Key Developments In IMF Policy Work
October 12, 2008-April 22, 2009

This paper summarizes key developments in the Fund's policy work since the 2008 Annual Meetings. Table 1 presents key conclusions of policy initiatives. Table 2 provides a progress report on implementation of the Fund's surveillance priorities.[1]

<table>
<tr><th>Title</th><th>Key Findings and Conclusion</th></tr>
<tr><td colspan="2">FUND PROGRAMS AND LENDING</td></tr>
<tr><td>GRA Lending Toolkit and Conditionality</td><td>The IMF has completed a major overhaul of its lending facilities under the General Resources Account (GRA) and conditionality to enhance their flexibility and ensure they are well-suited to meet members' needs in the current crisis and beyond. The key changes are:
The Flexible Credit Line (FCL), a new lending instrument that can address both actual and potential types of balance of payments (BOP) needs and can provide large and upfront financing for members with very strong policy frameworks, policies, and underlying fundamentals. Access is not capped, but it is expected that it would not normally exceed 1000 percent of quota. There is no conditionality after qualification.
High access precautionary arrangements (HAPAs), available to all members.
A doubling of access limits to 200 percent on an annual basis and 600 percent on a cumulative basis in the credit tranches and under the Extended Fund Facility (EFF) to restore the relevance of Fund lending within normal access limits and provide confidence to members that adequate financing will be available.
A more modern conditionality framework to attenuate stigma and allow better tailoring to members' characteristics, e.g., only ex-ante conditionality for very strong performers; and review based-conditionality (no more performance criteria) for monitoring implementation of structural reforms.
Elimination of rarely-used facilities, including the Supplemental Reserve Facility (SRF), the Compensatory Financing Facility (CFF), and the Short-term Liquidity Facility (SLF). The SLF, approved in 2008, constituted an important step towards developing the Flexible Credit Line as a more general crisis prevention instrument (see above).
Simplification of the charges and maturities structure (e.g., time-based repurchase expectations replaced with price-based early repurchase incentives).
References: IMF Overhauls Lending Framework (PIN/09/85, 3/24/09); GRA Lending Toolkit and Conditionality: Reform Proposals (3/13/09); and GRA Lending Toolkit and Conditionality—Reform Proposals—Supplement 1, Revised Proposed Decisions (3/19/09). Earlier reform proposals were discussed in Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options (2/6/09); Conditionality in Fund-Supported Programs—Purposes, Modalities, and Options for Reform</td></tr>
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[1] See Decision No. 14182-(08/89).

	(1/29/09); *Charges and Maturities—Proposals for Reform* (12/12/08); and *Review of Limits on Access to Financing in the Credit Tranches and Under the Extended Fund Facility, and Overall Access Limits Under the General Resources Account* (9/2/08).
Review of the Adequacy of and Options for Supplementing Fund Resources	Based on a staff analysis of the potential demand for Fund resources, most Directors agreed that a near-term doubling of the Fund's pre-crisis lending capacity (SDR 167 billion or US$250 billion) would be appropriate, at least on a temporary basis. The Board agreed that official borrowing was the most promising approach, and identified finalizing the SDR 67 billion (US$100 billion) borrowing agreement with Japan as a priority (subsequently done). It called upon staff to assess members' interest in bilateral borrowing agreements or note placements; and saw a need to explore with NAB participants the scope for expanding its size and membership and making its procedures more flexible. The Board also stressed the need to ensure the Fund has adequate liquidity buffers. Reference: *IMF Executive Board Has Preliminary Discussions on Adequacy of and Options for Supplementing Fund Resources* (PIN/09/24, 2/26/09).
Borrowing Agreement with the Government of Japan	The Board welcomed and approved arrangements for Japan's commitment of up to US$100 billion (SDR 67 billion) under a borrowing agreement to temporarily supplement the Fund's financial resources. The agreement will bolster the Fund's capacity to provide timely and effective balance of payments assistance to its members. Reference: *IMF Signs US$100 Billion Borrowing Agreement with Japan* (Press Release 09/32, 2/13/09).
Review of the Role and Adequacy of the Fund's Precautionary Balances	The recent rapid increase in Fund credit has shifted the balance from income risk to credit risk. An adequate level of precautionary balances therefore would be essential to protect the value of reserve assets that members place with the Fund, particularly if the Fund were to borrow substantially to supplement its resources. The current target for precautionary balances of SDR 10 billion will be retained for the time being, but kept under close review. A number of Directors observed that it may need to be raised if lending expands significantly and remains high. The Board also endorsed the development of a more transparent and rules-based framework for reserve accumulation, stressing that considerable judgment will remain needed. Once the Fund returns to a positive net income position, surcharge income should again go directly to reserves to help speed up reserve accumulation.
THE PATH OUT OF THE CRISIS	
Initial Lessons of the Crisis For Regulation, Macroeconomic Policies, and the Global Architecture	The staff papers analyzed policy failures in three areas and made specific recommendations in response to help reduce the likelihood and impact of future crises. On regulation, the papers recommended expanding the perimeter of regulation, reducing procyclicality, improving liquidity management, and strengthening information collection and disclosure practices. On macroeconomic policies, the papers suggested dealing with the build-up of systemic risks through pre-emptive policy responses, including to large imbalances and capital flows. Finally, the need to overcome the fragmentation of surveillance expertise, policy responses, cross-border regulation, and liquidity support formed the basis of a proposed reform of the global architecture. The papers also underlined implications

	of the crisis for the role of the IMF, its lending framework, and resources. Directors emphasized the preliminary nature of the exercise, but broadly agreed with most recommendations. They held mixed views on the role of monetary policy in addressing asset-price and credit booms, and on the contribution of global imbalances to the build-up of systemic risk. Governance issues were seen as important in their own right, and there was support for promptly resuming work on quota and voice reform. Reference: *IMF Executive Board Discusses "Initial Lessons of the Crisis"* (PIN/09/30, 3/6/09).
Seminar: The State of Public Finances: Outlook and Medium-term Policies After the 2008 Crisis	The paper called on governments to adopt fiscal strategies to ensure that their solvency is not at risk. Country-specific circumstances should play a key role in determining to what extent further support to the financial sector and demand stimulus are possible without undermining confidence in fiscal solvency. This requires that fiscal stimulus packages should not have permanent effects on deficits; medium-term frameworks should provide a commitment to fiscal correction, once economic conditions improve; structural reforms should be implemented to enhance growth; and countries facing demographic pressures should firmly commit to health and pension reforms. Fiscal stimulus efforts should be coordinated, particularly among advanced countries. The Fund—whose views should be clearly communicated to the public—has an important role to play in monitoring fiscal developments across countries, and in examining stimulus measures taken by major advanced countries and potential spillover effects on emerging market countries. Reference: *IMF Executive Board Holds Board Seminar on The State of Public Finances: Outlook and Medium-Term Policies After the 2008 Crisis* (PIN/09/31, 3/6/09).
Informal Seminar: An Overview of the Legal, Institutional, and Regulatory Framework for Bank Insolvency	The paper provided an overview of the legal, institutional, and regulatory framework that a country may put in place at the domestic level to deal effectively with cases of bank insolvency in periods of financial stability and in systemic crises. In such crises, the framework should allow for a flexible policy response aiming to protect the payments system, limit the loss of depositor and creditor confidence, and restore bank solvency, liquidity, and stability. Decisions would need to be taken quickly and often with limited information. Reference: *An Overview of the Legal, Institutional, and Regulatory Framework for Bank Insolvency* (to be published on www.imf.org).
SUPPORT FOR LOW-INCOME COUNTRIES	
The Fund's Facilities and Financing Framework for Low-Income Countries; and Access Policies under the Poverty Reduction and	The paper on the facilities and the financing framework for low-income countries (LICs) proposed three broad reform options for a simplified and flexible toolkit, in light of diverse country needs and heightened exposure to global volatility: • make the PRGF more flexible by allowing a short-term window and allow precautionary use, and broaden Emergency Post-Conflict Assistance (EPCA) to cover a wider range of needs; • retain the PRGF and create a concessional short-term financing facility similar to a Stand-By Arrangement and a unified concessional emergency facility; and • replace existing facilities with a single concessional instrument with flexible length.

Growth Facility and the Exogenous Shocks Facility	Most Directors supported maintaining the PRGF for protracted adjustment and financing needs; adding a concessional short-term financing facility; and unifying concessional facilities for emergency assistance. The Board noted that additional loan and subsidy resources would need to be mobilized and that concessional resources should be used more flexibly. The Board approved a doubling of access limits under the PRGF and ESF, while also raising the related PRGF access norms, and keeping unchanged access under EPCA and ENDA. These changes aim to ensure that the Fund can respond effectively to the needs of low-income countries severely affected by the global economic downturn. To strengthen procedural safeguards, staff reports for countries with moderate or higher risks of debt distress should include an assessment of debt vulnerabilities, in many cases with an updated debt sustainability analysis. In cases with high access, an advance informal meeting would serve to inform the Board on key aspects of the program. In addition, early notice will be given to the Board when requests or augmentations would have a large impact on the Fund's overall concessional resources. References: *IMF Executive Board Discusses Reforms of Lending Instruments for Low-Income Countries* (PIN/09/38, 3/30/09); and *Modification of Access Policies for the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility* (to be published on www.imf.org).
Financing the Fund's Concessional Lending to Low-Income Countries—Resource Needs and Options	The Board had a preliminary discussion of the financing needs associated with a doubling of the Fund's concessional lending to low-income countries (LICs), and possible options for mobilizing the necessary resources. Directors stressed the need to ensure that the Fund has adequate financing capacity to meet the needs of LICs in a timely manner, and agreed that additional loan resources would need to be mobilized promptly to meet the projected demand. Possible approaches to mobilize the needed subsidy resources include additional bilateral contributions and use of resources from the agreed gold sales, consistent with the Fund's new income model. Staff will provide a follow-up paper following the Spring Meetings.
Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt	The paper reviewed the Fund's policy on external debt limits in low-income countries (LICs) to account for substantial changes in country situations and patterns of financing, including stronger macroeconomic management in a number of LICs; a strengthened framework to analyze debt sustainability; and to address implementation issues. It proposed moving away from a single design for concessionality requirements towards a menu of options to better reflect the diversity of situations, in particular with regard to the extent of debt vulnerabilities and macroeconomic and public financial management capacity. The current practice could continue to be applied to lower capacity countries, but with more flexibility for those with lower debt vulnerabilities. More flexible options, eschewing the debt-by-debt approach of the current policy, could be considered for higher capacity countries. For more advanced LICs, consideration could be given to dropping concessionality requirements. Most Directors supported these proposals. The Board agreed that debt sustainability analyses (DSAs) provide an appropriate basis for assessing debt vulnerabilities, and encouraged further work on the analytical underpinnings of the DSA and the methodology for assessing management capacity. A follow-up paper fleshing out

	some issues and proposing new guidelines on debt limits will be produced prior to the 2009 Annual Meetings. Reference: *IMF Executive Board Discusses Reforms of Lending Instruments for Low-Income Countries* (PIN/09/38, 3/30/09).
Managing Public Debt—Formulating Strategies and Strengthening Institutional Capacity	The joint IMF/World Bank Board paper reported on progress achieved in strengthening public debt management capacity in developing countries, including through the development of the Debt Management Performance Assessment framework and a Medium-term Debt Management Strategy (MTDS) framework. The Board endorsed the new frameworks and encouraged their application to help LICs and MICs implement effective public debt management practices. Reference: *IMF Executive Board Discusses Managing Public Debt: Formulating Strategies and Strengthening Institutional Capacity* (PIN/09/45, 4/6/09).
Joint Staff Advisory Notes (JSANs) – Streamlined Modalities	The World Bank and IMF Boards decided to retain the JSAN for full PRSPs and I-PRSPs, to be issued to the Boards within four months from their publication. By contrast, the JSAN on Annual Progress Reports (APR) has been eliminated and advice on PRS implementation will be provided through a regular Annual Feedback Process for IDA or PRGF-eligible countries. A discussion of the implementation of the PRS will be presented to the both Boards once a year.
ADVANCING SURVEILLANCE PRIORITIES	
World Economic Outlook	The global economy is in the grips of a severe recession inflicted by a massive financial crisis and an acute loss of confidence. World output is expected to contract by about 1¼ percent in 2009, before a sluggish recovery would take place in 2010. The Board emphasized that forceful actions on the financial and macroeconomic policy fronts are needed, with careful consideration of their cross-border implications. Monetary conditions should be eased further and kept supportive for as long as necessary; fiscal policy must continue to play a crucial part in providing short-term stimulus without compromising medium-term sustainability; international policy coordination and collaboration need to be strengthened further; and protectionist pressures should be resisted. Advanced country central banks, the IMF, and other agencies could play a useful role through their financing instruments to cushion the impact of the crisis on emerging and developing countries. Regarding medium-term challenges, the task is to broaden the perimeter of prudential regulation to cover all systemically important institutions; develop a macroprudential approach to both regulation and monetary policy; and upgrade early warning exercises and the communication of risks. Directors welcomed the efforts to closely integrate the conclusions of the GFSR and the WEO analyses, and stressed the need to reflect that integration in a coherent and consistent communications strategy for the public presentation of the documents. Reference: *April 2009 World Economic Outlook*.
Global Financial Stability Report	Global financial stability has deteriorated further since September 2008, as the interaction between falling economic activity and deleveraging intensifies. The crisis, which originated in advanced countries, has now spread to emerging market countries. Breaking this downward spiral requires strong political commitment and

	further enhancement of international cooperation. Directors endorsed the Report's main findings that further policy actions are needed to (i) continue to provide liquidity; (ii) deal with troubled assets on banks' balance sheets; and (iii) recapitalize weak but viable systemically-important institutions. These actions, which need to be carefully considered given high uncertainties in estimating writedowns and recapitalization needs, would reflect varying country circumstances and policy responses to date. Near-term support for the financial sector should be accompanied by credible medium-term strategies of fiscal consolidation to alleviate concerns about fiscal sustainability. Directors also supported the Report's recommendation to expand the perimeter of prudential regulation to encompass all systemically important financial institutions, agreed that the IMF and other international institutions could play a useful role in providing emergency financing, and underlined that the effect of national financial policies can be strengthened if implemented in a coordinated and cooperative way among affected countries. Reference: *April 2009 Global Financial Stability Report*.
Seminar: The Fund-FSB Early Warning Exercise: Proposed Procedure	The Fund-FSB Early Warning Exercise (EWE) aims at identifying macro-financial vulnerabilities at the global level, emphasizing potential spillovers across sectors, countries and markets, and providing policymakers with mitigation options. Combining a wide range of tools and perspectives, the exercise will be presented to the Spring 2009 IMFC meeting in a dry-run. It will be instrumental to further integrate macro-financial and regulatory perspectives into Fund surveillance. Directors supported the exercise but felt more discussion was needed on the modalities of cooperation with the FSB, how and when to engage the Board, and to what extent results should be disseminated.
Informal Seminar on Integrating Financial Sector Issues and FSAP Assessments into Surveillance—Progress Report	The seminar reviewed the key challenges in integrating financial sector issues into surveillance and work being done to address them. Major initiatives are underway to close the gap between multilateral and bilateral surveillance, improve the coverage and quality of financial sector analysis in Article IV consultations, and strengthen the analytical framework and toolkit for studying macro-financial linkages. These include closer collaboration with the FSF—notably through the Early Warning Exercise; stronger cross-country perspective in Article IV consultations; and improved analysis of regional, thematic, and market issues. Efforts also involve dedicating more resources in RES, MCM, and STA to analysis of macro-financial linkages; and building up the Fund's financial sector expertise through recruitment, mobility, and training policies. Many Directors expressed their readiness to support modular FSAPs, and many saw merit in regional FSAPs. The forthcoming review of the joint Bank-Fund FSAPs later this year will provide the opportunity to sharpen the focus of the program, make it more flexible, and integrate its results better into Article IV surveillance.

OTHER ISSUES	
Seventh Review of the Fund's Data Standards Initiatives	The Board expressed broad satisfaction with the execution of the work program on the data standards initiatives since the last review in November 2005, and the growing number of members subscribing to the Special Data Dissemination Standard (SDDS) and participating in the General Data Dissemination System (GDDS). Given recent financial turmoil, most Directors saw merit in adding relevant financial indicators in the SDDS on an encouraged basis and looked to staff for specific proposals within a year, along with a proposal for an appropriate transition period. Most Directors supported modifying the SDDS to require subscribers to indicate where statistical practices deviate from internationally accepted statistical methodologies in their SDDS metadata. Directors agreed to allow annual rather than quarterly certification of SDDS metadata, and they also supported recasting the GDDS to emphasize data dissemination and facilitate graduation to SDDS, including through closer conformity to SDDS specifications. Reference: *IMF Executive Board Reviews Data Standards Initiatives* (PIN/08/147, 12/18/08).
2009 Report on Risk Management	The environment and the profile of risks facing the Fund have changed significantly since the mid-2008 risk report, and are evolving quickly as the economic and financial crisis becomes deeper and more widespread. The Fund faces the challenges to help its membership effectively through the current crisis and contribute to the new financial architecture, make meaningful progress with governance reforms, and, at the same time, complete successfully the refocusing process with temporary staff shortages and skills losses. A stronger focus on credit and liquidity risk, with rigorous application of the safeguards policy in countries using Fund resources, is also warranted. Directors emphasized the need to carefully monitor and evaluate the risk landscape on a regular basis, refine the Fund's risk management framework, and ensure adequate Board involvement.

Table 2. Actions Toward Operational Priorities for Surveillance

Priorities	Specific Initiatives/Actions/Board papers	Status
Risk assessments		
	Fund-FSF Early Warning Exercise	Board discussed proposed procedures on Feb. 4, 2009. Dry run exercise completed at the 2009 Spring Meetings.
	Joint WEO/GFSR outlook statement	Issued to the Board on April 15, 2009.
	Vulnerability exercise for advanced economies (VEA) that supplements the exercise for emerging markets	Methodology developed for assessing risks of financial crisis and growth risks in advanced economies, and first round completed. Informed the April 2009 EWE, WEO and GFSR.
	Development of indicators of fiscal vulnerability	Ongoing initiative. Recent steps include the development of measures of sovereign debt rollover risks and indicators of sovereign solvency risk that informed the VEA; and development of databases of measures in support of the financial system and of discretionary fiscal stimulus measures.
Financial sector surveillance (FSS) and real-financial linkages		
Better integrating FSS into surveillance		
	Integrating FSS into Surveillance	Board paper discussed on Feb. 5, 2009.
	FSS guidance note	Issued to the Board for information on April 22, 2009. Innovations include an interactive web-based platform that guides country teams in using a comprehensive and regularly updated financial sector knowledge base including, for all specific issues to be covered under financial sector surveillance, quantitative tools and other detailed information, direct access to expert staff, and examples of best practices.
	Setting up of a macro-financial unit in the Research Department	Done.
	Hiring financial specialists and macroeconomists with strong financial sector background	Ongoing.
Enhancing data, toolkit, quantitative modeling and other methodologies		
	Enhancing stress-testing and contingent claim analysis (CCA) methodologies	Ongoing initiative. Recent steps include further use of CCA to measure fiscal risks related to implicit guarantees to the financial sector, and incorporation of tail risks in the CCA.
	Enhancing systemic risk measures	Ongoing initiative. Recent steps include using banking stability measures and regime switching models to assess systemic risks as well as examining institutions' direct and indirect systemic linkages, as reflected in the April 2009 GFSR.
	Improving data collection and adapting methodologies to fill data gaps highlighted by crisis	Ongoing initiative. Recent steps include the formation of the Inter-Agency Group on Economic and Financial Statistics and the establishment of STA's Data Link (http://www-intranet.imf.org/departments/STA/collaboration/financial/default.aspx).
Multilateral perspective (cross country studies and spillover analysis)		
	New review process to provide country teams with relevant cross-country studies and comparable country experience.	In place since March 1, 2009.
	New website as a knowledge repository on staff's spillover and linkages analyses and databases	Operational. (http://www-intranet.imf.org/fundwide/collaboration/CCW/default.aspx)