THE MANAGING DIRECTOR'S

GLOBAL POLICY AGENDA

Annual Meetings 2018

Rising Risks:

A Call for Policy Cooperation

RISING RISKS: A CALL FOR POLICY COOPERATION

Global growth remains strong. The recovery has created jobs and increased incomes. But growth momentum is moderating. Previously identified risks have partly materialized or have become more pronounced. A rapid reversal in financial market conditions, ten years after the global financial crisis, could again expose debt vulnerabilities at a time when many countries have more limited policy space.

The window of opportunity to guard against risks and raise medium-term growth prospects is narrowing. Now is the time for policymakers to act to rebuild policy space, strengthen resilience, and implement structural reforms for the benefit of all.

Waning support for multilateralism is fueling policy uncertainty. However, improved global cooperation is precisely what is needed to boost inclusive growth by modernizing the trade system, reducing excess global imbalances, improving debt dynamics, and leveraging technology.

We will continue to review our policies and strategies to enhance Fund advice and support multilateralism. This includes surveillance, program conditionality, capacity development, debt limits, and anti-money laundering and the combatting of terrorism financing.

GLOBAL SETTING

Materializing risks and policy uncertainty are testing the growth momentum. Medium-term prospects remain subdued.

Global growth remains strong but has become less even. Momentum is moderating amid trade tensions, higher oil prices, and market pressures on emerging market and developing economies, particularly those with weaker fundamentals and elevated political risks. Weak productivity growth, overdue economic reforms, and population aging continue to dampen potential growth.

Growing policy uncertainty may intensify economic headwinds with risks further shifting to the downside. In particular, a systemic escalation of trade tensions could seriously impact global growth while failing to address the causes of persistent excess external imbalances. As monetary normalization in major economies continues, a sudden tightening of global financial conditions could intensify shifts in capital flows and put growth at risk, especially where financial vulnerabilities have built up. Many countries have limited policy room to maneuver, including due to high and rising debt vulnerabilities. Challenges from unsustainable macroeconomic policies, inequality, weak trust in policymaking, technological innovations, climate change, demographic shifts, and migration are likely to persist in the medium term.

POLICY ADVICE AND ECONOMIC ANALYSIS

With vulnerabilities mounting, policy makers should act now and use the ongoing expansion to rebuild buffers, enhance resilience, and advance structural reforms for the benefit of all.

Countries should take action to manage risks and resolve policy uncertainties. The Fund will help members calibrate appropriate macroeconomic policy responses tailored to their circumstances. Where inflation is converging to target, monetary policy stimulus should be gradually withdrawn in a well-communicated, data-dependent manner. International reserve buffers should be preserved at adequate levels given potentially protracted capital outflow pressures. Many countries must reduce debt and rebuild fiscal buffers, avoid procyclicality, deliver growth-friendly fiscal policies, and raise the quality and governance of infrastructure, the latter supported by the Fund's Public Investment Management Assessment. Careful calibration of the policy mix should also help reduce large and sustained external imbalances in a growth-friendly manner. Recent analyses of fiscal space and public-sector balance sheets, the 2018 External Sector Report, and forthcoming work on drivers of natural real interest rates will inform policy advice.

*The **External Sector Report (ESR)** is the only multilaterally consistent assessment of countries' external positions, including current account balances, real exchange rates, external balance sheets, capital flows, and international reserves. The ESR covers 29 of the world's largest economies and the euro area—representing over 85 percent of global GDP. The 2018 ESR, using a refined methodology, shows that 40 to 50 percent of global current account balances are now deemed excessive (i.e., larger than warranted by countries' fundamentals and desirable polices). While imbalances have remained broadly unchanged in recent years, they are now increasingly concentrated in advanced economies.*

Green highlighted text refers to selected key IMF activities that have been completed since October (see Annex).

Strengthening financial resilience is essential before financial conditions tighten further. Fund analysis on output losses after the 2008 crisis highlights that exchange rate flexibility often serves as a key shock absorber, while prudential policies can help contain financial stability risks, including from prolonged low interest rates. Repairing remaining pockets of vulnerability calls for balance sheet cleanup in some advanced economies and completing the post-crisis regulatory agenda. Many emerging market and developing countries should aim to reduce their vulnerabilities to tightening financial conditions, sharp currency movements, and capital flow reversals, including by managing contingent liabilities and balance sheet mismatches. Efforts are also needed to adapt regulation to structural changes, including from non-banks and financial technologies, and continue to close data gaps.

To help inform countries' responses to large and volatile capital flows, the Fund will continue to explain the application of the Institutional View on capital flows in practice, update its macroprudential policy database, and disseminate its new stock-take of capital flow management measures. Forthcoming analysis will help highlight risks to housing markets and assess the implications of heterogenous banking sector fundamentals for financial stability.

Policy makers should not lose sight of longer-term challenges and grasp the opportunity to adopt structural reforms and policies to achieve higher and more inclusive growth. Our analysis on the Future of Work underscores that comprehensive and coordinated policies can both facilitate technological change and help those left behind. Strengthening governance and fighting corruption are also critical for higher, inclusive growth. We will study how improved governance can reduce corruption vulnerabilities and improve policy outcomes; operationalize a new framework for more systematic and effective country engagement on governance; build on work on the slowdown of potential growth, including by investigating the role of corporate market power; and analyze the effects of gender diversity and female labor force participation on structural transformation and growth.

CONTRIBUTIONS TO GLOBAL STABILITY

Policymakers should enhance cooperation to modernize the multilateral trade system and address other challenges that transcend borders.

Green highlighted text refers to selected key IMF activities that have been completed since October (see Annex).

Open trade and access to global finance have delivered significant benefits, but not for all. This has contributed to waning support for multilateralism, and could undermine gains achieved over several decades. To foster stability and shared prosperity, the Fund will support efforts to resolve emerging tensions within a strengthened, rules-based multilateral trade system and promote more open trade, including in new areas such as services and e-commerce. We will analyze

the macroeconomic consequences of tariffs for the Fund's Annual Research Conference, as well as the determinants of trade balances and spillovers from distortive trade policies, in light of the growing role of global value chains. To address large and sustained imbalances, both external surplus and deficit countries will need to take action.

The Fund will continue to encourage cooperation to address global financial and tax challenges. To help guard against rising financial risks, we will support the work of standard setters to complete the global regulatory reform agenda and reduce regulatory uncertainty, while continuing to integrate macro-financial issues in surveillance. We will contribute to the international tax debate, including by analyzing corporate taxation, help members build capacity, and continue close inter-agency cooperation through the Platform for Collaboration on Tax.

Technological progress and digitalization present both opportunities and challenges. With the World Bank and other institutions, the Fund will support countries' efforts to build on the Bali Fintech Agenda and leverage advances in financial technology. Fund work on the digital economy will continue with a focus on big data, cyber risks, tax administration and the international tax architecture, and the measurement of economic welfare. Technology and the impact of demographic trends will shape tomorrow's economies. We will deepen existing analysis of youth labor market prospects and support the 2019 Japan G–20 Presidency by assessing the macroeconomic and fiscal implications of aging.

*In response to calls from members, the IMF and the World Bank jointly developed the "**Bali Fintech Agenda.**" The Agenda highlights the opportunities and potential risks of fintech, and outlines key considerations for policy makers and the international community based on countries' experience. The Agenda's main objective is to provide a framework for the consideration of high-level issues by individual countries, including in their own domestic policy discussions. It will also help guide our work on fintech. Going ahead, the Fund will investigate central bank digital currencies and their relevance for monetary policy and financial stability, take stock of fintech developments relevant to issues raised in the Agenda, and reflect the Agenda in its work, including with respect to the implications of fintech for cross-border capital flows, financial integrity, global monetary and financial stability, and the evolution of the international monetary system. The Fund will also continue to leverage its convening role to facilitate effective peer-to-peer discussion.*

The Fund will help support members' progress toward the 2030 sustainable development goals (SDGs), including by building on our analysis of the spending needs to achieve the SDGs in health, education, and selected aspects of infrastructure. The Fund is also enhancing its focus on fragile states in response to a recent IEO evaluation, including through human resource policies that ensure appropriate staff expertise and the development of country engagement strategies. Staff will continue to support the G–20's Compact with Africa initiative to help catalyze private investment, and address illicit financial flows, including through its tax, AML/CFT, and governance work. The Fund will also provide guidance on members' implementation of climate mitigation and

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adaptation strategies for the Paris Accord and continue to engage on how to enhance disaster and climate resilience.

Debtors and creditors share the responsibility for promoting sustainable lending practices and addressing rising debt vulnerabilities, particularly in low-income countries (LICs). In collaboration with the World Bank, we will encourage such practices using a multi-pronged approach, anchored in enhancing debt transparency and supporting domestic resource mobilization. We have started to implement the updated Debt Sustainability Framework for LICs, which will be an important instrument to assess and mitigate debt vulnerabilities, including through greater data coverage and disclosure. We are also helping to improve debt management and transparency by addressing data gaps identified in a recent G–20 note and will encourage mechanisms to facilitate official creditor coordination.

Global debt is at an all-time high of $182 trillion or 224 percent of global GDP. About two thirds is nonfinancial private (households and corporates) debt, while the rest is ***public debt.*** *Increasing public debt vulnerabilities in LICs is a particular concern, with about 40 percent at high risk of, or in, debt distress. This reflects rising borrowing, only to a limited degree for public investment, combined with adverse shocks. A key challenge stems from weak public debt transparency and coverage. As part of our work on debt transparency, we have developed, together with the World Bank, proposals to strengthen borrowers' debt management capacity, enhance the collection and dissemination of debt data, and deepen debt sustainability analysis.*

FUND POLICIES

The Fund is preparing for the future by adapting its policy toolkit to enhance its surveillance, lending, and capacity development activities.

To further improve traction of Fund **surveillance** and support members in the face of emerging challenges, work has started on the 2020 Comprehensive Surveillance Review and the 2020 Review of the Financial Sector Assessment Program. The forthcoming review of the Fund's AML/CFT strategy will underpin efforts to enhance financial integrity and resilience, including against the backdrop of technological innovation and the withdrawal of correspondent banking relationships. We will strengthen our risk monitoring activities by reviewing the debt sustainability framework for market access countries and the Fund's debt limits policy; reviewing the monetary and financial transparency code; and updating the Fund's fiscal transparency code. We will also consider modifications to the Fund's policy on multiple currency practices, and work is ongoing to strengthen data provision to the Fund for surveillance purposes. To help protect vulnerable groups, staff will develop a strategic framework to guide our engagement on social spending issues. We will also continue to engage on gender issues in our Article IV discussions.

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The Fund stands ready to support members' efforts to guard against risks and implement adjustments and reforms. Drawing lessons from an assessment of performance under recent Fund-supported programs, we will review **program** conditionality and design. These lessons will also help inform the review of our LIC facilities to better adapt them to members' needs. And we are working to enhance the effectiveness of our program engagement with small states and countries in fragile and conflict situations. The Fund is also making efforts to improve the impact of its **capacity development** (CD) through the upcoming review of its CD strategy, with stronger integration of CD, surveillance, and lending, in a results-based framework with continued focus on innovative delivery. We will continue to strengthen strategic partnerships and create more flexible funding arrangements with partners.

GOVERNANCE AND FINANCING

The Fund aims to complete the 15th General Review of Quotas in 2019.

Against the backdrop of increasing downside risks to global growth, and building on the recent progress report to the Board of Governors, the Fund will continue efforts to maintain a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net, realigning quota shares with members' relative positions in the world economy while protecting the share of our poorest members. We aim to complete the 15th Review of Quotas by the Spring Meetings, and no later than the Annual Meetings, of 2019.

INTERNAL ORGANIZATION

The Fund is modernizing its operations and continuing to adapt to members' needs.

Together with the Fund's human resource strategy and the comprehensive review of compensation and benefits, our innovation strategy and new digital tools will supplement ongoing efforts to ensure an agile, diverse, and inclusive workforce. These efforts will also allow the Fund to better leverage institutional experience through knowledge management; improve data management in line with our data and statistics strategy; enhance CD management; and foster a culture of innovation. We will also maintain a prudent budgetary stance and further strengthen internal risk management.

Green highlighted text refers to selected key IMF activities that have been completed since October (see Annex).

IMF HIGHLIGHTS SINCE OCTOBER 2017

SURVEILLANCE

134
Article IV consultations

8
financial stability assessments under the
FSAP

29
economies plus the euro area covered in the External Sector Report

85%
of global GDP represented

*October 2017 to September 2018

LENDING

167 Billion
total lending commitments in Special Drawing Rights (SDR)*

69
program reviews

5
largest outstanding GRA credit (SDR bn)

Argentina	10.6
Greece	8.4
Ukraine	7.4
Egypt	5.7
Pakistan	4.3

Lending to
33 countries

19
of which have a Poverty Reduction and Growth Trust (PRGT) facility

*As of end–September, 2018

CAPACITY DEVELOPMENT

3,521
technical assistance visits

168 member countries worked with

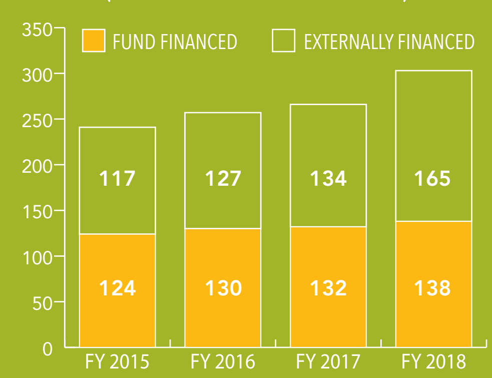
439
training courses delivered

16,687 officials trained

16
regional capacity development (CD) centers world-wide

11
massive open online courses

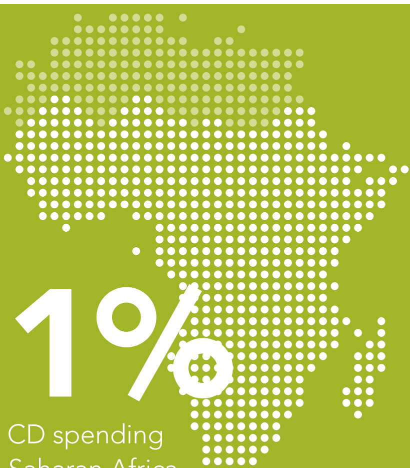
Direct spending on CD
(in millions of U.S. dollars)



*May 2017 to April 2018

663,574

unique visitors of the WEO, GFSR, and Fiscal Monitor webpages



31%

of total CD spending on Sub-Saharan Africa

OUTSTANDING CREDIT AND COMMITMENTS

(as of end–September, 2018, in billions of SDR)[1]

	CURRENT PROGRAM SIZE	OUTSTANDING CREDIT[2]
GRA FINANCIAL ARRANGEMENTS		
Stand-by Arrangement		
Argentina	35.38	10.61
Iraq	3.83	2.39
Jamaica	1.20	0.53
Extended Fund Facility		
Bosnia-Herzegovina	0.44	0.23
Cote d'Ivoire	0.43	0.24
Egypt	8.60	5.73
Gabon	0.46	0.21
Georgia	0.21	0.14
Jordan	0.51	0.65
Moldova	0.09	0.13
Mongolia	0.31	0.13
Sri Lanka	1.07	0.72
Tunisia	2.05	1.28
Ukraine	12.35	7.41
Flexible Credit Line		
Colombia	7.85	–
Mexico	62.39	–
TOTAL CURRENT ARRANGEMENTS	**137.17**	
COMPLETED ARRANGEMENTS		**18.34**
o/w Greece	–	8.44
o/w Pakistan	–	4.27

[1/] Numbers may not add up due to rounding.
[2/] Includes outstanding credit under expired arrangements and outright disbursements.

	CURRENT PROGRAM SIZE	OUTSTANDING CREDIT[2]
PRGT FINANCIAL ARRANGEMENTS		
Extended Credit Facility		
Afghanistan, Islamic Republic of	0.03	0.04
Benin	0.11	0.10
Burkina Faso	0.11	0.15
Cameroon	0.48	0.28
Central African Republic	0.13	0.13
Chad	0.22	0.19
Cote d'Ivoire	0.22	0.70
Ghana	0.66	0.75
Guinea	0.12	0.21
Guinea-Bissau	0.02	0.02
Madagascar	0.25	0.22
Malawi	0.08	0.16
Mali	0.19	0.20
Mauritania	0.12	0.09
Moldova	0.04	0.12
Niger	0.10	0.15
Sao Tome & Principe	0.004	0.005
Sierra Leone	0.16	0.25
Togo	0.18	0.10
TOTAL CURRENT ARRANGEMENTS	**3.23**	
COMPLETED ARRANGEMENTS		**2.58**

NON-FINANCIAL INSTRUMENTS

Policy Support Instrument	
Rwanda	Senegal
Policy Coordination Instrument	
Serbia	Seychelles

FINANCIAL POSITION OF THE GENERAL DEPARTMENT

(as of end-FY18, in billions of U.S. dollars)[1]

TOTAL ASSETS	747
Currencies	672
o/w Usable currencies	520
o/w Credit outstanding	55
SDR holdings	38
Investments	30
Other assets (including gold)	7

LIABILITIES, RESERVES AND RETAINED EARNINGS	747
Quotas	685
Borrowings	28
Other liabilities	3
Reserves of the GRA	30
Retained earnings	1

FINANCIAL POSITION OF CONCESSIONAL LENDING AND DEBT RELIEF TRUSTS

(as of end-FY18, in billions of U.S. dollars)[1]

	PRGT	PRG-HIPC	CCR TRUST
TOTAL ASSETS	20.1	0.6	0.2
o/w Cash and investments	11.0	0.6	0.2
o/w Loans receivable	9.1	-	-

	PRGT	PRG-HIPC	CCR TRUST
LIABILITIES AND RESOURCES	20.1	0.6	0.2
o/w Borrowings	9.4	0.3	-
o/w Resources	10.6	0.3	0.2

IMF'S LENDING CAPACITY

(as of end-FY18, in billions of U.S. dollars)[1,2]

460
Quotas[2]

206
NAB[3] (expires 2022)

358
Bilaterals[4] (expire 2019/2020)

TOTAL: 1,024

CONSOLIDATED OPERATIONAL INCOME AND EXPENSES IN SELECTED YEARS[5]

(in millions of U.S. dollars, unless otherwise stated)[1]

	FY08	FY12	FY18
A. OPERATIONAL INCOME	**871**	**3,185**	**1,912**
Lending income (including surcharges)	267	2,943	1,632
Non-lending income	604	242	280
o/w Investment income	598	237	185
B. EXPENSES	**932**	**998**	**1,181**
Net administrative budget	891	947	1,099
o/w Personnel	714	799	962
Other	41	51	82
C. NET OPERATIONAL INCOME (A-B)	**-61**	**2,187**	**731**
MEMORANDUM ITEMS:			
Net administrative budget in FY18 dollars[6]	1,167	1,097	1,099
SDR interest rate (end-period)	2.74	0.14	0.88
Three-month U.S. Treasury Bill rate (end-period)	1.33	0.09	1.81
Gross Spending on:			
Surveillance	–	469	581
Oversight of global systems	–	113	136
Lending	–	186	164
Capacity development	–	253	399
o/w externally financed direct spending	–	100	174

1/ Figures in U.S. dollars based on an exchange rate of 1.44 $/SDR as of April 30, 2018.
2/ After setting aside a liquidity buffer of 20 percent. Only quota resources of members with strong external position are used for lending.
3/ New Arrangements to Borrow.
4/ Bilateral Borrowing Agreements. The 2016 Borrowing Agreements have an initial term to end-2019, extendable for a further year through end-2020 with creditors' consents.
5/ FY08-global financial crisis; FY12-first year of the flat real budget; FY18-latest year.
6/ Deflated with the Global External Deflator.

Annex. Key IMF Activities since the Spring 2018 GPA

POLICY ADVICE AND ECONOMIC ANALYSIS

- Examined the policies and structural attributes that reduced the impact of the 2008 crisis.
- Analyzed regulatory reform ten years after the Global Financial Crisis.
- Investigated whether gains in emerging market and developing economies (EMDEs) inflation behavior are sustainable as global monetary conditions normalize.
- Analyzed exchange rates and global imbalances in the 2018 External Sector Report.
- Provided an update and stocktaking of assessments of fiscal space.
- Investigated the status and evolution of public sector balance sheets.
- Delivered a paper for the G-20 on the measurement issues affecting the future of work.
- Studied the economic gains from gender inclusion; investigated gender, technology and the future of work; and analyzed women in finance.
- Investigated youth labor markets in EMDEs.

CONTRIBUTIONS TO GLOBAL STABILITY

- Delivered notes to the G-20 on a taxonomy of capital flow management measures and the application of the Fund's Institutional View in practice.
- Provided notes to the G-20 on Strengthening Public Debt Transparency.
- Delivered the Bali Fintech Agenda, discussed the impact of Fintech on financial regulation, and provided initial technical assistance on cyber security in EMDEs.
- Reported on Reinvigorating Trade and Inclusive Growth with the World Bank and WTO.
- Endorsed the core principles for Islamic banking regulation.
- Discussed progress and plans on Fund work on the digital economy.
- Discussed spending needs for achieving selected Sustainable Development Goals.

FUND POLICIES

- Issued guidance on the use of third-party indicators in Fund reports.
- Discussed aspects related to the Fund's review of conditionality, and to Low-income Countries (LIC) facilities.
- Started implementation of the new LIC Debt Sustainability Framework.
- Started to review the Debt Sustainability Framework for Market Access Countries.
- Initiated a review of the Fund's Anti-money Laundering and Combating Financial Terrorism strategy.
- Analyzed preliminary findings from the Fund's Capacity Development Strategy Review.
- Delivered an implementation plan in response to an IEO evaluation on the IMF and fragile states.
- Delivered the Third Progress Report of the Second Phase of the G-20 Data Gaps Initiative (with the FSB Secretariat).

GOVERNANCE AND INTERNAL ORGANIZATION

- Continued work and delivered a progress report on the 15th General Review of Quotas.
- Outlined the scope and terms of reference of the Fund's Comprehensive Compensation and Benefits Review.
- Discussed ongoing efforts and proposals to modernize and streamline Fund operations.
- Advanced work on human resources and knowledge management strategies, outlined plans for the development of an internal digital platform, and launched a comprehensive CD Management and Administration Program.

INTERNATIONAL MONETARY FUND