

**Statement by the Managing Director:
Updating the Strategic Directions in the Medium-Term Budget
March 30, 2011**

I. INTRODUCTION

1. ***Strategic directions.*** In early 2008, the Fund launched ambitious reforms to enhance its ability to deliver the economic and financial analysis, member support, and multilateral collaboration essential to promote global stability.¹ The reform agenda called for: (i) stronger surveillance through sharpened multilateral and regional tools, analysis of macro-financial and international linkages, and greater use of cross-country work in bilateral surveillance; (ii) sharper policy advice for low-income countries, with emphasis on areas of core Fund expertise; (iii) improved capacity building efforts to be augmented by more external fund-raising; and (iv) a modernized governance structure to enhance the Fund's legitimacy and better reflect its role as a universal institution capable of facilitating global cooperation and action. With the onset of the global financial crisis later in 2008, the Fund also committed to reforming its lending toolkit, including overhauling its concessional support instruments, to ensure that its facilities fully met members' evolving needs.

2. ***Income and expenditure reforms.*** Strategic reforms were paired with a new income model to set the Fund on a sustainable financial path. Aided by upfront cost reductions, the new income model set out to close a projected steady-state income shortfall by deriving a significant portion of the Fund's income independent from its lending activities. The income reforms have been executed as planned with limited gold sales, a central element of the new income model, concluded successfully in December 2010. Executive Board discussions on a work program for establishing an endowment, funded with resources from the gold sales, are in train. On the expenditure side, the FY 09–11 Medium-Term Budget (MTB) targeted a \$100 million reduction in real spending by FY 11, including a decrease of 380 staff positions. While the central role the Fund has played in response to the global crisis has necessitated temporary budgets to finance crisis-related activities, structural spending has remained within the envelope targeted by the restructuring.

3. ***Evolving priorities.*** The crisis revealed vulnerabilities in the international financial and monetary system, leading to new demands on the Fund to address potential weaknesses. At the same time, the fragility of the recovery and the unresolved nature of challenges ranging from financial supervision to global imbalances leave little doubt that the reform agenda is incomplete. To address these gaps, our efforts going forward must prioritize promoting a prosperous global economy through balanced and sustainable growth; a well-functioning international monetary system; a robust global financial architecture; and higher

¹ *Statement by the Managing Director on Strategic Directions in the Medium-Term Budget, March 2008.*

growth and stability in low-income countries. Meeting these needs entails stronger Fund participation and leadership in activities in a number of areas, including those related to multilateral and systemic surveillance, enhancing bilateral surveillance, sharpening the focus on macrofinancial issues, and supporting Low-Income Country (LIC) members.

4. **FY 12–14 MTB.** The FY 12–14 MTB allows us to evaluate whether existing resources are adequate given new and evolving demands, after taking into account all opportunities for reallocation and better prioritization of work. The new MTB also provides an opportunity to assess the extent to which the Fund’s work has been reoriented to meet the objectives set three years ago.

II. ASSESSING REFORM PROGRESS: SCORECARD TO DATE

5. **Surveillance.** Due to the crisis, the decline in program work that I anticipated in my 2008 statement has not occurred. The reorientation of surveillance activities, however, has been broadly achieved. More focused surveillance is being carried out with a range of updated tools, including the Early Warning Exercise (EWE) and Vulnerability Exercises (VE); cross-country and regional analyses; better coverage of financial issues and macro-financial linkages in bilateral and multilateral surveillance; and spillovers analysis. At the same time, Departmental review processes have been significantly streamlined. Going forward, future work to strengthen Fund surveillance, including with regard to issues of prioritization, will be informed by the results of the Triennial Surveillance Review scheduled for the fall of 2011.

Surveillance scorecard	March 2008 Objectives		Actual
	Doing more	Doing less	
Review		√	●
Standard consultations with wide coverage		√	●
More focused consultations	√		●
Selected Issues papers in non-core areas		√	◐
Cross-country analysis	√		●
Macro-financial linkages	√		●
Coverage of financial issues	√		●
International linkages and spillovers	√		●
Program work in EMs		√	○
"Actual" represents how actual outcomes compare with 2008 objectives			
● = outcome matched objective; ◐ = outcome partially matched objective; ○ = outcome did not match objective			

6. **LIC work.** The shifts in emphasis in LIC surveillance set out in 2008 are also being achieved. The FY 2009–11 period was characterized by a marked increase in the number of concessional programs in the context of the global crisis, and by a comprehensive reform of concessional facilities to make the Fund’s tools more flexible and tailored to LIC needs. Progress in advancing LIC-focused analytical products has included a series of papers on the impact of the crisis on LICs and related macroeconomic policy challenges, as well as recent

efforts to develop a Vulnerability Exercise for LICs. These and other products, combined with enhanced collaboration between Departments, have helped to strengthen the quality of Fund engagement with country authorities as well as external stakeholders. Looking ahead, incorporating the lessons and linkages from emerging market countries into LIC work will remain a priority, with a recent first step being an analysis of “LIC-BRIC” linkages.

Low Income Country (LIC) work scorecard			
	March 2008 Objectives		Actual
	<i>Doing more</i>	<i>Doing less</i>	
Work on HIPC/MDRI		√	●
Ex-post Assessments		√	◐
JSANs		√	●
Engagement with donors	√		●
Coordination on low income issues	√		●
Building on lessons from emerging economies	√		◐
"Actual" represents how actual outcomes compare with 2008 objectives			
● = outcome matched objective; ◐ = outcome partially matched objective; ○ = outcome did not match objective			

7. **Capacity building.** Efforts at better targeting and funding capacity building activities have borne fruit. Costing of technical assistance (TA) has been made more accurate and transparent, and prioritization mechanisms have been strengthened. These reforms have helped to attract greater donor support and enabled the Fund to respond more effectively to members' TA needs during the crisis. Charging for TA—originally viewed as a market test—now appears less necessary given the strengthened internal prioritization mechanisms and increased participation by donors and beneficiary countries in the formulation of TA plans. In addition, the need to ensure rapid deployment of internal TA resources in case of crisis, which could be hindered by the charging policy, argues for repeal of the policy. Going forward, costing and prioritization mechanisms as well as partnerships with donors should continue to be strengthened to allow more forward-looking planning and well-targeted delivery of both internally and externally-financed TA.

Capacity building work scorecard			
	March 2008 Objectives		Actual
	<i>Doing more</i>	<i>Doing less</i>	
ROSCs		√	●
TA/training (Fund-financed)		√	●
AML/CFT work		√	●
TA/training (external-financed)	√		●
TA/training through RTACs	√		●
"Actual" represents how actual outcomes compare with 2008 objectives			
● = outcome matched objective; ◐ = outcome partially matched objective; ○ = outcome did not match objective			

8. ***Modernizing the Fund.*** Agreement and implementation of landmark governance reform is helping to ensure the IMF's effectiveness, credibility, and legitimacy. The package of measures drawn up in 2008 to strengthen the representation of dynamic economies in the IMF recently entered into force, which combined with the governance reform package agreed in December 2010, will result in a shift of about 9 percent of quota shares to dynamic emerging market and developing countries; the quota shares and voting power of the poorest members will be protected. Upon implementation, the quota and voting shares of the Fund will better reflect the world economy as it looks today, with the Fund's 10 largest shareholders representing the 10 largest country economies in the world. While day-to-day staff engagement on governance reform and other Fund modernization efforts will likely decrease going forward, engagement with country officials and external stakeholders on issues of key strategic importance will remain a priority of the Fund's work.

III. THE WAY FORWARD

9. ***Current environment.*** With the reprioritization outlined in 2008 having been substantially advanced, the new MTB provides an opportunity to match the evolving needs of our members and the demands of the international financial system with the appropriate budgetary envelope. In this regard, two features of the current environment stand out: first, the crisis has proven more persistent than had been hoped, resulting in greater program engagement than anticipated in 2008. Second, and related to the preceding, the need to understand the causes of the crisis, with the aim of heading off future crisis episodes, has led to the addition of new and permanent activities to the work program.

10. ***Ongoing program engagement.*** The number of Fund programs and financial arrangements in place currently stands at 60, or about one-third of the Fund's membership, and almost double the level at the end of 2007. Recent program engagement has been characterized by a number of exceptional access programs, some with extended durations. The presence of structural weaknesses in the affected economies will take time to address; accordingly, levels of program engagement may remain high relative to historic levels for the foreseeable future, implying a need for continued provision of temporary budgetary resources at current levels. If we do not adequately fund program activities, we risk resources being reallocated away from non-systemic surveillance cases—clearly an undesirable prospect.

11. ***New and permanent activities.*** Roughly three years from the onset of the crisis, it is clear that much work remains to be done to address remaining gaps in the international financial system and to support the global economic recovery. Meeting these needs entails a degree of Fund participation and leadership in activities on a sustained basis that was not envisioned at the time of my 2008 statement. Such activities include:

- Fostering ***global coordination*** through new products and processes related to multilateral or systemic surveillance, such as the Fund's support for the G-20 and other international fora.

- Enhancing the *links between bilateral and multilateral surveillance* including through the identification of potential country-specific and systemic risks and their interconnections.
- Sharpening the focus on *macrofinancial issues*, including by undertaking mandatory financial sector stability assessments and developing the requisite macro-prudential policy frameworks.
- Supporting *LIC* members through improved policy advice and analysis.
- Maintaining substantial *engagement* with policymakers and other stakeholders, including through increased external presence, to maximize the Fund's effectiveness in the post-crisis period.

These activities should be complemented by efforts to enhance the candor and traction of surveillance, consistent with the recent recommendations of the Independent Evaluation Office.² Nonetheless, the case for expanding the structural budget to cover new activities must be carefully scrutinized, particularly at a time of global fiscal austerity.

12. ***Reallocation efforts.*** Consistent with commitments under the new income model, we have delivered savings and maintained budget discipline despite increased demands. While I remain committed to scaling back or eliminating non-priority activities, significant reallocation efforts such as those identified above have only recently been completed, suggesting there remains only limited scope for further reallocation. In addition, the resource-intensity and high-frequency nature of many of the new priority outputs suggest the need for a modest increase in resources, particularly given that some earlier steps taken have been rethought in response to the current environment and member preferences. Dropping the plan to charge for TA is one such example. Another is an expansion of overseas posts, which represents a partial reversal of the reduction in overseas staff that was agreed as part of the 2008 restructuring. Looking across the Fund, we estimate that reallocation efforts within and across Departments could provide financing to offset about half the cost of the new demands. Some examples include:

- Reduce *lower-priority research* including by cutting the number of Selected Issue Papers.
- Better strategize and focus *Regional Economic Outlooks (REOs)*.
- Make greater use of *lapse-of-time* (LOT) procedures.

² *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–2007, IEO Report, January 10, 2011.*

- Prioritize *ROSCs* across standards.
- Rely to a greater extent on *external financing* to fund some areas (e.g., work on sovereign wealth funds (SWFs), local costs of resident representatives).
- Other *potential savings* can be realized through increased efficiency once the activity-based costing system that we are introducing becomes fully operational.

13. **Capital spending and income.** Capital spending needs will be high in FY12 as we begin long-needed repairs to HQ1 and renovation of the Concordia property. Even after allowing for such spending, the Fund will record a significant surplus as the surge in lending has generated a sharp but temporary rise in income. This surplus will be used to build precautionary balances.

14. **Implementation.** When the scale of crisis-related demands first became apparent in 2009, I proposed a pragmatic approach, where recovery from the crisis accompanied by an attenuation of work pressures would be consistent with no deviation from the budgetary path agreed in 2008. Yet the crisis has persisted and higher levels of uncompensated overtime and decreased use of leave have become the norm. Against this background, the temporary budget should be maintained at current levels for the time being. Moreover, the world we face today looks much different than the pre-crisis world. Demands on the Fund are greater than ever, and the Fund is prepared to deliver. Considering the current limited scope for further reprioritization and efficiencies, a modest increase in the structural budget therefore also appears necessary. The new MTB envisages a small increase in hiring, but staff positions will still remain well below the pre-restructuring level.