the need for international coordination. Most Executive Directors agreed that the Fund should play a key role in contributing to the development of macroprudential frameworks, in collaboration with standard setters and country authorities and respecting the mandates of other international financial institutions. The Fund should use its existing instruments, including surveillance, the Financial Sector Assessment Program, and technical assistance to facilitate its dialogue with national authorities on macroprudential policy. The goals were to strengthen the institutional underpinnings for macroprudential policy, help analyze evolving risks, policy linkages, and spillovers, and advise on the policy response appropriate for each country.

Regulatory reform

In her April 2014 Global Policy Agenda, the IMF's Managing Director called for a strong push to complete national and global financial regulatory reforms. The IMF's work would include

policy issues related to the macroeconomic and financial stability implications of global financial regulatory reform and the role of policy cooperation. The Board was updated on progress in regulatory reform at informal meetings in June 2013 and December 2013.

Priorities were to resolve the too-big-to-fail problem, including implementing effective cross-border resolution of systemically important firms; complete the regulatory reform agenda, including further work on consistency of risk weighting and accounting convergence; find ways to address shadow banking risks; and make derivatives markets safer. Inconsistent cross-border approaches, especially with regard to various national structural initiatives, needed to be actively tackled to avoid increasing global financial fragmentation. (See also the discussion of the 2013 Pilot External Sector Report and Spillover Report in Chapter 3.)

Jobs and growth

The IMF's Articles of Agreement commit the institution to "the promotion and maintenance of high levels of employment and real income."⁴⁷ Job creation and growth with inclusion are imperatives that resonate today in every IMF member country. While some advanced economies face the challenge of supporting aggregate demand with limited fiscal space in the aftermath of the Great Recession, many other countries have to address ways to generate growth and create jobs in the face of the strong ongoing global megatrends of technological change, globalization, and significant shifts in demographics. The latter include rapid population aging in some parts of the world and the entry of a large number of new workers into the labor force in others. Low female labor force participation represents a significant missed opportunity to strengthen economic development and growth in many countries.

As outlined in an IMF paper published in March 2013,⁴⁸ the Fund can help countries devise strategies to meet these challenges by reviewing the theoretical and empirical state of the art in relevant policy research so as to provide the best evidence-based advice. In September 2013, the IMF issued a Guidance Note on Jobs and Growth Issues in Surveillance and Program Work, to improve analysis and policy advice in four key areas that were identified in the paper as showing scope for improvement: enhancing examination of macrocritical domestic policies to ensure that they are directed toward keeping the economy operating broadly at capacity, consistent with available fiscal and monetary policy space; conducting more systematic analysis of the growth and employment challenges and the identification of the most binding constraints on inclusive growth and jobs to provide more tailored and relevant policy advice; integrating policy advice on reforms of tax and expenditure policy more systematically; and enhancing advice on labor market policies based on currently available empirical evidence, and greater collaboration with international institutions, such as the World Bank, the OECD, and the International Labour Organization on the impact of these policies on growth, productivity, job creation, and inclusion.

During the year, the IMF organized a number of seminars on the issue, including a seminar on growth and jobs in Europe held during the Annual Meetings in Washington in October 2013.

Reserve adequacy

In December 2013, the Executive Board discussed a paper concerning further considerations on assessing reserve adequacy,⁴⁹ a topic the Board had previously examined in March 2011.⁵⁰ Executive Directors agreed that international reserve buffers complement sound policies and institutions in underpinning a country's external stability and can play an important role in preventing or mitigating crises. They observed that reserve adequacy assessments should capture country-specific characteristics and noted that the paper moved in this direction, broadly in line with recommendations by the Independent Evaluation Office.

Executive Directors broadly concurred that the paper had added insights to the IMF's analytical framework presented in the 2011 paper on assessing reserve adequacy. Nevertheless, they emphasized the importance of judgment in gauging reserve adequacy and cautioned against a mechanical application of any metric. Executive Directors welcomed the IMF staff's approach of moving away from assessing reserve adequacy for countries grouped by standard income-based classifications. They generally endorsed a classification that takes into account different degrees of market maturity and economic flexibility.

Executive Directors agreed that the paper's revised metric for reserve adequacy in members with less mature markets and in low-income countries had improved the analysis on reserves

relative to traditional benchmarks. Most Executive Directors endorsed the staff's suggestions to alter the computation of the reserve adequacy metric for countries highly dependent on commodity trade. Executive Directors generally supported the staff's proposals to better reflect the volatility of capital flows in assessing the adequacy of official reserves.

Executive Directors welcomed the proposed methods to better measure the cost of reserves in countries with market access and in low-income countries. They saw scope for tapping reserves as part of the policy response to stem capital outflows but reiterated the importance of maintaining appropriate macroeconomic policies and of addressing preemptively emerging vulnerabilities. In this regard, Executive Directors called for further work to strengthen the Fund's policy advice on foreign exchange market interventions and a fuller discussion of alternatives to reserves accumulation such as central bank swap lines, Fund arrangements, and regional financing arrangements, including in the broader context of reforms to the international monetary system.

QUOTAS AND GOVERNANCE

Review of quotas

When a country joins the IMF, it is assigned an initial quota based on a formula that helps assess a member's relative position in the world economy. The IMF's Board of Governors conducts general quota reviews at regular intervals (of not more than five years). Any changes in quotas must be approved by an 85 percent majority of the total voting power, and a member's quota cannot be changed without its consent.

In December 2010, the Board of Governors approved a comprehensive quota and governance reform, including completion of the Fourteenth General Review of Quotas and adoption of a proposed amendment to the Articles of Agreement to move to an all-elected Executive Board (the "Board Reform Amendment"). The reform also included two forward-looking elements: the Board of Governors asked the Executive Board to (1) bring forward the timetable for completion of the Fifteenth General Review of Quotas to January 2014⁵¹ and (2) complete a comprehensive quota formula review by January 2013.⁵²

Once the 2010 Quota and Governance Reform package becomes effective,⁵³ there will be an unprecedented 100 percent increase in total quotas and a major realignment of quota shares that will better reflect the relative weights of the IMF's member countries in the global economy.

In January 2014 the Executive Board adopted a report to the Board of Governors on the 2010 Quota and Governance Reforms and the Fifteenth General Review of Quotas,⁵⁴ indicating that

they deeply regretted the delay in implementing the Fourteenth Review quota increases and the Board Reform Amendment.⁵⁵ As of mid-January 2014, 141 members (of the 113 required) representing 76.1 percent of quota (short of the 85 percent required) had agreed to the Board Reform Amendment.⁵⁶ Work on the Fifteenth Review was put on hold pending effectiveness of the quota increases under the Fourteenth General Review of Quotas, which requires entry into force of the Board Reform Amendment.

The Executive Board proposed that the deadline for the completion of the Fifteenth Review be moved from January 2014 to January 2015 and urged the remaining members who had not yet consented to the quota increases under the Fourteenth Review and accepted the Board Reform Amendment to do so without further delay. The Executive Board proposed that the Board of Governors request the Chairman of the International Monetary and Financial Committee (IMFC) to consult with the membership and to advise the IMFC at its 2014 Spring Meeting on progress in making the Fourteenth Review and the Board Reform Amendment effective, and the available options for completing the current round of the quota reform process, with the objective of completing the Fifteenth Review by January 2015. These proposals were approved by the Board of Governors effective February 12, 2014.

At the Spring Meetings, the IMFC expressed its deep disappointment with the continued delay in progressing the IMF quota and governance reforms agreed to in 2010 and the Fifteenth General Review of Quotas, including a new quota formula. If the 2010 reforms are not ratified by year-end, it will call on the IMF to build on its existing work and develop options for next steps and schedule a discussion of these options.

Quota formula

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

In completing the Fourteenth General Review of Quotas and approving the Board Reform Amendment, the Board of Governors requested that the Executive Board conduct a comprehensive review of the quota formula. The Executive Board’s discussions under the review were to provide building blocks for agreement on a new quota formula, with the intent of better reflecting members’ relative positions in the global economy.

At an informal meeting in June 2013, the Executive Board discussed a staff paper on a data update and further considerations on the quota formula.⁵⁷ The paper updated the quota database

by one year through 2011, continuing the broad trends observed in previous data updates. In particular, the calculated quota share of emerging market and developing countries increased further by 1.3 percentage points, reflecting gains in all quota variables. In addition, the paper explored alternative approaches that could address the concerns previously expressed on the openness variable. In this context, it took stock of recent improvements in data availability and then explored the impact of possible changes in the formula, including use of a cap and a lower weight for the openness variable.

The paper also examined the possible links between variability and broader measures of balance of payments difficulties. This work extended that presented in previous papers, which focused on balance of payments difficulties involving use of Fund resources. The paper did not identify any significant correlation between variability and these broader measures. In addition, the paper presented a range of illustrative simulations involving possible reforms of the formula using the updated quota database. No proposals were presented at this stage.

During and after the informal meeting, Executive Directors requested illustrative calculations of the quota formula, provided by the IMF staff in July 2013.

CAPACITY DEVELOPMENT

Capacity development through technical assistance and training helps member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. It is closely linked to the IMF’s surveillance and lending activities and is highly appreciated by member countries.

During a review of the IMF’s capacity development strategy by the Executive Board in June 2013,⁵⁸ Executive Directors endorsed a number of reform proposals: (1) updating the policy statement covering capacity development services; (2) mandating regular and well-integrated reviews to put capacity development on an equal footing with surveillance and financing activities; (3) implementing a two-level prioritization system to reflect both individual country demands and the IMF’s overall objectives; (4) utilizing donor funding where objectives coincide and relying on the IMF’s own financing when donor support is not available; (5) strengthening the monitoring and evaluation framework, including incorporating feedback from evaluation results into the prioritization and delivery of capacity development; and (6) taking advantage of advances in information and communication technology to enhance the effectiveness and reach of the IMF’s capacity development activities, including expanding online course offerings.

Progress has been made toward implementing these reforms. At an informal meeting in April 2014, the Executive Board discussed a new policy and practices statement, which was to be refined to

incorporate Executive Directors' comments. The two-level prioritization system was first used for planning FY2015 activities. The Institute for Capacity Development (ICD), established in May 2012, has been spearheading the effort to enhance synergies between technical assistance and training, and has introduced new technologies for training. For monitoring and evaluation, the IMF's results-based management framework is being expanded to cover all capacity development activities, and it will provide input into the institution's evaluation framework for capacity development, which is being revised as part of the new policy and practices statement.

Four standardized assessment tools that had been piloted and implemented by the IMF for fiscal issues are expected to inform the IMF's technical assistance activities (see Box 4.2).

Technical assistance initiatives

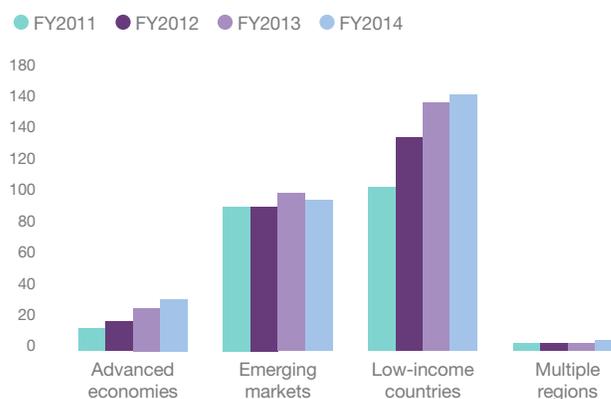
Demand for technical assistance from member countries continued to be strong in FY2014. IMF technical assistance covered a full range of topics related to macroeconomic and financial stability and was delivered mainly by four IMF departments: Fiscal Affairs, Legal, Monetary and Capital Markets, and Statistics. Low- and lower-middle-income countries received the greatest share of IMF technical assistance, similar to the case in the past, but a large majority of the IMF's membership benefited (see Figures 4.1–4.4).

Responding to urgent needs

The IMF continued to respond swiftly to meet urgent needs for technical assistance in a broad set of countries. For instance, the IMF advised on rationalizing spending and strengthening social safety nets in the face of a major economic crisis in Ukraine. In Cyprus, it helped the authorities improve tax policy and administrations, reform public financial management, and prioritize public expenditures. In Albania, the IMF helped the authorities control expenditure arrears, improve commitment controls, and

Figure 4.1
Technical assistance delivery by income group,
FY2011–14 outturn

(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

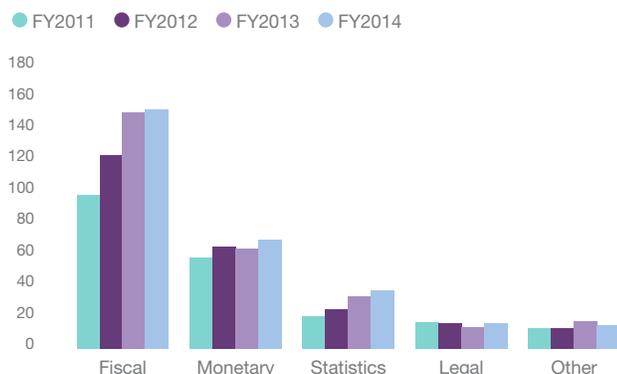
Box 4.2

New standardized assessment tools

Four standardized assessment and surveillance tools have been developed by the IMF in consultation with stakeholders. These tools will impart a stronger conceptual and analytical orientation to IMF technical assistance on fiscal issues and improve the tracking of results.

- *The Revenue Administration Fiscal Information Tool (RA-FIT)* gathers and analyzes tax and customs information to help establish baseline indicators for assessing revenue performance of IMF member countries. A first report based on the submissions of 85 countries was prepared in April 2014.
- *The Revenue Administration Gap Analysis Program (RA-GAP)* estimates the gap between current and potential revenue collections. Detailed gap estimates for four countries were completed in FY2014 and were under way in eight countries during FY2015.
- *The Tax Administration Diagnostic Assessment Tool (TADAT)* provides a framework for standardized assessments of tax administration performance, which will help improve prioritization and sequencing of reforms. It is an international public good, designed and governed in close cooperation with international partners. Initial pilots in Zambia and Norway were completed and additional pilots are scheduled for FY2015. The TADAT Secretariat, located at IMF headquarters and supported by a donor-financed trust fund, began operations in early 2014.
- *The Fiscal Transparency Evaluation* replaces the fiscal module of the Reports on the Observance of Standards and Codes (ROSCs). It offers a stronger focus on identifying and managing fiscal risks and allows for better integration with natural resource transparency issues.

Figure 4.2
Technical assistance delivery by topic,
FY2011–14 outturn
(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

Figure 4.3
Technical assistance delivery by program status,
FY2011–2014 outturn
(Person-years of field delivery)



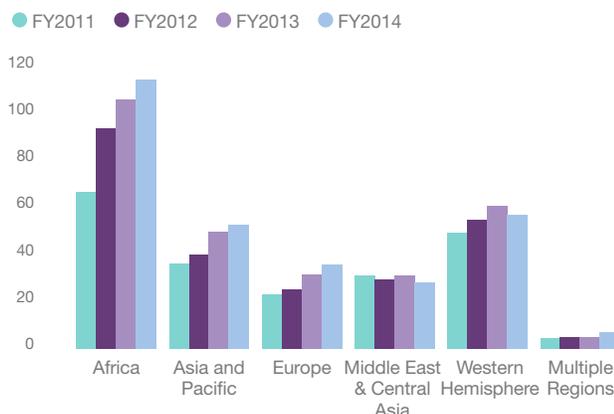
Source: IMF Institute for Capacity Development.

strengthen tax administration. In a number of countries under distress, such as Guinea-Bissau, Libya, Mali, Niger, and Somalia, the IMF assisted the authorities with improving budget formulation (Libya and Somalia) and strengthening public financial management (Guinea-Bissau, Mali, and Niger). In European crisis countries, the IMF advised countries on fiscal policy and management issues, corporate and household insolvency, judicial reforms, and claims enforcement in order to facilitate early and rapid rehabilitation of viable businesses and to improve debt collection.

Helping member countries to develop capacity

Technical assistance was also delivered to assist countries with building sound institutions and boosting resilience to shocks.

Figure 4.4
Technical assistance delivery by region, FY2011–
2014 outturn
(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

The recent crisis demonstrated that all member countries, including advanced economies, can benefit from support for addressing existing institutional weaknesses and adapting to rapid global economic and financial developments. Technical assistance on fiscal issues helped implement policy reforms and foster efficient fiscal management. These activities are based on established best practices and the application of various new diagnostic tools (see Box 4.2). Examples in the fiscal area include developing capacity for analyzing revenue and spending, implementation of a medium-term expenditure framework, public financial management, revenue administration, managing revenue volatility and spending pressures in resource-rich countries, and managing fiscal risks from public-private partnerships.

The IMF provides a wide range of technical assistance in some member countries. In China, for example, the IMF is assisting the authorities with implementation of a medium-term expenditure framework, treasury management, control of local government borrowing, and modernizing government accounting. In Liberia, the IMF assisted in the design and implementation of the soon-to-be-operational Liberia Revenue Authority and the establishment of a Taxpayer Service Center, as well as in reengineering information technology systems and developing audit capacity. In Myanmar, the IMF advised on reforming budgetary, treasury, and accounting systems and modernizing tax policy and administration. In Latin America, the IMF supported, for example, a forum of 16 national treasuries to exchange experiences and enhance cross-country cooperation on cash management, financial management information systems, legal and institutional frameworks, and implementation of treasury single accounts.

In the monetary and financial area, the IMF launched comprehensive technical assistance programs to support central bank modernization and financial sector reform in many low- and

middle-income countries. Financial sector regulation and supervision and monetary operations continue to be a focus in these countries. The assistance helped countries develop capacity to mitigate potential risks to financial systems stemming from weak regulation and supervision of banks and nonbank financial institutions and to strengthen central bank operations. For instance, in Myanmar, the IMF focused its assistance on institutional capacity building. In the eastern Caribbean, a comprehensive IMF program strengthened the region's financial systems. South Sudan received assistance in modernizing its central bank operations. The IMF's continued support to Nigeria helped reform the banking sector. In the Philippines and Indonesia, the IMF's medium-term technical assistance strengthened banking regulation and supervision.

Support was also provided to advanced economies on crisis management, including bank resolution and restructuring, systemic risk identification, and implementation of the new global regulatory and supervisory standards. In addition, the IMF worked with the World Bank to launch Phase II of the Debt Management Facility as a joint multidonor trust fund to address the need for strengthening public debt management in low-income countries.

The IMF also supported countries in strengthening their fiscal and financial legal frameworks. Work focused on crisis management and bank resolution, bank regulation, central banking, tax law, public financial management (fiscal rules, budget laws), and anti-money laundering and combating the financing of terrorism,

which is increasingly integrated with the IMF's program and surveillance agenda. In March 2014, the Executive Board met to review the Fund's strategy on AML/CFT. Executive Directors endorsed the revised FATF standard and new assessment methodology for the IMF's operational work and encouraged continued cooperation with the World Bank, the Financial Action Task Force, and the FATF-Style Regional Bodies.

In low-income countries, external financial support helped build statistical capacity, for example, in Bangladesh, Lao P.D.R., and Myanmar. Japanese financial support allowed the Fund to post long-term macroeconomic statistical advisers in the field to provide intensive assistance.

In June 2013, the IMF welcomed the Paraguayan authorities' launch of its first national AML/CFT plan.⁵⁹ Further to an IMF assessment that revealed important deficits in Paraguay's AML/CFT system, the Paraguayan authorities requested the IMF's technical assistance to support the development of a national AML/CFT strategy, and in February 2012, former President Fernando Lugo signed a decree declaring the project a national priority. The program began in September 2012, with the IMF acting mainly as a facilitator, sharing its international experience and advising the authorities on ensuring consistency with international AML/CFT standards. The plan, which benefited from technical assistance from the IMF and the Inter-American Development Bank, will help protect the integrity of Paraguay's economic system and preserve public order and national security from the threats of organized crime and terrorism.

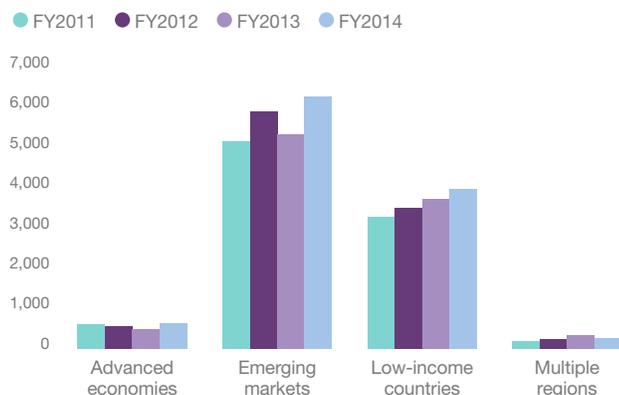


Left Enumerators collect data for a census in Myanmar **Right** A shipping terminal at the port of Piraeus, Greece



Figure 4.5
Training delivery by income group,
FY2011–2014

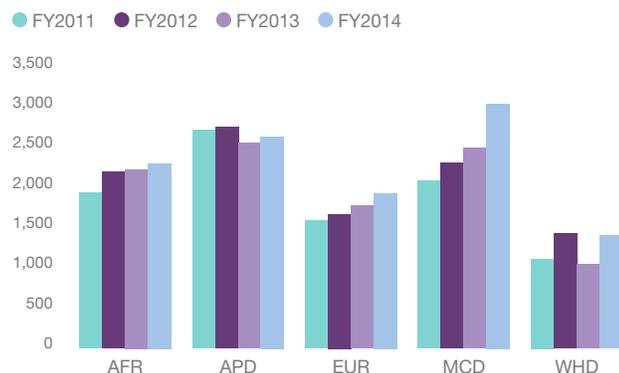
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.7
Training delivery by region,
FY2011–14 outturn

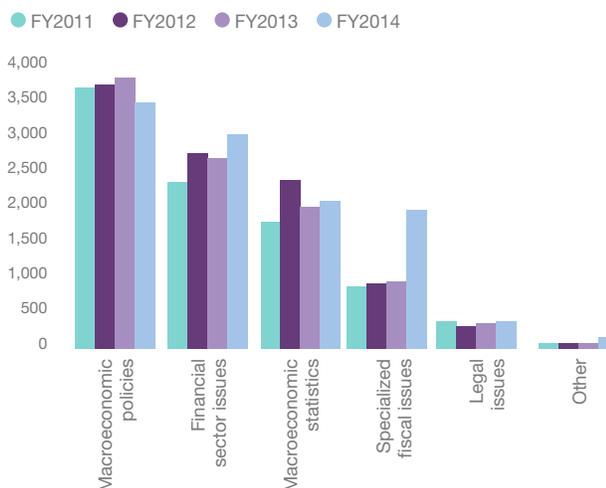
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.6
Training delivery by course group,
FY2011–2014

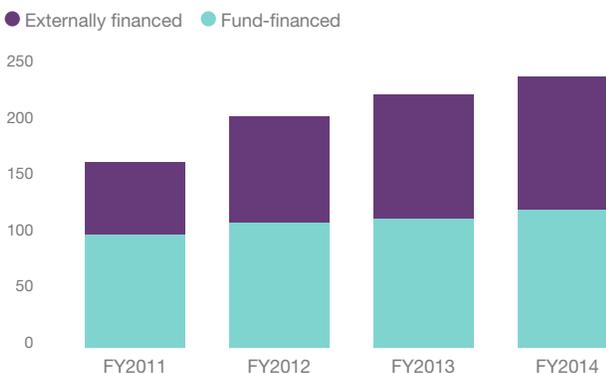
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.8
Capacity development spending,
FY2011–14 outturn

(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Training

The IMF's training program is an integral part of the Fund's capacity building and strives to respond to evolving global macroeconomic developments and policy challenges, membership demands, and technological innovations. Last year, ICD delivered a number of courses on new topics of strategic importance for the Fund's membership, such as preventing financial crises, restoring financial sector health, and fostering inclusive growth. These courses provide theoretical lectures, analytical tools, and hands-on workshops (see Figures 4.6–4.8 and Box 4.3). A new online course program was developed in partnership with the nonprofit organization edX and launched with two courses: Financial Programming and Policies and Debt Sustainability

Analysis. To exploit synergies between technical assistance and training in partnership with donors, the IMF's new Africa Training Institute started operations in June 2013. The institute is colocated with AFRITAC South in Mauritius and shares the same director.

To enhance the synergy between technical assistance and training, the ICD staff cooperated with the IMF's Regional Technical Assistance Centers (RTACs) to develop new courses, including a course on economic issues in regional integration; RTAC experts and IMF staff teamed up to deliver a course and related technical assistance on banking supervision and regulation in Central

America; and the Singapore Training Institute cooperated with the Technical Assistance Office for Lao P.D.R. and Myanmar to deliver a customized course to officials in Myanmar.

During the financial year, with the support of external donors and training partners, 178 training events were delivered through the ICD program, and about 6,300 officials attended training. Emerging market economies received the largest volume of IMF training, at about 60 percent of total training for the year (Figure 4.5). In terms of regional distribution, the Middle East and Central Asia, and Asia and the Pacific received the largest volume of training during the year (Figure 4.7).

External support

Donor support continues to bolster the Fund's ability to deliver technical assistance and training to member countries. New contributions totaling \$181 million were received during FY2014, and activities financed by donors totaled \$147 million. The IMF leverages external support of capacity development through vehicles, such as RTACs, Regional Training Centers, topical trust funds, and bilateral partnerships (see Figure 4.8).

The nine RTACs are effective vehicles for delivering hands-on technical assistance. The midterm evaluations for the Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic; Africa Regional Technical Assistance Center East; and Africa Regional Technical Assistance Center West show that the technical assistance offered is of excellent quality, high relevance, and strongly owned by their member

countries. The Africa Regional Technical Assistance Center West increased its activities significantly during the first half of FY2014. With the support of the center, member countries registered further progress toward reforming their economic and financial institutions. The Pacific Financial Technical Assistance Center, the first RTAC and pioneer of the IMF's local approach to capacity development, celebrated its 20th anniversary in 2013.

The network of RTACs expanded in FY2014. The Africa Regional Technical Assistance Center West 2 opened officially in March 2014, in Accra, Ghana, completing the network of five regional centers in Africa. This fulfills the IMF's 2002 commitment to extend the network to serve all sub-Saharan African countries. In addition, five RTACs—Africa Regional Technical Assistance Centers (East, West, and South), the Caribbean Regional Technical Assistance Center, and the Middle East Regional Technical Assistance Center—received additional donor financing to enable them to scale up operations.

Regional Training Centers and regional training programs complemented the training at IMF headquarters by providing off-site training. Most Regional Training Centers are fully or partly funded by the host countries with some contributions from other donors such as Australia and Japan. They serve the needs of Africa (the Africa Training Institute and the Joint Partnership for Africa in collaboration with the African Development Bank), the Asia and Pacific region (the Singapore Regional Training Institute and the joint China-IMF Training Program), Europe and Central Asia region (Joint Vienna Institute), the Middle East (the IMF–Middle East Center for Economics and

Box 4.3

New ICD courses

A number of face-to-face courses were delivered for the first time during the year, at the Fund's headquarters or in some of its regional training centers:

- *Macroeconomic Surveillance* presents methods to evaluate current financial sector issues and explore their links to the macroeconomy, including how to extract market information to assess expectations about macroeconomic variables and to detect a buildup of vulnerabilities that may threaten financial stability. It covers topics such as banking crises, risk management and models, and systemic risks.
- *Financial Inclusion* focuses on the issue of access to finance—a topic of growing relevance to policymakers throughout the world—explores the complex interrelations between financial inclusion and the more familiar concept of financial depth,

and discusses how to enhance access to credit and its associated macroeconomic impact and policy implications.

- *Inclusive Growth* responds to global concerns about poor growth prospects, high unemployment, and inequities in income and opportunities. The course focuses on the micro and macro policies to promote shared economic growth, employment creation, and equitable income distribution, and how to translate economic growth into poverty reduction and broad-based improvements in living standards.
- *Early Warning Exercise* provides approaches to identifying risks and vulnerabilities in the fiscal, external, and financial sectors, including a taxonomy of crises and an introduction to the Fund's Vulnerability Exercises for advanced and emerging economies, as well as spillover and contagion analysis.

Finance, located in Kuwait), and Latin America (the Joint Regional Training Program for Latin America, based in Brasilia). As noted previously, thanks to the generous financial contribution and logistical support of the Mauritius government—the host country—as well as Australia and China, the Africa Training Institute started operations in June 2013.

Topical trust funds deliver systematic technical assistance on specific topics to low- and lower middle-income countries. The Managing Natural Resource Wealth and Tax Policy and Administration topical trust funds, with five-year budgets of \$25.3 million and \$27 million, respectively, completed three years of operations in FY2014. The IMF's Anti-Money Laundering/Combating the Financing of Terrorism Topical Trust Fund, successfully completed its first funding cycle in April 2014, delivering 73 bilateral projects in 35 countries. In December 2013, a pledging session was conducted at the IMF's headquarters in Washington, D.C. where international donors renewed their support for the IMF's technical assistance in this area.⁶⁰ Donors pledged \$22.1 million to finance wide-ranging capacity development activities over the second five-year phase of the AML/CFT Topical Trust Fund, which began operations in May 2014. Pledges (in order of size of contribution) from Switzerland, Qatar, Luxembourg, the United Kingdom, Norway, Japan, France, and the Netherlands are expected to meet about 80 percent of the trust fund's needs over the next five years.

The \$8.4 million five-year Tax Administration Diagnostic Assessment Tool trust fund was officially launched in FY2014, financed by Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom's Department for International Development (DFID)(see Box 4.1).

The IMF also cooperated with the World Bank on three technical assistance initiatives. In April 2014, the IMF joined Phase II of the Debt Management Facility, a multidonor initiative established by the World Bank. Combining the expertise of the two institutions, the facility comprehensively covers debt management issues and supports capacity development on debt sustainability for more recipient countries. The IMF also renewed its participation in another multidonor initiative, the Financial Sector Reform and Strengthening Initiative Phase III. Finally, the Supporting Economic Management in the Caribbean program, which is financed by Canada, was extended through August 2014.

The IMF continued to deepen partnerships with donors. Japan, the largest donor to technical assistance, contributed \$153 million in FY2010–14. The European Union (EU) has become one of the top donors to IMF technical assistance, with a contribution of \$97 million during the same period. The IMF is working with the EU on revising the current framework agreement between the two institutions, which will enable them to enter into new financing arrangements for FY2015–17. Canada significantly increased its contributions, including the signing

of two agreements totaling Can\$35 million for technical assistance to Ukraine, the Caribbean region, and other countries. Switzerland made an additional \$4 million contribution to IMF technical assistance. Korea, a relatively new donor, signed a contribution agreement for \$15 million over five years.

DATA AND DATA STANDARDS INITIATIVES

The quality of data provided by member countries under the Articles of Agreement is essential to the success of IMF surveillance. Data dissemination standards help enhance the availability of timely and comprehensive statistics, which is critical to the pursuit of sound macroeconomic policies.

General Data Dissemination System, Special Data Dissemination Standard, and Special Data Dissemination Standard Plus

The Special Data Dissemination Standard (SDDS) was established in 1996 to guide members in the provision of their economic and financial data to the public. The General Data Dissemination System (GDDS), established the following year, provides a framework to help countries evaluate their needs and sets priorities for improving their statistical systems. In 2012, the SDDS Plus was created to help address data gaps identified during the global financial crisis. The SDDS Plus is aimed at countries with systemically important financial sectors, although all SDDS subscribers are encouraged to adhere. The SDDS Plus includes standards for nine additional data categories beyond the SDDS, which interested countries commit to fully observe by the end of 2019. No country adheres to the SDDS Plus at this time. To facilitate adherence to this demanding standard, in March 2014 the Executive Board supported the IMF staff's proposal to lengthen the timeliness of three of the nine data categories.

In FY2014, there were no new subscribers to the SDDS, with the number of subscribing economies remaining at 71 as of the end of the year. Palau,⁶¹ Myanmar,⁶² and the Marshall Islands⁶³ began participation in the GDDS, bringing the total number of GDDS participants to 111 at the end of the year (excluding the economies that have graduated from the GDDS to the SDDS). Today more than 95 percent of the IMF's member countries participate in the GDDS or SDDS.

In May 2013, the IMF organized a workshop on the SDDS in Gaborone, Botswana, for officials from central banks, national statistical offices, and ministries of finance from seven African countries—Botswana, Ghana, Kenya, Namibia, Nigeria, Seychelles, and Uganda.⁶⁴ At the workshop, Mauritius, an SDDS subscriber since 2012, provided a peer perspective. The purpose of the workshop, which was cohosted by the authorities of Botswana, with financial support from DFID, was to improve the national statistical systems of sub-Saharan African countries



Left A beekeeper in rural Yemen **Right** A stock index at a brokerage house in east China

that are currently part of the GDDS, with the goal of focusing the development of their national statistical systems toward meeting the requirements of the more stringent SDDS.

Argentina's consumer price index and GDP data

The Executive Board met in December 2013 to consider the Managing Director's report on Argentina's progress in implementing remedial measures to address the quality of the official data reported to the Fund for the Consumer Price Index for Greater Buenos Aires (CPI-GBA) and gross domestic product (GDP).⁶⁵ While noting that Argentina had not adopted the measures called for by the Fund to address the inaccurate provision of CPI-GBA and GDP data, the Executive Board recognized Argentina's ongoing work and intention to introduce a new national CPI in early 2014. The Board also noted that Argentina was working to address the shortcomings in its GDP data.

In light of these developments, the Executive Board adopted a decision calling on Argentina to implement specified actions to address the quality of its official CPI and GDP data according to a specified timetable. The decision called on Argentina to implement an initial set of specified actions by end-March 2014. Further actions needed to be implemented by end-September 2014 and end-February 2015. The Managing Director was required to report to the Executive Board within 45 days of each of the deadlines on the status of Argentina's implementation of the specified actions, at which time the Executive Board would review this issue in line with IMF procedures.⁶⁶ The Fund noted the importance of the ongoing discussions with the Argentine authorities to improve the quality of Argentina's official CPI and GDP data and stood ready to continue this dialogue, and, more

generally, to continue strengthening the relationship between Argentina and the Fund.

Other data and statistics activities

G20 Data Gaps Initiative

The IMF and Financial Stability Board, in collaboration with the Inter-Agency Group on Economic and Financial Statistics (IAG), organized a conference of G20 senior officials on the G20 Data Gaps Initiative (DGI) at the IMF headquarters in Washington, D.C., in June 2013.⁶⁷ The initiative focuses on the implementation of 20 recommendations outlined in the report "The Financial Crisis and Information Gaps" endorsed by the G20 Finance Ministers and Central Bank Governors in November 2009. The main purpose of the conference was to take stock of the advancements being made, discuss main messages emerging from the G20 bilateral consultations by the IMF staff, and identify issues requiring further action and priorities.

Attended by senior representatives from G20 members, as well as the Netherlands, Spain, and Switzerland, the conference featured presentations and contributions from the eight international financial institutions working on the G20 recommendations, including the FSB Secretariat, and the members of the IAG-Bank for International Settlements, European Central Bank, Eurostat, IMF (chair), the Organisation for Economic Co-operation and Development, United Nations, and World Bank. The conclusions of the conference informed the next progress report delivered to the G20 Ministers of Finance and Central Bank Governors in September 2013.

Participants underlined the need to ensure that the data emerging from the DGI are of high quality, timely, consistent,



Left An oil refinery in Százhalombatta, Hungary **Right** Staff sort diamonds in Gaborone, Botswana

and comparable among countries, and that they should be made available to policymakers. They also identified a number of key challenges including confidentiality concerns that limit broader data sharing, lack of source data, and adequate resources for statistics.

At their meeting in Moscow in July 2013, the G20 Finance Ministers and Central Bank Governors welcomed the continued progress made by the G20 economies on closing information gaps under the DGI as a prerequisite for enhanced policy analysis. The fourth annual progress report on the DGI of October 2013 noted that considerable progress had been made across the full range of the DGI 20 recommendations. Significant data enhancements are under development. Overall, there was strong support for and a growing sense of ownership among G20 economies in the DGI.

To ensure complete implementation of the recommendations, and the timely provision of comparable economic and financial statistics, the momentum behind the initiative needed to be maintained and adequate resources provided for statistical work. Strengthened collaboration among national agencies and continued international cooperation and consultation were essential for the success of the initiative. The strategy should focus on completing the ongoing work in implementing the recommendations and communicating to policymakers and analysts the availability, benefits, confidentiality rules, and policy relevance of the enhanced and new data emerging from the DGI. Notwithstanding some national implementation issues that may arise, implementation of a significant portion of the recommendations was expected to be completed by end-2015.

Data on government revenues from natural resources

For about one-third of the Fund's membership, revenues from natural resources are macro-critical, but available data have been limited and not comparable across countries. In February 2014, the IMF developed a draft standard template for countries to use for the collection of data on government revenues from natural resources, based on the revenue classifications of the *Government Finance Statistics Manual 2001* (GFSM 2001).⁶⁸ The template would allow such data to be collected in an analytically relevant and cross-country-comparable format, although the Fund does not plan to collect these data directly. The template was posted on the IMF's website for feedback and for testing by member countries.

Currency composition of foreign exchange reserves

In June 2013 the IMF released the quarterly data on the currency composition of official foreign exchange reserves (COFER) with an expanded currency range, separately identifying two additional currencies—the Australian dollar and the Canadian dollar.⁶⁹ COFER is an IMF database containing end-of-period quarterly data of reporting countries and jurisdictions. COFER data provide a crucial insight into the evolution of the currency composition of foreign exchange reserves, facilitating analysis of developments in international financial markets. These timely aggregate statistics on the currency composition of member countries' official foreign exchange reserves are relevant to the work of the IMF and generate considerable analytical interest from users in central banks, other official institutions, and the private sector.

With the separate identification of Australian-dollar and Canadian-dollar reserves, seven currencies are now distinguished

in COFER data: the U.S. dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar, and Canadian dollar. All other currencies are included indistinguishably in the category of “other currencies.” COFER data are reported to the IMF on a voluntary and confidential basis. As of the end of April 2014, there were 144 reporters, consisting of member countries of the IMF, nonmember countries/economies, and other foreign-exchange-reserve-holding entities. COFER data are publicly disseminated on a quarterly basis in aggregate format so as not to reveal individual country information.

Release of updated survey results

Updated data for a number of ongoing IMF surveys were released during the year. In December 2013, the IMF released preliminary results from its 2012 Coordinated Direct Investment Survey (CDIS), a worldwide survey of bilateral direct investment positions.⁷⁰ Direct investment is a category of cross-border investment in which a resident in one economy has control or a significant degree of influence on the management of an enterprise resident in another economy. The 2012 survey includes data from 88 economies, two more than in the 2011 preliminary results. New CDIS participants are Burkina Faso and Tanzania. The IMF posted revised and more comprehensive data in June 2014.

In June 2013, the IMF released revised results from its CDIS for 2009–11.⁷¹ The coverage of foreign direct investment positions was expanded to 100 participating economies for 2011, with four new CDIS participants—Albania, Guinea-Bissau, Senegal, and Togo. The database—available publicly at <http://cdis.imf.org> and through the IMF eLibrary—presents detailed data on “inward” direct investment (i.e., direct investment positions with a nonresident foreign direct investor) cross-classified by economy of investor, and data on “outward” direct investment (i.e., direct investment positions abroad by a resident foreign direct investor) cross-classified by economy of investment. All participants in the CDIS provided data on inward direct investment and most participants (about two-thirds) also provided data on outward direct investment.

In November 2013, the IMF released preliminary results from its 2012 Coordinated Portfolio Investment Survey (CPIS), the only global survey of portfolio investment holdings.⁷² The CPIS collects information on the stock of cross-border holdings of equities and long- and short-term debt securities broken down by the economy of residence of the issuer. The results—identifying the value of positions in equity and debt securities as of end-2012—cover 78 CPIS-participating economies, the same economies that participated in the end-2011 CPIS data collection.

Box 4.4

First statistical forum spotlights role of statistics for global economic and financial stability

A forum organized by the IMF Statistics Department in November 2013 discussed the key role of statistics in support of effective policy actions taken by country authorities and policy advice provided by the IMF.^a The forum, the first of its kind, took place in Washington, D.C., providing a unique setting for policy discussions on cutting-edge statistics among a broad range of stakeholders: academics, private sector analysts, data compilers, and decision makers. Participants discussed recent progress in closing data gaps exposed by the global financial crisis: risk exposures in international and sectoral balance sheets, cross-border linkages and spillovers, shadow banks and global contagion, fault lines in the public sector, and potential problems from capital flows.

In his welcoming remarks, IMF First Deputy Managing Director David Lipton noted that the recent global crisis had reaffirmed the relevance of traditional residence-based economic and financial statistics but stressed that the crisis “also revealed a need for more and better data, data that go beyond traditional statistics.” New data sets are needed, he said, “especially as the focus of policy has shifted to the stability of global and domestic financial systems and to questions about interconnectedness, global risks, and vulnerabilities.”

During the discussions, participants underscored the critical importance of reliable, timely, granular, and internationally comparable data. They also stressed the need for accurate assessments of risks and the IMF’s role in helping its members develop sound macroeconomic policies based on high-quality statistics. A general theme at the forum was that the need for more data must be matched by better use of existing data, particularly in the development and application of analytical frameworks. Participants recognized that users’ data needs can be met only if more resources are devoted to statistics, with priorities set to keep costs and benefits in mind.

Participants underscored the usefulness of standards and consistent approaches to gathering information to optimize the advantages of comparability and accurate measurement across countries. They also agreed that more work was warranted to disseminate available data, promote greater interaction between data users and producers, and enhance collaborative efforts between public and private sectors to compile standardized data.

^a See PR No. 13/447, “IMF Statistical Forum Discusses the Role of Statistics for Global Economic and Financial Stability” (www.imf.org/external/np/sec/pr/2013/pr13447.htm).

Complete CPIS results are available on the IMF website at <http://cpis.imf.org/>. In response to data gaps highlighted by the financial crisis, a number of enhancements will be incorporated into the CPIS in the next data collection.

In September 2013, the IMF released the results of the fourth annual Financial Access Survey (FAS).⁷³ The 2013 round had a response rate of over 96 percent with 186 reporting jurisdictions, including two countries reporting data for the first time, and was conducted with generous financial support from the Netherlands' Ministry of Foreign Affairs. The FAS is the most comprehensive source of global supply-side data on financial inclusion, encompassing internationally comparable basic indicators of financial access and usage by corporations and households. The database is available free of charge through the FAS website and IMF eLibrary.

ENGAGEMENT WITH OTHER ORGANIZATIONS

The IMF works collaboratively with a number of other organizations that are also involved in global economic issues, each with its unique areas of responsibility and specialization.

Group of Twenty

During the global financial crisis, collective action by the G20 was critical for avoiding even greater economic difficulties, and G20 leaders have subsequently continued to reaffirm their commitment to reinvigorating economic growth. The IMF's collaboration with the G20 has consequently increased since the onset of the global crisis. At the request of G20 leaders, the IMF provides technical analysis to support the G20's multilateral Mutual Assessment Process (see Chapter 3). Collaborative work

with the G20 has extended beyond the MAP into other areas, including the G20 Data Gaps Initiative, which works on ways to address gaps in data revealed by the global crisis.

The Executive Board is briefed regularly on IMF management's participation in G20 meetings; it also receives periodic briefings on the MAP and IMF participation in it.

Financial Stability Board

The Financial Stability Board brings together government officials responsible for financial stability in the major international financial centers, international standard-setting bodies, committees of central bank experts, and international financial institutions. It is designed to coordinate at the international level the work of national financial authorities and international standard-setting bodies and to develop and promote the implementation of effective regulatory, supervisory, and other financial sector policies.

The IMF formally accepted membership in the FSB in September 2010; following the FSB's recognition as an association under Swiss law, the Executive Board approved the IMF's acceptance of membership in the FSB as an association under Swiss law in March 2013. Collaboration between the two organizations is guided by each institution's mandate and a joint letter signed in 2008 by the IMF and the Financial Stability Forum (the predecessor of the FSB). The IMF takes the lead on surveillance of the global financial system and assessment of countries' implementation of international financial sector supervisory and regulatory policies and standards. The FSB is responsible for elaboration of these policies, promoting international collaboration and assessment of financial system vulnerabilities. The IMF is also represented on the FSB's Steering Committee.

Left A cable-car overlooks Alaverdi, Armenia **Right** A farmer dries his corn harvest in Bhutan





Left Vendors in historic Cartagena, Colombia **Right** Fruit processing in South Africa

The IMF collaborates with the FSB on twice-yearly Early Warning Exercises (see Chapter 3). It regularly participates in various working groups and works with the FSB in connection with the G20 Data Gaps Initiative; it has worked as well on a joint FSB, IMF, and World Bank report to the G20 on the effects of regulatory reform on emerging market and developing economies.

World Bank Group

The staffs of the IMF and World Bank collaborate closely on country assistance and policy issues that are relevant for both. IMF assessments of a country's general economic situation and policies provide input to the World Bank's assessments of potential development projects or reforms. Similarly, World Bank advice on structural and sectoral reforms is taken into account by the IMF in its policy advice. The IMF and World Bank staffs jointly prepare country debt sustainability analyses under the Debt Sustainability Framework developed by the two institutions (see discussion earlier in this chapter). Under the Joint Management Action Plan on World Bank–IMF Collaboration, IMF and World Bank country teams discuss their country-level work programs, which identify macro-critical sectoral issues, the division of labor, and the work needed from each institution in the coming year.

Through the HIPC Initiative and MDRI (see Chapter 3), the IMF and World Bank Group work together to reduce the external debt burdens of the most heavily indebted poor countries. The two institutions also cooperate to alleviate poverty based on a shared Poverty Reduction Strategy Paper approach—a country-led plan for linking national policies, donor support, and the development outcomes needed to reduce poverty in low-income

countries. Their collaborative *Global Monitoring Report* assesses progress toward achieving the Millennium Development Goals; the 2013 edition had rural-urban dynamics as a central theme. The two institutions also work together to make financial sectors in member countries resilient and well regulated, via the Financial Sector Assessment Program.

Other areas of collaboration between the two organizations include development of standards and codes and improvement of the quality, availability, and coverage of data on external debt.

Other organizations

United Nations

The IMF has a Special Representative to the United Nations, located at the UN Headquarters in New York. Collaboration between the IMF and the United Nations covers areas of mutual interest, including cooperation on tax issues and statistical services of the two organizations, as well as reciprocal attendance and participation at regular meetings and specific conferences and events. In recent years, the IMF has contributed to the UN-led process of developing the “Post-2015 Agenda” and new Sustainable Development Goals (SDGs), which are expected to replace the existing Millennium Development Goals (MDGs) when they expire at the end of 2015, including through participation in UN interagency working groups. The Fund is collaborating with the World Bank, multilateral development banks, and the UN on helping to address the data challenges involved. The IMF has also worked with the International Labour Office on issues related to employment, as well as social protection floors; the UN International Children's Fund on fiscal issues and social policy;

the UN Environment Programme on the green economy; and the World Food Programme on social safety nets and early assessments of vulnerability.

European Commission and European Central Bank

IMF participation, early in the global financial crisis, in financing for EU members facing balance of payments needs led to an extension of the IMF's collaboration with EU institutions, in particular with the European Commission (EC) and the European Central Bank (ECB), later in the crisis, when euro area countries requested IMF support. This enhanced cooperation among the IMF, the EC, and the ECB in program countries has become known as the "Troika." Although the IMF coordinates closely with the other members of the Troika, the institution's decisions on financing and policy advice are ultimately taken by the Executive Board. The IMF also works closely with the EC on issues affecting low-income countries, including on the financing of capacity development.

Deauville Partnership

The IMF actively participates in the Deauville Partnership, an international effort launched by the Group of Eight, together with regional partner countries and international financial institutions, in May 2011 to mobilize assistance for the Arab countries in

transition. The dedicated platform for coordination of the Deauville Partnership brings together the regional and international financial institutions participating in the partnership to ensure effective and coordinated support for the partner countries; facilitate information sharing, mutual understanding, and operational dialogue with the partner countries; coordinate monitoring and reporting of joint actions in support of the partnership; and identify opportunities for collaboration on financial assistance, technical assistance, and policy and analytical work.

International Labour Organization and International Trade Union Confederation

The IMF's mandate includes contributing to the promotion and maintenance of high levels of employment and real incomes through the expansion and balanced growth of international trade. Given the importance of employment for sustainable and inclusive growth, IMF-supported programs often contain recommendations pertaining to the labor market. As labor market policies are not a core area of IMF expertise, the Fund works with other international, regional, and local organizations in this area. The IMF has an active partnership with the International Labour Organization, with which it pools expertise to better understand the impact of macroeconomic policies on job creation. It also interacts regularly with the International Trade Union Confederation and its affiliates.