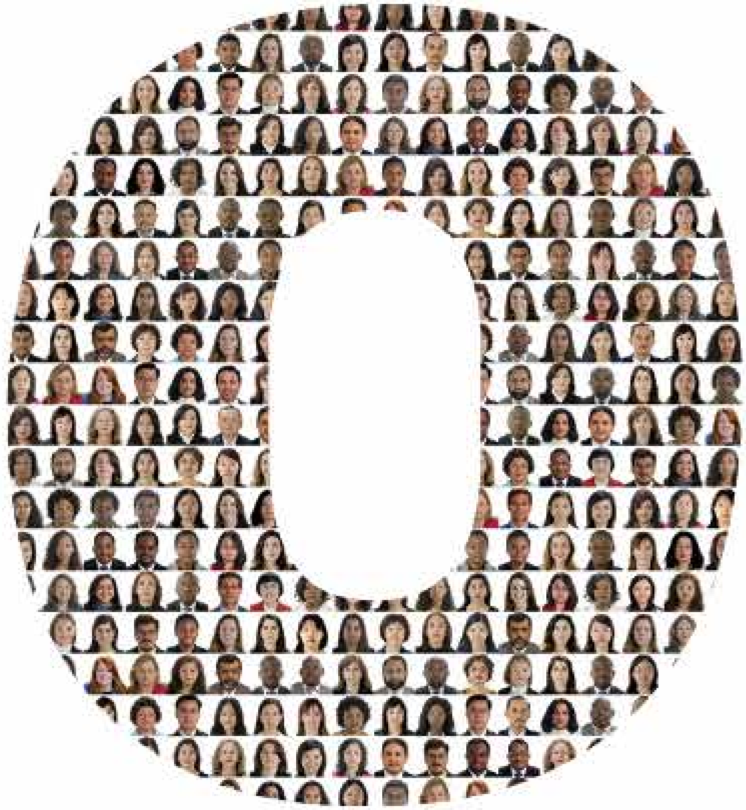
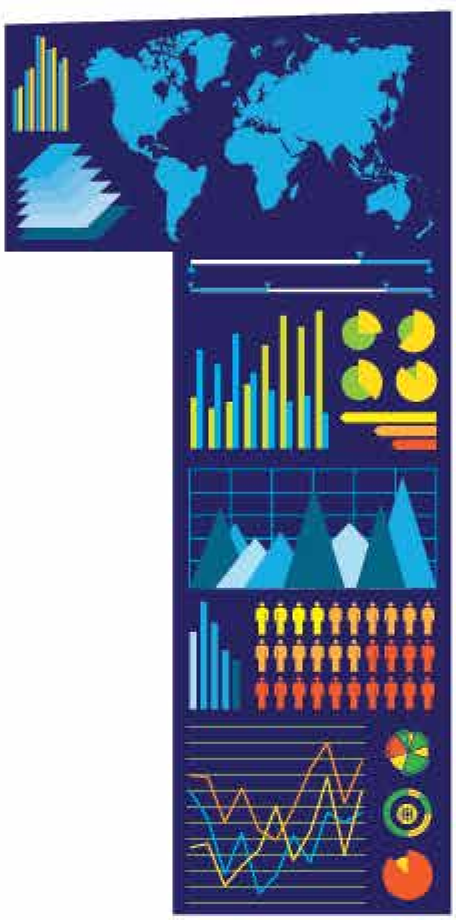


IMF Annual Report 2015 | Tackling Challenges Together



IMF Annual Report 2015 | Tackling Challenges Together

IMF Executive Directors (as of April 30, 2015)

Serge Dupont
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Mikio Kajikawa
Japan

Steve Field
United Kingdom

Chileshe Mpundu Kapwepwe
Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Daniel Heller
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerla
Tajikistan, Turkmenistan

Carlo Cottarelli
Albania, Greece, Italy, Malta, Portugal, San Marino

Rakesh Mohan
Bangladesh, Bhutan, India, Sri Lanka

Hazem Beblawi
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, Yemen

Mohammad Jafar Mojarrad
Afghanistan, Algeria, Ghana, Iran, Morocco, Pakistan, Tunisia

Ih
Au
Ko

Fernando Jiménez Latorre
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, Venezuela

Nguéto Tiraina Yambaye
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Aleksei Mozhin
Russia

Hu
Germa

Kyrgyz
Switzerland,

Mathew Haarsager
(Senior Advisor to the Executive Director)
United States

Sergio Chodos
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Menno Snel
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine

Wimboh Santoso
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam

Ibrahim Halil Çanakci
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey

JIN Zhongxia
China

Fahad I. Alshathri
Saudi Arabia

Barry Sterland
Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu

Hubert Temmeyer
Germany

Audun Groenn
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Hervé de Villeroché
France

Inset
Paulo Nogueira Batista, Jr.
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago

Quick View

Find all the information you need about the IMF and its work in FY2015. For more details, see the complete Table of Contents.

It was a year of innovation across the institution: pilot programs aimed at embedding in our country work the research on inclusive growth and gender that has been conducted in recent years; online training courses available to both officials and the wider public; the launch of a free data initiative; and cooperation with member countries on Islamic finance.

Christine Lagarde
Managing Director

Management Team

MIN Zhu
Deputy Managing Director

Christine Lagarde
Managing Director

Carla Grasso
Deputy Managing Director and
Chief Administrative Officer

Mitsuhiro Furusawa
Deputy Managing Director

David Lipton
First Deputy Managing Director

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The IMF's financial year is May 1 through April 30.

The analysis and policy considerations expressed in this publication are those of the IMF Executive Directors.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. On April 30, 2015, the SDR/U.S. dollar exchange rate was US$1=0.71103, and the U.S. dollar/SDR exchange rate was SDR 1=US$1.40642. The year-earlier rates (April 30, 2014) were US$1=SDR 0.645290 and SDR 1=US$1.54969.

"Billion" means a thousand million; "trillion" means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

As used in this Annual Report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

About the IMF

The International Monetary Fund is the world's central organization for international monetary cooperation. With 188 member countries, it is an organization in which almost all of the countries in the world work together to promote the common good. The IMF, which oversees the international monetary system to ensure its effective operation, has among its key purposes to promote exchange rate stability and to facilitate the expansion and balanced growth of international trade. This enables countries (and their citizens) to buy goods and services from one another and is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies and decides the IMF's lending to help member countries address temporary balance-of-payments problems, as well as capacity-building efforts. This Annual Report covers the activities of the Executive Board and IMF management and staff during the financial year May 1, 2014, through April 30, 2015. Some figures on lending to Greece were updated after the end of the financial year. The contents reflect the views and policy discussions of the IMF Executive Board, which has actively participated in preparation of this Annual Report.

The IMF's main activities

The key roles of the IMF are to:

Provide advice to members on adopting policies that can help them achieve macroeconomic stability, thereby accelerating economic growth and alleviating poverty.

Make financing temporarily available to member countries to help them address balance-of-payments problems, that is, when they find themselves short of foreign exchange because their external payments exceed their foreign exchange earnings.

Offer technical assistance and training to countries, at their request, to help them build the expertise and institutions they need to implement sound economic policies.

The IMF is headquartered in Washington, D.C., and, reflecting its global reach and close ties with its members, also has offices around the world.

Additional information on the IMF and its member countries can be found on the IMF's website, www.imf.org.

Message from the Managing Director

The past year has been a time of unexpected challenges for the international community. Amid the continued focus on spurring stronger and more inclusive growth and strengthening global cooperation, the IMF faced economic developments that required rapid adjustments.

First was the sudden, steep decline of oil prices. For most of our members, lower prices proved beneficial, supporting growth amid concerns about a new mediocre in the world economy. But oil producers faced difficult adjustments. These developments placed a premium on the IMF's analytical work and policy advice.

The second challenge was posed by the Ebola pandemic in Guinea, Liberia, and Sierra Leone. This outbreak was a matter of life and death, and the IMF moved quickly to ensure the three governments could respond to the crisis and get their economies moving again. The IMF provided more than $400 million of aid and debt relief, including by redesigning our disaster-response facility.

The third challenge during the past year was to assist several member countries addressing difficult economic and financial circumstances through IMF-supported programs. The IMF remains committed to helping these countries, along with all members, through this period of turmoil.

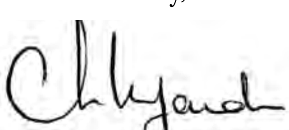
It was a year of innovation across the institution: pilot programs aimed at embedding in our country work the research on inclusive growth and gender that has been conducted in recent years; online training courses available to both officials and the wider public; the launch of a free data initiative; and cooperation with member countries on Islamic finance.

We continued to engage with our membership to implement the 2010 IMF quota and governance reforms as soon as possible. Our members reaffirmed the importance and urgency of these reforms for the IMF's credibility, legitimacy, and effectiveness.

The year provided an opportunity to look back to the achievements of the past 25 years in eastern and central Europe, and to the 70th anniversary of the IMF. It also was a time to plan for the future by building on the achievements of the United Nations Millennium Development Goals and supporting climate policy by getting energy prices right. In 2015 the international community will put in place the goals and policies aimed at reducing poverty and strengthening inclusive growth by 2030.

With the 2015 Annual Report, we highlight the IMF's work in these and other areas with a new approach that blends essays and graphics. As always, the report emphasizes the work of the IMF's Executive Board, whose policy guidance is central to the efforts to ensure global financial stability and growth.

Yours sincerely,



Christine Lagarde

FY2015 Key IMF Activities

The IMF established a new emergency relief fund and continued to provide financial assistance to members

The Catastrophe Containment and Relief Trust (CCRT), established in response to the Ebola crisis, provides grants for debt relief to the poorest and most vulnerable countries hit by natural or public health disasters that have the potential to spread to other countries. The IMF provided $95 million in grants to Guinea, Liberia, and Sierra Leone to relieve eligible debt burdens. The IMF also augmented the program under the Extended Credit Facility for Guinea, Sierra Leone, and Liberia by $63.6 million, $111.7 million, and $48.2 million, respectively, and provided access to the Rapid Credit Facility to Guinea and Liberia in the amount of $39.8 million and $45.5 million, respectively.

Successor arrangements for Mexico and Poland under the Flexible Credit Line totaling $88 billion and for Morocco under the Precautionary Credit Line totaling $4.5 billion were approved. New arrangements were also approved for Georgia, Honduras, Kenya, Serbia, Seychelles, and Ukraine involving a resource commitment of $19.4 billion. New disbursements under the Rapid Credit Facility were approved for the Central African Republic, Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, and St. Vincent and the Grenadines, for a total of $117 million (see all support to low-income developing countries in Table 2.4). An augmentation to Bosnia and Herzegovina's Stand-By Arrangement in the amount of $118.9 million was also approved.

A number of major policy reviews were completed

Follow-up work to the 2014 Triennial Surveillance Review (TSR) is under way. The Managing Director's action plan covers all core operational areas of surveillance, including risks and spillovers, and macro-financial and macrocritical structural issues.

A review of the Financial Sector Assessment Program found that reforms implemented in 2009 had strengthened the focus, effectiveness, and traction of the assessments.

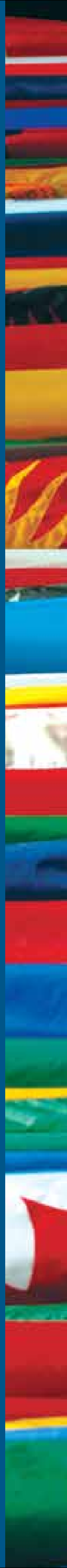
Reforms to the IMF's Debt Limit Policy were adopted. The new policies, effective end-June 2015, provide countries with more flexibility to finance productive investments while containing risks to medium-term sustainability.

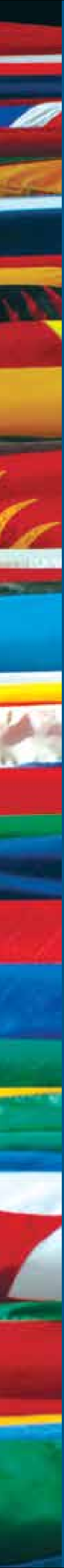
Following the Independent Evaluation Office's (IEO's) recommendation, a review of the IMF's work on trade issues was completed. The assessment covered macrocritical trade issues underlying a work agenda for the IMF for the next five years.

Staff published guidance notes to strengthen the IMF's advice on macroprudential policy in surveillance. The notes factor the work of international standard setters and evolving country experiences with macroprudential policy—that is, government policies designed to ensure the health and soundness of a financial system.

In response to the IEO's suggestion and building on previous work, a new framework for determining the appropriate level of international reserves held by member countries has been developed that is more country-specific than previous methods of assessing reserve adequacy.

Activities summarized from the Managing Director's Global Policy Agenda. See end Notes for details.





Analytical and policy work focused on challenges facing the membership

Work on underlying macrocritical issues covered topics such as productivity-enhancing reforms in advanced economies, female labor force participation, drivers of income inequality, economic diversification in the Gulf Cooperation Countries, and youth unemployment in European advanced economies. Analysis of monetary and financial sector policies focused on the role of exchange rate interventions, and implications of Islamic finance. Policy and analytic work on fiscal issues included revenue mobilization and tax compliance, and public investment efficiency in the Middle East and North Africa and Caucasus and Central Asia oil-exporting countries.

Intensive capacity development continued through technical assistance and training

Capacity building—helping countries develop more effective institutions, legal frameworks, and policies to promote economic stability and inclusive growth—focused on low-income developing countries. The regional technical assistance office in Thailand also was pivotal in rapidly responding to demand for technical assistance and training in Myanmar and Lao P.D.R. Other highlights included the creation of the Somalia Trust Fund for Capacity Development and the official launch of the IMF–Middle East Center for Economics and Finance in Kuwait, the IMF's first regional training institute in the Middle East. Two new massive open online courses on debt sustainability analysis and energy subsidy reform further extended the reach of IMF training.

IMF Policy Priorities in 2015

Priorities set out in the Managing Director's Global Policy Agenda were:

Members

Euro area
Provide effective demand support
Implement labor and product market reforms

United States
Ensure smooth monetary normalization
Establish medium-term fiscal consolidation plan

Japan
Implement fiscal and structural reforms
Enhance monetary policy transmission

China
Manage demand rebalancing
Address vulnerabilities in overinvested sectors

Emerging market economies
Address external vulnerabilities
Lift potential growth

Low-income developing countries
Strengthen policy frameworks
Rebuild fiscal and external buffers

IMF

Monetary policy
Assess impact of policy divergence
Analyze monetary policy and financial stability links

Financial sector policies
Deepen macro-financial analysis
Provide guidance on macroprudential policy

Fiscal policy
Examine how policy can boost long-term growth
Strengthen advice on frameworks and institutions

Structural reforms
Bolster advice on structural reforms
Advise on measures to improve investment efficiency

The Global Policy Agenda

The Managing Director's *Global Policy Agenda* (GPA) is a document presented twice a year to the International Monetary and Financial Committee (IMFC), which is the IMF's policy-guiding body. The GPA identifies the policy challenges faced by the IMF membership, assesses progress since the previous GPA, outlines the policy responses needed at the global and country levels, and lays out how the IMF can support those policy responses.

The GPA is regarded as an important blueprint for the IMF and its membership. It is also a key element of the IMF's multilateral surveillance work—as highlighted in the 2014 Triennial Surveillance Review (TSR) and the Managing Director's Action Plan for Strengthening Surveillance, which was issued along with the TSR. The GPA is discussed by the members of the IMF Executive Board in an informal session.

The April 2015 GPA—Confront Global Challenges Together—states: "Promoting balanced, sustained growth requires an integrated policy package that bolsters today's actual and tomorrow's potential output, diminishes risks, and confronts emerging global challenges."

Among the report's recommendations:

Lifting today's growth: Boosting growth and jobs requires continued monetary accommodation and supportive fiscal policies, where appropriate. But improving policy effectiveness and securing financial stability is crucial. This includes tackling debt overhang and encouraging productive investment rather than excessive financial risk-taking. The approaching increase in U.S. interest rates and large currency movements call for proactive policies to manage risks and growing leverage. Stronger fiscal frameworks can make revenue and spending more growth-friendly and contain fiscal risks.

Fortifying tomorrow's prospects: Structural reforms are lagging compared with other areas of the GPA. Targeted structural reforms can boost investment and productivity. While bottlenecks vary, priorities include advancing energy subsidy reforms to take advantage of lower oil prices, financial deepening, upgrading infrastructure, increasing employment, removing distortions in product markets, and improving the business environment. Trade reforms in traditional areas and emerging ones such as services and regulations can complement and augment other structural reforms.

Working together for the future: The impact of asynchronous monetary policies on currencies and capital flows underscores the need to make the international monetary system more resilient, promote the continuing integration of dynamic emerging economies, and ensure an adequate and cohesive global safety net. Anchored by three major international conferences, 2015 marks an unprecedented opportunity for the world to chart the course for sustainable development for the next decade and a half, and beyond (see Part 2).

What the IMF will do: The GPA states that the IMF will help members deliver on the policy agenda by providing flexible financing arrangements to members facing pressing challenges. It also committed the IMF to closely link policy advice and capacity development, highlight priorities such as implementing growth-friendly fiscal policies and macrocritical financial and structural reforms, and address debt overhang. The GPA also states that the IMF will take stock of challenges facing the international monetary system, embrace the 2015 global development agenda, and tailor its work to meet members' evolving needs.

Spotlights

Impact of Falling Oil Prices on the IMF Membership

The unexpectedly steep drop in oil prices over the past year—falling by more than one-half from September 2014 to January 2015—has had a significant impact across the IMF membership. The decline, which is part of a broader trend of declining commodities prices, has provided a boost to global growth and benefited many oil importers, but it also has weighed on economic activity among oil-exporting nations.

The falling prices were driven by production increases (in members of the Organization of Petroleum Exporting Countries [OPEC] and non-OPEC countries) and a significant slowdown in the growth of global oil demand—particularly from Europe and the Asia-Pacific region.

The depth of the price decline took forecasters and markets by surprise: the October 2014 *World Economic Outlook* (WEO) showed the average price of oil at $99.36 a barrel in 2015 based on the assumed price on futures markets, while the April 2015 WEO showed the assumed price for 2015 at $58.14 and $65.65 in 2016. The WEO contained a detailed analysis of commodity market developments and forecasts, with a focus on investment in an era of low oil prices.

Broad implications for the IMF's work

The impact of oil prices across the IMF's membership had broad implications for the work of the IMF. Bilateral and multilateral surveillance activities all adjusted to the rapidly changing environment. Article IV consultations, *Regional Economic Outlooks*, and the IMF's flagship publications—the WEO, *Global Financial Stability Report* (GFSR), and *Fiscal Monitor*—all devoted considerable attention to issues related to oil prices.

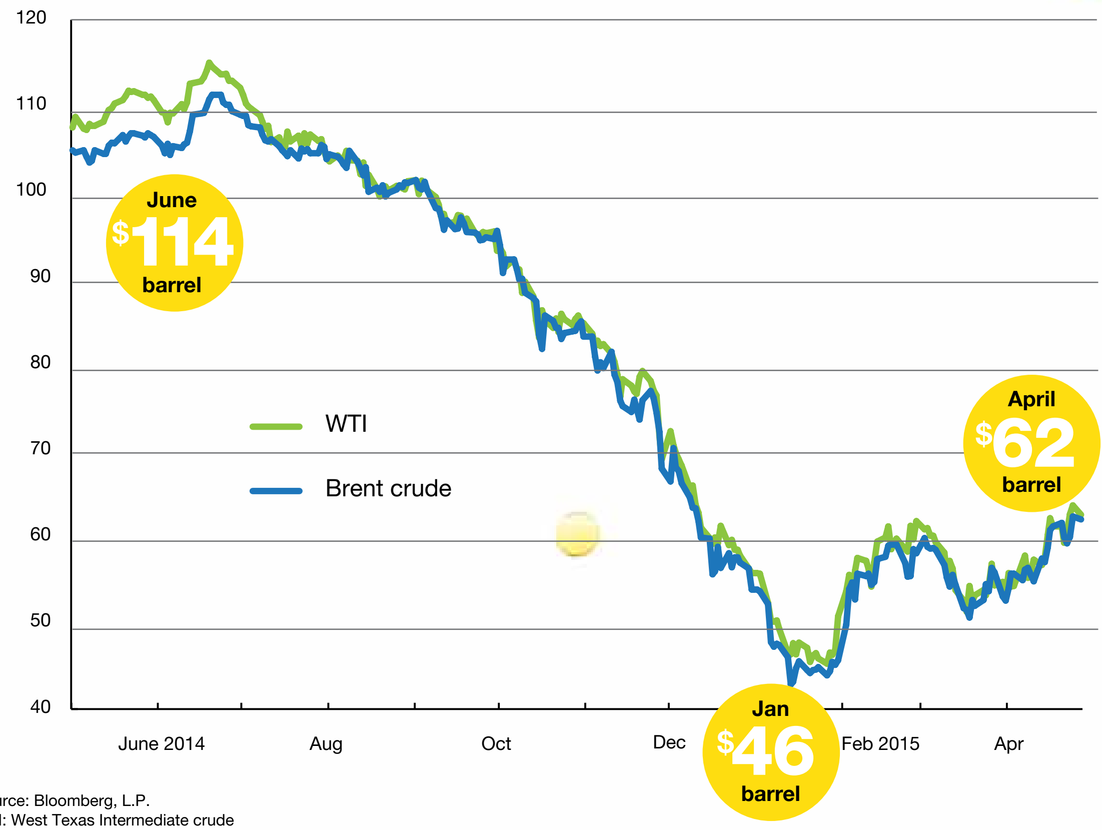
While the IMF assessed the overall macroeconomic impact as positive, other reports highlighted the risks. The April 2015 GFSR, for example, stated that "the speed and magnitude of the movement in oil prices raise questions about how stress can be transmitted through the financial sector." It cited channels through which lower prices could "spawn financial vulnerabilities," including "a self-reinforcing cycle of rising credit risk and deteriorating refinancing conditions for countries and companies, a decline in oil surplus recycling in world funding markets, and strains on the financial market infrastructure's ability to accommodate prolonged heightened energy price volatility."

Country-by-country trends

The IMF Executive Board has been deeply involved in reviewing the reports and documents that analyze the impact of falling oil prices. Beyond detailed discussion of the analysis contained in the flagship publications, it also has reviewed the trends on a country-by-country basis. For example, an analysis of the Executive Board's press releases on Article IV consultations during the period January 1–March 31, 2015, showed that 58 percent of the 21 Article IV Board's assessments contained references to the impact of lower oil prices—with a more detailed focus on the implications for oil-producing countries.

IMF Economic Counselor Olivier Blanchard and Rabah Arezki, head of the commodities team in the Research Department, posted an article on the oil price decline on *iMFdirect*, the IMF's blog. The article, titled "Seven Questions about the Recent Oil Price Slump," examined the mechanics of the oil market, the implications for various groups and for financial stability, and steps policymakers could take to address the impact on their economies. It attracted the largest readership of any item posted on the blog during the year.

Oil Prices
(U.S. dollars per barrel)



Source: Bloomberg, L.P.
WTI: West Texas Intermediate crude

Fiscal implications of falling oil prices

The fall in international oil prices also has significant implications for oil importers and exporters in terms of public finances. The April 2015 *Fiscal Monitor* highlighted this element of the impact of oil prices, saying that importers were likely to benefit while exporters could be hurt.

The *Fiscal Monitor* said: "The impact could be large, but whereas the gains will be spread across many economies, the adverse fiscal effects will be concentrated in relatively few. Although oil exporters account for a lower share of global GDP than oil importers, exporters face a much larger shock given that oil has a much bigger weight in their economies and budgets."

For many exporters, the *Fiscal Monitor* said, vulnerabilities were building before prices began falling; revenues from higher prices paid for large increases in current and capital expenditures. As a result, the fiscal break-even price for oil increased in most exporting countries in the Middle East, and most exporters need prices considerably above the $58 projected for 2015 to cover budgetary spending.

A major element of the fiscal impact of falling oil prices lies in the area of fuel subsidies and the structure of energy taxation. The *Monitor* concluded that the higher the "pass-through" of fuel prices to consumers, the lower the fiscal savings would be. For example, oil importers that provide no subsidies but earn revenues from oil tariffs and other taxes could see revenue deterioration. On the other hand, if the entire decline in oil prices is passed on to consumers, there could be stronger aggregate demand and revenues.

IMF area departments—through Article IV consultations and regional surveillance activities—identified a window of opportunity for both importing and exporting countries to reform fuel subsidies and taxation regimes that would strengthen fiscal balances to create space for increasing priority expenditures. Public finances in many oil-importing low-income developing countries are expected to improve as declining oil prices reduce energy subsidies.

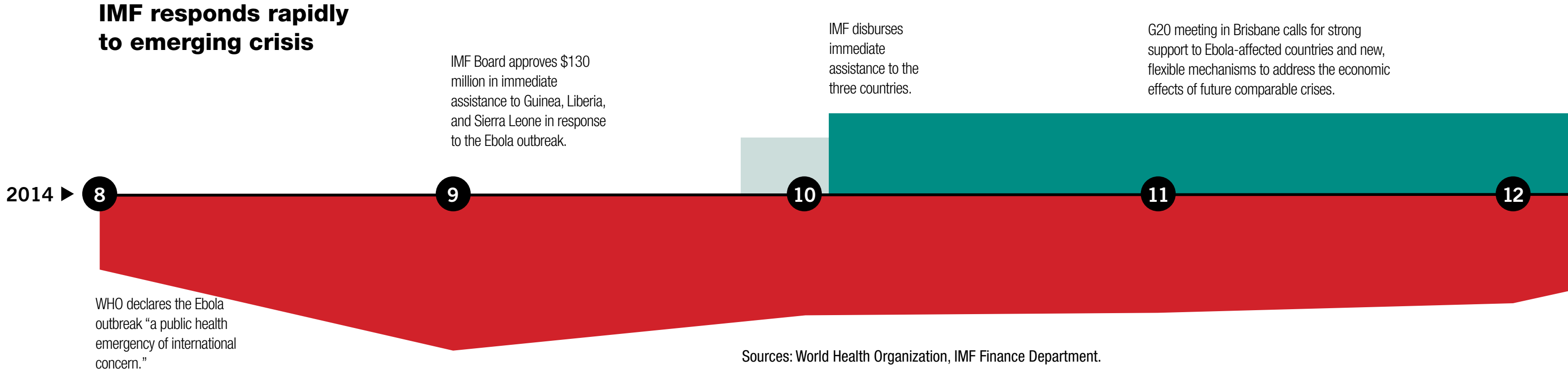
The Response to Ebola Emergency Funding and a New Instrument

"Our membership has demonstrated great commitment in coming together to respond to the Ebola crisis. I am particularly gratified at the support for approving the new Catastrophe Containment and Relief Trust, which will make a difference to the people of Guinea, Liberia, and Sierra Leone—and other countries in the future."

IMF Managing Director Christine Lagarde, February 5, 2015

The financial assistance to combat the epidemic fits within the IMF's mandate to support its member countries with balance-of-payments support in times of economic and social stress. Each step of the response was carefully considered by the Executive Board, which approved all requests for financing and the creation of the CCRT by reforming the Post-Catastrophe Debt Relief Trust.

IMF responds rapidly to emerging crisis



Sources: World Health Organization, IMF Finance Department.

The Ebola outbreak in West Africa presented the international community with an unprecedented public health crisis. The spread of the pandemic through Guinea, Liberia, and Sierra Leone infected nearly 26,000 people and killed more than 10,600. It brought economic activity in the three countries virtually to a halt and raised the specter of a broader crisis.

The IMF response was rapid and flexible, committing about $404 million of financing that went directly to the governments of the three countries to meet the many new financing demands posed by Ebola. Emergency assistance was first provided on an accelerated basis in September 2014. Then, as the scale of the disaster became clear, the IMF augmented its assistance in early 2015 with additional financing under the Poverty Reduction and Growth Trust and debt relief under a new Catastrophe Containment and Relief Trust (CCRT).

Managing Director Christine Lagarde announced the additional financing in a proposal to the G20 Heads of State at their November 2014 Summit in Brisbane, Australia. By following up on the Brisbane proposal, the IMF became the first multilateral institution to deliver on 100 percent of its commitments to the Ebola-stricken countries.

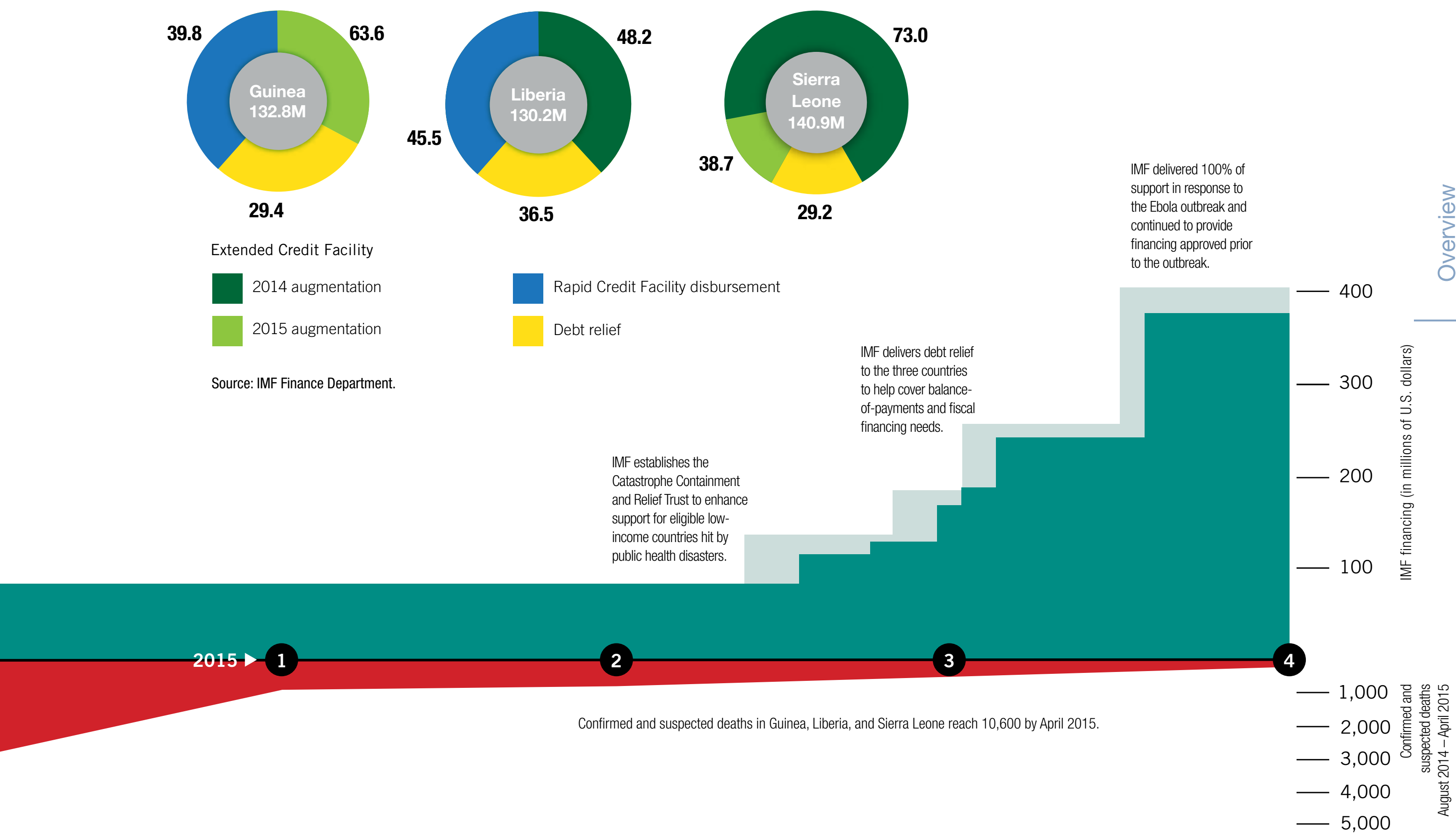
Concessional lending: The IMF provided $309 million of expedited assistance at zero interest rates to the three Ebola-stricken countries. The lending was provided under the Rapid Credit Facility and Extended Credit Facility. The money was disbursed immediately, providing the countries with urgently needed resources to help tackle the crisis.

Debt relief: A unique feature of the IMF response was the decision to create the CCRT. The three Ebola-affected countries (Guinea, Liberia, and Sierra Leone) were provided with $95 million in grants for debt relief in FY2015 to ease pressures on their balance of payments.

Policy advice: After the epidemic hit, GDP contracted in all three countries. A key element of IMF policy advice was to support expansionary macroeconomic policies—including budget deficits to fight the epidemic and avoid an even larger recession. IMF staff interaction with the authorities of each country was maintained throughout the pandemic, and as the crisis began to abate, discussions turned to the longer-term challenge of rapidly restoring growth.

IMF support to Ebola-afflicted countries: $404 million

IMF financing (in millions of U.S. dollars)



Source: IMF Finance Department.

The Catastrophe Containment and Relief Trust

In February 2015 the IMF established a Catastrophe Containment and Relief Trust (CCRT). This instrument allows the IMF to provide grants for debt relief to the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters, including epidemics. The new trust is intended to complement donor financing and the IMF's concessional lending. The relief on debt service payments frees up additional resources to meet exceptional balance-of-payments needs created by the disaster, and for containment and recovery efforts.

The CCRT was created by transforming the Post-Catastrophe Debt Relief Trust, which was established in 2010 following the terrible earthquake in Haiti. The CCRT has two windows: (1) a Post-Catastrophe Relief window, to provide exceptional assistance in the wake of a natural disaster such as an earthquake or typhoon; and (2) a Catastrophe Containment window, to provide assistance in containing the spread of a public health disaster.

The introduction of a Catastrophe Containment window acknowledges that poor countries with weak health systems have limited capacity to contain the wider threat posed by a public health disaster, and that the international community has a strong interest in providing extensive support to such countries. Eligible low-income countries that are hit by public health disasters would receive up-front grants to immediately pay off upcoming debt service to the IMF. The amount of grant support is capped at 20 percent of a country's quota, with additional debt relief possible under exceptional circumstances.

Assistance through the CCRT is available to 38 low-income developing countries that are eligible for concessional borrowing and that also have either a per capita income below $1,215 or, for small states with a population below 1.5 million, a per capita income below $2,430.

The Two Windows of CCRT

Post-Catastrophe Relief Window

Provides exceptional assistance in the wake of a natural disaster like an earthquake or typhoon.

Catastrophe Containment Window

Provides assistance in containing the spread of a public health disaster.

IMF Support for Ukraine

On March 11, 2015, the IMF Executive Board approved a four-year, $17.5 billion Extended Fund Facility (EFF) arrangement for Ukraine, with immediate disbursement of about $5 billion.

The program has challenging goals: to put the economy on the path to recovery, restore external sustainability, strengthen public finances, support economic growth by advancing structural and governance reforms, and protect the country's most vulnerable citizens.

After independence in 1991, Ukraine entered into several IMF-supported programs—including after the 2008 financial crisis—but none achieved the objective of prompting sustained reform. The 2010 program ended unsuccessfully, and Ukraine's macroeconomic problems intensified. Wages and production costs rose, but productivity did not. Eventually competitiveness slipped so much that the economy stopped growing and exports stagnated.

Rapid deterioration in 2014

The new government that took office in February 2014 embarked on a program to secure macroeconomic and financial stability. However, the situation deteriorated rapidly after the armed conflict in the East intensified. In the fourth quarter of 2014, GDP contracted 14.8 percent from the year before, and additional financing needs surged. The foreign exchange market was destabilized, and banks came under stress.

The government responded with a more ambitious and comprehensive program supported by substantial new financing from the international community, including the IMF. The first step of the new IMF-supported program is to stabilize Ukraine's finances. It covers Ukraine's external financing needs, estimated at about $40 billion over 2015–18, along with other international assistance and a debt-restructuring operation. The country's official reserves are expected to triple to about $18 billion by end-2015. Subdued by a tight monetary stance, inflation should recede toward single digits by early 2017.

Tackling deficits, protecting the vulnerable

In addition, lower deficits can help to reduce financing needs and public debt. This includes raising energy tariffs to restrain the state-owned gas monopoly's quasi-fiscal deficit. To protect the most vulnerable from the impact of these measures and build support for the reforms, total spending on social assistance programs is targeted to reach 4.1 percent of GDP in 2015, an increase of 30 percent from 2014, with assistance for energy bills rising fourfold.

The next step is to revive growth by restoring competitiveness, starting with a flexible exchange rate. In addition, the banking system is to be brought back to health with recapitalization and liquidation efforts so that credit growth can resume.

Addressing corruption and vested interests

Equally important, decisive measures are to be taken to address structural impediments preventing sustained growth that can raise living standards to that of Ukraine's neighbors, including deregulation and reform of tax administration, transparency, improvements in public financial management, and reforms of state-owned enterprises. Finally, corruption is targeted with strengthened legislation, measures to enhance the effectiveness of the judiciary, and steps to curb the potentially distorting influence of vested interests in Ukraine.

The Ukrainian authorities have made determined efforts in recent months to address deep-rooted problems and make a break from the unsustainable policies of the past. The IMF and the international community are supporting Ukraine's pursuit of its reform program.

IMF Interaction with Greece during FY2015

IMF interactions with Greece continued on several fronts during FY2015, focusing on progress on implementing an economic program supported by an extended arrangement under the EFF and provision of technical assistance and training to the authorities in order to strengthen administrative capacity across a range of public functions.

In May 2014, the IMF Executive Board completed the fifth review of Greece's performance under the extended arrangement. The completion of the review enabled the disbursement of about $4.24 billion under the arrangement, bringing total disbursements under the EFF to about $14.38 billion. In completing the review, the Executive Board approved a waiver of nonobservance of the performance criterion on domestic arrears.

As the year progressed, there were extensive interactions among the Greek authorities, senior Fund officials, and high-level representatives of euro area member governments, the European Commission, and the European Central Bank. These interactions addressed a range of issues related to the progress in reaching understandings that could pave the way to completion of the sixth review. These interactions continued after national elections in January 2015 that led to the formation of a coalition government led by the Syriza Party.

An important element of the IMF's interaction with Greece came in the area of capacity development. The areas covered included tax administration, public financial management, regulation and supervision of the banking system, and other key areas of public administration. Policy discussions are continuing in FY2016.

After the end of FY2015, Greece went into arrears to the IMF as its economic crisis deepened. These were cleared July 20, 2015. The IMF remains committed to helping Greece through this period of economic turmoil.

Jobs and Growth

Creating jobs and fostering inclusive growth have become increasingly important themes in the work of the IMF over the past five years.

Countries are facing these challenges at a time of technological change, globalization, and shifting demographic trends—as well as macroeconomic challenges growing out of the global financial crisis of 2008–09, which caused millions of people to lose their jobs and unemployment to rise sharply.

The work on inequality was spurred by research conducted by the IMF Research and Fiscal Affairs Departments on the topic, including papers on "Inequality and Unsustainable Growth: Two Sides of the Same Coin?," "Redistribution, Inequality, and Growth," and "Income Inequality and Fiscal Policy." In February 2014, the Board discussed a paper prepared by staff on "Fiscal Policy and Income Inequality." The paper focused on fiscal policy—the primary tool that governments can use to affect income distribution. It surveyed available tax and expenditure options and how they can be designed to minimize unfavorable effects on work and income growth. The staff will continue to operationalize the IMF's recent analytical work on inequality, including in the context of annual consultations.

A staff paper prepared for Board discussion in 2013 on "Jobs and Growth: Analytical and Operational Considerations for the IMF" discussed the role of the IMF in helping countries devise strategies to meet the job creation and inclusive growth. It concluded that there was scope to improve the analysis of trends in this area and to strengthen policy advice.

Integrating jobs and growth into IMF operations

Since publication of the 2013 Board paper, the process of integrating a focus on jobs and economic growth into operations has begun, and research has continued to expand, with guidance from an interdepartmental advisory group. Area departments have identified pilots to include the work on jobs and growth in Article IV consultations. As this Article IV work proceeds, it becomes part of the Executive Board's assessment of the respective countries. Several country consultations are scheduled to include it in FY2016.

The 2014 Triennial Surveillance Review (TSR) — recommended further strengthening work on jobs and growth. Among its recommendations, the TSR suggested increasing attention to the impact of fiscal policy and financial sector developments on growth, expanding advice on labor market policies to support member countries' job creation objectives, and taking into account more fully country authorities' goals and constraints to better tailor advice to individual country circumstances. The TSR survey of Article IV consultations supported the finding that jobs and growth increasingly have entered into this area of operations. Contributing factors were the strengthening of surveillance tools, improvements in labor statistics, and training.

Research and surveillance

In the area of research, the wide range of issues where analytical work is being conducted includes:

Growth: quantifying gains from reforms to the structure of the economy, the role of access to finance in supporting growth, and the importance of economic diversification.

Jobs: youth unemployment in Europe, the role of wage moderation in the euro area, the impact of labor market reforms, and the informal sector in emerging and developing economies.

Inclusion and income distribution: enhancing the participation of women in the labor force, and evaluating the impact on income distribution of fiscal policies, labor market institutions, and capital account liberalization.

In the area of regional surveillance, the African Department's April 2014 *Regional Economic Outlook* contained a chapter that looked at how economic policy efforts to promote job creation can help make growth more inclusive in sub-Saharan Africa. Those findings were presented at the Mozambique conference in May 2014, which had a major focus on employment and inclusive growth.

The May 2014 conference in Amman, Jordan, also addressed the issues of jobs and growth in the Middle East and Central Asia.

Women and work

A crucial element of jobs and inclusive growth is the role of women in the workplace. Women make up more than half the world's population, but their contributions to measured economic activity, growth, and well-being fall far short of potential. This has serious consequences in terms of losses to an individual country's GDP.

Despite significant progress in recent decades, labor markets across the world remain divided along gender lines, and progress toward gender equality seems to have stalled. In a speech in September 2014 on "The Economic Power of Women's Empowerment," IMF Managing Director Christine Lagarde described the barriers working women face worldwide: "When women do participate, they tend to be stuck in low-paying, low-status jobs. Globally, women earn only three-quarters as much as men—this is true even with the same level of education and in the same occupation."

Building upon the 2012 IMF Working Paper "Can Women Save Japan?," analysis on women and work has expanded rapidly. Area departments have put in place pilot assessments of the issues related to working women in the context of Article IV consultations across a range of countries, with the goal of building expertise, facilitating collaboration with other institutions, and sharing knowledge.

As the assessments have been completed, they have become part of the Executive Board discussions of the pilot countries. A cross-country study of women's economic participation in European countries will inform Article IV consultations of some of those countries.

A Staff Discussion Note entitled "Fair Play: More Equal Laws Boost Female Labor Force Participation," released in February 2015, examined the effect of gender-based legal restrictions and other policies, and of demographic characteristics on labor market outcomes.

IMF Training Expands through Online Courses

The IMF has entered an exciting new phase in its approach to training, with the adoption of new online learning courses designed in partnership with edX, the nonprofit online learning initiative founded by Harvard University and the Massachusetts Institute of Technology. The partnership enables the IMF to expand the reach of its training program to more member country officials and to offer the wider public audience access to its courses through so-called massive open online courses (MOOCs).

The new courses—created by the Institute for Capacity Development in collaboration with other IMF departments—are designed with short video segments interspersed with quizzes and hands-on exercises, and include a discussion forum to allow participants to network and discuss course content. The use of computer grading saves on instructor time and means that the IMF can allow virtually unlimited enrollment. Since the launch of the program in late 2013, these courses—free and open to anyone with an Internet connection—have attracted more than 10,000 active participants, of whom about 6,000 earned a certificate of completion.

New opportunities for low-income developing countries

Online learning is creating training opportunities for a wider range of country officials. Forty percent of online graduates to date are government officials, boosting IMF training by four percentage points in FY2015. The most numerous recipients of this training have been officials in sub-Saharan Africa, serving to shift the distribution of training toward the region. Online training is also shifting to officials in low-income developing countries, who received almost half of it in FY2015, compared with slightly less than 40 percent of face-to-face training.

MOOCs are serving as an important channel for IMF outreach: four-fifths of participants agree that the courses have increased their understanding of the IMF and its work. The courses have been well received, with participants expressing appreciation to the IMF for making this training openly available. By engaging

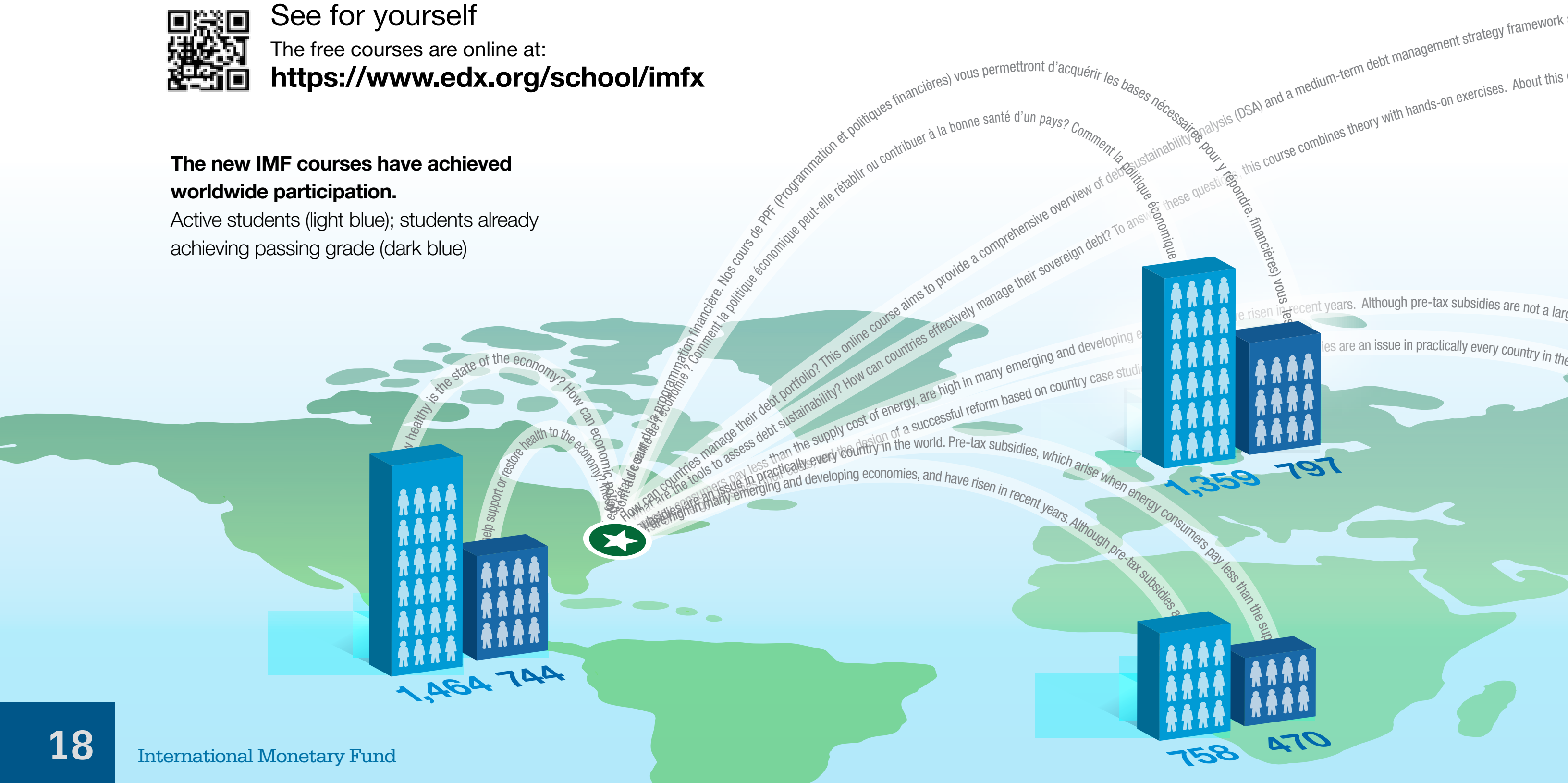
See for yourself

The free courses are online at:

https://www.edx.org/school/imfx

The new IMF courses have achieved worldwide participation.

Active students (light blue); students already achieving passing grade (dark blue)



youth (one-quarter of participants are students) and sharing knowledge, MOOCs help a diverse global audience better understand economic policies in their own countries and around the world.

Online courses to date include the following:

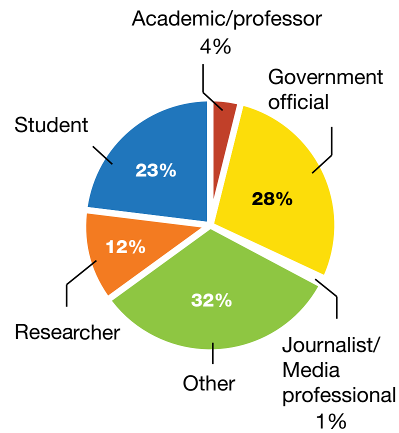
Financial Programming and Policies, Part 1: Macroeconomic Accounts and Analysis (FPP.1x) provides an introduction to financial programming, presenting the principal features of the accounts of the four main sectors that comprise the macroeconomy (real, fiscal, external, and monetary) and their interrelations.

Debt Sustainability Analysis (DSAx) gives a comprehensive overview of debt sustainability analysis and a medium-term debt management strategy framework as adopted by the IMF and the World Bank.

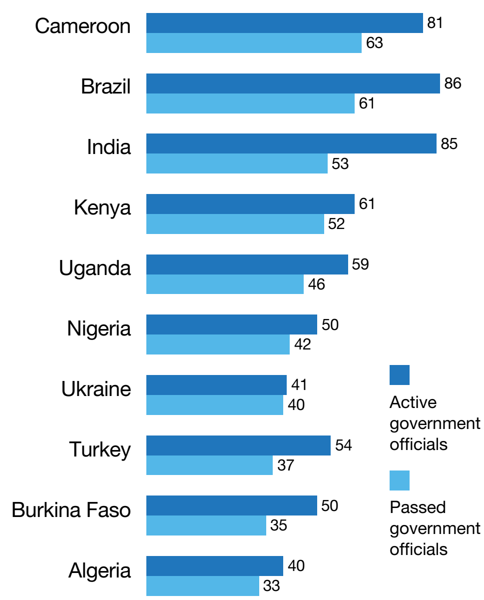
Energy Subsidy Reform (ESRx) builds on an extensive cross-country analysis, which is reported in the recently published IMF book *Energy Subsidy Reform: Lessons and Implications*, to make recommendations on how best to implement reforms aimed at reducing state subsidies on energy.

Upcoming courses include Macroeconomic Forecasting; Financial Programming and Policies, Part 2: Program Design; and Financial Market Analysis. FPP, Part 1 has already been translated into French and will be translated into Spanish and Russian during FY2016.

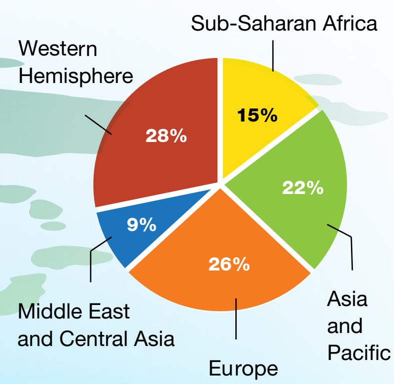
MOOC participation by occupation



Training of government officials, MOOC top 10 countries in FY2015



MOOC participation by region



The Free Data Initiative

“The free data program will help all those who draw on our data to make better use of this vital statistical resource—from budget numbers to balance-of-payments data, debt statistics to critical global indicators.”

IMF Managing Director Christine Lagarde
Second IMF Statistical Forum
November 18–19, 2014

See for yourself
The free data are online at:
http://www.imf.org/data

Accurate, timely statistics are the lifeblood of economic policymaking and analysis. Good data can help policymakers identify and manage macroeconomic and financial vulnerabilities and can greatly enhance policy transparency.

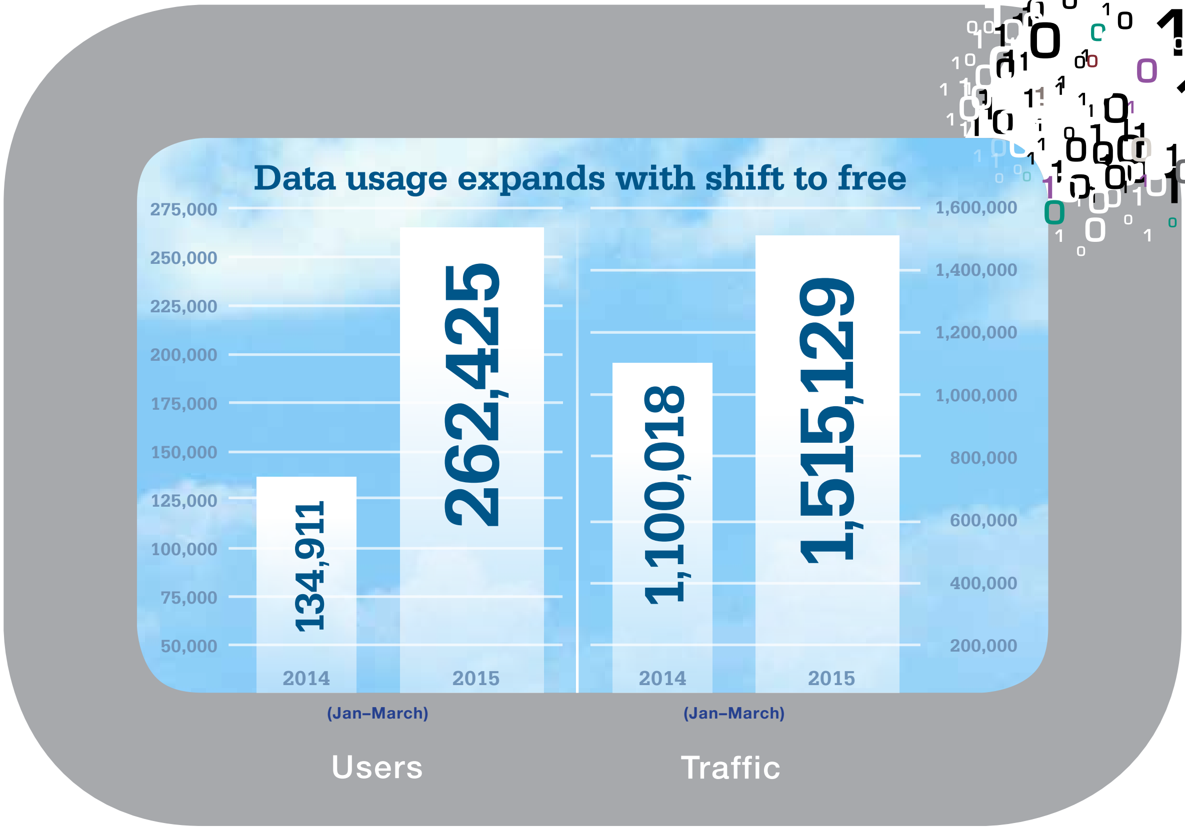
Over the years, policymakers and investors generally have had access to reliable and timely economic data, but large segments of the public in member countries have not been able to benefit from data that help identify emerging economic risks requiring policy adjustments.

Cross-country databases often have been the domain of international organizations. In many instances, these databases have been available only by subscription. That approach is now changing with a global shift toward free data.

Data free of charge for all users

In January 2015, the IMF made its online statistical data available free of charge to all users. While these data had previously been available for free to users from low-income countries, the IMF now grants everyone access to a wealth of macroeconomic data covering all economic sectors across a large part of the IMF’s membership.

During the first three months of the free data regime at the IMF, the average monthly user base rose by more than 90 percent to more than 262,000 users from 185 countries.



This generated an overall increase in monthly traffic of close to 40 percent.

The policy was introduced along with technological improvements, including a new online data portal and an enhanced dissemination platform. The platform provides greater capability for dynamic data visualization, downloading, and sharing.

The databases that were made free of charge include:

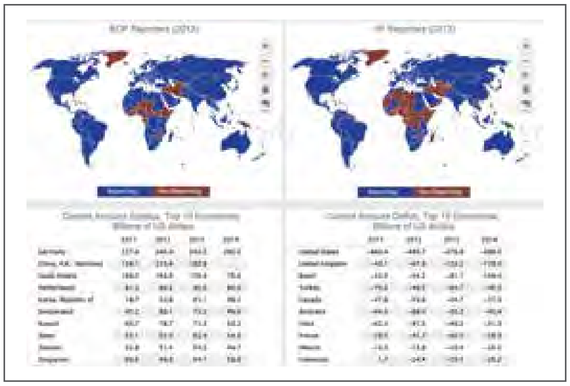
International Financial Statistics: A library of continuously updated statistics on all aspects of international and domestic finance.

Balance-of-Payments Statistics: Balance-of-payments and international investment position data of individual countries, jurisdictions, and other reporting entities, and regional and world totals for major components of the balance of payments, with history to 1960.

Government Finance Statistics: Comprehensive annual data covering various levels of government—including general, central, state, and local governments, with history to 1990.

Directions of Trade Statistics: Database of exports and imports between countries and areas with their trading partners, with history to 1980.

The databases that were made free of charge include:



International Financial Statistics

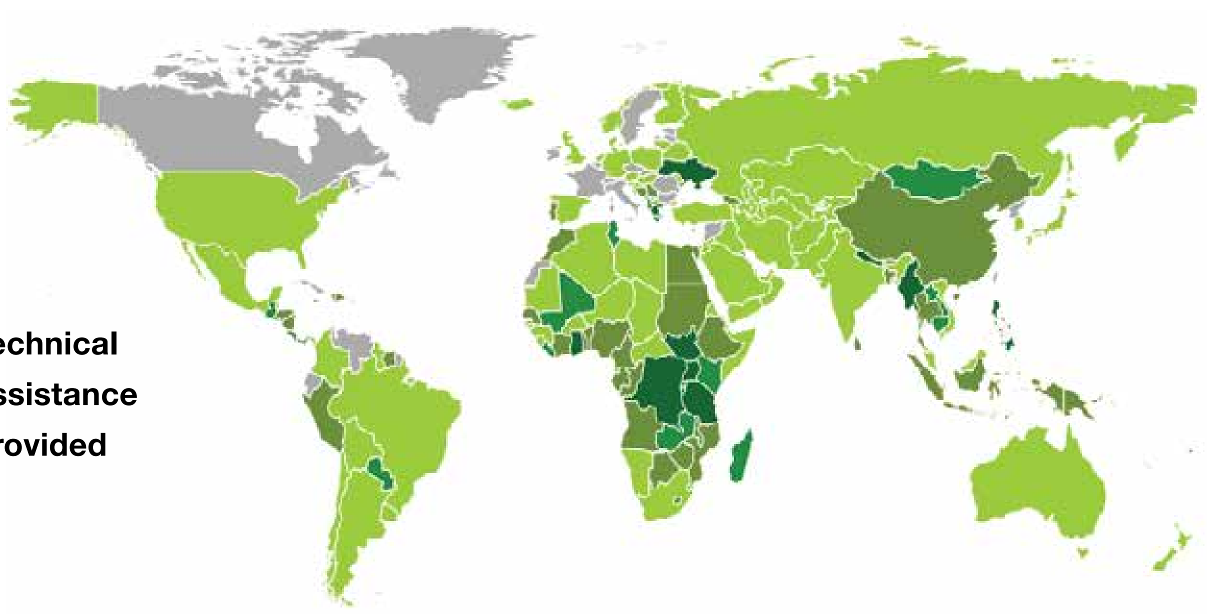
Balance-of-Payments Statistics

Government Finance Statistics

Directions of Trade Statistics

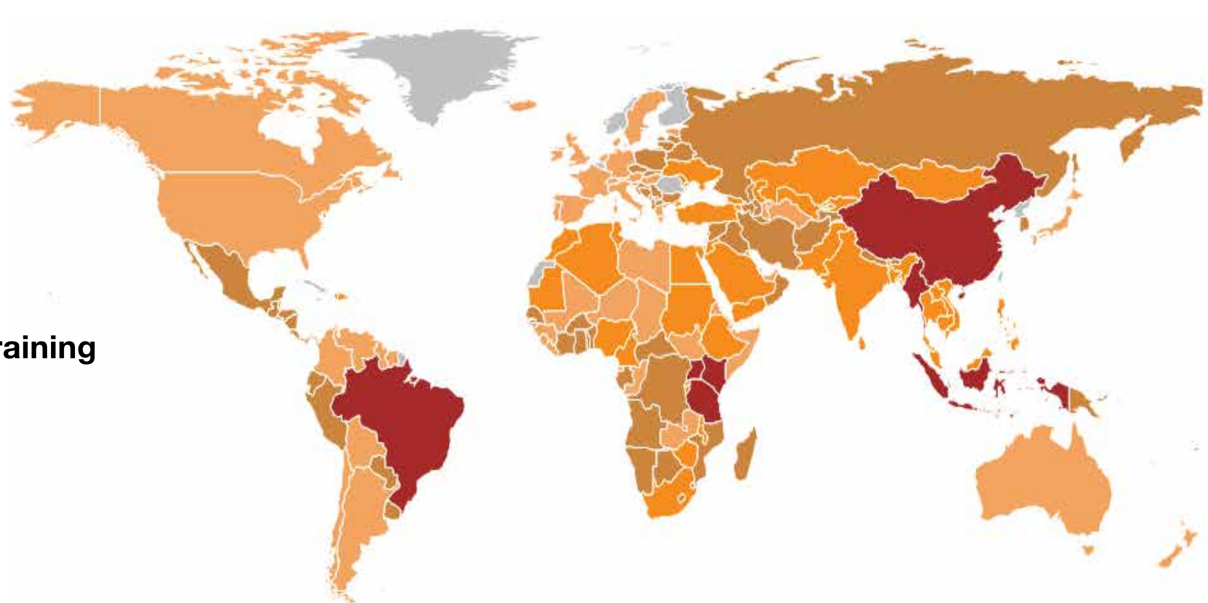
IMF capacity development activities have expanded rapidly to meet demand from member countries across the globe. The maps below show the amount of technical assistance and training provided in FY2015, measured in the equivalent of a year's worth of full-time work by one expert and a week's worth of full-time coursework for one student, respectively.

Technical assistance provided



No delivery | 0–1 | 1–2 | 2–3 | More than 3 expert-years equivalent

Training



No delivery | 0–50 | 50–100 | 100–200 | More than 200 participant-weeks

Part 2 What We Do: The “Big Three”

The IMF has three main roles

Economic Surveillance

131 country health checks

The IMF oversees the international monetary system and monitors the economic and financial policies of its 188 member countries. As part of this surveillance process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments.

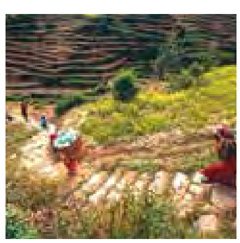
Lending

$112B to 9 countries, plus $2.7 billion in low- or zero-interest loans to 17 of its low-income developing member countries

The IMF provides loans to member countries experiencing actual or potential balance-of-payments problems to help them rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while correcting underlying problems.

Capacity Development

$242M for expert advice and training



The IMF helps its member countries design economic policies and manage their financial affairs more effectively by strengthening their human and institutional capacity through expert advice and training, which it calls capacity development.

Economic Surveillance

Surveillance is the catch-all term encompassing the process by which the IMF oversees the international monetary system and global economic developments, and monitors the economic and financial policies of its 188 member countries. As part of this annual financial health check, known as surveillance, the IMF highlights possible risks to stability and advises on the necessary policy adjustments. In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

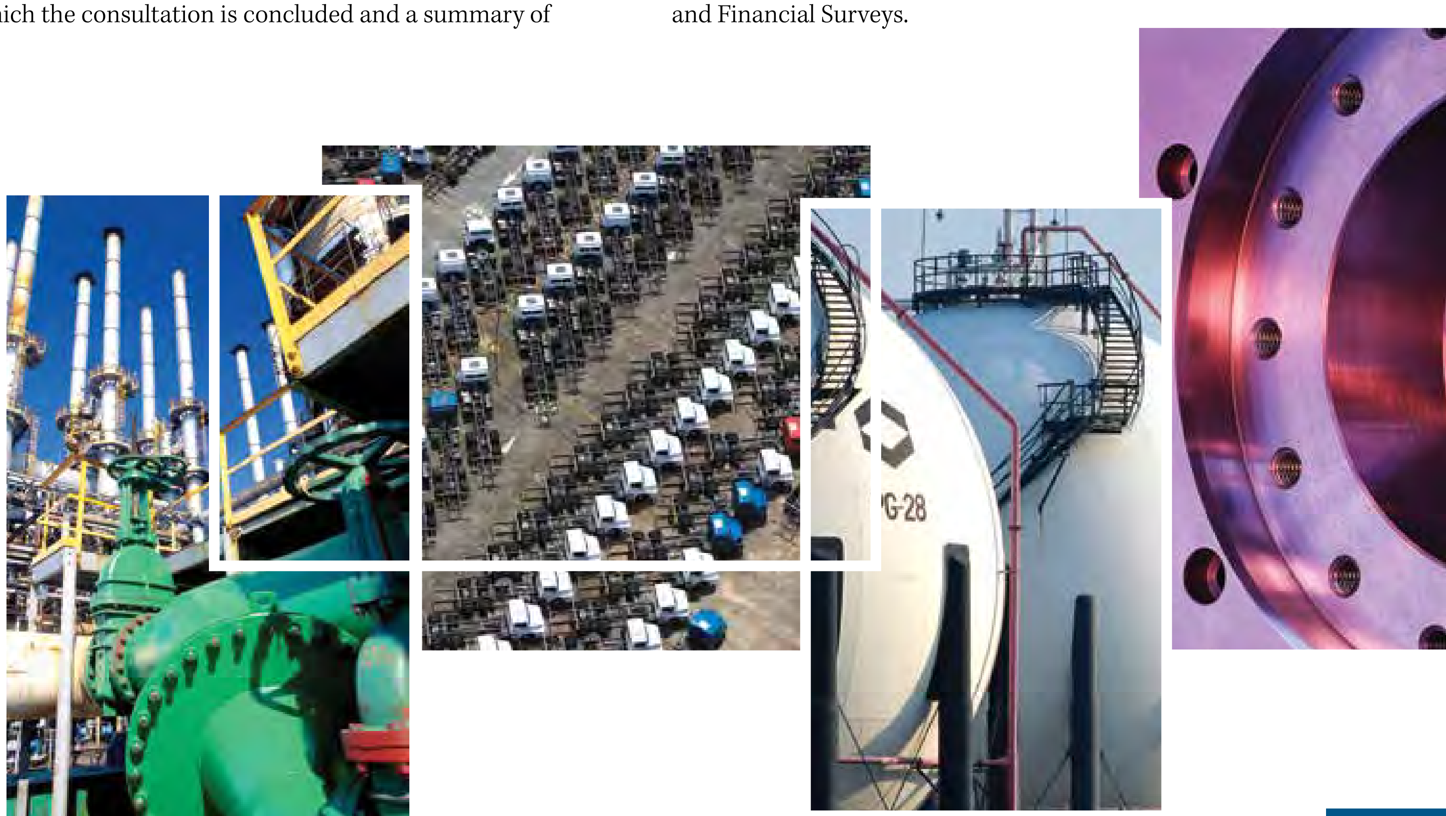
There are two main aspects to the IMF's surveillance: **bilateral surveillance**, or the appraisal of and advice on the policies of each member country, and **multilateral surveillance**, or oversight of the world economy. By integrating bilateral and multilateral surveillance, the IMF can ensure more comprehensive, consistent analysis of "spillovers"—how one country's policies may affect other countries.

The centerpiece of bilateral surveillance is the so-called Article IV consultation, named after the article of the IMF's Articles of Agreement that requires a review of economic developments and policies in each of the IMF's 188 member countries. The consultations cover a range of issues considered to be of macrocritical importance—fiscal, financial, foreign exchange, monetary, and structural—focusing on risks and vulnerabilities and policy responses. Hundreds of IMF economists are involved in the Article IV process.

The consultations are a two-way policy dialogue with the country authorities, rather than the IMF assessing a country. The IMF team typically meets with government and central bank officials, as well as other stakeholders such as parliamentarians, business representatives, civil society, and labor unions, to help evaluate the country's economic policies and direction. The staff presents a report to the IMF's Executive Board, normally for discussion, after which the consultation is concluded and a summary of the meeting is transmitted to the country's authorities. In the vast majority of cases, the Board's assessment is published as a press release, along with the Staff Reports, with agreement of the member country in question. In FY2015, the IMF conducted 131 Article IV consultations (see Web Table 2.1).

The IMF has also conducted financial sector surveillance since the Asian crisis, with special emphasis on the need to strengthen it following the 2008 global financial crisis.

Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members' policies onto the global economy. The flagship reports on multilateral surveillance are published twice a year: the *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Fiscal Monitor* (FM). The WEO provides detailed analysis of the state of the world economy, addressing issues of pressing interest, such as the current global financial turmoil and economic downturn. The GFSR provides an up-to-date assessment of global financial markets and prospects, and highlights imbalances and vulnerabilities that could pose risks to financial market stability. The FM updates medium-term fiscal projections and assesses developments in public finances. The IMF also publishes *Regional Economic Outlook* (REO) reports, as part of its World Economic and Financial Surveys.



TAKING STOCK OF THE SURVEILLANCE PROCESS

The 2014 Triennial Surveillance Review

The latest major review of IMF surveillance practices and effectiveness, known as the Triennial Surveillance Review (TSR), was completed in September 2014. The findings and recommendations were informed by diverse analyses and perspectives, including: surveys of stakeholders; a review of recent IMF surveillance products; staff background studies; and extensive external inputs—analytical studies, commentaries, interviews with stakeholders, and a consultation with civil society. The review also received input and scrutiny from an independent External Advisory Group and benefited from independent commentaries.

The Executive Board discussed the TSR in September 2014.

The overarching theme of the 2014 TSR was how to tailor surveillance to support sustainable growth in a still deeply interconnected postcrisis world.

The review found that significant progress has been made since 2011 but stressed that strengthening surveillance is an ongoing and dynamic process. Accordingly, the review focused on ways to build on recent reforms while continuing to adapt surveillance to the challenges developing across the membership.

Three key themes emerged from the review:

First, the review identified scope to further integrate and deepen risk and spillover analysis, particularly to build a deeper understanding of how risks map across

BILATERAL SURVEILLANCE

The Article IV Process: The Annual Economic Policy Assessment

The Article IV process unfolds over a period of several months, beginning with an internal review of key policy issues and surveillance priorities across departments and management, set out in a briefing document known as the Policy Note.

The Policy Note elaborates on key economic policy directions and recommendations to be discussed with the government. Review of the Policy Note with other departments to build consensus about a country ahead of the consultation culminates in a Policy Consultation Meeting, and then the Policy Note goes to IMF management for approval. After Policy Note approval, the team travels to the country for its meetings with government officials and stakeholders. Upon returning to IMF Headquarters, a Staff Report is prepared that again proceeds through departmental and management review before being considered by the IMF Executive Board.

countries and spillovers spread across sectors. **Second, the review highlighted the need for policy advice to be more tailored and expert,** including in new policy areas such as macroprudential and macro-structural analysis, and deliver more cohesive analysis and advice that better leverages the IMF's knowledge of cross-country experiences.

Third, the review emphasized the importance of looking beyond analytical approaches and tools to achieve greater impact. The review concluded that, despite making good strides, the IMF still has room for more client-focused, yet candid, communication, while evenhandedness remains a critical ingredient for legitimacy and effective surveillance.

The Executive Board supported the main conclusions and most of the recommendations of the review. Accordingly, it endorsed five operational priorities for 2014–19: (1) risks and spillovers; (2) macro-financial surveillance; (3) macrocritical structural policy advice; (4) cohesive and expert policy advice; and (5) a client-focused approach to surveillance.

The Managing Director issued an Action Plan for Strengthening Surveillance in December 2014, with specific proposals in each of these priority areas. In particular, the plan includes actions to revive and adapt balance sheet analysis, fully embed macro-financial analysis in surveillance, and lay the groundwork for stronger and more focused structural policy advice.

Given that implementation of surveillance reforms will take some time, the Executive Board agreed to move from a three- to a five-year surveillance review cycle. Accordingly, the next regular comprehensive surveillance review is scheduled to take place in 2019.

Box 2.1 Injecting the financial perspective

A key element of the Triennial Surveillance Review (TSR) was macro-financial surveillance—a big-picture view of national and regional financial issues. The review determined that more could be done to incorporate this area of work into the IMF's core macroeconomic analysis. It recommended that macro-financial surveillance be mainstreamed with better tools and new practices. It also called for strengthened surveillance of macroprudential policies.

The Managing Director's Action Plan for Strengthening Surveillance, which accompanied the TSR, pointed to the need for greater understanding of macro-financial linkages. The plan committed to undertaking a focused effort to identify themes in this area for diverse countries, and to provide interdepartmental support to develop and reflect this analysis in Article IV consultations with the aim of developing leading practices into Fund analysis and policy advice. This initiative will be supported by increased efforts to disseminate user-friendly toolkits to supplement the IMF's analytical work.

The plan also undertook to build capacity in area departments and identify networks of internal macro-financial experts to support the diffusion of learning practices across IMF staff, including through a training program and by sharing good practices.

To strengthen macroprudential surveillance, a guidance note was prepared for staff based on the 2013 Executive Board paper on "Key Aspects of Macroprudential Policy" and on country experiences. The note details a range of macroprudential tools and discusses the implementation of macroprudential policies, including in low-income countries.

The IMF continues to deepen its financial sector surveillance and integrate it more systematically into the Fund's macroeconomic analysis, including through focused efforts in recently completed and upcoming Article IV consultations with a sample range of IMF member countries.

Review of Financial Sector Assessments

The Financial Sector Assessment Program (FSAP) is an element that informs IMF surveillance in the area of financial sector stability. Established in 1999, the FSAP assessment is an in-depth analysis of a country's financial sector and in recent years became an integral part of surveillance for members with systemically important financial sectors, that is, in which financial instability could have a major impact on other countries.

In developing and emerging market countries, FSAP assessments are usually conducted jointly with the World Bank and include two components: a financial stability assessment that is the main responsibility of the IMF, and a financial development assessment that is overseen by the World Bank. At the IMF, in addition to the FSAP report, the staff produces a Financial System Stability Assessment report, which focuses on issues of relevance to IMF surveillance and is discussed by the IMF Executive Board, normally together with a country's Article IV consultation's staff report.

The IMF's policy on FSAPs is assessed every five years, and the latest review took place in September 2014. A core purpose of this review was to assess far-reaching reforms put in place after the 2009 review, including clarification of the respective roles of the IMF and World Bank and the introduction of an optional modular approach. In 2010, the financial stability assessment under the FSAP became a mandatory part of Article IV consultations for 25 members with systemically important financial sectors—to take place every five years. That number was expanded to 29 jurisdictions in 2013. For all other jurisdictions, FSAP participation continues to be voluntary.

In its assessment of the 2014 review, the Executive Board agreed that the 2009 reforms had considerably improved the FSAP, strengthening the focus, effectiveness, and traction of the assessments.

The Board said that a clearer definition of content had proved effective in disciplining and focusing assessments, and the delineation of Fund and Bank responsibilities had bolstered institutional accountability. The analysis of vulnerabilities has benefited from the introduction of a Risk Assessment Matrix, the expansion of stress tests to cover a broader set of risks, the ongoing progress in the analysis of spillovers, and the coverage of macroprudential frameworks and financial safety nets.

Going forward, the Board encouraged further improvements in the risk assessment, including by expanding the coverage of stress tests to the nonbank sector and strengthening the analysis of interconnectedness, cross-border exposures, and spillovers. It supported more systematic evaluations of institutional arrangements for micro and macroprudential supervision and financial safety nets, and asked staff to explore ways to focus standards assessments on key areas critical to financial stability.

On the matter of mandatory financial stability assessments, Executive Directors recognized that this prioritization may limit the availability of FSAP assessments to nonsystemic countries because of Fund resource constraints. They agreed that for such cases other forms of engagement should be used, including improved coverage of financial sector issues in Article IV consultations and multi-topic technical assistance.

The wider impact of large economies

The IMF's "Third Pilot External Sector Report"—issued in June 2014—presented a multilaterally consistent assessment of the largest economies' external sector positions and policies for 2013 and the first part of 2014.

The report integrated the analysis from the IMF's bilateral and multilateral surveillance to provide a consistent assessment of exchange rates, current accounts, reserves, capital flows, and external balance sheets. Together with the Spillover Report and Article IV consultations (with their heightened focus on spillovers),

the External Sector Report was part of a continuous effort to ensure that the IMF is in a good position to address the possible effects of spillovers from members' policies on global stability, and to monitor the stability of members' external sectors in a comprehensive manner.

The Executive Board discussed the report in an informal session, and no decisions were made.

Implications of monetary policy normalization

The report determined that external sector dynamics in 2013 were shaped by several interrelated developments. A stronger though uneven recovery in advanced economies began, resulting in first steps toward monetary policy normalization. The beginning of the exit from unconventional monetary policy in the United States initiated a tightening of global financial conditions and a round of capital flow volatility and substantial emerging market depreciations. With a subsequent recovery of demand for emerging market assets, supported in part by policy responses, many emerging market currencies strengthened again.

The report found that over a number of years, the global pattern of current account balances has narrowed but also rotated gradually into a new composition. The relative importance of excess imbalances of the world's largest economies has diminished. Among other economies, some cases of new excess imbalances have emerged, and in the past few years cases of excess deficits have grown in terms of number and size.

Policy actions to narrow excess imbalances

The report stated that policy actions required to further narrow excess imbalances varied but included medium-term fiscal consolidation, limiting financial excesses, structural reforms to facilitate adjustment in deficit economies, and various policies that support stronger domestic demand in surplus economies. More broadly, the report said, policy actions are needed on both sides of excess imbalances. Many economies have their own roles to play, and policy adjustments by all would be mutually supporting, with benefits in terms of growth and reducing financial risks.

How policies spill over to affect other economies

As part of the broad effort to strengthen the surveillance process, the IMF has implemented more systematic coverage of spillovers from member countries' economic and financial policies. The process—growing out of the Integrated Surveillance Decision adopted in 2012—takes place in the context of the Article IV consultations. It aims to better integrate bilateral and multilateral surveillance.

The spillover reports—begun in 2011—are issued on an annual basis, with the 2014 report issued in July 2014 after an Executive Board informal session.

Box 2.2 Assessing risks to the global economy

The Early Warning Exercise (EWE) is an important element of the IMF's surveillance toolkit. It combines analysis of economic, financial, fiscal, and external risks as well as cross-sector and cross-border spillovers. The EWE is conducted semiannually, in close coordination with the IMF's flagship publications: the *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor*.

The EWE examines unlikely, but plausible, risks that would necessitate policy recommendations that could differ from those related to baseline projections presented in the flagships. However, it does not attempt to predict crises. Rather, it seeks to identify the vulnerabilities and triggers that could precipitate systemic crises, and identifies risk-mitigating policies, including those that would require international cooperation. The EWE is prepared in collaboration with the Financial Stability Board, which represents experts and policymakers from financial supervisory agencies and central banks in member countries.

Each EWE is discussed by the IMF Executive Board, after which it is presented to senior officials during the IMF–World Bank Spring and Annual Meetings. The findings are considered market sensitive and are not released publicly.

The reports allow the IMF to discuss with its members the full range of spillovers from their policies on domestic and global stability, and encourage discussion of spillover-related issues in multilateral forums to foster policy attention and dialogue. Until 2013, the reports focused on the external effects of domestic policies in five systemically important economies: China, euro area, Japan, the United Kingdom, and the United States.

Beginning with the 2014 report, the IMF shifted to a more thematic approach, focusing on key issues chosen on their relevance from a spillover perspective.

The 2014 report stated that global spillovers had entered a new phase.

With crisis-related spillovers and risks fading, changing growth patterns had become the main source of spillovers in the global economy.

The paper highlighted two key trends:

First, the paper pointed to signs of self-sustaining recovery in some advanced economies—led by the United States and United Kingdom—that indicated that the unwinding of exceptional monetary accommodation will proceed and lead to a tightening of global financial conditions in the coming years. However, the paper said, an uneven recovery suggested that normalization will proceed at different times in different countries, with possible spillover implications.

Second, the report underlined that growth in emerging markets was slowing on a broad basis since its precrisis peak and could carry noticeable spillover effects at the global level, with a gradual, synchronized, and protracted slowdown likely to weigh on global growth through trade as well as finance.

The report also described how key spillover risks can intersect and interact. It said the two risks highlighted in the report can be interrelated because markets may reassess growth prospects in emerging markets amid renewed bouts of financial turbulence and capital outflows. The report described a downside scenario of sharply tighter financial conditions alongside a further weakening of emerging market growth that could lower output by about 2 percent.

The paper stated that the 2014 spillover risks warranted stronger policy action at both the national and global levels.

Stronger actions at the national level in both source and recipient countries of spillovers would align with better outcomes at the global level. With incentive problems and tradeoffs, the report said, stronger national actions alone might not be sufficient to address spillover consequences. That meant that collaboration took on renewed importance in mitigating potential downside risks and providing support for more vulnerable economies, if certain key risks were to materialize.

The 2016 Spillover Report is to be incorporated into the *World Economic Outlook* as part of broader initiatives to streamline, mainstream, and integrate the various strands of IMF work.

Macroeconomic developments in low-income developing countries

The IMF released a new report addressing trends in low-income developing countries (LIDCs) during 2014 in order to broaden the institution's analysis of a group of nations that represents an increasingly dynamic part of the global economy.

The 2014 report examined the strong economic performance achieved by the bulk of LIDCs since 2000 and assessed their short-term prospects. It also analyzed the economic risks and vulnerabilities they face amid an uneven global recovery and the evolution of their public debt levels in recent years.

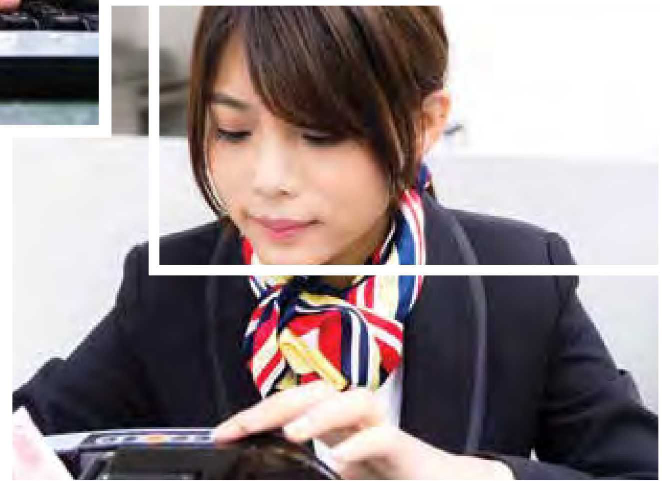
The Executive Board discussed the report in an informal session. The report is to be produced on an annual basis.

The key messages of the 2014 report included the following:

Most LIDCs have recorded strong economic growth over the past 15 years, but based primarily on factor accumulation rather than productivity growth. Growth has been faster than in previous decades and on par with growth performance in emerging markets. This performance has been underpinned by external factors, sound macroeconomic management, and wide-ranging market-oriented reforms. But growth has not been very deep or transformative. In addition, many countries affected by conflict and fragile states failed to increase the level of output per capita.

The share of LIDCs that are assessed to be highly vulnerable declined slightly to about 10 percent of the total, and most are fragile states. Weak fiscal positions are typically the most important source of vulnerability. Analysis of selected shock scenarios flags the significant adverse impact on LIDCs of a protracted period of slower growth in advanced and emerging market economies. To enhance resilience, policy actions to rebuild fiscal and external buffers are a priority in many countries. As frontier market economies expand their links to the global financial system, they face new risks: rapid credit growth and the expansion of foreign credit warrant close monitoring in some cases.

Public debt is at relatively low levels in a majority of LIDCs, but fiscal institutions should be strengthened to pre-empt the buildup of new imbalances. Strong growth, low interest rates, and comprehensive external debt relief have contributed to relatively low levels of public debt. Nevertheless, in a third of LIDCs, debt levels are high and/or have increased significantly in recent years. The changing external financial landscape has enabled an increasing number of LIDCs to access international financial markets and nontraditional official creditors have also significantly expanded their provision of project finance. Countries tapping new sources of funding need to give attention to where these funds go and how efficiently they are used. Also, with new risks such as bunching of repayments and rollover risk, efforts to strengthen public debt management are an imperative.



Global Housing Watch: On the Front Lines of Crisis Prevention

Housing is an essential sector of every country's economy. But it also can be a source of instability for financial institutions and countries—witness the roots of the 2008 global financial crisis in advanced economy housing markets. As a result, understanding the drivers of housing price cycles, and how to moderate these cycles, has become important for economic stability and for the work of the IMF.

As research and policy advice in this area has become more central to the IMF, an effort has been made to bring together the institution's work in this area. This enables IMF economists to better keep track of boom and bust cycles worldwide, and to work together with policymakers to take early action to address housing booms.

Among the IMF's initiatives in this area are the following:

Global Housing Watch: A web page was launched in 2014 to help track developments across housing markets, enable more transparent cross-country and historical comparisons, and discuss the policy tools being developed to address market cycles. The page features the Global House Price Index, which is a compilation of average housing prices in different countries to highlight global prices trends. These data give IMF country teams an indication of how their country compares on these metrics to other countries.

"Cluster Report on Housing Recoveries": The November 2014 paper, produced by the European Department, on the experiences of Denmark, Ireland, the Netherlands, and Spain, covered countries that experienced large declines in housing prices in recent years and shared a similar institutional environment. It explored how policies can best support economic recovery in the wake of a price bust.

Conference on Housing Markets, Financial Stability, and Growth: This event in Bangalore, India, in December 2014 provided a forum for discussing crucial macroeconomic topics related to housing markets. Cohosted with the Indian Institute of Management, the conference addressed such issues as macroprudential policies, the drivers of house prices, and housing markets and monetary policy. In a related blog post, IMF Deputy Managing Director Min Zhu highlighted the challenges of housing price booms in emerging markets; the article was one of the most widely read items on the IMF blog, *iMFdirect*.

Conference on Housing Markets and the Macroeconomy: Cosponsored by the IMF, Deutsche Bundesbank, and the German Research Foundation, this June 2014 gathering examined the challenges housing markets present for monetary policy and financial stability.

The Role of Trade in the Work of the IMF

Trade has become an essential element of the policy agenda to spur global growth. A revival of trade growth, which has been slowing in recent years, has the potential to significantly affect growth in individual economies and the global economy as a whole. Trade-related reforms can enhance the benefits of other economic reforms, spurring increased growth.

That was a core message of the IMF's five-yearly review of the role of trade in the work of the IMF, during which the IMF takes stock of the changing trends in trade and trade policy, and discusses key issues for the institution's work agenda. The review, discussed by the Executive Board in February 2015, followed Board-endorsed recommendations and an implementation plan arising from the 2009 IEO evaluation of IMF Involvement in International Trade Policy Issues.

Implications of a changing trade landscape

The staff paper provided a broad overview of the role of trade and trade policy issues in the work of the IMF over the past five years and discussed how to integrate and make operational the implications of the changing global trade landscape, including the changing drivers of trade—such as global value chains—and the movement of the focus of trade policy from multilateral rounds to regional and multilateral deals.

During the Board's discussion, Executive Directors broadly agreed with the paper's main findings, noting that there are potentially large global gains to be derived from further trade liberalization and integration.

Tailoring surveillance to countries' needs

Directors emphasized that the IMF's work on trade should remain within the institution's mandate, addressing trade issues deemed macrocritical and taking into account resource constraints and limited trade expertise. This would require careful prioritization and continued collaboration with other international institutions, including the World Trade Organization and the World Bank.

They also emphasized that coverage of trade issues should be tailored to the needs of individual countries, and agreed that better embedding trade in the IMF's surveillance work would require a concerted effort on several fronts.

For advanced economies, a key issue would be the implications of their efforts to pioneer and advance new trade policy areas such as services, regulations, and investment.

For emerging market economies, traditional liberalization and anchoring to global supply chains still provide benefits. For low-income countries, greater integration requires sustained efforts to reduce trade costs, including upgrading trade infrastructures and improving economic institutions both at national and regional levels, supported by relevant technical assistance.

POLICY ADVICE

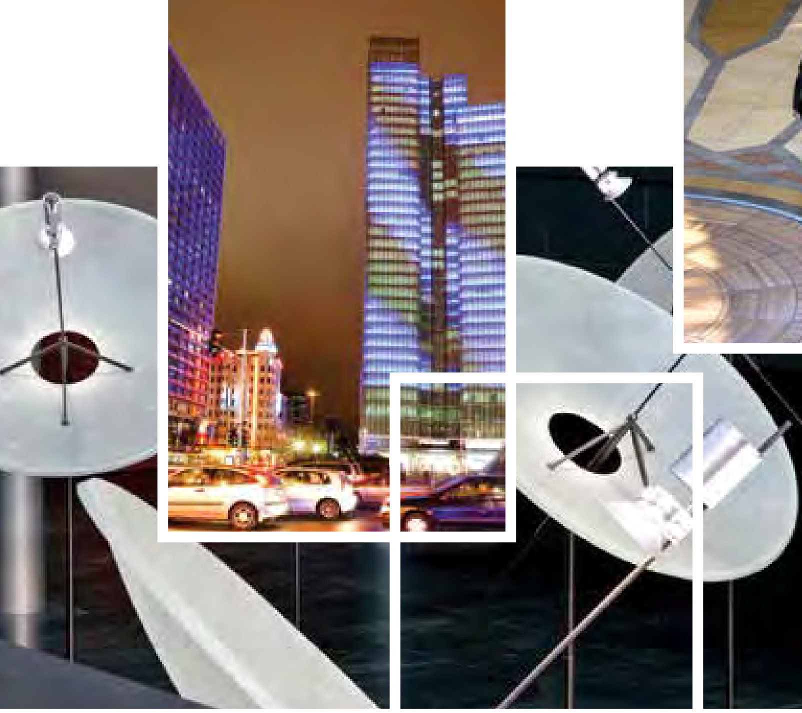
From Banking to Sovereign Stress: Implications for Public Debt

An increasing amount of IMF research has been conducted in recent years on the linkages between banks and sovereign debt, particularly since the global financial crisis of 2008. The period witnessed accumulated banking sector vulnerabilities, which in some cases triggered full-blown banking crises that contributed to significant increases in public debt, partly resulting from government interventions.

A staff paper, "From Banking to Sovereign Stress: Implications for Public Debt," was published in March 2015 after an informal session for Executive Directors. The paper explored how banking sector developments and characteristics influence the propagation of risks from the banking sector to sovereign debt, including how they affect the extent of fiscal costs of banking crises.

An interdepartmental study

The paper was prepared by an interdepartmental team from the Strategy Policy and Review Department, Fiscal Affairs Department, Monetary and Capital Markets Department, and Research Department. It presented new empirical work on the ways in which banking sector developments can affect macroeconomic and fiscal outcomes.



Systemic banking crises have contributed to large increases in public debt.

Over the period 2007–11, the median increase in public debt four years after the beginning of a crisis was 12 percentage points of GDP. And in many countries, public debt increased by more than 20 percentage points of GDP.

The paper found several factors that affect the bank-sovereign link. These include the extent of banks' balance sheet expansion, leverage, and reliance on wholesale external funding; the strength of precrisis institutional settings and crisis resolution policies; and the extent of banks' holdings of their own government debt—also known as "home bias."

The paper proposed practices and policies for fiscal authorities to help manage the risks and enhance crisis preparedness. It determined that efforts to strengthen financial sector regulation and supervision are the preferred approach to preserve the health of the banking sector and minimize the risk that taxpayer funds may be exposed to losses due to banks' failures. In this respect, policy priorities should include macroprudential measures aimed at: (1) reducing excessive procyclicality in banking systems; (2) higher bank loss-absorbing capacities; and (3) effective resolution powers and planning.

Approaches for fiscal authorities

On the fiscal side, the paper suggested that although the specific policy recommendations to deal with banking sector risks depend on country-specific circumstances, fiscal authorities should:

Have in place an institutional framework that strengthens the ability to identify and monitor risks emanating from the banking sector.

Develop fiscal buffers during banking booms that would allow for appropriately sized countercyclical policies during downturns. The adoption of fiscal rules that constrain the spending of unsustainable increases in tax revenue associated with credit booms, including particular reliance on real estate–related sources of revenues, would be beneficial in this regard.

Balance the benefits and risks associated with reliance on domestic banks as a source of public financing. Excessive reliance on domestic bank financing may lead to distortions, a false sense of debt sustainability, and a deeper bank-sovereign nexus.

Consider tax policies that reduce the bias toward debt financing and the attractiveness of leverage. Removing tax incentives to borrow and introducing a Financial Stability Contribution tax could lower banking sector risks and help build fiscal buffers when vulnerabilities increase.

The Cross-Border Impact of Banking Crises

Developing an effective framework for cross-border resolution is an important priority in international regulatory reform. Large bank failures during the global financial crisis highlighted the need for tools to resolve "too-big-to-fail" institutions.

A key achievement in the reform agenda has been the establishment of an international standard for the resolution of systemically important financial institutions.

The Financial Stability Board's (FSB) Key Attributes of Effective Resolution Regimes for Financial Institutions has established an agreed set of principles and best practices, and FSB member countries have committed to implement the rules by the end of 2015. The Key Attributes call for countries to put in place resolution regimes that give the authorities comprehensive resolution powers while establishing effective mechanisms for cross-border cooperation and for the allocation of losses to private stakeholders.

A progress report prepared by the IMF Monetary and Capital Markets and Legal Departments and released in June 2014 described the status of efforts to put the rules in place. The Executive Board discussed the paper in an informal session.

The paper determined that considerable additional work remains to establish an effective regime for cross-border resolution. Areas in need of attention include:

- **National resolution regimes:** Several jurisdictions have adopted far-reaching legal reforms, but the reforms are complex and progress has been mixed overall. While some countries have made progress, many still lack comprehensive resolution powers for banks and other financial institutions, and effective mechanisms for the recognition of foreign resolution measures.

- **Firm-specific operational resolution strategies:** Reaching agreement between home and host supervisors on how to resolve systemic, cross-border institutions has been difficult, in particular because of legal impediments to cross-border cooperation and the complexities of operational and financial structures.

- **Loss absorbency:** The Key Attributes call for the burden of bank failure to fall on private creditors of banks. The credibility of this commitment depends on ensuring that banks have sufficient liabilities to absorb losses without destabilizing the financial system. The FSB is expected to finalize a new standard on total loss-absorbing capacity for global systemically important banks later this year.

- **Harmonization of creditor hierarchies:** Differences across countries in the ranking of creditor claims in liquidation or resolution is an important impediment to the cooperative resolution of cross-border bank failures.

- **Use of public funds:** The risk that public funds will be needed to preserve financial stability cannot be ruled out and creates powerful incentives for unilateral action that can undermine cooperation. Achieving prior agreement on the location of buffers and loss allocation, resolution strategies, and aligning group structure accordingly will be critical.

- **Smaller jurisdictions/entities:** Many cross-border banks are not globally systemic, but their resolution, if disorderly, could undermine financial stability in home and host countries. Reforms to resolution frameworks will need to take account of the different degrees of complexity of financial systems and ensure that incentives are aligned so that resolution strategies can minimize financial stability risks in small as well as core jurisdictions for the entity in resolution.

Sovereign Debt Restructuring

In May 2013, the Executive Board discussed a staff paper, "Sovereign Debt Restructuring—Recent Developments and Implications for the IMF's Legal and Policy Framework," and endorsed a work program focused on strengthening market-based approaches to resolving sovereign debt crises. The program comprised four elements: (1) reforming the IMF's lending framework; (2) strengthening collective action clauses in sovereign bond contracts; (3) reviewing the framework for official sector involvement; and (4) assessing the effectiveness of the IMF's lending-into-arrears policy.

On the lending framework, in June 2014 the Board discussed the staff paper "The IMF's Lending Framework and Sovereign Debt—Preliminary Considerations." The primary focus of the paper was the Fund's exceptional access framework—the context in which the IMF most likely will have to make difficult judgments about whether a member's debt is sustainable (with high probability). With the principal objective of reducing the costs of crisis resolution for creditors and debtors, and for the system as a whole, the paper presented two possible directions for reforms: the introduction of a "debt reprofiling" option to make the lending framework more flexible where debt is assessed as sustainable but not with high probability, and the elimination of the systemic exemption.

No decision was made on the suggested reforms, but the Board asked staff to prepare an additional paper to be discussed in FY2016.

On collective action clauses, in October 2014 the Board discussed the staff paper "Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring." The paper contained recommendations to further improve the contractual, market-based approach to dealing with collective action problems.

The Board endorsed the key features of modified pari passu and enhanced collective action clauses in international sovereign bond contracts to reduce their vulnerability to holdout creditors in case of a debt restructuring. The recommended reforms resulted from a process of consultation with public and private stakeholders. The Board also supported an active role for the IMF in promoting the inclusion of these provisions in new international sovereign bond issuances. However, the Board also noted that a large portion of the significant stock of outstanding international sovereign bonds, which do not contain the new clauses, will only mature in the next 10 years and could pose a risk to orderly restructurings.

The Board encouraged staff to engage in further discussions with stakeholders on ways to minimize this remaining risk to orderly restructurings and looked forward to periodic progress reports on the status of inclusion of the proposed contractual provisions in international sovereign bonds. Since October 2014, several member countries have incorporated modified clauses that include the key features endorsed by the IMF in new bond issuances.

Work on official sector involvement and the lending-into-arrears policy is expected to follow the Board's discussion of the "lending framework" paper in FY2016.

Spillovers in International Corporate Taxation

The world is focusing on cross-border tax issues, with work in this area receiving greatly increased attention. In May 2014, IMF staff issued a paper, "Spillovers in International Corporate Taxation," which received considerable notice.

The paper, which was discussed by the Executive Board in an informal session, explored the nature, significance, and policy implications of spillovers—the effects of one country's rules and practices on others—with a focus on developing countries.

The paper complemented initiatives focused on reducing tax avoidance by multinational corporations, particularly the G20–Organisation for Economic Co-operation and Development (OECD) project on Base Erosion and Profit Shifting (BEPS). The spillover paper drew on IMF experience with broader international tax issues across the membership, including experience gained through technical assistance.

Allegations of multinational tax avoidance

The IMF study went beyond OECD BEPS to explore the broader macroeconomic and development impact of corporate tax spillovers, including wider issues of tax competition among national governments. The BEPS action plan aims—in the context of the existing, informally

agreed, international tax architecture—to alter some of the technical global guidelines and standards for taxation of cross-border activities and reduce opportunities for tax avoidance and profit shifting.

The IMF work determined that tax spillovers can have implications for macroeconomic performance.

Capital account data are clearly influenced by taxation, and considerable evidence shows that taxation powerfully affects the behavior of multinational enterprises. The results confirmed that spillover effects on corporate tax bases and rates are significant.

The analysis also found that spillovers are especially marked for *developing economies*, which typically derive a greater proportion of their revenue from corporate taxes. The paper noted that technical assistance experience provides many examples in which the sums at stake in international tax issues are large relative to countries' overall revenues—sometimes equal to 10–15 percent of total revenue.

Limiting spillovers on developing nations

The study argued that limiting adverse spillovers on developing economies requires not only capacity building, but also addressing weaknesses in domestic law and international arrangements. It made specific suggestions in areas that IMF technical assistance has found to be especially problematic for developing economies. The paper flags, for instance, the risk that countries run by signing bilateral tax treaties, such as forgone revenue from withholding taxes and base erosion through treaty shopping. It also draws attention to the ambiguities in many tax laws regarding the taxation of offshore capital gains, often related to extractive industries. And many countries fail to provide protection against excessive debt finance or manipulation of transfer pricing.

The institutional framework for addressing international tax spillovers is weak, the paper concluded, so as the strength and pervasiveness of tax spillovers become increasingly apparent, the case for an inclusive and less piecemeal approach to international tax cooperation grows.

Subsequent work and developments

At the November 2014 G20 Summit, IMF staff was asked to work with the OECD and other international organizations to better include developing countries in the BEPS decision-making and deliberative processes; staff have so engaged, through technical assistance interactions and outreach events, including an International Tax Dialogue with Developing Countries at the 2015 Spring Meetings and in the Fiscal Affairs Department's annual tax conference for Asian countries. The G20 also asked the IMF to take the lead in producing a report on "Efficient and Effective Use of Tax Incentives in Low-Income Countries," and to work with OECD staff on a report on taxation of offshore capital gains.

Assessing Reserve Adequacy

The foreign exchange reserves held by central banks occupy an important place in the policy toolkit of most economies.

Together with sound policies, they can help reduce the likelihood of balance-of-payments crises and preserve economic and financial stability.

To help support IMF's member countries, IMF staff has undertaken a series of studies on reserve adequacy, with a 2011 paper, "Assessing Reserve Adequacy," which assessed approaches to reserve accumulation, and a second paper in 2013 that explored the role of reserves in preventing and mitigating crises and considered how IMF guidance on the topic might need to be augmented. Both papers were discussed by the Executive Board.

In January 2015, the Board assessed a follow-up paper drawing on this work and outlining a framework for discussing reserve adequacy issues in the context of Article IV consultations. The paper was intended, in part, to help provide guidance on the desirable level of reserve holdings for a given country by providing tools for quantifying risks to help governments determine this level.

The new framework classifies countries based on the strength of market access, the depth and liquidity of their markets, and the flexibility of their economies.

For each country group, the paper proposes frameworks to help assess the appropriate level of reserves based on its circumstances. To achieve this, the report also provides further reserve assessment guidance for specific country types within these categories. For example, within the set of deepening or emerging market economies, the paper refines the guidance for those with capital flow management measures, commodity-intensive countries, and dollarized economies.

In its assessment of the paper, which was released in April 2015, the Executive Board agreed that

reserves, in conjunction with sound policies and fundamentals, can bring significant benefits in reducing the likelihood of balance-of-payments crises and preserving economic and financial stability.

Most Executive Directors supported a systematic discussion of reserve adequacy issues in IMF surveillance reports, which could help enrich staff's analysis and policy advice.

Executive Directors agreed that the depth and emphasis of the discussion should depend on country circumstances and reflect the aspects that are relevant for a country's external stability as well as global stability. In this regard, they said, the discussion should reflect the adequacy of reserves for precautionary purposes, the authorities' stated precautionary and nonprecautionary objectives for holding reserves, and the cost of reserves.

To make the agreed framework operational, most Executive Directors supported the preparation of a staff guidance note, in line with management's planned response to the findings of the IEO's 2012 evaluation of "International Reserves—IMF Concerns and Country Perspectives."

Revising the Fiscal Transparency Code

Fiscal transparency is essential for effective fiscal management and accountability. It ensures that governments have an accurate picture of their fiscal position and prospects when making economic decisions, including of the long-term costs and benefits of policy changes and potential risks to public finances. It also provides legislatures, citizens, and markets with the information they need to hold governments accountable.

The IMF's new Fiscal Transparency Code and Evaluation are part of its ongoing efforts to help Fund member countries strengthen their fiscal policymaking, monitoring, and accountability. A paper approved by the Executive Board in 2014 presented the new code and evaluation that replace the 2007 Code and the related fiscal module of the IMF's Reports on the Observance of Standards and Codes initiative.

Transparency will strengthen fiscal surveillance

The work is part of ongoing efforts by the Fiscal Affairs Department, in cooperation with other departments, to strengthen the IMF's fiscal surveillance and capacity development.

The new code and evaluation reflect the lessons of the global financial crisis, incorporate developments in international standards, and build on feedback from stakeholder consultations.

The Fiscal Transparency Code is the global standard for disclosure of information about public finances. It consists of a set of principles built around four "pillars": (1) fiscal reporting; (2) fiscal forecasting and budgeting; (3) fiscal risk analysis and management; and (4) resource revenue management.

For each principle, the code differentiates between basic, good, and advanced practices to provide countries with clear milestones toward full compliance with the code and ensure its applicability to the full range of IMF member countries. Pillars 1–3 have been issued, and pillar 4 is expected to be finalized in FY2016. Pillar 4 will complement the first three pillars for resource-rich countries and will reflect feedback from consultations with stakeholders and the public.

Fiscal Transparency Evaluations assess country compliance with the code. They provide countries with a comprehensive assessment of their fiscal transparency practices against the standard established by the code; quantified analyses of the scale and sources of fiscal vulnerability, based on a set of fiscal transparency indicators; an accessible summary of the fiscal transparency strengths and reform practices through heat maps; and the option of a sequenced fiscal transparency action plan to help countries address those reform priorities. The evaluation also allows for modular assessments focused on the new code's individual pillars for addressing the most pressing transparency issues. Feedback from country authorities and other stakeholders on these evaluations has been very positive.

A new Fiscal Transparency Manual

A new two-volume *Fiscal Transparency Manual* is expected to be issued by end-FY2016, providing more detailed guidance on implementation of the new Fiscal Transparency Code's principles and practices. Volume I will cover the code's first three pillars and replace the 2007 *Manual on Fiscal Transparency*, while Volume II will focus on Pillar 4—covering resource revenue management—and integrate the previously separate 2007 *Guide on Resource Revenue Transparency*.

The IMF's Work with Small States

"The IMF stands ready to work with small states to help them overcome their development challenges and build a prosperous future."

IMF Deputy Managing Director Min Zhu
September 3, 2014

The IMF has 42 member countries with populations of fewer than 1.5 million, 33 of which are classified as small developing economies. In recent years, this group of developing nations has come to be known as "small states," although they also include a subcategory of "micro" states with populations under 200,000 as of 2011.

Small states do not enjoy the benefits of economies of scale, which hampers their ability to provide public goods and services, or produce goods for global trade. Their economic growth has lagged larger peers over the past decade, and micro states have seen considerable economic volatility due to climatic and other shocks. Given the special economic needs of this group of countries, the IMF has responded by reviewing how best to engage with them and provide support.

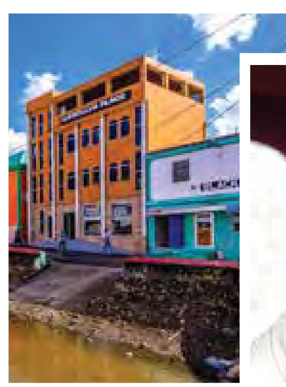
This process was launched in 2013 with a staff paper, "Macroeconomic Issues in Small States and Implications for Fund Engagement," and an associated Executive Board discussion. In May 2014, a Staff Guidance Note on the IMF's engagement with small states was issued, consolidating the lessons from the 2013 staff paper and Board discussion. Five key thematic areas identified by the acronym G.R.O.W.T.H. have been identified as central to the policy dialogue with small states: growth and job creation, resilience to shocks, overall competitiveness, workable fiscal and debt sustainability options, and thin financial sectors.

At the third United Nations International Conference on Small Island Developing States, held in Samoa in September 2014, IMF Deputy Managing Director Min Zhu pledged the IMF's continued support to those countries in their pursuit of sustainable economic development.

With many small states clustered in the Caribbean and Pacific, the IMF's regional departments and technical assistance centers play a lead role in serving small states' needs.

To better communicate with their smaller members, the IMF's Asia-Pacific Department and Western Hemisphere Department have recently launched periodic bulletins—the "Caribbean Corner" and "Asia & Pacific Small States Monitor," respectively. Following on the issuance of the Staff Guidance Note, the Asia-Pacific Department introduced a training course for mission chiefs engaged in surveillance of small states.

Policy analysis prepared by the two departments was also included in a March 2015 paper on "Macroeconomic Developments and Selected Issues in Small Developing States," prepared in collaboration with two other departments. This paper, discussed by the Board in March, provided a summary of recent developments and Fund staff projections, as well as thematic chapters on the challenges of fiscal management in small states, the impact of currency devaluations, and levels of financial inclusion.



DATA

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 macro-economic policies.

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. An initial cluster of eight countries adhered to the SDDS Plus in FY2015.

There were no new subscribers to the SDDS in FY2015, with the number of subscribing economies standing at 63 as of the end of the financial year, following the graduation of eight countries to the SDDS Plus (Seychelles subscribed on May 1, 2015). The Cook Islands and Micronesia began participation in the GDDS, bringing the total number of GDDS participants to 113 at the end of the year (excluding the economies that have graduated from the GDDS to the SDDS over the years).

More than 97 percent of the IMF's member countries participate in the GDDS, SDDS, or SDDS Plus. There are 113 participants in the GDDS, 63 SDDS subscribers, and 8 SDDS Plus adherents.

The Statistics Department has partnered with the African Development Bank and the World Bank to develop and promote the so-called Open Data Platform aimed at facilitating dissemination of data (including Sustainable Development Goals) by country authorities. Several countries in Africa have already successfully implemented this new tool.

The G20 Data Gaps Initiative (DGI) was initiated after the global financial crisis, in response to a request to the IMF and FSB by the G20 Finance Ministers and Central Bank Governors (FMCG). The 20 recommendations to close data gaps were endorsed by the International Monetary and Financial Committee. Six years after the start of the project, significant progress has been made in closing the gaps. The data emerging from the DGI are seen as enhancing the support to policy work, including financial stability and debt analysis, and promoting a better understanding of domestic and international interconnectedness. In September 2014, the G20 FMCG asked the FSB Secretariat and IMF staff to report back in September 2015 with a proposal for a second phase of the DGI as well as a final progress report on the implementation of Phase 1 of the Initiative.

Lending

IMF loans are meant to help member countries tackle balance-of-payments problems, stabilize their economies, and restore sustainable economic growth. This crisis resolution role is at the core of IMF lending. At the same time, the recent global financial crisis has highlighted the need for effective global financial safety nets to help countries cope with adverse shocks. A key objective of recent lending reforms has therefore been to complement the traditional crisis resolution role of the IMF with additional tools for crisis prevention. Unlike development banks, the IMF does not lend for specific projects.

In broad terms, the IMF has two types of lending — money provided at nonconcessional interest rates and loans provided to poorer countries on concessional terms, where interest rates are low or in some cases zero.

NONCONCESSIONAL FINANCING ACTIVITY

In FY2015, the Executive Board approved nine arrangements under the IMF's nonconcessional financing facilities, for a gross total of SDR 80 billion ($112 billion not netted for canceled arrangements, and converted to United States dollars at the SDR/$ exchange rate on April 30, 2015 of 0.71103 (see Table 2.1). Six precautionary arrangements under the Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) accounted for more than 84 percent of these commitments, including an FCL with access amounting to SDR 47 billion ($67 billion) for Mexico. The two FCL arrangements approved for Mexico and Poland and the PLL arrangement approved for Morocco were successors to previous arrangements that were expiring. The remaining three precautionary arrangements were Stand-By Arrangements with Honduras, Kenya, and the Republic of Serbia totaling SDR 1.4 billion ($1.9 billion), which were treated as precautionary by the authorities upon approval of the programs. In addition, the Board approved an extended arrangement under the EFF for Ukraine with exceptional access amounting to SDR 12.348 billion or $17.5 billion to support the authorities' adjustment program.

By end-April 2015, disbursements under financing arrangements from the General Resources Account (GRA), referred to as "purchases," totaled SDR 12.0 billion ($16.9 billion), with purchases by Ukraine amounting to SDR 6.5 billion ($9.2 billion) or 54 percent. Total repayments, termed "repurchases," for the financial year amounted to SDR 38.0 billion ($53.4 billion). Of these, advance repurchases from Ireland and Portugal during the period amounted to SDR 20.8 billion ($29 billion). Sizable repurchases and stalled purchases associated with off-track programs resulted in the

Table **2.1**

Arrangements approved in the General Resources Account in FY2015

(Millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
NEW ARRANGEMENTS			
Georgia	36-month Stand-By	July 30, 2014	100.0
Honduras	36-month Stand-By	December 3, 2014	77.7
Kenya	12-month Stand-By	February 2, 2015	352.8
Mexico	24-month Flexible Credit Line	November 26, 2014	47,292.0
Morocco	24-month Precautionary and Liquidity Line	July 28, 2014	3,235.1
Poland, Republic of	24-month Flexible Credit Line	January 14, 2015	15,500.0
Serbia, Republic of	36-month Stand-By	February 23, 2015	935.4
Seychelles	36-month Extended Fund Facility	June 4, 2014	11.4
Ukraine	36-month Extended Fund Facility	March 11, 2015	12,348.0
Subtotal			**79,852.5**
AUGMENTATIONS OF ARRANGEMENTS[1]			
Bosnia and Herzegovina	33-month Stand-By	June 30, 2014	84.6
Subtotal			**84.6**
Total			**79,937.0**

Source: IMF Finance Department.

[1]For augmentation, only the amount of the increase is shown.

Learn more: see *IMF Financial Operations 2014*

Table **2.2**

Financial terms under IMF General Resources Account credit

This table shows major nonconcessional lending facilities. Stand-By Arrangements have long been the core lending instrument of the institution. In the wake of the 2007–09 global financial crisis, the IMF strengthened its lending toolkit. A major aim was to enhance crisis-prevention instruments through the creation of the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).

Credit facility (year adopted)[1]	Purpose	Conditions	Phasing and monitoring
CREDIT TRANCHES AND EXTENDED FUND FACILITY[3]			
Stand-By Arrangements (SBAs) (1952)	Short- to medium-term assistance for countries with short-term balance-of-payments difficulties	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Generally quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions
Extended Fund Facility (EFF) (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address long-term balance-of-payments difficulties	Adopt up to 4-year program, with structural agenda and annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions
Flexible Credit Line (FCL) (2009)	Flexible instrument in the credit tranches to address all balance-of-payments needs, potential or actual	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period, subject to a midterm review after 1 year
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies	Sound policy frameworks, external position, and market access, including financial sector soundness	Large frontloaded access, subject to semiannual reviews (for 1- to 2-year PLL)
SPECIAL FACILITIES			
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need	Efforts to solve balance of payments difficulties (may include prior actions)	Outright purchases without the need for full-fledged program or reviews

[1] The IMF's lending through the General Resources Account (GRA) is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in Special Drawing Rights (SDRs) or the currency of another member acceptable to the IMF and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchase of foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchase of its currency from the IMF with foreign currency.

[2] The rate of charge on funds disbursed from the GRA is set at a margin over the weekly SDR interest rate (currently 100 basis points). The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 200 percent of quota; 30 basis points for amounts in excess of 200 percent and up to 1,000 percent of quota; and 60 basis points for amounts in excess of 1,000 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By Arrangement, Flexible Credit Line, Precautionary and Liquidity Line, or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

Access limits[1]	Charges[2]	Repayment schedule (years)	Installments
Annual: 200% of quota; cumulative: 600% of quota	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years)[4]	3¼–5	Quarterly
Annual: 200% of quota; cumulative: 600% of quota	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years)[4]	4½–10	Semiannual
No preset limit	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years)[4]	3¼–5	Quarterly
250% of quota for 6 months; 500% of quota available upon approval of 1- to 2-year arrangements; total of 1,000% of quota after 12 months of satisfactory progress	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years)[4]	3¼–5	Quarterly
Annual: 50% of quota; cumulative: 100% of quota	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years)[4]	3¼–5	Quarterly

[3] Credit tranches refer to the size of purchases (disbursements) as a proportion of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the first credit tranche and require members to demonstrate reasonable efforts to overcome their balance-of-payments problems. Requests for disbursements above 25 percent are referred to as upper-credit-tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are typically associated with a Stand-By or Extended Arrangement.

[4] Surcharges were introduced in November 2000. A new system of surcharges took effect August 1, 2009, replacing the previous schedule: 100 basis points above the basic rate of charge on amounts above 200 percent of quota, and 200 basis points on amounts above 300 percent of quota. A member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, August 1, 2009, had the option to elect between the new and the old system of surcharges.

Table **2.3**
Concessional lending facilities

Three concessional lending facilities for low-income countries are available.

	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Objective	Help low-income countries achieve and maintain a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period, subject to a midterm review after 1 year
Purpose	Address protracted balance-of-payments problems	Resolve short-term balance of payments needs	Low-access financing to meet urgent balance-of-payments needs
Supersedes	Poverty Reduction and Growth Facility (PRGF)	Exogenous Shocks Facility–High- Access Component (ESF-HAC)	Exogenous Shocks Facility–Rapid Access Component (ESF-RAC), subsidized Emergency Post-Conflict Assistance (EPCA), and Emergency Natural Disaster Assistance (ENDA)
Eligibility	Countries eligible under the Poverty Reduction and Growth Trust (PRGT)	Efforts to solve balance-of-payments difficulties (may include prior actions)	Outright purchases without the need for full-fledged program or reviews
Qualification	Protracted balance of payments problem; actual financing need over the course of the arrangement, though not necessarily when lending is approved or disbursed	Potential (precautionary use) or actual short-term balance-of-payments need at the time of approval; actual need required for each disbursement	Urgent balance-of-payments need when upper- credit-tranche (UCT) program is either not feasible or not needed[1]
Poverty Reduction and Growth Strategy	IMF-supported program should be aligned with country-owned poverty-reduction and growth objectives and should aim to support policies that safeguard social and other priority spending		
	Submission of Poverty Reduction Strategy (PRS) document by second review	Submission of PRS document not required; if financing need persists, SCF user would request an ECF with associated PRS documentation requirements	Submission of PRS document not required; move to ECF facilitated in cases of repeated use by preparation of a Poverty Reduction Strategy Paper (PRSP)
Conditionality	UCT; flexibility on adjustment path and timing	UCT; aim to resolve balance-of-payments need in the short term	No UCT and no conditionality based on ex post review; track record used to qualify for repeat use (except under shocks window)

	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Access policies	Annual limit of 100% of quota; cumulative limit (net of scheduled repayments) of 300% of quota. Exceptional access: annual limit of 150% of quota; cumulative limit (net of scheduled repayments) of 450% of quota		
	Norms: access declines with total outstanding credit; 120% of quota if outstanding credit is less than 100% of quota; 75% of quota if outstanding credit is greater than or equal to 100% of quota; SCFs treated as precautionary annual access limit 75% of quota, average annual access limit 50% of quota[2]	Sublimits (given lack of UCT conditionality): annual 25% of quota; 100% of quota cumulative (net of scheduled repayments); under the shocks window: 50% annual and 125% cumulative (net of scheduled repayments)	
Financing terms[3]	Interest rate: Zero Repayment terms: 5½–10 years	Interest rate: 0.25% Repayment terms: 4–8 years Availability fee: 0.15% on available but undrawn amounts under precautionary arrangement	Interest rate: Zero Repayment terms: 5½–10 years
Blending	Based on income per capita and market access; linked to debt vulnerability		
Precautionary use	No	Yes, with annual access limit of 75% of quota and average annual access limit 50% of quota	No
Length and repeated use	3–4 years (extendable to 5); can be used repeatedly	12–24 months; use limited to 2½ of any 5 years[4]	Outright disbursements; repeated use possible subject to access limits and other requirements
Concurrent use	General Resources Account (Extended Fund Facility/ Stand-By Arrangement)	General Resources Account (Extended Fund Facility/Stand-By Arrangement) and Policy Support Instrument	General Resources Account (Rapid Financing Instrument and Policy Support Instrument)

Source: IMF Finance Department.

[1] UCT standard conditionality is the set of program-related conditions intended to ensure that IMF resources support the program's objectives, with adequate safeguards to the IMF resources.

[2] Access norms do not apply when outstanding concessional credit is above 200% of quota. In those cases, access is guided by consideration of the access limit of 300% of quota, expectation of future need for IMF support, and the repayment schedule.

[3] The IMF reviews interest rates for all concessional facilities under the PRGT every 2 years; the next review was expected at the end of 2014. The Executive Board has approved a temporary interest waiver on concessional loans through the end of December 2014 in view of the global economic crisis (Box 2.4).

[4] SCFs treated as precautionary do not count toward the time limits.

stock of GRA credit falling from SDR 81.2 billion ($114.2 billion) to SDR 55.2 billion ($78 billion) in FY2015. Table 2.1 details the arrangements approved during the year, and Figure 2.1 the arrangements approved over the past 10 years. Tables 2.2 and 2.3 provide general information about the IMF's financing instruments and facilities, with Figure 2.2 offering information on nonconcessional financing amounts outstanding over the past 10 years.

CONCESSIONAL FINANCING ACTIVITY

In FY2015, the IMF committed loans amounting to SDR 1.8 billion to its low-income developing member countries under programs supported by the Poverty Reduction and Growth Trust (PRGT). Total concessional loans outstanding of 58 members amounted to SDR 6.3 billion at end-April 2015. Table 2.4 provides detailed information on new arrangements and augmentations of access under the IMF's concessional financing facilities, and Table 2.5 on IMF support to Ebola-afflicted countries. Figure 2.3 illustrates amounts outstanding on concessional loans over the past decade.

The IMF provided grants to be used as debt relief to eligible countries through the newly created Catastrophe Containment and Relief Trust (CCRT), transforming the Post-Catastrophe Debt Relief (PCDR) Trust. The CCRT, established in February 2015, expanded the circumstances under which the IMF can provide exceptional assistance to its low-income members to include public health disasters that could spread rapidly across borders. The CCRT provides exceptional support to countries confronting major natural disasters, including life-threatening, fast-spreading epidemics with the potential to spread to other countries, but also other types of catastrophic disasters such as massive earthquakes. As of end-April 2015, the IMF had provided grants under this Trust to cover debt relief of SDR 68 million to the three countries worst hit by the Ebola epidemic (Guinea, SDR 21.42 million; Liberia, SDR 25.84 million; and Sierra Leone, SDR 20.74 million).

Apart from CCRT relief, the IMF had also provided a total of SDR 5.2 billion of debt relief to eligible countries as of end-April 2015. This includes assistance under the Heavily Indebted Poor Countries (HIPC) Initiative of SDR 2.6 billion to 36 countries, debt relief under the

Table **2.4**

Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2015

(Millions of SDRs)

Member	Effective date	Amount approved
NEW THREE-YEAR EXTENDED CREDIT FACILITY[1] ARRANGEMENTS		
Chad	August 1, 2014	79.9
Ghana	April 3, 2015	664.2
Grenada	June 26, 2014	14.0
Kyrgyz Republic	April 8, 2015	66.6
Yemen	September 2, 2014	365.3
Subtotal		**1,190.0**
AUGMENTATIONS OF EXTENDED CREDIT FACILITY ARRANGEMENTS[2]		
Burundi	March 23, 2015	10.0
Chad	April 27, 2015	26.6
Côte d'Ivoire	December 5, 2014	130.1
Guinea	February 11, 2015	45.1
Liberia	September 26, 2014	32.3
Sierra Leone	September 26, 2014	25.9
Sierra Leone	March 2, 2015	51.9
Subtotal		**321.9**
NEW STANDBY CREDIT FACILITY ARRANGEMENTS		
Honduras	December 3, 2014	51.8
Kenya	February 2, 2015	135.7
Subtotal		**187.5**
DISBURSEMENTS UNDER RAPID CREDIT FACILITY		
Central African Republic	May 14, 2014	8.4
Central African Republic	March 18, 2015	5.6
Gambia	April 2, 2015	7.8
Guinea	September 26, 2014	26.8
Guinea-Bissau	November 3, 2014	3.6
Liberia	February 23, 2015	32.3
Madagascar	June 18, 2014	30.6
St. Vincent and the Grenadines	August 1, 2014	2.1
Subtotal		**117.0**
TOTAL		**1,816.4**

Source: IMF Finance Department.

[1] Previously Poverty Reduction Growth Facility.

[2] For augmentation, only the amount of the increase is shown.

Table **2.5**

IMF support to Ebola-afflicted countries, June 2014–April 2015

(Millions of SDRs or otherwise noted)

	Approval date	Amount committed in SDR	Disbursement date	Amount disbursed in SDR
GUINEA				
RCF disbursement	October 2, 2014	26.8	October 2, 2014	26.8
ECF augmentation[1]	February 11, 2015	45.1	February 18, 2015	26.8
Debt relief	March 18, 2015	21.4	March 19, 2015	21.4
Total		93.3		75.0
LIBERIA				
RCF disbursement	February 27, 2015	32.3	February 27, 2015	32.3
ECF augmentation	September 26, 2014	32.3	October 2, 2014	32.3
Debt relief	February 23, 2015	25.8	February 24, 2015	25.8
Total		90.4		90.4
SIERRA LEONE				
ECF augmentation	September 26, 2014	25.9	October 2, 2014	25.9
ECF augmentation[2]	March 2, 2015	51.9	March 6, 2015	51.9
Debt relief	March 2, 2015	20.7	March 3, 2015	20.7
Total		98.5		98.5
TOTAL		282.3		263.9

Source: IMF Finance Department.

Note: Total amounts disbursed to Guinea on February 18, 2015 and Sierra Leone on March 6, 2015 include augmentations and regular tranches of previously approved ECFs.

RCF: Rapid Credit Facility.

ECF: Extended Credit Facility.

[1] Guinea's ECF augmentation is disbursed in two tranches, with the second one planned for a forthcoming review.

[2] The augmentation responded to financing needs arising from the Ebola epidemic as well as an adverse commodities shock.

Multilateral Debt Relief Initiative (MDRI) of SDR 2.3 billion to 30 countries, "beyond HIPC" debt relief to Liberia, and debt relief under the PCDR Trust to Haiti. All countries that reached the completion point under the enhanced HIPC Initiative, and those with per capita incomes below $380 and outstanding debt to the IMF at end-2004, also received debt relief under the MDRI. Afghanistan, Comoros, Haiti, and Togo did not have MDRI-eligible debt with the IMF, while Chad, Côte d'Ivoire, and Guinea had fully repaid MDRI-eligible debt to the IMF by the completion point date. These countries, therefore, did not receive debt relief under the MDRI from the IMF.

PROGRAM DESIGN

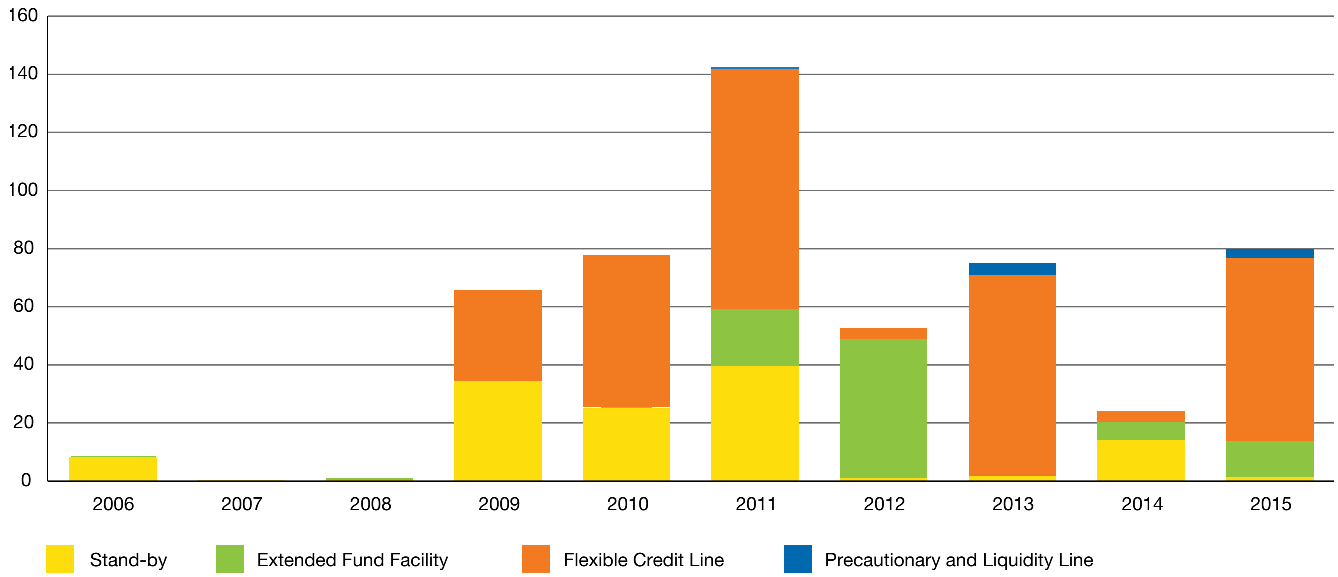
More Flexible Public Debt Limits

The Board began discussing reform of the IMF's policy on the use of conditionality on public external debt in Fund-supported programs—also known as the "debt limits policy"—in March 2013. The discussion took place against a backdrop of lower-income countries seeking to boost growth through higher public investment levels, targeted in particular at large infrastructure gaps, while facing both a wider range of financing opportunities and limits on the supply of traditional concessional financing.

Figure **2.1**

Arrangements approved during financial years ended April 30, 2006–15

(Billions of SDRs)

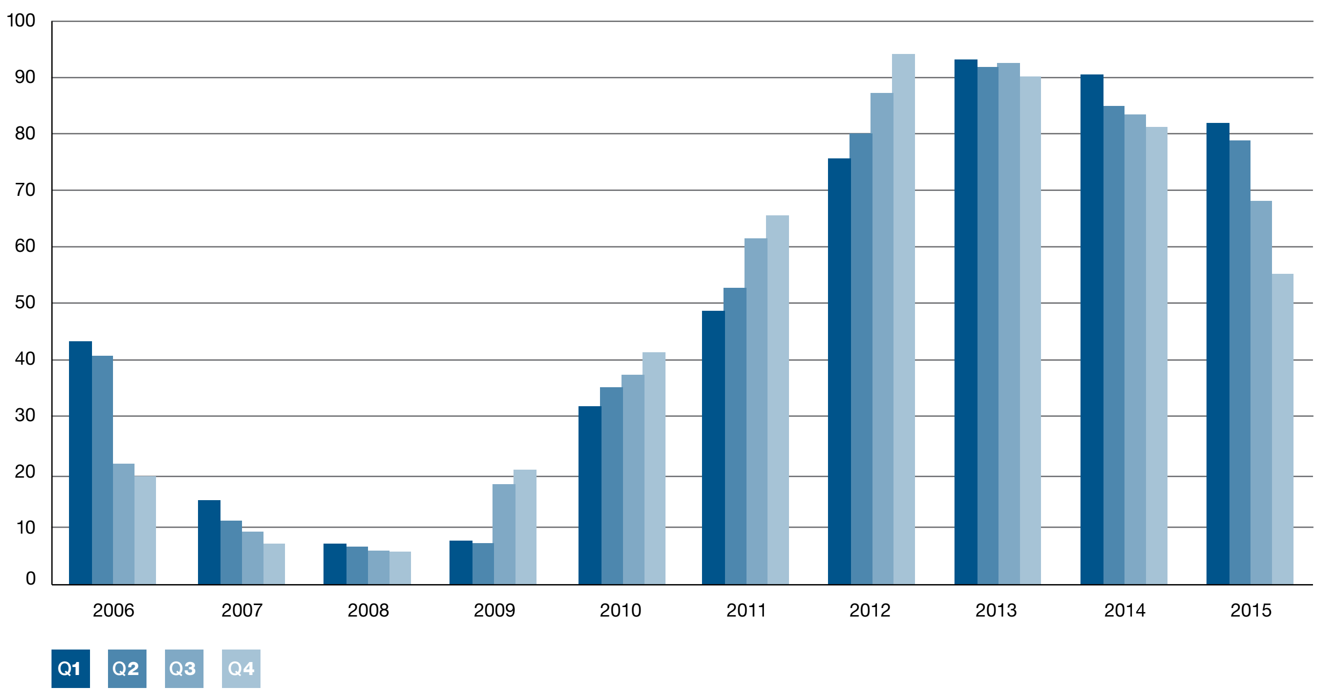


Source: IMF Finance Department.

Figure **2.2**

Nonconcessional loans outstanding FY2006–15

(Billions of SDRs)

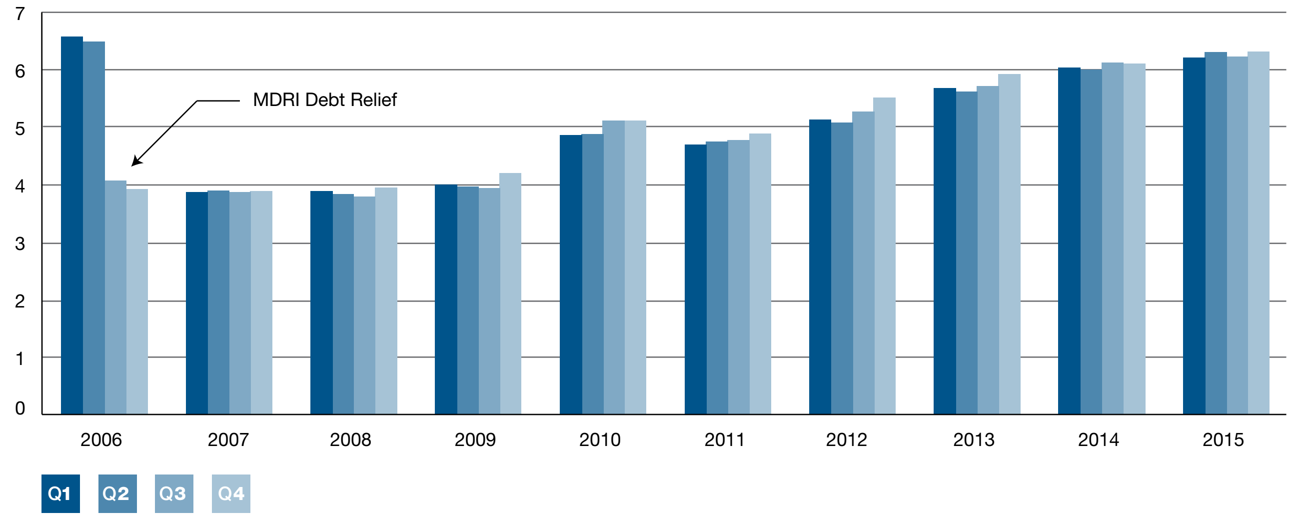


Source: IMF Finance Department

Figure **2.3**

Concessional loans outstanding FY2006–15

(Billions of SDRs)



Source: IMF Finance Department.
Note: MDRI: Multilateral Debt Relief Initiative

Box 2.3 Supporting Tunisia's revival

After Tunisia's January 2011 revolution and a period in which growth declined sharply, the country's economy embarked on a moderate recovery despite a difficult political transition and an uncertain international economic environment.

Throughout the political transition to new elections, the country made progress on reforms needed to achieve short-term macroeconomic stabilization and address the challenges of widespread social and economic disparities and a fragile banking sector. The successful end of the political transition and the installation of a post-transition government with broad support in parliament provide an opportunity to push further ahead with reforms needed to address these challenges. Key elements of the government's program are to:

Build up fiscal and external buffers with appropriate fiscal, monetary, and exchange rate policies.

Support growth by addressing critical vulnerabilities in the banking sector and improving the investment climate through reforms of the tax and investment regimes.

Strengthen social safety nets to protect the vulnerable.

The authorities also reduced regressive energy subsidies, creating room to increase social and investment spending. This included increased social transfers to vulnerable households and the introduction of a social electricity tariff that protects poorer households.

In support of the reform agenda, in June 2013 the Executive Board approved a 24-month Stand-By Arrangement (SBA) amounting to about $1.75 billion. In December 2014, the Board completed the fifth review under the SBA, bringing total disbursements to $1.15 billion, and in May 2015, approved a seven-month extension of the SBA to December 31, 2015.

The IMF also supports Tunisia by providing technical assistance for tax policy and revenue administration, improving public financial management, strengthening the central bank's supervision capacity and collateral framework, and improving the production of monetary statistics.

The reform of the IMF's policy on debt conditionality in 2009 was a first step to accommodate these new realities. But experience with the 2009 reforms pointed to the need for more fundamental reforms to provide countries with greater flexibility to finance productive investments while containing risks to medium-term debt sustainability.

In December 2014, the Executive Board endorsed the new Policy on Public Debt Limits in Fund-Supported Programs. In a press release, the Executive Board agreed that the new debt limits policy should take effect at end-June 2015.

The paper discussed at the Board sought to accommodate a number of concerns emphasized by Executive Directors and other stakeholders, including: (1) ensuring even-handedness across the membership in the application of the policy, consistent with the principle of uniformity of treatment; (2) ensuring that the coverage of debt limits is unified and comprehensive, covering both concessional and nonconcessional borrowing; and (3) ensuring that there are incentives for creditors to provide, and borrowers to seek, financing on concessional terms.

Executive Directors welcomed the opportunity to revisit debt conditionality in Fund-supported programs. They emphasized that reforms to the policy should balance debt sustainability and borrowing requirements for investment and growth. They agreed that the coverage of debt limits should be unified and comprehensive, covering both concessional and nonconcessional debt, and supported the principle that debt conditionality should cover all public debt. They also agreed that there should be incentives for creditors to provide, and for borrowers to seek, financing on concessional terms.

Directors agreed that the use of debt conditionality in Fund-supported programs is warranted when a member faces significant debt vulnerabilities, and that debt sustainability analysis should continue to play the key role in identifying debt vulnerabilities. Directors emphasized that the broad principles that will guide the new debt limits policy should be applied in a transparent and even-handed manner, and that the particular form of debt conditionality adopted should reflect country-specific circumstances and program goals.

Box 2.4 Zero-interest-rate policy for low-income countries

In December 2014 the Executive Board approved the third extension of the exceptional waiver on interest payments for IMF concessional loans through the end of 2016.

The Executive Board initially endorsed temporary relief of interest payments on all outstanding concessional loans to Poverty Reduction and Growth Trust (PRGT)-eligible members in 2009, waiving all interest payments on PRGT loans through December 2011. Three subsequent extensions of the exceptional interest rate waiver were approved by the Board, first to end-December 2012, then to end-2014, and the latest to end-2016.

The PRGT has three facilities: the Extended Credit Facility to provide flexible medium-term support, the Stand-By Credit Facility to address short-term and precautionary needs, and the Rapid Credit Facility to provide emergency support.

POLICY SUPPORT INSTRUMENTS

Policy Support Instruments (PSIs) offer low-income countries that do not want—or need—IMF financial assistance a flexible tool that enables them to secure Fund advice and support without a borrowing arrangement. This nonfinancial instrument is a valuable complement to the IMF's lending facilities under the PRGT. PSIs help countries design effective economic programs that deliver clear signals to donors, creditors, and the general public on the strength of a member's policies.

In July 2014, the Executive Board approved a new three-year PSI for Tanzania. The IMF had previously concluded the final review of the country's economic performance under a Stand-By Credit Facility arrangement and under a previous PSI, together with the Article IV consultation with the country in April. The PSI for Tanzania aims to support the authorities' medium-term objectives, which include maintaining macroeconomic stability, preserving debt sustainability, and promoting more equitable growth and job creation.

As of April 2015, the Executive Board had approved 17 PSIs for seven members: Cabo Verde, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, and Uganda.

Capacity Development

The IMF shares its expertise with officials in member countries and provides training to them—what it calls “capacity development”—to help countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. Capacity development is closely linked to the IMF’s surveillance and lending activities and highly appreciated by member countries.

Technical assistance and training activities have expanded rapidly to meet member countries' extensive demands.

Capacity development represented about a quarter of the IMF's administrative expenditures in FY2015.

Most of this spending was on technical assistance, which represents 22 percent, while training accounts for 4 percent (see Figure 2.4).

Following an informal meeting of the IMF's Executive Board in April 2014, a new statement on IMF Policies and Practices on Capacity Development was approved by the Board in September 2014. The statement superseded the 2001 Policy Statement on IMF Technical Assistance, while incorporating the principles outlined in the 2013 capacity development strategy paper also approved by the Executive Board.

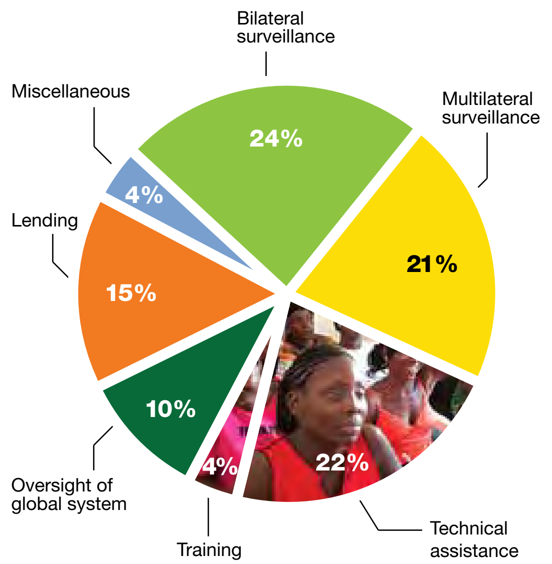
The strong growth in IMF capacity development activities supported by donor funding since 2009 tapered off in FY2015, mainly reflecting institutional and resource constraints. Total direct spending on capacity development activities (externally and IMF-financed) was $242 million in FY2015, compared with $237 million in FY2014, a growth of 2 percent (Figure 2.5). Growth of externally funded capacity development slowed to 1.7 percent in FY2015 from 7.2 percent in FY2014 and 17.4 percent in FY2013.

TECHNICAL ASSISTANCE

Technical assistance delivery increased in FY2015, mainly in the sub-Saharan African, Asia-Pacific, and Western Hemisphere regions (Figure 2.6).

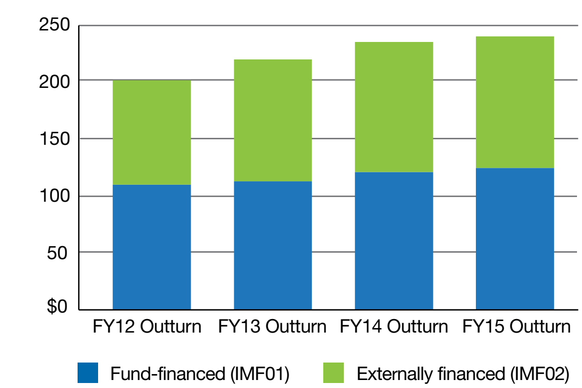
About half of all IMF technical assistance continued to go to low-income developing countries (Figure 2.7).

Figure **2.4**
Share of costs of major IMF activities, FY2015



Source: Office of Budget and Planning, Analytic Costing and Estimation System (ACES).

Figure **2.5**
Spending on capacity development, FY2012–15
(Millions of U.S. dollars)

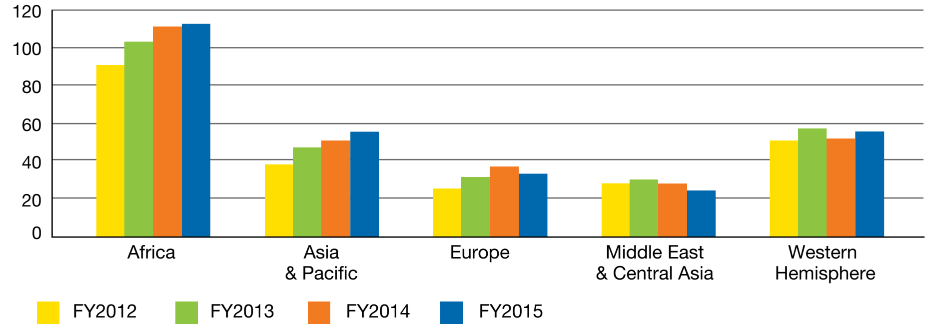


Source: IMF Office of Budget and Planning, Analytic Costing and Estimation System (ACES).

Figure **2.6**

Technical assistance delivery by region, FY2012–15

(Person-years of field delivery)



Source: IMF Travel Information Management System.

In FY2015, sub-Saharan Africa accounted for the largest share of technical assistance, reflecting the high number of low-income developing countries in this region.

Delivery of technical assistance on monetary and financial topics and on statistical topics has been increasing recently, in response to demand from the membership (Figure 2.8). Fiscal topics continued to be the main area of technical assistance provided by the IMF. The IMF has also been developing a suite of fiscal assessment tools to strengthen the analytical basis for fiscal surveillance, guide structural fiscal reforms, and set priorities for technical assistance. Seven main fiscal assessment tools are currently operational or undergoing testing (see Box 2.5).

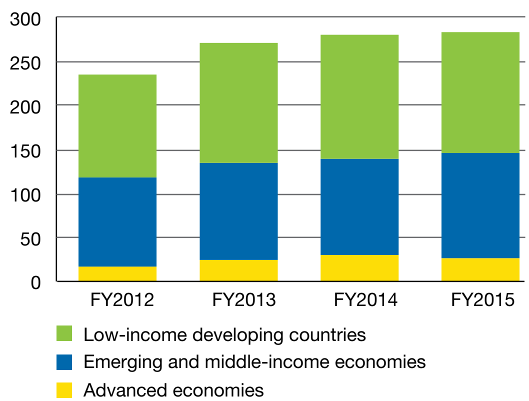
Highlights of fiscal capacity building

The IMF continued to respond swiftly to meet both longer-term capacity development and more urgent technical assistance needs in a broad set

Figure **2.7**

Technical assistance delivery by income group, FY2012–15

(Person-years of field delivery)

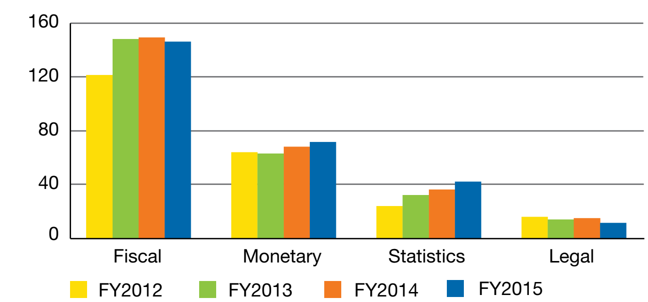


Source: IMF Travel Information Management System.

Figure **2.8**

Technical assistance delivery by topic, FY2012–15

(Person-years of field delivery)



Source: IMF Travel Information Management System.

Box 2.5: Fiscal assessment tools

The IMF's standardized fiscal assessment tools review the fiscal institutional frameworks that countries have in place and help identify priorities for fiscal reform and technical assistance.

Revenue Administration Fiscal Information Tool (RA-FIT) gathers and analyzes tax and customs information, and establishes baseline indicators relating to administration performance. A first report based on the submissions of 85 countries in the first round of data gathering was prepared in 2014. A second round of data gathering was conducted in 2014 and 2015 via an online data-capture portal. Collaboration with other international organizations is proceeding with the goal of making RA-FIT the standard platform for capture, analysis, and dissemination of revenue administration information.

Revenue Administration Gap Analysis Program (RA-GAP) estimates the gap between current and potential revenue collections. Detailed gap estimates for value-added tax were broadened to eight countries from four countries during FY2015.

Tax Administration Diagnostic Assessment Tool (TADAT) provides a framework for standardized assessments of tax administration performance to help improve prioritization and sequencing of reforms; it is designed and governed in close cooperation with international partners. TADAT is still in the piloting phase, and four additional country pilots were successfully concluded in FY2015. The framework will be tested in about seven more countries before being rolled out for public use in November 2015. An online course is being launched in mid-May 2015 to train prospective TADAT assessors.

Fiscal Transparency Evaluations (FTEs) replace the fiscal module of the Reports on the Observance of Standards and Codes. They offer a four-pillar structure for assessing the quality of published information with a strong focus on identifying and managing fiscal risks. Five new FTEs were published in FY2015, and further FTEs are scheduled for FY2016. The framework is to be finalized in FY2016 with the completion of pillar 4 on resource revenue management and a *Fiscal Transparency Manual*.

Fiscal Analysis of Resource Industries (FARI) is a modeling framework to perform fiscal analysis of extractive industries (EIs). FARI provides a powerful tool for evaluating, comparing, and designing fiscal regimes for EIs by analyzing how annual project cash flows over the life of an EI project are shared between investors and the government, through detailed modeling of a particular fiscal regime.

Public-Private Partnership Fiscal Risk Assessment Model (P-FRAM) is an analytical tool to assess potential fiscal costs and risks arising from public-private partnerships. It is designed to provide a structured and guided process for gathering relevant data, quantifying the impact on deficit and debt, and performing sensitivity analysis to changes in key macroeconomic and project-specific parameters.

Public Investment Management Assessment (PIMA) is a framework designed to evaluate the strength of public investment management practices in a comprehensive manner. It evaluates institutions shaping decision-making at three key stages: planning, allocating, and implementing investment. PIMAs assess institutional strengths and weaknesses, and provide practical recommendations to improve public investment management institutions. The PIMA framework will be piloted in FY2016.

of countries. In **Ukraine**, the IMF has in place a broad-based technical assistance program that has supported, among other projects, reforms aimed at strengthening the authorities' long-term capacity to formulate and implement sound macroeconomic and financial sector policies, as well as reforms of the pension system and energy subsidies, developing a framework for managing state-owned enterprises, reviewing public financial management systems, and evaluating tax policy issues, including taxation of high-wealth individuals, establishing an institutional framework to prevent corruption, social security contributions, agricultural and international taxation, and subnational taxation powers. In **Egypt** and **Tunisia**, the IMF provided support for public financial management, and tax and revenue administration reforms.

The IMF has been providing advice in resource-rich countries aimed at reducing revenue volatility and broadening the revenue base.

In **Angola**, the IMF delivered technical assistance on fuel subsidy reform and modernizing revenue administration. In **Tanzania**, the IMF supported the preparation of a fiscal and budget policy framework for the management of revenues from natural gas production. In **Kenya**, the IMF assisted in the design and implementation of the new petroleum fiscal regime. Mongolia was one of the first countries to benefit from a new natural resource revenue template that the IMF has developed to enhance transparency of these revenue flows and help mobilize domestic revenue. The template has been endorsed by the Extractive Industries Transparency Initiative, a global standard to promote open and accountable management of natural resources. In **Lebanon**, the IMF has held various interactive workshops with the authorities on tax policy issues for the country's nascent gas sector. The IMF also helped introduce a new consumer price index that reflects significantly improved compilation methods, including expanded coverage.

In response to the **Ebola outbreak in West Africa**, the IMF delivered urgently required technical assistance remotely from headquarters and the African Regional Technical Assistance Centers AFRITAC West 2 Regional Technical Assistance Center (RTAC). This assistance included advice to Liberia on the final phase of implementing a semi-autonomous revenue authority and planning for the introduction of a value-added tax. Remote technical assistance delivery was also provided to

Sierra Leone to improve the tax administration's capacity to assess and collect revenues from the extractive industry, as well as to Guinea to maintain capacity in public financial management and further improve national accounts statistics.

Highlights of monetary and financial sector capacity building

In the monetary and financial sector areas, the IMF deepened its engagement as well and launched new technical assistance programs to promote financial stability in low- and middle-income countries. Comprehensive technical assistance programs were implemented bilaterally and regionally to identify and manage financial sector vulnerabilities, strengthen regulatory and supervisory frameworks, support IMF lending programs, and build institutional capacities.

For example, banking supervision technical assistance in Cambodia, Myanmar, Nepal, and the Philippines helped establish the fundamental supervisory and regulatory infrastructure to safeguard financial stability.

Myanmar also received support in monetary operations, foreign exchange market operations, and central bank financial management. Countries in the Caribbean received technical assistance in the area of banking supervision and bank resolution; Barbados, Belize, Jamaica, and Suriname received assistance to improve the functioning of their domestic debt markets, and in central banking. Monetary and financial sector support to fragile and postconflict countries was provided in Democratic Republic of Congo, Somalia, and South Sudan.

In **South Sudan**, technical assistance aimed at supporting financial and macroeconomic stability through strengthening the Bank of South Sudan's institutional capacity and frameworks continued to progress despite a break due to security issues in the country. In **Somalia**, with the support of a new donor trust fund (see section on donor support below), assistance focused on establishing core activities of the central bank and building capacity for financial sector oversight and surveillance. In the **Democratic Republic of the Congo**, a multiyear program continued to make progress in strengthening financial sector supervision and regulation and implementing the central bank's modernization program.

Highlights of statistics capacity building

The IMF's technical assistance in **macroeconomic statistics** has increased significantly during the past few years (FY2012–15), posting a 76 percent increase. This growth was made possible through strengthened partnerships with donors, enabling the IMF to respond to the rising demand for capacity development compounded by the impact of the global financial crisis.

For example, in the Asia-Pacific region, 15 countries started to compile and disseminate balance-of-payments and international investment position (IIP) statistics in line with the *Balance of Payments and International Investment Position Manual* (BPM6), while 11 countries have for the first time submitted balance-of-payments or IIP statistics to the IMF for publication. Furthermore, 11 Asian countries started to report annual government finance statistics to the IMF with nine reporting high frequency data. Six countries began participating in the IMF–World Bank quarterly public sector debt database.

In the area of real sector statistics, notable outcomes include the implementation of the *System of National Accounts 2008*, the latest version of the international statistical standard for the national accounts, adopted by the United Nations, in Belarus, Bosnia, Macedonia, Moldova, Montenegro, and Serbia; the development of quarterly national accounts in Bosnia, Moldova, and Montenegro; and advances in the quality of price and merchandise trade statistics in some beneficiary countries.

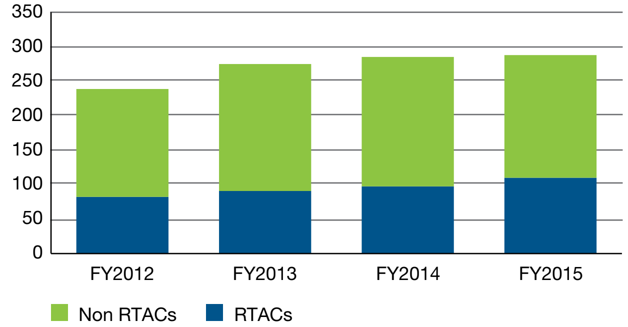
Demand for legal technical assistance in both program and nonprogram countries continued in FY2015 in the areas of anti-money laundering and combating the financing of terrorism, financial and fiscal law, insolvency, and judicial reform. On tax law, new fields such as legal underpinnings for tax administration and natural resource taxation expanded in FY2015.

RTACs are instrumental in providing hands-on and longer-term reform implementation support and guidance to country authorities in a range of fiscal, macroeconomic statistics, and financial sector areas, including public financial management, tax administration, macro-fiscal analysis, national accounts and price statistics, external sector statistics, government finance statistics, banking supervision and regulation, monetary and foreign exchange operations, and debt management.

Technical assistance provided by the IMF through RTACs reached a peak of 38.3 percent of the total delivered in FY2015 (Figure 2.9).

Currently, nine centers serve countries in Africa, the Caribbean, Central America, the Middle East, and the Pacific.

Figure **2.9**
Technical assistance delivery through Regional Technical Assistance Centers (RTACs), FY2012–15
(Person-years of field delivery)



Source: IMF Travel Information Management System (TIMS).

TRAINING

The IMF's training program is an integral part of the IMF's capacity development mandate and strives to respond to evolving global macroeconomic developments and policy challenges, membership demands, and technological innovations. Last year, the IMF's Institute for Capacity Development added new topics of strategic importance for the IMF's membership, such as debt sustainability and energy subsidy reforms. The courses provide theoretical lectures, analytical tools, and hands-on workshops. The IMF's online learning courses, which are free and open to anyone with an Internet connection, continued to grow, with the addition of one course on Energy Subsidy Reform and the translation into French of the Financial Programming and Policies, Part 1 course. Online training grew sharply by 38 percent to 13 percent of total IMF training in FY2015.

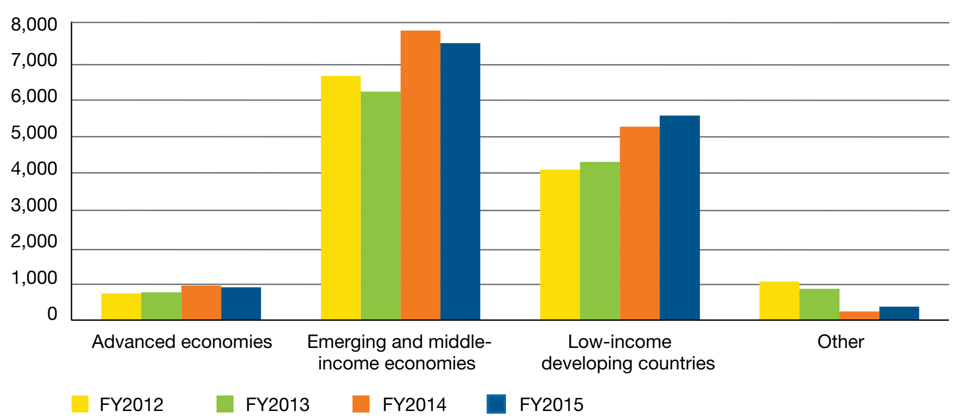
During FY2015, 345 training events were delivered by the IMF to its members, with some 11,315 officials attending them. Emerging market economies received the largest volume of IMF training, at about 53 percent of the total for the year (Figure 2.10). In terms of regional distribution, sub-Saharan Africa, Asia and the Pacific, and the Middle East and Central Asia received the largest volume of IMF training during the year (Figure 2.11).

DONOR SUPPORT FOR CAPACITY DEVELOPMENT

Donor support continues to bolster the IMF's ability to deliver technical assistance and training to member countries. New contributions totaling $145 million were received during FY2015, and activities financed by donors totaled $152 million. The IMF leverages external support for capacity development through several vehicles, including RTACs, Regional Training Centers, Topical Trust Funds, and bilateral partnerships.

Multidonor vehicles have been effective in delivering technical assistance and training to low- and lower-middle-income countries. The network of nine RTACs in the Pacific, the Middle East, Africa, the Caribbean, and Central America provided hands-on technical assistance and training. With the support of these centers, member countries achieved tangible results in reforming their economic and financial institutions. Topical Trust Funds offer specialized advice based on the latest research and draw on

Figure **2.10**
IMF training participation by income group, FY2012–15
(Participant-weeks of training)



Source: Participant and Applicant Tracking System (PATS).

the IMF's global experiences. There are now two country-focused and seven thematic Topical Trust Funds.

In FY2015, the Somalia Trust Fund for Capacity Development was successfully launched with $6.6 million in donor commitments. With the receipt of a $3.1 million contribution from Norway during the year, the South Sudan Trust Fund's $10.2 million program is now fully funded. A second five-year phase of the trust fund for Anti-Money Laundering and Combating the Financing of Terrorism began in May 2014. The new Tax Administration Diagnostic Assessment Tool Trust Fund contributes to improving tax administration functions in member countries.

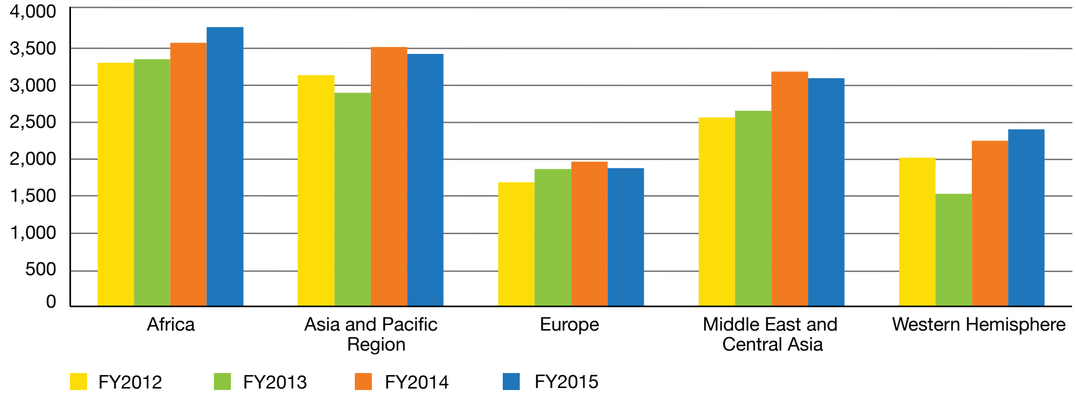
Independent mid-term evaluations of five RTACs, the Tax Policy and Administration Topical Trust Fund, and the Managing Natural Resources Wealth Topical Trust Fund found that these vehicles are delivering relevant, effective, and high-quality capacity development services.

The IMF expanded partnerships with longstanding donors on bilaterally funded projects. The top five donors to IMF capacity building are Japan, the European Union, Canada, the United Kingdom, and Switzerland. Japan, the largest donor, made new contributions totaling $29.6 million to finance technical assistance and training, including two scholarship programs.

The IMF and the United Kingdom's Department for International Development (DFID) agreed on a new project to improve macroeconomic statistics in 44 countries in Africa and the Middle East under which DFID will provide about $9.3 million to support capacity development over the next five years.

The previous Enhanced Data Dissemination Initiative project was the first phase of a DFID-funded statistics project for Africa that was implemented by the IMF during 2010–15. It achieved many concrete results, helping numerous countries to produce for the first time quarterly national accounts, IIP statistics, and financial soundness indicators; rebase their national accounts; expand coverage in monetary statistics; increase the frequency and accuracy of government finance statistics; expand data dissemination by publishing national summary data pages and advance release calendars; and add more countries to the IMF's General Data Dissemination System and Special Data Dissemination Standard.

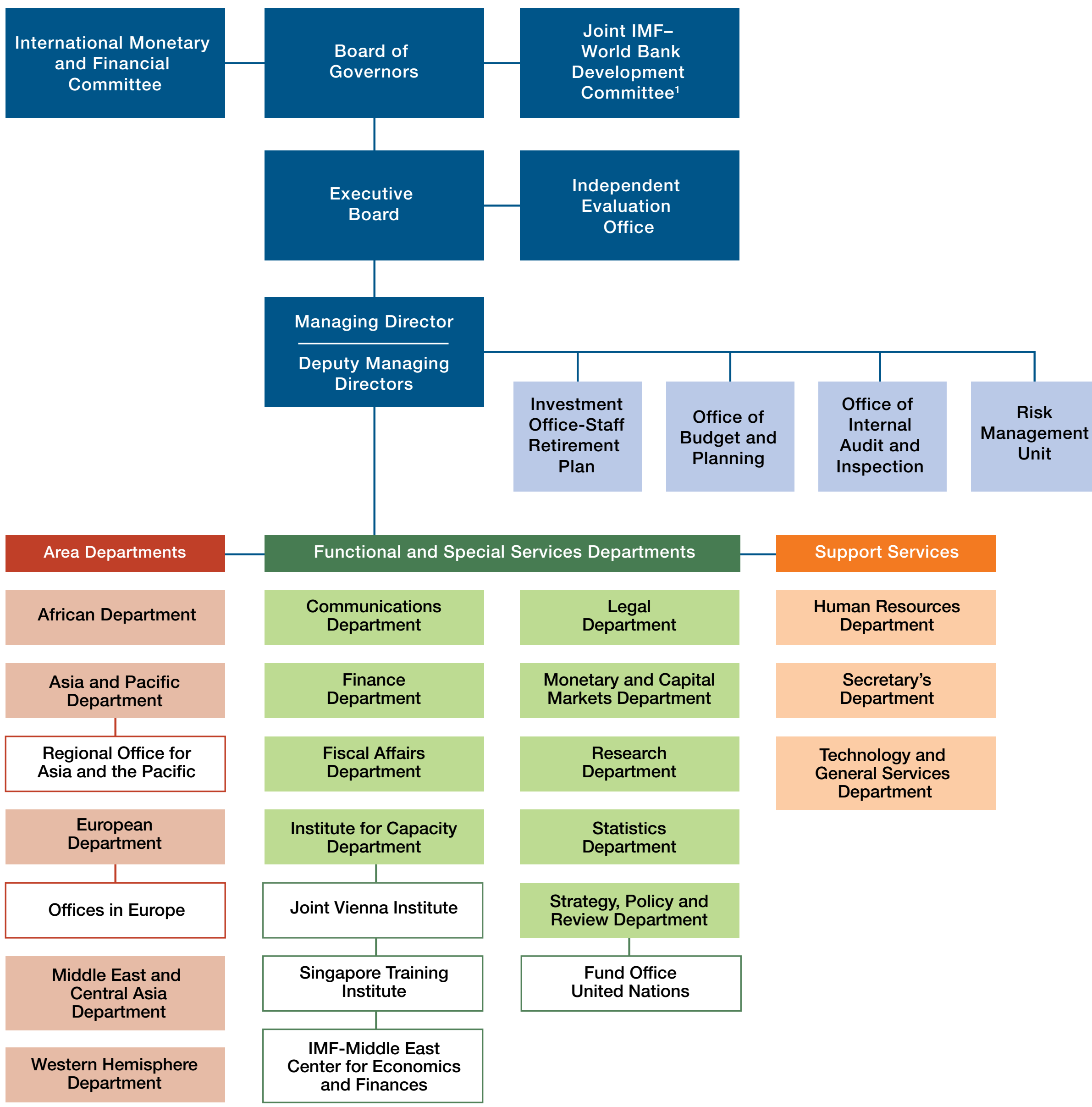
Figure **2.11**
IMF training participation by region, FY2012–15
(Participant-weeks of training)



Source: Participant and Applicant Tracking System (PATS).

IMF Organization Chart

as of April 30, 2015



[1] Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

Part 3 Finances, Organization, and Accountability

The IMF's 24-member Executive Board takes care of the daily business of the IMF. Together, the 24 Board members represent all 188 member countries. Large economies, such as the United States and China, have their own seat at the table, but most countries are grouped in constituencies representing four or more countries. The largest constituency includes 23 countries.

242 formal board meetings

The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff. The Board discusses everything from the annual health checks of member countries' economies to economic policy issues relevant to the global economy.

54 years at the IMF

The IMF Executive Board during FY2015 celebrated the distinguished IMF career of its outgoing Dean, Mr. Shakour Shaalan, who represented Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, Yemen, and his native Egypt for 22 years at the Board. This followed a career as member of the Fund staff that began in 1961—for a total of 54 years at the IMF.

As Executive Director, Mr. Shaalan made important contributions to the work of the institution, especially in the realm of surveillance, quota and voice, and in calling for evenhanded treatment of members. He became Dean of the Executive Directors in 2007 and retired in October 2014.

179 board meetings on countries

The Board normally makes decisions based on consensus but sometimes formal votes are taken. Informal discussions may be held to discuss complex policy issues still at a preliminary stage.

Finances, Organization, and Accountability

In FY2015, the IMF operated within an unchanged budget envelope in real terms. This was the third year in row. Greater utilization and reallocation of the budget enabled the IMF to meet new demands. The IMF's income is generated primarily through its lending and investment activities. The IMF has in place a comprehensive audit framework, which comprises complementary, yet distinct, roles of the external audit, internal audit, and External Audit Committee. The IMF's staff of 2,611 come from 147 countries.

BUDGET AND INCOME

Medium-term budget

In April 2014, in the context of the FY2015 –17 medium-term budget, the Executive Board authorized a total net administrative budget appropriation for FY2015 of $1,027 million. The Board also approved a limit on gross expenditures of $1,265 million, including up to $42 million in carry-forward of unspent FY2014 resources for possible spending in FY2015 (Table 3.1). It also approved capital expenditures of $52 million for building facilities and information technology capital projects.

The IMF work during the year continued to focus on supporting the still-weak global recovery in a sustainable way, a membership-wide priority covering advanced economies, particularly in Europe, emerging markets, and low-income developing countries. Actual administrative expenditures in FY2015 totaled $1,010 million, $17 million below the total net budget. The "underspend" continued the downward trend from the prior year and reflected greater utilization of the available budget. With vacancies declining, staffing expenses rose; separately the operating costs for the Annual and Spring Meetings increased due in part to the HQ1 building renovation; and physical security at overseas offices and information technology security costs grew.

Capital budget expenditures for facilities and information technology totaled $136 million, including amounts appropriated in prior years. Information technology spending totaled $29 million for core infrastructure replacements and upgrades, data management projects, and IT security. Progress continued on the multiyear HQ1 Renewal program, an occupied renovation in the construction phase.

For financial reporting purposes, the IMF administrative expenditures are accounted for on an accrual basis in accordance with International Financial Reporting Standards (IFRS). Those standards require accounting on an accrual basis and the recording and amortizing of employee benefit costs based on actuarial valuations. Table 3.2 provides a detailed reconciliation between the FY2015 net administrative budget outturn of $1,010 million and the IFRS-based administrative expenses of $1,262 million (SDR 857 million) reported in the IMF's audited financial statements for the year.

In April 2015, the Board approved a budget for FY2016, including net administrative expenditures of $1,052 million and a limit on gross expenditures of $1,290 million, including up to $43 million in carry-forward of unspent FY2015 resources. Indicative budgets for FY2017 and FY2018 were also presented to the Board. For the fourth year in a row, the limit on net administrative expenditures, excluding the carry-forward, remained unchanged in real terms relative to the prior year. The capital budget was set at $42 million, comprising $28 million for information technology and $14 million for building facilities projects. Budget formulation emphasized organizational efficiency as a means of accommodating new and ongoing strategic priorities. Departments stepped up efforts to reallocate resources away from lower priority activities and to achieve efficiency gains to help meet, within a flat budget envelope, the new priorities highlighted in the Global Policy Agenda.

Income, charges, remuneration, burden sharing, and a review of the IMF's charges and maturities

Income model

Since its establishment, the IMF's financing has relied primarily on its lending activities but has in recent years diversified its sources of income. Beginning in 2006, the IMF has invested its reserves to generate additional income. In 2008, the IMF Executive Board endorsed the

Table **3.1**

Budget by major expenditure category, FY2014–18

(Millions of U.S. dollars)

	FY2014		FY2015		FY2016	FY2017	FY2018
	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
ADMINISTRATIVE EXPENDITURES							
Personnel	861	829	893	862	910	934	960
Travel[1]	123	117	128	112	131	125	126
Buildings and other	190	203	196	204	197	200	204
Contingency reserves	12	…	7	…	10	10	10
Total gross expenditures	**1,186**	**1,149**	**1,224**	**1,177**	**1,248**	**1,269**	**1,300**
Receipts[2]	-179	-160	-197	-167	-196	-200	-205
Total net budget	**1,007**	**989**	**1,027**	**1,010**	**1,052**	**1,070**	**1,095**
Carry-forward[3,4]	42	…	42	…	43		
Total net budget including carry-forward	**1,049**	**989**	**1,069**	**1,010**	**1,094**	**1,070**	**1,095**
Capital[5]							
Facilities and Information Technology	**41**	**144**	**52**	**136**	**42**	**47**	**49**
of which: HQ1 Renewal				**96**			

Source: IMF Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

[1]FY2016 include travel to the Annual Meetings held abroad.

[2]Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, parking, and other miscellaneous revenue.

[3]Unspent resources are carried forward from the prior year under established rules.

[4]The carry-forward, along with the approved budget, define the limit on gross expenditures.

[5]Capital budget expenditures are generally available to be spent over a three-year period. A major building project like HQ1 Renewal is an exception, with spending expected to take place over a five-year period.

new income model that includes the establishment of an endowment funded from the profits from the sale of a limited portion of the institution's gold holdings. As the Fifth Amendment of the IMF's Articles of Agreement, another key element of the new income model became effective in February 2011, the IMF's investment authority was also broadened enabling the IMF to adapt its investment strategy over time and to enhance the expected return on its investments.

Charges

Reflecting the high levels of lending activities, the IMF's main source of income continues to come from charges levied on the outstanding use of credit. However, the relative contribution to the IMF's income from investment earnings, and in particular earnings on the investment of resources held in the endowment, which will be phased over a three-year period (funding to the endowment's strategic asset allocation started in March 2014), will increase over time. The basic rate of charge (the interest rate) on IMF nonconcessional financing comprises the SDR interest rate plus a margin expressed in basis points. For FY2015 and FY2016, the Executive Board agreed to keep the margin for the rate of charge at 100 basis points. Under the rule adopted by the Executive Board in December 2011, the margin is set so as to cover the IMF's lending-related intermediation costs and allow for a buildup of its reserves. In addition, the rule includes a cross-check to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions.

Surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches* and under Extended Fund Facility Arrangements; these are referred to as level-based surcharges. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (with the same threshold as above) that remains outstanding for more than 36 months.

In addition to basic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing, except for reserve tranche drawings, from the General Resources Account (GRA). A refundable commitment fee is charged on amounts available under GRA arrangements, such as Stand-By Arrangements, as well as Extended, Flexible Credit Line, and Precautionary Liquidity Line Arrangements, during each 12-month period. Commitment fees are levied at 15 basis points on amounts available for drawing up to 200 percent of quota, 30 basis points on amounts in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts over 1,000 percent of quota. The fees are refunded when the arrangement is drawn upon, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are past due by less than six months.

* Credit tranches refer to the size of a member's purchases (disbursements) in proportion to its quota in the IMF. Disbursements up to 25 percent of a member's quota are disbursements under the first credit tranche and require members to demonstrate reasonable efforts to overcome their balance-of-payments problems. Disbursements above 25 percent of quota are referred to as upper-credit-tranche drawings; they are made in installments, as the borrower meets certain established performance targets. Such disbursements are normally associated with Stand-By or Extended Arrangements (and also the new Flexible Credit Line). Access to IMF resources outside an arrangement is rare and expected to remain so.

Table **3.2**

Administrative expenses reported in the financial statements, FY2015

(Millions of U.S. dollars, unless otherwise indicated)

FY2015 NET ADMINISTRATIVE BUDGET OUTTURN	1,010
TIMING DIFFERENCES	
Pension and postemployment benefits costs	247
Capital expenditure—amortization of current and prior years' expenditure	46
AMOUNTS NOT INCLUDED IN THE ADMINISTRATIVE BUDGET	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	41
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust, Post-Catastrophe Debt Relief Trust, and Special Drawing Rights Department)	(82)
Total administrative expenses reported in the audited financial statements	1,262
MEMORANDUM ITEM	
Total administrative expenses reported in the audited financial statements (millions of SDRs)	857

Sources: IMF Finance Department and Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Conversions are based on the effective weighted average FY2015 U.S. dollar/SDR exchange rate for expenditures of about 1.47.

Remuneration and interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, or less than 80 percent of that rate. The rate of remuneration is currently set at the SDR interest rate. The IMF also pays interest, at the SDR interest rate, on its outstanding borrowings under the bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangements to Borrow.

Burden sharing

The rates of charge and remuneration are adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations equally between debtor and creditor members. Income loss due to unpaid interest charges that are overdue for six months or more is recovered via burden sharing by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the unpaid charges are settled.

In FY2015, the adjustments for unpaid quarterly interest charges averaged less than 1 basis point, reflecting the current levels of overdue obligations and lending, and the prevailing low interest rate environment. The adjusted rates of charge and remuneration averaged 1.06 percent and 0.06 percent, respectively, in FY2015.

Net income

The IMF's net income in FY2015 was SDR 1.6 billion, reflecting primarily income from the high levels of lending activity and income from its investments held in the Investment Account. As required by International Financial Reporting Standards (amended International Accounting Standard 19, *Employee Benefits*), the net income for the financial year includes a loss of SDR 0.5 billion arising from the immediate recognition of the effects of changes in actuarial assumptions used in determining the IMF's defined benefit obligation of post-employment employee benefit plans.

Rule for Setting the SDR Interest Rate

In October 2014, the Executive Board amended the rule for setting the SDR interest rate in order to address issues surrounding the fact that the SDR rate had reached historic lows and to prevent it from moving toward a negative rate, by introducing a floor of 0.050 percent (5 basis points) and changing the rounding convention for calculating the SDR interest rate from two to three decimal places. The Executive Board also made a corresponding change in the rounding convention for the burden-sharing mechanism and reduced the minimum burden sharing adjustment from 1 basis point to 0.1 basis point.

The SDR interest rate provides the basis for calculating the interest charged to members on nonconcessional IMF loans from the IMF's general resources, the interest paid to IMF members on their remunerated creditor positions in the IMF (reserve tranche positions), interest paid to lenders on their outstanding claims under borrowing agreements, and the interest paid to lenders on their SDR holdings and charged on their SDR allocations. The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term financial debt instruments in the money markets of the SDR basket currencies, subject to a floor of 0.050 percent.

Extension of the 2012 Borrowing Agreements

In September 2014, the Executive Board approved a one-year extension of the 2012 Borrowing Agreements. These agreements have played a key role in ensuring that the IMF has adequate resources to meet members' potential needs in the event that tail risks were to materialize.

Box 3.1: Safeguards assessments: policy and activity

When the IMF provides financing to a member country, a safeguards assessment is carried out to obtain reasonable assurances that its central bank is able to adequately manage the resources received from the IMF and provide reliable program monetary data. Safeguards assessments are diagnostic reviews of central banks' governance and control frameworks, and complement the IMF's other safeguards, which include limits on access, conditionality, program design, measures to address misreporting, and post-program monitoring. They involve an evaluation of central bank operations in five areas: the external audit mechanism, the legal structure and autonomy, the financial reporting framework, the internal audit mechanism, and the system of internal controls.

As of April 2015, 272 assessments had been conducted, covering 96 central banks, 13 assessments of which were completed in FY2015. In addition, safeguards activities include monitoring of progress in addressing recommendations and other developments in central banks' safeguards frameworks for as long as IMF credit remains outstanding. About 70 central banks are currently subject to monitoring.

An increased focus on collaboration with key stakeholders has raised awareness of safeguards issues. Two safeguards seminars, which covered the safeguards policy and its application, were conducted at the IMF–Singapore Regional Training Institute and with the Joint Partnership for Africa in Tunis. In addition, a high-level forum on central bank governance was held in Dubai in December 2014, with participants from 43 countries in Africa, Europe, and the Middle East. The forum, organized in partnership with the Hawkamah Institute for Corporate Governance, provided a platform for a cross-regional dialogue on challenges and leading practices in audit oversight, governance, and risk management at central banks.

In accordance with a five-year review cycle, the IMF Executive Board will review the safeguards policy in October 2015, with a view to assessing the policy's effectiveness and identifying areas for further improvement.

In 2012, a number of member countries committed to increase IMF resources through bilateral borrowing agreements. Following Executive Board approval of the modalities for the 2012 Borrowing Agreements, 35 agreements for a total of about $396 billion (SDR 282 billion) were approved by the Executive Board, of which 33 agreements are now effective for a total of $381 billion (SDR 271 billion). The 2012 Borrowing Agreements are designed as a second line of defense after quota and New Arrangements to Borrow resources and have so far not been activated for use in financing operations. Each agreement has an initial two-year term, and may be extended by up to two additional one-year periods.

After this decision, which followed consultations with lenders, the initial two-year term of the agreements was extended by one year.

Arrears to the IMF

Overdue financial obligations to the IMF fell from SDR 1,295.5 million at end-April 2014 to SDR 1,290.8 million at end-April 2015 (Table 3.3). Sudan accounted for about 76 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 6 percent, respectively. At end-April 2015, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, and the remaining two-thirds, of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the Trust Fund and the PRGT. Zimbabwe is the only country with protracted arrears to the PRGT. Thanks to the SDR allocations in August/September 2009, all protracted cases have remained current in the SDR Department.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been taken to address the protracted arrears. At the end of the fiscal year, Somalia and Sudan remained ineligible to use GRA resources. Zimbabwe is not able to access GRA resources until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of technical assistance, and the removal from the list of PRGT-eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT.

On June 30 and July 13, 2015, Greece did not settle repurchase obligations falling due amounting to SDR 1,232 million and SDR 360 million, respectively. While the overdue obligations were outstanding, Greece was not permitted to receive any further IMF financing. Charges continued to accrue on all obligations. Greece subsequently settled these overdue obligations on July 20, 2015.

Audit mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that, under the IMF's By-Laws, exercises general oversight over the annual audit.

External Audit Committee

The three members of the EAC are selected by the Executive Board and appointed by the Managing Director. Members serve three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different member countries and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, EAC members have significant experience in international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. It meets in Washington, D.C., each year, normally in January or February to oversee the planning for the annual audit, in June after the completion of the audit, and in July to brief the Executive Board. The IMF staff and the external auditors consult with EAC members throughout the year. The 2015 EAC members were Gonzalo Ramos (chair), the secretary general of the Public Interest Oversight Board; Daniel Loeto, a chartered accountant and the chief accountant of the Bank of Botswana; and Mary Barth, a professor of accounting at Stanford University.

Box 3.2: HQ1 building renovation progress

The renovation of the older of the two IMF headquarters buildings (HQ1) in downtown Washington, D.C., continued in FY2015. The project is designed to replace aging building systems nearing the end of their useful lives and in need of replacement or refurbishment. The renewal will enable more energy-efficient and sustainable operations, provide more natural light throughout the building, and promote institutional collaboration through the introduction of modern work areas and meeting spaces.

The renovation began on May 1, 2013, and much of the initial work took place on the lower levels and public spaces. In FY2015, staff returned to offices in portions of the below-ground levels after renovation of that space, and work progressed on floors one to four of the building. The project has experienced some challenges due to unexpected and complex technical conditions, as well as the discovery of additional asbestos. More time has been and will be needed to remove this material in the other floors, in accordance with the health and safety protocols being followed.

The project aspires to LEED (Leadership in Energy and Environmental Design) certification and incorporates green building design and construction practices that are intended to have a lower impact on the environment and will help lay the foundation for ongoing sustainable operations and maintenance.

Table 3.3. Arrears to the IMF of countries with obligations overdue by six months or more and by type, as of April 30, 2015
(Millions of SDRs)

	Total	General Department (including Structural Adjustment Facility)	Trust Fund	Poverty Reduction and Growth Trust
Somalia	235.7	227.4	8.3	-
Sudan	975.2	893.1	82.1	-
Zimbabwe	79.9	-	-	79.9
Total	1,290.8	1,120.5	90.4	79.9

Source: IMF Finance Department.

External audit firm

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for conducting the IMF's annual external audit and expressing an opinion on the IMF's financial statements, including the accounts administered under Article V, Section 2(b), of the Articles of Agreement and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors.

The external audit firm is appointed for a term of five years, which may be renewed for up to an additional five years. PricewaterhouseCoopers (PwC) was appointed as the IMF's external audit firm in November 2014, following the mandatory rotation of Deloitte & Touche LLP after 10 years. The external audit firm can perform certain consulting services, subject to a blacklist of prohibited services and robust safeguards to protect the audit firm's independence. These safeguards involve the IMF's External Audit Committee and, for consulting fees above a certain limit, the Executive Board.

Office of Internal Audit and Inspection

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the IMF's risk management, control, and governance processes. OIA's audit coverage includes the IMF staff, the Executive Board, offices of the Executive Directors, and the Independent Evaluation Office and its staff. In line with best practices, OIA reports to IMF management and to the EAC, thus ensuring its objectivity and independence.

In FY2015, OIA completed assurance and advisory engagements to assess the adequacy of controls and procedures in order to mitigate risks to achievement of the IMF's institutional and departmental goals. Engagements were in the areas of financial audits on the adequacy of controls to safeguard and administer the IMF's financial assets and accounts, information technology audits to evaluate the adequacy of information technology management and the effectiveness of security measures, and operational audits of work processes and associated controls supporting the IMF's core operations.

The Risk Management Unit (RMU) was established on June 9, 2014, to replace the Advisory Committee on Risk Management (ACRM). Previously OIA served as Secretariat to the ACRM. In this capacity, OIA coordinated the production of an annual risk management report to the Board and supported informal briefings of the Board on risk management. OIA's last report on risk management was issued on June 20, 2014. In March 2015, the RMU presented the outline for a proposed risk management framework to the Executive Board for discussion in an informal Board session. More work in this area is to follow in FY2016.

The Board is informed of OIA activities twice a year by means of an activity report that includes information on audit results and the status of audit recommendations. The last informal Board briefing on these matters in FY2015 took place in January 2015.

HUMAN RESOURCES POLICIES AND ORGANIZATION

Human resources

To be effective in the global economy, the IMF must recruit and retain a highly qualified international staff. In FY2015, the IMF introduced a new employment framework to ensure flexibility and fairness in the hiring rules for new staff and contractual employees, and revised benchmark targets for the geographic and gender diversity of staff.

Workforce characteristics

As of April 30, 2015, the IMF employed 2,156 professional and managerial staff, and 455 support staff. A list of the institution's senior officers is on page 82 and its organizational chart can be found on page 62.

Recruitment of 174 total new staff in 2014 was similar to the 2013 level of 176. The IMF requires economists with advanced analytical and policymaking experience, and in 2014 recruited 27 top university graduates through the Economist Program (EP) and 56 experienced mid-career economists. Two-thirds of mid-career hires were macroeconomists, and the rest experts in fiscal policy and the financial sector. In 2014, 490 contractual employees were hired, reflecting a 3 percent increase over 2013. Consistent with the aim of improving support to economists, 56 research assistants were hired, representing one-third of all support contractuals.

In 2014, six appointees from three countries were enrolled in the Externally Financed Appointee hiring program (EFA). The EFA was designed to provide up to 15 member country public sector officials with two years of IMF work experience. Costs are financed by member countries through a multidonor trust fund.

Diversity and inclusion

The IMF strives to ensure that the staff is diverse in terms of geographic region, gender, and educational background, but challenges remain. Of the IMF's 188 member countries, 147 were represented by staff as of end-April 2015. Web Tables 3.1–3.3 show the distribution of the IMF's staff by geographic region, gender, and country type.

Hiring of nationals from underrepresented regions stood at 43 percent of all external hiring at the professional level for 2014. More than half of the 2014 EP intake were from underrepresented regions. The share of women in the EP remained at 36 percent, and at 25 percent of mid-career economist hires.

During the year, several measures were introduced to improve the inclusiveness of the work environment. A new cross-cultural competence assessment was added to the training curriculum and a group mentoring program targeting professional staff from underrepresented regions was introduced.

The 2014 Diversity and Inclusion report revised regional and gender benchmarks for 2020. The benchmarks focus on areas where progress is most needed: professional staff from sub-Saharan Africa, the Middle East and Central Asia, and East Asia, and female managers. In view of significant progress and a strong pipeline of staff from transition economies, benchmarks for these countries were discontinued. Further integration of diversity and inclusion into human resources policies and strong accountability toward the new 2020 benchmarks are planned for 2015.

Management structure and salaries

In 2014, a deputy managing director position was assigned the role of Chief Administrative Officer (CAO) for the first time, to improve focus on internal operational and administrative management.

IMF management remuneration is reviewed periodically by the Executive Board; the Managing Director's salary is approved by the Board of Governors. Annual adjustments are made on the basis of the Washington, D.C., consumer price index. Reflecting the responsibilities of each management position, as of July 1, 2014, the salary structure for management was as follows:

Managing Director:	$492,690
First Deputy Managing Director:	$428,410
Deputy Managing Directors:	$408,020

Management changes

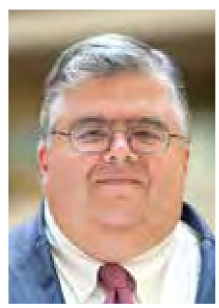
On January 14, 2015, former Deputy Managing Director Naoyuki Shinohara notified IMF Managing Director Christine Lagarde of his intention to leave the IMF to return to Japan at the end of this term. His last day at the Fund was February 28, 2015.

On March 18, 2014, Deputy Managing Director Nemat "Minouche" Shafik informed Ms. Lagarde of her intention to leave the Fund to assume the position of Deputy Governor at the Bank of England responsible for Markets and Banking starting August 1, 2014.

Carla Grasso assumed office as Deputy Managing Director and Chief Administrative Officer of the IMF on February 2, 2015. Ms. Grasso is a dual national of Brazil and Italy. Before coming to the IMF, she worked for 14 years, at Vale S.A., one of the world's largest mining companies, serving as vice president for human resources and corporate services from 2001 to 2011. Prior to that, Ms. Grasso served as secretary of the Brazilian Supplementary Social Security Office from 1994 to 1997, and also held several positions as advisor and coordinator in the Ministries of Social Security, Finance, and Planning, as well as in the Office of the President of Brazil.

Mitsuhiro Furusawa assumed office as Deputy Managing Director of the IMF on March 2, 2015. Immediately before coming to the Fund, he served as Special Advisor to Japanese Prime Minister Shinzo Abe and special advisor to the Minister of Finance. Among his recent ministry postings, Mr. Furusawa served as vice minister of finance for international affairs (2013–14), director-general of the Financial Bureau (2012–13), and senior deputy director-general of the International Bureau (2009–10). His overseas postings for the Japanese government included IMF Executive Director (2010–12), minister (Finance) at the Embassy of Japan in the United States (2007–09), and counselor (Finance) at the Embassy of Japan in France (1997–99).

Selection of new IMFC Chair



The members of the International Monetary and Financial Committee (IMFC), the IMF's policy advisory committee, selected Agustín Carstens, governor of Banco de México, as chairman of the committee for a term of three years, effective March 23, 2015. Mr. Carstens succeeded Tharman Shanmugaratnam, Singapore's deputy prime minister and minister for finance, whose term ended March 22, 2015.

Mr. Carstens had been the governor of the Banco de México since January 2010. He served as Mexico's finance minister from December 2006 until December 2009, and chaired the IMF and World Bank Joint Development Committee from March 2007 to October 2009. From August 2003 to October 2006, Mr. Carstens served as Deputy Managing Director of the IMF, and was an Executive Director on the IMF Board in 1999–2000. Mr. Carstens was Mexico's deputy minister of finance from 2000 to 2003, and held a variety of posts in the Banco de México in a career spanning more than 20 years.

The IMFC, comprising finance ministers and central bank governors, is the primary advisory body of the IMF Board of Governors and deliberates on the principal policy issues facing the IMF. The committee has 24 members, reflecting the composition of the IMF Executive Board. Each member country that appoints, and each group of countries that elects, an Executive Director also appoints a member of the committee. The IMFC normally meets twice a year—in the spring and at the time of the IMF–World Bank Annual Meetings in the fall.

ACCOUNTABILITY

Independent Evaluation Office

The IEO was established in 2001 to conduct independent and objective evaluations of IMF policies and activities. Under its terms of reference, the IEO is fully independent from IMF management and operates at arm's length from the Board of Executive Directors. Its mission is to enhance the learning culture within the IMF, strengthen the IMF's external credibility, and support institutional governance and oversight.

Board reviews of IEO reports

In November 2014 the IEO released a report, "IMF Response to the Financial and Economic Crisis." The report assessed the IMF's actions to help contain the 2008 global financial crisis and navigate the global recovery, assist individual economies to cope with the impact, and identify and warn about future risks. It found that the IMF played an important role in the global response to the crisis, that the policy advice provided by staff was flexible and adaptable, and that IMF-supported programs reflected many lessons from past crises; with a reformed lending toolkit, supported by a resource mobilization effort that quadrupled the IMF's resources, the IMF helped members cope with the crisis fallout.

However, the report said that the agreed doubling of quotas has not become effective, leaving the IMF dependent on borrowing arrangements for more than two-thirds of its total credit capacity. It also said that the IMF's record in surveillance was mixed, and although the IMF's calls for global fiscal stimulus in 2008–09 were timely and influential, its endorsement in 2010–11 of a shift to consolidation in some of the largest advanced economies was premature.

The IMF Executive Board and management broadly supported most of the IEO report recommendations. These included ensuring that the IMF has sufficient resources to contribute to future crisis resolution, better structuring engagements with other organizations, and further integrating and consolidating risk and vulnerability analyses.

In July 2014, the IEO released a report, "Recurring Issues from a Decade of Evaluation: Lessons for the IMF." The report focused on the five most common issues that the IEO had identified in its past evaluations: organizational silos, attention to risks and uncertainty, country and institutional context, evenhandedness, and Executive Board guidance and oversight. It found that the IMF's Executive Board and management had taken actions to address the issues in all five areas, but that challenges remained and were likely to persist, as the recurring issues were to varying degrees inherent to the nature of the IMF. Executive Directors and management broadly supported the report's recommendations and emphasized that efforts to address these issues should continue in order to enhance the IMF's effectiveness and credibility.

IEO revisits of past evaluations

The IEO issued two reports in FY2015 revisiting past IEO evaluations. The initial impetus for this series came from inquiries from Executive Directors and member country authorities on the status of issues raised in past evaluations. The 2013 external evaluation of the IEO also found a strong case for revisiting some of these issues.

The evaluation updates are brief stocktaking exercises, more modest in scope than full IEO evaluations, but broader in coverage than the Periodic Monitoring Reports (PMRs) prepared by IMF staff. The updates summarize the original IEO evaluation, describe relevant developments that have taken place since the evaluation (including implementation of the IEO's recommendations), and identify outstanding issues and any new ones related to the evaluation topic that merit continued attention.

The two revisits issued in FY2015 covered three past evaluations. One looked back at the IEO "Report on the Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)" (2004) and "The IMF and Aid to Sub-Saharan Africa" (2007); the other updated the main issues of the 2005 evaluation of "The IMF's Approach to Capital Account Liberalization." The original reports and revisits are available on the IEO website.

IEO Work Program

In FY2015, the IEO launched a new evaluation, "The IMF and the Euro Area Crisis." The IEO is also working to conclude "Learning from Experience: An IEO Assessment of Self-Evaluation Systems" and an evaluation of "Statistics for Global Economic and Financial Stability: The Role of the IMF." The IEO issued a note on "Possible Topics for Evaluation over the Medium Term" in January 2015 and consulted with Executive Directors and other stakeholders on potential future evaluation topics on this basis.

Implementation of Board-endorsed recommendations

The sixth PMR on the status of implementation plans in response to Board-endorsed IEO recommendations was approved by the Executive Board in August 2014. This was the first PMR prepared by the Office of Internal Audit and Inspection under the procedure recommended by the external evaluators of the IEO and approved by the Board in February 2013. It reviewed the status of Management Implementation Plans (MIPs) for four IEO evaluations issued during 2011–13 and provided an update on progress on relevant issues related to previous MIPs agreed upon since 2007.

In considering the PMR, the IMF's Executive Board Evaluation Committee noted that it represented an improvement over previous reports but that more could be done to sharpen the focus on whether implementation measures proposed by management have been effective in achieving the high-level objectives of the Board-endorsed recommendations. No new MIPs were issued by the IMF in FY2015.

OUTREACH AND ENGAGEMENT WITH EXTERNAL STAKEHOLDERS

The objectives of IMF outreach are twofold: first, to listen to external voices to better understand their concerns and perspectives, with the aim of improving the relevance and quality of IMF policy advice; and second, to strengthen the outside world's understanding of IMF objectives and operations. Among the specific groups with which the IMF engages in its outreach activities are civil society organizations and youth leaders, trade and labor unions, parliamentarians, academics, think tanks, and the media. Tools such as social media, videos, and podcasts have formed an increasing part of the IMF's outreach strategy in recent years.

The IMF's Communications Department has primary responsibility for conducting the IMF's outreach activities and its engagement with external stakeholders. As the institution's policies have evolved—for instance, in its increased focus on promoting poverty reduction in low-income developing countries through a participatory approach and its emphasis on transparency and good governance—outreach and communication have become an integral part of IMF country work as well.

Box 3.3: Outreach to new policy influencers

The global financial crisis and its aftermath underlined the importance of reaching out to a broad range of stakeholders, including civil society organizations (CSOs), youth, labor organizations, and parliamentarians, to explain and seek feedback on the IMF's policy advice.

In its eighth year, the IMF Civil Society Fellowship program sponsored the participation of about 40 **CSOs** from developing economies in the Spring and Annual Meetings. On the margins of the meetings, the IMF, the World Bank, and CSOs organized about 100 sessions on a broad range of policy issues that included debt sustainability, inequality, climate change, and gender. More generally, the IMF also engaged with civil society in informal discussions on key policy issues, such as the IMF's response to the Ebola outbreak and sovereign debt restructuring. Civil society was also invited to provide input through public consultations on the IMF's Fiscal Transparency Code and on the integration of countries' poverty reduction strategies with Fund-supported programs in low-income developing countries.

The IMF continued to step up its engagement with **youth**—the next generation of policymakers and world leaders—through the Annual Meetings, introductory seminars for students on the IMF, university visits by IMF management, and youth events with senior staff. The First Deputy Managing Director chaired town hall discussions with university students in Chile, Mexico, and Peru, events designed to help spotlight the 2015 Annual Meetings in Peru. In the same vein, an IMF Latin American Youth Essay contest brought eight winners to the 2014 Annual Meetings, which included a youth seminar on the topic of inclusive growth and entrepreneurship.

Given the significant impact of the global crisis on jobs, the IMF continued to regularly engage with **labor organizations** on a number of levels. At headquarters, the IMF hosted the biennial, high-level meeting with the International Trade Unions Confederation, and held formal and informal discussions with labor organizations on jobs and growth, inequality, and collective bargaining.

The IMF engages with **parliamentarians**—a group that plays an important role in their countries' economic decision-making process—mainly through the Parliamentary Network on the World Bank and the International Monetary Fund, but also through targeted in-country and regional seminars on issues such as extractive industries, structural reforms, and inequality (for example, in Bangladesh and Peru). This year's Parliamentary Network Global Conference, co-hosted by the IMF and attended by about 200 members of parliament from more than 80 countries, focused on the 2015 development agenda, health care systems, gender equality, jobs and growth, and environmental challenges.

Outreach by IMF management and senior staff

As the importance of the IMF's outreach efforts has grown in the face of the global financial crisis and aftermath, the management team has played an increasingly important role in those efforts. Outreach by management and senior IMF staff provides an opportunity to articulate the institution's strategic vision and the key policy priorities for the membership at large; to marshal support for policymakers for difficult national reforms that carry both domestic and global benefits; to learn more about issues affecting key stakeholders in member countries, including nontraditional constituents, with the aim of strengthening

IMF analysis and policy advice; and to reinforce the IMF's commitment to providing needed support to members, particularly those most affected by the crisis.

The Managing Director, Deputy Managing Directors, and senior IMF staff travel extensively in all five regions, meeting with authorities and key stakeholders in member countries and taking advantage of numerous opportunities to further the IMF's outreach objectives.

Regional Office for Asia and the Pacific

As the IMF's window to Asia and the Pacific, a region whose importance in the global economy continues to grow, the Regional Office for Asia and the Pacific (OAP) monitors economic and financial developments to help bring a more regionally focused perspective to IMF surveillance. It seeks to enhance understanding of the IMF and its policies in the region and to keep the IMF informed on regional perspectives on key issues. In this capacity, OAP has continued to be engaged in bilateral surveillance in Japan and Mongolia, and increased regional surveillance with active participation by OAP staff in forums in Asia, including ASEAN+3 (the Association of Southeast Asian Nations plus China, Japan, and Korea) and APEC (Asia-Pacific Economic Cooperation).

OAP contributes to capacity development in the region through the Japan–IMF Scholarship Program for Asia, the Japan–IMF Macroeconomic Seminar for Asia, and other macroeconomic seminars. Highlights during the year included a June 2014 seminar on fiscal policy rules and fiscal councils in Asia and the Pacific and an October 2014 seminar offered jointly by Bank Indonesia and the IMF's Monetary and Capital Markets Department to regional central bankers on modernizing monetary policy frameworks in frontier economies.

The office also conducts outreach activities in both Japan and the rest of the region and engages in dialogue with Asian policymakers by organizing conferences and events on current policy issues central to the IMF's work. A conference co-organized with the Bank of Korea in November 2014 focused on macroeconomic rebalancing for sustainable growth, and a conference jointly organized in Tokyo with Hitotsubashi University in March 2015 discussed challenges related to inequality and potential policy responses, with a particular focus on the implications of fiscal redistribution.

Regional Office in Paris and Brussels

The IMF Europe Office, located in Paris and Brussels, serves as liaison to European Union institutions and member states, as well as international organizations and civil society in Europe. The office engages with institutions such as the European Commission, the European Central Bank, the European Stability Mechanism, the European Parliament, the Economic and Financial Committee, and the Eurogroup Working Group, on euro area and EU policies as well as EU–IMF country programs. It also represents the IMF at the Organisation for Economic Co-operation and Development.

More broadly, it fosters the dialogue on global economic issues with EU institutions, international organizations, and governments and civil society in Europe, and meets frequently with representatives from industry associations, unions, academia, and the financial sector. It also supports the IMF's operations in Europe, including in economic surveillance, IMF-supported programs, and technical assistance, and helps to coordinate communication and outreach activities across the region.

QUOTAS AND GOVERNANCE

IMF quota reform

Quota subscriptions are a central component of the IMFs financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member country's quota determines its maximum financial commitment to the IMF and its voting power, and has a bearing on its access to IMF financing.

In 2010, the Board of Governors, the IMF's highest decision-making body, approved a package of far-reaching reforms of the IMF's quotas and governance ("2010 reforms"), which included notably the following measures:

Completion of the 14th General Review of Quotas with an unprecedented doubling of quotas and a major realignment of quota shares—a shift of more than 6 percent from overrepresented to underrepresented members and a more than 6 percent quota shift to dynamic emerging market and developing countries, while protecting the quota shares and voting power of the poorest members.

A proposed amendment to the Articles of Agreement ("Board Reform Amendment") that would facilitate a move to a more representative, all-elected Executive Board.

A request to the Executive Board to bring forward the timetable for completion of the 15th General Review of Quotas to January 2014, and request to complete a comprehensive quota formula review by January 2013.

Members committed to make best efforts to complete their domestic approval processes of these reforms by the Annual Meeting of the Board of Governors in October 2012. However, the Board Reform Amendment and the quota increases under the 14th Review have still not become effective pending the ratification of the reforms by several members, including the United States. Initiation of the work on the 15th Review has been on hold.

Against this backdrop, and as requested by the IMFC, on January 14, 2015, the Executive Board held an informal discussion on options for next steps, building on its existing work.

On January 28, the Executive Board reported to the Board of Governors on the status of the 2010 Reforms and 15th General Review of Quotas. The Executive Board's report to the Board of Governors contained also a proposed resolution, which was adopted on February 18, 2015, by the Board of Governors. The Resolution expressed deep regret that the 14th Review quota increases and the Board Reform Amendment have not become effective, and that the 15th Review has not been completed. The resolution also emphasized the importance and urgency of the 2010 reforms for the IMF's credibility, legitimacy, and effectiveness, and reiterated the commitment to their earliest possible implementation, while urging the remaining members who have not yet accepted the 14th Review quota increases and the Board Reform Amendment to do so without further delay.

The resolution also called for the completion of the 15th Review by December 15, 2015, in line with the timetable mandated under the Articles of Agreement. It also called on the Executive Board to work expeditiously and to complete its work as soon as possible on interim steps in the key areas covered by the 2010 reforms, and thus to enable the Board of Governors to reach agreement on steps that represent meaningful progress toward the objectives of the 2010 reforms by June 30, 2015. The resolution stressed that such interim steps should not in any way be seen as a substitute for the 2010 reforms, which remain the highest priority.

On March 27, 2015, the Executive board had a second informal discussion on possible interim steps, which provided a basis for IMFC and G20 discussions on this topic at the 2015 Spring Meetings.

On April 18, 2015, at its Spring Meeting, the IMFC of the IMF issued a communiqué that included the following statement:

We remain deeply disappointed with the continued delay in progressing the 2010 IMF Quota and Governance Reforms. Recognizing the importance of these reforms for the credibility, legitimacy, and effectiveness of the IMF, we reaffirm that their earliest implementation remains our highest priority. We continue to urge the United States to ratify the 2010 reforms as soon as possible. Mindful of the aims of the 2010 reforms, we call on the IMF Executive Board to pursue an interim solution that will meaningfully converge quota shares as soon as and to the extent possible to the levels agreed under the 14th Review. We will use the 14th Review as a basis for work on the 15th Review of Quotas, including a new quota formula. We reaffirm our commitment to maintaining a strong, well-resourced, and quota-based IMF.

2014 Executive Board election

Newly elected IMF Executive Directors began their two-year term in November 2014, following an election for the 19 currently elected seats. As a result, eight new Executive Directors and a number of new Alternate Executive Directors joined the Board and will serve a two-year term until October 31, 2016.

For the first time since 1970, all eligible members participated in the election (the five members that appoint Executive Directors—France, Germany, Japan, the United Kingdom, and the United States—are not eligible to participate). At present all IMF member countries are represented on the Executive Board for the first time in more than four decades.

To guide the election process, the Board established a committee whose task was to recommend rules for the conduct of the election, including the conduct of the election under the pending Seventh Amendment of the Articles of Agreement, in the event that the amendment was ratified during the election process. The committee followed the work of the 2012 election committee, which had recommended new voting limits for multi-country constituencies reflecting a balance between the formation of constituencies by member countries and a desirable balance in the voting power at the Executive Board. The Executive Board and the Board of Governors subsequently approved the committee's recommendations.

The next regular election of Executive Directors will be conducted in October 2016.

Nauru application for membership

On May 9, 2014, the IMF announced that the Government of the Republic of Nauru had filed an application for membership in the IMF. Under the IMF's procedures, the application will be considered by the IMF's Executive Board, which will then submit a recommendation to the Board of Governors of the IMF in the form of a Membership Resolution. These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the Membership Resolution, the applicant country may become a member once it has taken the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of IMF membership.

TRANSPARENCY

Review of the Communications Strategy

Like most modern organizations, the IMF uses communications as a strategic tool to help strengthen its effectiveness. It does so by more proactive engagement with various stakeholders to better explain Fund policies and operations, by participating in and contributing to intellectual debate on important economic issues, and by facilitating two-way learning with the IMF's global membership. This communications role was recognized in the 2011 Triennial Surveillance Review and in a 2013 assessment by the Independent Evaluation Office, which noted that the IMF is now viewed by its membership as more open, listening, and responsive.

In July 2014, the Executive Board discussed a review of the IMF's Communications Strategy. It followed the Board's establishment in 2007 of a framework guiding IMF communications, which focused on deepening understanding of IMF policies, better integrating communications in daily operations, raising the impact of communications products, and reaching different audiences through enhanced outreach.

The 2014 paper emphasized several key communications issues. The first is taking further steps to ensure clarity and consistency in communication in a world where demand for IMF services continues to rise. The second is doing more to assess the impact of IMF communications and thus better inform efforts going forward. And the third is engaging strategically and prudently with new media—including social media.

In the Executive Board discussion of the 2014 review, Directors considered that the framework guiding the communications strategy, as endorsed by the Executive Board in 2007, remains broadly appropriate. They observed that the overall strategy has allowed the IMF to communicate effectively and flexibly.

Directors encouraged continued efforts to strengthen and adapt IMF communication, with a view to deepening public understanding of the IMF's work and policy advice. They agreed that clarity and consistency are vital for effective communication and welcomed steps to differentiate more clearly official IMF policy from staff views. Directors also supported plans to conduct impact assessments to gauge the effectiveness of IMF communications and draw lessons for the IMF's communications strategy.

Directors noted that the increasing use of new technologies at the IMF—including social media—has helped strengthen communication around important events and products. They stressed that any expansion of social media activity should continue in a careful and strategic way, with adequate oversight, appropriate training, and proper resourcing.

Executive Directors and Alternates (as of April 30, 2015)

Appointed

Mark Sobel *Vacant*	United States
Mikio Kajikawa *Isao Hishikawa*	Japan
Hubert Temmeyer *Steffen Meyer*	Germany
Hervé de Villeroché *Thibault Guyon*	France
Steve Field *Chris Yeates*	United Kingdom

Elected

Menno Snel *Willy Kiekens* *Oleksandr Petryk*	Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine
Fernando Jiménez Latorre *Carlos Hurtado López* *María Angélica Arbeláez*	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, República Bolivariana de Venezuela
Carlo Cottarelli *Thanos Catsambas*	Albania, Greece, Italy, Malta, Portugal, San Marino
Wimboh Santoso *Pornvipa Tangcharoenmonkong*	Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam
JIN Zhongxia *SUN Ping*	China
Barry Sterland *KwangHae Choi* *Vicki Plater*	Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu
Serge Dupont *Michael McGrath*	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Audun Groenn *Pernilla Meyersson*	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
Chileshe Mpundu Kapwepwe *Maxwell M. Mkwezalamba*	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, Republic of South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
Hazem Beblawi *Sami Geadah*	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
Ibrahim Halil Çanakci *Christian Just* *Szilárd Benk*	Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey
Rakesh Mohan *Kosgallana Durage Ranasinghe*	Bangladesh, Bhutan, India, Sri Lanka
Fahad I. Alshathri *Hesham Alogeel*	Saudi Arabia
Daniel Heller *Dominik Radziwill*	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan
Paulo Nogueira Batista, Jr. *Ivan Luís de Oliveira Lima* *Pedro Fachada*	Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago
Aleksei Mozhin *Lev Palei*	Russian Federation
Mohammad Jafar Mojarrad *Mohammed Daïri*	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
Sergio Chodos *Oscar A. Hendrick*	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
Nguéto Tiraina Yambaye *Mamadou Woury Diallo* *Mohamed Lemine Raghani*	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

Senior Officers (as of April 30, 2015)

AREA DEPARTMENTS

Antoinette Monsio Sayeh	Director, African Department
Chang Yong Rhee	Director, Asia and Pacific Department
Poul Thomsen	Director, European Department
Masood Ahmed	Director, Middle East and Central Asia Department
Alejandro Werner	Director, Western Hemisphere Department

FUNCTIONAL DEPARTMENTS

Gerard T. Rice	Director, Communications Department
Andrew J. Tweedie	Director, Finance Department
Vitor Gaspar	Director, Fiscal Affairs Department
Sharmini A. Coorey	Director, Institute for Capacity Development
Sean Hagan	General Counsel and Director, Legal Department
José Viñals	Financial Counsellor and Director, Monetary and Capital Markets Department
Olivier J. Blanchard	Economic Counsellor and Director, Research Department
Louis Marc Ducharme	Director, Statistics Department
Siddharth Tiwari	Director, Strategy, Policy, and Review Department

INFORMATION AND LIAISON

Odd Per Brekk	Director, Regional Office for Asia and the Pacific
Axel Bertuch-Samuels	Special Representative to the United Nations
Jeffrey Franks	Director, Offices in Europe/Senior Resident Representative to the European Union

SUPPORT SERVICES

Mark W. Plant	Director, Human Resources Department
Jianhai Lin	Secretary of the Fund, Secretary's Department
Frank Harnischfeger	Director, Technology and General Services Department
Susan Swart	Chief Information Officer and Associate Director, Technology and General Services Department

OFFICES

Daniel A. Citrin	Director, Office of Budget and Planning
Clare Brady	Director, Office of Internal Audit and Inspection
Moises Schwartz	Director, Independent Evaluation Office

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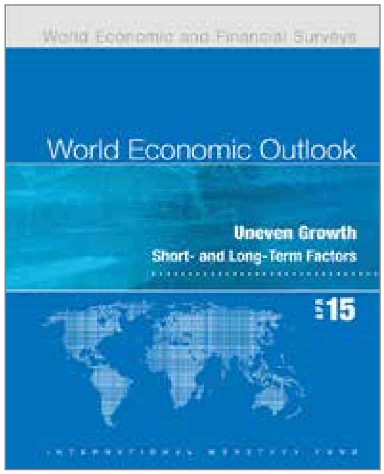

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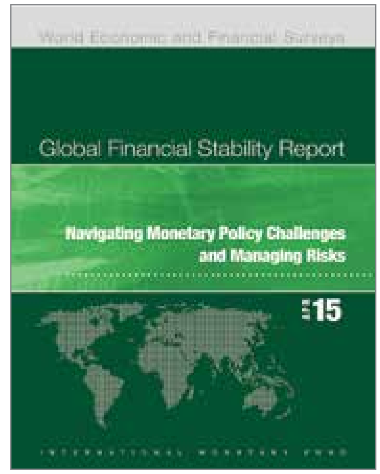

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Part 4 Looking Back/Looking Ahead

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(numbers are for May 1, 2014–April 30, 2015)

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In addition to the Chinese microblogging service Weibo, Managing Director Christine Lagarde has 112,000 followers on Facebook and 275,000 followers on Twitter.

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Looking Back

This year has been crucial for reshaping the world's development agenda. We also marked two important anniversaries—the 70th anniversary of the founding of the Bretton Woods institutions and 25 years since the fall of the Berlin Wall. This section looks at key events and trends shaping different parts of the world and the IMF's work to support the membership in those areas, including activities leading up to the IMF–World Bank Annual Meetings in Peru.

Latin America

The Road to Lima: The 2015 IMF Annual Meetings

Latin America demonstrated remarkable vitality in the first part of the 21st century, experiencing strong growth and an economic renewal that gave new opportunities to millions of people. But the region now is facing serious challenges as growth slows. One crucial challenge is to put in place policies that ensure continued progress with inclusive growth in the context of a regional slowdown and changing global landscape.

This combination of progress and challenge will provide the setting for the October 2015 IMF–World Bank Annual Meetings in Lima, Peru. The meetings will highlight Latin America's achievements over the past decade—particularly those of Peru, a country with its own success story to tell.

The Annual Meetings will be the first held in Latin America since 1967 in Rio de Janeiro, and only the second since 1952 in Mexico City. So for the IMF, Lima will represent an important stage in its relationship with the region. Some 13,000 people are expected to attend the meetings.

Slower growth for Latin America

The April 2015 *Regional Economic Outlook* (REO) for the Western Hemisphere projected that growth in Latin America and the Caribbean would decline for the fifth consecutive year, partly reflecting global developments but also the recent commodity price declines.

Stops on the Road to Lima

December 2014
Chile
Conference in Santiago on growth and prosperity in Latin America, followed by April 2015 regional outlook launch.

May 2015
Colombia
"Latin America: Challenges in a Rapidly Changing Global Environment," a conference in Bogota

May
Brazil
Visit of IMF Managing Director to Brasilia and Rio de Janeiro

June
United States
High-level IMF Conference on Latin America "Rising Challenges to Growth and Stability in a Shifting Global Environment" in Washington, D.C.

Growth has varied across the region, with South America and commodity exporters affected more than economies with closer ties to the United States or those that have a stronger growth potential. The REO highlighted a key priority for governments—raising investment, productivity, and potential growth. It identified improvements in business environments, infrastructure, and education as key to fostering more diversified, resilient, and inclusive economies. Another priority is to safeguard stability given the weaker growth and vulnerabilities among banks and corporations.

At a December 2014 high-level conference on "Challenges for Securing Growth and Shared Prosperity in Latin America," held in Santiago, Chile, speakers highlighted the progress in achieving inclusive growth: the proportion of people living in poverty was 2.5 times greater than those in the middle class only a decade ago, whereas now they are about the same. Continued progress will be more difficult because of slow growth and weaker prospects.

Adjusting to a challenging global environment

The Santiago conference was an important stop on an agenda of events addressing the issues facing Latin America in the months leading up to the Peru Annual Meetings. This agenda—called the "Road to Lima"—is intended to broaden public understanding of the challenges to achieving sustained growth, increased employment, and continued reductions in poverty and inequality. The Road to Lima also is intended to address the need to adjust to the challenging global economic environment. ■

Promoting Growth in Latin America and the Caribbean

Last year, the IMF held **two high-level conferences in Chile and Jamaica** that focused on strategies to raise potential output and ensure sustainable growth. Over the past 15 years, most countries in Latin America and the Caribbean have become stronger, with significant advances in reducing poverty and inequality. Growth has, however, disappointed in recent years and created doubts about the continuation of economic and social gains. The two conferences discussed options to raise potential output, improve economic opportunities, lower energy costs, improve business environments, and expand financial inclusion. With demands of a growing middle class rising rapidly,

June
Peru
IMF–World Bank Conference on Financial Inclusion, in Lima

July
El Salvador
13th IMF Central America Conference, in San Salvador

September
St. Kitts & Nevis
Fifth IMF Caribbean Conference, in Frigate Bay

September
Peru
Conference on "Managing Macroeconomic Success and Challenges," in Lima

(Growth, continued)

experts also took a closer look at priorities in public spending and, in Latin America, the need for widening the tax base.

Key findings of the two events were:

- In the Caribbean, many countries are extremely dependent on imported oil for the generation of electricity and transportation. Efficiency gains can be achieved by closer cooperation between private and public sectors on generation and distribution of electricity and development of renewable energy sources. Governments, however, need to reform the regulatory framework to encourage private sector participation and also find new ways to address social inequalities without distorting pricing.

- Rules that are clear and consistent will help attract private investment. The array of tax incentives offered in many Caribbean countries has made the tax system increasingly complex and has eroded tax bases. Countries should reassess their taxation strategies to better meet competing goals of supporting growth and funding public services.

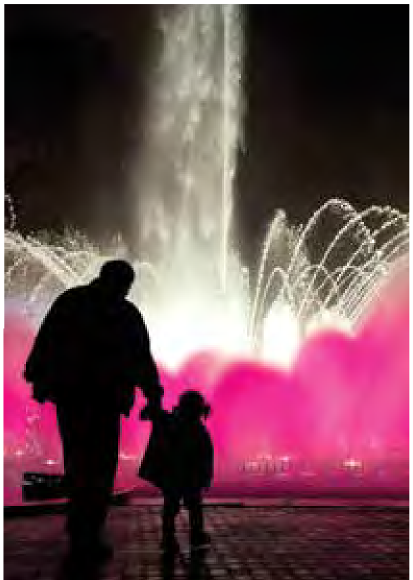
- In both the Caribbean and Latin America, broad access to financial services promotes growth and greater income equality. Both public and private sector involvement is needed to improve access. There is, however, a premium on safeguarding financial stability as instability has tremendous consequences for the poorest segments of the population.

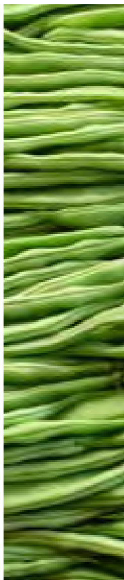
- Finally, many economies in Latin America face resource constraints and a growing middle class that is frustrated with the lack of access to public services and economic opportunity. Participants in Chile discussed the need for deeper structural reforms to strengthen the availability and quality of public services, and improve educational outcomes.

  > Achieving better outcomes requires more funding, which could be collected by broadening tax bases and bringing high-income groups into public systems of taxation and benefits.

  > Work will also be needed to upgrade infrastructure and strengthen regional cooperation in traditional and less conventional areas like labor, security, energy, the environment, and competition.

A more comprehensive, strategic approach would help expand the provision of public services in emerging middle-income countries and raise potential output, thereby providing the foundation to permanently reduce poverty. ■





Harnessing Africa's Demographic Dividend

Africa

Over the next 20 years, sub-Saharan Africa will become the main source of new entrants into the global workforce as infant mortality and fertility rates decline in the region.

By 2035, the number of sub-Saharan Africans joining the working-age population (ages 15–64) will exceed that from the rest of the world combined.

This is a trend with significant ramifications for both sub-Saharan Africa and the global economy.

This transition was part of a centerpiece analysis of the looming changes in sub-Saharan Africa's labor force published in the April 2015 *Regional Economic Outlook* (REO) for sub-Saharan Africa. The study also describes a potential "demographic dividend" for sub-Saharan Africa, the magnitude of which will depend on how fast fertility rates decline and how strong the accompanying policies are. The region has been the second-fastest-growing in the world in recent years and has the potential to accrue economic benefits. The world economy also stands to benefit if sub-Saharan Africa's labor force is integrated into global supply chains in an era of declining working-age populations elsewhere.

Policy challenge: creating jobs

However, the policy challenge is immense: sub-Saharan Africa needs to create high-productivity jobs at an extremely rapid rate for an extended period of time to absorb the growing labor force—about 18 million new jobs per year until 2035. While sub-Saharan Africa's economic performance over the past 15 years—spurred, in part, by strong policies—gives reason for optimism that it can meet this challenge, a faltering performance could have dire consequences.

The REO analysis points to the need for policies that encourage a gradual transition of labor to formal employment in nonagricultural jobs from the informal sector, which currently accounts for about 90 percent of the 400 million jobs in low-income sub-Saharan African countries. Investments in human capital—including health

(Dividend, continued)

care and education — are critical in the early phases to accelerate the transition. While the region has made significant progress improving access to primary education, there is a need to improve access to secondary and tertiary schools, and to improve the overall quality of education.

Reform priorities in sub-Saharan Africa

The policy challenges to boost employment reflect the full range of sub-Saharan Africa's reform priorities, including promoting private sector development, with emphasis on household enterprises; increasing agricultural productivity; and investing in infrastructure. Policies that facilitate the development of labor-intensive sectors that can compete globally are also necessary, as are policies that promote labor market flexibility. Furthering financial sector development to effectively channel savings into investment also can increase employment and growth.

Higher trade openness would also aid job creation, allowing sub-Saharan Africa to benefit from technology transfers and integration into global value chains. Expanding intra-regional trade and regional markets could boost incentives for domestic production, especially in labor-intensive manufacturing, and attract higher levels of investment. ■

Pan-African Banks: Opportunities and Challenges for Cross-Border Oversight

As sub-Saharan Africa has emerged as the world's second-fastest-growing region in recent years, economic integration has become an increasingly important driver of growth.

While trade and investment often receive the most attention, another key trend has been the emergence of pan-African banks.

The IMF African and Monetary and Capital Markets Departments cooperated during 2014 on a major research project that offered

an in-depth look at the expansion of pan-African banking and the opportunities and challenges it represents. The research was presented to the Executive Board and later issued as a departmental paper. It also was summarized in the June 2014 issue of *Finance & Development*.

The pan-African financial institutions, which once largely did business in their home markets, now are creating cross-border networks and overtaking the European and U.S. banks that traditionally have dominated African banking. Along with spurring integration, they are giving impetus to financial deepening and inclusion, contributing to improved competition and innovation.

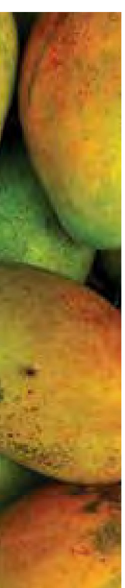
Pan-African banks originate mainly from the largest economies of Africa, such as Morocco, Nigeria, and South Africa, or from important countries within a region such as Kenya in the East African community. But an important pan-African institution, Ecobank, is headquartered in Togo; it was founded in the mid-1980s with support from the 15-nation Economic Community of West African States. Although Ecobank is not the largest of the pan-African banks in asset size, it surpasses them all in terms of the geographical reach of its network.

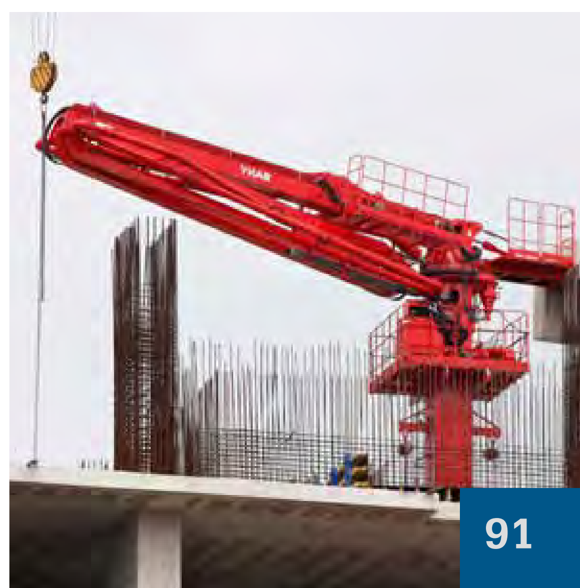
> The rapid expansion of pan-African banks poses oversight challenges that, if unaddressed, could potentially increase systemic risks.

These banking groups represent increased demands on home country regulators and supervisors to ensure that supervision of the banking groups based in their jurisdictions is done on a consolidated basis. Supervisory capacity is already constrained and under-resourced in most of Africa. The banking networks increase the importance of transparency and disclosure, good governance, strong prudential oversight, and a legal and regulatory framework that supports effective and comprehensive supervision and the need to prepare for crisis management. Progress is being made in most areas, but efforts to extend oversight to bank holding companies is needed in some cases.

> Cooperation on cross-border supervision has started, but enhanced collaboration is critical.

Regional currency unions, such as the West African Monetary Union, face particular challenges on the interface of responsibilities between regional and national authorities. Pursuing the reform agenda expeditiously will require extensive technical assistance. The IMF is prepared to continue to provide assistance in its areas of responsibility and, if helpful, to liaise with other providers to help ensure a comprehensive program to safeguard financial stability. ■





China's Rebalancing Act

Asia

The 2014–15 slowdown in China—part of a broader trend in emerging markets—was felt throughout the global economy. The slower growth was part of a rebalancing effort undertaken by the Chinese government, and this shift became a focus of attention worldwide and an element of IMF risk assessment.

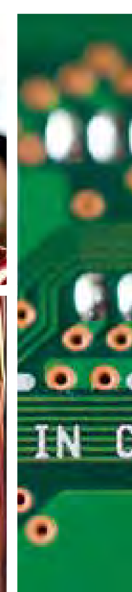
Analysis and policy advice across IMF members took the trend into account, particularly through the range of surveillance activities. This was fully reflected in the work of the Executive Board, whose discussions and public statements showed a keen awareness of China's new direction.

China's rapid growth—its economy is now the world's largest in terms of purchasing power parity—has been a key driver of the world economy in recent years, particularly since the global financial crisis. Much of the current slowdown—growth declined to 7.4 percent in 2014 from 7.7 the year before and 10.2 percent in 2011—followed a generation of rapid expansion and reflected waning dividends from past reforms. But high levels of investment and credit growth created vulnerabilities.

A comprehensive blueprint of reforms announced at a high-level meeting of the Chinese Communist Party in 2013 heralded a shift in priorities toward higher levels of consumption, inclusive growth, and sustainable environmental policies.

IMF policy advice

The reform agenda is broadly consistent with past IMF policy advice, including recommendations of the Executive Board. In its assessment of China's 2014 Article IV consultation, the Board welcomed the reforms and said that the challenge "is to shift gears, reduce the vulnerabilities that have built



up, and transition to a more sustainable growth path."

The external implications of China's slowdown were discussed in the April 2015 *World Economic Outlook* and *Global Financial Stability Report*, and were at the core of the 2014 Spillover Report, especially its discussion of intraregional spillovers. *Regional Economic Outlooks* also took China's impact into account.

Article IV consultations of some other countries also have given considerable attention to the ramifications of China's slower growth—in terms of both reduced trade and financial linkages. Risk Assessment Matrices in staff reports for countries across Asia included specific mention of the potential impact of the slowdown.

Executive Board Assessments of several Article IV reports discussed the Chinese slowdown in the context of other countries.

Impact on commodities markets

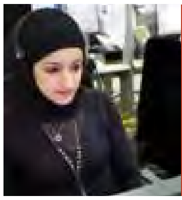
Commodities markets also have felt the effects of China's slowdown.

Prices have fallen for many commodities, although this also reflects weaker global demand and new sources of supply.

It was not just oil, which fell more than 50 percent at one point in the past year. For example, sub-Saharan Africa faced sharp falls in the price of natural gas (45 percent), iron ore (34 percent), cotton (23 percent), copper (15 percent), and platinum (17 percent).

Despite the short-term impact globally, China's leaders are committed to an economic path built around a more sustainable growth model. A comprehensive blueprint of reforms announced at a high-level meeting of the Chinese Communist Party in 2013 heralded a shift in priorities toward a more balanced and sustainable growth model, which would also be more inclusive and environment-friendly. ■



Islamic Finance and the IMF

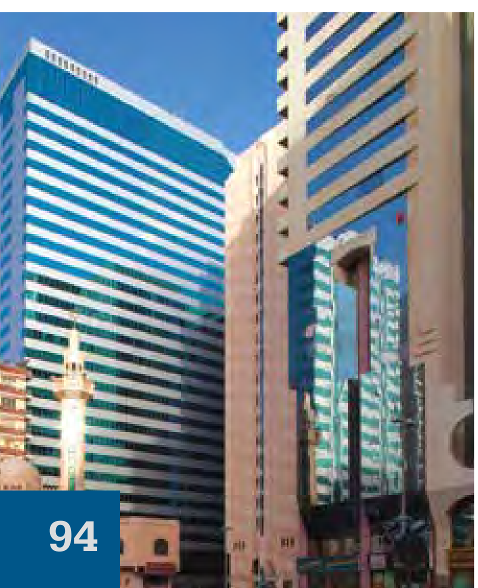
Although still a small share of global financial markets, Islamic finance is growing rapidly. The banking segment of the market is increasing its presence in many IMF member countries, and it is becoming systemically important in some Asian and Middle East economies. Meanwhile, global issuance of *Sukuk*—the Islamic equivalent of bonds—is expanding to encompass a wide reach of issuers and investors.

Islamic finance—the subject of a Staff Discussion Note (SDN) issued in April 2015—has the potential to make important contributions in at least three areas. First, it promises to foster greater financial inclusion, especially of large, underserved Muslim populations. Second, its emphasis on asset-backed financing and risk-sharing means that it could support small and medium-sized enterprises, as well as infrastructure investment. Finally, its risk-sharing features and prohibition of speculation suggest that Islamic finance may, in principle, pose less systemic risk than conventional finance.

Regulation and supervision

The IMF long has taken an interest in the implications of Islamic finance for macroeconomic and financial stability, engaging member countries in the context of policy advice and capacity development, particularly in the areas of regulation and supervision, and development of domestic *Sukuk* markets. The IMF also played a key role in the establishment of the Islamic Financial Services Board, an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry.

The IMF took several steps in 2014–15 to broaden its understanding of Islamic finance and to foster wider understanding. In October 2014, an interdepartmental Working Group held its first meeting with an External Advisory Group that was established to help identify policy challenges facing the Islamic finance industry and to facilitate coordination with specialized and regional institutions, in terms of knowledge sharing, capacity development, and outreach.



Kuwait workshop

In February 2015, the IMF hosted a regional workshop in Kuwait on "Risk-Based Supervision in Institutions Offering Islamic Services." The workshop was attended by senior officials from banking supervision departments in Arab League countries and was organized by the IMF Middle East Center for Economics and Finance and the Middle East Regional Technical Assistance Center. The workshop provided guidance and training in the methodologies and approaches for implementing risk-based supervision in institutions offering Islamic financial services.

Several challenges need to be addressed if Islamic finance is to reach its potential. As outlined in the SDN, standards have been developed, but regulatory and supervisory frameworks in many jurisdictions do not yet cater to the unique risks of the industry. Regulators do not always have the capacity (or willingness) to ensure Shari'ah compliance, which undermines consistency of approaches within and across borders. A specific regulatory challenge relates to profit-sharing investment accounts at Islamic banks, which need to be treated in a manner consistent with financial stability. Moreover, although Islamic banks appear to be well-capitalized, the implementation of the Basel III Accord will present challenges. Finally, safety nets and resolution frameworks remain underdeveloped. ■

Assessing Concentration Risk of Banks in the Gulf

Important regional work takes place at the IMF outside of the context of the Article IV consultation process. One example was the staff paper on "Assessing Concentration Risks in GCC Banks," presented to the October 2014 Annual Meeting of Ministers of Finance and Central Bank Governors of the Gulf Cooperation Council (GCC).

The paper, prepared by staff from the Middle East and Central Asia Department and the Monetary and Capital Markets Department, addressed concentration risks—those involved in having too much money lent out to certain categories of borrowers—in the credit portfolios of banks in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

(Banks, continued)

Well capitalized, but struggling to diversify credit portfolios

The paper found that banks in the GCC countries are generally well capitalized. However, because of the structure of their countries' economies—with non-oil sectors dependent on developments in the oil sector—they struggle to diversify their credit portfolios and are consequently exposed to concentration risks that require a greater amount of scrutiny.

The analysis in the paper used credit risk modeling techniques to estimate the capital buffers required in light of the highlighted risks. The results suggest that the capital held by banks in the region is generally adequate to compensate for the concentration risks they face. Nonetheless, the paper recommended that a primary goal should be to ensure that existing strong capital buffers are maintained and that supervisors strengthen their capacity to monitor the buildup of concentration risk in banks' portfolios.

How GCC banks can be strengthened

The paper also outlined areas for which bank regulation, supervision, and information disclosure in the GCC could be strengthened. Among the recommendations:

- Stress test exercises should be calibrated to fully capture the existing and evolving nature of interconnections and exposure concentration. Greater legal powers are required for regulators to collate information on the ultimate beneficial owners to better supervise banks' risks derived from interconnectedness.
- To better monitor banks' risks, GCC central banks should limit their exposures to a single borrower or closely related group of borrowers to a prudent maximum, in accordance with the new Basel guidelines, and also introduce aggregate limits on large exposures.
- Increased availability of data and further disclosures are needed for a better assessment of risks.
- This approach to financial sector analysis could be repeated across the IMF membership, with staff employing analytical tools to address the unique circumstances of banks, other financial institutions, and government bodies to give greater focus to financial stability. ■









Looking Back on 25 Years of Historic Change in Europe

Eastern and Central Europe

Europe marked an important anniversary in 2014: 25 years since the fall of the Berlin Wall and the beginning of a historic transformation in eastern and central Europe. The reintegration of the former communist countries into the global economy—and their entry into the IMF—in most cases brought major improvements in living standards.

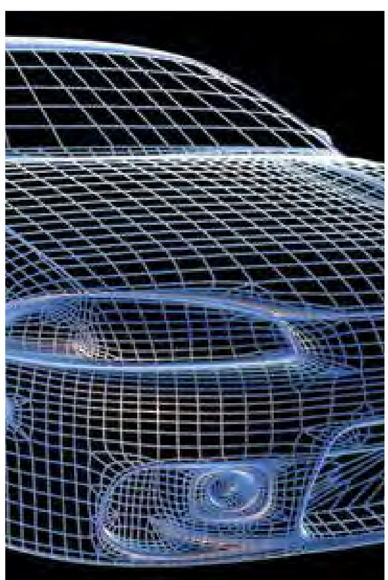
The IMF European Department marked the anniversary with a Special Report, "25 Years of Transition: Post-Communist Europe and the IMF," issued in October 2014. The paper summarized the stages of transition and looked at the challenges of the coming years.

The task of building market-oriented economies was difficult and protracted.

Liberalization of trade and prices came quickly, but institutional reforms often faced opposition from vested interests. The results of transition were uneven due to important differences in policy implementation. All countries suffered high inflation and major recessions as prices were freed and old economic linkages broke down.

By contrast, the early and mid-2000s saw uniformly strong growth. With macro–economic stability established and key market-based frameworks largely in place, the region experienced large capital inflows. This was supported by a benign global environment and increasing confidence in rapid convergence with western Europe—especially for the countries that joined the European Union (EU) during this period.

The increased participation of foreign banks—either directly or through subsidiaries and branches—in lending activity in central and eastern European countries brought much-needed credibility and technical know-how, and facilitated financing in the region—sometimes to excess, contributing to a rise in internal imbalances. The resulting vulnerabilities were exposed when the global and euro area crises struck at the end of the decade, hitting the transition economies hard.



(25 Years, continued)

In the wake of these crises, countries embarked on significant fiscal consolidation, although some continue to struggle to restore competitiveness and fiscal sustainability against the backdrop of a tepid global recovery and lingering structural weaknesses. Recent analysis shows the effect of widening disparities within the region: the more advanced countries, such as the Baltics and some central European countries, now have more in common with western European economies than they do with some former communist countries. But even in better-performing economies, the pace of convergence toward EU levels of per capita income has slowed substantially. Moreover, reform momentum has generally decelerated over the years, with a risk of reversals emerging in a few countries.

To revitalize the convergence process and improve the resilience of the transition economies, a stronger commitment to market-based policies is needed. Two broad priorities stand out. First, there is a need for renewed focus on macroeconomic and financial stability in some countries. This could involve reining in persistent deficits and increasing debt, and addressing rising levels of bad loans in the banking system. Second, the pace and depth of structural reforms should be increased in areas such as the business and investment climate, access to credit, public expenditure prioritization and tax administration, and labor markets. ■

Box 4.1: European New Member States Policy Forum

As Europe marked the 25th anniversary of the fall of the Berlin Wall, another important milestone was passed: the 10th anniversary of the accession to the European Union (EU) of the first group of countries from central and eastern Europe. To mark that event, the IMF held the first New Member States Policy Forum as a platform to discuss policy issues of common interest.

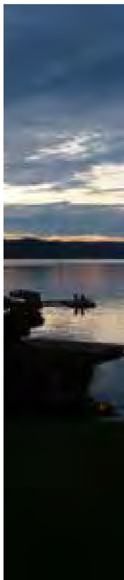
The forum brought together high-level representatives of six countries that are EU members, but not yet in the euro area—Bulgaria, Croatia, the Czech Republic, Hungary, Poland, and Romania. They were joined by the European Central Bank and the European Commission. The report on the forum—part of a series of IMF Cluster Consultations—was discussed with the IMF Executive Board in an informal session.

The forum report focused on four themes: euro adoption, opting into the banking union before euro adoption, the EU fiscal framework and pension reform, and making the most of the EU single market and EU Services Directive.









Baltic Cluster Report

One innovation growing out of the 2011 Triennial Surveillance Review has been the introduction of "cluster reports" to assess logical groupings of economies in an integrated fashion.

These assessments, which complement Article IV consultations with each member that makes up the clusters, are intended to strengthen the IMF's work on interconnectedness—filling the gap between the assessments in Article IV consultations with members and multilateral surveillance of global economic trends.

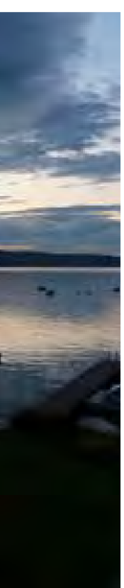
The cluster reports assess spillovers across a group of interconnected countries by examining the risks from common shocks and highlighting shared policy challenges and, where relevant, the potential gains from policy coordination.

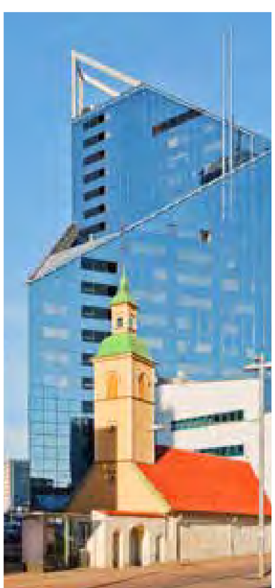
One of the pilots conducted during 2014 assessed the Baltic countries—the Republic of Estonia, the Republic of Latvia, and the Republic of Lithuania—in their trade and financial linkages to the Nordic countries. They also face common challenges.

In its assessment of the report, the Executive Board noted that while there is no articulated "Baltic Model," all three countries have made impressive strides in advancing income convergence with western Europe over the past two decades. Their policy approach has been based on generally prudent macroeconomic policies, small governments, and a relatively favorable investment climate.

Directors underscored that the "creditless recoveries" in the Baltics could become increasingly difficult to sustain.

They commended the strong economic recovery from the global financial crisis, but noted that it had been accompanied by contracting credit to the private sector. While not an unusual pattern in a boom-bust cycle, continued anemic credit could constrain investment and growth. ■





Looking Ahead

Financing Sustainable Development

A Crucial Year

Since the adoption of the United Nations Millennium Development Goals in 2000, the majority of developing economies have made important progress in terms of achieving strong growth and reducing poverty. But progress has been uneven, with outcomes weakest in fragile and conflict-affected states. The challenge now is to build on the strong results of the past 15 years, with a focus on tackling obstacles to sustainable growth and inclusion, most notably in countries that have fallen behind.

The international community is being called upon this year to commit to a shared vision of development goals through 2030 and beyond, and an action plan to make this vision possible. Achievement of these Sustainable Development Goals (SDGs)—which encompass economic, social, and environmental themes—will require a partnership among developed and developing economies, and international institutions. Most important, it will be essential to ensure that the right policies are in place and that sufficient private and public resources are mobilized to achieve the SDGs.

The IMF, with its global membership and mandate to operate at both bilateral and multilateral levels, is uniquely positioned to contribute to and help implement this compact. The Managing Director outlined the IMF's goals to the 2015 Spring Meeting of the International Monetary and Financial Committee in a document titled "Financing Sustainable Development: Key Policy Issues and the Role of the IMF." The paper was discussed with the IMF Executive Board in an informal session in April, prior to the International Monetary and Financial Committee meeting.

The IMF's work for the 2015 Development Agenda is focused around the agenda of three major United Nations conferences during the year:

Financing for Development (Addis Ababa in July), which will develop a shared view on the policies needed to generate the resources to achieve the SDGs

UN Summit on the SDGs (New York City in September), where the SDGs will be formally adopted

UN Climate Change Conference (Paris in December), to reach a global agreement on national targets for reduction of carbon emissions

As deliverables for this crucial development agenda, the IMF is considering the following areas of action, as outlined in the Managing Director's statement to the IMFC:

Seeking options to boost access to IMF resources provided to developing countries, thus better positioning them to handle balance-of-payments needs as they pursue growth

Expanding diagnostic and capacity-building support for countries seeking to scale up investment to tackle infrastructure gaps

Sharpening the focus of operational work on equity, inclusion, gender, and climate issues, drawing on ongoing analysis and work of other institutions

Increasing the focus on and provision of resources to work on fragile and conflict-affected states

Selectively expanding capacity-building efforts in the areas of revenue mobilization, energy taxation, and financial market development. ■

Fiscal Work in Progress

Important work in the area of fiscal policy was undertaken during FY2015 that led to Executive Board consideration of policy papers in FY2016. Two papers in particular—prepared by the Fiscal Affairs Department—were the focus of Board discussions:

Fiscal policy and long-term growth: This topic is a core theme of the IMF's Global Policy Agenda (see Part 1), which focuses on strategies to lift economic growth across the IMF membership in the wake of the 2008 global financial crisis. A paper prepared in FY2015 identifies the main channels through which fiscal policy can influence medium- to long-term growth. It distills practical lessons for policymakers by drawing on the IMF's extensive technical assistance on fiscal reforms, a vast literature, and a multipronged analytical approach.

Making public investment more efficient: The paper builds on previous analytical work on public investment issues, including in the October 2014 *World Economic Outlook*, and examines how countries can improve the efficiency of public investment and increase the effects of public investment on growth. Key findings of the paper include: (1) the economic impact of public investment critically depends on its efficiency, and there are large inefficiencies in public investment processes; (2) the economic dividends from closing the public investment "efficiency gap" are substantial; and (3) strengthening specific key institutions that shape the planning, allocation, and implementation of public investment could close most of the efficiency gap, but reform priorities vary across countries. ■

Notes

PART 1—OVERVIEW

Executive Board Calendar: http://www.imf.org/external/np/sec/bc/eng/index.aspx

The Managing Director's Global Policy Agenda:

- October 2014: http://www.imf.org/external/np/pp/eng/2014/100314.pdf
- April 2015: http://www.imf.org/external/np/pp/eng/2015/041315.pdf

Triennial Surveillance Review: http://www.imf.org/external/np/spr/triennial/2014/index.htm

Action Plan for Strengthening Surveillance: http://www.imf.org/external/pp/longres.aspx?id=4924

World Economic Outlook:

- October 2014: http://www.imf.org/external/pubs/ft/weo/2014/02/
- April 2015: http://www.imf.org/external/pubs/ft/weo/2015/01/

Regional Economic Reports: http://www.imf.org/external/pubs/ft/reo/reorepts.aspx

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- April 2015: http://www.imf.org/External/Pubs/FT/GFSR/2015/01/index.htm

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Acronyms and Abbreviations

APEC	Asia-Pacific Economic Cooperation
BEPS	Base Erosion and Profit Shifting
CCRT	Catastrophe Containment and Relief Trust
DGI	Data Gaps Initiative
EAC	External Audit Committee
EFF	Extended Fund Facility
EU	European Union
EWE	Early Warning Exercise
FCL	Flexible Credit Line
FM	*Fiscal Monitor*
FMCG	G20 Finance Ministers and Central Bank Governors
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FY	financial year
G20	Group of Twenty
GDDS	General Data Dissemination System
GDP	gross domestic product
GFSR	*Global Financial Stability Report*
GPA	Global Policy Agenda
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
ICD	Institute for Capacity Development
IEO	Independent Evaluation Office
IFRS	International Financial Reporting Standards
IMFC	International Monetary and Financial Committee
LIDC	low-income developing country
MDRI	Multilateral Debt Relief Initiative
MOOC	massive open online course
OECD	Organisation for Economic Co-operation and Development
OIA	Office of Internal Audit and Inspection
OPEC	Organization of Petroleum Exporting Countries
PLL	Precautionary and Liquidity Line
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
REO	*Regional Economic Outlook*
RFI	Rapid Financing Instrument
RTAC	Regional Technical Assistance Center
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
TSR	Triennial Surveillance Review
WEO	*World Economic Outlook*

Letter of Transmittal to the Board of Governors

July 31, 2015

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 2015, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2016, are presented in Chapter 3. The audited financial statements for the year ended April 30, 2015, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI, which appears on the CD-ROM version of the Report, as well as at www.imf.org/external/pubs/ft/ar/2015/eng. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Ramos (Chair), Mr. Loeto, and Ms. Barth, as required under Section 20(c) of the Fund's By-Laws.

Yours very truly,

Christine Lagarde

Managing Director and Chairman of the Executive Board

Commemorating IMF's 70th Anniversary

During 2014 the IMF marked the 70th anniversary of its founding at the Bretton Woods Conference. The institution looked back during the year, but the focus was also forward looking: How can the Fund best support the closely interconnected global economy of the 21st century? And how will it adapt to change going forward?

At the time of the IMF's founding in 1944, the world faced extraordinarily difficult choices. Depression had produced a world war that was still months away from ending. The challenges of rebuilding a new international order were daunting.

Over the succeeding decades, the IMF helped rebuild Europe. It assisted new nations when colonial empires retreated, and as the Soviet Union collapsed. The Fund helped Latin America and Asia to navigate crises, and worked closely with the new emerging market economies that came into their own with the new millennium. Since 2008, the IMF has worked closely with all its members to overcome the most recent global financial crisis.

During the year the IMF devoted the quarterly publication *Finance & Development* to the Bretton Woods anniversary in its September 2014 issue titled "Past Forward: The Future of Global Economics." It also published a booklet on the anniversary by former IMF historian James M. Boughton titled *The IMF and the Force of History: Events that Have Shaped the Global Institution.*

Three events during the year highlighted the milestones of the past and the challenges of the present and future. The first was a July 2014 in-house celebration of the founding for members of the Executive Board, IMF staff, and retirees. The second was an Executive Board Retreat in September where Directors had an opportunity to discuss their views on "The Battle for Bretton Woods."

The third event was Managing Director Christine Lagarde's keynote speech to the 2014 Annual Meetings in October on "The IMF at 70: Making the Right Choices—Yesterday, Today, and Tomorrow." In the speech, Ms. Lagarde used the anniversary to look ahead to the new challenges facing the IMF:

Seventy years after Bretton Woods, the international community stands at another fork in the road. The tried-and-true modes of cooperation seem to be fraying around the edges. The sustainability of the global economic engine itself is increasingly being questioned.

Can it really deliver the jobs, the incomes, the better living standards that people aspire to?

There are three key collective choices to be made:

First, how do we achieve the growth and jobs needed to advance prosperity and ensure social harmony? I would call this the choice between acceleration and stagnation.

Second, how do we make this interconnected world a more inclusive, safer place for all of us to thrive? This is the choice between stability and fragility.

Third, how do we strengthen cooperation and multilateralism, instead of isolationism and insularity? This is the choice between solidarity and seclusion.

Our future hinges on our choices.

This Annual Report was prepared by the Editorial and Publications Division of the IMF's Communications Department. David Hawley, Rhoda Weeks-Brown, and Jeremy Clift oversaw the work of the Report team, which was under the direction of the Executive Board's Evaluation Committee, chaired by Menno Snel and Steve Field. Jeremy Mark served as chief writer, and S. Alexandra Russell as editor and project manager. Akshay Modi and Suzanne Alavi provided editorial and administrative assistance.

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70 Years of IMF

The International Monetary Fund was born in 1944 from a time of crisis, during the ravages of World War II. Its inception was grounded in a spirit of global responsibility, an abiding belief in multilateralism, and intellectual leadership that still underpins the IMF. As the world's central organization for international monetary cooperation, the IMF serves the interests of a global membership—all countries, big and small, rich and poor.

1944: IMF founded at a conference in Bretton Woods, New Hampshire (United States)

1956: Suez crisis leads to first large burst of lending by IMF to Egypt, France, Israel, and the United Kingdom

1960: African countries gain independence, leading to surge in IMF membership

1973: The system of par values and fixed but adjustable exchanges rates, set up at Bretton Woods, collapses as major currencies begin to float against each other

1989: The Berlin wall is breached, leading to the end of the Soviet Union; all 15 constituent countries eventually join the IMF

1994: Mexico allows the peso to depreciate in response to what will be the first in a wave of financial crises over the next eight years

1997: A devaluation of the Thai baht triggers a financial crisis across East Asia that will embroil the IMF in a controversial series of economic reform programs

2008: Bankruptcy of the financial firm Lehman Brothers marks the beginning of a global economic crisis that will reverberate for years

2010: The IMF approves the first of several loans for countries in the euro area (Greece, Ireland, Portugal), marking the IMF's first participation in 40 years in resolving financial crises in advanced economies

International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

www.imf.org

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