



International Monetary Fund

The Managing Director's Global Policy Agenda

October 2014



The Global Policy Agenda (GPA), presented semi-annually to the International Monetary and Financial Committee (IMFC) of the IMF, identifies the policy challenges faced by the membership and outlines policy responses that are needed at the global and country level to address these challenges.

The *Global Policy Agenda* (GPA) is prepared twice a year, in the spring and fall, for presentation to the International Monetary and Financial Committee (IMFC) of the IMF. The GPA is prepared by IMF staff and has benefited from comments by Executive Directors following their discussion of the report. The views expressed in this publication are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Directors or their national authorities.



THE MANAGING DIRECTOR'S GLOBAL POLICY AGENDA

AIMING HIGHER, TRYING HARDER

October 2014

The latest snapshot of the global economy looks uneasily familiar: a brittle, uneven recovery, with slower-than-expected growth and increasing downside risks. Bold and resolutely executed policies are needed to prevent growth from settling into a “new mediocre,” with unacceptably low job creation and inclusion. Measures should emphasize:

- ***Lifting growth.*** Decisive structural reforms are needed to bolster confidence and lift today's actual and tomorrow's potential growth and break the pattern of persistent underperformance and insufficient job-creation. Accommodative monetary policies should continue to support demand and provide breathing space as these reforms are implemented. But it is essential that they are accompanied by macro-critical reforms that remove deep-seated distortions in labor and product markets; improve credit flows to productive sectors; strengthen growth-friendly fiscal frameworks; and eliminate infrastructure gaps.
- ***Building resilience.*** Easy money continues to increase market and liquidity risks, especially in the shadow banking sector, potentially compromising financial stability. Appropriate regulation and vigilant financial sector supervision, including developing and deploying macro-prudential tools, can help limit excessive financial risk-taking. Preparations for less benign financial conditions also need to be stepped-up. As monetary policy normalization approaches in some major economies, stronger policy frameworks, institutions, and economic fundamentals can mitigate potentially adverse spillovers.
- ***Achieving coherence.*** International cooperation is needed to amplify the benefits from these bold policies and to avoid exacerbating existing distortions, particularly regarding financial stability and global imbalances. Dialogue and policy cooperation can help smoothly rebalance global demand; minimize adverse spillovers and spillbacks from asynchronous monetary unwinding; ensure consistent financial regulation; and maintain an adequate global financial safety net. Fresh momentum must be injected into the global trade dialogue.

The IMF will help members deliver on this policy agenda by redeploying resources toward lending and capacity building for members facing pressing challenges; strengthening macro-financial surveillance; providing policy advice and analysis on managing the impending monetary normalization, including on deploying macro-prudential tools; and implementing growth-friendly fiscal policies and macro-critical structural reforms. Staff will also build on existing work and develop options for next steps should ratification of the 2010 reforms be delayed beyond year end.

WHEN WE LAST MET

The priority was to transform a fragile recovery into rapid, balanced growth.

The global economy was strengthening but remained far from robust. Activity picked up in *advanced economies*, but resources remained underutilized in most countries, with risks of extremely low inflation emerging in some. Growth in *emerging market economies (EMEs)* slowed but was expected to strengthen slightly in the months ahead. *Low-income developing countries (LIDCs)* maintained their growth momentum. Looking ahead, global growth was projected to improve further in 2014 and 2015, though remaining below past trends.

Policymakers were encouraged to proactively manage the recovery (Table 1). The *Global Policy Agenda (GPA)* called for reinforced cooperation to minimize adverse policy spillovers from the unfolding monetary normalization; reassessment of fiscal strategies and implementation of structural reforms to reinvigorate growth and employment; and further actions to ensure external rebalancing and completion of financial regulatory reforms.

The IMF committed work on policy issues related to spillovers and spillbacks from monetary normalization, refining external sector assessments, the macroeconomic and stability implications of global financial regulatory reforms, and the role of policy cooperation.

Table 1. Policy Priorities of the Spring 2014 GPA

Members			
Euro Area	Further monetary easing	Address fragmentation and architectural gaps	
United States	Continue taper with clear communication	Medium-term fiscal plan	
Japan	Medium-term fiscal plan	Product and labor market reforms	
China	Rebalance demand	Rein in shadow banking and municipal borrowing	
Emerging and Frontier Markets	Adjust policies flexibly to market volatility	Address growth impediments	
Low Income Developing Countries	Consolidate inflation gains	Increase revenue mobilization and optimize spending	
Arab Countries in Transition	Raise spending efficiency	Increase revenues	
IMF			
Monetary Policy	UMP spillovers and spillbacks	Future monetary policy frameworks	
Fiscal Policy	Options to reduce debt overhangs	Reform of debt limits policy	
Financial Sector Policies	Impact of regulatory fragmentation	Cross-border resolution and shadow banking	
Structural Reforms	Economic diversification	Financial deepening	
Policy Cooperation/Imbalances	Integrated surveillance	Refining external sector assessments	

Source: Spring 2014 Global Policy Agenda.

WHAT HAS BEEN DONE

Implementation of structural initiatives has again lagged.

Macroeconomic policies remain supportive but structural reforms are lagging (Table 2).

In *advanced economies*, including more recently in the *euro area*, monetary policy has been appropriately accommodative. On the financial sector side, the *euro area* made progress toward the banking union and the comprehensive assessment of banks, but an effective common fiscal backstop remains to be established. Infrastructure is being upgraded in several countries, although more should be done in the *United States* and some *euro area* countries. Limited progress has been made on fiscal, labor, and product market reforms.

In *EMEs*, monetary policy stances have been broadly adequate, although inflation is above target in some countries and financial excesses are increasingly evident in others (e.g., *China*). However, fiscal consolidation has been delayed, private indebtedness and contingent liabilities are rising in some countries, and structural reform progress has been uneven.

In *LIDCs*, policymakers maintained low inflation and made progress on revenue mobilization and improving financial supervision. But advancement in other areas, including improving policy frameworks, market institutions, quality of spending and social safety nets, has been slow.

The IMF supported members through lending, capacity building, analysis, and policy reviews (Table 3 and Box 1).













The Fund delivered on many of its commitments. Program negotiations and lending continued to shift from crisis support to assisting members facing pressing challenges in *Eastern Europe (Ukraine)*, *the Middle East and North Africa (MENA) region*, and countries affected by the Ebola crisis in *Africa*. Capacity-building activities also remained intense.

The recent Triennial Surveillance Review (TSR) and review of the Financial Sector Assessment Program (FSAP) attested the IMF's continued focus on strengthening surveillance, including by mainstreaming macro-financial analysis. In a few cases, planned reviews suffered delays, including on the Fund's debt limit policy. Analytical work on spillovers and spillbacks from monetary normalization, including the role of macro-prudential policies was completed; country coverage of external sector assessments was expanded. Options to improve the Fund's lending policies for member countries experiencing sovereign debt distress were laid out and work on contractual reforms designed to address collective action problems in sovereign debt restructuring completed.

No progress has been made on quota and governance reforms.

The 2010 reforms still await ratification by the *United States*, delaying progress on the 15th General Review of Quotas and a new quota formula. At the same time, the membership delivered on its commitment to keep the Fund adequately resourced, with the recent one-year extension of bilateral borrowing agreements and the six-month reactivation of the New Arrangements to Borrow (NAB).

Table 2. Implementation of Policy Priorities by the Membership

Spring 2014 GPA Policy Priorities	Assessment of Implementation
Advanced Economies	
Monetary policy: More monetary easing in the <i>euro area</i> , including through unconventional measures (UMP). Aggressive quantitative easing in <i>Japan</i> . In the <i>U.S.</i> , continue UMP tapering with effective communication.	 Monetary easing ongoing in the <i>euro area</i> . <i>Japan</i> proceeding with aggressive quantitative easing. In the <i>U.S.</i> , UMP tapering ongoing; communication generally effective but qualitative guidance remains work in progress.
Fiscal policy: Where revenue needed, broaden tax base/reduce distortions. Adopt medium-term fiscal plan in <i>Japan</i> and the <i>U.S.</i> . More durable debt ceiling solution also needed in the <i>U.S.</i> .	 Fiscal reforms on the revenue front stalled in most countries. Medium-term fiscal plan still lacking in the <i>U.S.</i> and <i>Japan</i> . <i>U.S.</i> debt ceiling suspended until early 2015.
Financial sector policies: <i>Euro area</i> needs to address remaining issues to complete the banking union and proceed with rigorous comprehensive assessment of banks, followed by determined balance sheet repair. In the <i>U.S.</i> , monitor risks in financial market.	 In the <i>euro area</i> , good progress toward single resolution mechanism and asset quality review. Some progress toward common fiscal backstop but access threshold remains to be determined.
Structural reforms: Upgrade infrastructure network and implement inclusive labor market reforms. In <i>Japan</i> , deregulate product/services/labor markets. Across <i>Europe</i> , streamline tax system and promote competition in product/service/labor markets.	 In the <i>U.S.</i> some progress in labor market reforms, but infrastructure upgrade limited. Some infrastructure improvements ongoing in <i>Japan</i> and <i>other AEs</i> but limited progress on labor reforms. Across <i>Europe</i> , more progress needed on product and labor market reforms to promote competitiveness.
Emerging Market Economies	
Monetary policy: Adopt appropriate monetary policy in response to domestic growth and inflation. Exchange rate flexibility with intervention limited to smooth foreign exchange volatility. Adequate liquidity provision in case of market distress. Capital flow management measures should not substitute for macro adjustment.	 Monetary policy stance generally appropriate, although inflation remains elevated in some countries and rapid credit growth continues in others. Many countries allowed free capital flows and flexible exchange rates, while a few limited exchange rate movements.
Fiscal policy: Scrutinize contingent risks. Mobilize fiscal resources and increase expending efficiency. Countries with high debt/financing needs should lower budget deficits. <i>Arab Countries in Transition (ACTs)</i> need to redirect public spending, strengthen revenue collection, anchor short-term policies by medium-term frameworks, and secure additional donor support.	 Fiscal adjustment delayed in many countries. Some are monitoring contingent fiscal risks, but others have yet to develop a framework. Limited progress on revenue mobilization/improving spending efficiency. While some <i>ACTs</i> secured donor support, reforms to improve fiscal revenue delayed. Medium-term frameworks still lacking.
Financial sector policies: Strengthen financial regulation and supervision. Maintain adequate buffers in banks. Closely monitor rapid credit growth and take corrective action as needed.	 Progress on financial regulation and supervision uneven. Some have maintained adequate buffers in banking sectors and taken appropriate steps to monitor credit growth, while others are facing rising financial risks.
Structural reforms: Promote investment, improve business/regulatory environment, strengthen budget management, deepen financial market, promote inclusive labor reforms, improve market institutions, and remove market barriers.	 Limited progress on promoting investment/business environment. More effort needed to strengthen budget management and market institutions. Financial deepening advancing, but labor and product market reform slow.
Low Income Developing Countries	
Monetary policy: Consolidate gains of low inflation and stable exchange rates. Strengthen policy frameworks.	 Low inflation and stable exchange rate maintained in many <i>LIDCs</i> . Progress on strengthening monetary policy framework slow.
Fiscal policy: Increase revenue mobilization and the quality of spending. Safeguard social safety nets and growth-friendly investment.	 Reforms progressing in revenue mobilization, but slow in improving the quality of spending. Some <i>LIDCs</i> have adopted measures to promote investment. Reforms to improve social safety nets slow.
Financial sector policies: Broaden access to financial products; build capacity and strengthen financial sector supervision.	 Financial access improved in several <i>LIDCs</i> . Some countries have taken steps to improve financial supervision but capacity remains low in others.
Structural reforms: Strengthen budget management, deepen financial market, improve business/regulatory environment, promote investment and inclusive labor reforms, improve market institutions, and remove excessive market barriers.	 Some progress on promoting investment and business environment but market institutions remain weak in many <i>LIDCs</i> . Delayed progress in financial market deepening and labor and product markets reforms.































Note: Policy priorities in the first column are drawn from the Spring 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

Limited or no progress

Table 3: Implementation of IMF Deliverables
(May 2014–October 2014)

Analytical Work and Policy Reviews Identified in the Spring 2014 GPA	
Lending	
 Guidance Note on Conditionality	 Review of PRGT Eligibility ¹
 FCL/PLL/RFI Review	 Review of Debt Limits Policy
 Sovereign Debt and the Fund's Lending Framework	 Access Limits and Surcharges: Specific Proposals
 Crisis Program Review ¹	
Surveillance	
<i>General</i>	
 Triennial Surveillance Review	 Fund's Engagement in Fragile States ¹
 Review of FSAP	 Review of the Role of Trade in Fund Work
 Low-Income Developing Countries Report	 Cluster-Based Article IVs ¹
 Policy Spillovers/Spillbacks and Capital Flows Volatility	 Selected Issues in Small States ¹
<i>Fiscal</i>	
 Spillovers in International Corporate Taxation	 Fiscal Policy and Long-Term Growth ¹
 Risks to Debt Sustainability from Banking Vulnerabilities ¹	 Challenges in Revenue Mobilization
<i>Monetary</i>	
 Conventional and Unconventional Monetary Policy	 Role of Exchange Rate Interventions ¹
 Reserve Adequacy (incl. Guidance Note)	
<i>Financial</i>	
 Cross Border Resolution	 Guidance Note on Macro-prudential Policies
 Supporting Regulatory Reforms	
<i>Structural</i>	
 Toward More Productive Public Investment ¹	 Financial Deepening, Growth and Resilience ¹
General Operations	
 Review of Communication Strategy	 15th General Review of Quotas
 2010 Quota and Governance Reforms	

¹ Board papers/reports scheduled to be delivered beyond the horizon under consideration; ongoing work.

Note: IMF deliverables identified in the Spring 2014 Global Policy Agenda. The color coding of the assessment is as follows:

Completed	Ongoing	Delayed
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Box 1. Key IMF Activities since the Spring Meetings

IMF financial support continued to shift from crisis-support to new pressure points.

- Crisis lending programs continued to wind down with the expiration of *Portugal's* Extended Fund Facility, which left only two lending arrangements remaining in the Euro Zone (*Cyprus, Greece*).
- New arrangements were approved for *Chad, Georgia, Grenada, Seychelles, Ukraine, and Yemen*, involving a resource commitment of \$18 billion. *Morocco's* Precautionary and Liquidity Line (PLL) was also renewed, bringing approved support for *Arab Countries in Transition (ACTs)* to about \$11 billion. Precautionary arrangements under the Flexible Credit Line (FCL) were maintained for *Colombia, Poland, and Mexico*. *Tanzania* switched to a Policy Support Instrument, after completing a program supported by the Stand-by Credit Facility, and new disbursements under the Rapid Credit Facility were approved for the *Central African Republic, St. Vincent and the Grenadines, and Madagascar*, in a total amount of \$66 million.
- Additional financial support totaling \$130 million was approved for three African countries most affected by the Ebola virus.

The delivery of Technical Assistance and Training remained intense.

- In the first three months of the fiscal year, capacity building again represented about one quarter of total IMF outputs, with the majority benefitting *LIDCs*. Highlights include the inauguration of a new Africa Training Institute in *Mauritius* (the IMF's first regional training institute in *Africa* and the fourth worldwide), completion of the first open online course on Financial Programming, with over 1,800 graduates, and new courses planned on debt sustainability analysis and energy subsidy reform.

Several major policy reviews were completed or made progress toward completion.

- The 2014 TSR was presented to the Executive Board in September. It highlighted the need to build on recent innovations in surveillance, including by further integrating and deepening risk and spillover analysis, stepping up macro-financial analysis, delivering more tailored and cohesive policy advice that better leverages cross-country knowledge, achieving greater traction through deeper engagement and clear communication with member countries, and enhancing collaboration with other international organizations with strong expertise in relevant areas.
- The recently completed FSAP review highlighted the need for further strengthening the focus on systemic risk and mainstreaming macro-financial analysis in surveillance. Reviews of the FCL/PLL/RFI lending facilities, and the Fund's communication strategy were also finalized. However, in a few cases planned reviews suffered delays, including on the Fund's debt limits policy, access limits and surcharges, and reserve adequacy metrics, where building a consensus among the membership proved more challenging than anticipated.

Analytical work focused on challenges facing the membership.

- Topics covered included (i) spillovers and spillbacks from asynchronous normalization of monetary policies and policy responses, including the role of macro-prudential policies; (ii) possible reforms to enhance the Fund's lending framework when members are in situations of debt distress, as well as ways to strengthen contractual provisions in international sovereign bonds; (iii) refining the external sector assessment methodology, and extending country coverage; and (iv) a new report on development and challenges in *LIDCs*; (v) energy subsidy reform; and (vi) high-level conferences in *Jordan* and *Mozambique* on structural transformation and inclusive growth in the *MENA region* and *Africa*.

WHERE WE STAND TODAY

A brittle, mediocre recovery continues.

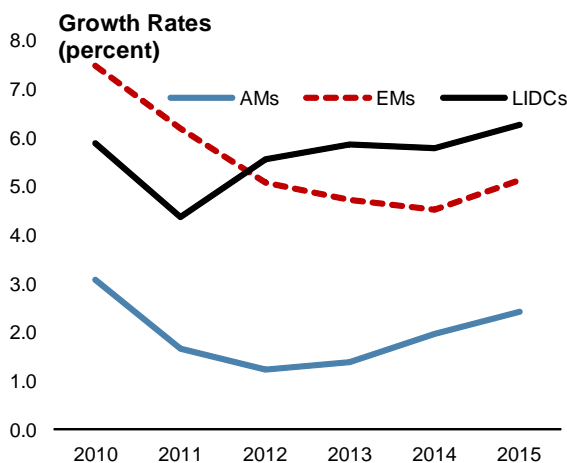
The envisaged acceleration in economic activity has again failed to materialize.

Despite massive and welcome monetary support in major *advanced economies* and slowing fiscal consolidation, the recovery remains uneven and sluggish. Growth, and hence policy advice, are increasingly divergent across countries. Inflation is still below target in many *advanced economies* and is a growing concern in the *euro area*, while unemployment has stayed high. On a more positive note, vigorous growth continues in *LIDCs*.

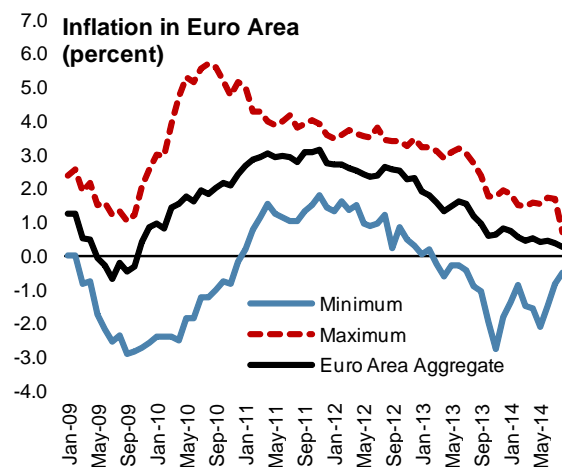
Country-specific factors partly contributed to recent disappointments in global growth. These factors include a harsh winter in the *United States*, heightened geopolitical tensions in *Eastern Europe* and the *MENA region* as well as lackluster domestic demand in many *EMEs* and *Japan*, and stalled growth in the *euro area* (including unexpectedly soft investment in *Germany*). However, the continued weakness of investment and economic activity—six years after the global crisis—suggests that bolder policies and more decisive execution are needed to generate balanced, sustainably higher, job-rich, and inclusive growth.

Only a modest rebound of global growth is foreseen for 2015.

Global growth projections for 2014 have been pared after slower-than-expected performance in the first half of the year. Projections for 2015 have been lowered only slightly, as expected growth drivers—moderating fiscal consolidation, highly accommodative monetary policy, and progress in balance sheet repair—remain broadly in place.



Source: WEO.



Source: Eurostat.

Growth prospects in *advanced economies* are expected to remain uneven across regions. The strongest growth rebound is expected in the *United States*, while growth in *Japan* will remain modest. The crisis legacy brakes (including high private and public debt) are expected to only gradually ease in the *euro area*, while inflation expectations continue to drift down and deflationary risks are rising. Growth elsewhere, including other *Asian advanced economies*, *Canada*, and the *United Kingdom*, is projected to be solid.

External demand, measures to support activity (notably in *China*), and efforts to implement crucial reforms should help maintain the strong growth momentum in *LIDCs* and support a modest uptick of growth in *EMEs*. The rebound in *EMEs* is also contingent on some recovery in countries affected by geopolitical tensions or domestic strife, and a gradual lifting of structural growth impediments in others (e.g., *India*, *Mexico*). But the overall growth outlook for *EMEs* remains significantly lower than forecast at the time of the last GPA.

Downside risks to the outlook have increased.

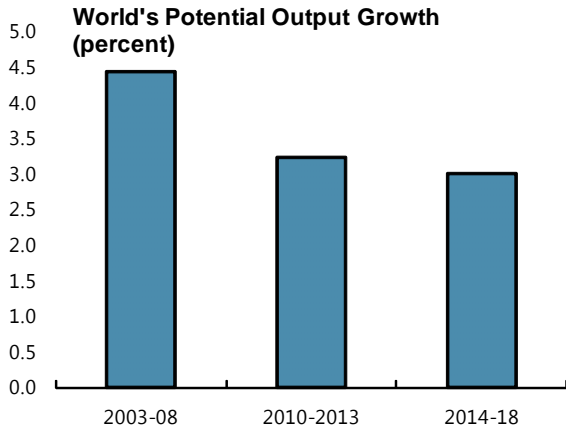
Growth potential may be lower than earlier assumed.

Increasing evidence suggests that potential growth started to decline in *advanced economies* even before the onset of the crisis—which may be affecting the current pace of recovery. The recent slowdown in *EMEs* also has a large structural component, raising questions about the sustainability of growth rates achieved prior to the crisis and during the 2010–11 rebound.

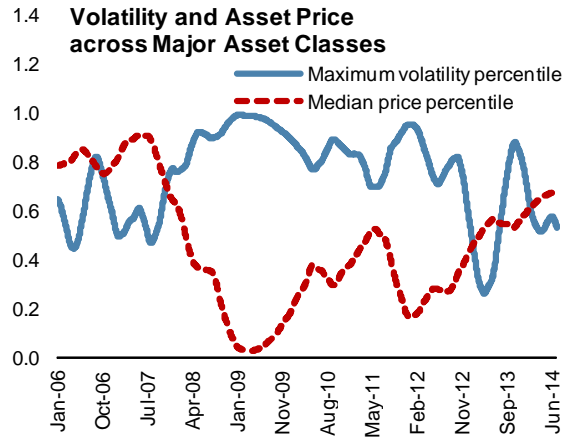
Repeated markdowns of medium-term potential growth estimates highlight the uncertainties surrounding the resilience of the global recovery in the medium term. In the absence of urgent policy actions to ameliorate structural deficiencies, the world could get stuck with a mediocre level of growth. This, in turn, could lead to insufficient job growth and heighten vulnerabilities, including from high public debt burdens.

Increasing market and liquidity risks could lead to financial instability.

Protracted monetary accommodation and resulting search for yield could be fueling credit mispricing and buildup of systemic liquidity risk, especially in the nonbank sector. While credit risks have generally declined, market valuations are stretched in major asset classes and volatility is compressed relative to historical norms. This poses risks of sudden, disorderly corrections that could derail the recovery, including via spillovers to *EMEs* and *LIDCs* with access to international capital markets and spillbacks to source countries. Possible triggers include a faster-than-expected rise in U.S. long-term interest rates in the process of monetary normalization.



Source: WEO.



Sources: Bloomberg L.P.; and IMF staff calculations.
 Note: The asset classes are advanced economy equities; emerging market equities; advanced economy bonds; emerging market bonds; corporate credit; advanced economy foreign exchange rates; emerging market foreign exchange rates; and commodities.

Geopolitical tensions have intensified.

Geopolitical tensions could persist, hampering recovery in affected countries, and taking a toll on confidence elsewhere. While the impact of the conflict in *Ukraine* has been relatively contained to date, further escalation could generate significant negative spillovers, both regionally and globally. These would include disruptions in commodity prices, higher risk aversion in financial markets, and erosion of business confidence in trading partners. Meanwhile, developments in the *MENA region* could trigger a sharp rise in global energy prices. Finally, a significant expansion of the Ebola outbreak to other countries would pose a significant risk to growth in *Sub-Saharan Africa*.

POLICY PRIORITIES

The key challenge is to buttress the recovery and make it more durable.

Lifting the outlook for growth and jobs requires decisive policies.

The current situation—sizeable output gaps among *advanced economies* and slower growth in *EMEs*—is similar to when we last met, while downside risks have increased. Thus, many of the policy priorities for the period ahead remain the same. While important, accommodative macroeconomic policies that navigate a narrow path between supporting the recovery and unwinding past excesses alone will not suffice. A much higher premium needs to be put across the membership on policies aimed at decisively raising today’s actual and tomorrow’s potential growth—by restoring confidence, boosting investment, reforming labor and product markets, and raising productivity and competitiveness.

Structural Reforms

Addressing structural deficiencies should become a much higher priority.

Structural reforms are a priority to unlock growth.

Raising growth will require reforms to boost labor demand and supply, investment, and productivity, although the exact needs vary by country and region. While implementation of some structural reforms could take time or yield growth dividends with lags, other reforms (e.g., increase in productive infrastructure investment) could provide more immediate support to activity.

Many countries should improve their labor and product markets.

Labor market reforms are a priority for many, including debtor countries of the *euro area*, the *United States*, and several major *EMEs* (*Brazil*, *China*, *India*, and *South Africa*). Cost-effective labor market policies, training programs, and measures such as targeted cuts in employer's social contributions that reduce the opportunity cost of employment, could be particularly effective in countries with high youth unemployment, including some *euro area* economies and *ACTs*. Efforts to increase labor supply and reduce labor market duality are also relevant for *Japan*, given its unfavorable demographic trends. Product market reforms, including deregulation (e.g., in *Japan* and some *euro area* countries), and easing barriers to trade and investment (e.g., in the services sectors in many *EMEs*), could boost productivity and support growth prospects.

Infrastructure investment will boost demand and strengthen growth.

Measures to increase investment, particularly, in infrastructure can help provide an important boost to short run demand in *advanced economies*, while eliminating infrastructure bottlenecks (e.g., in *India*, *Brazil*, and *South Africa*) and supporting economic development in *EMEs* and *LIDCs*. In all economies, it could also help boost potential output over the medium term. Infrastructure investment should be boosted where gaps can be clearly identified (e.g., maintenance and modernization of infrastructure in *Germany*, *United States*), there is fiscal space, and selection and procurement processes are efficient. Elsewhere, a key priority should be to raise the quality of new infrastructure investment by improving the public investment process.

Education, financial inclusion, and improving business conditions remain critical for raising productivity.

Other reform priorities include addressing education gaps, encouraging innovation, fostering financial inclusion (in *EMEs* and *LIDCs*) and promoting alternative sources of funding for credit-constrained SMEs, including through securitization (*euro area*), and improving business conditions (*Indonesia*, *Russia*, *Turkey*), deepening structural transformation and diversification (*LIDCs*), and more closely integrating energy platforms and policies (*euro area*). *Fragile states* face additional challenges of building strong institutions while carefully managing both security and internal equity considerations in a context of frequently strained fiscal positions.

What the IMF will do

The Fund will bolster country-specific advice on macro-critical structural reforms to make growth balanced, sustainable, job-rich and inclusive, and provide support in assessing their growth impact, leveraging the expertise of other institutions. This will include analysis on productivity enhancing reforms in *advanced economies* and *EMEs*; drivers of growth hysteresis and implications for potential output; the role of financial inclusion in enhancing growth and reducing inequality in *EMEs* and *LIDCs*; advice on strengthening public investment efficiency to foster needed productive infrastructure, especially in *LIDCs*; promoting structural transformation and diversification in *ACTs* and *LIDCs*; expanding existing work on income inequality and female labor force participation; and continuing to analyze—jointly with the *International Labor Organization*—social protection floors, particularly for *Africa*, *ACTs*, and *Latin America*. As recommended by the TSR, the Fund will also expand its work on critical structural policies (e.g., labor market reforms).

Fiscal Policy**Enhancing the quality of expenditures and revenues is critical.**

Strong, growth-friendly fiscal frameworks are needed.

A faster rebound in growth and employment would be supported by well-specified structural fiscal measures, such as tax reforms to reduce the burden on labor, address tax evasion, and efficient expenditure prioritization, including scaling-up of productive public investment. Measures that get energy prices right would create room for lowering inefficient taxation.

Strengthening institutional fiscal frameworks would also help reduce fiscal risks, including from contingent liabilities, such as borrowing by local governments (*China*), bank support (*Bulgaria*) or liabilities of the electricity distribution companies (*India*). In some advanced economies (e.g., *United States and Japan*), credible medium-term consolidation plans remain a priority.

Advanced economies should proceed with measured consolidation.

While fiscal consolidation is proceeding in *advanced economies*, and the overall broadly neutral fiscal stance for the *euro area* balances demand support and debt sustainability considerations, debt ratios remain uncomfortably high in many countries. A hesitant recovery, adjustment fatigue and low inflation (e.g., in the *euro area*) are posing additional risks to the fiscal outlook. Calibrating the pace and composition of consolidation to support growth and employment should be the priority.

EMEs and LIDCs need to rebuild fiscal buffers and focus on essential public services.

Although immediate pressures on public finances have eased in many *EMEs* and *LIDCs*, low fiscal buffers leave little room for policy maneuver, including for expansion of much-needed social services. Where revenue ratios are low, further resource mobilization efforts are needed, especially steps to broaden the tax base and improve tax administration.

More transparent and efficient management of natural resource wealth is also important. Strengthening fiscal governance is a priority for a growing number of *LIDCs* that are gaining market access.

ACTs should continue with efforts to curb untargeted energy subsidies and expand the tax net in an equitable manner.

What the IMF will do

Through a combination of advice, technical assistance, and training, the Fund will assist members with developing and calibrating fiscal packages to reduce public debt overhangs; strengthen fiscal institutional frameworks (including to better manage contingent risks); and support long-term growth. Specific analysis is planned on examining the interactions between fiscal policy and long-term growth; identifying risks to public debt sustainability, including from banking sector vulnerabilities; strengthening revenue mobilization through better compliance and base broadening, and combating cross-border tax avoidance and evasion; and energy subsidy reforms, including helping countries with their fiscal agendas on climate change. The Fund will also seek to finalize operational reforms to its debt limits and undertake follow-up work on making its lending framework more flexible in cases of sovereign debt distress.

Monetary Policy

Managing monetary normalization remains a challenge.

Advanced economies should maintain accommodation while guarding against financial excesses.

Given existing slack and ongoing fiscal consolidation, monetary policy in *advanced economies* should remain supportive of demand, though challenges are increasingly different across countries.

Recent measures by the *ECB* are welcome. But if the inflation outlook does not improve and expectations continue to drift downward, the *ECB* should be willing to do more, including purchases of sovereign assets. Though the *Bank of Japan* has been successful in lifting inflation and inflation expectations, it should act swiftly through further monetary easing should these trends reverse. Given the stronger recovery in the *United States* and the *United Kingdom*, the envisaged normalization path seems appropriate, contingent upon inflation and employment developments. Clear and systematic communication to guide expectations could help the *Federal Reserve* temper the likelihood of volatility along the normalization path.

In economies where the recovery is gaining strength and housing (*United Kingdom*) or asset prices (*United States*) pose concerns, macro-prudential policies can serve as a first line of defense in preserving financial stability.

EMEs should take the opportunity to strengthen policy frameworks and rebuild buffers.

For *EMEs*, monetary normalization in some *advanced economies* portends a welcome strengthening of external demand as well as the possibility of negative spillovers via capital flow volatility. Countries with elevated inflation or high current account deficits (e.g., *South Africa, Turkey*) should tighten their monetary stance proactively to reduce vulnerabilities and rebuild policy space in anticipation of tighter external financing conditions. Other countries may have room to loosen policy if needed, while exercising vigilance toward rising households and corporate leverage.

Exchange rates should generally act as a shock absorber. Intervention can help counter disorderly conditions, including disruptive short-term exchange rate movements, provided reserves are adequate. Capital flow management measures on outflows should only play a temporary role as part of a broader policy response in crisis-type situations.

The priority for LIDCs is to strengthen monetary frameworks.

Improved fundamentals and search for yield have made many *LIDCs* attractive to global investors, but increased access to external funding has also raised susceptibility to shifting market sentiment and capital flow reversals. Countries should focus on strengthening policy frameworks while growth remains robust. This is especially important where exchange rate pass-through effects are strong. Greater monetary policy independence and credibility would provide room for exchange rate flexibility to shield the economy in the event of adverse external shocks.

What the IMF will do

The Fund will continue to monitor, analyze further, and assess the implications of asynchronous normalization of monetary policies by major central banks, and advise members on managing potentially disruptive changes in exchange rates and mitigating capital flow volatility, including through prudential measures. The Fund stands ready to provide financial support to countries that face or could potentially face market and financial pressures. The Fund will also continue to deepen analysis on the design of future monetary policy frameworks, including the use of unconventional policy tools and the interplay between the monetary and prudential policies, and provide advice and capacity building to help strengthen monetary policy frameworks in *LIDCs*.

Financial Sector Policies

Policies need to safeguard financial stability and strengthen credit transmission.

Guarding against financial excesses is a priority in advanced economies.

The build-up of excessive risk-taking in some sectors needs to be addressed. Increasing corporate leverage and rapid growth of nonbanks (high-yield and other illiquid market segments) in the *United States* and housing prices in the *United Kingdom* deserve particular attention by supervisors and macro-prudential authorities.

In the *euro area*, in the wake of the comprehensive assessment of bank balance sheets, it will be important to implement any remedial measures swiftly and transparently. An effective common fiscal backstop is still essential to break sovereign-bank links. Comprehensive strategies are also needed to address the private sector debt overhang to facilitate productive investment.

Well-designed macro-prudential policy can complement conventional policy tools. While their impact remains to be fully understood, macro-prudential policy tools can help in making systemic institutions more resilient and containing new and evolving financial stability risks, including from the shadow banking sector.

In EMEs policymakers need to be mindful of risks as financial conditions tighten.

Financial risk-taking and corporate debt issuance is increasing in *EMEs*, reflecting strong investor risk appetite and tightening credit spreads. In *China* developments in the property market remain a key risk. Policy-makers should remain vigilant of developments in the corporate sector, guarding against rapid increases in leverage and funding mismatches in foreign currencies, as well as in banks with excessive reliance on wholesale funding or large corporate deposits.

Reforms of the global financial regulatory system should be completed.

Important strides have been made as the main elements of the Basel III framework are now being implemented. However, political commitment is needed to further advance reforms to address problems posed by financial institutions deemed too-important-to-fail, including to facilitate their orderly resolution in the event of failure (many jurisdictions are yet to fully align their resolution regimes with agreed international standards), and to harmonize cross-border application of over-the-counter derivatives rules. With growing risk build-up in the shadow banking system, a comprehensive approach to regulation and supervision of activities outside of the regulatory perimeter needs to be finalized and implemented.

What the IMF will do

The Fund will continue to assess progress and implications of the global regulatory reform agenda, including unintended consequences for financial exclusion. It will assess the effects of banking fragmentation on financial stability, and advise on macro-financial risks and policy responses, including how to funnel abundant financial liquidity into real investment. The financial sector will also remain a priority for capacity development, especially in *LIDCs*. Work on 19 FSAPs is planned through the end of next year, including the *United States, China, Germany, and the United Kingdom*. The Fund will continue to assess the effectiveness of macro-prudential policies and assist members with introducing and making operational the macro-prudential policy toolkit; provide analysis on capital market development to support resilience in *EMEs*; promote financial inclusion; deepen balance sheet analysis and mainstreaming macro-financial surveillance as highlighted in the TSR and FSAP review; and address data gaps, including through implementation of the *G-20 Data Gaps Initiative* and the IMF's data standards initiatives.

Policy Coherence

Joint action and coherent policies can amplify growth and reduce fragility.

Dialogue can limit unintended distortions from policy initiatives.

Some of the bold policies outlined so far to support the recovery risk exacerbating existing distortions, particularly in the areas of financial stability and global imbalances. Dialogue and cooperation are needed to achieve smooth external rebalancing; minimize potential adverse spillovers and spillbacks from asynchronous monetary unwinding, including via potentially higher global financial volatility; enhance the financial safety net through better supervisory cohesion, more orderly resolution across national borders, and consistent regulatory frameworks; identify macro-prudential risks from global financial developments; and to maintain and strengthen the global financial safety, including ensuring that the Fund has the necessary resources.

A stronger trading system would support global growth.

Global trade remains depressed after the global financial crisis. With even the relatively narrow WTO Bali agreement now in limbo, the redoubling of joint efforts is needed to avoid fragmenting global trade. Open trade deals within a multilateral agenda will help boost trade and growth.

Sustaining external rebalancing requires actions by surplus and deficit countries.

External imbalances have narrowed considerably from their peaks in the mid-2000s. However, current account surpluses persist in *euro area* creditor countries and deficits are expanding in some major *EMEs* and a few *advanced* commodity exporters—and stock imbalances continue to widen. Strong, balanced growth requires surplus economies to boost domestic demand (e.g., *China, Germany*) even as fiscal consolidation and structural reforms facilitate adjustment in deficit countries. Greater labor and product market flexibility in debtor economies and higher infrastructure and private investment in creditor economies would support greater rebalancing in the *euro area*.

Quota and governance reforms remain imperative.

Prompt entry into force of the 2010 Quota and Governance reforms is essential to preserve the quota-based nature of the IMF, strengthen permanently available resources, enhance representation, and increase the voice of members.

What the IMF will do

The IMF will continue to foster policy cooperation by promoting coherent global structural, financial, and demand policies (including via a forthcoming clustered Article IV consultation on housing booms); enhancing engagement with relevant international organizations; examining potential improvements to the global financial safety net; continuing to refine external sector assessments; promoting risk-based surveillance by better integrating the annual *Spillover* and *Pilot External Sector* reports, and staff's vulnerability analyses; and advancing and operationalizing the Fund's work on assessing reserve adequacy. The

Fund stands ready to provide further financial assistance to countries affected by the Ebola crisis. Internal reforms, including promoting diversity, will make the Fund more responsive to the needs of the membership (Box 2). As indicated by the IMFC last spring, staff will build on existing work and develop options for next steps should ratification of the 2010 reforms be delayed beyond year end.

Table 4. 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

Box 2. The Agenda to Strengthen Fund Operations

Lending

- A review of crisis programs will start later this year, scheduled for completion by mid-2015.

Surveillance

- Surveillance will be strengthened by implementing the recommendations of the TSR and the FSAP review. Building on findings of a recent *Independent Evaluation Office* report, the Fund will also take steps to strengthen staff forecasts, including through internal training to better integrate new techniques into surveillance work.

General Operations

- With spending shifting from crisis resolution activities to surveillance, crisis prevention, and lending to new pressure points, resource allocation is becoming more risk-based. For FY2015, better utilization and reallocation of existing budget resources will allow for an increase in activities in fragile states and the *MENA region*, enhance multilateral surveillance work, and strengthen risk management, while maintaining an unchanged budget envelope in real terms.
- A stronger employment framework will ensure flexibility in meeting staffing demands and promote diversity. Building on the 2013 workforce planning exercise, a forthcoming review will propose reforms to the IMF's categories of employment to address inconsistencies between different types of appointment, while ensuring an appropriate level of workforce flexibility and skill renewal. In the coming months, new diversity benchmarks through 2020 will be proposed, focusing on areas where progress is most needed, in particular increasing hires from *Africa, East Asia, and the MENA regions*, as well as the share of women among managerial B-level staff.