

**Statement by the Managing Director
on the Work Program of the Executive Board
Executive Board Meeting
November 24, 2014**

1. Policy priorities. The *Managing Director’s Global Policy Agenda (GPA)* presented to the IMFC in October identified a range of actions needed to prevent growth from settling into a “new mediocre” with unacceptably low job creation and inclusion. These actions included managing eventual monetary normalization in advanced economies and its effects on other economies, growth-friendly fiscal policies to enhance the quality of public expenditure and reduce distortions in revenue collection, policies to safeguard financial stability while strengthening credit transmission, structural reforms to buttress productivity and strengthen growth, and increasing investment in infrastructure. The GPA also outlined how the Fund would support the membership through assessments and policy advice provided in the context of multilateral and bilateral surveillance, capacity building, and financial support (Figure 1).

Figure 1. Summary of Policy Priorities Going Forward

Members			
Euro Area	Provide demand support		Invigorate labor and product markets
United States	Safeguard financial stability		Tackle infrastructure gaps
Japan	Improve product and labor markets		Address fiscal sustainability concerns
China	Foster demand rebalancing		Rein in shadow banking
Emerging Market Economies	Tackle structural deficiencies		Strengthen macro frameworks
Low Income Developing Countries	Mobilize fiscal revenues		Deepen financial markets
IMF			
Structural Reforms	Establish macro-critical reform priorities		Improve investment frameworks
Fiscal Policy	Examine impact on long-term growth		Strengthen sovereign debt restructuring framework
Monetary Policy	Analyze future monetary policy frameworks		Explore impact of asynchronous exit
Financial Sector Policies	Broaden macro-prudential advice		Deepen balance sheet analysis

Source: Fall 2014 Global Policy Agenda.

2. Fall 2014 work program. This document translates the policy priorities laid out in the GPA and the IMFC communiqué into a work agenda for the Executive Board over the next 12 months. A number of new Board items have been added, in line with emerging concerns and priorities, including on the use of the balance sheet approach in surveillance and monetary policy frameworks in low-income developing countries (LIDCs). Changes in the mode of Fund engagement to support poverty reduction in low-income countries will also be discussed. Building on work completed in the past year, a follow-up Board meeting has been added to advance the work on assessing reserve adequacy. Staff will also carry forward analytical work related to several of the GPA priorities. In light of the recent completion of the 2014 *Triennial Surveillance Review (TSR)*, the Managing Director’s Action Plan for

Strengthening Surveillance will be circulated to the Board for information in November 2014 (see ¶ 13).

3. Implementation of the past work program. The Executive Board's work program (WP) of Spring 2014 has been implemented broadly as planned. Additional informal meetings to seek the views of Executive Directors were scheduled ahead of formal discussions on some key items. Most policy meetings were concluded on schedule, but a few encountered delays, mainly reflecting the need for more consultations with the membership to reach consensus and competing work pressures.

I. CONJUNCTURE AND RISKS

4. Continued weakness amidst rising vulnerabilities. The recovery in economic activity has remained uneven and sluggish, and downside risks to the outlook have increased. Much of the membership faces the challenge of simultaneously escaping the brittle, mediocre recovery while addressing vulnerabilities stemming from the global financial crisis.

- **Global developments.** The global conjuncture and risks will be discussed ahead of the Spring and Annual Meetings in joint Board sessions of the *World Economic Outlook (WEO)*, *Global Financial Stability Report (GFSR)*, and *Fiscal Monitor* in March and September 2015, respectively, with *World Economic and Market Developments (WEMD) Updates* in January and July. The GPA will review policy implementation by the membership and identify policy challenges for the period ahead, synthesizing key policy messages from bilateral and multilateral surveillance. There will be opportunity for input from the Board during the early stages of the GPA's production.
- **Vulnerabilities and risks.** In the run-up to the Spring and Annual Meetings, the Board will discuss the *Early Warning Exercise*, while in December 2014 the Board will be briefed on the role of the *Vulnerability Exercise* in the Fund's risk assessment and surveillance work.
- **Selected country groups.** Following on from the initial report in 2014, the Board will hold a formal discussion on the *Low-Income Developing Countries Report* (September 2015). The paper on *Selected Issues in Small States* (February 2015) will discuss small states' growth, fiscal, debt, and financial integration challenges and the Board will be briefed on Fund operational engagement in fragile states (see ¶13). Cluster reports will examine common policy issues facing other groups of countries (see ¶8). Area departments will also continue to brief the Board regularly on regional developments.

II. ADDRESSING POLICY CHALLENGES

A. Structural Reforms

5. **Raising the priority of reform.** In light of repeated markdowns of medium-term growth estimates around the world, raising growth will require reforms to boost labor demand and supply, and spur trade and investment, in addition to well-calibrated macroeconomic policies. Some structural reforms could take time to implement or yield growth dividends, while others (e.g., increasing productive infrastructure investment) could provide more immediate support to economic activity.
- **Identifying reform priorities.** Work will proceed on identifying macro-critical structural reform priorities. The Board will discuss the paper *Fiscal Policy and Long-Term Growth* in May 2015, which will examine the potential contributions to growth of sound fiscal policies, including maintaining fiscal sustainability, spending efficiently, and reducing distortions in the tax system. A Staff Discussion Note (SDN) will examine policies at the sectoral level to boost growth in advanced economies. Another SDN will analyze potential growth and productivity drivers in the Middle East and Central Asia and other analytical work will do the same for Europe. A diversification toolkit has been created to enable country teams to assess the potential for structural transformation and quality upgrading, and it will be expanded and more widely implemented in the coming year. The TSR action plan will make recommendations for addressing structural reform issues in Fund surveillance.
 - **Investing for growth.** The Fund will analyze the role of investment in boosting demand and strengthening growth. The Board will be briefed in May 2015 on the paper *Making Public Investment More Efficient*, which will assess trends in public infrastructure quality and examine how public investment frameworks can be reformed to maximize the growth impact of investment, while taking account of fiscal sustainability and financing issues and ensuring an efficient use of public resources. An SDN will analyze public investment efficiency in oil exporting countries of the Middle East, including unit costs and investment management processes.
 - **Improving efficiency.** The *Review of the Role of Trade in the Work of the Fund*, now scheduled for Board discussion in February 2015, will examine the evolution of trade and the trade policy landscape over the last five years; the role that trade has played in Fund work; and how the landscape may evolve with implications for the Fund. Ongoing work with other institutions, including the OECD, United Nations, and the World Bank, is exploring the costs and benefits of tax incentives and international taxation schemes. Analytical work will include an SDN on structural transformation and diversification in the Gulf Cooperation Council countries.

- **Enhancing inclusiveness.** The issues of financial inclusion and financial deepening to support growth will be touched on by several Board papers (see ¶8). Analytical work on issues surrounding trends and drivers of inequality will continue, including a book on the role of fiscal policy in inequality following up on the board discussion earlier this year. Work focused on Europe will explore youth unemployment and the unique features of Nordic labor markets. Staff also continues to operationalize recent analytical work on inequality and jobs and growth in the context of Article IV consultations, with the first round of reports applying this work to be issued in the coming year.

B. Fiscal Policy

6. Balancing consolidation and growth. Public debt ratios remain uncomfortably high in many countries, yet economic slack persists. Thus, fiscal policy should be growth friendly, with the pace and composition of fiscal adjustment attuned to supporting the recovery while balancing fiscal sustainability within credible medium-term plans. Using a combination of advice, technical assistance, and training, the Fund will assist members with developing and calibrating fiscal packages to support long-term growth, reduce public debt overhangs, and strengthen fiscal institutional frameworks.

- **Fiscal policy and growth.** Several items will touch on the contribution that fiscal policy can make to economic growth. The forthcoming *Fiscal Monitor* will focus on short-term macroeconomic stabilization, analyzing automatic stabilizers. In addition to the items on *Fiscal Policy and Long-Term Growth* and *Making Public Investment More Efficient* (see ¶5), the Board will be briefed on *Current Challenges in Revenue Mobilization: Improving Tax Compliance* (now planned for February 2015). Improving tax compliance can support growth by creating space for productive expenditures and allowing countries to reduce the distortions to economic activity associated with a given amount of revenue collection. Further analytical work on fiscal policy and growth will examine the linkages between fiscal policy and productivity, and how public debt restructuring and fiscal reform episodes affect growth.
- **Debt sustainability.** The Board will be briefed in January 2015 on the paper *From Banking to Sovereign Stress: Implications for Public Debt*, which explores how banking sector characteristics influence the propagation of risks to sovereign debt and distills practices and policies to help the fiscal authorities manage risks and enhance crisis preparedness. Following up on previous discussions, the Board will discuss in December 2014 proposals to revise the Fund's debt limits policy in Fund-supported programs. Staff will continue the work on possible modifications of the Fund's lending framework in the context of sovereign debt vulnerabilities, following up on the Board discussion of this topic in June 2014.

- **Strengthening institutional frameworks.** Investment frameworks will be examined in *Making Public Investment More Efficient* (see ¶5). There is other analytical work underway on broad institutional aspects of fiscal frameworks in the European Union and in Sub-Saharan Africa, as well as trends in fiscal transparency. *Current Challenges in Revenue Mobilization: Improving Tax Compliance* will also deal with institutional issues related to revenue administration in developing countries.

C. Monetary and macroprudential policy

7. **Varying policy challenges.** Given subdued growth and ongoing fiscal consolidation in many countries, monetary policy in most advanced economies should remain generally supportive of demand. While policy normalization is coming to the forefront in some countries, others will remain squarely focused on fighting below-target inflation. Emerging market and frontier economies should continue to guard against potential spillovers via capital flows and exchange rate volatility. For LIDCs, the focus needs to be on strengthening policy frameworks while growth remains robust, which would help shield the economy in the event of adverse external shocks.

- **Exchange rates and reserves.** An informal session to engage the Board, *The Role of Exchange Rate Intervention: Issues and Experiences* (February 2015), will provide an overview of the Fund's policy framework and its application in current circumstances, and highlight the issues that have emerged in light of recent country experiences. A follow-up paper on *Assessing Reserve Adequacy – Proposals* (January 2015) will build on previous Board discussions and offer specific proposals, with a guidance note planned to be issued in the first quarter of 2015 to facilitate implementation of the agreed innovations and modifications.
- **Macroprudential policies.** Given the importance of macroprudential policies to limit systemic risk, a comprehensive guidance note on this topic will now be issued by end-November. Within this framework, the focus going forward will be on embedding macroprudential policy advice in bilateral surveillance.
- **Policy frameworks.** An informal session to engage the Board on *New Aspects of Monetary Policy* is now planned for September 2015, in lieu of the previous planned paper on *Monetary Policy: Its Role Now and in the Future*. The paper, which is part of a broader work agenda on new monetary policy questions which have been raised by the crisis, will discuss the size and composition of central bank balance sheets going forward, and the relationship between monetary policy and financial stability. An informal briefing on *Evolving Monetary Policy Frameworks in Low-Income Developing Countries* (August 2015) will examine how monetary policy frameworks can be made more credible, countercyclical, and forward-looking in the presence of less developed financial systems and markets and high vulnerability to shocks. In

parallel, the Fund will continue to provide advice and capacity building to help LIDCs strengthen their monetary policy frameworks.

D. Financial Sector Policies

8. Addressing risks, supporting growth. Financial sector policies need to safeguard financial stability while strengthening credit transmission. Against this backdrop, the key priorities for the Fund will be to support the completion and effective implementation of global financial regulatory reforms, advise on macro-financial risks and policy responses, and help promote financial deepening and inclusion.

- **Global regulatory reforms.** The Board will be briefed in December and June on progress with the global regulatory reform agenda. The December briefing will cover progress in addressing the too-big-to-fail problem, including Fund work in the context of the Financial Sector Assessment Program (FSAP) and recent analysis of changes in business models of global banks in response to regulatory reforms. The briefing will include an update on lists of global systemic banks and insurers (G-SIBs and G-SIIs), discuss recent policies targeting G-SIBs, present the new Basic Capital Requirement for G-SIIs (the first global solvency framework for insurers), and review policies addressing other systemically-important infrastructures and institutions.
- **Macro-financial analysis.** A Fund-wide effort is underway to strengthen the coverage of macro-financial issues in bilateral surveillance, starting with a focused effort that will identify themes to be covered for a few countries in each region, with support from an interdepartmental group to develop analysis and reflect it in forthcoming Article IV consultations. A new informal briefing, *Balance Sheets in Surveillance* (May 2015), will support efforts to revive and adapt balance sheet analysis in surveillance. The paper will discuss experiences with balance sheet analysis in the Fund's bilateral surveillance, offer a systematic presentation of existing balance sheet information, and present some analytical approaches to deepen balance sheet analysis at the Fund. A Board briefing on *Macro-Financial Implications of Financial Integration in Central America, Panama, the Dominican Republic, and Colombia* (May 2015) will discuss the implications of growing cross-border banking on the transmission of financial shocks across countries and evaluate the capacity of supervisory frameworks to contain these risks. An upcoming cluster report on housing recoveries in Europe (December 2014) will look at policy responses to housing busts. Other analytical work includes an examination of policies to develop securitization markets in Europe and an SDN on the linkages between the housing finance system and real estate booms across countries.
- **Financial inclusion and deepening.** The Fund will provide analysis to support resilience in emerging markets and low-income countries and promote financial inclusion. The Board will be briefed on *Pan-African Banks: Opportunities and*

Challenges for Cross-Border Oversight (January 2015), which will discuss how increasing financial integration promises to improve competition and support financial inclusion, but poses challenges that require addressing regulatory and supervisory gaps. *Rethinking Financial Deepening: Stability and Growth in Emerging Markets*, now scheduled for informal briefing in February 2015, will examine how deeper financial markets can help countries manage volatility and bolster their growth prospects. Similarly, the Board will be briefed on *Future of Asia's Finance* (April 2015), which will explore how Asia's financial sector has evolved and how it can overcome the challenges of increasing size, sophistication, and interconnectedness to continue supporting growth and ensuring resilience.

- **Islamic Finance (IF).** The Fund will continue to strengthen its capability to provide policy advice and capacity building on IF issues, with a Board briefing on these issues in March 2015. An SDN will review the implications of IF for macro-financial stability, financial regulation and supervision, monetary policy, and access to finance, and the Fund will co-host a global conference on IF in mid-2015.
- **Data gaps.** The Fund continues to take a leading role in addressing data deficiencies among members, with the aim of better identifying macro-financial risks. In May 2015, the Board will discuss the *Ninth Review of the Fund's Data Standards Initiatives*, including reforms to modernize the General Data Dissemination System. The sixth progress report on the G-20 Data Gaps Initiative will be provided to the Board for information in September 2015 and will include a proposal for a second phase as called for in the G-20 Communiqué of September 2014.

E. Policy Cooperation and Coherence

9. Benefits from joint action. Dialogue and cooperation are necessary to improve policy implementation and prevent policy initiatives from creating unintended distortions and spillovers, particularly in the areas of financial stability and global imbalances. The Fund will continue to provide financial support, including on a precautionary basis, for appropriate adjustments and reforms, and to help protect against the risks facing the membership. The Fund will also actively participate in shaping the post-2015 Development Agenda, in particular on options to finance the identified Sustainable Development Goals (SDGs).

- **Multilateral surveillance, spillovers, and imbalances.** The *Spillover Report* and the *External Sector Report*, scheduled for June and July 2015, respectively, will continue to discuss spillovers from the policies of systemic economies and the multilateral consistency of policies. Key messages from these reports will be integrated into the Fund's flagship products and the GPA. Efforts are also underway to integrate the findings of multilateral surveillance products in bilateral surveillance, with regional and cluster analysis to be used as a bridge for these products. External stability assessments will be enhanced by expanding the use of the External Balance

Assessment (EBA) to more countries and discussing the contribution of domestic policies to imbalances.

- **International monetary system.** The Board will conduct in October 2015 the quinquennial *Review of Valuation of the SDR*, starting with an informal briefing to engage in May. The review will update the indicators used for assessing the composition of the SDR currency basket, evaluate the weighting methodology, and discuss issues related to the SDR interest rate basket.
 - **Global challenges.** The Fund stands ready to provide further financial assistance to countries affected by the Ebola crisis and help catalyze assistance from donors and other institutions. In the coming year, staff will mainstream climate change and gender issues in countries where such issues are macro-critical. Staff will also conduct some analysis on the macroeconomic implications of issues of cross-cutting importance to the membership, including water challenges and demographics.
- 10. Financing for Development.** As the international community formulates SDGs to guide international development efforts through 2030, the Fund will make a key contribution to the discourse. In particular, a paper exploring the key issues relating to mobilizing resources for development will be brought to the Board for formal discussion in May. The paper will serve as the Fund's core analytical contribution to the work of the July 2015 Conference on Financing for Development, at which issues relating to financing the SDGs are to be taken up.

III. STRENGTHENING THE FUND

- 11. Adapting to a changing environment.** As the challenges facing the global economy change, the Fund will continue to evolve as an institution to meet the needs of the membership. In the next year this will include steps to ensure its governance structures keep pace with the makeup of the world economy, maintaining sufficient availability of resources within a sound and even-handed lending framework, learning from past experience and outside evaluations, and shifting internal resources to emerging priorities.
- 12. Governance and resources.** Prompt entry into force of the 2010 Quota and Governance reforms is of utmost importance to preserve the quota-based nature of the IMF, and strengthen its legitimacy, effectiveness and relevance. In line with the IMFC's commitment to maintaining a strong and adequately-resourced IMF, steps will also be taken to ensure the availability of sufficient Fund resources for crisis prevention and resolution. As flagged in the Spring WP, in the event that the 2010 Board Reform Amendment and the 14th General Review of Quotas have not become effective by the end of 2014, a Board meeting on alternative options for rebalancing quotas and increasing Fund resources will be scheduled for January 2015. The Board will discuss a draft report to the Board of Governors on the 15th General Review of Quotas before the end-January deadline for the completion of the

Review. The timing of Board meetings on the 15th General Review and on revisions to the quota formula will be determined, taking into account progress made in ratifying the 2010 reforms.

13. Lending framework. The Board will consider several items to ensure the Fund's lending framework remains in tune with the needs of members. Guidance notes on the Flexible Credit Line and Precautionary Liquidity Line will be finalized in December 2014. The *Crisis Program Review* (May 2015) will distill lessons from Fund arrangements during the global financial crisis. For low-income countries, *Reframing the Treatment of PRS in Fund Engagement with LICs* (February 2015) will propose adjustments to the requirements for Poverty Reduction Strategy Papers in the Fund's engagement with LIDCs, and there will be a biennial review of *Eligibility to Use the Fund's Facilities for Concessional Financing* (May 2015). The timing of a follow-up Board meeting on access limits and surcharges will be determined, taking into account progress in making effective the 14th General Review of Quotas.

14. Learning. In order to sustain its effectiveness as an institution, the Fund will conduct several policy and program reviews, and maintain a close dialogue with all stakeholders.

- **Triennial Surveillance Review.** To help operationalize the recommendations from the recently-completed TSR, the Managing Director will outline an Action Plan for Strengthening Surveillance, which will be circulated to the Board for information in November 2014. The Action Plan identifies specific proposals in the five priority areas agreed in the 2014 TSR: (i) second-generation reforms to risk and spillover analysis; (ii) mainstreaming macro-financial analysis; (iii) delivering more tailored policy advice; (iv) more cohesive and expert policy advice; and (v) strengthening dialogue and communication. The TSR and its recommendations will also inform the update of the *Guidance Note for Surveillance under Article IV Consultations*, which is planned for early 2015.
- **Other policy reviews.** Reviews carried over from the Spring WP include the *Review of the Role of Trade in the Work of the Fund* (February 2015; see ¶5), which is a Board-endorsed recommendation by the Independent Evaluation Office (IEO); and the *Review of Fund Operational Engagement with States in Fragile Situations* (February 2015), which will examine the Fund's programs, surveillance, and capacity building activities with members in fragile situations. In January 2015, the Board will be briefed on *Review of the Fund's Framework for Addressing Excessive Delays of Article IV Consultations*. The Board will discuss the quinquennial review *Safeguards Assessments—Review of Experience* (October 2015), which will review the Fund's recent experience with assessments of central bank financial safeguards.
- **Independent Evaluation Office (IEO).** *Self-Evaluation at the IMF: Learning from Experience* (now planned for May 2015) and *Statistics for Global Economic and*

Financial Stability: The Role of the IMF (now planned for June 2015) are carried over from the Spring WP. The next study in the series revisiting past evaluations will update the 2005 evaluation on *The IMF's Approach to Capital Account Liberalization*. Management implementation plans will be prepared on recent IEO reviews on *IMF Forecasts: Process, Quality, and Country Perspectives*; *IMF Response to the Financial and Economic Crisis*; and *Recurring Issues from a Decade of Evaluation: Lessons for the IMF*.

15. Strengthening internal operations. With the employment framework approved by the Board, attention will turn to its implementation beginning in May 2015, as well as strengthening the Fund's leadership culture and managerial capabilities. Aspects of compensation and benefits will be analyzed to ensure the recruitment and retention of a qualified, flexible, and diverse workforce. Changing needs and new demands will continue to be met mainly through reallocations and efficiencies.

- **Diversity and inclusion.** The *2014 Diversity and Inclusion Annual Report*, to be discussed in November, reviews progress toward the 2014 benchmarks, suggests steps toward reaching the new 2020 benchmarks, and discusses issues of inclusion in the work environment.
- **Budget, finances, risk, and audit.** Discussions on the *FY2016-2018 Medium-Term Budget* will begin in February 2015 with a committee session and culminate with a formal Board meeting in April 2015. The Board will also review the *Fund's Income Position for FY2015 and FY2016-17* in April 2015. A paper on *An Investment Approach for the Active Component of the Endowment* will be discussed in November 2014 and the Board will discuss the *Review of the Fixed Income Subaccount of the Fund's Investment Account* in March 2015. The External Audit Committee will continue to provide audit oversight over the Fund's financial statements through regular briefings (January and July 2015). Under the Fund's current Risk Management Framework, the new Risk Management Unit will present the *2015 Report on Risk Management* (June 2015).
- **Compensation, benefits, and recruitment and retention.** In April 2015, there will be a comprehensive review of compensation and benefits, along with a study of the recruitment and retention experience in 2014. Three separate papers will be issued for Board discussion. A pair of informal briefings on staff compensation and benefits are planned to be held before the papers on those topics are issued, in order to provide background on the approach and the results of the review ahead of the Board discussion. The *Review of Recruitment and Retention for CY2014* will evaluate the Fund's hiring experience. It will also update on implementation of the Externally-Financed Appointee program, designed to build capacity among mid-level officials from Fund member countries.

Figure 2. Fall 2014 GPA Priorities and Key Work Program Deliverables

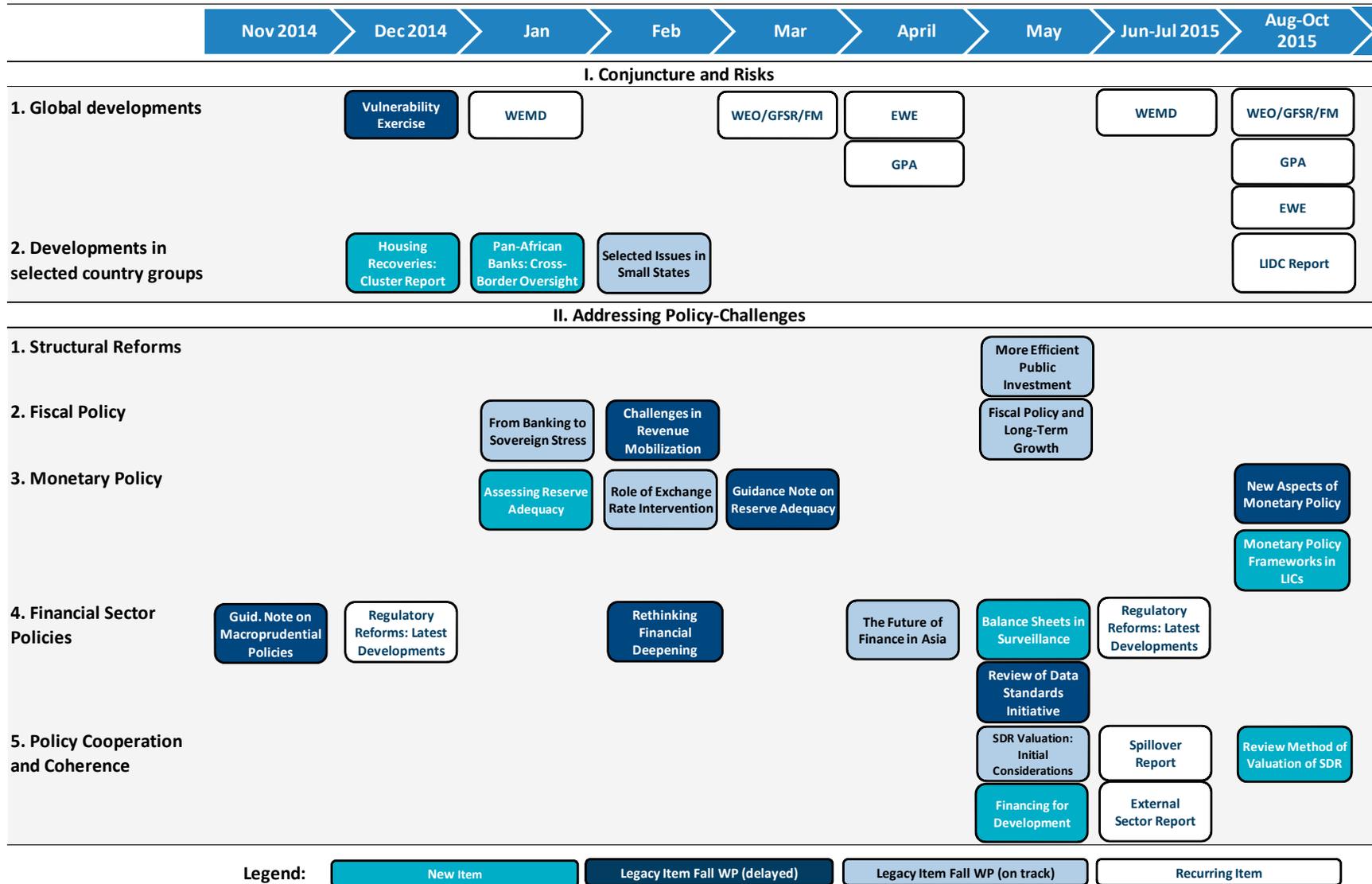


Figure 2. Fall 2014 GPA Priorities and Key Work Program Deliverables (cont.)

