INTERNATIONAL MONETARY FUND

The Managing Director's **Global Policy Agenda** Spring 2015

Confront Global Challenges Together

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

THE MANAGING DIRECTOR'S GLOBAL POLICY AGENDA

CONFRONT GLOBAL CHALLENGES TOGETHER

April 2015

Against a backdrop of declining oil prices, sharp variations in exchange rates, and market volatility, global growth remains uneven. The prospect of a new mediocre lingers as medium-term forecasts have been marked down since the last GPA. Promoting balanced, sustained growth requires an integrated policy package that bolsters today's actual and tomorrow's potential output, diminishes risks, and confronts emerging global challenges. Specifics include:

- **Lifting Today's Growth.** Boosting growth and jobs requires continued monetary accommodation and supportive fiscal policies, where possible. But improving policy effectiveness and securing financial stability is crucial. This includes tackling debt overhangs and encouraging productive investment rather than excessive financial risk-taking. The approaching increase in the U.S. interest rate and large currency variations call for proactive policies to manage risks and growing leverage, particularly by emerging market firms. Stronger fiscal frameworks can make revenue and spending more growth friendly and contain fiscal risks.
- **Fortifying Tomorrow's Prospects**. Structural reforms are lagging compared to other areas of the global policy agenda. Targeted structural reforms can boost investment and productivity. While bottlenecks vary, priorities include advancing energy subsidy reforms to take advantage of lower oil prices, financial deepening, upgrading infrastructure, increasing employment, removing distortions in product markets, and improving the business environment. Trade reforms in traditional areas and emerging ones such as services and regulations can complement and augment other structural reforms.
- **Working Together for the Future**. The recent impact of asynchronous monetary policies on currencies and capital flows underscores the need to make the International Monetary System more resilient, promote the continuing integration of dynamic emerging economies, and ensure an adequate and cohesive global safety net. Anchored by three major international conferences, 2015 marks an unprecedented opportunity for the world to chart the course for sustainable development for the next decade and beyond.

Fund Initiatives. *The Fund will help members deliver on this policy agenda by providing flexible financing arrangements to members facing pressing challenges. The Fund also will closely link policy advice and capacity development and highlight priorities such as implementing growth-friendly fiscal policies, macro-critical financial and structural reforms, and addressing debt overhangs. The Fund will take stock of challenges facing the international monetary system, embrace the 2015 global development agenda, and tailor its work to meet members' evolving needs. Full implementation of quota and governance reforms remains the highest priority.*

WHEN WE LAST MET

The main priority: prevent a "new mediocre"

The brittle global recovery faced elevated downside risks.

At the time of the Annual Meetings, global recovery remained uneven and brittle amid continued weakness in investment and activity. Major *advanced economies* faced persistently low inflation, high unemployment, and stagnation risks. Lower potential growth affected e*merging market economies,* with some facing lackluster domestic demand. On the bright side, growth in *low-income developing countries* remained strong. Geopolitical tensions and the reversal of risk spreads and volatility compression in financial markets elevated downside risks.

Lifting the outlook for growth and jobs required decisive policies.

Policymakers were encouraged to implement bold measures to prevent growth from settling into a "new mediocre," with unacceptably low job creation and inclusion. While accommodative policies remained essential, addressing structural deficiencies needed to become a much higher priority.

The Fund identified actions to buttress the recovery and make it more durable. (Table 1)

The IMF committed policy work on implementing growth-friendly fiscal frameworks for investment, strengthening the sovereign debt restructuring framework through a market-based approach, assessing the impact of monetary policy normalization and asynchronous exit, and enhanced guidance on macro-prudential tools.

Table 1. Policy Priorities of the Fall 2014 GPA

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

Source: Fall 2014 Global Policy Agenda.

WHAT HAS BEEN DONE

Demand support rose. Structural reforms lagged.

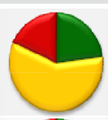
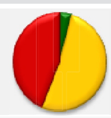
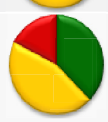
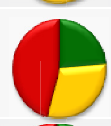
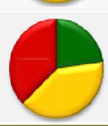
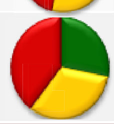
Further policy accommodation was implemented but structural reforms continue to lag (see also Annex Table 1).

In *advanced economies*, a deteriorating outlook for inflation and growth prompted additional and welcome monetary easing in the *euro area* and *Japan,* while progress towards monetary normalization continued in the *United States*. The *euro area* moved towards a common fiscal backstop by adopting the ESM Direct Recapitalization tool, but more remains to be done to break sovereign-bank links and reduce debt overhangs. *Japan* and the *United States* are still lacking medium-term fiscal consolidation plans. Structural reforms have been slow to advance, particularly in labor and product markets and infrastructure investments.

In *emerging market economies*, monetary policy stances remained broadly adequate, and have been recently eased. New regulations were introduced to address risks stemming from a sharp rise in foreign currency funding and non-bank financial activities in some countries (*China, India, and Indonesia*). While many countries are pursuing fiscal reforms such as revenue mobilization and expenditure rationalization, structural-reform progress remains uneven.

Several *low-income developing countries* enhanced financial supervision (*Nigeria, Bangladesh*) and made progress in reducing education gaps. Efforts to upgrade infrastructure, improve tax administration, strengthen monetary and fiscal policy frameworks, foster financial access, and improve the business environment remained slow and uneven.

Assessment of Policy Implementation by the Membership

	Macro Policies	Structural Reforms
Advanced Economies		
Emerging Market Economies		
Low Income Developing Countries		
Completed	Partially implemented	Little or no progress

Members are assessed on their progress implementing policy priorities identified in the Fall 2013 Global Policy Agenda (GPA). The groups are aggregated using PPP-GDP weights.

Box 1. Key IMF Activities since the Fall Meetings

IMF established the CCR trust and continued to provide financial assistance to members in need.

- The CCR Trust, established in response to the Ebola Crisis, provides grants for debt relief for the poorest and most vulnerable countries hit by natural or public health disasters. The IMF provided $100 million in grants to *Guinea, Liberia*, and *Sierra Leone* to relieve Ebola-related debt burdens. The IMF also augmented Guinea's and Sierra Leone's programs under the Extended Credit Facility by a combined $134 million.
- New disbursements under the Rapid Credit Facility were approved for Guinea-Bissau, Liberia, and the Central African Republic for a total of $57 million. New arrangements were also approved for *Honduras, Kenya, Serbia,* and *Ukraine* involving a resource commitment of $19 billion. Successor arrangements for Mexico and Poland under the Flexible Credit Line were approved totaling $87 billion.

A number of major policy reviews were completed.

- Follow-up work to the 2014 Triennial Surveillance Review (TSR) is underway. The MD's action plan covers all core operational areas of surveillance including risks and spillovers, macro-financial and macro-critical structural issues.
- Reforms to the Fund's debt limit policy were adopted. The new policies, effective end-June 2015, provide countries with more flexibility to finance productive investments while containing risks to medium-term sustainability.
- Following the Independent Evaluation Office's recommendation, a review of the Fund's work on trade issues was completed. The assessment covered macro-critical trade issues underlying a work agenda for the Fund for the next five years.
- Staff published guidance notes to strengthen the Fund's advice on macro-prudential policy in surveillance. The notes factor the work of international standard setters and evolving country experiences with macro-prudential policy, including tailored approaches for low-income countries.

Analytical and policy work focused on challenges facing the membership.

- Work on macro-critical structural issues covered topics such as productivity-enhancing reforms in advanced economies, female labor force participation, drivers of income inequality, economic diversification in the Gulf Cooperation Countries, and youth unemployment in European advanced economies. Analysis of monetary and financial sector policies focused on fostering private securitization, tackling SME problem loans in Europe, the role of exchange rate interventions, implications of Islamic finance, and financial deepening and inclusion in emerging market and developing countries. Policy and analytic work on fiscal issues included revenue mobilization and tax compliance, and public investment efficiency in the Middle East and North Africa and Caucasus and Central Asia oil exporting countries.

Intensive capacity building continued via technical assistance (TA) and training.

- Capacity building focused on low-income developing countries, including those at the epicenter of the Ebola outbreak. The regional technical assistance office in Thailand also was pivotal in rapidly responding to demand for TA and training in *Myanmar* and *Lao PDR*. Other highlights include the creation of the Somalia Trust Fund for Capacity Development, and the official launch of the IMF-Middle East Center for Economics and Finance in Kuwait, the IMF's first regional training institute in the Middle East. Two new massive open online courses on debt sustainability analysis and energy subsidy reform further extended the reach of IMF training.

The IMF supported members through lending, capacity building, analysis, and policy reviews (Box 1 and Annex Table 2).

The Fund took decisive steps to support international efforts to combat Ebola through the rapid provision of additional financing and the newly created Catastrophe Containment and Relief (CCR) trust. New arrangements were also approved for a number of countries (*Serbia, Ukraine*). The Fund further strengthened its lending framework with the conclusion of the new debt limits policy. Work on more efficient approaches to resolving sovereign debt distress is expected to be completed this year. Reviews on the role of trade in the work of the Fund and revenue mobilization were completed. Implementing the recommendations of the Triennial Surveillance Review (TSR) and the recent guidance notes on Article IV surveillance and macro-prudential policies will help strengthen surveillance to meet our membership's needs.

Interim steps on quota and governance reforms were identified.

Disappointingly, ratification of the 2010 quota and governance reforms remained pending, with implications for Fund resources and representation. Fund staff presented interim steps to the Executive Board in early January and produced a follow-up paper in March. The Board of Governors called on the Executive Board to expeditiously complete this work to enable the Board of Governors to reach agreement on such steps by end-June, 2015.

WHERE WE STAND TODAY

Global growth remains uneven and prospects of a new mediocre persist.

Global economic activity diverged and market volatility rose.

The recovery in the *United States, United Kingdom, and India* gained momentum, while growth elsewhere met or fell short of expectations, including in some large emerging market economies (*Brazil, Russia*). *Low-income developing countries* continued to steadily expand, albeit with growing vulnerabilities. A sharp decline in oil prices and large exchange rate movements create new challenges and opportunities. Growth and, hence, policy advice are increasingly country-specific.

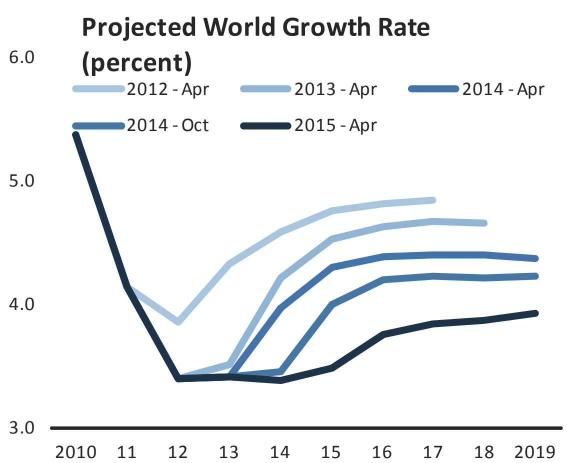
With more marked growth divergence and asynchronous monetary policy settings across major economies, the dollar appreciated, while the euro and yen weakened. Market volatility increased from historical lows, prompting rising risk spreads and currency depreciations in some emerging markets. Long-term government bond yields in major advanced countries fell reflecting accommodative monetary policies, safe haven effects, lower inflation expectations, and a more subdued medium-term growth outlook.

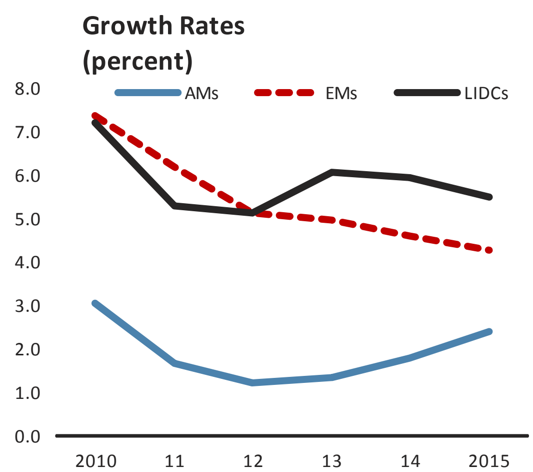
Only a moderate recovery is foreseen.

Global growth is expected to remain essentially unchanged in 2015, as lower oil prices and a rebound in advanced countries offset a slowdown in emerging markets. Overall, the medium-term global outlook remains weaker than envisioned at the time of the last GPA.

A sustained recovery in the *United States* is projected. This is supported by lower energy prices, a reduced fiscal drag, and strengthened balance sheets. In the *euro area* and *Japan,* a gradual strengthening is envisaged. This is sustained by recent welcome monetary stimulus, weaker currencies, and lower oil prices.

The growth outlook in *emerging market economies* and *low-income developing countries* is uneven. Unwinding of past excess investment and continued demand rebalancing should further slow growth in *China*. Geopolitical tensions, regional spillovers, and lower commodity prices will dampen activity in some countries (*Venezuela, Russia, Nigeria,* some countries in the *Middle East and North Africa*). *India*'s growth is projected to benefit from recent and announced policy reforms and an expected pick-up in investment. Many *low-income developing countries* are expected to grow steadily despite headwinds from lower commodity prices and the Ebola epidemic.





Source: WEO.

Prospects of a "new mediocre" linger.

Serial markdowns in medium-term growth estimates since the global financial crisis highlight the need to lastingly lift productivity and growth. Slowing productivity and longstanding structural impediments in many *advanced economies* may spur a self-reinforcing cycle of declining medium-term growth, weakening confidence, and sluggish investment, while demographic headwinds loom. The productivity slowdown in some advanced economies (e.g., *United States*) even prior to the crisis could extend to other countries through technological spillovers. Without decisive actions to boost potential output in *emerging market economies*, the ability to sustain growth and foster convergence to higher income levels could be jeopardized.

Downside risks persist

Lower oil prices present a two-sided risk.

On the upside, the decline in oil prices could provide more of a boost to global growth than anticipated. This will depend on the future path and pass through of oil prices, exchange rate movements, and whether the windfall is used to rebuild policy buffers and support growth. On the downside, oil prices could rebound faster than expected.

Disruptive exchange rate and other asset price shifts could trigger financial turbulence.

A lasting dollar appreciation against the backdrop of asynchronous monetary policy stances in major economies could lead to an unbalanced global recovery. Dollar strength along with sagging commodity prices creates the risk of balance sheet and funding strains for dollar debtors. It could also potentially offset trade benefits from real depreciation in some countries.

Emerging market economies are more exposed to a sharp dollar appreciation and associated capital flow reversals, given exposure to external funding, including the recent rise in dollar borrowing by firms. Financial turmoil could compound fiscal, external, and balance sheet vulnerabilities in commodity exporters.

Surprises in monetary normalization in the *United States* could also trigger financial market turbulence amid relatively low term and risk premia in bond markets. Declining market liquidity resulting from changing market structures and regulation could amplify the impact of volatility and trigger broader systemic stress. Financial stress in the *euro area* could reemerge triggered by policy uncertainty associated with Greece.

Protracted low inflation in some advanced economies remains a concern.

Protracted low inflation or outright deflation could set off a downdraft in medium-term inflation expectations and push up real interest rates in some advanced economies. This could hamper the recovery, exacerbating debt overhang problems, particularly in the *euro area*, with spillovers to a number of smaller European countries.

Geopolitical tensions could generate regional and global spillovers.

Geopolitical risks, stemming from ongoing events in Russia/Ukraine, the Middle East, and West Africa, could generate regional and global spillovers through disruptions in trade and financial transactions. Disruptions in energy and other commodity markets remain a concern; an escalation in tensions could take a toll on confidence and aggravate the risk of financial turbulence.

POLICY PRIORITIES

Adopt comprehensive and well-integrated policies.

Multiple challenges require a new policy impulse.

Decisive policies are needed to boost today's demand, tomorrow's growth potential, and to build resilience against existing and emerging challenges. Actions are needed to increase the effectiveness of monetary and fiscal accommodation, ensure durable financial stability, pave the way for higher medium-term growth, and instill a new multilateralism to secure a sustainable future.

Fiscal Policy

Provide growth support and bolster fiscal frameworks.

Policies should support growth today and tomorrow.

A durable rebound in activity and employment needs to be supported by growth-friendly fiscal policies and frameworks, while placing debt on a sustainable path. Where available, fiscal space should be used to boost demand. Stronger fiscal frameworks would support long-term growth and help manage fiscal risks.

Infrastructure investment is a priority for many countries.

Productive and efficiently executed infrastructure investment can provide a needed boost to output in the short- and long-term. Strengthening fiscal institutions to improve the planning and delivery of public investments remains a priority. In *emerging market economies and low-income developing countries,* removing infrastructure bottlenecks, especially in power sectors (*India, South Africa*), is key. In *advanced countries*, such investment would address gaps in existing infrastructure (*United States, Germany*).

Lower oil prices provide a prime opportunity for fiscal reforms.

In *advanced economies*, energy tax reform can reduce externalities (e.g., health, traffic congestion, and global warming) and provide space for growth-enhancing tax reforms. In emerging market and developing economies (*India Venezuela*), further reform of energy subsidies would provide room for essential social and infrastructure spending.

Advanced economies should calibrate fiscal adjustment and establish credible fiscal frameworks.

Attuning fiscal consolidation to economic conditions and prospects will be crucial (*Japan* and *euro area*). For the euro area, fiscal space could be used to complement monetary easing, including by boosting public investment.

Additional policies include establishing credible medium-term fiscal consolidation plans (*Japan* and the *United States*); increasing tax revenues and improving compliance; and simplifying the *euro area's* complicated fiscal governance frameworks.

Emerging market and developing economies need to rebuild buffers and strengthen fiscal management.

Fiscal buffers have diminished in many countries even as risks associated with commodity prices volatility and exchange rate depreciations have increased. Financial buffers in commodity exporters should be used to smooth the impact of lower oil prices on spending. In countries with less policy space, domestic revenue mobilization efforts and expenditure prioritization will be needed. Establishing strong multi-year budget frameworks and a more transparent natural resource management would help reduce fiscal risks.

What the IMF will do

The Fund will continue to provide advice on how to make fiscal policy supportive of both short- and long-term growth, calibrate fiscal packages and advice to reduce public debt overhangs, and manage fiscal risks. Technical assistance and training will focus on strengthening fiscal institutions and ensuring public debt sustainability. Ongoing analytic and country work will target: energy tax and subsidy reforms (e.g., in *Turkey, Lebanon, Haiti*); interactions between fiscal policy and long-term growth; improving public investment management; and the fiscal consequences of aging populations. The Fund will also provide operational guidance on implementing the revised debt limits policy.

Monetary Policy

Improve policy effectiveness and strengthen frameworks.

Monetary support needs to be made more effective.

Improving the traction of monetary policy while containing excessive financial risk-taking is a priority. Excessive reliance on exchange rate depreciations to spur domestic activity could increase global currency tensions and should be avoided.

Advanced economies should strengthen policy efficacy and communication.

The expansions of asset purchase programs in *Japan* and the *euro area* are welcomed, but their efficacy should be enhanced. In the *euro area*, addressing private debt overhangs and impaired corporate and bank balance sheets is vital for improving policy transmission and credit market conditions. In *Japan*, steadfast implementation of fiscal and structural reforms is essential.

In the *United States*, clear and careful communication is essential to minimize negative surprises and disruptive market adjustments.

Emerging market policies will depend on available space.

Policy challenges vary. In oil-importing countries, lower oil prices provide space to combat slowing growth where frameworks are credible. For oil exporters with limited policy space, exchange rate flexibility will be a critical buffer to the shock. Some will need to strengthen monetary frameworks to avert persistently higher inflation and adapt to a protracted deterioration in terms of trade.

More broadly, exchange rates should act as a shock absorber. Foreign exchange interventions can help counter disorderly market conditions, provided reserves are adequate. Strengthening fundamentals and monitoring corporate leverage buildup will be important to manage financial stability risks.

Low-income developing countries should allow for more exchange rate flexibility and strengthen frameworks. Weak growth in the rest of the world, lower commodity prices, and greater exposure to volatility in international financial markets has increased vulnerabilities. Allowing for greater exchange rate flexibility, where possible, will help. Strengthening monetary policy frameworks and managing foreign currency exposure will also be essential.

What the IMF will do The Fund will continue to assess the impact of asynchronous monetary policies on the membership in its bilateral and multilateral surveillance. This includes how to strengthen the effectiveness of macroeconomic policy transmission, manage disruptive exchange rate movements, mitigate financial stability risks and capital flow volatility, and respond to falling commodity prices and disinflationary pressures. The Fund stands ready to provide financial support to countries that face market and financial pressures. The Fund will also deepen analysis of the link between monetary policy and financial stability and provide advice and capacity building for monetary policy frameworks in *low-income developing countries.*

Financial Sector Policies

Safeguard financial stability and facilitate a durable exit from the crisis.

More comprehensive policies will boost financial resilience. Policies should address private sector debt overhang, manage rising corporate leverage, and enhance resilience against global financial market turbulence.

Ensure continued market liquidity. Trends in market structure and regulation have affected market liquidity, potentially amplifying asset price responses and increasing spillover risks. Policies should seek to reduce liquidity mismatches in the asset management sector and improve incentives for market-making services.

Advanced economies should address private debt overhang and curtail financial excesses. The corporate sector in the *euro area* remains highly leveraged, posing obstacles to growth and financial stability. Resolution of non-performing loans, support for out-of-court settlements, and more robust insolvency frameworks should help monetary policy traction and boost investment.

Household debt in the *United States* has fallen sharply, helping to support consumption. But financial risk taking has increased, and underwriting standards have weakened. Macro-prudential policies should be strengthened to better monitor pockets of vulnerabilities.

Emerging market economies should cushion against headwinds and safeguard stability. Some *emerging market economies* face retrenchment of overinvested industries and property price declines (*China*). In others, systemic risks arising from balance sheet exposures to foreign exchange rate risk, rapid credit growth and increased private sector leverage, and falling commodity export revenues (*Argentina, Brazil, Nigeria*) create financial stability risks.
Strengthening regulation, supervision, and macro-prudential

frameworks, including for shadow banking, can help contain financial excesses, minimize foreign currency and commodity price risks, encourage safe credit creation, and safeguard financial stability. Preparations should be made to maintain liquidity in local currency bond markets.

Complete global financial regulatory reforms. Full and prompt implementation of the global financial regulatory reform agenda is essential. This includes measures for ending too-big-to-fail, enhancing the regulatory framework for non-banks, and making derivatives markets safer.

What the IMF will do The Fund will deepen macro-financial analysis and support members in addressing financial stability risks. The Fund will advise on addressing debt overhangs (*euro area*), macro-prudential policies, including systemic risks stemming from corporate sector exposures (*emerging market economies*, especially *China*); provide analysis on financial deepening and inclusion to support growth; address data gaps; and advise on Islamic finance. FSAPs are ongoing and planned for the *United States*, *China, Germany, Russia* and the *United Kingdom.* Technical assistance and training will target financial sector supervision and regulation, macro-prudential policy frameworks, systemic risks, and stress testing.

Structural Reforms

Accelerate reforms to lift growth potential and ensure inclusiveness.

Structural reforms need a new push. Decisively implemented structural reforms are urgently needed to revive business confidence, investment, jobs, and to lift potential output. This could be an essential complement to demand-boosting efforts.

Reform priorities are country-specific. Tempering the pace of decline in long-term growth in *advanced economies* will depend on policies that reverse the downswing in productivity growth and bolster competitiveness. The focus should be on reforming labor markets, improving access to finance for smaller firms, lowering barriers to entry in product markets and raising productivity in the services sectors (*euro area, Japan),* building skills, and incentivizing innovation (*United States, euro area, China, India*).

Priorities for unlocking productivity growth and sustaining growth potential in *emerging market* and *low-income developing* economies vary. Easing limits on investment and improving the business climate (*Indonesia),* implementing reforms to education, labor, and product markets to raise competitiveness and productivity (*Brazil, China, India, South Africa*), and deepening financial markets will be important. Stepped up efforts to improve governance and the business climate (*low-income developing countries; Middle East and Central Asia, Russia*) are needed to diversify economies.

Trade reforms can complement and reinforce other structural reforms.

Significant productivity and growth dividends can accrue from further trade integration. For *advanced economies,* a priority is to open services markets and make regulation more coherent. A number of *emerging market economies* would benefit from trade liberalization and anchoring their economies to global value chains. *Low-income developing countries* can benefit by addressing traditional trade barriers. Protectionist measures, including non-tariff barriers, should be avoided by all.

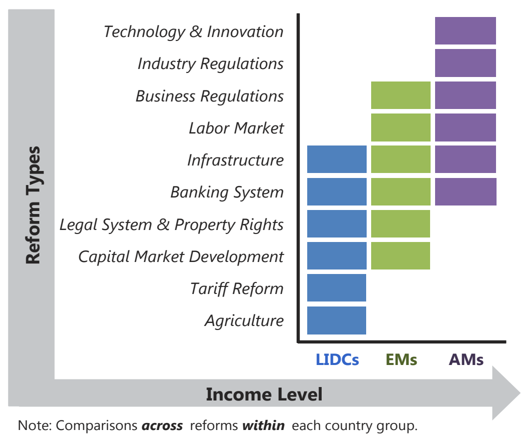
Boost labor supply and tackle inequality to ensure broad-based growth.

Removing tax disincentives (*Japan, euro area*), targeted training programs, and active labor market policies (*euro area*) will be essential to maximize labor input's contribution to growth, address high rates of structural unemployment, and cope with the challenges of an aging population. Better access to education and health care, well-targeted social policies, and efforts to foster financial inclusion can help tackle widening income disparities.

What the IMF will do

The Fund will continue to identify and analyze macro-critical structural reforms to make growth sustainable, job-rich and inclusive, leveraging the expertise of other institutions. The Fund also will build on recent work that identifies priority reforms at different stages of development (see illustrative Figure). The analytical agenda will focus on productivity-enhancing reforms; examine complementarities between different reforms, including trade and financial inclusion; and assess their impact. Upcoming Article IV consultations will feature work on income inequality (*Israel, Colombia, Ethiopia*), and female labor force participation (*Germany, Hungary, Pakistan*).

Structural Reforms with Highest Productivity Payoffs



Note: Comparisons ***across*** reforms ***within*** each country group.

New Multilateralism to Secure a Sustainable Future

Strengthen cooperation for a more stable International Monetary System.

Action is needed to keep up with ongoing global transitions.

Sustained growth and rapid trade integration of emerging market and developing countries have created a more interconnected and multi-polar global economy. However, their integration into the global financial system is less advanced. These trends have significant implications for the architecture and efficacy of the International Monetary System (IMS).

Renew collective efforts to enhance the global safety net and strengthen International Monetary System resilience.

Since the 2008 financial crisis, important steps have been taken to strengthen the policy dialogue on global imbalances, manage capital flows, and broaden the global financial safety net. Yet, the global financial safety net remains underused during periods of turbulence, with uneven access and a multilayered structure (e.g., regional financing arrangements, bilateral swap lines, and Fund financing) that requires coordination to avoid fragmentation. Episodes of high capital flow and exchange rate volatility, and precautionary reserve accumulation also suggest the need for further collective efforts to strengthen the IMS.

Facilitate integration of dynamic emerging economies.

Facilitating financial deepening and integration of key emerging market economies would generate positive global spillovers and stability gains. This would help raise domestic demand, reduce global imbalances, facilitate greater reliance on exchange rates to achieve external adjustment, and increase the ability to cope with capital flow volatility.

Implement quota and governance reforms.

Quota and governance reforms remain an imperative to provide the resources, credibility, and legitimacy the Fund needs to play an effective role in overseeing the IMS. Full implementation of the 2010 quota and governance reforms, including its forward looking elements, remain the highest priority for the membership.

What the IMF will do

The IMF will take stock of challenges facing the IMS. This includes the need for close cooperation with regional facilities and institutions to enhance the efficacy of the global financial safety net and adequate support for the financial integration of dynamic emerging economies. A comprehensive review of the composition and valuation of the SDR basket will be conducted later this year. The IMF will also continue to foster balanced global growth by promoting coherent structural, financial, and demand policies.

While continuing to support full implementation of pending quota and governance reforms, the Fund is committed to working expeditiously with the membership to put interim steps in place by end-June 2015 to make meaningful progress in the key areas of the 2010 Reforms.

Delivering on commitments will require continued efforts to learn from the past, adapt to a changing global environment, and strengthen internal operations (Box 2). This will include reforms to the Fund's lending framework with respect to sovereign debt that ensure member's debt sustainability problems are effectively addressed. The Fund will continue to ensure that it responds to members' diverse needs; promote coherent global structural, financial, and demand policies; and refine external sector assessments.

Build a durable framework for sustainable development.

A new focus on development milestones.

Three major UN conferences planned in 2015 will lay the foundations for a lasting global framework for sustainable development. The success of these efforts hinges on building platforms for mobilizing resources for development and achieving meaningful progress on climate change.

National measures should include strengthening domestic revenue mobilization for essential social spending, deepening domestic capital markets, and attracting foreign private investment. International efforts should focus on global trade reforms, official development assistance, and tax cooperation. A global agreement on carbon emissions, broad-based domestic charges on greenhouse gas emission, and energy subsidy reforms could generate significant economic and environmental benefits.

What the IMF will do

The Fund will participate actively in the forthcoming UN conferences, including producing a paper explaining the Fund's position on topics under its mandate. This will cover the links between global and national policies, fostering productive investment, debt management and restructuring, financial sector policies, and macro-critical climate issues. The Fund will examine if its lending facilities adequately meet the needs of the poorest, fragile, and frontier low-income developing countries. Capacity building efforts will also play a central role in supporting development efforts.

Table 2. Policy Priorities of the Spring 2015 GPA

Members		
Euro Area	Provide effective demand support	Implement labor and product market reforms
United States	Ensure smooth monetary normalization	Establish medium-term fiscal consolidation plan
Japan	Implement fiscal and structural reforms	Enhance monetary policy transmission
China	Manage demand rebalancing	Address vulnerabilities in overinvested sectors
Emerging Market Economies	Address external vulnerabilities	Lift potential growth
Low Income Developing Countries	Strengthen policy frameworks	Rebuild fiscal and external buffers
IMF		
Monetary Policy	Assess impact of policy divergence	Analyze monetary policy and financial stability links
Financial Sector Policies	Deepen macro-financial analysis	Provide guidance on macro-prudential policy
Fiscal Policy	Examine how policy can boost long-term growth	Strengthen advice on frameworks and institutions
Structural Reforms	Bolster advice on structural reforms	Advise on measures to improve investment efficiency

Box 2. The Agenda to Strengthen Fund Operations

Lending

- The Fund is seeking bilateral contributions to the new CCR Trust to assist its most vulnerable members facing catastrophic disasters, including public health disasters with the potential for international spillovers, such as the Ebola outbreak.
- The Fund will seek approval of reforms to enhance the flexibility of its lending framework with regard to sovereign debt to ensure that members' debt sustainability problems are effectively addressed, and that Fund lending policies do not become a source of costly bailouts and encourage moral hazard.
- The Fund will conduct a review of crisis programs to draw lessons from Fund arrangements during the global financial crisis. A biennial review of concessional financing eligibility will be conducted.

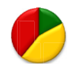
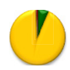
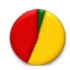
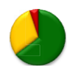
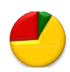
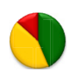
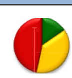
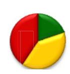
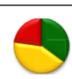
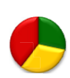
Surveillance and capacity building

- The MD's action plan lays out steps to advance the priority areas agreed in the 2014 TSR. This includes advancing work on risks and spillovers and mainstreaming macro-financial surveillance. It also covers delivering more cohesive, better tailored, and expert policy advice, including by focusing more systematically on macro-critical structural reforms; greater emphasis on engagement and communication; and establishing a framework to ensure that concerns about evenhandedness are addressed transparently.
- Capacity development will play an increasingly important role in the global policy agenda by helping members strengthen financial, monetary and fiscal policy frameworks and institutional structures, and tools for macro-prudential policy. Priorities include: fragile states, Arab Countries in Transition, vulnerable and program countries, low-income countries and small states, and the financial sector. The IMF will enhance prioritization, efficiency, and monitoring of Fund-wide capacity development activities through the implementation of result based management by end-2015. The Fund's ongoing initiative on knowledge management will bring a global perspective to national challenges.

Budget process and human resource management

- Management is proposing an unchanged budget envelope in real terms to deliver a complex agenda for the fourth year in a row. The budget process is being strengthened by combining cross-cutting streamlining measures with departments' own efforts to reallocate resources. The objective is to promote a more risk-based approach to the Fund's work and resource allocation, better exploit synergies, reduce overlaps, and make products and processes more cost effective.
- Several human resource measures have been introduced to enable the Fund to respond to members' evolving needs, including a new employment framework to be implemented in May, an updated training curriculum on core skills, more focused diversity benchmarks for the year 2020, and increased emphasis on inclusion to better leverage staff diversity. Managers are key to implementing these changes; a new leadership framework is in place that clarifies the roles, responsibilities, and expected behaviors of managers at all levels.

Annex Table 1. Implementation of Policy Priorities by the Membership

Fall 2014 GPA Policy Priorities		Assessment of Implementation
Advanced Economies		
Monetary policy: Further monetary easing, including the purchase of sovereign assets, in the euro area and Japan. Clear and systemic communication to guide market expectations in the United States		Further monetary easing in the euro area and Japan with the expansion of the ECB and BOJ's asset purchase programs. In the United States, uncertainty around the pace of normalization remaining despite strong communication efforts.
Fiscal policy: Calibrate the pace and composition of consolidation to support growth. Adopt medium-term consolidation plans in Japan and the United States. Strengthen institutional fiscal frameworks.		Broadly appropriate fiscal stance in most countries. Medium-term fiscal consolidation plan still missing in Japan and the United States. More progress needed in strengthening institutional frameworks.
Financial sector policies: Monitor increasing corporate leverage and nonbanks in the United States, and housing prices in the U.K. Repair bank balance sheets, develop and use macro-prudential policies, address the private sector debt overhang and establish an effective common fiscal backstop in the euro area.		Ongoing reforms in the United States. In the euro area, some progress on the use of macro-prudential policies, the common fiscal backstop and on remedial measures following the comprehensive assessment of banks. Limited progress on addressing private sector debt overhang.
Structural reforms: Address labor market deficiencies, deregulate product markets and upgrade infrastructure network. Promote alternative funding sources for SMEs and integrate energy platforms more closely in the euro area.		Some progress on labor market reforms in the United States and a few euro area countries but limited progress on product market reforms and infrastructure investments. In the euro area, more effort needed in SME financing and energy market integration.
Emerging Market Economies		
Monetary policy: Adopt appropriate monetary policy stances given domestic growth and inflation. Let exchange rates act as a shock absorber and limit intervention to counter disorderly conditions. Resort to capital flow management measures may be appropriate in some circumstances but should not substitute for macro adjustments.		Generally appropriate monetary policy stances, although in a few countries tighter conditions were warranted. Exchange rates were allowed to adjust in most countries. A number of countries maintained the use of capital flow management measures.
Fiscal policy: Implement growth-friendly structural fiscal measures. Broaden the tax base and improve administration in countries with low revenue ratios. Improve natural resource management. Strengthen institutional frameworks. Curb untargeted subsidies and expand the tax net in an equitable manner, especially in Arab Countries in Transition (ACTs).		More progress needed on structural fiscal measures, institutional fiscal frameworks and measures aimed at broadening the tax base and improving administration. Uneven progress on natural resource wealth management. Reforms to rationalize energy subsidies made progress in ACTs, while efforts to expand the tax net are proceeding more slowly.
Financial sector policies: Guard against rapid increases in leverage and funding mismatches in foreign currency in the corporate sector. Remain vigilant of developments in banks with excessive reliance on wholesale funding or large corporate deposits. Monitor developments in the property market in China.		Appropriate supervisory responses, including the close monitoring of developments, stress tests and new initiatives aimed at containing risks arising from foreign currency funding and non-bank financial activities. Relaxation of rules on mortgage lending in China.
Structural reforms: Address labor market issues, deregulate product markets, boost infrastructure investments and raise their quality, reduce education gaps, encourage innovation, foster financial inclusion, and improve business conditions.		Some steps taken to improve business conditions and financial access. Significant efforts to increase infrastructure investments but less progress in raising their quality. Labor and product market reforms proceeding slowly. Limited progress in promoting education and innovation.
Low Income Developing Countries		
Monetary policy: Strengthen monetary policy frameworks. Improve monetary policy independence and credibility. Increase exchange rate flexibility.		Limited progress on strengthening institutional frameworks and allowing for more exchange rate flexibility in most countries.
Fiscal policy: Mobilize tax revenues and rationalize expenditures. Improve the transparency and efficiency of natural resource management. Strengthen institutional frameworks and fiscal governance. Reduce untargeted subsidies.		Ongoing reforms to improve tax administration but limited progress in broadening the tax base. Structural fiscal measures proceeding slowly. Uneven progress on natural resource wealth, fiscal governance and institutional frameworks. Partial progress on subsidy rationalization and tax net expansion.
Financial sector policies: Broaden access to financial products; build capacity and strengthen financial supervision; monitor developments in the corporate sector and bank funding.		Ongoing reforms aimed at strengthening financial supervision. Uneven progress in improving financial access. Some progress in monitoring corporate and banking sector developments.
Structural reforms: Address labor market issues, deregulate product markets, boost infrastructure investments and raise their quality, reduce education gaps, foster financial inclusion, deepen structural transformation and improve business conditions.		Reforms in some countries to address education gaps. Uneven progress on labor market reforms, financial inclusion, structural transformation and business conditions. Product market reforms and infrastructure investments remain an issue.

Note: Policy priorities in the first column are drawn from the Fall 2014 Global Policy Agenda. The assessment reflects progress in implementation since then. Income groups are aggregated using PPP GDP weights. The color coding of the assessment of implementation is as follows:

Completed	Partially implemented	Little or no progress

Annex Table 2: Implementation of IMF Deliverables
(November 2014–April 2015)

Analytical Work and Policy Reviews Identified in the Fall 2014 GPA	
Lending	
Review of Debt Limits Policy	Review of PRGT Eligibility[1]
Modifications to the Post-Catastrophe Debt Relief Trust	Crisis Program Review[1]
Guidance Notes on FCL and PLL (drafts are with departments)	Access Limits and Surcharges: Specific Proposals[1]
Sovereign Debt and the Fund's Lending Framework	
Surveillance	
General	
Cluster-Based Article IVs	Selected Issues in Small States
Review of the Role of Trade in Fund Work	Fund's Engagement in Fragile States
Guidance Note for Surveillance under Article IV Surveillance	
Fiscal	
Risks to Debt Sustainability from Banking Vulnerabilities	Fiscal Policy and Long-Term Growth[1]
Challenges in Revenue Mobilization	
Monetary	
Role of Exchange Rate Intervention	Monetary Policy and Financial Stability[1]
Reserve Adequacy (incl. Guidance Note)	Monetary Frameworks in LIDCs[1]
Financial	
Supporting Regulatory Reforms	Balance Sheets in Surveillance[1]
Guidance Notes on Macroprudential Policies	Review of Data Standards Initiatives
Structural	
Financial Deepening, Stability, and Growth	Macro-Critical Structural Reforms
Making Public Investment More Efficient	
General Operations	
Categories of Employment	2010 Quota and Governance Reforms
Interim Steps on Quota and Governance Reforms	15th General Review of Quotas

[1] Board papers/reports scheduled to be delivered beyond the horizon under consideration; ongoing work.
Note: IMF deliverables identified in the Fall 2014 Global Policy Agenda. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed

INTERNATIONAL MONETARY FUND