











**MANAGING DIRECTOR’S ACTION PLAN
IMFC, April 2012**

1. **Progress and risks.** The last time we met, the world was entering a dangerous phase. As described in the latest *Consolidated Multilateral Surveillance Report*, policy actions in Europe and improving U.S. indicators have helped attenuate financial strains. But recent developments point to the fragility of the world economy and the need to come to grips with a formidable policy agenda. Among the challenges ahead are the immediate risks from a return of stresses in Europe and higher oil prices. Beyond that lie the risks from protracted low growth, too rapid fiscal consolidation in certain cases, deleveraging and uncertain medium-term policy frameworks in some key advanced countries. Many emerging markets may have to deal with inflation risks, elevated oil prices, the resurgence and volatility in capital inflows, and the consequences of extended credit booms. Delays in implementing global regulatory reforms also pose risks.

2. **The Fund’s response.** Most of the challenges noted above are not new, and the Action Plan from last September remains relevant. We have made good progress on many elements of that plan (Table 1). Nevertheless, much remains to be done—not just in stressed regions but also across the span of the membership. Indeed, though the discussion in this note begins with Europe, many of the issues cited below apply to the broader membership and vice versa. We have also to make progress to strengthen the global architecture for stability.

Table 1. Scorecard for the September 2011 Action Plan

Securing stability	
Surveillance: growth and vulnerabilities	
Lending facilities reform	
Lessons from crisis programs	
Resources	
LICs: eligibility, debt sustainability	
Strengthening the system	
Surveillance apparatus: integrated decision	
SDR basket review	
Capital flows	
Governance	



Done
On schedule for completion
Slightly behind schedule
Significant delay

Immediate Priorities

3. **Europe.** Recent actions to tackle risks helped to calm markets—from ECB liquidity support to the fiscal compact to progress in several countries, and now to strengthened firewalls. More is needed, however, to get firmly ahead of the crisis, as the renewal of some stresses in recent days reminds us. To reinforce the momentum for progress, the Fund can help at several levels:

- At the country level, and especially for the countries in crisis, it will be important to implement well-designed programs; we will also draw early lessons from the upcoming reviews of crisis programs and Fund conditionality.
 - But individual countries will not succeed without supportive pan-European policies and institutions, including fiscal, financial, and regulatory reforms. It will be important to assess continuously growth and competitiveness in the region, and ask how policies add up to provide a credible anchor for needed rebalancing within Europe. We will aim to report frequently on this to the membership, via the Executive Board.
 - The Fund can also contribute by identifying the scope for structural reform and macroeconomic policies to promote growth and jobs, which is crucial to the economic and political viability of the adjustment effort.
4. ***Broader membership.*** The urgency of the task in Europe should not divert attention from important challenges elsewhere—jobs, inclusive growth, fiscal consolidation, bank repair, and building policy buffers to cope with volatility. Through policy advice, financing and technical assistance, the Fund will continue to assist all its members. In particular, it will:
- Provide analysis on policy coordination on the degree, pace, and composition of fiscal consolidation; examine reform options to promote jobs and more job-friendly fiscal policies; and analyze fiscal risk, transparency, and accountability;
 - Support Arab countries in transition to manage their economies through policy advice; lending, including as appropriate the new PLLs/RFIs and SBAs; technical assistance; and collaborating with international fora such as the Deauville Partnership to help mobilize committed resources and market access;
 - Engage emerging markets through our policy analysis on finding the right balance between addressing current risks and weaknesses and avoiding over-stimulating the economy—a key challenge in today’s volatile global economy—and on medium-term challenges such as high public debt ratios in some economies and demographic shifts;
 - Provide guidance to members in fragile situations, and enhance attention to small states, especially those that are most vulnerable to external shocks; and
 - In LICs where the agenda is substantial: review concessional facilities and debt limit policies to ensure effective Fund support for LIC development agendas; assess exposure to global risks and related policy challenges such as building buffers; advise on financial deepening to foster macroeconomic stability in shallow financial markets and managing natural resource revenues; and improve technical assistance outcomes.
5. ***Adequate safety net.*** Stronger European and global firewalls are key to stemming contagion risks and, alongside strong policies, to securing a durable exit from the crisis. The

ECB's policy actions have so far worked to attenuate downside risks. But these risks remain substantial and could materialize quickly and to devastating effect. At end March, Euro Area finance ministers committed to raise European firewalls to €800 billion, with €300 billion already committed and an accelerated phase-in for the remainder. Thus:

- The membership too should move swiftly to significantly raise Fund resources, by at least \$400 billion. More than \$285 billion have been pledged so far. Complementing the \$200 billion pledges already received from the Euro Area, Japan announced on April 17 its intention to contribute \$60 billion, followed by Denmark, Norway, and Sweden together committing over \$26 billion.
- The Executive Board should quickly finalize modalities for raising resources, with safeguards to protect the Fund's balance sheet against concentrated and correlated risks.
- We must complete the 2009 LIC financing package to secure concessional financing under the PRGT through 2014–15. We also need to take forward the important issue of long-term sustainability of the PRGT by next September.

Architecture for global cooperation

6. *Enhancing surveillance.* Our policy dialogue with members is aimed at promoting stability at the national and international levels. To enhance our value added in this dialogue, and consistent with recommendations made by the Independent Evaluation Office (IEO) and the Triennial Surveillance Review on the need to improve risk assessments and better integrate financial and macroeconomic issues, we are working to:

- Prepare a unified spillover report for the five systemic economies. By focusing on the major risks identified by partners, the exercise seeks to strengthen the surveillance of systemic economies and bridge the gap between country and global surveillance.
- Bring multilateral consistency to our analysis of external stability with a new external sector report, which would examine what's driving imbalances and some of the associated risks to external stability.
- Agree on an integrated surveillance decision to institutionalize the goal of bringing together bilateral and multilateral perspectives in surveillance. The Article IV consultation could serve as the vehicle for both. Guidance could also be provided on domestic policies, in addition to exchange rate policies; collective action issues could also be addressed.
- Adapt institutional culture to the multi-faceted needs of the membership, with greater use of cross-department task forces to produce the reports above and lever the specialized skills of staff to integrate bilateral and multilateral surveillance.

- Develop a financial sector strategy while working closely with partners such as the Financial Stability Board, especially on macro-financial linkages and data gaps, the identification of global systemic risk, and development and application of macro-prudential policy and cross-border resolution frameworks.
- Strengthen the assessment of debt vulnerabilities across the membership and better integrate debt issues into surveillance.
- Draw on recent work to develop a comprehensive, flexible, and balanced approach to capital flows.

7. **Governance.** Enhancing the Fund's legitimacy is essential to its ability to coordinate collective efforts and bolster global financial and economic stability. Implementing the 2010 quota and governance reform as agreed by the Annual Meetings and comprehensively reviewing the quota formula by next January are important steps.

- The 2010 reform has progressed, but not nearly enough. Urgent efforts are needed to meet the goal by the Annual Meetings. More frequent (monthly) discussion of progress by the Executive Board should be considered, with a greater focus on progress in each constituency. The quota increase is contingent on entry into effect of the Board reform amendment *and* on consents from members with at least 70 percent of total quotas as of November 2010. On the Board reform amendment, acceptance by 113 members with 85 percent of the total voting power is needed, but only 70 members with 46 percent of voting power have accepted as of April 17. Members with 54 percent of quotas have consented to the quota increase.
- Meanwhile, the Executive Board is considering election rules that would allow for a voluntary re-composition of the Board that increases the number of emerging market and developing country chairs. Strong and early progress in this area would signal the membership's commitment to increasing the voice of these countries at the Fund.
- Discussions are underway on improving the quota formula and now must gather momentum to meet the deadline of January 2013.
- Finally, we will continue to enhance the diversity of Fund staff along its various dimensions, including professional diversity. Progress will be monitored carefully.

8. **Bottom line.** Despite recent policy actions, risks to the global economy remain large. Collective and cooperative actions are needed—on strengthened policies, firewalls, and architecture—to avoid slipping back into crisis and to secure global stability.