IMF Annual Report 2018

Building a Shared Future

Message from the Managing Director

Tackling Global Imbalances
page 6

Dear Reader,

The global economic expansion we have seen over the past year has shown momentum, holding the promise of more jobs and improved living standards across most of our member countries. But there are threats, including from the risk of escalating trade conflicts, record high public and private debt, financial market volatility, and fragile geopolitics.

In the face of these challenges, my message to the membership has been and still is: the time to fix the roof is when the sun is shining.

The window of opportunity is currently open. To keep momentum going, countries need to tame financial and fiscal risks by enhancing financial sector resilience and rebuilding policy space—and also need to make progress on the structural reforms that will strengthen the economy against any future storms. They should promote an open and rules-based multilateral trade system and should strive to make new technologies work for all—boosting rather than undermining inclusive growth and financial stability.

Looking more long term, global economic momentum is under pressure from a slow erosion/weakening of trust in institutions—and trust, of course, is the lifeblood of any economy. This faltering trust has many dimensions: the lingering effects of the global financial crisis, a perception that the rewards of economic growth and globalization are not being shared fairly, anxiety about the future of jobs and economic opportunity, and weak governance frameworks that too often facilitate corruption. Population aging and poor funding of pension schemes are also holding back momentum, and income disparities are widening. And, if unaddressed, climate change is likely to severely disrupt economic well-being in the decades ahead. Countries also must stay focused on these more slow-burning challenges.

Addressing Inequality
page 10

Dealing with Climate Change
page 8

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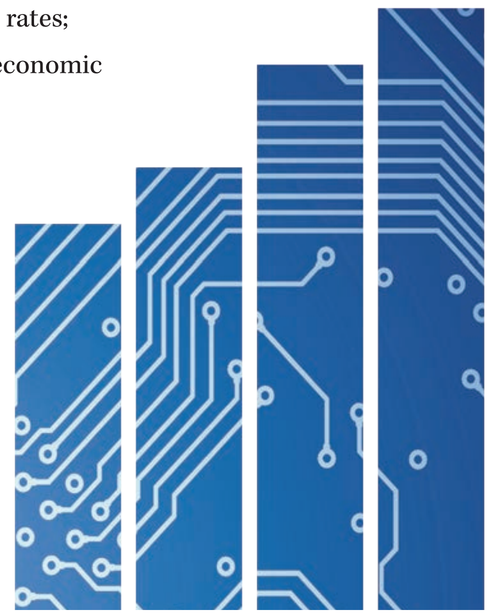
Confronting Corruption & Enhancing Governance

As can be seen from this Annual Report, our Board of Executive Directors and staff are hard at work serving our members and helping them meet these challenges—in policy advice, in lending programs, and in capacity development. As just some examples, we have sought to strengthen crisis-prevention tools; refined the methodology to assess global imbalances and exchange rates; identified structural reform priorities to boost sustainable and inclusive economic growth, including in the area of gender equity and women's labor force participation; enhanced our analysis of macrofinancial and macrostructural issues; developed a new framework for tackling corruption and governance weaknesses; deepened our analysis of the digital economy and financial technology; and further stepped up our engagement on the Sustainable Development Goals.

As we face these uncertain economic times, I am convinced that the founding values of the IMF—centered on the idea that economic cooperation is the surest route to a better tomorrow—are more important than ever. Let us renew our commitment to these values.



Technology in Finance

page 14

Christine Lagarde

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 (Special Drawing Right); conversions of IMF financial data to US dollars are approximate and provided for convenience. On April 30, 2018, the SDR/US dollar exchange rate was US$1 = SDR 0.695380 and the US dollar/SDR exchange rate was SDR 1 = US$1.43806. The year-earlier rates (April 27, 2017) were US$1 = SDR 0.729382 and SDR 1 = US$1.37102.

"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.

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About the IMF

The International Monetary Fund (IMF) is a global organization of 189 member countries set up to promote the health of the world economy. It works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. 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. The IMF's mission 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 IMF member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies and approves IMF loans 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, 2017, through April 30, 2018. The contents reflect the views and policy discussions of the IMF Executive Board, which has actively participated in the preparation of this Annual Report.

Our Key Roles

The IMF focuses on three main roles:

1 **PROVIDE MEMBER COUNTRIES ADVICE** on adopting policies to achieve macroeconomic stability, accelerate economic growth, and alleviate poverty.

2 **MAKE FINANCING AVAILABLE** to member countries to help address balance of payments problems, including foreign exchange shortages that occur when external payments exceed foreign exchange earnings.

3 **OFFER TECHNICAL ASSISTANCE AND TRAINING,** when requested, to help member countries build and strengthen their expertise and institutions to implement sound economic policies.

IMF headquarters is in Washington, DC, and its offices around the world aim to promote the IMF's global reach and maintain close ties with its members. For more information on the IMF and its member countries, visit www.imf.org.

Spotlights

A Window of Opportunity

The past year was one of growing economic anxiety tied to skepticism about both economic integration and an international approach to economic policymaking. To help make globalization work for all, the IMF focused on providing policy advice in the following macrocritical areas:

Making the system work better
by tackling global imbalances and strengthening the global financial safety net

Making growth sustainable
by dealing with climate change

Making growth inclusive
by addressing inequality in its various forms

Securing the foundation
through enhancing governance and addressing corruption

Harnessing technology for good
in finance, in fiscal policy

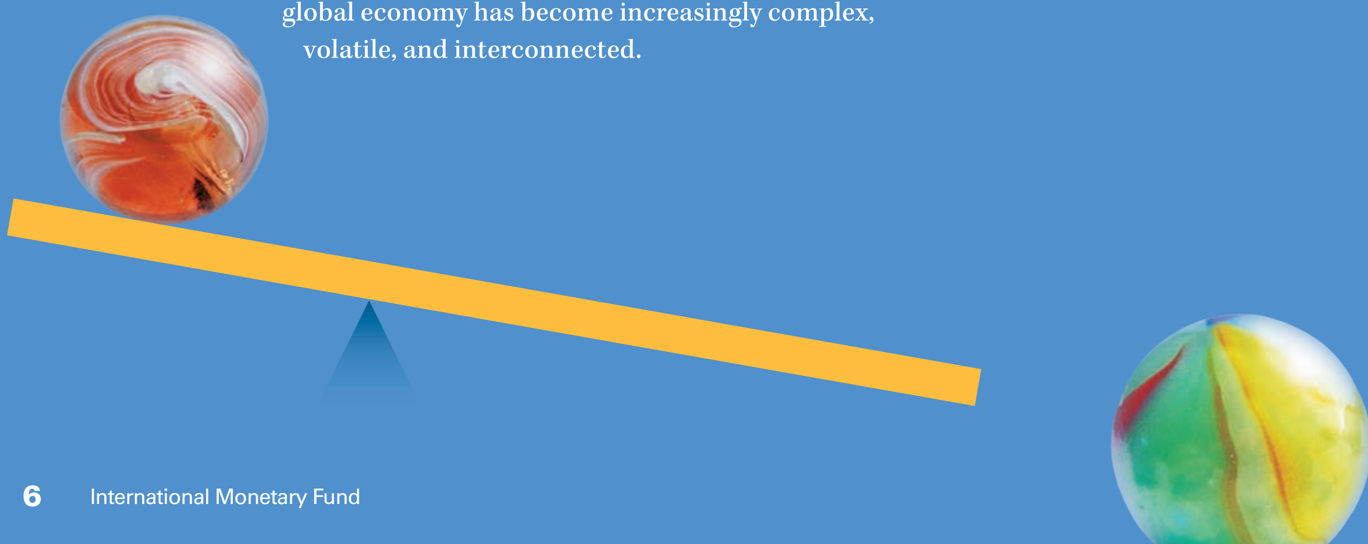
This approach dovetails with the policy roadmap laid out by the United Nations (UN) Sustainable Development Goals (SDGs), which show a clear link between economic growth, social inclusion, and environmental sustainability. The IMF endorsed the SDGs in the areas relevant to its activities.

Spotlight:
Making the System Work Better

Global macroeconomic stability requires commitment from all countries.

The IMF's 2017 *External Sector Report* demonstrates that excess current account imbalances—deficits or surpluses in a nation's transactions with the rest of the world—accounted for about one third of total global imbalances in 2016. This level, mostly unchanged since 2016, has become increasingly concentrated in advanced economies: deficits in the United States and United Kingdom, and surpluses in countries such as Germany, Japan, Korea, the Netherlands, Singapore, and Sweden. These imbalances make the global economy more vulnerable to the sudden reversal of capital flows and risk stoking protectionism, with detrimental effects on trade and growth. Excess deficit countries should cut fiscal deficits without reducing programs for the poor and gradually realign monetary policy with inflation targets. Excess surplus countries should provide greater fiscal stimulus. Both groups should prioritize structural reforms—boosting investment and promoting competition in surplus countries and encouraging saving and enhancing competitiveness in deficit countries. Global macroeconomic stability is an international public good that requires commitment from all countries.

Also, the IMF supported expanding the global financial safety net, which protects macroeconomic stability by providing insurance to help prevent crises, financing when a crisis occurs, and incentives for countries to adopt the policies that make crises infrequent and manageable. The resources behind the global financial safety net tripled between 2007 and 2016, reflecting that the global economy has become increasingly complex, volatile, and interconnected.



Over the past year, the IMF enhanced its contribution to the global financial safety net. It updated its rulebook for its crisis prevention lines of credit—the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL)—to make the qualification process more predictable and transparent. The IMF also proposed a framework for better collaboration with the regional financing arrangements to improve the global financial safety net and leverages the separate comparative advantages of regional financing arrangements (regional knowledge and connections) and the IMF (experience in macroeconomic adjustment and its universal risk pooling) in preventing and mitigating crises.

In capacity development, the IMF works with more than 40 bilateral and multilateral partners on core macroeconomic initiatives worldwide. Several thematic funds are aligned with key global development needs and initiatives, including the 2030 Agenda for Sustainable Development and the Financing for Development Agenda. Their activities are complemented by the IMF's extensive work of regional capacity development centers, financed by development partners, member countries, and the IMF.

LEARN

The global financial safety net has four main layers:

1. **Countries' own reserves** increased from about $2 trillion in 2000 to about $11 trillion in 2017. IMF quota resources have doubled to about $670 billion.

2. **Bilateral swap arrangements between two countries** take the form of unlimited permanent swaps between the central banks of some of the major countries issuing reserve currency, and a network of swaps between China and others to support trade and investment.

3. **Regional financing arrangements** include the European Stability Mechanism, with a lending capacity of 500 billion euros; the Chiang Mai Initiative Multilateralization, with $240 billion; and the Contingent Reserve Arrangement between Brazil, China, India, Russia, and South Africa, worth $100 billion.

4. **The IMF**, in addition to lending to help countries overcome balance of payments crises, can provide credit lines, which can be used on a precautionary basis, to countries with sound economic fundamentals. These include the FCL, for countries with very strong fundamentals and policies, and the PLL, for countries with sound fundamentals and limited vulnerabilities.

BEHIND THE SCENES

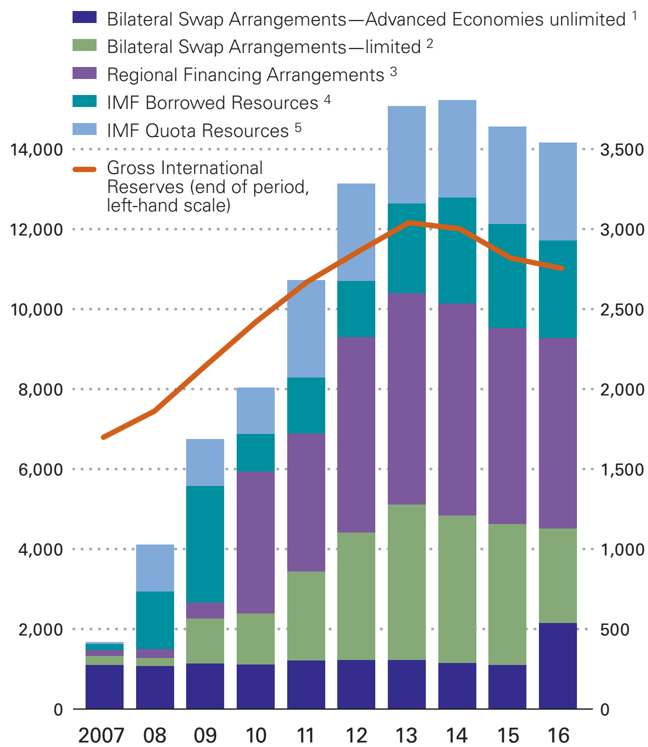
Adequacy of the Global Financial Safety Net: Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform—Revised Proposals

The IMF's review of the Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) found that these instruments have effectively provided support to members on a precautionary basis against external risks, and that succeeding FCL arrangements and associated access levels have been appropriately tailored to country circumstances. The review introduced refinements to the qualification framework for the FCL and the PLL to make it more transparent and predictable for current and potential users.

FIGURE 1.1

The global financial safety net has tripled since 2008

Amount and type of resources available to countries in billions of US dollars.



Sources: Bank of England; central bank websites; regional financing arrangement annual reports; and IMF staff estimates.

1 Estimated based on known past usage or, if undrawn, on average past maximum drawings of remaining central bank members in the network. Two-way arrangements are only counted once.

2 Includes all arrangements with an explicit value limit and excludes CMIM arrangements, which are included under RFAs. Two-way arrangements are only counted once.

3 Based on explicit lending capacity/limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital.

4 After prudential balances.

5 For countries in the Financial Transaction Plan (FTP) after deducting prudential balance.

Relevant SDG

PARTNERSHIPS FOR THE GOALS

Economic costs of rising temperatures could be substantial.

If unaddressed, climate change is likely to become one of the greatest economic shocks of the 21st century, owing to adverse effects including hotter temperatures, larger and more frequent natural disasters, rising sea levels, and the loss of biodiversity in depleted ecosystems.

IMF research in the October 2017 *World Economic Outlook* shows that the economic costs from rising temperatures could be substantial, especially for low-income developing countries, which generate very little greenhouse gas emissions. For the median low-income developing country, with a temperature of 25 degrees Celsius, an increase of 1 degree Celsius would reduce GDP per capita by an estimated 1.5 percent—and the loss would persist for at least seven years.

If emissions are not curbed, a median low-income developing country could lose up to one tenth of its income per capita by the end of the century. Rising temperatures affect economic outcomes in many ways—such as lower agricultural output, lower productivity of workers exposed to heat, worse health, and lower investment. About 60 percent of people in the world live in countries where these effects could occur.

To mitigate the effects of climate change by reducing emissions, the Paris Accord was agreed by nearly 200 countries. The IMF is developing spreadsheet tools for each IMF member country to quantify the levels of carbon pricing needed and the trade-offs with other instruments such as emissions trading, energy efficiency incentives, taxes on electricity, and individual fuels.

The findings emphasize the substantial climate, fiscal, and economic advantages of carbon taxes and the wide cross-country dispersion in needed prices, underscoring the case for international coordination. This year, the IMF's Executive Board agreed to further assist developing countries facing urgent balance of payments needs by increasing the access limits of the Rapid Credit Facility and the Rapid Financing Instrument. In small developing countries, the annual cost of disasters is nearly 2 percent of GDP—more than four times higher than that of larger countries. Capacity development helps member countries build resilient public financial management frameworks, adopt environmental tax reforms, and price energy appropriately to reflect the harmful environmental side effects of climate change.

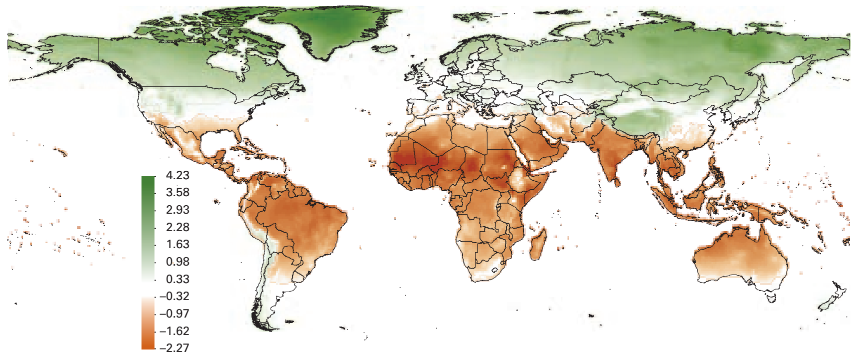
The IMF also introduced, in collaboration with the World Bank, Climate Change Policy Assessments, which provide an overarching assessment of climate mitigation, resilience building, and financing strategies for small states, within a sustainable macrofiscal framework.

FIGURE 1.2

Effect of temperature increase on real per capita output across the globe

Effect of a 1°C Increase in Temperature on Real per Capita Output (Percent)

An increase in temperature has a highly uneven effect across the globe, with adverse consequences concentrated in the parts of the world where the majority of the world's population lives.



Sources: Natural Earth; ScapeToad; United Nations World Population Prospects Database: the 2015 Revision; World Bank; and IMF staff calculations.

LEARN

The IMF's Rapid Credit Facility

The IMF's Rapid Credit Facility (RCF) is designed to provide rapid zero-interest loans with limited conditions to low-income developing countries facing an urgent balance of payments need. It places emphasis on countries' poverty reduction and growth objectives. The facility was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the IMF's support more flexible and better tailored to the diverse needs of low-income developing countries, including in times of crisis.

The facility is available to PRGT-eligible member countries, and assistance is a one-time loan disbursement. A country may request assistance under the RCF again within any three-year period if its balance of payments need is caused primarily by an exogenous shock or the country has established a track record of adequate macroeconomic policies. In June 2017, the IMF approved a disbursement under the RCF to The Gambia.

BEHIND THE SCENES

The Effects of Weather Shocks on Economic Activity: How Can Low-Income Countries Cope?

The October 2017 *World Economic Outlook* on climate change states that temperature increases have uneven macroeconomic effects, with adverse consequences concentrated in countries with relatively hot climates, such as most low-income developing countries. Sound domestic policies and development, in general, and investment in specific adaptation strategies, could help reduce the adverse consequences of weather shocks. But given low-income countries' constraints, the international community must support these countries as they cope with climate change—a global threat to which they have contributed little.

Relevant SDG

CLIMATE ACTION

Reducing inequality can open doors to growth and stability.

Global inequality—income differences among countries—has been declining, but the picture within countries is less clear and varies depending on income group and country-specific factors. IMF research has shown that persistently high inequality is associated with lower, less durable economic growth and greater financial instability—which makes reducing inequality directly relevant to the IMF's work.

What is the impact of income distribution on growth and stability?

Inequality wastes resources. In highly unequal economies, the poor may not have access to education, financial markets, or other avenues to increase income. This makes it hard for them to develop their productive capabilities.

Inequality resulting from poor job prospects is associated with higher costs. Prolonged unemployment degrades skills, limits employability, and depletes trust in government. This effect is particularly serious among young people, who in some countries have high unemployment rates, and for women in countries where discrimination, social customs, or unequal opportunity keep them out of the labor force.

Inequality can spur polarization and mistrust. When citizens feel treated unfairly, the lack of social cohesion can lead to more political struggles for public resources, rent-seeking efforts, and greater difficulty for governments to adopt the welfare-enhancing reforms needed for longer-term inclusive growth. In extreme cases, polarization can lead to instability and conflict.

Inequality can lead to macroeconomic instability. Inequality impairs the ability to cope with risk—highly unequal societies tend to have limited ways of insuring against economic disruptions. High inequality can also increase financial fragility—especially by simultaneously increasing the savings of the rich and the demand for credit by the poor and middle class.

Policies to address inequality and help enhance growth and economic inclusion at the same time include expanding access to quality education and healthcare for the poor, investing in infrastructure, deepening financial inclusion to reach the most vulnerable, and incentivizing increased female labor force participation.

Revenue collection and targeted spending are especially important in this context—the October 2017 *Fiscal Monitor: Tackling Inequality* discusses some options for addressing inequality while striking the right balance between efficiency and equity. Well-designed progressive income taxes, as well as certain wealth taxes, can contribute to reducing inequality without sacrificing growth. Ongoing empirical work shows that a "universal basic income" has the potential to reduce poverty and inequality but is contingent on a country's administrative capacity and ability to enhance targeting of social spending.

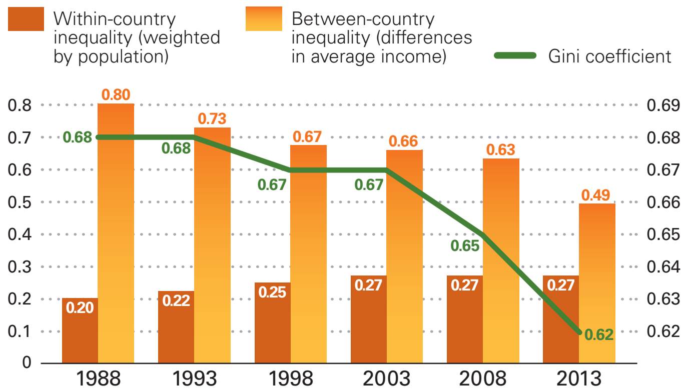
BEHIND THE SCENES

Fostering Inclusive Growth

There is growing evidence that economic growth does not always benefit citizens equally and that a lack of inclusion can be macroeconomically harmful. An IMF paper shows that domestic policies are key for translating strong growth into prosperity for all. Countries should adopt policy frameworks that maintain sustainable growth with macroeconomic stability. Fostering inclusive growth requires measures to boost productivity and at the same time make sure that higher growth doesn't come at the expense of equality. The IMF's "Inclusive Growth" course, which was launched in 2013, discusses analytical and operational tools to promote inclusive growth and has become one of the most highly demanded IMF course offerings around the world.

FIGURE 1.3

Global inequality has been decreasing...



Sources: Lakner and Milanović 2016; Milanović 2016; and World Bank 2016.

Notes: Bar height indicates level of global inequality as measured by the mean log deviation (left-hand scale). The Gini Coefficient represents the income distribution of a nation's residents, with a ratio of 1 (or 100%) expressing maximal inequality (right-hand scale).

LEARN

...but remains high within countries.

Although income gaps between countries have narrowed, inequality within countries rose from the mid-1980s to the mid-2000s, especially in advanced economies. Numerous factors explain these trends:

Technological advances have mainly benefited owners of capital and highly skilled workers.

International trade, while remaining a vital engine of growth and poverty reduction, has—in tandem with labor-saving technologies and outsourcing—led to some job losses and displacement in the advanced economies.

Financial integration, without adequate regulation, can increase vulnerability to financial crises and boost the bargaining power of capital.

Domestic policies, in some countries, have reduced the bargaining power of labor, increased corporate concentration, made taxes less progressive, and weakened social protection.

Relevant SDGs

GENDER EQUALITY

DECENT WORK AND ECONOMIC GROWTH

REDUCED INEQUALITIES

Spotlight:
Reducing Corruption

Peeling back the many layers of corruption.

Good governance, including the absence of systemic corruption, is vital for macroeconomic stability as well as sustainable and inclusive economic growth. IMF research shows that systemic corruption—defined as abuse of public office for private gain—is associated with lower growth and investment and higher inequality.

Corruption weakens the state's ability to tax, in part by undermining the tax system through perceptions of unfairness and favoritism, which can drain state coffers. Corruption also distorts government spending by promoting oversize, wasteful projects that generate kickbacks, to the detriment of investments in areas like health and education that have a positive economic and social impact. And since the poor rely more heavily on government services, these distortions disproportionately affect them and limit their economic opportunities.

Sustainable and inclusive growth is also jeopardized if the government is unable to ensure a business environment based on impartiality and the rule of law. Bribes make investments more expensive—when corruption is systemic, bribery acts as a tax on investment. And if corruption spills over to financial sector regulation and supervision, financial stability could also be at risk.

Corruption can lead to mistrust of government and divisiveness in a country, which in turn has an indirect effect on stability and inclusive growth. For example, when young people see few rewards for investing in skills and education, it both shrinks prospects for increased productivity and fuels resentment.

The IMF recently updated its policy on governance and corruption. The new policy provides guidance on assessing the nature and extent of corruption and its macroeconomic impact. To ensure more systematic, candid, and evenhanded IMF work on governance and corruption, the policy focuses on both the "supply side" of corruption (the bribe given) and the "demand side" (the bribe taken). Dealing effectively with corruption must include steps to curb corrupt practices, whether direct—bribing foreign officials—or indirect—laundering dirty money.

BEHIND THE SCENES

IMF policy and capacity development fights corruption

The IMF policy on governance and corruption notes that the IMF has provided detailed policy advice on reducing corruption in reports on individual health checks. Advice was often developed to inform ongoing or prospective IMF loans and reflected the findings of IMF capacity development missions, in collaboration with the World Bank and other partners. Detailed policy advice on strategies for reducing corruption was provided as part of several Article IV reviews.

LEARN

How does corruption affect the economy?

IMF research shows that reducing corruption is associated with higher economic growth: sliding down from the 50th to 25th percentile in an index of corruption or governance is associated with a fall in the annual rate of growth of GDP per capita by half a percentage point or more, and a decline in the investment-to-GDP ratio by 1½–2 percentage points.

Relevant SDG

PEACE, JUSTICE AND STRONG INSTITUTIONS

Spotlight:
Harnessing Technology for Good

Ensuring technology gains are widely shared.

Since the beginning of the industrial revolution, the effect of technological change on job prospects and inequality has been a concern. This is especially the case with recent rapid advances in information technology. The IMF has been exploring the topic in various areas that include the future of work and implications for both financial stability and fiscal policy. The goal is to ensure that technological advances support rather than impede macroeconomic soundness and inclusive growth.

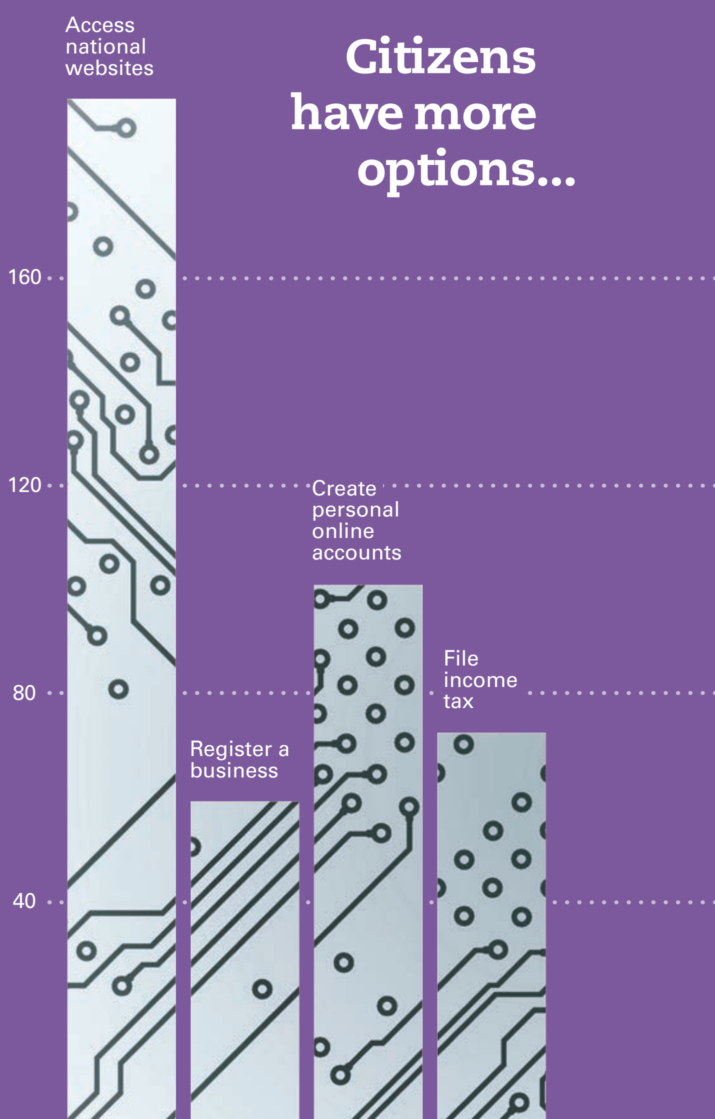
Since machines can perform an increasing array of tasks and are becoming cheaper relative to labor, new technological advances could prove highly disruptive. This could lead to fewer, less stable job prospects, as well as greater inequality, given that technology progress tends to benefit business and the most educated workers, exacerbating the decline of the middle class and the gap between the richest and the poorest citizens. An IMF paper analyzes the effects of technology on work and offers some policy options, such as increasing public spending on education and training and using fiscal policy to make sure growth is broadly shared.

The IMF also explored both the potential for and risks of new financial technologies. Dubbed Fintech, this nexus of new technologies includes artificial intelligence, big data, biometrics, and distributed ledger technologies such as Blockchain. These technologies offer many advantages, including faster, cheaper, more transparent, more inclusive, and perhaps even more user-friendly financial services. For example, artificial intelligence plus big data could automate credit scoring, smart contracts could allow investors to sell assets when predefined market conditions are satisfied, and mobile phones combined with distributed ledger technology could allow for direct financial transactions that bypass banks. The IMF found that digitalization can simultaneously make tax compliance easier and improve public service delivery. Digitalization can also improve governance and fiscal transparency, which makes corrupt transactions harder to hide.

Yet, there are also risks. By accelerating the speed and volume of transactions, new technologies can induce greater market volatility, and heighten vulnerability to cyberattacks, increase concentration risks, and lead to fewer internal controls. And they can open the door to nefarious activity—not only cyberattacks and violation of privacy, but fraud, money laundering, and terrorism financing. Regulation needs to adapt to this new financial world, including to address vulnerabilities stemming from new opportunities for fraud and cyberattacks.

FIGURE 1.4

Government digitalization: number of countries with selected digital services, 2016



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How can Fintech be regulated without undermining innovation?

Expanding oversight. As financial services move increasingly from well-defined intermediaries to looser networks and market platforms, focus regulation on specific financial services as well as entities like banks and insurance companies.

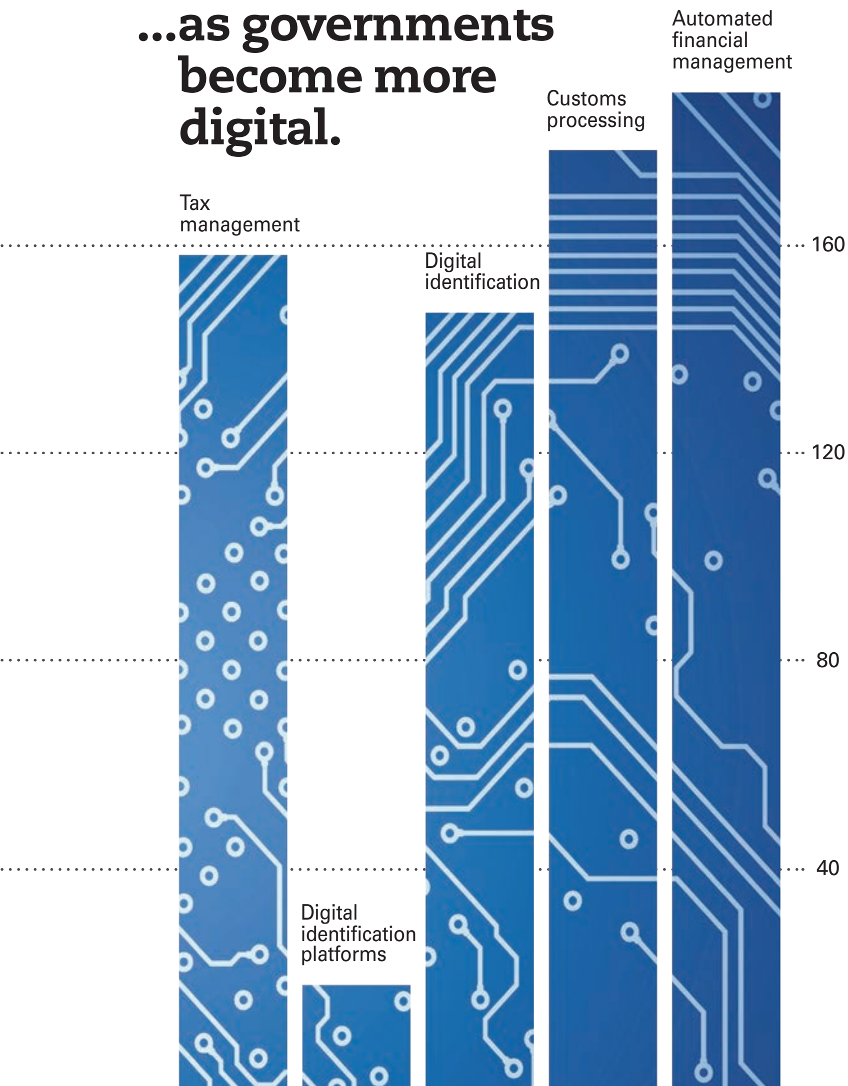
Boost international coordination. As technological networks and platforms do not respect national borders, ensure international coordination to stop a regulatory race to the bottom.

Modernize legal principles. Clarify rights and obligations in the new financial landscape, including the legal status and ownership of digital assets and tokens.

Strengthen governance. Develop rules and standards to ensure the integrity of data, algorithms, and platforms and enhanced consumer protection across numerous dimensions, including transparent and balanced contracts and privacy rights.

Sources: United Nations e-Government Survey 2016; and World Bank 2016.
Note: The United Nations tracks 193 member countries for the adoption.

...as governments become more digital.



BEHIND THE SCENES

Digitalization—the integration into everyday life of digital technologies that facilitate the availability and processing of more reliable, timely, and accurate information—presents important opportunities and challenges for fiscal policy.

The April 2018 *Fiscal Monitor* analyzes how it can change the design and implementation of fiscal policy now and in the future, with illustrative examples of tax administration and policy, public service delivery, and spending efficiency. The analysis suggests that adopting digital tools could increase indirect tax collection at the border by up to 2 percent of GDP per year. On the spending side, the experiences of India and South Africa show how digitalization can help improve social protection and the delivery of benefits. Mitigating risks from digitalization requires a comprehensive reform agenda, adequate resources, and a coordinated approach toward a long-term version of the international tax architecture.

Relevant SDG

INDUSTRY, INNOVATION AND INFRASTRUCTURE

Voyage to Indonesia

Working Together Toward a Common Goal

The IMF-World Bank Annual Meetings are taking place in Bali in October 2018. The meetings will be a unique opportunity for Indonesia and Asia to share their achievements and provide lessons for other countries. Indonesia and its ASEAN partners have been successful in creating vibrant middle classes, opening the doors to higher living standards for millions of people. By generating strong growth over the past two decades, they have also become key drivers of the global economy.

IMF Managing Director Lagarde at the Borobudur Temple (opposite page); meeting with President Jokowi (this page, top left); and visit to the Indonesian booth at the Spring Meetings 2018 (this page, bottom right).

Exploring Connections and Cooperation in the Region

20TH ANNIVERSARY OF THE REGIONAL OFFICE FOR ASIA AND THE PACIFIC

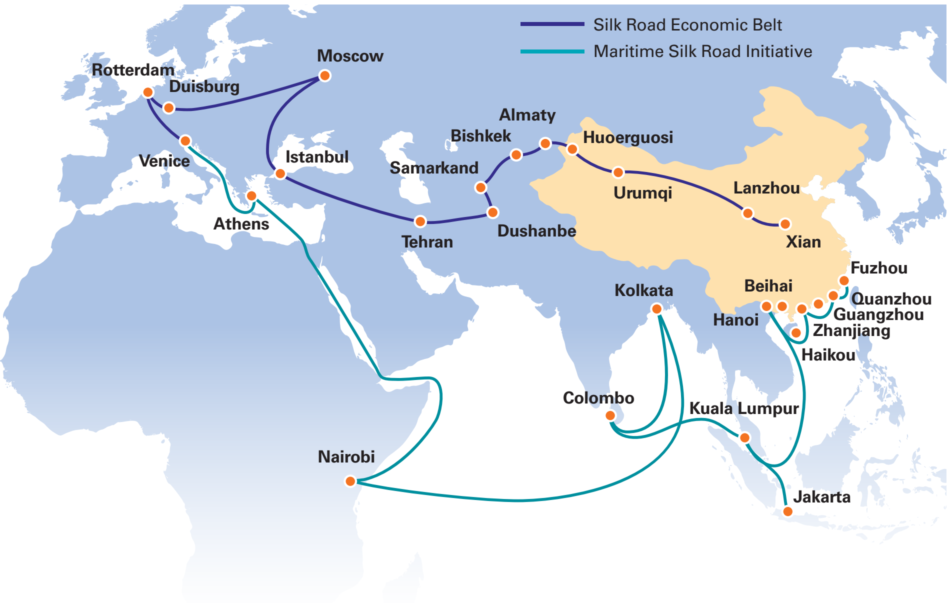
More than 400 people including the central bank governors of Mongolia and Nepal attended the events celebrating the 20th anniversary of the Regional Office for Asia and the Pacific (OAP), which was cohosted by the IMF and the Ministry of Finance in November in Tokyo.

The reception was like a reunion of OAP, attended by former directors including Mr. Kunio Saito, the first director, and staff flying in from overseas, people who used to work at the IMF, and who worked hard to open the office in Tokyo in 1997. Mr. Taro Aso, Deputy Prime Minister, and Mr. Haruhiko Kuroda, Governor of the Bank of Japan, delivered the speeches celebrating the occasion.

In the keynote speech, IMF Managing Director Christine Lagarde talked about Japan's *Gakuensai*, the immensely popular university festivals organized by students, saying they are "forward-looking" and "firmly grounded in shared experiences," and that is a fitting description of the partnership between Japan and the IMF.

At a townhall meeting with the Managing Director, more than 60 scholars of the Japan-IMF Scholarship Program for Asia (JISPA) attended and put forward questions on the IMF's views on the risks to economic growth in Asia. JISPA is funded by the Ministry of Finance and administered by OAP.

OAP will increase the footprint of the IMF in the region by continuing to manage JISPA and by organizing capacity-building seminars and policy conferences in the region, as well as by handling the IMF's on-the-ground relations with the regional fora, including the Asia Pacific Economic Cooperation (APEC) forum and the Association of Southeast Asian Nations (ASEAN).



BELT AND ROAD INITIATIVE

China's Belt and Road Initiative, launched in 2013, aims to promote connectivity and cooperation in infrastructure, trade, finance, and people-to-people exchanges by connecting Asia with Europe and Africa through the Middle East and across the Pacific to Latin American countries. The high-profile Belt and Road Forum for International Cooperation, in May 2017, was hosted by China and outlined a roadmap for the initiative. The initiative is expected to raise significant resources from China and various other sources, including the private sector, to support development and improve growth prospects.

A High-Level Conference on Macroeconomic and Financial Frameworks for the Successful Implementation of the Belt and Road Initiative, in April 2018, focused on how to realize the initiative's potential and maximize its benefits while ensuring debt sustainability and proper project selection. In her speech, Managing Director Lagarde noted that higher infrastructure investment can help achieve more inclusive growth, attract more foreign direct investment, and create more jobs. At the same time, she emphasized the need to carefully manage the financing terms in countries with high public debt to avoid agreements that may lead to financial difficulties for both China and partner governments. She also emphasized ensuring transparent decision making.

At the event, Managing Director Lagarde and Governor Yi Gang of the People's Bank of China inaugurated the China-IMF Capacity Development Center (CICDC), which aims to work with countries by organizing training courses, workshops, and peer-learning events that support sustainable and inclusive economic growth. CICDC will be anchored in Beijing and will support activities both inside and outside China, such as in countries associated with the Belt and Road Initiative.

Making an Investment in Sustainable Development

UNTAPPED REVENUE POTENTIAL

The overarching policy challenge in sub-Saharan Africa is to improve living standards by achieving the Sustainable Development Goals. The most reliable source of development financing is domestically generated revenues. With the IMF capacity development and loans support, the region has made substantial progress over the past two decades (*Figure 1.5*) but still has significant potential to improve domestic revenue collection.

A recent IMF study estimates that sub-Saharan Africa could mobilize up to 5 percent of GDP in additional tax revenues—markedly more than what it receives each year from international aid. To tap this potential, countries must continue efforts to modernize tax administration systems and broaden the tax base.

PRIVATE INVESTMENT TO REJUVENATE GROWTH

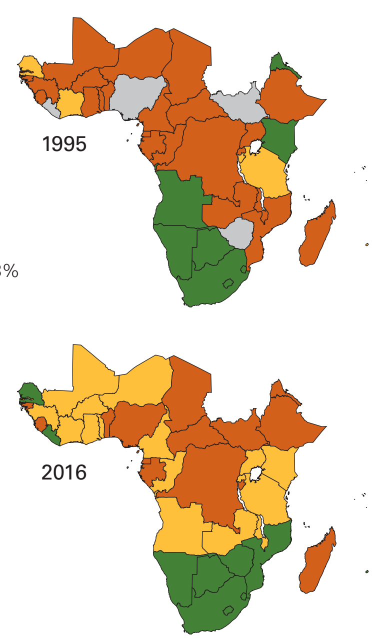
Private investment in sub-Saharan Africa has lagged other regions (*Figure 1.6*). More private domestic and foreign investment is critical for sustainable and inclusive growth. Empirical analysis suggests that current and prospective economic activity is the main driver of private firms' decisions to invest. Moreover, growth's impact on private investment decisions is strengthened by improved regulatory and insolvency frameworks, deeper financial markets, and trade liberalization.

FIGURE 1.5

Tax revenue to GDP in sub-Saharan Africa

(Percentage of GDP)

- Less than 13%
- Between 13% and 18%
- Greater than 18%
- No available data

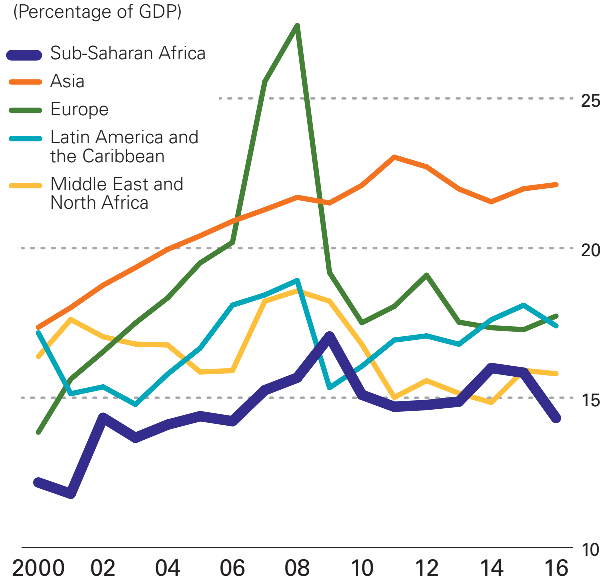


Source:
IMF, Africa Department.

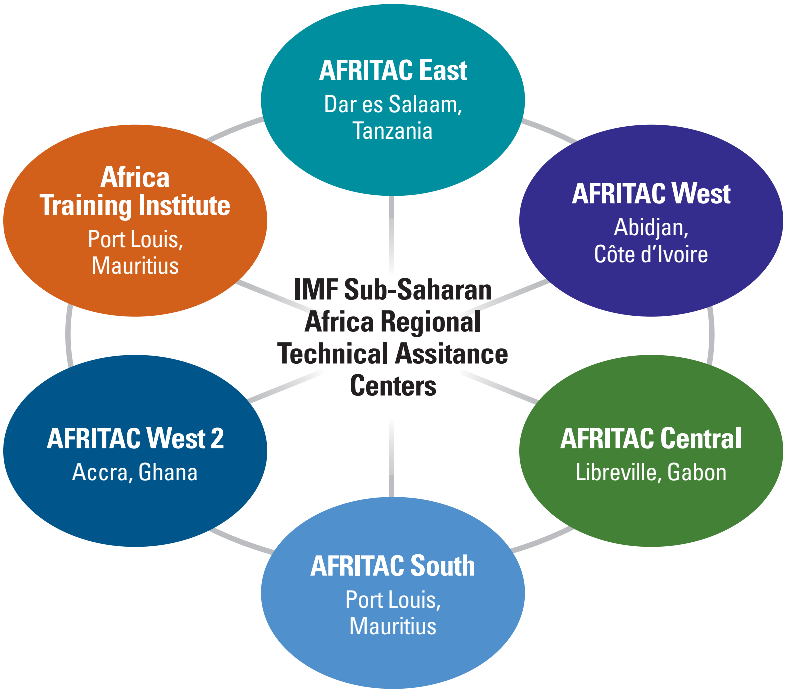
FIGURE 1.6

Private investment to GDP in developing countries, 2000–16

(Percentage of GDP)



Source: IMF, World Economic Outlook database.



PEER LEARNING IN SUB-SAHARAN AFRICA

A network of six regional centers, covering all of sub-Saharan Africa, coordinates much of the IMF's capacity development efforts on the ground, supporting economic institution building and good governance in the region. These centers ensure close coordination with member country officials and other development partners and are financed by development partners, member countries, and the IMF. Hands-on advice, regional training, and policy-oriented workshops are complemented by peer-learning activities so countries can share best practices and boost regional integration. In 2018, these events have included: a workshop hosted jointly with the government of Senegal and G20 Compact with Africa on economic diversification and growth, a conference hosted with the African Center for Economic Transformation and the Ghanaian government on mobilizing domestic revenue to overcome aid dependence, and a conference cohosted with the Rwandan government and UN Women on how to promote gender equality. Another prominent theme has been harnessing digital technologies to support taxation.

Stabilizing and Strengthening the European Economy

CENTRALIZED FISCAL CAPACITY FOR THE EURO AREA

The euro area crisis exposed shortcomings in the functioning of the currency union, and IMF staff have argued that further integration would make the euro area more resilient to shocks. An IMF paper outlines a proposal for a centralized fiscal capacity for the euro area that could help smooth both country-specific and common shocks. In particular, it suggests a macroeconomic stabilization fund financed by annual contributions from countries, used to build up assets in good times and make transfers to countries in bad, as well as a borrowing capacity in case large shocks exhaust the fund's assets.

Simulations show that, even with relatively modest contributions, such a scheme would provide meaningful macroeconomic stabilization in a downturn. The centralized fiscal capacity involves risk-sharing across countries; therefore, to avoid moral hazard problems, transfers would need to be conditional on strict compliance with European Union fiscal rules. The note also discusses several features aimed at avoiding permanent transfers between countries and making the centralized fiscal capacity function as automatically as possible—to limit the scope for disputes over its operation—both of which are important points to make it politically acceptable.

TRANSFORMING FRANCE'S ECONOMY

A conference on "Transforming France's Economy and Completing the Integration of the Eurozone" in Paris, France, in February 2018, brought together leading policymakers, economists, and private sector representatives to discuss how to strengthen the resilience and growth potential of France and the euro area. The conference was cohosted by the IMF and the French Treasury.

In a conversation with French Minister of Finance Bruno Le Maire, IMF Managing Director Christine Lagarde stressed the importance of using the current recovery to push an ambitious reform agenda, both nationally and at the European level, to boost employment and productivity.

POLICY DEBATES IN GERMANY

High-ranking economists and policymakers from Germany and other countries met in January 2018 at a conference cohosted by the IMF and Deutsche Bundesbank to discuss economic policy. The conference focused on areas in which the debate has been particularly intense: developments in wages and inflation, the appropriate fiscal policy stance, Germany's current account surplus, and the postcrisis agenda for the euro area and Germany. IMF Managing Director Christine Lagarde and Deutsche Bundesbank President Jens Weidmann gave keynote addresses, and the event featured a lively exchange of views and an opportunity for the IMF to deepen its engagement with Germany.

SUSTAINING RECOVERY IN SPAIN

Spain's successful responses to the financial crisis were the focus of the conference "Spain—From Recovery to Resilience," cohosted by the IMF and Banco de España in Madrid in April 2018. The conference attendees shared lessons learned and policy options to ensure a sustained and inclusive economic path forward. IMF First Deputy Managing Director David Lipton delivered a keynote speech. Primary challenges for the Spanish economy discussed related to elevated public debt, unfinished business in labor market reform, and weak medium-term productivity and growth prospects. The conference also debated how the European architecture can be strengthened further, in particular by completing the banking union.

Supporting Inclusive Growth through Government Reforms

HOW GOVERNMENTS IN THE MIDDLE EAST CAN "ACT NOW"

Seven years after the Arab Spring, people in the region still aspire to greater economic opportunity and prosperity. With 60 percent of the region's people younger than 30 and 27 million youth joining the workplace in the next five years, policymakers must "ACT NOW" to create opportunities. The January 2018 "Opportunity for All" conference in Marrakesh, Morocco, organized by the IMF, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, and the government of Morocco called on governments to prioritize reforms to promote higher inclusive growth through greater:

Accountability: increase transparency, strengthen institutions, tackle corruption.

Competition: foster the private sector through better access to finance and regulation.

Technology and trade: leverage to generate new sources of growth.

No one left behind: build strong safety nets and strengthen rights of youth, women, rural populations, and refugees.

Opportunity: improve social and investment spending and pursue fairer taxation.

Work: invest in people and reform education to equip workers for the new economy.

IMF Managing Director Christine Lagarde visits the Amal Women's Training Center and Moroccan Restaurant in Marrakesh.

EGYPT REFORM PROGRAM HELPS STABILIZE THE ECONOMY

The prolonged political transition and regional instability in Egypt after 2011 exacerbated longstanding structural challenges. This in turn resulted in slow growth, high public debt, and depleted official reserves. In 2016, to restore macroeconomic stability, the authorities developed a program of policies and structural reforms, supported by a three-year extended arrangement under the IMF's Extended Fund Facility, to improve external competitiveness, decrease public debt, and promote inclusive growth.

A key part of the program was to improve revenue mobilization. A Tax Administration Diagnostic Assessment determined areas for improvement, including in tax return filing and payment. The Egyptian Tax Administration worked with METAC (the IMF's regional capacity development center based in Beirut), to introduce new procedures in pilot offices. The pilots have produced encouraging results. Collection and filing rates in pilot offices have been, on average, twice that in nonpilot offices. The Egyptian government is looking to expand these reforms to help them reduce tax evasion and corruption.

After one year under the program, external and fiscal deficits have narrowed and growth accelerated. The authorities' reform program has played a key role in stabilizing conditions, including alleviating foreign exchange shortages, strengthening social assistance, and expanding private investment and growth.

FINANCIAL SECTOR REPAIR IN CAUCASUS AND CENTRAL ASIA

External shocks since 2014, including lower commodity prices and slower growth in main trading partners, have put banking sectors in the eight Caucasus and Central Asia (CCA) countries under stress. These shocks exacerbated financial vulnerabilities, including weak asset quality, high dollarization, connected lending, and shortcomings in financial regulation and supervision. All CCA countries have taken policy actions in response to the shocks, but more needs to be done to restore the health of CCA banking sectors.

The exact strategy will depend on banks' financial health and will require prioritizing objectives. Countries where risks to financial stability remain elevated should focus on accurately assessing banks' health and resolving those that are not viable. Efforts should also be devoted to strengthening the regulatory and supervisory frameworks in all CCA countries, which should include the following reforms: a strong governance structure that establishes independent risk management, compliance, and internal controls; effective risk-based and consolidated supervision; macroprudential frameworks; and an improved credit risk valuation. Implemented with a strong commitment from the authorities, these actions would allow the banking sector to contribute fully to higher and inclusive economic growth.

Tackling Economic Challenges

CARIBBEAN FORUM: "UNLEASHING GROWTH WHILE STRENGTHENING RESILIENCE"

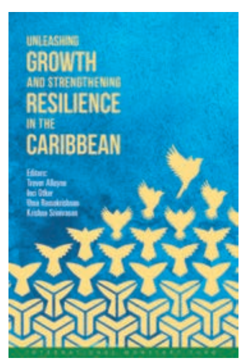
The High-Level Caribbean Forum held in Kingston, Jamaica, in November 2017 was timely, as the region is facing multiple challenges—fiscal and financial vulnerabilities, youth unemployment, and exposure to frequent and costly natural disasters that collectively hinder the region's growth.

Participants discussed how to balance debt and growth in the current economic and political cycle juncture.

Following the forum, IMF Managing Director Christine Lagarde joined the town hall with students at the University of the West Indies, where IMF staff launched a book: *Unleashing Growth and Strengthening Resilience in the Caribbean.* The book brings together the latest research on the Caribbean economies conducted at the IMF. It analyzes the region's macroeconomic imbalances and examines structural impediments affecting competitiveness and growth in its tourism-intensive economies.

Jamaica works closely with the IMF to build strong economic institutions to tackle some of these challenges. Much of the work is coordinated by the CARTAC (the IMF's regional capacity development center based in Barbados).

IMF Western Hemisphere Department Deputy Director Krishna Srinivasan (L) chats with Dean of New York University's Stern School of Business Peter Blair Henry (R) at the 2017 Caribbean Forum in Kingston, Jamaica.



PARAGUAY'S MACROECONOMIC STABILITY

In March 2018, the Managing Director visited Asunción to meet with President Horacio Cartes and other senior officials, visit social projects, and participate in several outreach events. After 24 years since an IMF Managing Director last visited the country, Lagarde noted Paraguay's remarkable economic growth and social progress. Discussions focused on the importance of strengthening Paraguay's macroeconomic stability, ensuring inclusive growth, and taking advantage of the country's "demographic dividend" with a relatively youthful population. Paraguay's National Development Plan prioritizes investment in the areas of infrastructure, health, and education.

Part 2:
What We Do

The IMF Has Three Main Roles

Economic Surveillance

The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member countries. As part of this surveillance process, which takes place at both the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments.

136 country health checks

Capacity Development

The IMF works with governments around the world to modernize their economic policies and institutions, and train their people. This helps improve inclusive growth.

$303 million for hands-on technical advice, policy-oriented training, and peer learning

Lending

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.

$91 billion to four countries, plus $2.4 billion to 14 low-income developing countries

Economic Surveillance

Through "surveillance," the IMF oversees the international monetary system, monitors global economic developments, as well as engages in a health check of the economic and financial policies of its 189 member countries. In addition, the IMF highlights possible stability risks to its member countries and advises their governments on potential policy adjustments, enabling the international monetary system to achieve its goal of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

INTRODUCTION

IMF surveillance comprises two parts: "bilateral surveillance," in which the IMF appraises and advises on the policies of each member country; and "multilateral surveillance," in which the IMF provides analysis of the world economy or a group of countries that share certain characteristics. By integrating bilateral and multilateral surveillance, the IMF can ensure a more comprehensive, consistent analysis of "spillovers"—that is, how one country's policies may affect other countries.

An important element of bilateral surveillance is the 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 IMF member country.

Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members' policies onto the global economy.

The IMF also monitors regional and global economic trends and analyzes the impact that member country policies may have on neighboring countries and the global economy. It issues periodic reports on these trends and analysis. The *World Economic Outlook* provides detailed analysis of the global economy and its growth prospects, addressing issues such as the macroeconomic effects of global financial turmoil and the potential for global spillovers, especially those that may result from the economic, fiscal, and monetary policies of large, globally central economies such as the United States, China, and the euro area. The *Global Financial Stability Report* assesses global capital markets and financial imbalances and vulnerabilities that pose potential risks to financial stability. The report updates medium-term fiscal projections and assesses developments in public finances. The IMF also publishes Regional Economic Reports that provide detailed analysis of major regions of the world.

BILATERAL SURVEILLANCE

The Article IV Consultation Process: An Annual Assessment

Article IV consultations cover a range of important macrocritical issues—fiscal, financial, foreign exchange, monetary, and structural—and focus on risks and vulnerabilities and policy responses. Economists and other staff members across the IMF participate in the Article IV consultation process.

The consultations consist of a two-way policy dialogue between the IMF and country authorities. The IMF team meets with an individual country's 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 IMF staff then presents a report to the IMF's Executive Board, normally for discussion. The consultation then concludes, and the IMF sends country authorities a summary of the meeting. In most cases and after the member country agrees, the Board's assessment is published as a press release, along with the associated staff reports. In FY2018, the IMF conducted 134 Article IV consultations (*Web Table 2.1*).

A Review of Financial Stability Assessments

Checking the health of member countries' financial sectors is important to maintaining global financial stability. The IMF conducts mandatory assessments every five years of 29 countries whose financial sectors are deemed systemically important and assesses other members' financial sectors on a voluntary basis. These checks feature in-depth evaluation of resilience and regulation under the Financial Sector Assessment Program (FSAP), which IMF staff use to identify country-specific risks and propose actions to avoid financial crises.

The list of systemically important financial sectors (SIFS) and the frequency of the mandatory financial stability assessments will be considered during the forthcoming 2019 FSAP Review. In February 2018, IMF staff briefed Executive Directors on possible revisions to the methodology for identifying SIFS. Staff underscored the vital role of the FSAPs and noted the emphasis on transparency, uniformity, evenhandedness, and data-driven analysis.

In developing and emerging market countries, financial stability assessments are conducted jointly with the World Bank. Both organizations will therefore be helping set the direction for monitoring global financial stability over the coming decade.

2018 Interim Surveillance Review

In April 2018, the Executive Board discussed the "Interim Surveillance Review." The staff paper argues that IMF surveillance has become better adapted to the global conjuncture and more integrated and risk-based. Bilateral and multilateral surveillance are underpinned by a shared and deeper understanding of global interconnectedness and linkages across sectors. Surveillance will be further enhanced ahead of the 2020 "Comprehensive Surveillance Review" by refining external sector assessments; sustaining progress on macrofinancial surveillance; and incorporating lessons from pilot efforts, including on macrofinancial, macrostructural, and emerging issues. The 2020 Review will also better anchor the IMF's surveillance in a world of rapid technological change.

Executive Directors welcomed the Interim Surveillance Review and broadly supported its main conclusions and recommendations. Noting that better integration of bilateral and multilateral surveillance has resulted in a stronger grasp of global risks and spillovers, they encouraged staff to make further efforts to understand and ensure in-depth and more consistent coverage of outward spillovers in surveillance, including through outreach with member countries. The Executive Directors recognized the efforts being made to strengthen external sector assessments and noted that fiscal policy advice continues to adapt to the evolving challenges of the membership. They welcomed the progress toward integrating macrofinancial analysis into bilateral surveillance and encouraged continued efforts to mainstream macrofinancial surveillance and extend its coverage. They saw a need to better leverage the IMF's expert analysis in its core areas of expertise and lessons from cross-country experience and called for better integration of capacity development with surveillance. And they emphasized the importance of the planned engagement with members and other stakeholders to identify priorities for the Comprehensive Surveillance Review, including to evaluate the traction of IMF surveillance.

MULTILATERAL SURVEILLANCE

Early Warning Exercise

The Early Warning Exercise is an important part of the institution's surveillance work and is conducted twice a year in coordination with preparation of the flagship publications (*World Economic Outlook, Global Financial Stability Report,* and *Fiscal Monitor*).

Findings are presented to the Executive Board and senior officials during the IMF–World Bank Spring and Annual Meetings. Follow-up to the Early Warning Exercise takes place in the context of bilateral and multilateral surveillance activities. The IMF and the Financial Stability Board cooperate closely on the Early Warning Exercise to provide an integrated perspective on risks and vulnerabilities. The IMF takes a leading role in macroeconomic, macrofinancial, and sovereign risk concerns, and the Financial Stability Board focuses on financial system regulatory and supervisory issues.

Vulnerability Exercise

Whereas the Early Warning Exercise uses a narrative approach to highlight low-probability but high-impact global risks, the Vulnerability Exercise uses empirical models to generate vulnerability ratings and crisis probability estimates at the sectoral (real, fiscal, financial, external) and country levels. As with the Early Warning Exercise, the work is closely coordinated with preparation of the flagships around the Spring and Annual Meetings. The final ratings for each country and sector are based on the judgment of IMF staff country teams. The results are presented to the Executive Board and are used to inform discussions with authorities and to help guide allocation of resources.

External Sector Report

The *External Sector Report* provides multilaterally consistent assessments of member countries' external sectors, including their exchange rates, current accounts, reserves, capital flows, and external balance sheets. This report complements the flagship reports (especially the *World Economic Outlook*) and the Article IV consultations. This report has been produced annually since 2012 and covers 28 of the world's largest economies, plus the euro area, representing over 85 percent of global GDP. The report is part of an ongoing effort to provide a rigorous and candid assessment of global excess imbalances and their causes and to ensure that the IMF is in a good position to address the possible effects of members' policies on global external stability.

The Executive Board discussed the 2017 report, issued along with individual economy assessments, in a formal session in July 2017. Directors broadly supported the findings of the report and encouraged staff to deepen their analysis on the drivers of excess imbalances. The 2018 report includes a number of methodological refinements and was again discussed in formal session.

Economic Outlook and Policy Challenges in the Gulf Cooperation Council Countries

In December 2017, staff produced "Gulf Cooperation Council: The Economic Outlook and Policy Challenges in the GCC Countries." This paper notes GCC countries are continuing to adjust to lower oil prices, with most having experienced substantial fiscal consolidation that has hampered growth in non-oil sectors. Growth prospects over the medium term remain subdued amid relatively low oil prices and heightened geopolitical risks.

The policy paper urges a focus on supporting the private sector's access to funding, diversifying the economy for sustainable growth, improving the business climate, reducing the role of the public sector in the economy, and (where fiscal space is available) using fiscal policy to support growth and job-enhancing reforms. The paper calls for reforms to incentivize nationals to work in the private sector and for the private sector to hire them, and to enhance female participation in the labor market.

POLICY ADVICE

The Managing Director's Global Policy Agenda

In April 2018, IMF Managing Director Christine Lagarde presented her Global Policy Agenda, "A Window of Opportunity Remains Open," to an informal session of the Executive Board. The agenda stresses that while the momentum behind the cyclical global expansion remains strong, escalating trade conflicts and financial market volatility suggest that medium-term risks remain skewed to the downside. To sustain the upswing, policymakers are called on to enhance financial

sector resilience, start rebuilding policy space, and implement structural reforms—including on corruption and governance. Countries are urged to work to promote an open and rules-based multilateral trade system that works for all and to durably reduce excess global imbalances. A cooperative approach to regulation will reap the benefits of financial technology while addressing potential risks to stability and integrity, the update suggests.

The agenda also notes that the IMF is embarking on major policy reviews, including on surveillance, the Financial Sector Assessment Program, program conditionality, concessional lending tools, debt sustainability analysis, and capacity development. It has also launched a comprehensive work program on the opportunities and challenges from digitalization.

Enhancing the Focus on Macrostructural Issues in Surveillance

In March 2018, staff briefed the Executive Board on progress on the initiative to enhance the focus on macrostructural issues in surveillance. Staff noted that the 32-country pilot has improved the quality of analysis of structural issues but that challenges remain—including further developing analytical tools and knowledge sharing, particularly for emerging markets and developing countries; better integrating structural issues into the macro policy framework, enhancing collaboration with other international organizations, and appropriately prioritizing topics. Staff will extend the pilot to another nine countries with a view to concluding by the end of 2018 and incorporate lessons learned from the pilot into broader surveillance in 2019.

MONETARY AND FINANCIAL ISSUES

Update on Trends in Correspondent Banking Relationships

In March 2018, IMF staff briefed the Executive Board on the IMF's work on correspondent banking relationships. Staff noted that the IMF employs a multipronged approach to correspondent banking relationships: monitoring trends, risks, and drivers; facilitating dialogue on solutions; providing tailored capacity development; and engaging on tail risk scenarios.

Monetary Policy Normalization Creates a Bumpy Road Ahead

The April 2018 *Global Financial Stability Report* finds that as advanced economies normalize their monetary policies amid signs of firming inflation, global financial conditions are still very accommodative compared to historic norms. Easy financial conditions may support near-term growth, yet they also pave the way for financial fragilities that increase risks to global financial stability and economic growth over the medium term. Although growth outcomes under current financial conditions are notably more favorable than three years ago, macroeconomic, geopolitical, or policy shocks could put up roadblocks to growth.

Some emerging market economies have taken advantage of benign external financial conditions to address imbalances and build buffers, while vulnerabilities continue to build in others. However, monetary policy normalization could tighten global financial conditions, leading to weakening capital flows that might increase rollover risk and reduce productive investment.

In this context, central banks must strike a delicate balance of gradually withdrawing monetary policy accommodation while avoiding disruptive volatility in financial markets. Continued clarity in central bank communications is key to maintaining this balancing act.

Benefits and Risks from Capital Flows

A September 2017 paper, "Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies," reflects an earlier Executive Board discussion. It finds that capital flows can bring substantial benefits for countries,

but that large and volatile capital flows can also give rise to systemic financial risks. Benefits tend to be greater for countries whose financial and institutional development enables them to intermediate capital flows safely.

The paper illustrates that postcrisis reforms, including the development of macroprudential policies, are helping to make financial systems more resilient to shocks from capital flows. It assesses the two frameworks put in place to help ensure that policy advice on capital flows is consistent and tailored to country circumstances—the macroprudential framework and the institutional view on capital flows. The paper concludes that the frameworks are consistent with key principles, including by avoiding both macroprudential policies and capital flow management measures as substitutes for needed macroeconomic adjustment.

Executive Directors supported this paper. They recognized that capital flows deliver significant benefits, but also have the potential to contribute to a buildup of systemic financial risk, especially if they are large and volatile. They also reiterated that macroeconomic policies, including exchange rate flexibility, need to play a key role in managing risks associated with capital flows, and that macroprudential policies and capital flow management measures should not be used to substitute for warranted macroeconomic adjustment.

Trade-Offs in Bank Resolution

A February 2018 IMF paper, "Trade-Offs in Bank Resolution," notes that during the global financial crisis, authorities faced something of a dilemma: bank bailouts could reinforce expectations of future public support for troubled financial institutions—possibly leading to excessive risk-taking and seeding the ground for the next crisis—but the use of public resources seemed necessary to prevent distress in one bank leading to systemwide crises. In most cases, failing banks were bailed out, with most of the costs and risks borne by taxpayers.

Since then, reforms have sought to reduce the likelihood of crises and minimize costs should a crisis occur—including by shifting the burden to private investors and improving the trade-off between bailouts and bail-ins. This paper revisits this trade-off in light of these developments. It supports the efforts to provide resolution authorities with effective bail-in powers, and stresses that frameworks should seek to minimize moral hazard with bailouts. The paper recognizes the continued need to allow for sufficient, albeit constrained, flexibility to be able to use public resources in the context of systemic banking crises. It calls for continued efforts to enhance loss-absorbing capacity, ensure that holders of bail-in-able debt are those best situated to absorb losses, and improve arrangements for cross-border resolution.

External Balances: Promoting Consistency in Annual Assessments

The IMF provides staff assessments of economies' external positions, including current account balances, real exchange rates, external balance sheets, capital flows, and international reserves, in its yearly *External Sector Report*. As noted earlier, efforts are under way to strengthen the methodology and assessments and promote consistency in the report.

As a tool to help estimate the impact of domestic and foreign influences on the current accounts and exchange rates of major economies, staff have used an External Balance Assessment (EBA), and the IMF has been developing a so-called "EBA lite" methodology for other countries over the past few years. The assessments use regression models and sustainability analysis to describe the effect of different influences. Reports are supplemented by staff judgments about the country-specific factors that models cannot capture.

Limitations of EBA and EBA lite are inherent in data comparability issues and methodological uncertainties. As these are well recognized, upcoming discussions on refinements will focus on improving the methodologies and their application.

Global Standards: Sharpening the Tools to Cut Systemic Risk

Financial sector supervisory standards have been used in the IMF's financial sector assessments since 2000, but a revision of its approach was deemed necessary. The assessments have been conducted against three main supervisory standards for banking, insurance, and securities, set by the Basel Committee on Banking Supervision, International Association of Insurance Supervisors, and International Organization of Securities Commissions, respectively. Two developments gave rise to a need for a revised approach: First, these supervisory standards have been updated and strengthened considerably since the global financial crisis. They have been expanded in scope and improved to account for gaps. Second, in line with the increased emphasis on systemic risk, a more focused review on areas requiring a deeper coverage was deemed necessary.

As a result of consultations with the Standard Setting Bodies (SSBs), an understanding was reached to refine the existing flexible approach. The SSBs and staff agreed that financial sector supervisory standards will continue to be used in one of two ways:

- **Graded assessment:** given that the various principles are interrelated, the standard will be assessed in full. The output will continue to be a "Detailed Assessment Report."

- **Focused review:** a standard can also be used as a benchmark to analyze specific prudential or supervisory gaps, without involving any graded assessment, and can be based on a subset of principles.

The decision about whether to conduct a graded assessment or a focused review will continue to be by agreement between staff and the authorities.

FISCAL POLICY

Recent Developments in International Corporate Taxation

In February 2018, IMF staff briefed the Executive Board on recent developments in international taxation, focusing on the US tax reform. The IMF has also continued its expanded work with area departments on international corporate tax issues in the context of bilateral surveillance. As of May 2018, approximately 20 selected issue papers, working papers, or annexes had been completed in the previous two years as part of Article IV reports.

Second-Generation Fiscal Rules

In March 2018, IMF staff briefed the Executive Board on the evolution of fiscal rules since the global financial crisis, presenting evidence that fiscal rules—when properly designed and supported by institutions and political will—can promote fiscal sustainability. Staff urged a careful balance between flexibility and simplicity, and suggested enhanced enforcement through higher reputational costs rather than sanctions.

The Platform for Collaboration on Tax

The Platform for Collaboration on Tax is a joint initiative of the IMF, Organization for Economic Co-operation and Development (OECD), UN, and the World Bank Group.

- **First Global Conference on Taxation and the Sustainable Development Goals:** In February 2018, the Platform held its first global conference. The conference explored how tax policies, tax administration, and legal structures can affect countries' ability to reach the Sustainable Development Goals. The effects include not only a country's ability to mobilize the necessary financing for investment to pursue the SDGs, but also how to boost investment and support growth, coordinate international corporate taxation, empower women, support environmental sustainability, design appropriate fiscal regimes around extraction of natural resources, and, not least, contribute to building government institutions and improve overall governance. In a conference statement, the Platform partners agreed to unite their individual work programs to collectively seek progress, especially through analysis, standard setting, and technical assistance.

- **Toolkit on tax bases:** In June 2017, the Platform provided practical guidance to developing countries to better protect their tax bases. The "Toolkit for Addressing Difficulties in Accessing Comparable Data for Transfer Pricing Analyses" can implement transfer pricing rules with incomplete data by helping them assess what prices would be expected between independent parties. The guidance will also help countries set rules and practices that are more predictable for business.

- **Draft toolkit on "The Taxation of Offshore Indirect Transfers":** In August 2017, the Platform sought public feedback on a draft of "The Taxation of Offshore Indirect Transfers—A Toolkit." This is designed to help developing countries tackle the complexities of taxing offshore indirect transfers of domestic assets by means of sales or transfers of shares or other interests in entities higher in the chain of ownership and located outside the country in which the valuable assets are located. Such taxation is already addressed in major models for bilateral double taxation treaties and through the OECD Multilateral Instrument. But many countries have not incorporated those principles into domestic law—a prerequisite if countries wish to impose taxation on gains realized in such transfers. The draft toolkit examines the principles underlying taxation of these transactions and sets out two primary models for adjusting domestic laws. Extensive comments were received from business, civil society, and some countries, and a revised version is expected in 2018.

State-Contingent Debt Instruments for Sovereigns

In May 2017, the IMF published a paper analyzing the potential role that state-contingent debt instruments could play in enhancing sovereign resilience. Executive Directors welcomed staff's balanced assessment of both the benefits as well as complications associated with such instruments.

Directors noted the theoretical case: by linking debt service to capacity to pay, state-contingent debt instruments could increase fiscal space, allowing greater policy flexibility in bad times. They could also potentially broaden the sovereign's investor base and open opportunities for risk diversification. And if issuance rose to a large share of public debt, it could significantly reduce the incidence cost of sovereign debt crises, and thereby enhance the resilience of the international financial system.

However, they highlighted staff's observation that take-up of the instruments had been limited in "normal times," pointing to challenges associated with data integrity, instrument complexity, and a first-mover problem on the part of issuers, among other issues. Staff analysis suggested that careful instrument design, robust institutions and contracts, and official sector initiative/coordination could help overcome some of these complications.

Overall, Executive Directors saw a greater potential for these instruments to be used by developing economies vulnerable to natural disasters and commodity price shocks, than by mature economies with established debt markets. They suggested that the IMF pursue a gradual, targeted, and demand-driven approach consistent with this mandate.

EMERGING MARKETS

Emerging Markets: Developments and Prospects

In informal sessions in September 2017 and April 2018, staff briefed Executive Directors on developments and prospects in emerging markets. In both instances, staff noted that the global economic environment for emerging markets was supportive, but that balance-sheet vulnerabilities were elevated in many emerging markets, as were the risks from a sudden or excessive tightening of financial market. These vulnerabilities should be addressed while global conditions remain favorable. The September 2017 briefing emphasized the need to advance structural reforms to raise medium-term growth, build resilience, and reduce vulnerabilities. The April 2018 briefing placed greater emphasis on the dynamics of inflation as well as the need to mitigate the impact of demographic pressures to help raise overall income levels.

Emerging Europe: Bank Lending Improves

Bank lending in Central, Eastern and South Eastern Europe (CESEE) is improving now that deleveraging following the global financial crisis has come to an end. The better picture is supported by progressive reductions in bad loans that had soured lending prospects, even as their negative impact persists in some countries. That was the conclusion of reports in 2017 from the Vienna Initiative, launched with IMF support at the height of the crisis to help the region's banking sectors keep credit flowing.

External positions for the first half of 2017 improved among CESEE banks reporting to the Bank for International Settlements. Foreign bank funding increased overall, despite reductions for some countries. Lending accelerated outside the Commonwealth of Independent States, with consumer credit staging a firm recovery in nearly all countries. Improving economic outlooks have increased demand for credit and eased supply standards. However, group asset quality of some large banks, alongside changes in local regulation and local capital positions, weigh on some subsidiaries' supply stances and have resulted in selective lending strategies, the report finds.

The Vienna Initiative works on specific financial sector problems, including bad loans, the impact of regulatory reform, and capital market development. In March 2018, it set its sights on a model for the region that drives innovation and boosts productivity. The aim is to give fresh impetus to economic growth and promote convergence with high-income European Union countries.

LOW-INCOME AND DEVELOPING COUNTRIES

Debt Sustainability

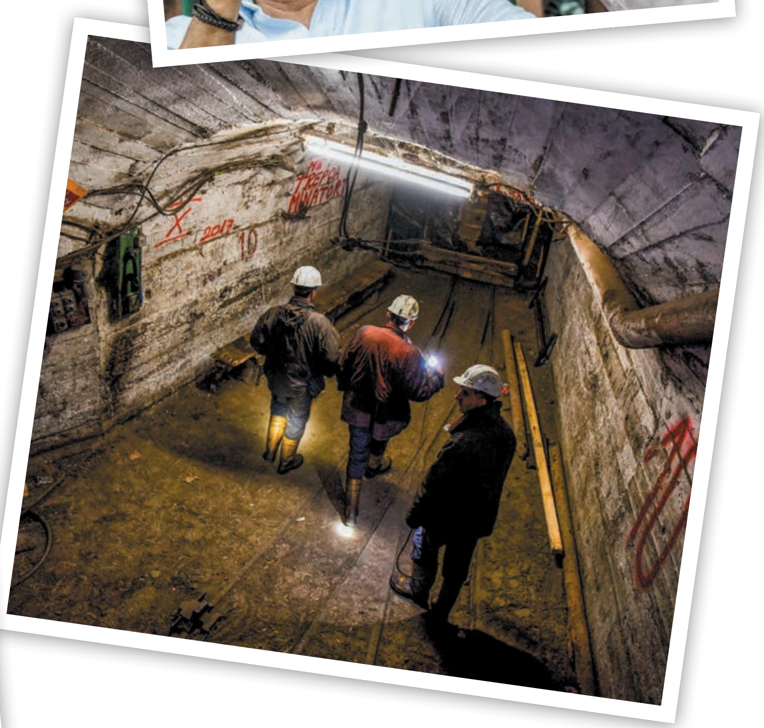
In September 2017, the Executive Board reviewed the "IMF-World Bank Debt Sustainability Framework for Low-Income Countries." Since 2005, this framework has been the cornerstone of the international community's assessment of risks to debt sustainability in low-income countries. The review proposes reforms to adapt and update the framework and

to make it more comprehensive. Changes include a revised approach to assessing countries' debt-carrying capacity based on an expanded set of variables, an improved methodology for predicting debt distress, and more tailored stress tests.

Executive Directors welcomed the comprehensive review and proposed reforms—especially the focus on more accurately flagging potential debt distress to better inform borrowing and lending decisions. They noted that the quality of the framework's outputs depends heavily on the quality of its inputs and called for efforts to ensure that debt sustainability assessments fully capture all sources of public sector debt.

Social Safeguards in Low-Income Countries

In June 2017, the IMF released "Social Safeguards and Program Design in PRGT and PSI-Supported Programs" following a Board discussion. This policy paper considers how countries can protect poor and vulnerable groups through the implementation of programs supported by the Poverty Reduction and Growth Trust (PRGT) and the Policy Support Instrument (PSI). The paper finds that targets for social and other priority spending were included in virtually all PRGT-supported programs and PSIs in low-income countries, and that these targets were met in more than two-thirds of cases. Furthermore, health and education spending has typically been protected. The paper recommends increasing efforts to strengthen social safety nets in these countries.



Executive Directors welcomed the findings that social spending has been protected in most programs and supported staff's proposals to improve the design of social safeguards measures in PRGT- and PSI-supported programs. They called for closer and more effective collaboration with the World Bank and other development partners and for consistent engagement with country authorities and external stakeholders (including civil society organizations) on social safeguard issues.

Capital Flows in Zambia

In May 2017, the IMF hosted a conference in Zambia on "Managing Capital Flows: Challenges for Developing Countries." Participants included Felix Mutati, Minister of Finance of Zambia; David Lipton, First Deputy Managing Director of the IMF; and Paul Krugman, Nobel laureate and Distinguished Professor of Economics at the City University of New York.

Participants agreed that capital flows to developing countries were generally beneficial—providing an important source of financing for investments and helping to maintain foreign exchange reserves. They stressed the importance of sound policies and macroeconomic stability to help reignite high-quality capital flows. The key takeaways were that the composition of capital flows matters for financial stability and growth, and effectively managing the capital inflow phase was the best protection against challenges that arise when they reverse.

OTHER TOPICS

Infrastructure Support

The IMF started an Infrastructure Policy Support Initiative (IPSI) in 2015 to help countries evaluate the macroeconomic and financial implications of investment programs and financing strategies and to bolster their institutional capacity for managing public investment. The initiative integrates the IMF's oversight of public investment with technical assistance and combines several analytical tools to help countries make the best use of resources for building infrastructure. Nine countries where infrastructure issues are particularly significant and constitute one of the key areas of the IMF's engagement with the authorities have been identified as IPSI pilots. These are Cambodia, Colombia, Honduras, Kyrgyz Republic, Serbia, Solomon Islands, Thailand, Timor-Leste, and Vanuatu.

A number of tools that have already been used to improve the quality and, in some countries, the quantity of infrastructure spending are now integrated into the IPSI program, including:

- public investment management assessments (PIMA) to help countries evaluate the strength of their public investment management practices and prioritize reforms to deliver well-planned and cost-effective public investment projects on schedule and within budget;
- Fiscal Risk Assessment Model for public-private partnerships (PFRAM), an analytical tool to assess the potential fiscal costs and risks arising from public-private partnerships; and
- a dynamic Debt-Investment-Growth (DIG) model that lets policymakers weigh the macroeconomic consequences of different financing strategies.

Building Fiscal Capacity in Fragile States

In June 2017, following an Executive Board discussion, the IMF published a paper that analyzes recent IMF capacity development (technical assistance and training) in fragile states and stresses the importance of targeting fiscal technical assistance to achieve fiscal stability, financial control, and secure revenues. The paper notes that when countries first become fragile, including immediately after a conflict or disaster, the focus should be on the easiest-to-collect taxes, setting up basic organizational structures for tax and customs administrations, and strengthening core administrative processes. On the expenditure side, the focus should be on annual budget preparation, control of budget execution, cash management, and basic fiscal reporting. Once countries become more stable, technical assistance can shift toward the modernization of fiscal institutions incrementally through medium-term revenue and expenditure strategies. It is also important to promote effective donor partner coordination.

Executive Directors welcomed the comprehensive and balanced analysis of how the technical assistance to fragile states differs from that to non-fragile states and the lessons that can be derived for future work in this area in order to better serve this important segment of the membership. They agreed that the strategy in fiscal capacity building has been broadly appropriate. They welcomed the increase in IMF fiscal technical assistance to fragile states over the past decade, facilitated by rising external funding.

Inequality and Poverty across Generations in the European Union

A paper issued in January 2018 shows that although rates of inequality and poverty in the European Union have been stable, a generational gap has arisen since the global financial crisis. Specifically, working-age people, and especially the young, are falling behind. The crisis exacerbated already-high youth unemployment rates and the trend toward creation of less-stable jobs. Social protection schemes managed to shield the real incomes of the elderly from the effects of the crisis, but they proved ill equipped to address the precariousness of young people's incomes.

Facilitating the integration of young people into the labor market is essential. This calls for providing employers with greater incentives to hire young people—including through targeted reductions in the labor tax wedge or tax credits at the lower end of the wage scale—and improving and adapting their skills, especially by protecting spending on education and training. Better access to social protection systems for workers in less stable jobs is also important.

Operationalizing Emerging Issues: Gender, Inequality, and Energy and Climate

In November 2017, staff briefed the Executive Board on efforts to incorporate recent work on gender, inequality, and energy and climate issues into the IMF's surveillance, analytical work, country pilots, and capacity development. Staff emphasized that the coverage of these issues in the IMF's work would be selective and where deemed macrocritical.

DATA

Data and Statistics Strategy

In March 2018, the Executive Board discussed an "Overarching Strategy on Data and Statistics at the Fund in the Digital Age," which outlines a move toward an ecosystem of data and statistics that enables the IMF and its members to better meet the evolving data needs in a digital world. The key elements of this strategy are:

- ***integration***—aligning currently fragmented initiatives and unifying the data management function;
- ***innovation***—taking advantage of Big Data for higher-frequency monitoring, and deploying new technologies to close data gaps and meet surveillance needs; and
- ***intelligence***—leveraging artificial intelligence for analyzing data and statistics.

The paper stresses that the IMF will continue to build statistical capacity across the membership, including with donor support. It will work with policymakers to understand the implications of the digital economy and digital data for the macroeconomic statistics, including new measures of welfare beyond GDP.

Executive Directors welcomed the overarching strategy for data and statistics, which should enable the IMF and its members to better respond to the challenges and opportunities of digitalization. They noted that the need to analyze larger and more heterogeneous amounts of data will require expanding the skills of staff. They appreciated the strategic priorities and supported the vision of a global data common—an integrated cloud-based network of country websites publishing key data needed by the IMF and markets to monitor economic conditions and policies. They saw merit in exploring the use of Big Data to support earlier detection of risks and to complement the compilation of official statistics. And they agreed that the IMF should continue to work with member countries to build statistical capacity.

Measuring the Digital Economy

Digitalization has transformed the way we work, consume, and engage with one another. But slow growth in GDP and productivity has exposed concerns that macroeconomic statistics do not fully capture gains achieved thanks to digital and digitally enabled products and activities.

A recent IMF staff paper proposes throwing a strong perimeter around the "digital sector" and distinguishing it from the "digital economy." Inside the perimeter are producers at the core of digitalization, such as online platforms, platform-enabled services, and suppliers of Information and Communications Technology goods and services. Outside the perimeter is the digital economy, a reflection of the effects of digitization on all sectors from agriculture to warehousing.

The paper discusses the interrelated core aspects of digitization on GDP, welfare, globalization, and productivity. It analyzes challenges in measuring activity related to the

digital sector. For example, proposals to include free digital services—including from platforms that collect user data—in calculations of GDP are not warranted. Interestingly, it puts the size of the digital sector at still less than 10 percent of most economies and the effect of undermeasurement of the digital sector on estimates of US labor productivity growth at no more than 0.3 percentage points, smaller than the post 2005 slowdown. The paper finds that improving national statistics agencies' access to data collected by government as part of its regular activities and to "Big Data" generated by the private sector can help overcome the measurement challenges.

Big Data: Challenges and Implications

In August 2017, staff briefed the Executive Board on a framework for analyzing the potential of Big Data to benefit macroeconomic and financial statistics and analysis. The main takeaways were (1) Big Data is not a static concept; it is far-ranging and rapidly evolving, requiring a long-term vision; (2) a strategic organizational plan to deliver measurable and large-scale results is needed; and (3) further research is needed to assess ways to use Big Data to effectively support IMF surveillance.

Macroprudential Policy Survey

The new IMF Macroprudential Policy Survey database contains information on measures that may be taken by member countries with the objective of containing systemic risk, in line with the definition of macroprudential policy as "the use of primarily prudential tools to limit systemic risk." In addition, the database contains information on the institutional aspects of the macroprudential policy framework in member countries.

The first vintage of the database includes countries' responses to what will be an annual survey and comprises macroprudential measures in place as of early 2018 and, in many cases, changes to these measures that have occurred since 2011. In addition, a report was issued providing detail on the survey design, and a description of the results of the first survey.

The database can be used by policymakers and researchers to analyze the impact of macroprudential measures within and across countries, thereby helping to generate further insights into the costs and benefits of such measures in mitigating systemic risk. It is also a valuable new resource for bilateral country surveillance and multilateral economic analysis.

The database is compiled exclusively from information provided by IMF member countries. As a result, the inclusion in or absence of a particular policy tool does not represent a judgment or decision by IMF staff or the IMF Board on whether a particular tool used by an IMF member should be considered "macroprudential" in nature. Similarly, the database provides no assessment of the various institutional arrangements reported by IMF member countries; such classifications and assessments are instead to be found in IMF staff reports and FSAP documents.

Data for Decisions Fund

The Data for Decisions (D4D) Fund is a new IMF trust fund dedicated to putting more and better data in the hands of decision-makers to support evidence-based macroeconomic policies, and to properly monitor progress in achieving the sustainable development goals (SDGs). It aims to strengthen national statistical systems to cope with a more challenging national and international policy environment, promote transparency and accountability, and offer efficient solutions to capacity development. The fund is expected to provide about $33 million over five years. The target countries are mainly low-income and lower-middle-income countries worldwide, including fragile states.

The D4D Fund will have four modules: (1) Addressing Data Needs and Quality Concerns to help countries compile and disseminate data; (2) the Financial Access Survey to provide statistics to guide policymakers on how to advance financial inclusion; (3) Online Learning to develop training courses aimed at facilitating knowledge transfer to government officials as well as empowering civil society by better understanding data; and (4) Statistical Information Management to provide advice to streamline, standardize, and automate data management practices and infrastructure.

Special Data Dissemination Standard Plus

The highest tier of the IMF's Data Dissemination Initiative, the Special Data Dissemination Standard (SDDS) Plus, is intended primarily for economies that play a leading role in international capital markets and whose financial institutions are globally interconnected. During FY2018, Senegal subscribed to the SDDS.

Enhanced General Data Dissemination System

Under the enhanced General Data Dissemination System (e-GDDS), endorsed by the IMF Executive Board in May 2015, country authorities commit to publishing the data that support their ongoing policy dialogue with IMF staff. Publication must be according to a release schedule agreed upon in the Data Gaps Initiative in advance, with data easily accessible, including for machine-to-machine transmission.

The effort is fostering international cooperation, with the African Development Bank and the Inter-American Development Bank providing material support for the installation of information technology infrastructure (Open Data Platform) that sustains National Summary Data Pages in selected countries in Africa and the Western Hemisphere.

Implementation of the e-GDDS proceeded in a number of countries during the year. These include Aruba, Benin, Bhutan, Cambodia, Cameroon, Honduras, Jamaica, Kosovo, Malawi, Micronesia, Mongolia, Montenegro, Namibia, Nepal, Paraguay, Rwanda, Samoa, Senegal, Sierra Leone, Suriname, Swaziland, Tanzania, Uganda, and Zambia.

G20 Data Gaps Initiative

In September 2017, the Financial Stability Board and the IMF published the second progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2). The report updates the work undertaken since September 2016 and highlights the progress achieved through a new monitoring framework and a "traffic light" dashboard. The 2018 DGI work program includes three thematic workshops (on real estate prices, sectoral accounts, and securities statistics) and the annual Global Conference. Progress on the overall initiative will be reported to the G20 Finance Ministers and the Central Bank Governors in September 2018 in the Third IMF/FSB Progress Report of the DGI-2.

Gaps in Financial Inclusion

The IMF's annual survey of indicators tracking financial access—an important pillar of financial inclusion—shows that growth in the number of bank branches and ATMs is concentrated in Asia and that on average, adults in sub-Saharan Africa have access to five times fewer bank branches and ATMs than in the rest of the world.

Data from the latest Financial Access Survey also show that innovations such as mobile money services continue to make inroads and spread the benefits of technology. Afghanistan, for instance, has more than six times more mobile money agents than ATMs. Among other advances, this has helped civil servants receive pay through their mobile phones.

Financial inclusion is very dynamic, and the survey illustrates the importance of collecting more granular financial access data. For example, new data suggest progress in narrowing the gender gap to financial access. For instance, the survey shows that the share of female borrowers in Malaysia increased from 37 percent in 2004 to 44 percent in 2016.

Information in the survey is based on administrative data collected from commercial banks or other deposit-taking institutions and from digital financial service providers. The Financial Access Survey is conducted with generous financial support provided by the Netherlands' Ministry of Foreign Affairs and the Bill & Melinda Gates Foundation.

Fiscal Transparency and Fiscal Risk Management

Fiscal transparency is the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances. It is critical for effective fiscal management and accountability by helping ensure that governments have an accurate picture of their finances when making economic decisions, including the costs and benefits of policy changes and potential risks to the fiscal outlook. It also provides legislatures, markets, and citizens with information to hold governments accountable. Furthermore, fiscal transparency facilitates international surveillance of fiscal developments and helps mitigate the risk of transmission of fiscal spillovers between countries.

The IMF's Fiscal Transparency Code and Fiscal Transparency Evaluation are the key elements of the institution's ongoing efforts to strengthen fiscal monitoring, policymaking, and accountability among its member countries. The code is the international 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 transparency 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 broad range of IMF member countries.

During FY2018, the IMF published fiscal transparency evaluations of Brazil, Georgia, Turkey, and Uganda. As of April 2018, 19 Fiscal Transparency Evaluations had been published for countries across a range of regions and income groups.

Georgia has made substantial inroads in recent years to enhance disclosure and management of fiscal risks. The IMF supported the authorities in developing a framework for monitoring risks related to state-owned enterprises, establishing a sound legal framework to govern public-private partnerships (PPPs) and to better assess fiscal risks associated with long-term power purchase agreements (PPAs) in the hydropower sector. Using this information, the authorities could adjust the pace of its hydroelectricity expansion to better match demand and restructure the PPA contracts to reduce fiscal risks.

Disclosure of fiscal risks has also improved through expanding the analysis of macroeconomic and debt-related fiscal risks that Georgia was already publishing. This, combined with a suite of other reforms, such as the development of annual financial statements and introduction of program-based budgeting, has seen Georgia climb from 34th to 5th on the Open Budget Survey's rankings between 2010 and 2017. An IMF Fiscal Transparency Evaluation in 2016 also found that Georgia now meets the level of good or advanced practice in many areas, while highlighting areas for continued improvement.

Moldova published its first Fiscal Risk Statement (FRS) in December 2017. The FRS provides a comprehensive overview of key fiscal risks facing the country, and is a useful tool for assessing the consistency and credibility of fiscal policies.

The consolidated presentation allows assessment of the relative importance of each risk category and provides a basis for prioritizing risk mitigation measures. A risk category of "macroeconomic shocks" is identified as one with the highest potential impact and a high probability, and more frequent updates of macroeconomic forecasts are recommended as a measure to mitigate the risks. High risks also result from potential bailout of insolvent state-owned enterprises, and insolvent, systemically important banks whose impact will be estimated in future fiscal risk statements. The draft of the FRS was subject to public consultation and was discussed with members of parliament.

Fiscal Transparency Handbook

The *Fiscal Transparency Handbook* was published in April 2018. It provides detailed guidance on the implementation of the principles and practices set out in the 2014 Fiscal Transparency Code. It covers the first three Pillars of the Code (fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis and management); discusses key dimensions and principles under each pillar; and provides guidance on the requirements for meeting the basic, good, and advance practices for each principle, illustrated by many examples from countries around the globe.

The *Handbook* is aimed at a range of stakeholders: governments with an interest in promoting fiscal transparency; national oversight and accountability organizations, such as legislatures, supreme audit institutions, parliamentary budget offices, national statistics agencies, and independent fiscal agencies; international organizations; investors; international rating agencies; academia and researchers studying public finance and fiscal transparency; and others—in the public or private sectors—who have an interest in promoting transparency.

As a companion to the Code and Fiscal Transparency Evaluations, the *Handbook* will help countries strengthen their economic institutions in public financial management and improve fiscal governance. A subsequent version of the *Handbook*, planned for release in 2019, will incorporate the Code's Pillar IV.

Lending

Unlike development banks, the IMF does not lend for specific projects but instead to member countries that experience balance of payments difficulties, to give them time to rectify economic policies and restore growth without having to resort to actions damaging to their own or other members' economies. IMF financing is 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 activities.

In broad terms, the IMF has two types of lending—loans provided at nonconcessional interest rates and loans provided to low-income countries on concessional terms, with interest rates that are low or in some cases zero. Currently, pursuant to a waiver approved by the Board, no concessional loans bear any interest.

The global financial crisis highlighted the need for an effective global financial safety net to help countries cope with potential adverse shocks. A key objective of recent lending reforms has therefore been to complement the IMF's traditional role of resolving crises with additional tools for preventing crises.

NONCONCESSIONAL FINANCING ACTIVITY

GRA Resources

The General Resources Account (GRA) is the principal account of the IMF, consisting of a pool of currencies and reserve assets that represent the paid subscriptions of member countries' quotas. The GRA is the account from which the nonconcessional lending operations of the IMF are financed. In FY2018, the Executive Board approved three new arrangements and one augmentation to an existing arrangement under the IMF's nonconcessional financing instruments, totaling SDR 63.3 billion ($91.0 billion at the SDR/dollar exchange rate on April 30, 2018, of 0.69538).

An arrangement under the Flexible Credit Line (FCL) with Mexico (SDR 62.4 billion)—which is treated by Mexico as precautionary—accounted for 99 percent of these commitments. (Mexico's FCL arrangement was a successor to a previous arrangement of the same magnitude that was canceled.) The remaining 1 percent comprised extended arrangements under the Extended Fund Facility (EFF) with Mongolia (SDR 314.5 million), and Gabon (SDR 464.4 million), and an EFF augmentation with Côte d'Ivoire (SDR 108.4 million). *Table 2.1* details the arrangements approved during the financial year, and *Figure 2.1* shows the arrangements approved over the past 10 financial years.

During FY2018, disbursements under financing arrangements from the GRA, referred to as "purchases," totaled SDR 4.2 billion ($6.0 billion). Of these purchases, 86 percent were made by Egypt, Iraq, Sri Lanka, and Tunisia.

Total repayments, termed "repurchases," for the financial year amounted to SDR 14.6 billion ($21.0 billion), including advance repurchases from Portugal of SDR 7.6 billion (10.9 billion) and from Ireland of SDR 3.8 billion ($5.4 billion). Reflecting the slightly larger repurchases relative to purchases, the stock of GRA credit outstanding decreased to SDR 37.9 billion ($54.5 billion) from SDR 48.3 billion ($66.2 billion) a year earlier. *Figure 2.2* shows the stock of nonconcessional loans outstanding during the past 10 financial years.

Table **2.1**

Arrangements approved in the General Resources Account in FY2018

(Millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
NEW ARRANGEMENTS			
Mongolia	36-month Extended Arrangement under the Extended Fund Facility	May 24, 2017	314.5
Gabon	36-month Extended Arrangement under the Extended Fund Facility	June 19, 2017	464.4
Mexico	24-month Flexible Credit Line Arrangement	November 29, 2017	62,388.9
Subtotal			**63,167.8**
AUGMENTATION OF EXISTING ARRANGEMENTS			
Côte d'Ivoire	36-month Extended Arrangement under the Extended Fund Facility	June 19, 2017	**108.4**
Subtotal			**108.4**
Total			**63,276.2**

Source: IMF Finance Department.

GRA Borrowing

The IMF is a quota-based institution, and its aggregate quota resources were doubled through implementation of the quota increases under the Fourteenth General Review. However, borrowed resources continue to play a key role in supplementing quota resources. The New Arrangements to Borrow (NAB), a set of credit arrangements with 40 participants totaling about SDR 182 billion, serves as a second line of defense after quotas. On February 25, 2016, the IMF Executive Board terminated early the activation period under the NAB (which had originally covered October 1, 2015, through March 31, 2016) in light of the effectiveness of the Fourteenth General Review of quotas on January 26, 2016.

The current set of NAB arrangements were renewed in November 2016, and became effective for the five-year period from November 17, 2017, to November 16, 2022.

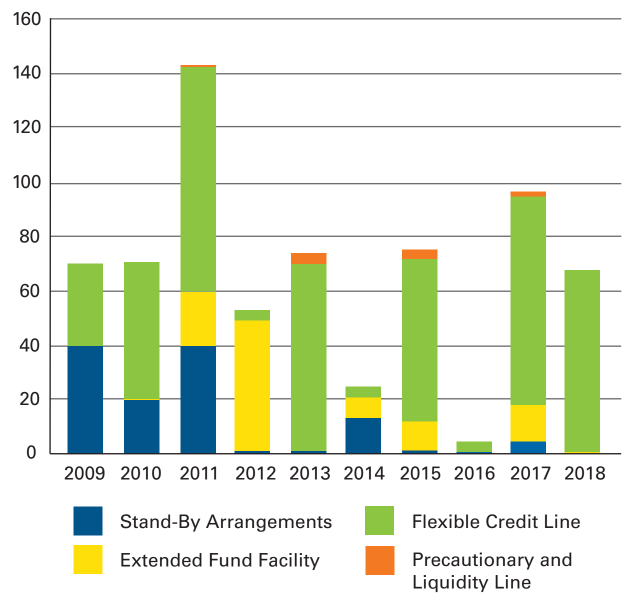
The IMF also has bilateral borrowing agreements, which provide a third line of defense after quotas and the NAB. These agreements, under the 2016 borrowing framework, allow the IMF to maintain access on a temporary basis to bilateral borrowing from the membership and thereby to avoid a sharp contraction in lending capacity. Borrowing agreements under the 2016 framework have a common maximum term of December 31, 2020, with an initial term of December 31, 2019, extendable for an additional year with the consent of the creditors. As of April 30, 2018, 40 member countries had committed a total of about SDR 316 billion or $455 billion in bilateral borrowing.

The General Arrangements to Borrow (GAB) is a more limited backstop to the IMF's quota resources in circumstances where a proposal to activate the NAB is not accepted by the NAB participants. The GAB does not add to the IMF's overall resource envelope, because commitments made under the GAB reduce the amount available under the NAB by an equal amount.

Figure **2.1**

Arrangements approved in the General Resources Account during financial years ended April 30, 2009–18

(Billions of SDRs)



Source: IMF Finance Department.

The GAB decision will not be renewed when its current term ends on December 25, 2018. This follows the unanimous agreement by GAB participants that the GAB should be allowed to lapse when its current term ends.

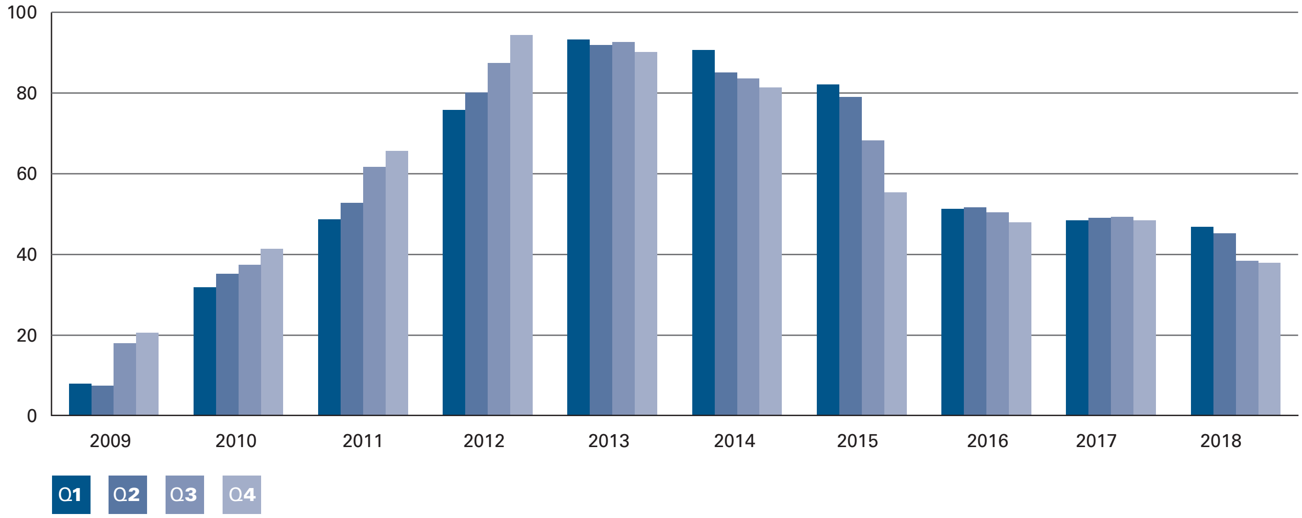
CONCESSIONAL FINANCING ACTIVITY

In FY2018, the IMF committed loans amounting to SDR 1.703 billion ($2.38 billion) to its low-income developing member countries under programs supported by the Poverty Reduction and Growth Trust (PRGT). Total concessional loans outstanding to 53 members amounted to SDR 6.36 billion at the end of April 2018. *Table 2.4* details the new arrangements and augmentations of access under existing arrangements under the IMF's concessional financing facilities. *Figure 2.3* illustrates amounts outstanding on concessional loans over the past decade.

Figure **2.2**

Nonconcessional loans outstanding, FY2009–18

(Billions of SDRs)

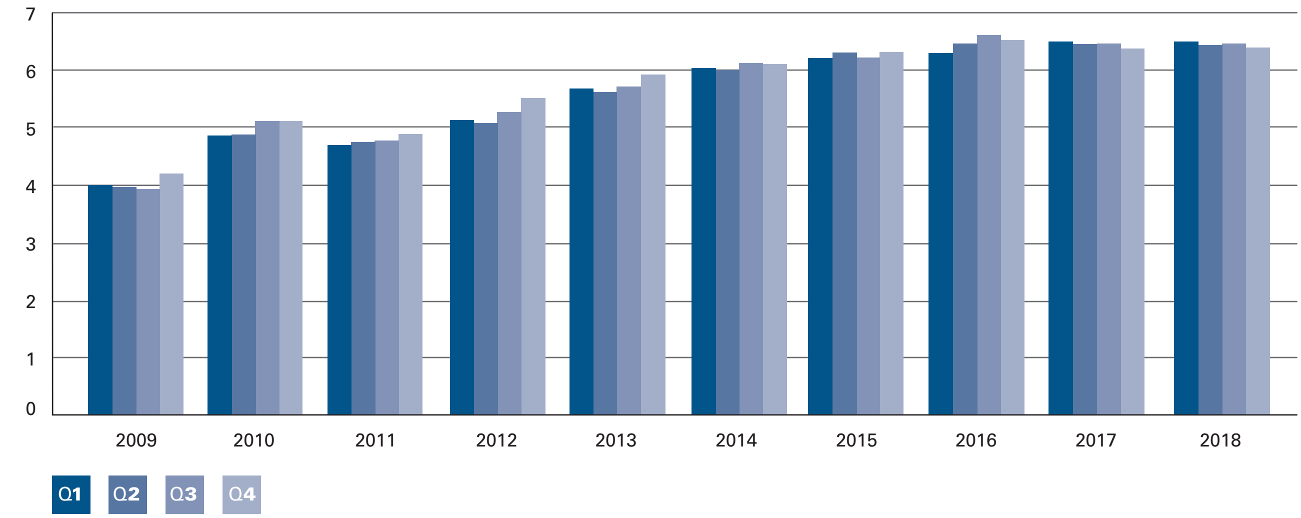


Source: IMF Finance Department.

Figure **2.3**

Concessional loans outstanding, FY2009–18

(Billions of SDRs)



Source: IMF Finance Department.

What We Do

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) and the Precautionary and Liquidity Line (PLL). In addition, the Rapid Financing Instrument (RFI), which can be used in a wide range of circumstances, was created to replace the IMF's emergency assistance policy.

Credit facility (year adopted)[1]	Purpose	Conditions	Phasing and monitoring
Stand-By Arrangements (SBA) (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	Quarterly or semiannual 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 macro-economic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period; 2-year FCL arrangements are 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 front-loaded access, subject to semiannual reviews (for 1- to 2-year PLL)
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

Source: IMF Finance Department.

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.

Access limits[1]	Charges[2]	Repayment schedule (years)	Installments
Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly
Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 51 months)[3]	4½–10	Semiannual
No preset limit	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly
125% of quota for 6 months; 250% of quota available upon approval of 1- to 2-year arrangements; total of 500% of quota after 12 months of satisfactory progress	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly
Annual: 37.5% of quota (60% for large natural disasters); cumulative: 75% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)	3¼–5	Quarterly

2 The rate of charge on funds disbursed from the GRA is set at a margin (currently 100 basis points) over the weekly SDR interest rate. 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 115 percent of quota, 30 basis points for amounts in excess of 115 percent and up to 575 percent of quota, and 60 basis points for amounts in excess of 575 percent of quota) applies to the amount available for purchase under arrangements (SBAs, EFFs, PLLs, and FCLs) that may be drawn during each (annual) period; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

3 Surcharges were introduced in November 2000. A new system of surcharges took effect August 1, 2009, and was updated on February 17, 2016, with some limited grandfathering for existing arrangements.

Table **2.3**

Concessional lending facilities

Three concessional lending facilities for low-income developing 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		
Purpose	Address protracted balance of payments problems	Resolve short-term balance of payment needs	Low-access financing to meet urgent balance of payments needs
Eligibility	Countries eligible for assistance under the Poverty Reduction and Growth Trust (PRGT)		
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	Submission of PRS document not required; if financing need persists, SCF user would request an ECF arrangement with associated PRS documentation requirements	Submission of PRS document not required
Conditionality	UCT-quality; flexibility on adjustment path and timing	UCT-quality; aim to resolve balance of payments need in the short term	No ex-post conditionality; track record used to qualify for repeat use (except under the shocks window and the natural disasters window)
Access Policies	Annual limit of 75% of quota; cumulative limit (net of scheduled repayments) of 225% of quota. Limits are based on all outstanding PRGT credit. Exceptional access to PRGT resources: annual limit of 100% of quota; cumulative limit (net of scheduled repayments) of 300% of quota Norms and sublimits[2]		
	The access norm is 90% of quota per 3-year ECF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 3-year arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	The access norm is 90% of quota per 18-month SCF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 18-month arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	There is no norm for RCF access Sublimits (given lack of UCT conditionality): total stock of RCF credit outstanding at any point in time cannot exceed 75% of quota (net of scheduled repayments). The access limit under the RCF over any 12-month period is set at 18.75% of quota, under the "shocks window" at 37.5% of quota, and under the "large natural disasters window" at 60% of quota. Purchases under the RFI made after July 1, 2015, count toward the applicable annual and cumulative RCF limits.

	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Financing Terms[3]	Interest rate: Currently zero Repayment terms: 5½–10 years	Interest rate: Currently zero. 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 Requirements with GRA financing	Based on income per capita and market access; linked to debt vulnerability. For members presumed to blend, blending of PRGT: GRA resources takes place in the ratio 1:2.		
Precautionary Use	No	Yes, annual access at approval is limited to 56.25% of quota while average annual access at approval cannot exceed 37.5% 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); credit under the RFI counts towards the RCF limits

Source: IMF Finance Department.

Note: GRA = General Resources Account.

[1] UCT-quality 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 150% of quota. In those cases, access is guided by consideration of the access limit of 225% of quota (or exceptional 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 every two years. At the latest review in October 2016, the Executive Board approved zero interest rates on the ECF and SCF through the end of December 2018 and a modification of the interest mechanism ensuring that rates would remain at zero for as long as (and whenever) global rates are low. In July 2015, the Executive Board permanently set the interest rate on the RCF to zero.

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

Table **2.4**

Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2018

(Millions of SDRs)

Member	Effective date	Amount approved
NEW THREE-YEAR EXTENDED CREDIT FACILITY ARRANGEMENTS		
Burkina Faso	March 14, 2018	108.4
Cameroon	June 26, 2017	483.0
Chad	June 30, 2017	224.3
Guinea	December 11, 2017	120.5
Malawi	April 30, 2018	78.1
Mauritania	December 6, 2017	115.9
Sierra Leone	June 5, 2017	161.8
Togo	May 5, 2017	176.2
Subtotal		**1,468.1**
AUGMENTATIONS OF EXTENDED CREDIT FACILITY ARRANGEMENTS[1]		
Central African Republic	December 15, 2017	39.0
Central African Republic	July 17, 2017	11.1
Cote d'Ivoire[2]	June 19, 2017	54.2
Madagascar	June 28, 2017	30.6
Mali	July 7, 2017	88.6
Subtotal		**223.5**
DISBURSEMENTS UNDER RAPID CREDIT FACILITY		
The Gambia	June 26, 2017	11.7
Subtotal		**11.7**
Total		**1,703.2**

Source: IMF Finance Department.

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

[2] Additional SDR 108 million provided from the General Resources Account under a blended arrangement.

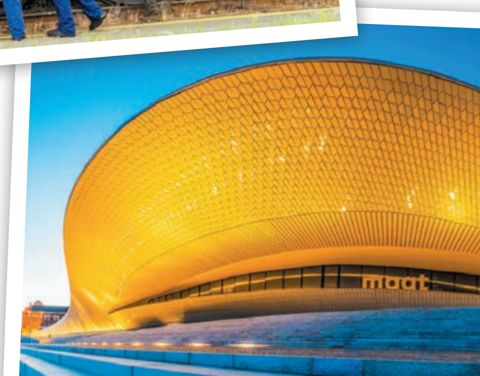
The IMF's framework for concessional financing is regularly reviewed to take account of changing needs. In 2015, the financial safety net for low-income countries was enhanced as part of the international community's wider effort to support countries in pursuing the Sustainable Development Goals (SDGs). Key changes included (1) a 50 percent increase in PRGT access norms and limits; (2) rebalancing the funding mix of concessional and nonconcessional resources provided to countries that receive IMF financial support in the form of a blend of PRGT and GRA resources from a 1:1 to 1:2 ratio; and (3) setting the interest rate permanently at zero on fast-disbursing support under the Rapid Credit Facility to assist countries in fragile situations, for example, affected by conflict or natural disaster.

An Executive Board discussion in November 2016 clarified various aspects related to applying this financial safety net, including PRGT-eligible members' access to the GRA, policies on blending, and the role of norms in determining access.

In addition:

- In October 2016, it was decided to set interest rates on all concessional loans to zero until December 31, 2018. The interest-rate-setting mechanism was also modified so that interest rates will remain at zero as long as and whenever global interest rates are low.
- In May 2017, the Board discussed options to better assist countries, including PRGT-eligible members, faced with sudden balance of payments pressures due to major natural disasters. Directors supported a proposal to increase the annual access limit under the Rapid Credit Facility and Rapid Financing Instrument from 37.5 to 60 percent of quota for countries hit by large natural disasters.

A fundraising round was started in 2015 to support continued concessional lending by the IMF for its poorest and most vulnerable members, and it mobilized SDR 11.4 billion in new PRGT loan resources, exceeding its original objective to raise up to SDR 11 billion. Of the 28 potential lenders approached—including 14 new lenders from among both emerging market and advanced economies—15 committed to new borrowing agreements as of April 30, 2018. These included two new lenders, Brazil and Sweden. In January 2018, the cumulative borrowing limit under the PRGT was raised by SDR 1 billion to SDR 38.5 billion to accommodate the above-target level of new loan resources that were secured.



Regarding debt relief, the Heavily Indebted Poor Countries (HIPC) Initiative has been largely completed. A total of 36 countries, out of 39 of those eligible or potentially eligible, benefited from HIPC relief. These include Chad, the latest beneficiary that received debt relief in the amount of SDR 17 billion in April 2015. The IMF can also provide grants for debt relief to eligible countries through the Catastrophe Containment and Relief Trust (CCRT), established in February 2015. The CCRT provides exceptional support to countries confronting balance of payments difficulties resulting from major natural disasters, such as massive earthquakes; from life-threatening, fast-spreading epidemics with the potential to affect other countries; and from other types of catastrophic disasters. To date, three countries (Guinea, Liberia, and Sierra Leone) have benefited from debt relief under the CCRT. In addition, in 2010, Haiti received SDR 178 million in debt stock relief under the former Post-Catastrophe Debt Relief Trust.

PROGRAM DESIGN

Collaboration between Regional Financing Arrangements and the IMF

Since the global financial crisis, the global financial safety net has expanded and become multi-layered. This trend led to a need for stronger collaboration among these varied layers to ensure that any crisis-mitigation efforts are both timely and effective.

In July 2017, the Executive Board discussed the IMF's ongoing work on enhancing collaboration between regional financing arrangements (RFAs) and the IMF. The work is part of a broader discussion with Executive Directors over proposals to strengthen the global financial safety net.

Executive Directors welcomed the proposed framework and agreed that stronger IMF-RFA collaboration would benefit both. These include promoting early engagement, exploiting complementarities, increasing the firepower, and mitigating contagion. Directors also concurred that a more structured approach would help enhance transparency, predictability, and effectiveness of collaboration in an increasingly multi-layered global financial safety net, with the IMF at its center.

Directors broadly supported the proposed operational modalities for collaboration based on activities in the areas of capacity development, surveillance, nonfinancial support, and lending. Directors regarded the proposals as an important first step toward stronger and more structured collaboration between the IMF and RFAs.

Currency Unions

Despite a long history of program engagement, the IMF lacked a general guidance on program design in members of currency unions. Under IMF-supported programs, the IMF has engaged with members of the four currency unions—the Central African Economic and Monetary Community, the Eastern Caribbean Currency Union, the European Monetary Union, and the West African Economic and Monetary Union.

In February 2018, the Executive Board discussed an IMF paper, "Program Design in Currency Unions."

This new guidance will help ensure consistent, transparent, and evenhanded treatment across IMF-supported programs, as well as make the approach to programs consistent with that for IMF macroeconomic surveillance.

Executive Directors supported the establishment of general guidance on IMF engagement with currency union institutions where the policies of these institutions are critical to the success of IMF-supported programs.

POLICY COORDINATION INSTRUMENT

In July 2017 the Executive Board approved the establishment of a new nonfinancing Policy Coordination Instrument (PCI) to further strengthen the global financial safety net and enhance the effectiveness of the IMF's toolkit. The decision followed a series of discussions by the Executive Board on the adequacy of the safety net.

The new instrument is designed to help countries unlock financing from official and private donors and creditors, as well as demonstrate a commitment to a reform agenda. It will enable a policy dialogue between the IMF and countries, monitoring of economic developments and policies, as well as Board endorsement of those policies. The key design features draw on IMF financing arrangements and the Policy Support Instrument, with some differences. These include no eligibility requirements (it is open to the full membership), a more flexible review schedule, and a review-based approach for monitoring of conditionality.

Seychelles was the first IMF member country to request a PCI. The country has made considerable progress toward macroeconomic stability since the 2008 crisis under three consecutive IMF programs, and the growth outlook remains positive, buoyed by the tourism sector. However, it still faces vulnerabilities and pressures, as a small island economy dependent on tourism in a challenging global economic environment.

In December 2017, the Board approved a three-year PCI for Seychelles that will build on the lessons learned from the previous programs supported by the IMF. The PCI aims to support the authorities' efforts to consolidate macroeconomic stabilization and foster sustained and inclusive growth. Program reviews take place on a semiannual fixed schedule. While the PCI involves no use of IMF resources, successful completion of program reviews would help signal Seychelles' commitment to continued strong economic policies and structural reforms.

POLICY SUPPORT INSTRUMENT

For low-income developing countries that do not want or need an IMF loan, a flexible tool can access the Policy Support Instrument (PSI) to secure IMF advice and support without a borrowing arrangement. It is a valuable complement to the IMF's lending facilities under the PRGT. The PSI helps countries design effective economic programs. And it delivers clear signals to donors, multilateral development banks, and markets: the IMF endorses the strength of a member's policies.

The PSI is designed to promote a close policy dialogue between the IMF and a member country, usually through semiannual IMF assessments of the member's economic and financial policies. It is available to PRGT-eligible countries with a poverty

reduction strategy in place that have a policy framework focused on consolidating macroeconomic stability and debt substantiality, while deepening structural reforms in key areas in which growth and poverty reduction are constrained. Such reforms would support strong and durable poverty reduction and growth for countries whose institutions are capable of supporting continued good performance. In general, policies under the PSI aim to consolidate macroeconomic stability and push ahead with structural measures to boost growth and jobs. These include measures to improve public sector management, strengthen the financial sector, or build up social safety nets. The IMF's Executive Board program reviews play a critical role in assessing performance under the program and allowing it to adapt to economic developments.

In FY2018, the Board approved extensions of the PSI for Rwanda, Senegal, and Tanzania.

POST-PROGRAM MONITORING

When a member country borrows money from the IMF, its policies come under closer scrutiny. Once a country has completed its lending program, it may be subject to Post-Program Monitoring (PPM), which is an important part of the IMF's safeguard architecture. PPM is generally expected for all member countries that have substantial IMF credit outstanding following the expiration of their programs. The aim is to identify risks to such member countries' medium-term viability and provide early warnings on risks to the IMF's balance sheets. Should it become necessary, IMF staff will advise on policy actions to correct macroeconomic imbalances.

Pakistan

In March 2018, the Executive Board concluded the first PPM discussions with Pakistan.

Pakistan's near-term outlook for economic growth is broadly favorable. Real GDP is expected to grow by 5.6 percent in FY2017–18, supported by improved power supply, investment related to the China-Pakistan Economic Corridor (CPEC), strong consumption growth, and ongoing recovery in agriculture. Inflation has remained contained.

However, continued erosion of macroeconomic resilience could put this outlook at risk. Following significant fiscal slippages last year, the fiscal deficit is expected at 5.5 percent of GDP this year, with risks toward a higher deficit ahead of upcoming general elections. Surging imports have led to a widening current account deficit and a significant decline in international reserves despite higher external financing. The FY2017–18 current account deficit could reach 4.8 percent of GDP, with gross international reserves further declining in a context of limited exchange rate flexibility. Against the background of rising external and fiscal financing needs and declining reserves, risks to Pakistan's medium-term capacity to repay the IMF have increased since completion of the Extended Fund Facility arrangement in September 2016.

Directors took note of Pakistan's favorable growth momentum, but noted with concern the weakening of the macroeconomic situation, including a widening of external and fiscal imbalances, a decline in foreign exchange reserves, and increased risks to Pakistan's economic and financial outlook and its medium-term debt sustainability. In this context, Executive Directors urged a determined effort by the authorities to refocus near-term policies to preserve macroeconomic stability.

Capacity Development

Strengthening the capacity of institutions, such as central banks and finance ministries, results in more effective policies and greater economic stability and inclusion. That is why the IMF works with countries to strengthen these institutions by providing technical assistance and training focused on issues that are critical to economic stability.

Capacity development is one of the three core functions of the IMF, along with lending and surveillance activities, and accounts for 28 percent of its budget. Capacity development includes hands-on technical assistance and policy-oriented training for member countries to help them build effective policies and institutions to strengthen their economies, improve inclusive growth, and create jobs. Strengthening economic policies through capacity development also helps increase the understanding of IMF policy advice in the country, keeps institutions up to date on global innovations and risks, and helps address crisis-related challenges and spillovers. Similarly, the IMF's surveillance and lending work may identify how capacity development activities can have the biggest impact in a country.

IMF capacity development is delivered through short-term staff missions from IMF headquarters in Washington, DC; long-term in-country placements of resident advisors; and a network of regional capacity development centers and online learning. A well-structured and comprehensive vision ensures that each effort is focused on economic institution building and is aligned with a country's developmental priorities.

There are 16 regional centers, which help the IMF to respond quickly to a country's emerging needs and allow for closer coordination with other development partners. These efforts are supported by bilateral and multilateral partners that presently finance about half of all the IMF's capacity development efforts, including through their support for the *regional centers*. In 2018, the IMF and the People's Bank of China established a new center to build up economic institutions and foster human capacity development in core areas of IMF expertise. It serves officials in China and other countries and was inaugurated by IMF Managing Director Christine Lagarde, China Vice Premier Liu He, and People's Bank of China Governor Yi Gang on April 12, 2018, in Beijing.

Over the past 50 years, the IMF has provided capacity development support to all 189 member countries in line with their priorities. In FY2018, low-income developing countries received about half of all IMF technical advice. Emerging market and middle-income economies received just over half of IMF policy-oriented training.

As countries work toward achieving the Sustainable Development Goals, the IMF's capacity development efforts focus on the following fundamental areas:

- **Fiscal policy:** Helping governments better mobilize revenues and effectively manage expenditure, via tax and customs policies, budget formulation, public financial management, domestic and foreign debt, and social safety nets. This enables governments to maintain fiscal sustainability; enhance infrastructure such as schools, roads, and hospitals; improve social safety nets; and attract greater investments.

- **Monetary and financial sector policies:** Working with central banks to modernize their monetary and exchange rate policies, frameworks, and implementation; with financial sector regulators and supervisors to strengthen financial infrastructures and institutions; and with other relevant bodies to build and enhance macroprudential oversight and crisis management capacity. These efforts help to improve macroeconomic and financial stability in the country, fueling domestic growth and international trade.

- **Legal frameworks:** Aligning legal and governance frameworks to international standards, enabling countries to develop sound fiscal and financial reforms, fight corruption, and combat money laundering and terrorism financing.

- **Statistics:** Helping countries compile, manage, and report macroeconomic and financial data to facilitate a more accurate understanding of their economies and help formulate informed policies.

The IMF's capacity development work, as well as its policy advice and research, is increasingly focused on helping member countries tackle their developmental priorities, including:

- **Reducing inequality:** The IMF trains policymakers to implement inclusive policies such as expenditure and subsidy reform, and progressive taxation and financial inclusion including through new financial technologies. It also provides analytical, operational, and monitoring tools that countries need to abolish inequality.

- **Gender equality:** The IMF capacity development and training on gender equality has expanded to include training for government officials, peer learning workshops, and technical assistance missions in gender-responsive budgeting.
- **Climate action:** The IMF works with countries on environmental tax reform and efficient energy pricing to minimize the effects of climate change. It also helps create robust frameworks and public financial management plans to prepare countries for natural disasters and climate-related shocks.

The following pages highlight priority areas and country examples from each core area of IMF capacity development.

HIGHLIGHTS: FISCAL

Medium-Term Revenue Strategy

Revenue mobilization is critical for countries to secure resources for sustainable development and, in the case of low-income countries, to reduce dependency on external aid. The IMF promotes a new initiative on Medium-Term Revenue Strategies (MTRS) that involves helping countries develop and implement comprehensive reform strategies to achieve medium-term revenue goals encompassing tax policy, tax administration, and tax legislation. The MTRS approach was developed by the Platform for Collaboration on Tax to enhance countries' revenue mobilization efforts. The Platform recommended the adoption of MTRS in its July 2016 report to G20 Finance Ministers, entitled "Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries." The MTRS concept was further developed in the July 2017 "Update on Activities of the Platform for Collaboration on Tax" report to the G20. A flagship event was held at the 2017 IMF-World Bank Annual Meetings with more than 200 participants to discuss the MTRS approach to tax system reform, including its four interdependent components: (1) building broad-based consensus on revenue goals; (2) designing a comprehensive reform of tax system (policy, administration, and legal framework); (3) committing government-led and whole-of-government sustained political support to implementation; and (4) securing resources domestically and from donors for effective implementation.

In Uganda—where the tax-to-GDP ratio was 13.5 percent in 2016–17— increasing domestic revenue is critical to implement the country's development strategy. Building on ongoing work, the IMF helped the authorities prepare a five-year MTRS framework, starting in FY2018, with the goal of achieving a tax-to-GDP ratio of 16 percent by FY2022. It included options for tax policy reform, key measures to raise tax and increase customs compliance, and selected tax law components to support the compliance programs.

The IMF also helped Papua New Guinea develop its first comprehensive MTRS. Papua New Guinea faced a severe downturn in revenue and needed to revitalize the tax system and mobilize domestic revenue. The government developed a MTRS to modernize the tax system, aiming to increase the tax-to-GDP ratio and to ensure that reform plans were integrated across the main revenue agencies. The MTRS conveys the government's commitment to the revenue reform program and outlines a multiagency roadmap for reforming tax policy, tax administration, and the legal framework over the next five years.

Hackathons

The IMF has organized "hackathons"—an innovative initiative funded by the Bill and Melinda Gates Foundation to support technological innovation—in Senegal (2016), Uganda (2017), and Côte d'Ivoire (2018) as part of ongoing technical assistance programs for supporting tax administration. The two-day event typically brings together experts from different disciplines—the tech innovation sector, tax and customs administrators, officials of other government agencies, and representatives of the private sector and civil society—to prototype innovative solutions to improve the tax administration's capacity to manage compliance risks and respond to rising service expectations. In each country, approximately 80 participants from various countries attended the event. The hackathons have been a resounding success largely due to their lively and intense format, creative atmosphere, and high degree of engagement and expectations from the authorities.

In Senegal, among four prototypes, Mon Espace Perso is being implemented, creating personalized tax space that allows individuals and businesses easy access to their tax data, targeted information and services, and the ability to file and pay their taxes. In Uganda, eight prototypes were developed that are currently being considered by the authorities for implementation as part of the broader MTRS. In Côte d'Ivoire, the hackathons took on a higher degree of sophistication and ambition. Among the prototypes was SICI, Système Intégré de la Côte d'Ivoire, a platform that provides a single window for tax officials to access tax-related data for compliance purposes, backed by a system that integrates internal and external data sources via Blockchain technology.

Online Course on Public Financial Management

Each year, the IMF conducts more than 100 field missions to work side by side with government officials to improve aspects of public financial management (PFM). For six weeks in October–November 2017, staff reached almost 700 officials from 141 countries with a single online course about PFM. The course focused on why PFM is an effective tool for implementing public policies and how PFM institutions support macroeconomic stability, economic growth, the Sustainable Development Goals, and good governance. The United States Agency for International Development (USAID) funded development of the course.

Over nine months, IMF staff developed and filmed course modules covering a wide range of topics. In addition to teaching modules, the PFM course included interviews with ministers of finance, other senior officials, and representatives from civil society on all aspects of PFM. A discussion forum created an interactive platform where participants asked questions and shared views and country experiences. Gender budgeting was a much-debated topic.

The first course offering was open only to government officials and staff of development agencies. Registrants included government officials from 141 countries, including 162 participants from 25 fragile states, such as Afghanistan, Haiti, Iraq, and Somalia. Almost 700 participants successfully completed the course, far beyond what IMF staff could hope to train in face-to-face courses on PFM in a year.

The PFM online course garnered strong interest from bilateral donors and development agencies, including USAID, the United Kingdom's Department for International Development (DfID), the European Commission, and the World Bank. The course created a forum for donors and recipients to share views on PFM, as well as capacity building challenges. The course will be offered regularly as a massive open online course (MOOC) open to the general public.

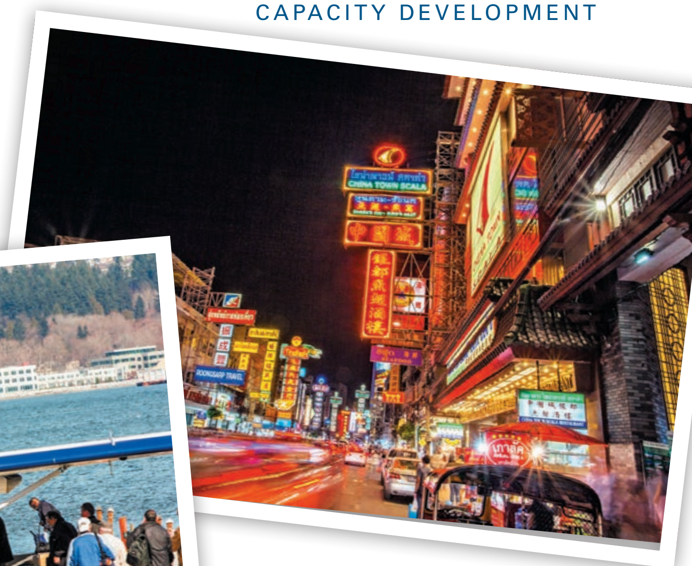
Peer-to-Peer Learning on Gender Budgeting

The IMF organized a seminar on Gender Budgeting in Costa Rica in December 2017, with participants from seven countries (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama). This was the first regional seminar using the public financial management framework for gender budgeting developed by the IMF, in 2017. It was followed by similar workshops in 2018 at the Africa Training Institute (ATI), Joint Vienna Institute (JVI), South Asia Regional Training and Technical Assistance Center (SARTTAC), and the Caribbean Technical Assistance Center (CARTAC).

Infrastructure Governance

The IMF is committed to helping countries improve capacity for infrastructure governance and thereby to maximize the impact of investment on growth and development. In Benin, a Public Investment Management Assessment (PIMA) was conducted in the context of implementation of an ambitious national development strategy (Programme d'Action du Gouvernement), which puts great emphasis on investments and infrastructure. Based on IMF mission recommendations, the authorities initiated some reforms (for example, implementation of commitment authorizations), and the World Bank revamped its $15 million technical assistance project on public investments.

The IMF also conducted a PIMA mission to Ireland. The Minister of Finance strongly endorsed the report, which was published in November 2017, noting that it was specifically tailored to Ireland's needs and would play an important role in strengthening public investment institutions and improving the efficiency of public investment. The government later made the compelling case for increased public investment to strengthen Ireland's capital infrastructure and announced in the budget additional capital allocations of €4.3 billion for the period 2018–21. In its National Development Plan 2018–27, published in February 2018, the government again noted its positive response to several key recommendations in the report, including: (1) the establishment of a high-level Infrastructure Projects Steering Group to lead a cross-sectoral dialogue on infrastructure; (2) the development of a Capital Tracker, a primary management tool for preparing and prioritizing a pipeline of projects in the main infrastructural sectors, and



supervising timelines and performance targets; and (3) the revision of Ireland's Public Spending Code for the Department of Public Expenditure and Reform to independently assess the appraisals of large projects.

Fiscal Transparency and Fiscal Risk Management

Georgia has made substantial inroads in recent years to enhance disclosure and improve management of fiscal risks. The IMF supported the authorities in developing a framework for monitoring risks related to state-owned enterprises, establishing a sound legal framework to govern public-private partnerships (PPPs) and to better assess fiscal risks associated with long-term power purchase agreements (PPAs) in the hydropower sector. Using this information, the authorities could adjust the pace of its hydroelectricity expansion to better match demand and, at the same time, restructure the PPA contracts to reduce fiscal risks. Disclosure of fiscal risks has also improved, including strengthened analysis of macroeconomic and debt-related fiscal risks that Georgia was already publishing. This, combined with a suite of other reforms, such as the development of annual financial statements and introduction of program-based budgeting, has seen Georgia climb from 34th to 5th on the Open Budget Survey's rankings between 2010 and 2017. An IMF Fiscal Transparency Evaluation in 2016 also found that Georgia now meets the level of good or advanced practice in many areas, while highlighting areas for continued improvement.

Moldova published its first Fiscal Risk Statement (FRS) in December 2017. The FRS provides a comprehensive overview of key fiscal risks facing the country and is a useful tool for assessing the consistency and credibility of fiscal policies. The FRS indicates the potential impact of major fiscal risks, assesses the likelihood of direct fiscal risks, and provides a basis for prioritizing risk-mitigation measures. Macroeconomic shocks are identified as having both high potential impact and a high probability, and more frequent updates of macroeconomic forecasts are recommended as a measure to mitigate the risks. Risks resulting from potential bailout of insolvent state-owned enterprises and from insolvent, systemically important banks were also assessed to be high. The draft of the FRS was subject to public consultation and was discussed with members of parliament.

Building a Sustainable Revenue Base in the Gulf Cooperation Council Countries

Although more than 150 countries have some form of value added tax (VAT), until recently this was not the case in the countries of the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The introduction of a VAT was challenging due to the GCC's unique political systems and heavy reliance on oil and gas revenue to finance government operations. For over a decade, the IMF has provided substantive technical assistance in the design and administration of broad-based indirect taxes, with the advice focused on introduction of a wide-ranging VAT and selected excises coordinated at the GCC to leverage the benefits of the Customs Union.

On January 1, 2018, Saudi Arabia and the United Arab Emirates introduced a generalized VAT at a rate of 5 percent. In 2017, both countries introduced excise taxes on tobacco and sugar-sweetened drinks at rates comparable to those in high-income countries. VAT and excises followed the 2016 Agreements among GCC countries as part of their VAT framework for deepening economic integration. Other GCC countries are expected to follow the lead of Saudi Arabia and UAE, and introduce their VATs in coming years. The IMF has also played a critical role in helping with the implementation of excise and VAT by guiding the execution of the administrative arrangements for a new excise. This helped develop the capacity and the confidence to implement a new tax and provided a model for other countries in the GCC.

HIGHLIGHTS: MONETARY

The IMF has remained actively engaged in responding to member countries' critical needs on financial and monetary stability by promoting sound and efficient financial systems and effective monetary and exchange rate policy frameworks. The IMF fielded more than 1,000 technical assistance missions last year on such core topics as supervision and regulation, monetary policy and foreign exchange operations, crisis prevention and management, and official-sector asset and liability management. Other growing areas of assistance include support for developing effective macroprudential policy frameworks and systems consistent with the formulation of monetary policy, setting up broader financial stability and systemic risk monitoring mechanisms, producing financial stability analyses and reporting, and stress testing.

The IMF has obtained financing for a Financial Sector Stability Fund, with contributions from China, European Investment Bank, Italy, Luxembourg, Saudi Arabia, Switzerland, and the United Kingdom, with other countries expected to join soon. This funding will support financial sector stability, inclusion, and deepening and will be focused on low- and lower-middle-income countries. It will finance Financial Sector Stability Review missions and follow-up for improving financial sector statistics to assess financial sector stability risks, vulnerabilities, and interconnectedness. Financial Sector Stability Reviews were completed during FY2018 for Costa Rica, Fiji, Paraguay, and Uganda, and others are planned for FY2019 in Nicaragua, Sri Lanka, and the West Bank and Gaza.

A joint symposium on capacity building was sponsored by the IMF and the Bank for International Settlements (BIS) in February 2018, bringing together technical assistance providers, international standard-setting bodies, donors, and technical assistance recipients to share experiences and discuss ways of enhancing capacity development delivery in financial sector regulation and supervision. IMF Managing Director Christine Lagarde and Bank for International Settlements (BIS) General Manager Agustín Carstens delivered keynote speeches on the respective roles of the two institutions in capacity building. This symposium laid a foundation for enhanced cooperation between the IMF and the BIS's Financial Stability Institute (FSI), which are jointly developing an online training program for bank supervisors.

Other examples of IMF monetary and financial sector capacity development include:

- **Support for inflation targeting in Albania:** The IMF contributed to development of a framework to assess the policy space for conventional monetary policy, estimate the effective low policy rate bound, and monitor possible unintended consequences. The project is helping to enhance the design and implementation of monetary policy by strengthening the authorities' capacity for communications, modeling, and forecasting.
- **Reforming Algeria's domestic liquidity management framework:** The work program revolves around developing a liquidity management and forecasting framework that can work during periods of both liquidity surplus and liquidity deficit and can (1) support development of daily liquidity monitoring; (2) contribute to preparation of daily forecasts of factors impacting the central bank's balance sheet; and (3) assist with implementation of open market operations and introduction of standing facilities.
- **Strengthening debt management capacity in the Eastern Caribbean Currency Union (ECCU), Barbados, Belize and Jamaica through technical assistance funded by the government of Canada:** the most recent project in this area helped national authorities develop medium-term debt management strategies (MTDS) using the IMF-World Bank framework. All the beneficiary countries now produce MTDS, demonstrating notable improvement in the understanding of the cost and risks embedded in their respective debt portfolios and in the selection of borrowing strategies appropriate to the circumstances of each country.

- **Monetary policy support to Ghana:** This work spans a number of areas including financial sector supervision and regulation, foreign exchange management, liquidity management, and implementation of an inflation-targeting monetary policy framework. Ghana has been working steadily toward implementation of Basel II and III, with support from the IMF and the Swiss State Secretariat for Economic Affairs (SECO). Basel II/III implementation is expected to contribute to a more resilient and stable financial sector. A major milestone is the development of a new Capital Requirements Directive, and consultations are under way with the banking industry in advance of final issuance in the near term.

- **Helping Myanmar modernize the Central Bank of Myanmar and strengthen banking supervision:** Myanmar is one of the largest recipients of IMF technical assistance, which is financed by the Government of Japan. The work initially focused on enhancing core functions conducive to macroeconomic and financial stability, including building capacity in monetary and foreign exchange operations, developing interbank market and monetary instruments, and strengthening central bank accounting including auditing, systems deployment, and financial services generally. The second phase supports the Central Bank of Myanmar in professionalizing and upgrading its bank supervision functions. The technical assistance activities focused on strengthening risk-based supervision, upgrading tools and processes, training supervisors, and updating regulations.

HIGHLIGHTS: STATISTICS

The IMF's work in statistical capacity development provides technical assistance and training to member countries to strengthen their capabilities to produce and disseminate consistent and comparable macroeconomic and financial statistics. Over the past eight years, capacity development in this area has increased by 84 percent, with the largest shares in real sector statistics and government finance statistics, followed by external sector statistics, monetary and financial statistics, and finally, data dissemination. The focus has been on delivering assistance to low-income countries and fragile states, the countries with the greatest needs. Capacity development for fragile states has grown by 68 percent over the past eight years.

The IMF's work in statistics has also directly supported countries' work to meet the Sustainable Development Goals (SDGs). Economic data are relevant to monitor the SDGs, given that around 40 percent of the SDG indicators include economic variables. For example, capacity development provided in national accounts and prices impacts SDG 1 for "No Poverty," and SDG 2 for "Zero Hunger." The IMF is precisely targeting its assistance in statistics to countries with the weakest capacity for production of statistics, countries that are often the most in need of achieving the SDGs.

The G20 communiqué in March 2018 highlighted political support for the provision by the IMF of technical assistance to the recording and reporting of debt by low-income countries, given that their increasing debt levels give rise to concerns over their debt vulnerability. Capacity development activities address the debt data gaps that cause the biggest risks to debt sustainability. In some countries, for example, there is lack of data on debt by state-owned enterprises; in others, arrears are not recorded properly.

The new Overarching Strategy on Data and Statistics at the Fund in the Digital Age has also begun to shape the future delivery of capacity development by supporting the use of Big Data through statistical innovation. Big Data provides opportunities largely related to the digitalization of the economy that generates booming amounts of data that expose the behavior of individuals and firms. This offers potentially new data sources for statistical agencies. For example, one example of the use of Big Data for the compilation of statistics is employing mobile banking data to produce more accurate estimates of international remittance flows, services payments and transfers, and disposable income. These estimates can feed into official statistics and help measure financial inclusion. Thus, the overarching strategy advises tailoring IMF technical assistance to help countries use Big Data to produce statistics and recommends that the IMF develop new partnerships with other agencies to support this innovation.

HIGHLIGHTS: LEGAL

Demand for technical assistance on legal issues continued during FY2018 in both program and nonprogram countries. The focus was on financial integrity, financial and fiscal law, insolvency, and claims enforcement. The IMF responded to these needs following a results-based management framework and in accordance with the priorities embodied in the Global Policy Agenda.

Capacity development work continued on topics related to financial integrity topics—anti-money-laundering and combating the financing of terrorism (AML/CFT), anti-corruption efforts, and correspondent banking relationships. The IMF regularly coordinates its technical assistance activities both internally and with other donors to maximize results and prevent duplication of efforts. The AML/CFT Trust Fund finances technical assistance projects in 21 countries, two research projects (on Terrorist Financing and on Entity Transparency), and four regional adviser positions in Buenos Aires, Doha, Nairobi, and Singapore. In addition, projects in seven countries are funded by bilateral donors, five other projects are self-funded, and two projects are funded by other multilateral trust funds. Moreover, the IMF is currently assessing Colombia and China under the revised Financial Action Task Force (FATF) international standards.

Technical assistance in the area of financial and fiscal law continued at previous levels, including for central banking, bank regulatory and supervisory frameworks, and bank resolution and crisis management. Assistance on market infrastructures (payment systems) grew at a slower pace and built on work related to legal frameworks for public financial management, as in previous years.

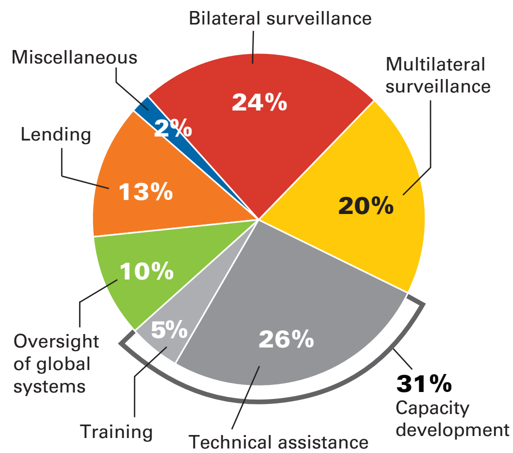
There continued to be strong demand for technical assistance on tax law in the main areas of income taxation, value added taxes, and tax procedures, reflecting heightened global attention to international tax issues. Similarly, issues related to the design of international tax law were at the core of two seminars, one at IMF headquarters in Washington, DC, and the other regional seminar in Kuwait. These issues also featured in key legal contributions made to G20-mandated toolkits and other outputs designed to support capacity development in low-income countries.

The IMF also continued to provide technical assistance to its members on insolvency and creditor rights to help ensure early and rapid rehabilitation of viable businesses and liquidation of nonviable businesses, provide a fresh start for overindebted households, and improve the protection of creditor rights. The IMF organized a workshop for high-level officials at the Joint Vienna Institute on corporate and household insolvency.

IMF CAPACITY DEVELOPMENT IN NUMBERS

Initiated by member countries, IMF capacity development support, which includes both institutional and policy development (technical assistance) and staff development (training), has reached all 189 members. Capacity development represented over a quarter of the IMF's administrative spending in FY2018. Most of this spending was on technical assistance, which represents 26 percent, while training accounts for 5 percent (*Figure 2.4*).

Figure **2.4**
Share of costs of major IMF activities, FY2018



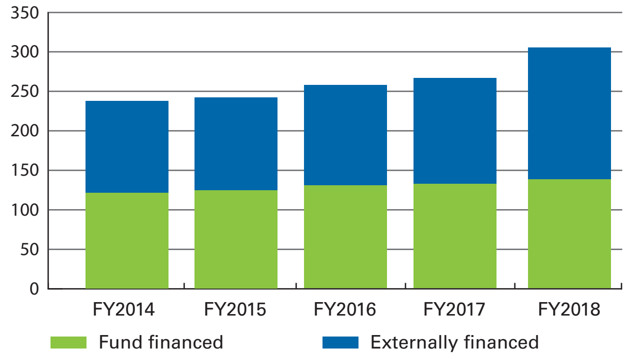
Source: IMF Office of Budget and Planning, Analytic Costing and Estimation System.

What We Do

Figure **2.5**

Spending on capacity development, FY2014–18

(Millions of US dollars)

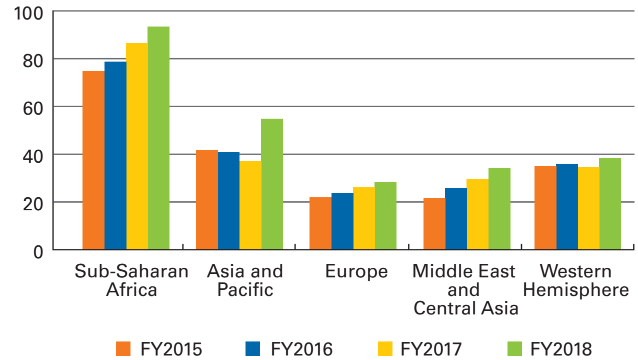


Sources: IMF Office of Budget and Planning (OBP) Analytic Costing and Estimation System (ACES); and IMF staff calculations.

Figure **2.6**

Capacity development spending, by region, FY2015–18

(Millions of US dollars)

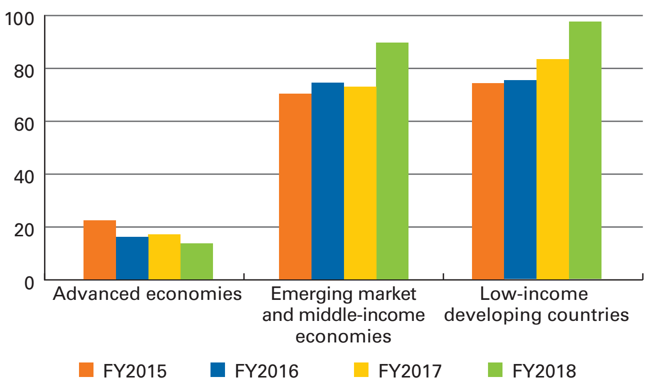


Sources Office of Budget and Planning (OBP) Analytic Costing and Estimation System (ACES); and IMF staff calculations.

Figure **2.7**

Capacity development spending, by income group, FY2015–18

(Millions of US dollars)

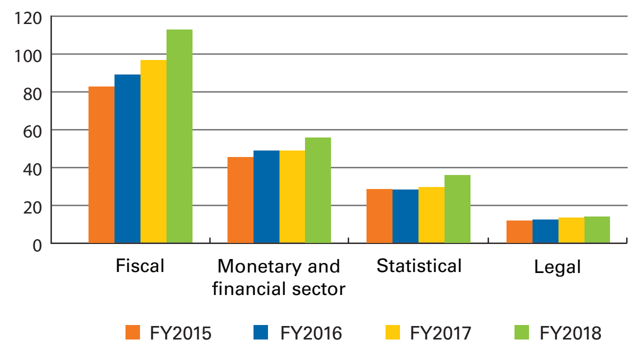


Sources Office of Budget and Planning (OBP) Analytic Costing and Estimation System (ACES); and IMF staff calculations.

Figure **2.8**

Capacity development spending, by topic, FY2015–18

(Millions of US dollars)



Sources Office of Budget and Planning (OBP) Analytic Costing and Estimation System (ACES); and IMF staff calculations.

IMF capacity development activities continued to grow in FY2018, reflecting mainly greater delivery to sub-Saharan Africa, Asia and Pacific, and the Middle East and Central Asia. Total direct spending on capacity development activities (excluding general support and governance overhead) was $303 million in FY2018, compared to $267 million in FY2017, a growth of 14 percent (*Figure 2.5*). The externally funded component amounted to 55 percent of the total in FY2018, and grew by 23 percent.

Capacity Development

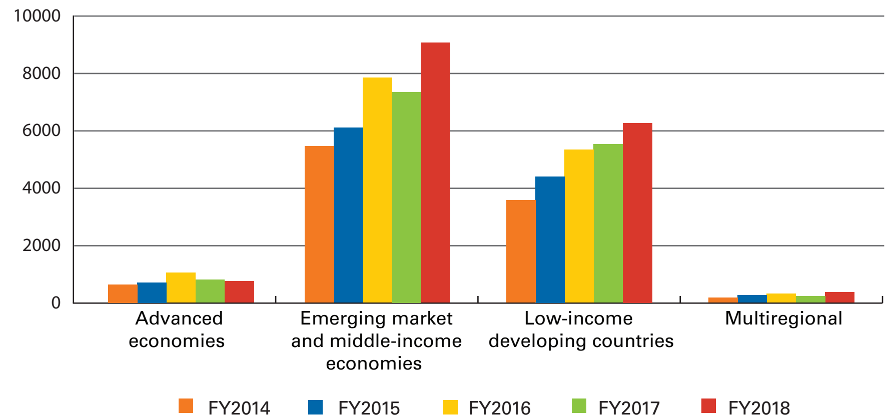
Sub-Saharan Africa received the largest share of capacity development spending, reflecting the high number of low-income developing countries in this region. Capacity development spending increased 14 percent in FY2018, and grew in each of the five major regions, but the increase was particularly high in Asia and Pacific, where it climbed by 48 percent (*Figure 2.6*). Most of IMF capacity development assistance continues to go to emerging market and middle-income economies and low-income developing countries (*Figure 2.7*).

Delivery of capacity development assistance on all topics (fiscal, monetary and financial sector, statistical, and legal) increased, in response to demand from the membership (*Figure 2.8*). Capacity development assistance on fiscal topics constitute 37 percent of the assistance provided by the IMF.

Figure **2.9**

Training participation, by income group, FY2014–18

(Number of participants)

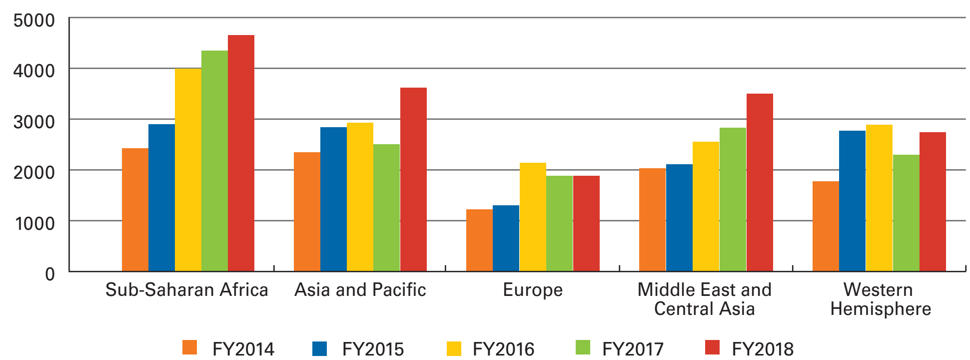


Sources: Participant and Applicant Tracking System (PATS); and IMF staff calculations.
Note: FY18 data are preliminary.

Figure **2.10**

Total training participation, by participant region of origin, FY2014–18

(Number of participants)



Sources: Participant and Applicant Tracking System (PATS); and IMF staff calculations.
Note: FY18 data are preliminary.

Training

The IMF offers a broad array of training activities to help government officials improve their ability to analyze economic trends; develop and apply forecasting models; use and adopt diagnostic tools; and formulate and implement sound macroeconomic and financial policies.

The IMF's institute of capacity development relies on several modes of delivery to achieve these objectives, including face-to-face, online and customized training. For face-to-face training, officials apply to attend courses and are selected through a competitive process. During FY2018, the IMF delivered 422 training events, in which 16,410 officials from 186 member countries participated.

Most of these events were delivered through the IMF's network of regional training centers and programs and online courses, with the remainder delivered at IMF headquarters or overseas locations. A wide range of topics met different needs, spanning macroeconomic policies, forecasting and macroeconomic modeling, financial programming and policies, financial sector issues, specialized fiscal courses, macroeconomic statistics, safeguards assessments, and legal issues. Emerging market and middle-income economies received the largest share of IMF training, 55 percent of the total for the year (*Figure 2.9*). Regionally, the share of sub-Saharan Africa was the largest at 28 percent, followed by the Asia and the Pacific region (*Figure 2.10*). A 2017 survey of recent participants from member governments revealed that 84 percent thought that the courses improved their ability to offer policy advice.

The IMF's capacity development support is delivered to countries through short-term staff missions from IMF headquarters, long-term in-country placements of resident advisors, a network of regional capacity development centers, and via online learning. There are 16 regional capacity development centers, which facilitate an enhanced ability for the IMF to respond quickly to a country's emerging needs, as well as closer coordination with other development partners. These efforts are supported by bilateral and multilateral partners that presently finance about one half of all IMF capacity development efforts, including through their support of regional capacity development centers. In 2018, the IMF and the People's Bank of China established a new center to build up economic institutions and foster human capacity development in core areas of IMF expertise; it serves officials in China and other countries and was inaugurated by IMF Managing Director Christine Lagarde and People's Bank of China Governor Yi Gang on April 12, 2018, in Beijing, China.

The IMF has also scaled up online learning in recent years, adding new courses on Public Financial Management, Macroeconomic Diagnostics, and Macroeconomic Management in resource-rich countries. More than 12,000 government officials have successfully completed an online course since the launch of the program in late 2013. Courses in the past year have been tailored to the needs of specific countries, including a specialized seminar on gender-responsive budgeting in Africa; a customized financial surveillance and policy workshop in China; and projects on dynamic stochastic general equilibrium modeling for policy analysis. Customized training often involves working with a specific group of people at regular intervals to enhance skills or improve an institution's policy-making capabilities.

PARTNERSHIPS FOR CAPACITY DEVELOPMENT

Strong global partnerships underpin the IMF's capacity development activities. Partners enrich discussions on thematic and regional issues by sharing their own experiences and engaging with member countries. In addition, financial contributions from partners, paired with resources from member countries and the IMF, ensure the delivery of high-quality technical assistance and training that responds to member country needs and aligns with IMF and global development priorities.

IMF capacity development helps countries build a strong foundation for reaching the Sustainable Development Goals. Multilateral regional and thematic initiatives are the anchors of these efforts, and bring together partners to leverage resources and amplify results worldwide in fundamental macroeconomic areas. Thematic funds are aligned with key global development needs and initiatives and respond directly to the Financing for

Development Agenda. Their activities are complemented by a global network of regional capacity development centers that coordinates much of the IMF's capacity development work on the ground, fostering peer learning and providing hands-on implementation support with consistent follow-up. These multilateral initiatives are complemented by tailored bilateral programs. All IMF capacity development initiatives are designed to foster partnerships and strong country ownership for economic institution building.

In FY2018, new contributions to IMF capacity development of $281 million were received, and activities financed by partners totaled about $174 million, roughly half of total capacity development activities. Over the past three years, the top five contributors to IMF capacity development were the European Union (EU), Japan, Switzerland, China and Kuwait.

All partnerships for capacity development efforts are greatly appreciated. Key highlights include the following:

- With over 25 years of consistent support, Japan is historically the IMF's largest and longest-standing capacity development partner. With a $33.6 million contribution in FY2018, support was given to a wide range of areas, with particular focus on Asia that included contributions to the IMF Technical Assistance Office in Thailand (TAOLAM) and the IMF-Singapore Training Institute (STI), as well as an increased contribution to the Revenue Mobilization Fund.

- The European Union (EU) expanded collaboration with the IMF in line with the institutions' Strategic Partnership Framework. A €5 million public financial management partnership program, signed in March 2018 with the Directorate General of International Cooperation and Development (DG-DEVCO), focuses on countries in fragile situations and low- and lower middle-income countries and complements the ongoing public financial management program in Southeast Europe with the Directorate General of European Neighborhood Policy and Enlargement Negotiations (DG-NEAR). The IMF participated in the EU's flagship development event, the European Development Days (EDD), in June 2017, where IMF Managing Director Christine Lagarde gave an opening speech on gender equality and a keynote address during an IMF-Oxfam panel on domestic resource mobilization. The EU also continued its participation in the Managing Natural Resource Wealth Fund, with a contribution of €7 million.

- The first meeting of the new Strategic Partnership on Capacity Development between the United Kingdom's Department for International Development (DFID) and the IMF took place in November 2017, a strong step toward streamlining collaboration and deepening partnership. The United Kingdom contributed to regional capacity development centers that work with 20 countries in Africa and the Financial Sector Stability Fund, and is also committed to deepening support for other multilateral initiatives, with a particular focus on strengthening public financial management and improving revenue mobilization.

- The People's Bank of China and the IMF signed a Capacity Development Partnership in May 2017, with total contributions of $50 million over a five-year period. This partnership includes the establishment of the China-IMF Capacity Development Center (*Box 2.1*), as well as support for other regional and thematic initiatives, notably regional capacity development centers in Africa and the Financial Sector Stability Fund.

Box 2.1.
China-IMF Capacity Development Center

CICDC
CHINA-IMF CAPACITY DEVELOPMENT CENTER
中国—国际货币基金组织联合能力建设中心

In April 2018, IMF Managing Director Christine Lagarde and People's Bank of China Governor Yi Gang formally launched the China-IMF Capacity Development Center (CICDC). The CICDC is the result of a partnership between the People's Bank of China and the IMF that aims to develop government officials from China and other countries in effective institution building and policy making. Training courses will include a combination of general macroeconomics and forecasting, fiscal and financial issues, and legal and statistics topics to equip officials with the knowledge and analytical tools they need to make sound policy decisions. Workshops and other peer-learning activities involving multiple countries will support a global environment of sustained economic growth and integration. CICDC's first Steering Committee meeting took place immediately following the Center's launch.

What We Do

■ In the context of Germany's recent contribution of €30 million to the IMF's six regional capacity development centers across Africa, the first annual consultations between Germany and the IMF took place in early 2018. This provided an effective forum to discuss strategic issues related to the capacity development partnership. At the operational level, the close cooperation between regional centers across Africa and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), one of Germany's implementing organizations providing technical assistance on the continent, ensures that synergies are used for better outcomes.

■ Denmark and the IMF signed a Capacity Development Partnership in April 2018. This marks a major step forward in the engagement between the IMF and Denmark on capacity development and is supported by a contribution to the Revenue Mobilization Fund.

■ The European Investment Bank (EIB) signed a Capacity Development Platform with the IMF for €3 million in December 2017. With a focus on financial stability and inclusion, this platform includes funding for regional capacity development centers in Africa, the Financial Sector Stability Fund, and online training activities.

GLOBAL THEMATIC FUNDS FOR CAPACITY DEVELOPMENT

IMF partnerships on global thematic funds for capacity development directly respond to the Financing for Development Agenda and ensure that less-developed economies have the tools they need to reach their post-2015 SDGs. Specifically, these funds pool together resources to support countries as they improve revenue mobilization; enhance fiscal and natural resource management; promote financial sector stability and access; address debt issues; and strengthen economic decision making through better statistics.

Highlights for thematic funds include the following:

■ Following a successful fundraising effort, the Revenue Mobilization Fund is now fully financed for its current phase, until April 2021. Apart from the Danish contribution (DKK 20 million/about $3.3 million), Sweden also (SEK 40 million/about $5 million) contributed as a new partner in April 2018, and Japan and Belgium increased their contributions by $5 million and €6 million, respectively. In addition, contributions from the European Union and Norway are being finalized. These countries partner alongside Australia, Germany, Korea, Luxembourg, the Netherlands, and Switzerland to support low-income and lower-middle-income countries as they design and administer effective tax systems to generate sustainable revenue for growth and development objectives.

■ China, Saudi Arabia, Switzerland, the United Kingdom, and the European Investment Bank joined Italy and Luxembourg in supporting the work of the new Financial Sector Stability Fund. In addition to financial sector stability, this fund supports inclusion and deepening in low- and lower-middle-income countries.

Box 2.2. Partners Connect

Partners' financial contributions play an important role in helping the IMF strengthen macroeconomic institutions in its member countries. As a core part of efforts to enhance reporting to—and better communicate with—its partners in capacity development, the IMF launched **Partners Connect** in FY2018. This secure, one-stop shop lets contributing partners and member countries access timely financial and narrative information without logging in to different websites. Broad overviews and detailed reports are available on a mobile-friendly platform and accessible from almost any type of device. **Partners Connect** is the latest way the IMF is using technology to better share information with member countries.

REGIONAL CAPACITY DEVELOPMENT CENTERS

Regional centers remain the backbone of the IMF's capacity development infrastructure. Tailored to each region's priorities, the centers facilitate an enhanced ability for the IMF to respond quickly to a country's emerging needs and coordinate closely with other stakeholders on the ground. Development partners and host and member countries provide more than three-quarters of the resources needed to run these centers.

Highlights for the regional capacity development centers include the following:

■ The IMF's first regional capacity development center, the Joint Vienna Institute (JVI), celebrated its 25th anniversary in June 2017. In April 2018, Austria and the IMF renewed their agreement to continue the JVI for another four years, affirming the importance of the center to policy-oriented capacity development in emerging Europe and Central Asia. Since its establishment in 1992, the JVI has trained more than 42,000 public officials, many of whom have gone on to senior positions, including central bank governor, minister, prime minister, and even one president.

- New program phases began for AFRITAC West, based in Côte d'Ivoire and working with 10 countries; AFRITAC South, based in Mauritius and working with 13 countries; and AFRITAC Central, based in Gabon and working with 8 countries. They are part of the core network of six centers on the continent that support economic institution building and good governance across Africa.

- AFRITAC Central also welcomed a new member, São Tomé and Príncipe, which has already begun learning from a regional peer, Cabo Verde, on best practices for implementing and managing value-added tax (VAT) to generate more revenues for the country's development objectives.

- In its first nine months of operation, SARTTAC, based in India, has already delivered 18 courses to over 500 officials, including staff from subnational governments. In addition to peer-learning regional events, SARTTAC has been working with Bhutan to identify priority issues and design a customized workshop on macroeconomic and fiscal forecasting to guide the Finance Ministry in building and implementing strong economic policies.

- In the aftermath of the natural disasters that struck the region, CARTAC, based in Barbados, has boosted its support for advising member countries on how to build disaster risks into their medium-term fiscal frameworks, as well as establish contingency and resilience funds as insurance against disasters. CARTAC continued to work side by side with its member countries in reconstructing and rebuilding disaster-resilient infrastructure while implementing effective public financial management frameworks. In addition, Aruba joined CARTAC as the newest member country.

- CARTAC also was the first regional capacity development center to include gender budgeting in its workplan for 22 member countries, and other centers are following suit. IMF regional centers continue to be at the forefront of operationalizing the IMF's research and advice on gender budgeting, with workshops held at the Africa Training Institute (ATI) in Mauritius, CAPTAC-DR in Guatemala, JVI in Austria, and SARTTAC in India. These workshops provide a forum for policymakers to learn from each other's experience, and understand best practices and tools for implementing measures to advance gender equality in their countries.

- The IMF's newest regional capacity development center, the China-IMF Capacity Development Center, was officially opened in April 2018 (*Box 2.1*).

Table **2.5**
IMF thematic funds for capacity development

Name	Partners
Revenue Mobilization (RM)	Australia, Belgium, Denmark, Germany, Japan, Korea, Luxembourg, Netherlands, Norway, Sweden, Switzerland, European Union
Tax Administration Diagnostic Assessment Tool (TADAT)	Germany, Japan, Netherlands, Norway, Switzerland, United Kingdom, European Union
Managing Natural Resource Wealth (MNRW)	Australia, Netherlands, Norway, Switzerland, European Union
Anti-Money-Laundering/ Combating the Financing of Terrorism (AML/CFT)	France, Japan, Luxembourg, Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, United Kingdom
Financial Sector Stability Fund (FSSF)	China, Italy, Luxembourg, Saudi Arabia, Switzerland, United Kingdom, European Investment Bank
Debt Management Facility II (DMF II) *joint with World Bank*	Austria, Germany, Netherlands, Norway, Russia, Switzerland, African Development Bank, European Union
Financial Sector Reform Strengthening Initiative (FIRST) *joint with World Bank*	Germany, Luxembourg, Netherlands, Switzerland, United Kingdom
Data for Decisions (D4D)	Luxembourg, Switzerland

Source: IMF staff compilation.

Table **2.6**
IMF regional capacity development centers

Center	Partners	Member countries
Africa Training Institute (ATI)	Australia, China, Germany, Korea, Mauritius (host)	45 countries in sub-Saharan Africa
AFRITAC Central (AFC)	France, Gabon (host), Germany, Netherlands, European Union	Burundi, Cameroon, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Gabon, Equatorial Guinea, São Tomé and Príncipe
AFRITAC East (AFE)	Germany, Netherlands, Switzerland, Tanzania (host), United Kingdom, European Investment Bank, European Union	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda
AFRITAC South (AFS)	Australia, Germany, Mauritius (host), Netherlands, Switzerland, United Kingdom, European Union	Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, Zimbabwe
AFRITAC West (AFW)	Cote d'Ivoire (host), France, Germany, Luxembourg, Netherlands, European Investment Bank, European Union	Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, Togo
AFRITAC West 2 (AFW2)	Australia, Canada, China, Germany, Ghana (host), Switzerland, African Development Bank, European Investment Bank, European Union	Cabo Verde, The Gambia, Ghana, Liberia, Nigeria, Sierra Leone
Caribbean RTAC (CARTAC)	Barbados (host), Canada, United Kingdom, European Union	Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos
Central America, Panama, and Dominican Republic RTAC (CAPTAC-DR)	Canada, Guatemala (host), Luxembourg, Mexico, European Union	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama
China-IMF Capacity Development Center	China (host)	China and other member countries
Joint Vienna Institute (JVI)	Austria (primary member and host) and international partners	31 countries, including 29 in Central, Eastern, and Southeastern Europe, the Caucasus, and Central Asia; as well as Iran and Turkey
Middle East Center for Economics and Finance (CEF)	Kuwait (host)	22 Arab League member countries
Middle East RTAC (METAC)	France, Germany, Lebanon (host), Netherlands, Switzerland, European Union	Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, West Bank and Gaza, Yemen
Pacific Financial RTAC (PFTAC)	Australia, Fiji (host), Korea, New Zealand, Asian Development Bank, European Union	Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, Vanuatu
Singapore Training Institute (STI)	Australia, Japan, Singapore (host)	37 countries in the Asia-Pacific region
South Asia Regional Training and Technical Assistance Center (SARTTAC)	Australia, India (host), Korea, United Kingdom, European Union	Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka
Technical Assistance Office in Thailand (TAOLAM)	Japan, Thailand (host)	Cambodia, Lao PDR, Myanmar, and Vietnam (core beneficiary countries), plus other countries in the Southeast Asia and Pacific Islands regions under select projects

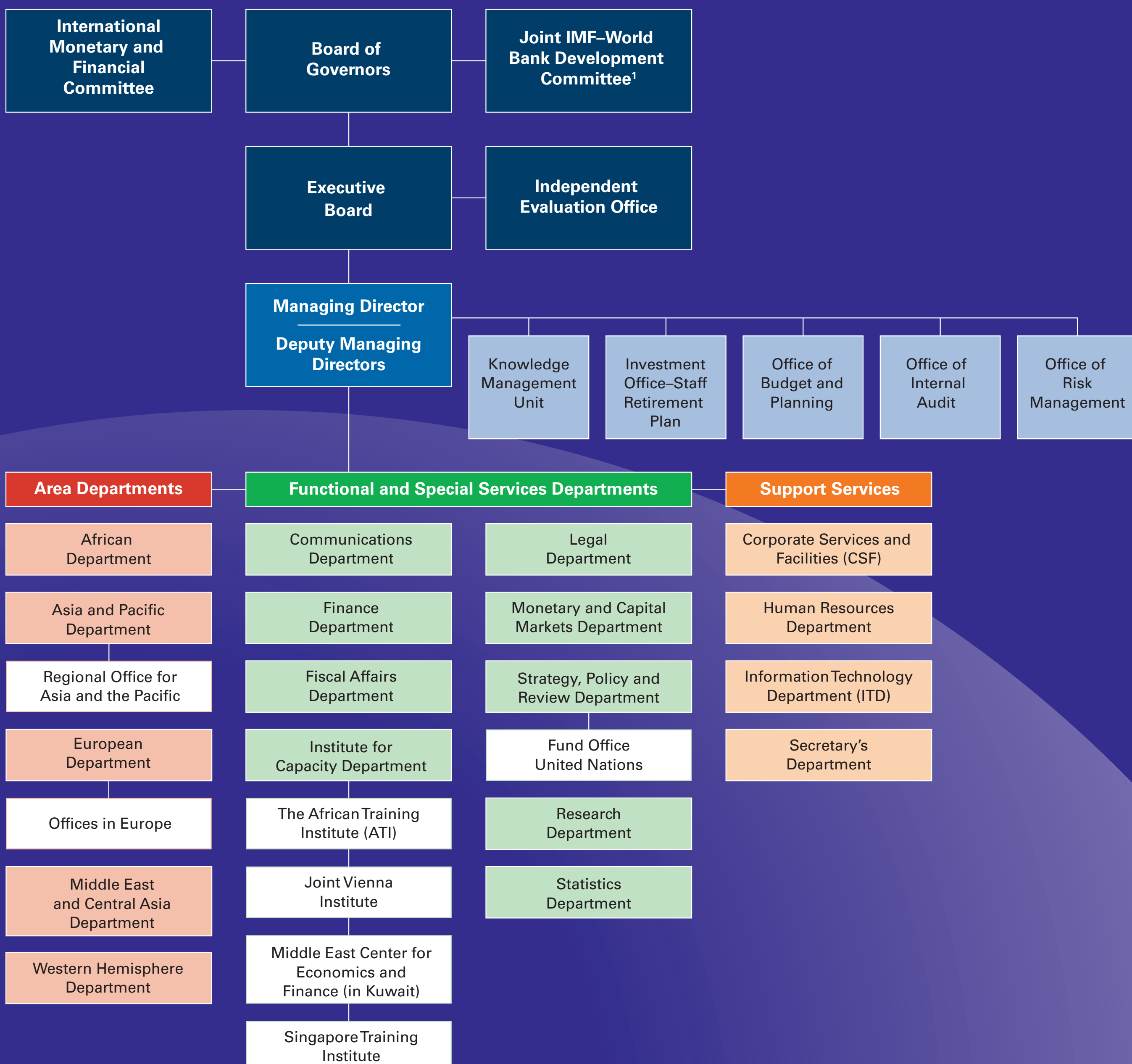
The IMF also delivers courses through regional training programs in Brazil and Georgia, and other locations worldwide.

Source: IMF staff compilation.

Part 3:
Finances, Organization, and Accountability

IMF Organization Chart

as of April 30, 2018



[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.

BUDGET AND INCOME

Medium-Term Budget

In April 2017, the Executive Board authorized a net administrative budget for FY2018 of $1,104 million, along with indicative budgets for FY2019 and FY2020 (*Table 3.1*). This was the sixth year in a row that the IMF's administrative budget remained flat notwithstanding increased resource pressure and a robust medium-term income position. The Board also approved a limit on gross expenditures of $1,359 million, including up to $44 million in carry-forward of unspent FY2017 resources for possible spending in FY2018. The approved capital budget was $66 million for building and information technology capital projects.

The IMF FY2018 budget supported intensified work in several priority areas and covered increased costs for corporate modernization. Additional resources were reallocated to enhance country engagement; further strengthen financial

Table **3.1**
Budget, by major expenditure category, FY2017–20
(Millions of US dollars)

	FY2017		FY2018		FY2019	FY2020
	Budget	Outturn	Budget	Outturn	Budget	Budget
Administrative expenditures						
Personnel	934	922	969	962	994	...
Travel[1]	123	115	126	121	134	...
Buildings and other	205	218	209	209	214	...
Contingency reserves	11	...	11	...	12	...
Unallocated[2]					17	
Total gross expenditures	**1,273**	**1,255**	**1,315**	**1,309**	**1,371**	**1,395**
Receipts[3]	–200	–189	–211	-211	–236	–240
Total net budget	**1,072**	**1,066**	**1,104**	**1,099**	**1,135**	**1,155**
Carry-forward[4]	43	...	44	...	46	...
Total net budget including carry-forward	**1,116**	**1,066**	**1,148**	**1,099**	**1,181**	**1,155**
Total gross budget including carry-forward	**1,316**	**1,255**	**1,359**	**1,309**	**1,417**	**1,395**
Capital[5]						
Facilities and information technology	**61**	**122**	**66**	**116**	**71**	**70**
		Memorandum item				
Total net budget: In FY18 dollars	1,104	1,097	1,104	1,104	1,110	1,104

Source: IMF Office of Budget and Planning.

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

[1] FY2019 includes travel to the Annual Meetings held abroad.

[2] Unallocated expenditures for externally financed projects.

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

[4] Resources are carried forward from the previous year under established rules.

[5] Capital budget appropriations can be spent over three years. The budget represents the annual appropriations, whereas the outturn includes spending from appropriations of previous years.

sector policy work, with a better integration of macrofinancial analysis and support for the Financial Sector Assessment Program (FSAP); deepen work on a range of macrostructural topics; and expand anti-money laundering/combating the financing of terrorism, work under capacity development. Work on risk and knowledge management also increased. Corporate modernization included funding for information technology and human resources services and security spending. Savings from a variety of sources, including the closure of field offices in countries with concluding programs, the completion of some policy and analytical work, and departmental efficiencies, allowed the budget to remain flat.

Actual administrative expenditures in FY2018 totaled $1,099 million, $5 million below the approved net budget. The shortfall in spending was comparable to the previous year. Average vacancy rates remained at a historic low, with most departments fully staffed.

Capital spending in FY2018 took place largely according to plan. The largest spending, $62 million, was related to the renovation of the HQ1 building. The project is expected to be completed in the fall of 2019. Other spending on building facilities, at $22 million, mainly reflected investments in audiovisual capabilities, furniture, and facilities lifecycle replacements and improvements. Investments in information and technology, totaling $31 million, provided increased protection against cybersecurity threats, improved data and knowledge management, and replacement of infrastructure that had reached the end of its useful life.

For financial reporting purposes, the IMF's administrative expenditures are accounted for on an accrual basis, in accordance with International Financial Reporting Standards (IFRS). These standards require accounting on an accrual basis and the recording and amortizing of employee benefit costs are based on actuarial valuations. *Table 3.2* provides a detailed reconciliation between the FY2018 net administrative budget outturn of $1,099 million and the IFRS-based administrative expenses of $1,284 million (SDR 904 million) reported in the IMF's audited financial statements for the year 2018.

INCOME MODEL, CHARGES, REMUNERATION, BURDEN SHARING, AND NET INCOME

Income Model

Since its establishment, the IMF has relied primarily on its lending activities to fund its expenditures. To generate additional income, the IMF established the Investment Account in 2006 and invested its reserves. In 2008, the Executive Board endorsed a new income model that involved the creation of an endowment funded by the profits from the limited sale of the IMF's gold holdings. Along with the new income model, the Fifth Amendment to the Articles of Agreement, which became effective in February 2011, authorized the broadening of the IMF's investment mandate to enhance the expected returns on its investments and further strengthen its finances over time. In January 2013, the Executive Board adopted these Rules for a new strategy for investing the IMF's reserves in August 2015 (for the fixed income subaccount) and again in March 2018 (primarily for

Table **3.2**

Administrative expenses reported in the financial statements, FY2018

(Millions of US dollars, unless otherwise indicated)

FY2018 NET ADMINISTRATIVE BUDGET OUTTURN	1,099
TIMING DIFFERENCES	
Pension and postemployment benefits costs	198
Capital expenditure—amortization of current and prior years' expenditure	47
OTHER AMOUNTS NOT INCLUDED IN THE ADMINISTRATIVE BUDGET	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	35
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust and Special Drawing Rights Department)	(95)
TOTAL ADMINISTRATIVE EXPENSES	1,284
MEMORANDUM ITEM	
Total administrative expenses reported in the audited financial statements (millions of SDRs)	904

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 FY2018 US dollar/SDR exchange rate for expenditures of about 1.42.

the endowment subaccount). The investment strategy continues to aim at both preserving the real value of the endowment and generating income, taking into account the changing market environment, the public nature of IMF resources, and the need to safeguard the IMF's reputation.

Charges

Reflecting the high levels of lending activities and the current low returns on its investments, the IMF's main source of income continues to be charges levied on the outstanding use of credit. The basic rate of charge (the interest rate) on IMF financing comprises the SDR interest rate plus a fixed margin expressed in basis points. Under the rule adopted by the Executive Board in December 2011, the margin is established for a two-year period, subject to review before the end of the first year, to cover the IMF's financing-related intermediation costs and allow for a buildup of the IMF's reserves. The rule also includes a crosscheck to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions. In April 2018, the Executive Board agreed to maintain the margin for the rate of charge at 100 basis points for the period through April 2020.

The IMF also levies surcharges on the use of large amounts of credit in the credit tranches and under Extended Arrangements. Following the effectiveness of the quota increases under the Fourteenth General Review of Quotas, the Executive Board revised the quota-based thresholds at which surcharges are applied to mitigate the effect of the doubling of quotas. Surcharges, referred to as level-based surcharges, of 200 basis points are levied on the use of credit above 187.5 percent of a member's quota. In addition, time-based surcharges of 100 basis points are levied on outstanding credit above the same threshold that is outstanding for more than 36 months in the credit tranches or 51 months under the Extended Fund Facility.

In addition to periodic 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 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 and Liquidity Line Arrangements, during each 12-month period. Commitment

Box 3.1. HQ1 building renovation progress

Renovation of the older of the two IMF headquarters buildings (HQ1) in Washington, DC, continued in FY2018. Considerable progress was made; while the project is now over 80 percent complete, complex challenges remain.

Four office floors were reoccupied during FY2018. The remaining office space is under construction three floors at a time, with staff temporarily relocated to the IMF's other building (HQ2) or leased space nearby. Other items to be completed include the building systems, elevator lobbies, and the roof.

The primary purpose for the extensive renovation is the essential replacement of aging and failing building systems. The project aspires to LEED (Leadership in Energy and Environmental Design) certification and incorporates green building design and construction practices intended to have a lower impact on the environment. When work is completed in 2020, the renovated building is expected to substantially cut energy bills and will help the IMF achieve the highest sustainability standards.

Greenhouse Gas (GHG) Emissions

The IMF continues to seek ways to reduce its GHG emissions through maximizing transportation efficiency, decreasing property shipment, reducing emissions associated with employee commuting, and purchasing energy from renewable sources.

10% of energy consumed by the IMF is from renewable sources, notably from wind farms in Texas.

Public areas of HQ1 reopened during the year.

Table **3.3**

Arrears to the IMF of countries with obligations overdue by six months or more, by type as of April 30, 2018 (Millions of SDRs)

		By Type	
	Total	General Department (including Structural Adjustment Facility)	Trust Fund
Somalia	239.5	231.1	8.4
Sudan	966.0	882.9	83.0
Total	**1,205.5**	**1,114.1**	**91.4**

Source: IMF Finance Department.

fees are levied at 15 basis points, 30 basis points, and 60 basis points on amounts available for drawing up to 115 percent, between 115 and 575 percent, and over 575 percent of quota, respectively. Commitment fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on charges that are past due by less than six months.

Remuneration and Interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as remunerated 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 basic rate of remuneration is currently set at the SDR interest rate, which 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 5 basis points. The IMF also pays interest at the SDR interest rate on 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 FY2018, the adjusted rates of charge and remuneration averaged 1.681 percent and .671 percent, respectively.

Net Income

The IMF's net income in FY2018 was SDR .8 billion ($1.1 billion), reflecting primarily income from the high levels of lending activity and income from the IMF's investments held in the Investment Account, and gains stemming from remeasurement of the IMF's defined-benefit liability. As required by the IFRS (amended International Accounting Standard 19, Employee Benefits), the net income for the financial year includes a gain of SDR 0.4 billion ($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 postemployment employee benefit plans.

Arrears to the IMF

Overdue financial obligations to the IMF amounted to SDR 1,205.5 million at the end of April 2018 (*Table 3.3*). At that time, two members—Somalia and Sudan—remained in protracted arrears (outstanding for more than six months) to the IMF. The two countries have accumulated arrears dating back to the mid-1980s, accounting for about 20 and 80 percent of the total arrears, respectively.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been taken to address the protracted arrears. At the end of the financial year, Somalia and Sudan remained ineligible to use IMF resources.

HUMAN RESOURCES POLICIES AND ORGANIZATION

To be effective in the global economy, the IMF must recruit, retain, and recognize a highly qualified and diverse international staff. In FY2018, the IMF continued to develop its medium-term Human Resources Strategy and focus on training and leadership development of staff.

Workforce Characteristics

As of April 30, 2018, the IMF employed 2,314 professional and managerial staff and 430 support staff. A list of the institution's senior officers can be found on pages 98 and 99 and the organization chart can be found at the beginning of part 3.

Recruitment of 172 new staff in 2017 was significantly lower than the 2016 level of 218. In 2017, eight managerial staff, 134 professional staff, and 30 support staff were hired. The IMF requires economists to have advanced analytical and policymaking experience, and in 2017 it recruited 24 top university graduates through the Economist Program, and 64 experienced midcareer economists. Also, during 2017, 535 contractual employees were hired.

Six officials from Germany, Indonesia, Japan, Korea, and Sweden were hired into the Externally Financed Appointee (EFA) program in 2017. The EFA is a two-year contractual appointment, fully financed by member country authorities through a multidonor trust fund. The EFA is open to all member countries that wish to provide financing either for their officials or for officials from other countries. A total of 10 appointees from six countries are currently participating in the EFA program, with China expressing interest in contributing as well. (*For information on the distribution of IMF staff by nationality, gender, and country category, see Web Tables 3.1–3.3; view the IMF staff salary structure in Web Table 3.4*).

Diversity and Inclusion

The IMF strives to ensure that the staff is diverse in terms of geographic region, gender, and educational background. Of the IMF's 189 member countries, 146 were represented by the staff as of January 31, 2018. Nationals from underrepresented regions—sub-Saharan Africa, East Asia, and the Middle East and North Africa—accounted for 33 percent of all external hiring at the professional level in 2018. More information and data on ongoing efforts to improve diversity and inclusion at the IMF are available in the 2016–17 *IMF Diversity and Inclusion Annual Report*.

In 2017, IMF attained the ASSESS level of EDGE (Economic Dividends for Gender Equality) certification in recognition of its commitment to progress in monitoring, benchmarking, and achieving workplace gender equality. "The diversity of our staff is inherent to who we are, and building inclusion is integral to what we do. We are proud of the progress we have made and we are determined to do more. We will continue to raise the bar on our performance, accountability, and transparency in these important areas," IMF Managing Director Christine Lagarde said.

Office of Internal Investigations

The Office of Internal Investigations (OII), established in July 2016, conducts preliminary inquiries and administrative investigations into alleged misconduct of IMF staff and contracted personnel.

OII forms an integral part of the IMF's administrative discipline system, thoroughly examining possible violations of IMF policies while ensuring due process. The Office gathers findings and reaches conclusions independently, without interference from other offices or officials. OII investigations are governed by the principles of integrity, professionalism, fairness, impartiality, and objectivity.

Management Structure and Salaries

The Executive Board reviews IMF management remuneration periodically. The Board of Governors approves the Managing Director's salary. Annual adjustments are made based on the Washington, DC, consumer price index. As of July 1, 2017, the salary structure for management was as follows:

Managing Director	$504,100
First Deputy Managing Director	$438,330
Deputy Managing Directors	$417,470

ACCOUNTABILITY

Risk Management at the IMF

Strategic direction is guided by the Managing Director's Global Policy Agenda, informed by continuous analysis of emerging issues affecting the international monetary system. Managing strategic risk requires establishing a clear strategic framework, supported by the medium-term budget, and responding to the evolving external environment.

Risks in the core functions relate to aligning surveillance, lending, and capacity development activities with the IMF's strategic direction and underlying objectives, while ensuring that the IMF financing model remains safeguarded. In managing lending risks—risks of programs not achieving their intended objectives—the IMF employs a multilayer framework with the primary tools focused on access, program design, and conditionality. An adequate level of precautionary balances and the IMF's de facto preferred creditor status, which has been recognized by the official community and is generally accepted by private creditors, are integral parts of this framework.

Risks in cross-functional assets refer to the capacity of the IMF's human capital, technology, physical assets, and other

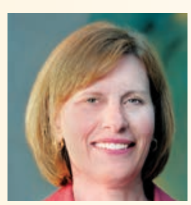
Box 3.2. Profiles of outgoing and incoming senior staff

NANCY ASIKO ONYANGO joined the IMF in February 2018 as Director of the IMF's Office of Internal Audit and Inspection. She brings more than 25 years of experience in internal audit, risk consulting, corporate governance, and IT risk management. She is a Certified Public Accountant and holds a Doctorate degree in business administration from the United States International University—Africa, in Nairobi, Kenya, in conjunction with the Columbia Business School.

CLARE BRADY served as Director of the IMF's Office of Internal Audit and Inspection from January 2014 through September 2017. Brady came to the IMF with more than 25 years of audit and risk management experience at the World Bank, Deutsche Bank, the Bank of England, and Barclay's Capital. She is a graduate of the London School of Economics.

MARTIN MÜHLEISEN took over as Director of the Strategy, Policy, and Review Department in September 2017; he joined the IMF in 1993. Previously, Mühleisen served as Chief of Staff in the IMF's Office of the Managing Director and in a variety of capacities across the IMF on a wide range of strategic, policy, country, and administrative issues. He holds a Master's Degree in Economics from Cambridge University and a Ph.D. summa cum laude in Economics from the University of Munich.

SIDDHARTH TIWARI retired from the IMF in September 2017 after serving as Director of the Strategy, Policy, and Review Department for six years and in a variety of other roles at the IMF for more than 32 years. As Director, he helped the IMF navigate the Ebola crisis response, introduction of the renminbi to the SDR basket, and IMF quota reform. His many positions in the IMF included Resident Representative at the beginning of Russia's membership in the IMF, following the dissolution of the Soviet Union, and Deputy Director of the Africa Department at the time of the multilateral debt relief initiative, as well as IMF Secretary, leading interactions with the IMF's Executive Board and its membership. He holds a Ph.D. in Economics from the University of Chicago.



SUSAN SWART served as the IMF's Chief Information Officer and Director of the Information Technology Department from June 2012 through February 2018. Swart joined the IMF following a distinguished career at the U.S. State Department.

NADIA YOUNES served from 2014 to 2017 as the IMF's Diversity Advisor, where she was an advocate for diversity and inclusion and spearheaded efforts to qualify the IMF for the Economic Dividends for Gender Equality (EDGE) certification. She holds degrees from Boston University and University of Denver, where she specialized in intercultural communication and conflict prevention and management.

supporting elements to enable implementation of the strategic direction and avoid any disruption in effective performance of the core functions. Cross-functional risks also encompass income and investment risks.

Reputational risk refers to the possibility that stakeholders might take a negative view of the IMF, resulting in damage to its credibility and traction.

Audit Mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC), which, under the IMF's bylaws, exercises general oversight of 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, DC, 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 2018 EAC members were Kamlesh Vikamsey (Chair), a chartered accountant and senior partner in an accounting firm in India; Kathy David, a chartered accountant and partner in an international accounting firm in Antigua and Barbuda; and Kathryn Cearns, an independent consultant in the United Kingdom, providing advice on corporate reporting, auditing, and corporate governance.

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 was appointed as the IMF's external audit firm in November 2014. The external audit firm may perform certain consulting services, except for prohibited services, subject to 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 threshold, the Executive Board's approval.

OFFICE OF INTERNAL AUDIT

The Office of Internal Audit (OIA) is an independent assurance and advisory function designed to protect and strengthen the IMF. The OIA's mandate is twofold: (1) assessing the effectiveness of the IMF's governance, risk management, and internal controls; and (2) acting as a consultant and catalyst for improvement of the IMF's business processes by advising on best practice and development of cost-effective control solutions. To provide for its independence, the OIA reports to management, and maintains a functional reporting relationship with the EAC.

The OIA's FY2018 work program coverage included the processes for systems development and maintenance (SDLC), the operationalization of the results-based management initiative for capacity development, the talent acquisition program, and the IMF committee structure for risk management. The OIA's FY2018 coverage also included ongoing advisory support for the 1HR program—which aims to deliver institutional value by modernizing the HR experience of staff, managers, and administrators—to provide early input on the program's progress. In addition, the OIA introduced two new approaches to reporting (Insight Notes and Good Practice Series) to complement its traditional outputs. The OIA's first Insight Note covered the IMF's approach to issuing, updating, and enforcing its administrative policies. As part of its Good Practice Series (GPS) offerings, the OIA covered the topics of: (1) the "Three Lines of Defense" (3LoD) model for risk management; (2) Ransomware; and (3) the General Data Protection Regulation (GDPR) and data privacy.

The OIA also delivered the Ninth Periodic Monitoring Report on "The Status of Implementation Plans in Response to Board-Endorsed Recommendations of the IMF's Independent Evaluation Office (IEO)." This was the fourth such report prepared by the OIA. The report assessed the progress made over the past year on actions contained in two new Management Implementation Plans (MIPs) arising from recent IEO evaluations, and another seven for which individual management actions were classified as "open" in the Eighth Periodic Monitoring Report.

The OIA also undertook an External Quality Assessment during FY2018, in line with professional auditing standards, and received the highest rating in the assessment.

The Executive Board is informed of OIA activities twice a year in an activity report that includes information on audit results and the status of overdue audit issues. The last informal Board briefing on these matters in FY2018 took place in January 2018.

Box 3.3. Managing risks with safeguards assessments

When the IMF provides financing to a member country, a safeguards assessment is carried out to obtain reasonable assurance that its central bank can manage the IMF resources and provide reliable program monetary data on the IMF-supported program. Safeguards assessments are diagnostic reviews of central banks' governance and control frameworks, and complement the IMF's other safeguards. They include limits on access, conditionality, program design, measures to address misreporting, and post-program monitoring. The assessments involve an evaluation of central bank operations in five areas: (1) the external audit mechanism; (2) the legal structure and autonomy; (3) the financial reporting framework; (4) the internal audit mechanism; and (5) the system of internal controls. (See Factsheet on "Protecting IMF Resources—Safeguards Assessments of Central Banks.")

At the end of April 2018, 305 assessments had been conducted, covering 96 central banks, nine assessments of which were completed in FY2018. The IMF monitors central bank progress as the banks work to improve their safeguards frameworks and address IMF recommendations. The monitoring continues for as long as IMF credit remains outstanding. About 60 central banks are currently subject to monitoring.

In 2015, a new requirement for fiscal safeguards reviews of state treasuries was established. According to the amended safeguards policy, the reviews follow a risk-based approach and apply to arrangements where a member requests exceptional access to IMF resources, and a substantial portion of the funds, at least 25 percent, is directed toward financing the state budget.

As part of the safeguards activity, regional seminars were conducted during FY2018 at the Joint Vienna Institute, in Austria; the Africa Training Institute, in Mauritius; and the IMF-Middle East Center for Economics and Finance, in Kuwait. The seminars highlighted international best practices and standards in safeguards areas at central banks, and provided a forum for central bank officials to share experiences. In addition, a high-level central bank governance forum was held in Dubai in March 2018 for bank officials and their external auditors. The forum covered board oversight, executive management decision-making structures, the role of the legal function, risk management practices, increased expectations on internal audit, implications of new financial technologies for central banks, and implementation challenges posed by the new international financial reporting standard, IFRS 9.

INDEPENDENT EVALUATION OFFICE

The Independent Evaluation Office (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 of IMF management and staff and operates at arm's length from the IMF's Executive Board. The IEO's mission is to enhance the learning culture within the IMF, strengthen the IMF's external credibility, and support the institutional governance and oversight functions of the Executive Board.

High-Level Panel for External Evaluation of the IEO

In October 2017, the Executive Board appointed a high-level panel to undertake an external evaluation of the IEO. The evaluation will assess how successfully the office has met its goals to serve as a means to enhance the learning culture within the IMF, strengthen the IMF's external credibility, and support the Executive Board's institutional governance and oversight responsibilities. The evaluators have discretion in the conduct of their investigation within this broad contour.

This is the third evaluation of the IEO and is expected to be concluded in 2018. The first and second external evaluations were commissioned and discussed by the IMF Executive Board in 2006 and 2013, respectively. The external evaluators held their first round of discussions in Washington, DC, during the 2017 Annual Meetings. The panel is chaired by Donald Kaberuka and includes two other members: Der Jiun Chia and Pernilla Meyersson.

Dr. Kaberuka is a Special Envoy: Financing the African Union and the Peace Fund and served as the President of the African Development Bank and Chairman of the Board of Directors for two successive five-year terms (2005–15). Chia is the Assistant Managing Director of the Markets and Investment Group at the Monetary Authority of Singapore. Meyersson is currently the Acting Chief of Staff at the General Secretariat of the Sveriges Riksbank.

New Guidelines on Staff Cooperation with the IEO

As part of the follow-up to address a number of issues raised in the evaluation of "The IMF and the Crises in Greece, Ireland, and Portugal," as reported in the October 2017 "Progress Report to the IMFC on the Activities of the Independent Evaluation Office of the IMF," a protocol was agreed upon for cooperation between the IEO and IMF staff. The protocol was developed jointly by the Strategy, Policy, and Review Department and Legal Department staff and the IEO, in line with the existing rules, policies, and procedures governing the sharing of confidential information between staff and the IEO. The agreement clarifies the importance of staff's cooperation and the principle of open communication, the relevant protocols on information requests from the IEO and sharing of information by staff, and the confidentiality of shared information.

Executive Board Reviews of IEO Reports and Recommendations

THE IMF AND SOCIAL PROTECTION

Executive Directors stressed that social protection can be macrocritical, meriting IMF engagement in surveillance, programs, and technical assistance. They appreciated that the IMF had broadened and deepened its engagement in social protection issues in recent years in response to the needs of the membership. At the same time, they agreed that the IMF's approach to social protection needed to be refined and noted the Managing Director's support for the IEO recommendations.

Executive Directors supported the recommendation to establish a clear strategic framework to guide IMF involvement in social protection. The framework could be set out in a Board-approved staff paper ("institutional view") that delineates the scope, objectives, and boundaries of IMF engagement in social protection. This would foster a consistent, evenhanded treatment of social protection issues across the membership.

Executive Directors broadly agreed with the recommendation to tailor advice to the member countries' circumstances, drawing on work by development partners or country authorities where available. Executive Directors supported the recommendation to find an effective approach to program design and conditionality to mitigate the adverse impacts of IMF-supported programs on the most vulnerable people across the membership.

Executive Directors supported the recommendation to realistically explain in external communications the IMF's approach to social protection issues. They noted that clarity about the IMF's involvement in social protection would help sharpen external communications and avoid reputational risk to the IMF.

Executive Directors strongly supported the recommendation to engage actively and collaborate constructively with development partners and other international financial institutions, including the World Bank, to better leverage their expertise in social protection issues.

In line with established practices, management and staff gave careful consideration to the Board discussion in formulating the implementation plan, including approaches to monitoring progress.

THE IMF AND FRAGILE STATES

Executive Directors welcomed the report by the IEO on the IMF and fragile states. Executive Directors agreed that helping countries in fragile and conflict situations is a global priority, meriting close engagement by the IMF in its bilateral surveillance, program design and lending, and capacity development. They were pleased with the IEO's assessment of the IMF's critical role and important contributions to these countries, including helping them to restore macroeconomic stability, build core macroeconomic policy institutions, and catalyze donor partner support. Executive Directors welcomed the Managing Director's broad support for the IEO recommendations and agreed that more could be achieved through further efforts, taking into account the unique circumstances and challenges facing these countries.

Executive Directors broadly supported the recommendation calling for the Managing Director and the Executive Board to issue a statement on the importance of the IMF's work in countries in fragile and conflict situations that could be endorsed by the International Monetary and Financial Committee. Executive Directors noted that such a statement would need to be accompanied by concrete steps taken, with greater value placed on such action within the IMF.

Executive Directors generally agreed with the recommendation, and most Executive Directors welcomed the intention, to establish an effective institutional mechanism to better coordinate the work by the IMF and other stakeholders. In this context, some Executive Directors cautioned that such a mechanism should not be duplicative or unduly resource intensive, while a few suggested that the mechanism be chaired by management.

Executive Directors also broadly supported the recommendation to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. They stressed that requirements for such strategies would need to be flexible and adaptive to avoid being a bureaucratic administrative requirement, and should not overburden the Article IV process.

Executive Directors expressed different views on how the IMF should deliver financial support to countries in fragile and conflict situations, as proposed. They welcomed Managing Director Christine Lagarde's commitment to consider modifications to the IMF's lending toolkit in the context of the 2018 Review of Facilities for Low-Income Countries. Most Executive Directors saw merit in or were open to considering suggestions to raise the access limit for the Rapid Financing Instrument (RFI)/Rapid Credit Facility (RCF) and introduce shorter upper-credit tranche financial arrangements, while a number of Executive Directors emphasized that higher access to IMF resources may not be helpful to countries that mainly need grants. Executive Directors emphasized that these countries would benefit from entering into IMF arrangements primarily because of the catalytic role of these arrangements in mobilizing financial support from other development partners.

Executive Directors supported the recommendation to take practical steps to strengthen the impact of IMF capacity development support to countries in fragile and conflict situations, including increasing the use of on-the-ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries. The Executive Directors noted that weak absorption capacity and governance in fragile and conflict situations could limit capacity development effectiveness, which warrant particular attention. In this context, most Executive Directors saw merit in the idea of gathering support for a multidonor trust fund dedicated to such capacity development, provided that a business case could be made to donors and that this would not undermine funding for the Regional Technical Assistance Centers. Executive Directors agreed on the importance of effective coordination with other capacity development providers and better tailoring capacity development work to the specific conditions and long-term needs of countries in fragile and conflict situations.

Executive Directors supported the recommendation that the IMF take steps to adapt its Human Resources Strategy to provide robust incentives for high-quality and experienced staff to work on individual countries in fragile and conflict situations, and to ensure that adequate budgetary resources are allocated to support their work. They called on the upcoming review of the HR strategy to proactively consider ways of providing stronger recognition of the staff's work in these countries to reduce turnover and attract more experienced staff, and to consider changes to recruitment practices. Executive Directors noted, however, that an increase in field staff presence in high-risk locations should be weighed against the paramount objective of protecting staff.

Building on feedback from country authorities and experts, staff undertook a review of the External Balance Approach (EBA) Methodology and external assessment process. Associated refinements were presented to the Executive Board in April and will be the basis of the external assessments being conducted this year.

IMF MULTILATERAL SURVEILLANCE

In October 2017, the IEO issued an update of the 2007 report *IEO Evaluation of IMF Exchange Rate Policy Advice, 1999–2005*. The update finds that the IMF had substantially overhauled its approach to exchange rate policy advice since 2007. The 2012 Integrated Surveillance Decision led to a more comprehensive approach that is widely accepted as a basis for exchange rate surveillance. The *External Sector Report,* launched in 2012, sets out an integrated picture of the external balances of major economies. Increased attention to spillovers and adoption of an institutional view on capital flow management has helped enhance IMF work in this area. Nonetheless, the update identifies a number of ongoing challenges. The approach for assessing external balances and exchange rates continues to be contentious, in part reflecting differing views across the membership about the process of external adjustment. While recognizing progress made in enhancing the IMF's approach and analysis, Executive Directors continued to raise issues with the models used and the consistency and transparency of the analysis, leading to questions about the evenhandedness and traction of IMF advice on exchange rates.

The IEO Work Program

In addition to completing the projects discussed earlier, during FY2018, the IEO continued work on its evaluation of IMF financial surveillance and launched an evaluation of IMF advice on unconventional monetary policies and an update of the 2008 report "Governance of the IMF: An Evaluation."

The evaluation of IMF financial surveillance will assess the efficacy of the IMF's post-crisis efforts and its capacity for financial surveillance. It will analyze whether the institution's financial surveillance strategy addresses the weaknesses identified before the crisis. These weaknesses undermined the IMF's effectiveness in warning about mounting financial sector risks ahead of the global financial crisis and affected its capacity to respond to it. The evaluation will also examine the relevance, quality, and use of IMF surveillance activities and outputs, with a special emphasis on the analyses of systemic financial centers with the potential to undermine global stability.

The evaluation of IMF advice on unconventional monetary policies will take a detailed look at IMF advice to the major advanced economies carrying out unconventional monetary policies, and to a selection of advanced and emerging market economies that dealt with the impact of these policies. It will assess: (1) whether the IMF provided useful advice on the range of instruments available to central banks; (2) the likely efficacy of monetary policy relative to other policy options and the best policy mix; (3) and the broader repercussions associated with these choices for both the originating countries and the countries affected by spillovers. It will also determine how well the IMF performed its core mandate of promoting international monetary cooperation, and was attuned to considerations of evenhandedness and multilateral consistency.

The update of the report "Governance of the IMF: An Evaluation" will focus on the role of the International Monetary and Financial Committee, the Executive Board, and management, and will assess the current relevance of the 2008 findings and recommendations, broadly grouped into the areas of effectiveness and efficiency, accountability, and voice. It will critically analyze the progress made in the past 10 years and will identify existing challenges and gaps in IMF governance. The update will also review developments and measures adopted beyond and outside the coverage of the original evaluation with a significant impact on the IMF's governance.

Information on and documentation of the IEO's evaluations are available at www.ieo-imf.org.

Implementation of Board-Endorsed Recommendations

In January 2018, the Executive Board approved the management implementation plan (MIP) for the report *The IMF and Social Protection*. In addressing the IEO recommendations endorsed by the Executive Board in July 2017, the MIP proposes to: (1) establish a clear strategic framework to guide IMF involvement in social protection; (2) provide tailored advice based on in-depth analysis of country situations, with the appropriate depth of IMF analysis depending on the scale of engagement by the World Bank or other organizations with greater expertise on social protection issues; (3) find more realistic and effective approaches to program design and conditionality to mitigate adverse impacts of programs on the most vulnerable; (4) realistically explain in external communications the IMF's approach to social protection issues; and (5) engage actively in interinstitutional cooperation on social protection. The MIP notes that the Board underscored the need to be mindful of the IMF's mandate, resource constraints, and comparative expertise in implementing these recommendations.

In early 2018, the IMF took important actions to follow up on earlier evaluations. In February, the Executive Board approved general guidance on IMF engagement with currency union-level institutions when the policies of these institutions are critical to the success of IMF-supported programs—a step recommended in the 2016 evaluation "The IMF and the Crises in Greece, Ireland, and Portugal."

Acting on recommendations of the 2016 IEO evaluation "Data at the IMF," the Executive Board approved the March 2018 "Overarching Strategy on Data and Statistics at the Fund in the Digital Age." Directors welcomed the strategy's six strategic priorities: (1) an integrated approach to prioritizing the IMF's evolving data needs; (2) the establishment of global data commons; (3) the use of big data and other innovations; (4) the seamless access and sharing of data within the IMF; (5) the production of data that are comparable across countries; and (6) the exploration of weaknesses in official data.

OUTREACH AND ENGAGEMENT WITH EXTERNAL STAKEHOLDERS

IMF outreach involves two objectives: (1) to listen to external stakeholders to better understand their concerns and perspectives and to improve the relevance and quality of IMF policy advice; and (2) to strengthen the outside world's understanding of the IMF's objectives and operations. The IMF's Communications Department is primarily responsible for conducting the IMF's outreach activities and engagement with external stakeholders.

The communications strategy has developed over time. Over the past decade, the IMF's approach has evolved from increased transparency to more proactive engagement with the media and other stakeholders in order to explain the IMF's policies and operations, enable the IMF to participate in and contribute to intellectual debate on important economic issues, and better facilitate two-way learning and dialogue with the IMF's global membership.

The IMF uses communications as a strategic tool to help strengthen its effectiveness. Strategic engagement through available technologies, such as social media, videos, blogs, and podcasts, has formed an increasing part of the IMF's communications strategy. At the same time, in today's rapidly changing world, the IMF continues to reach out to a broader set of communication channels, including civil society organizations (CSOs) and private sector networks.

The IMF routinely engages with a wide range of nongovernment stakeholders, including parliamentarians, civil society organizations, labor unions, and youth leaders. Opportunities for such two-way dialogue enable the IMF to both explain its approaches and learn from others in order to improve its policy advice. Topics of particular interest and relevance in FY2018 included corruption, inequality, and social protection.

Parliamentarians

The IMF values its interactions with parliamentarians, who shape legislation and represent their constituents. Around 50 members of parliament (MPs) from 30 countries attended the 2017 Annual Meetings parliamentary workshop to discuss inequality, trade, social protection, corruption, energy subsidy reform, and fragile situations. In November 2017, 30 MPs from the Middle East and North Africa attended a regional conference in Morocco, and in March 2018, another group visited Vietnam. Nearly 170 MPs from over 60 countries attended the 2018 Spring Meetings Global Parliamentary Conference, where topics included international taxation, low-income country debt, gender, trade, corruption, and the global economy. The conference included a town hall discussion with Managing Director Christine Lagarde.

The IMF organized capacity-development workshops for parliamentarians at regional training institutes and technical assistance centers. In May 2017, MPs attended a two-day regional workshop in Singapore. In November 2017, a two-day workshop in Vienna included MPs from Central Asia and focused on fiscal policy rules, corruption, and energy subsidy reform. The IMF sponsored a three-day capacity building workshop in Dar es Salaam for MPs from East Africa, which focused on the role of parliamentarians in accountability and oversight on economic and financial issues. In February 2018, a regional workshop in Vienna covered IMF program design, central banking, and financial sector supervision for MPs from eastern and southeastern Europe.

Civil Society Organizations

The IMF continued to engage closely with CSOs. Around 700 representatives of CSOs attended the 2017 Annual Meetings, one of the highlights of which was an event on inequality organized in partnership with Oxfam. The IMF also sponsored 30 CSO fellows and there were around 50 CSO Policy Forum sessions on topics including gender, inequality, debt, and international taxation. Managing Director Christine Lagarde engaged directly with CSOs at a town hall meeting. More than 1,000 CSO representatives attended the 2018 Spring Meetings. The IMF sponsored 15 CSO fellows and there were 43 CSO Policy Forum sessions, which covered topics including corruption and social protection.

The IMF engaged with CSOs on the Review of the IMF's Facilities for Low-Income Countries, the Capacity Development Strategy Review, the Review of the Debt Sustainability Analysis for Low-Income Countries, the Role of the Fund in Governance Issues, Social Safeguards and Program Design in Poverty Reduction Growth Trust and Policy Support Instrument Programs, and Public Wage Bills in the Middle East and Central Asia. Regional CSO workshops were held in countries including Ghana, Indonesia, and Morocco.

Labor Unions

Dialogue with labor unions continued through a variety of interactions. In February 2018, 38 labor union economists from 21 countries participated in the IMF-ITUC (International Trade Union Confederation) meetings in Washington, DC, where they interacted with senior IMF staff on topics including the global economic outlook, labor income shares and recent wage dynamics, inequality, and social protection. During the year, staff engaged with unions on topics including public wage bills and social protection. Several of the IMF country teams that carried out pilot studies on inequality, gender, and climate change engaged with labor unions in Brazil, Czech Republic, Korea, Kosovo, Morocco, Nicaragua, and other countries. Many country teams routinely exchanged views with national unions as part of their economic surveillance and program missions.

Youth

The IMF has been increasingly engaging with young people. Through the IMF Youth Fellowship program at the 2017 Annual Meetings, the IMF sponsored the attendance of young entrepreneurs and academics from Botswana, Chile, and Germany. During the 2018 Spring Meetings, the IMF sponsored young leaders from Indonesia, Tunisia, and Zambia. At the 2017 Annual Meetings, the Youth Dialogue brought together a panel of young leaders to discuss the future of work. In the Middle East and North Africa, the IMF held a competition for young innovators. The IMF also ran an Instagram photo competition in the countries of the Southeastern Asian Nations (ASEAN) on inequality and climate change. IMF management regularly meets with young people. For example, in October 2017, the Managing Director met with students at Ewha University in Korea, and in February 2018, she met students at the Universitas Gadjah Mada in Indonesia. She also met with students at the University of the West Indies in Jamaica, and in Paraguay and Argentina.

Corporate Social Responsibility

Giving Together is the IMF's corporate giving program, which supports employees and retirees' giving back to communities, both local and international. It encompasses staff giving, disaster relief appeals, management donations, grants to local and international charities, and staff volunteering activities.

This year, the Giving Together campaign broke two records. A new record of 43 percent of staff participation surpassed the 2016 rate of 33 percent. Donations and pledges from staff and retirees for this fiscal year amounted to $2.6 million, going toward 1,065 different charities around the world—also exceeding last year's figure of $2.5 million. The program organized disaster relief, matched by the IMF at 100 percent, for the victims of famine in sub-Saharan Africa and Yemen, and for the victims of Hurricane Irma in Dominica.

The IMF provides monetary grants to local and international charities that foster economic independence through the promotion of education and economic opportunities. In FY2018, $110,000 was distributed to 18 charities in the Washington, DC, area, and $100,000 was distributed to 12 international nonprofit organizations. Donations from IMF management aid grassroots charities that are focused on helping lift people out of poverty and provide education to the underprivileged. Donations totaling more than $100,000 were made during management visits to various countries, including Albania, Benin, Burkina Faso, Cameroon, Djibouti, Ethiopia, Indonesia, Macedonia, Morocco, Nepal, and Tanzania.

There were several volunteering events during the year. In January 2018, 300 people assembled over 2,000 hygiene kits for victims of hurricanes in Puerto Rico and countries in the Caribbean. In March 2018, in celebration of International Women's Day, volunteers at the IMF assembled 2,500 "Women's Hope Kits" that were distributed to charities that provide housing, shelter, and services to women recovering from abuse or poverty who are starting a new chapter in their lives. Other volunteering activities included teaching financial literacy to local high school students and packing meals for local families in need.

Regional Offices

As the IMF's outpost in 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 bring a more regionally focused perspective to IMF economic surveillance. OAP seeks to enhance understanding of the IMF's policies in the region and to keep the IMF informed on regional perspectives on key issues.

In this capacity, the OAP is engaged in bilateral surveillance—currently on Japan—and has stepped up its participation in regional surveillance-related activities.

The OAP staff actively participates in forums in Asia, including the Association of Southeast Asian Nations plus China, Japan, and Korea (ASEAN+3); Asia-Pacific Economic Cooperation (APEC); Executives' Meeting of East Asia Pacific Central Banks (EMEAP); and the Pacific Island Countries Central Bank Governors Meeting. The 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 capacity building seminars. An example of the latter is the Regional Conference on Financial Inclusion in Asia-Pacific, held in Cambodia in December 2017. The Asia-Pacific Department organized the conference, and the IMF Regional Office for Asia and Pacific (OAP) cohosted the event with the National Bank of Cambodia (NBC). The office also conducts outreach and recruiting activities in both Japan and the rest of the region and engages in dialogue with Asian policymakers on current policy issues central to the IMF's work.

The IMF's Office in Europe, located in Paris and Brussels, serves as a liaison to EU institutions and member states, as well as to many 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, and the European Parliament, as well as the Economic and Financial Committee and the Eurogroup Working Group on euro area and EU policies and country programs financed jointly by the EU and IMF.

The IMF's Office in Europe represents the IMF at the Organisation for Economic Co-operation and Development. The office also supports the IMF's operations in Europe, including economic surveillance, IMF-supported programs, and technical assistance, and helps to coordinate communication and outreach activities across the region. More broadly, it fosters dialogue on global economic issues with EU institutions, international organizations, governments, and civil society in Europe, and meets frequently with representatives from industry associations, trade unions, think tanks, financial markets, and the media.

The office has organized several joint workshops and events, and convenes high-level policy lunches and background media briefings at least twice a year in Berlin, Brussels, London, and Paris to discuss the IMF's views on key challenges facing the European economy. The office's outreach activities include an external office newsletter that provides regular updates on IMF events and publications to key European stakeholders, an external website, and an active Twitter feed. Finally, the office supports IMF recruiting efforts by interviewing candidates at universities in several European countries.

Outreach by Resident Representatives

In 85 countries across the globe, the IMF has Resident Representatives who conduct a variety of outreach activities designed to improve understanding of the IMF's work and of macroeconomic issues, often in collaboration with local universities, governments, and nongovernmental organizations. Below are some examples from different regions.

In July 2017, Guatemala Resident Representative Gerardo Peraza presented the *Regional Economic Outlook* to the 280th Meeting of the Central American Monetary Council. Attendance included Central America and Dominican Republic governors and central bank officials. During Guatemala's 2018 Article IV consultation, the Regional Resident Representative office helped in the preparation of a seminar for public officials on analytical work used in the consultation, as well as a press conference that received wide coverage.

IMF outreach activities in Honduras, coordinated by the office of Resident Representative Jaume Puig Forne, are focused on obtaining buy-in from different stakeholders of recommended policies and reforms under past and prospective IMF programs. This includes frequent contacts with business leaders, academia, private analysts, and opinion leaders to highlight: (1) the benefits of macroeconomic stability in terms of reduced country risk premia, as well as the balanced nature (in terms of revenue and expenditure measures) of fiscal adjustment under the program;

(2) the risk of external shocks in the economic outlook; and (3) the merits of institutional reforms, including the gradual transition to inflation targeting and a flexible exchange rate to strengthen macroeconomic management and adjustment to external shocks, as well as enhancements to governance and the business climate to attract new investment and support higher inclusive growth.

In Guinea Bissau, IMF Resident Representative Oscar Melhado organized a one-day conference that covered the key topics for the 2017 Article IV Consultation, including government finances and private sector development. This first-time event was inaugurated by the Prime Minister, several ministers, and business leaders and marked the opening of a new forum for a national dialogue on economic issues. In Rwanda, IMF Resident Representative Alun Thomas organized and co-taught a country-specific financial programming course. It was strongly appreciated by the authorities and is being used as a model for Resident Representatives elsewhere.

Over the past year, the Resident Representative in Armenia, Yulia Ustyugova, conducted various outreach activities to improve understanding of the IMF's technical assistance advice on upgrading fiscal rules. She participated in a live-stream discussion of the proposed revisions to the fiscal rules with representatives from the private sector, think tanks, and civil society; gathered different perspectives on the topic during several interviews; and examined fiscal rules during a conference with parliamentarians from the region. The National Assembly of Armenia approved the revisions to the fiscal rules in December 2017.

The IMF office in Georgia discussed important economic and financial developments and policy issues with a broad range of stakeholders, including civil society, the media, parliamentarians, the business community, trade unions, foreign investors, and the international community. The office also helped organize the visit of Deputy Managing Director Tao Zhang, which culminated in a presentation at Tbilisi State University on facing the challenges of building a modern Georgian economy, including through education system reform.

In Somalia, where the government faces a daunting range of state-building challenges, the Resident Representative has been an advisor and a member of Somalia's Financial Governance Committee (FGC). The Resident Representative office also supports the delivery of intensive technical assistance missions financed through a trust fund. The FGC's advisory scope encompasses central bank governance, asset recovery, public procurement and concessions, public financial management reforms, and fiscal federalism. The FGC publishes periodic progress reports and has produced advisory notes on various financial governance issues.

In Tunisia, Resident Representative Robert Blotevogel exchanged ideas with members of the Finance Commission in Parliament in November 2017 on how to tackle Tunisia's economic and fiscal challenges. The IMF-World Bank Parliamentary Network hosted the event. The discussion focused on the best options for increasing revenue and reducing spending in a fair and equitable way and the problems posed by corruption and the informal economy. The event received significant attention on social media as an example of how the IMF engages with parliamentarians.

QUOTAS AND GOVERNANCE

Management: IMFC Selects First Chair from Sub-Saharan Africa

South African Reserve Bank Governor Lesetja Kganyago has been selected to chair the International Monetary and Financial Committee by members of the influential group. The policy advisory committee of the IMF's Board of Governors, which comprises 24 finance ministers and central bank governors, normally meets twice a year.

South Africa's bank governor since 2014, Kganyago is the first committee chair from sub-Saharan Africa. Many expect he will focus on the challenges facing emerging market and low-income countries.

Kganyago has chaired the IMF-World Bank Development Committee Deputies and the G20 Working Group on IMF Governance Reform. Earlier in his career in public service, as

Director-General of the National Treasury of South Africa, he steered public finance and financial markets reform. Among other leadership roles in African financial supervision, he is current chair of the Association of African Central Bankers. He also chairs the Financial Stability Board's Standing Committee on Standards Implementation.

Kganyago's three-year term as IMFC chair began on January 18, 2018. He succeeds Agustín Carstens, former Governor of the Banco de México. Carstens resigned in December to become General Manager of the Bank for International Settlements.

Quotas: Where the IMF Gets Its Money

The IMF's 189 member countries provide resources for loans primarily through their payment of quotas, which also set voting rights. Multilateral borrowing and bilateral borrowing serve as a second and third line of defense in times of crisis. These resources give the IMF access to about $1 trillion of nonconcessional lending firepower to support members. Concessional lending and debt relief for low-income countries is financed through separate contribution-based trust funds.

Each member is assigned a quota based on its position in the world economy. Quotas total SDR 477 billion (about $686 billion), the IMF's unit of account whose value is a peg to a basket of currencies. The IMF also has access to multilateral resources worth about SDR 182 billion, while the bilateral borrowing arrangements provide access to SDR 316 billion. Borrowing channels come up for renewal at different times.

Quotas are also reviewed regularly. The fifteenth review, set to be completed next year, is an opportunity to match the size and composition of the IMF's resources to members' needs. It will build on governance reforms of the 2010 review, including efforts to protect the poorest members. The 10-year-old formula that is used as a guide for determining quotas is also under review. Illustrative simulations of possible changes to the formula are at www.imf.org.

MULTIPLE ROLES OF QUOTA

RESOURCE CONTRIBUTIONS

Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF.

VOTING POWER

Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR 100,000 of quota plus basic votes (same for all members).

ACCESS TO FINANCING

The maximum amount of financing a member can obtain from the IMF under normal access is based on its quota.

SDR ALLOCATIONS

Quotas determine a member's share in a general allocation of SDRs.

Quota Payments Made in FY2018

The conditions for implementing the quota increases agreed under the Fourteenth General Quota Review were met on January 26, 2016. As a result, the quotas of each of the IMF's 189 members will increase to a combined SDR 477 billion (about $686 billion) from about SDR 238.5 billion (about $343 billion). As of April 30, 2018, 181 of the 189 members had made their quota payments, accounting for over 99 percent of the total quota increases, and total quotas stood at SDR 475 billion (about $684 billion).

SPECIAL DRAWING RIGHT

The Special Drawing Right (SDR) is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. IMF members who are participants in the SDR Department (currently all members) may exchange SDRs for freely usable currencies.

Board Discussion of the Role of SDRs

On March 30, 2018, the Executive Board of the IMF discussed a staff paper titled "Considerations on the Role of the SDR."

The paper explores whether a broader role of the SDR could contribute to the smooth functioning and stability of the international monetary system. Most Executive Directors were uncertain or unconvinced that there is a role for the SDR in addressing the weaknesses of the international monetary system. A number of Directors, however, considered that there is a potential for the SDR to address these gaps and saw merit in continuing to explore its future role.

TRANSPARENCY

For authorities to make sound, informed decisions and for an economy to function smoothly, transparent economic policies and reliable data on economic and financial developments are vital. Current IMF policies, which aim to ensure meaningful and accurate information on the IMF's role in the global economy and in the economies of its member countries, are publicly available in real time.

With transparency, economies function more efficiently and reduce their vulnerability to crises. When member countries are more open about their policies, authorities are amenable to publicly discuss and examine these policies; make policymakers more accountable; enhance how credible the policies are; and facilitate efficient and orderly functioning of financial markets. Greater openness and clarity by the IMF about its own policies and its advice to member countries contributes to a better understanding of the IMF's own role and operations, building traction for the IMF's policy advice and making it easier to hold the institution accountable. Outside scrutiny should also support the quality of surveillance and IMF-supported programs.

The IMF's approach to transparency is based on the overarching principle that it will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure. The principle respects the voluntary nature of the publication of documents that pertain to member countries. Documents are posted on the IMF's website, www.imf.org.

The IMF deems that publishing country documents prepared for its Executive Board's consideration ("Board documents") is typically "voluntary but presumed," meaning that the IMF strongly encourages publishing these documents. The publication of policy papers is presumed but subject to board approval. A Board document is published after receiving the relevant member's consent to publishing on a nonobjection basis. Multicountry documents are published after receiving consent from either the Board or the members involved, depending on the type of document.

The IMF engages the public and improves how it regards the institution by maintaining (1) transparency of surveillance and IMF-supported programs; (2) transparency of its financial operations; (3) external and internal review and evaluation; and (4) external communications. The IMF Transparency Policy is expected to be reviewed every five years; the most recent review was in 2013 (see the "Accountability" and "Outreach and Engagement with External Stakeholders" sections).

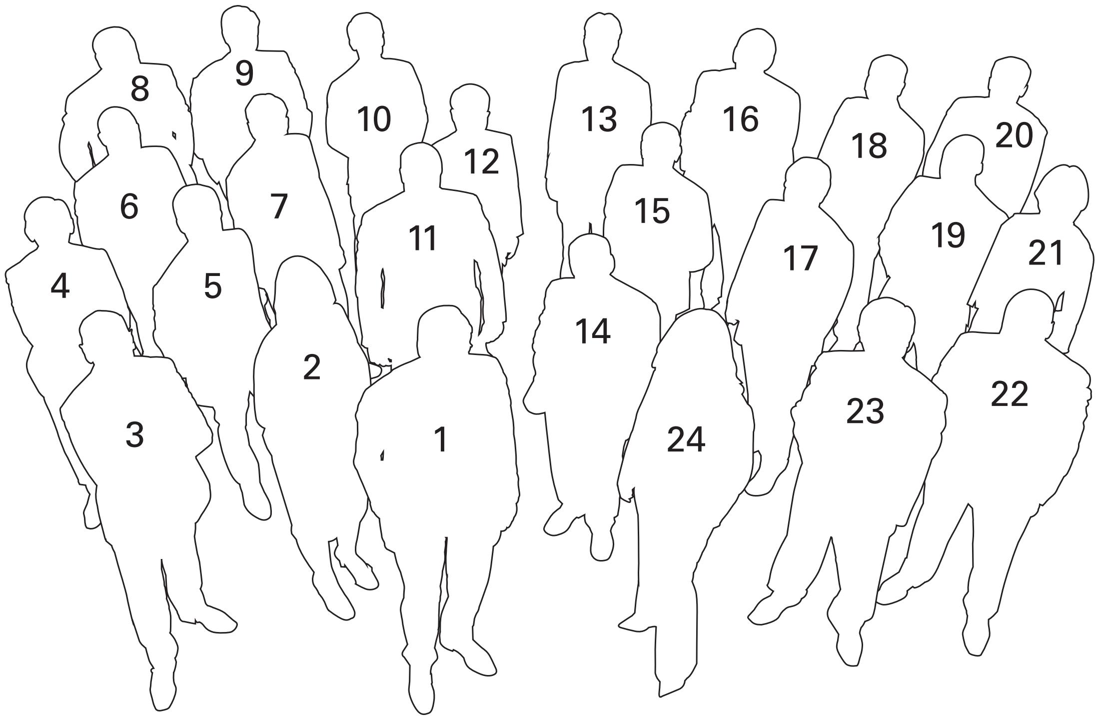
TRANSMITTAL POLICY

The IMF has a long history of exchanging documents with other international organizations and currency unions in accordance with the IMF's Transmittal Policy and other relevant IMF policies. The transmittal of certain Board documents, mostly relating to surveillance and use of IMF resources, facilitates closer cooperation and strengthens relationships to better serve member countries. In November 2017, the Executive Board approved amendments to the policy, which expand the range of documents that international organizations and currency unions may receive, while ensuring a consolidated, evenhanded approach to the transmittal of IMF documents.

The Board also approved a policy framework for document sharing with RFAs. This new framework strengthens collaboration between the IMF and RFAs, by providing timely access to documents covered under the framework and improving coordination in cases of co-financing, thus enhancing the effectiveness of the global financial safety net.

IMF Executive Directors

as of April 30, 2018



1: Aleksei Mozhin, 2: Shona Riach, 3: Thomas Östros, 4: Juda Agung, 5: Miroslaw Panek, 6: Anthony De Lannoy, 7: Carlos Hurtado, 8: Subir Gokarn, 9: Mauricio Claver-Carone, 10: Steffen Meyer, 11: Alexandre Tombini, 12: Hohyun Jang, 13: Hervé de Villeroché, 14 : Hazem Beblawi, 15: Jafar Mojarrad, 16: Alessandro Leipold, 17: Masaaki Kaizuka, 18: Adrian Armas, 19: Daouda Sembene, 20: Hesham Alogeel, 21: Nancy Horsman, 22: Maxwell M. Mkwezalamba, 23: Jin Zhongxia, 24: Michaela Erbenova

Executive Directors and Alternates (as of April 30, 2018)

Mauricio Claver-Carone *Vacant*	United States
Masaaki Kaizuka *Yoshihito Saito*	Japan
Jin Zhongxia *SUN Ping*	China
Anthony De Lannoy *Richard Doornbosch* *Vladyslav Rashkovan*	Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine
Steffen Meyer *Klaus Gebhard Merk*	Germany
Carlos Hurtado *Jorge Dajani Gonzalez* *José Alejandro Rojas Ramirez*	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, República Bolivariana de Venezuela
Juda Agung *Edna Villa*	Brunei Darussalam, Cambodia, Fiji, Republic of Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, The Philippines, Singapore, Thailand, Tonga, Vietnam
Alessandro Leipold *Michail Psalidopoulos*	Albania, Greece, Italy, Malta, Portugal, San Marino
Hervé de Villeroché *Armel Castets*	France

Shona Riach *Vicky White*	United Kingdom
Hohyun Jang *Christine Barron* *Grant Johnston*	Australia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu
Nancy Horsman *Anne McKiernan*	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Thomas Östros *Kimmo Virolainen*	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
Michaela Erbenova *Omer Bayar* *Christian Just*	Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey
Alexandre Tombini *Pedro Fachada* *Bruno Saraiva*	Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago
Subir Gokarn *Mahinda Siriwardana*	Bangladesh, Bhutan, India, Sri Lanka
Maxwell M. Mkwezalamba Dumisani H. Mahlinza *Vacant*	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
Miroslaw Panek *Paul Inderbinen*	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan
Aleksei Mozhin *Lev Palei*	Russian Federation
Jafar Mojarrad *Mohammed Daïri*	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
Hesham Alogeel *Ryadh M. Alkhareif*	Saudi Arabia
Daouda Sembene *Mohamed-Lemine Raghani* *Herimandimby A. Razafindramanana*	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
Adrian Armas *Gabriel Lopetegui*	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Management Team

(From left to right):

Mitsuhiro Furusawa
Deputy Managing Director

Carla Grasso
Deputy Managing Director and Chief Administrative Officer

Tao Zhang
Deputy Managing Director

David Lipton
First Deputy Managing Director

Christine Lagarde
Managing Director

SENIOR OFFICERS (as of April 30, 2018)

AREA DEPARTMENTS	
Abebe Selassie	Director, African Department
Chang Yong Rhee	Director, Asia and Pacific Department
Poul Thomsen	Director, European Department
Jihad Azour	Director, Middle East and Central Asia Department
Alejandro Werner	Director, Western Hemisphere Department

FUNCTIONAL DEPARTMENTS	
Gerard Rice	Director, Communications Department
Andrew Tweedie	Director, Finance Department
Vitor Gaspar	Director, Fiscal Affairs Department
Sharmini Coorey	Director, Institute for Capacity Development
Sean Hagan	General Counsel and Director, Legal Department
Tobias Adrian	Financial Counsellor and Director, Monetary and Capital Markets Department
Maurice Obstfeld	Economic Counsellor and Director, Research Department
Louis Marc Ducharme	Director, Statistics Department
Martin Mühleisen	Director, Strategy, Policy, and Review Department

INFORMATION AND LIAISON	
Chikahisa Sumi	Director, Regional Office for Asia and the Pacific
Christopher Lane	Special Representative to the United Nations
Jeffrey Franks	Director, Offices in Europe/Senior Resident Representative to the European Union

SUPPORT SERVICES	
Chris Hemus	Director, Corporate Services and Facilities Department & Acting Director of Information Technology Department
Kalpana Kochhar	Director, Human Resources Department
Jianhai Lin	Secretary of the Fund, Secretary's Department

OFFICES	
Daniel Citrin	Director, Office of Budget and Planning
Charles Collyns	Director, Independent Evaluation Office
Nancy Asiko Onyango	Director, Office of Internal Audit and Inspection
Derek Bills	Director, Investment Office
Vivek Arora	Director, Office of Risk Management

Further Reading

PART 1: OVERVIEW

Introduction

The IMF's Key Roles

International Monetary Fund: http://www.imf.org/external/index.htm

Spotlights

1. Making the System Work Better

Policy Papers—2017 External Sector Report: http://www.imf.org/en/publications/policy-papers/issues/2017/07/27/2017-external-sector-report

Factsheet—Funds for Capacity Development: https://www.imf.org/en/About/Factsheets/Sheets/2017/04/19/Funds-for-Capacity-Development

Factsheet—Regional Capacity Development Centers: http://www.imf.org/en/About/Factsheets/Sheets/2017/06/14/imf-regional-capacity-development-initiatives

Policy Papers—Review of Flexible Credit Line and Precautionary and Liquid Line: https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/12/19/pp121917-AdequacyOfTheGFSN

2. Making Growth Sustainable

October 2017 *World Economic Outlook: Seeking Sustainable Growth*: http://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017

3. Making Growth Inclusive

October 2017 *Fiscal Monitor: Tackling Inequality*: http://www.imf.org/en/Publications/FM/Issues/2017/10/05/fiscal-monitor-october-2017

G-20 Leaders' Summit 2017 "Fostering Inclusive Growth": http://www.imf.org/external/np/g20/pdf/2017/062617.pdf

IMF Institute for Capacity Development, Training Catalog: Inclusive Growth courses: http://www.imf.org/external/np/ins/english/training.htm

4. Reducing Corruption

Press release—"Policy on Governance and Corruption": http://www.imf.org/en/news/articles/2017/08/01/pr-the-role-of-the-fund-in-governance-issues-review-of-the-guidance-note

5. Harnessing Technology for Good

Capitalizing on Good Times, April 2018 *Fiscal Monitor*: https://www.imf.org/en/Publications/FM/Issues/2018/04/06/fiscal-monitor-april-2018

REGIONAL HIGHLIGHTS

Sub-Saharan Africa's Untapped Revenue Potential May 2018 *Regional Economic Outlook* study: http://www.imf.org/en/Publications/REO/SSA/Issues/2018/04/30/sreo0518

IMF Staff Discussion Note 1803—Centralized Fiscal Capacity for the Euro Area: http://www.imf.org/~/media/Files/Publications/SDN/2018/SDN1803.ashx

PART 2: WHAT WE DO

ECONOMIC SURVEILLANCE

Bilateral Survillance

IMF Staff Discussion Note 2018—Interim Surveillance Review: http://www.imf.org/~/media/Files/Publications/PP/2018/pp030718-2018-interim-surveillance-review.ashx

Policy Papers—"Use of Third-Party Indicators in Fund Reports": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/11/22/pp101217use-of-third-party-indicator

Policy Advice

Policy Papers—The Managing Director's Global Policy Agenda: http://www.imf.org/en/publications/policy-papers/issues/2018/04/18/md-spring-meetings-global-policy-agenda-041918

Policy Papers—"Increasing Resilience to Large and Volatile Capital Flows—The Role of Macroprudential Policies": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/05/pp060217-increasing-resilience-to-large-and-volatile-capital-flows

Staff Discussion Notes—"Trade-Offs in Bank Resolution": https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/02/09/Trade-offs-in-Bank-Resolution-45127

Press release—"Taxation and the Sustainable Development Goals": http://www.imf.org/en/news/articles/2018/02/16/pr1856-platform-for-collaboration-on-tax-first-global-conference-on-taxation-and-sdgs

Press release—"The Taxation of Offshore Indirect Transfers"—A Toolkit: https://www.imf.org/en/News/Articles/2017/07/31/pr17308-the-platform-for-collaboration-on-tax-invites

Policy Papers—"State-Contingent Debt Instruments for Sovereigns—Annexes": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/05/19/pp032317-annexes-state-contingent-debt-instruments-for-sovereigns

Press release—"Vienna Initiative Seeks New Growth Model to Drive Forward Innovation in Emerging Europe," IMF, March 13, 2018: https://www.imf.org/en/News/Articles/2018/03/13/pr1884-vienna-initiative-seeks-new-growth-model-to-drive-forward-innovation

LOW-INCOME AND DEVELOPING COUNTRIES

Policy Papers—"IMF-World Bank Debt Sustainability Framework for Low-Income Countries": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/10/02/pp082217LIC-DSF

Policy Papers—"Social Safeguards and Program Design in PRGT- and PSI-Supported Programs": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/06/01/pp042117social-safeguards-and-program-design-in-prgt-and-psi

Press release—"Managing Capital Flows: Challenges for Developing Countries," conference in Zambia: https://www.imf.org/en/News/Articles/2017/05/05/pr17150-zambia-imf-hosts-conference-on-managing-capital-flows-challenges-for-developing-countries

OTHER TOPICS

"Inequality and Poverty across Generations in the European Union": http://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/01/23/Inequality-and-Poverty-across-Generations-in-the-European-Union-45137

Policy Papers—"Building Fiscal Capacity in Fragile States": http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/06/14/pp041817building-fiscal-capacity-in-fragile-state

DATA

Policy Papers—"Overarching Strategy on Data and Statistics at the Fund in the Digital Age": http://www.imf.org/en/publications/policy-papers/issues/2018/03/20/pp020918imf-executive-board-supports-new-strategy-for-data-and-statistics-in-the-digital-age

Policy Papers—"Measuring the Digital Economy": https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/03/022818-measuring-the-digital-economy

IMF on Macroprudential Policy: http://www.imf.org/external/np/pp/eng/2013/061013b.pdf

IMF-FSB-BIS on Macroprudential Policy: http://www.imf.org/external/np/g20/pdf/2016/083116.pdf

IMF Macroprudential Policy Survey data: http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/30/pp043018-imf-annual-macroprudential-policy-survey

Press release—"FSB and IMF Report on Progress with G20 Data Gaps Initiative," IMF, September 21, 2017: https://www.imf.org/en/News/Articles/2017/09/21/pr17363-fsb-and-imf-report-on-progress-with-g20-data-gaps-initiative

IMF Database, Access to Microeconomic and Financial Data: http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C

Fiscal Transparency Handbook: https://www.elibrary.imf.org/view/IMF069/24788-9781484331859/24788-9781484331859/24788-9781484331859.xml?redirect=true

PART 3: FINANCES, ORGANIZATION, AND ACCOUNTABILITY

Policy Papers—Income Model, Charges, Remuneration, Burden Sharing, and Net Income Investment Account Rules and Regulations: http://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Rules-and-Regulations-for-the-Investment-Account-PP4734

HUMAN RESOURCES POLICIES AND ORGANIZATION

IMF Senior Officials: https://www.imf.org/external/pubs/ft/ar/2018/eng/related-material.htm

IMF Staff by Nationality, Gender, and Country Category: https://www.imf.org/external/pubs/ft/ar/2018/eng/web-tables.htm

IMF Staff Salary: https://www.imf.org/external/pubs/ft/ar/2018/eng/web-tables.htm

INDEPENDENT EVALUATION OFFICE

Independent Evaluation Office: http://www.ieo-imf.org/ieo/pages/IEOHome.aspx

The Sustainable Development Goals (SDGs)

The SDGs were officially adopted by UN member countries at the UN Summit in New York in September 2015, replacing the expiring MDGs. The 17 SDGs focus on five key elements: people, planet, peace, prosperity, and partnership. The IMF is committed, within the scope of its mandate, to the global partnership for sustainable development. The IMF has launched a number of initiatives to enhance its support for its member countries in crucial ways as they pursue the SDGs.

Acronyms and Abbreviations

AML/CFT	anti-money laundering and combating the financing of terrorism
CCRT	Catastrophe Containment and Relief Trust
EAC	External Audit Committee
ECF	Extended Credit Facility
EFF	Extended Fund Facility
e-GDDS	Enhanced General Data Dissemination System
EU	European Union
FATF	Financial Action Task Force
FCL	Flexible Credit Line
FM	*Fiscal Monitor*
FSI	Financial Soundness Indicator
FY	financial year
G20	Group of Twenty industrialized economies
GDP	gross domestic product
GFSR	*Global Financial Stability Report*
GPA	Global Policy Agenda
GRA	General Resources Account
HIPC	heavily indebted poor country
ICD	Institute for Capacity Development
IEO	Independent Evaluation Office
IMFC	International Monetary and Financial Committee
LIDC	low-income developing country
OIA	Office of Internal Audit and Inspection
PCI	Policy Coordination Instrument
PLL	Precautionary and Liquidity Line
PPM	post-program monitoring
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
REO	*Regional Economic Outlook*
RFI	Rapid Financing Instrument
SARTTAC	South Asia Regional Training and Technical Assistance Center
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SDDS	Special Data Dissemination Standard
SDGs	Sustainable Development Goals
SDR	Special Drawing Right
SMP	staff-monitored program
UN	United Nations
WEO	*World Economic Outlook*

Letter of Transmittal to the Board of Governors

August 1, 2018

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, 2018, 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, 2019, are presented in Part 3. The audited financial statements for the year ended April 30, 2018, 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, as well as at www.imf.org/external/pubs/ft/ar/2018/eng. The external audit and financial reporting processes were overseen by the External Audit Committee comprising Mr. Vikamsey (Chair), Ms. David, and Ms. Cearns, as required under Section 20(c) of the Fund's By-Laws.

Yours very truly,

Christine Lagarde

Managing Director and Chair of the Executive Board

Access and download this publication along with appendix VI Financial Statements for FREE in two ways: either type the URL into a browser on your computer or tablet, or scan the QR code on this page. We hope you will visit the IMF Annual Report web pages and explore all the resources they contain.

www.imf.org/AR2018

This Annual Report was prepared by the Editorial and Publications Division of the IMF's Communications Department, in consultation with a working group from across the IMF. Christoph Rosenberg, Jeffrey Hayden, and Linda Kean oversaw the work of the report team, which was under the direction of the Executive Board's Evaluation Committee, chaired by Alexandre Tombini. Anthony Annett served as chief writer and S. Alexandra Russell and Denise Bergeron as project managers. Crystal Herrmann assisted with the digital design. Rumit Pancholi provided editorial assistance. Hyoun Woo Park provided administrative assistance.

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“To truly be successful, we should act together. Cooperation remains the best way to create a more prosperous future for every nation.”

Christine Lagarde
Managing Director

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