

**Statement by the Managing Director  
on the Work Program of the Executive Board  
Executive Board Meeting  
October 31, 2011**

1. ***The task.*** The global economy has entered a dangerous new phase with severe downside risks. The Fund has been called by the IMFC to contribute to an orderly resolution of these tensions, and the membership must be prepared for bold action. Our first responsibility is to help develop and coordinate solutions to immediate threats to global stability, in particular to provide insightful analysis and policy advice to address fiscal-financial vulnerabilities and rekindle growth and job creation. Yet we must also be prepared to fortify the global financial safety net. Secondly, we must redouble efforts to make the international monetary system (IMS) stronger in the longer term—through more effective surveillance and a clearer shared vision of the system’s key underpinnings.
  
2. ***The imperative of strategic focus.*** The scale of the demands on us is considerable, and we must be mindful of the risks that the global environment may yet increase these demands. This calls for focusing on the essential. Accordingly, this work program was developed following a “top-down” approach, prioritizing (i) those items which support an effective crisis response and strengthen the IMS in line with IMFC guidance and my Action Plan; and (ii) those items strictly needed for the institution to keep running smoothly and efficiently. Only items requiring a decision or views from the Board are proposed to be on the Board’s agenda; prioritization should apply to country items as well. In this light, you will see more country and policy items for consideration on a “lapse of time” (LOT) basis and “for information” (see Table 1). It goes without saying that any item would be put on the Board’s agenda for discussion if one or more Executive Director requests it, but I count on your collaboration to focus on the essential at this difficult time for the world economy.

**I. IMMEDIATE THREATS TO GLOBAL STABILITY**

3. ***Vigilance.*** In the current fragile environment, it is important to keep members abreast of developments with potential systemic impact. We aim to do so in a more disciplined way, with staff briefings of Executive Directors as frequently as circumstances warrant. As usual, an overview of risks and prospects will be provided in the WEO, GFSR, Fiscal Monitor, and Early Warning Exercise just before the April IMFC Meeting, and these will be brought together in a Consolidated Multilateral Surveillance Report to the IMFC.

## A. Policy Advice

4. ***Fiscal consolidation and debt sustainability.*** The timing and modalities of fiscal consolidation, as well as the medium-term implications for growth and debt sustainability, will feature prominently in key country discussions. In addition, the *Fiscal Monitor Update* and the semi-annual update on the *World Economic and Market Developments* will look at these issues from a systemic perspective, with both items scheduled for January 2012. In addition, informal Board discussions are planned early in the new year on *The Challenge of Pension Reform in Advanced and Emerging Countries*—to review the factors underlying past and future trends in public pension spending in advanced and emerging economies over coming decades and options for reform; and on *Fiscal Transparency, Risk and Accountability in the Post-Crisis Environment*.

5. ***Threats to global financial stability and repairing banks.*** Healthy balance sheets are essential for banks to play an effective role in financial intermediation to support sustainable economic growth. In this connection, the lack of capacity of bank capital buffers in core advanced economies to withstand stresses is a concern, as it may, if not mitigated, lead to further deleveraging and asset price collapses that reverberate globally. The range of issues involved will be covered in several informal sessions, and in more detail in the Global Financial Stability Report. Staff work in support of its multilateral and bilateral policy advice also includes *Stress Testing: Toolkit and Best Practices*, which will focus on stress-testing banks, drawing on the knowledge accumulated through the FSAP. *Modalities for Cross-Border Bank Resolution* is also scheduled for informal discussion just after the Spring Meetings. In addition, building on recent work on macroprudential policy, staff intends to bring a paper to the Board sometime after the Spring Meetings, which would provide further detail on how this fast-evolving approach can and should be integrated into existing monetary and prudential policy frameworks.

6. ***Growth and employment.*** Analytical chapters in the Spring *WEO*, *Fiscal Monitor*, and *Selected Regional Economic Outlooks* will look at various aspects of the growth and employment theme, including for example, the inclusiveness of growth. *Fiscal Policy for Employment Growth in Advanced and Emerging Economies*, scheduled for Board discussion in early April, will examine reform options for more employment-friendly tax and expenditure policies in the context of an efficient and equitable consolidation strategy.

## B. Global Financial Safety Net

7. ***Lending.*** Ensuring that our lending toolkit is capable of helping all our members meet the challenges at hand is paramount to effective crisis prevention, response, and resolution. The *Review of the Flexible Credit Line and the Precautionary Credit Line* has been brought forward from its original 2012 date to end-November, along with a discussion of *The Fund's Financing Role—GRA Reform Options*, that will put forward concrete proposals for strengthening existing facilities. In February, the *Review of Conditionality* will cover the content and application of program conditionality, design and implementation, along with program outcomes, for Fund-supported programs approved from 2002 through September

2011. *Crisis Programs Review*, planned for April, will have a particular focus on recent programs in Europe.

8. **Resources.** A complete lending toolkit is not enough. Fund resources must be sufficient to give confidence that even tail risks and worst-case scenarios can be managed effectively. A *Review of the Adequacy of Fund Resources* is planned in the near future, followed by a *Review of the Adequacy of the Fund's Precautionary Balances* in March. Executive Directors will also discuss the New Arrangements to Borrow (NAB) in a formal *Review of the NAB*. Meanwhile, members should redouble efforts toward the speedy acceptance of the 2010 quota increase.

### C. Low-Income Countries (LICs)

9. **Vulnerabilities and policy advice.** Faced with lower fiscal buffers than before the onset of the crisis in 2008, and given uncertain prospects for donor assistance in the future, LICs remain highly exposed to global shocks. The first full “vulnerability exercise” for LICs (VE-LIC), focused on the impact of global growth and commodity price shocks, will be discussed in November. In January, the Board will discuss *The LIC Debt Sustainability Framework Revisited*, prepared jointly with the World Bank. It will draw on the earlier paper on modernizing debt sustainability analysis, but will also discuss LIC-specific issues such as indicative debt burden thresholds and the rating of the risk of external debt distress. This paper will suggest options for improving the debt sustainability framework (DSF) drawing on new analytical work by staff. In early February, a new approach to financial sector surveillance in LICs will be discussed in *Enhanced Financial Sector Surveillance in LICs: Shallow Markets and Macro Stability*, based on a better understanding of the challenges posed by shallow financial systems and of the impediments to financial sector deepening in LICs; and on enhancing analysis of macro-financial linkages and risk transmission channels as LICs deepen their financial systems.

10. **Financial support.** Following informal Board meetings earlier in the year at the Fund and the World Bank, *The HIPC Initiative and MDRI—Status of Implementation Report* will make proposals for the future of the HIPC Initiative and present results of a new ring-fencing exercise based on end-2010 data. The regular review of the *Eligibility under the Poverty Reduction and Growth Trust* (PRGT) will be discussed in a formal meeting in February. Later in the year, *Follow-Up on the Use of Gold Profits* will discuss the potential use of these profits.

## II. LONG-TERM STABILITY OF THE INTERNATIONAL MONETARY SYSTEM

### A. Surveillance Apparatus

11. **Surveillance framework.** The September Board discussion on the *Triennial Surveillance Review* (TSR) identified the main gaps in the Fund's surveillance apparatus: analysis of cross-country spillovers, risk assessments, financial and external stability, and uneven traction with country authorities. The upcoming final discussion of the TSR will also take up an action plan to address these gaps. Without repeating all those actions, it is worth

noting the new *Strategic Plan for Financial Sector Surveillance*, for discussion in March, and options for *Modernizing the Legal Framework of Surveillance* in April. An informal Board discussion on enhanced methodologies for assessment of exchange rates and current account balances is planned for April. In addition, with each WEO cycle, the Fund will publish a multilaterally-consistent staff assessment of external balances, currencies, and policies.

12. ***Interconnectedness***. Further analysis of economic and financial interconnectedness across countries will be pursued in a series of papers sent to the Board for information including *Enhancing Surveillance: Interconnectedness and Clusters* (December); *Trade Interconnectedness: Global Supply Chains* (March); and *Interconnectedness: Spillovers through Global Financial Centers* (June/July).

### **B. Structural Change**

13. The Board will have several opportunities to reflect on ways to buttress the IMS, with a series of Board discussions on various aspects of capital flows. These discussions, covering *Multilateral Aspects of Policies Affecting Capital Flows* (November); and *Capital Account Liberalization and Managing Capital Outflows* (February) will lead up to a discussion of a *Capital Flows Framework* paper to enhance global stability in early April. The Board will also discuss *Criteria for Broadening the SDR Currency Basket* soon, while a chapter in the Spring GFSR will look at the implications of fewer “risk-free assets” for global financial stability, and a paper on *Reserve Management: Lessons from Recent Crisis Episodes* will go to the Board for information in May.

### **C. Governance Reform**

14. ***Legitimacy***. Further reform of governance is crucial to the legitimacy of our institution. The Board will continue to have the opportunity to take stock of the progress in acceptance of the 2010 reform package through quarterly status reports, thereby highlighting the need to move expeditiously to implement the agreed quota and governance reform by the 2012 Annual Meetings. At end-February, the Board will discuss *Quota Formula Review: Initial Considerations*—bearing in mind the commitment to complete this review by January 2013. We will also continue to promote greater diversity within the institution, with an informal discussion of the Fund’s diversity strategy planned for mid-2012.

## **III. MANAGEMENT OF THE INSTITUTION**

15. ***Internal operations***. A number of administrative items will come to the Board in the current work-program period. Key areas and highlights include the usual Budget and Compensation Review discussions; *Reassessing the Fund’s Technical Assistance Strategy* in November; a discussion of a *New Rule for Setting the Margin on the Basic Rate of Charge* in December; and a discussion of *Broadening of the Fund’s Investment Mandate* in February. In addition, Directors will have an opportunity to meet members of the External Panel on the Fund’s Risk Management Framework to discuss the findings of their Report early next year.

16. **Board practices.** Good progress has been made to improve the functioning of Board meetings through the agreement on the new Board practices in November last year. In line with the new Board practices, this Statement includes a list of “anchor” items that are set with a view of not altering the dates (Box 1). Moreover, an interdepartmental task force has worked to even out country items over the coming year, with a particular focus on alleviating the Board’s work load next summer; and to increase the predictability of the Board calendar, departments are requested to commit to fix Board dates one-month ahead. However, a well-balanced Board calendar remains a challenge. A review of the new Board practices scheduled for later this year represents an opportunity to ensure further progress in this area.

<b>Box 1. "Anchor" Policy and Administrative Items</b>		
<b>Dep</b>	<b>Subject</b>	<b>Date</b>
MCM/SPR	Multilateral Aspects of Policies Affecting Capital Flows	11/14/2011
SPR/FIN/ LEG	Review of the Flexible Credit Line (FCL) and Precautionary Credit Line (PCL)	11/21/2011
SPR/WB	The LIC Debt Sustainability Framework Revisited	1/6/2012
SPR	Review of Conditionality	2/6/2012
MCM/ SPR/RES/ LEG	Capital Account Liberalization and Managing Capital Outflows	2/15/2012
MCM/SPR	Strategic Plan for Financial Sector Surveillance	3/9/2012
FIN	Review of the Adequacy of the Fund's Precautionary Balances	3/16/2012
RES	WEO	3/30/2012
MCM	GFSR	3/30/2012
FAD	Fiscal Monitor	4/2/2012
SPR/LEG	Modernizing the Legal Framework for Surveillance	4/6/2012
SPR/MCM /RES	Capital Flows Framework Paper	4/9/2012
OBP	The FY2013-2015 Medium-Term Budget	4/25/2012

Table 1. Board Items : November 2011 to July 2012

	2011		2012							Total
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
<b>Board Days</b>	<b>12</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>12</b>	<b>13</b>	<b>12</b>	<b>123</b>
<b>Total Board Items</b>	<b>19</b>	<b>34</b>	<b>33</b>	<b>21</b>	<b>29</b>	<b>27</b>	<b>34</b>	<b>37</b>	<b>30</b>	<b>255</b>
<i>Items with Grays</i>	17	33	28	17	26	21	31	36	29	238
Country	11	31	27	11	22	9	25	25	13	174
Policy and Adm	6	2	1	6	4	8	1	1	1	30
<i>Informal country</i>	1	1	1	1	1	1	1	1	1	9
<i>Informal Policy</i>	1	0	4	3	2	5	2	0	0	17
<i>Lapse-of-time</i>	4	7	6	2	5	2	10	4	5	45
<i>Contingency (w/grays)</i>	0	0	0	0	0	4	5	10	15	34
<b>Board Items per Day</b>	<b>1.6</b>	<b>3.4</b>	<b>3.0</b>	<b>1.8</b>	<b>2.2</b>	<b>3.0</b>	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>2.1</b>
<i>Items with Grays</i>	<b>1.4</b>	<b>3.3</b>	<b>2.5</b>	<b>1.4</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.8</b>	<b>2.4</b>	<b>1.9</b>
Country	0.9	3.1	2.5	0.9	1.7	1.0	2.1	1.9	1.1	1.4
Policy and Adm	0.5	0.2	0.1	0.5	0.3	0.9	0.1	0.1	0.1	0.2
<i>Other</i>	0.1	0.0	0.4	0.3	0.2	0.6	0.2	0.0	0.0	0.1



