

IMF
2014

INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2014
FROM STABILIZATION TO SUSTAINABLE GROWTH



THE INTERNATIONAL MONETARY FUND

The IMF is the world's central organization for international monetary cooperation. With 188 member countries, it is an organization in which almost all of the countries in the world work together to promote the common good. The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from one another. This is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies. This Annual Report covers the activities of the Executive Board and IMF management and staff during the financial year May 1, 2013, through April 30, 2014. The contents reflect the views and policies of the IMF Executive Board, which has actively participated in its preparation.

The main activities of the IMF include

- providing advice to members on adopting policies that can help them prevent or resolve a financial crisis, achieve macroeconomic stability, accelerate economic growth, and alleviate poverty;
- making financing temporarily available to member countries to help them address balance of payments problems, that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings; and
- offering technical assistance and training to countries, at their request, to help them build the expertise and institutions they need to implement sound economic policies.

The IMF is headquartered in Washington, D.C., and, reflecting its global reach and close ties with its members, also has offices around the world.

Additional information on the IMF and its member countries can be found on the Fund's website, www.imf.org.

Ancillary materials for the Annual Report—Web Boxes, Web Tables, Appendixes (including the IMF's financial statements for the financial year ended April 30, 2014), and other pertinent documents—can be accessed via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2014/eng. A CD-ROM version of the Annual Report, including the ancillary materials posted on the web page, is also available from IMF Publication Services.

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ACRONYMS AND ABBREVIATIONS

ACT	Arab countries in transition
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASEAN+3	Association of Southeast Asian Nations plus China, Japan, and Korea
CDIS	Coordinated Direct Investment Survey
CESEE	central, eastern, and southeastern Europe
CPIS	Coordinated Portfolio Investment Survey
COFER	Currency Composition of Foreign Exchange Reserves
CPI-GBA	Consumer Price Index for Greater Buenos Aires
DGI	Data Gaps Initiative
DSA	debt sustainability analysis
DSF	Debt Sustainability Framework for Low-Income Countries
EAC	External Audit Committee
EC	European Commission
ECB	European Central Bank
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post-Conflict Assistance
EFF	Extended Financing Facility
EWE	Early Warning Exercise
FAS	Financial Access Survey
FATF	Financial Action Task Force
FCL	Flexible Credit Line
FM	<i>Fiscal Monitor</i>
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSRB	FATF-style regional body
FY	financial year
GAB	General Arrangements to Borrow
G20	Group of Twenty
GDDS	General Data Dissemination System
GDP	gross domestic product
GFSR	<i>Global Financial Stability Report</i>
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
ICD	Institute for Capacity Development
IEO	Independent Evaluation Office
IFRS	International Financial Reporting Standards
IMFC	International Monetary and Financial Committee
MAP	Mutual Assessment Process
MDRI	Multilateral Debt Relief Initiative
NAB	New Arrangements to Borrow
OECD	Organisation for Economic Co-operation and Development
OIA	Office of Internal Audit and Inspection
PIN	Public Information Notice
PLL	Precautionary and Liquidity Line
PR	Press Release
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
REO	<i>Regional Economic Outlook</i>
RFI	Rapid Financing Instrument
ROSC	Report on the Observance of Standards and Codes
RTAC	Regional Technical Assistance Center
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standard
SDR	special drawing right
TSR	Triennial Surveillance Review
UMP	unconventional monetary policy
WEO	<i>World Economic Outlook</i>

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ANNUAL REPORT 2014

FROM STABILIZATION TO SUSTAINABLE GROWTH

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The unit of account of the IMF is the SDR (special drawing right); conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. On April 30, 2014, the SDR/U.S. dollar exchange rate was US\$1 = SDR 0.64529, and the U.S. dollar/SDR exchange rate was SDR 1 = US\$ 1.54969. The year-earlier rates (April 30, 2013) were US\$1 = SDR 0.662691 and SDR 1 = US\$1.509.

“Billion” means a thousand million; “trillion” means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

As used in this Annual Report, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

MESSAGE FROM THE MANAGING DIRECTOR AND CHAIR OF THE EXECUTIVE BOARD



Christine Lagarde, Managing Director and Chair of the Executive Board

The year 2014 marks the 70th anniversary of the founding of the IMF. Back in 1944, global leaders were determined to put the chaos and carnage of war behind them, and build a world based on collaboration instead of conflict, integration instead of insularity. The IMF was founded on the core principle that the route to national prosperity runs through global prosperity.

This year also marks the seventh anniversary of the onset of the global financial crisis, which turned into the worst global economic dislocation since the Great Depression. Even so, we did not witness a second Great Depression. This was no accident; rather, it was due to the sound application of the founding principle of the IMF: putting global collaboration first. I am proud of the IMF's role as part of that global response.

Yet there is still a long way to go to secure a sustainable recovery, marked by strong and inclusive growth and rapid job creation. The recovery is ongoing, but it is still too slow and fragile, subject to the vagaries of financial sentiment. Millions of people are still looking for work. The level of uncertainty might be diminishing, but it is certainly not disappearing.

A daunting issue is that changing growth dynamics are complicating the global recovery. Since the recovery is uneven across advanced economies—faster in the United States and the United Kingdom than in the euro area or Japan—the normalization of monetary policy will proceed at different paces in different countries, with potential implications for volatility and growth. At the same time, emerging markets are experiencing a broad-based and synchronized slowdown in growth, which can in turn hurt prospects elsewhere in the world. The risk of very low inflation in Europe is also casting a shadow over the recovery. Rising geopolitical concerns are adding to overall uncertainty.

The situation needs to be managed through the right combination of policies. In this context, the IMF laid out its Global Policy Agenda at both the Annual Meetings in 2013 and the Spring Meetings in 2014. This agenda emphasized the need to strengthen the coherence of policies and cooperation among policymakers. The priorities are clear: advanced economies need to focus on

measured and well-communicated policy choices to secure the recovery; emerging markets need to strengthen their fundamentals, reduce their vulnerabilities, and step up structural reforms; and everyone needs to embrace cooperation and engage in dialogue.

Throughout the crisis and in the recovery period, the IMF has been, and continues to be, an indispensable agent of economic cooperation. It is a principal forum for our 188 member countries to come together and work together. Over the past year, the IMF has continued to support its members—through its surveillance, its lending, and its technical assistance.

The Fund has made it a priority to better integrate bilateral and multilateral surveillance, especially through its Spillover and External Sector Reports, as well as cluster reports. It has helped countries in such areas as fiscal policy in advanced economies; growth strategies and structural reforms in emerging markets; and vulnerabilities, diversification, and structural transformation in low-income countries. It has stepped up work in newer areas with implications for stability and growth—including inequality, the environment, and the economic participation of women.

On the financial front, the Fund continued to support members' reform efforts all across the globe, to help ease the pain of adjustment. This year, the Fund reviewed facilities such as the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—to make sure that they continue to help countries as effectively as possible. The membership also agreed to transfer gold profits to help us meet the financing needs of our low-income members in the years ahead.

The IMF has also stepped up its efforts in capacity development—helping countries design, build, and strengthen the institutions that make up the building blocks of economic success. Since the crisis broke, we have provided training to all of our members and technical assistance to 90 percent of them. Over the past year, the IMF launched new tools and courses, opened a new regional technical assistance center in Ghana, and received \$181 million in new donor funds.

Overall, I am extremely proud of the IMF's accomplishments over the past year, and of the people who made it happen—our dedicated staff and Executive Board. It is a great privilege to serve as Managing Director of this noble institution. I look forward to continuing to adapt to meet the challenges of our entire membership so that the global economy can enjoy a new phase of sustained growth and shared prosperity.

The Annual Report of the IMF's Executive Board to the Fund's Board of Governors is an essential instrument in the IMF's accountability. The Executive Board is responsible for conducting the Fund's business and consists of 24 Executive Directors appointed by the IMF's 188 member countries, while the Board of Governors, on which every member country is represented by a senior official, is the highest authority governing the IMF. The publication of the Annual Report represents the accountability of the Executive Board to the Fund's Board of Governors.



David Lipton, First Deputy Managing Director



Naoyuki Shinohara, Deputy Managing Director



Nemat Shafik, Deputy Managing Director, resigned as of March 18, 2014



Min Zhu, Deputy Managing Director

EXECUTIVE BOARD as of April 30, 2014

Alternate Executive Directors are indicated in italics.



Meg Lundsager
Vacant
United States



Daikichi Momma
Isao Hisbikawa
Japan



Hubert Temmeyer
Steffen Meyer
Germany



Hervé de Villeroché
Vacant
France



Wimboh Santoso
Rasheed Abdul Ghaffour
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SUN Ping
China



Jong-Won Yoon
Ian Davidoff, Vicki Plater
Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu



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Mary T. O'Dea
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines



Rakesh Mohan
Kosgallana Ranasinghe
Bangladesh, Bhutan, India, Sri Lanka



Fahad Alshathri
Hesham Alogeel
Saudi Arabia



Daniel Heller
Dominik Radziwill
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Paulo Nogueira Batista, Jr.
Hector Torres, Luis Oliveira Lima
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago



Stephen Field
Christopher Yeates
United Kingdom



Menno Snel
Willy Kiekens, Oleksandr Petryk
Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine



José Rojas
Fernando Varela, María Angélica Arbeláez
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, Venezuela



Andrea Montanino
Thanos Catsambas
Albania, Greece, Italy, Malta, Portugal, San Marino



Audun Groenn
Pernilla Meyersson
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden



Momodou Saho
Chileshe M. Kapwepwe, Okwu Joseph Nnamdi
Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe



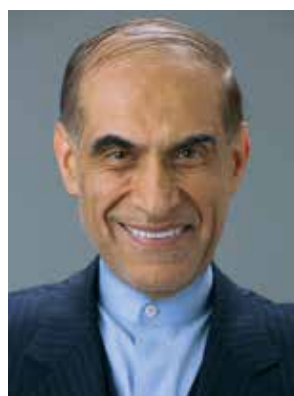
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LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS

July 30, 2014

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 2014, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2015, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2014, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI, which appears on the CD-ROM version of the Report, as well as at www.imf.org/external/pubs/ft/ar/2014/eng/index.htm. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Wang (Chair), Mr. Ramos, and Mr. Loeto, as required under Section 20(c) of the Fund's By-Laws.

Yours very truly,



Christine Lagarde
Managing Director and Chair of the Executive Board

1 OVERVIEW



OVERVIEW



The period from May 2013 through April 2014—the IMF’s financial year 2014¹—saw the world economy reach a critical juncture: emerging from the greatest financial crisis in almost a hundred years. Recovery was taking hold but was too slow and faced many obstacles along the road. In her Global Policy Agenda, the IMF’s Managing Director set out bold policy steps that could overcome these obstacles and take the global economy toward more rapid and sustainable growth. The top priority was to strengthen the coherence of the policies and cooperation among policymakers, both at home and across borders: national prosperity and global prosperity are linked and depend, more than ever before, on countries working together. The IMF is indispensable for this global cooperation.

Through assessments in its various multilateral and bilateral surveillance products and active engagement with its 188 member countries via policy and financial support and capacity development, during the year the IMF continued to assist members in identifying systemic risks and designing strong policies to respond to threats to domestic and global stability.

THE GLOBAL ECONOMY

As the year drew to an end, global activity was strengthening, largely because of improvements in advanced economies, but the recovery was uneven and remained too weak for comfort. Growth remained weak, and millions of people were still out of jobs. Rising geopolitical risks had injected new concerns. Policy actions during the year helped stabilize the global economy, but global financial stability was facing new challenges from the slowdown in emerging markets and the risk of very low inflation in Europe, even as the legacy of the crisis was receding, so the recovery remained modest and fragile. Chapter 2 discusses the year’s economic and financial developments in greater depth.

SURVEILLANCE AND FUND-SUPPORTED PROGRAMS

During the year, the global recovery was uneven and more subdued than had been hoped. Moving from stabilization to strong, sustainable, balanced, and inclusive growth remained a work in progress. Actions to break the cycle of subdued growth and recurrent market jitters included strengthening policy implementation and carefully managing a series of transitions already under

way: normalization of global financial conditions, with the attendant policy spillovers and spillbacks; a shift in growth dynamics, with a rising contribution from advanced economies, lower underlying growth in emerging market economies, and a rebalancing of global demand; and completion of global financial system reform to promote greater stability.

The IMF assisted its members during the year through assessments on such topics as vulnerabilities, diversification, and structural transformation in low-income countries, growth in emerging markets, fiscal policy in advanced economies, and structural issues such as income inequality and the participation of women in the economy. It provided targeted policy advice in the context of bilateral and multilateral surveillance, including spillover reports and cluster reports, as well as financial support. Chapter 3 provides additional information about IMF surveillance and Fund-supported programs during the year.

POLICY ADVICE, GOVERNANCE, AND CAPACITY BUILDING

The IMF provides policy advice to member countries on a variety of issues pertaining to economic stability in the course of overseeing the international monetary system, underpinning programs in member countries, helping countries strengthen their institutions and capacities, and monitoring member countries' economies.

During the year, the Executive Board discussed such issues as fiscal policy, unconventional monetary policy, and macroprudential policy. It also reviewed progress in the major reforms of its governance structure, including quota reform, and reviewed Fund facilities such as the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument, as well as monetary policy conditionality.

The IMF's capacity development through technical assistance and training helps member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. In FY2014 the IMF launched new standardized assessment tools and courses, opened a new Regional Technical Assistance Center in Ghana, and received \$181 million in new donor contributions. The Board reviewed the Fund's capacity development strategy and endorsed reforms. Chapter 4 provides additional details on the IMF's policy advice, governance, and capacity building.

RESOURCES AND ACCOUNTABILITY

Ensuring adequate resources to support members' financing needs has been a priority since the onset of the crisis. In January 2013, the Executive Board adopted new rules and regulations for the IMF's Investment Account to provide the legal framework for implementation of the investment authority expanded under an amendment to the Articles of Agreement. In addition, the threshold was reached for a distribution of the general reserve attributed to windfall gold sales profits for the benefit of the Poverty Reduction and Growth Trust to subsidize loans for low-income countries.

Previous top A robotic production line at a factory in Spain
Previous bottom A control center at a gas company in the Czech Republic
Far left A stock market indicator board in Tokyo, Japan
Far right A container ship at the Miraflores Locks on the Panama Canal
Left Women sell vegetables in the United Arab Emirates
Right Charging mobile phones at a gold mine in Mubende district, Uganda



The changing needs of the IMF's membership have been met within a flat budget through efficiency measures, reprioritization, and better utilization and reallocation of existing resources. During the year, the IMF continued its focus on strong recruitment, quickly responded to the results of the 2013 Staff Survey, and devised a new leadership development framework to

strengthen people management skills. The Executive Board agreed on enhancements to the IMF's transparency policy to improve the effectiveness of the IMF's surveillance and policy advice. Chapter 5 provides additional information about the IMF's financial operations and policies, its work in human resources, and its efforts to enhance transparency and accountability.

2 DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS



DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS



INTRODUCTION

As FY2014 drew to an end, the world economy was gradually turning the corner of the Great Recession. The recovery was gaining momentum and global financial stability was improving. Yet growth remained too slow and too weak for comfort, and millions of people were still out of jobs. Rising geopolitical risks had injected new concerns.

Policy actions in FY2014 helped stabilize the global economy. The United States has adopted a budget and debt ceiling extension, and a strengthening economy has set the stage for normalization of monetary policy. These steps removed important uncertainties that were clouding the outlook in October 2013. In Europe, greatly reduced tail risks due to the implementation of policies at the national and regional levels and the return of growth in almost all countries led to substantial improvements in market confidence in both sovereigns and banks. In Japan, “Abenomics” was making a good start as deflationary pressures were abating and confidence was rising. And emerging market economies, after having experienced several bouts of volatility, were adjusting policies in the right direction.

Yet global financial stability was facing new challenges, even as the legacy of the crisis was receding. The United States needed to ensure an orderly exit from unconventional monetary policy and to contain emerging vulnerabilities in the shadow banking system. In the euro area, high unemployment and incomplete

repair of bank and corporate balance sheets continued to be a drag on the recovery. And in emerging market economies, tighter external financial conditions could expose vulnerabilities from rapid buildup of leverage and balance sheet mismatches and precipitate financial instability. As such, the recovery remained modest and fragile.

THE GLOBAL ECONOMY: SHIFTING GROWTH CONTRIBUTIONS

Global activity strengthened in 2013, largely due to improvements in advanced economies. The pace of global activity picked up in the second half of 2013 to 3 $\frac{2}{3}$ percent at an annual rate—a marked uptick from the 2 $\frac{2}{3}$ percent recorded in the preceding six months. In the April 2014 *World Economic Outlook*, growth was forecast to strengthen to 3.6 percent in 2014 and 3.9 percent in 2015. The drivers of growth continued to shift, with advanced economies accounting for much of this uptick. Emerging market and developing economies continued to contribute more than two-thirds of global growth, even if at a slower pace than in the past.

In advanced economies, activity picked up but at varying speeds. Growth was strongest in the United States, supported by robust private demand and easing financial conditions, setting the stage for normalization of monetary policy. Even so, putting in place a durable medium-term fiscal plan remained critical.

In the euro area, a modest but uneven recovery was taking hold—stronger in the core but weaker in the stressed economies, where high debt, high unemployment, and credit constraints were holding back momentum. Encouraging steps had also been taken to establish a banking union and progress had been made toward conducting a comprehensive assessment of bank balance sheets. Yet implementing a common fiscal backstop was a work in progress. Longer-term concerns about productivity and competitiveness lingered despite progress on structural reforms.

Japan also saw a stimulus-induced surge in activity, which is projected to moderate as the effects of the necessary consumption tax increase unfold. However, for growth to be sustained, the remaining two arrows of Abenomics—structural reforms and a concrete medium-term fiscal plan—still needed to be shot.

With supportive monetary conditions and a smaller drag from fiscal consolidation, overall growth for advanced economies was projected to increase to about 2¼ percent in 2014–15—an improvement of about 1 percentage point compared with 2013.

Activity in emerging market and developing economies, which had been slowing, picked up slightly in the latter part of 2013, driven by stronger demand from advanced economies. At the same time, tighter external financial conditions and continued investment weakness were a drag on domestic demand. Overall, output in emerging market and developing economies expanded at a healthy clip of 4.7 percent in 2013 and was expected to firm up further to 4.9 percent in 2014.

Low-income countries were a particularly bright spot, posting the highest growth rate, at 6.1 percent in 2013—a trend expected to continue through 2014–15. At the same time, prospects in

several economies in the Middle East and North Africa were held back by difficult internal transitions and social unrest.

While acute risks had receded, some old challenges persisted and new ones emerged. Among the new risks was that of prolonged low inflation in advanced economies, especially the euro area. This could suppress demand and output, depress growth and jobs, and make the process of restoring competitiveness in stressed economies even harder. Further monetary easing, including through unconventional measures, was needed in the euro area to help achieve the European Central Bank's price stability objective. Quantitative easing was also recommended to be sustained in Japan.

The second new risk was in emerging market economies. Corporate leverage had been rising, and there was the added risk of heightened market volatility associated with monetary policy normalization in the United States, all against the background of a less forgiving external financial climate. Previous bouts of volatility affected countries with larger domestic and external imbalances. Strong policy responses by those economies would likely be the best safeguard against turbulence and preempt the risk of contagion and broad-based financial stress.

Thirdly, new geopolitical risks emerged, such as the situation in Ukraine, which could have significant spillovers. These risks could potentially affect commodity prices, supply chains, and financial flows.

At the same time, some lingering risks still needed to be fixed. As highlighted in the April 2014 *Global Financial Stability Report*, financial system reform was incomplete and the financial system remained at risk, with systemic liquidity mismatches and limited

Previous top A container harbor in Saint Lucia, Castries **Previous bottom** A worker ventilates grain at a farm in southern Russia **Far left** Working on computers in India **Far right** Processing fish at a plant in Greece **Left** Growers sort flowers for export in Colombia **Right** A modern textile plant in Uzbekistan



progress in tackling the too-big-to-fail problem. Many countries still faced the challenge of reducing high deficits and debts while safeguarding growth. Unemployment remained unacceptably high and inequality was rising.

TOWARD A DYNAMIC, JOB-RICH RECOVERY

Overall, a modest recovery was under way, but needed to change gears toward more rapid, sustainable, and job-rich growth. Ambitious policies were needed across the membership to avoid a medium-term low-growth trap and to secure global financial stability. To address the challenges, action was called for on four main fronts.

Make medium-term growth stronger and more inclusive

Potential growth was low in many advanced economies and could be higher in emerging market economies. A renewed focus on structural reforms was needed to tackle supply side impediments and improve productivity. In advanced economies, policymakers were advised to press ahead with reforms to labor, product, and services markets. Emerging market and developing economies also needed to strengthen effective and rules-based market institutions. Increased investment would be essential both in advanced economies to upgrade infrastructure networks and in emerging and developing economies to remove infrastructure bottlenecks.

Manage the transition from liquidity-driven to growth-driven markets

The April 2014 *Global Financial Stability Report* underscored the importance of completing the global regulatory reform agenda, addressing vulnerabilities in the shadow banking system, and resolving the too-big-to-fail problem. In the United States, timing, execution, and communication were deemed critical to ensure an orderly process of monetary normalization. As global financial conditions were expected to continue to tighten, emerging market economies were advised to enhance their resilience through strong macroeconomic and prudential policies and to provide liquidity

if needed to preserve financial system stability. In the euro area, repair of bank and corporate balance sheets was essential to deal with financial fragmentation, along with progress on banking union. Emerging market economies needed to deepen financial markets to enhance resilience to external financial shocks.

Tackle the legacy of high deficits and debt

The April 2014 *Fiscal Monitor* underlined the challenge for many countries of advancing fiscal consolidation while preserving growth. In advanced economies, where the average fiscal deficit had been halved since the crisis peak, the priority was to calibrate the pace and composition of further adjustment and to lower debt ratios to prudent levels. In emerging market economies, where deficits and debt ratios remained above precrisis levels, fiscal tightening would be needed to address vulnerabilities from large nonresident holdings of debt. Policymakers in low-income countries needed to step up revenue mobilization and improve spending efficiency, while guarding against rapid buildup of debt.

Deal with spillovers and global rebalancing

Subpar growth and repeated bouts of market volatility underscored global interconnectedness and the importance of members working together. At the domestic level, close cooperation among policymakers was recommended to enhance the coherence of the macroeconomic policy mix. Implementing credible medium-term fiscal consolidation plans and structural reforms would ease the burden on monetary policy in supporting growth, thereby reducing financial stability risks. At the international level, greater policy cooperation was needed to deliver stronger, more balanced growth and to mitigate risks of negative policy spillovers and spillbacks. In particular, wider discussions by central banks of their plans and contingencies for liquidity support could help in dealing with the challenges associated with the unwinding of unconventional monetary policy in advanced economies. Moreover, greater cooperation was needed to ensure consistency across national initiatives and prevent fragmentation of global financial regulation. Beyond that, concerted efforts continued to be required by both deficit and surplus countries to support global rebalancing.

3

MANAGING MULTIPLE TRANSITIONS



MANAGING MULTIPLE TRANSITIONS



POLICIES FOR AN INTERCONNECTED WORLD

Monitoring global developments

The Managing Director's Global Policy Agenda

Twice a year, the Managing Director's Global Policy Agenda pulls together the key findings and policy advice from multilateral reports and defines a future agenda for the Fund and its members. The Managing Director's Global Policy Agenda is discussed by the Executive Board before the Annual and Spring Meetings, prior to the agenda's presentation to the International Monetary and Financial Committee.

The October 2013 Global Policy Agenda noted that though the recovery had been disappointing until recently, much had been done to avoid the worst. Multiple transitions under way required careful management; they included normalization of global financial conditions, a shift in global growth dynamics and a rebalancing of global demand, and completion of reforms to the international financial system. The IMF would provide a forum for multilateral policy analysis, dialogue, and cooperation, including on policy spillovers, global imbalances, and the policy mix, and offer targeted policy advice, capacity building, and financial support. Swift progress on governance and quota reforms was key to maintaining the IMF's financial strength and credibility.

The April 2014 Global Policy Agenda reported that global activity was strengthening, but the recovery was uneven and remained too weak for comfort, with geopolitical tensions injecting new concerns. Key challenges included risks from a lasting rise in capital flow volatility for emerging and frontier economies and very low inflation in advanced economies, especially the euro area. The IMF's work would focus on a range of policy issues related to shifting growth drivers, spillovers and spillbacks from monetary normalization, the macroeconomic and financial stability implications of global financial regulatory reform, and the role of policy cooperation. Prompt implementation of the 2010 quota and governance reforms, and completion of the Fifteenth General Review of Quotas by January 2015, remained essential for the IMF's continued legitimacy, financial strength, and credibility.

Surveillance

The IMF oversees the international monetary system and monitors the economic and financial policies of its 188 member countries. This activity, known as surveillance, is established by Article IV of the Fund's Articles of Agreement and is one of the IMF's core responsibilities. As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments. In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

There are two main aspects to the IMF's surveillance work: bilateral surveillance, or the appraisal of and advice on the policies of each member country and multilateral surveillance, or oversight of the world economy. The Integrated Surveillance Decision adopted in 2012 provides the basis for integrating bilateral and multilateral surveillance in a highly integrated world economy. It makes Article IV consultations a vehicle not only for bilateral surveillance but also for multilateral surveillance, thus allowing for a more comprehensive, integrated, and consistent spillover analysis. Since the global financial crisis, financial sector surveillance has also been an area of particular focus.

The IMF regularly reviews its surveillance activities. Most notably, it undertakes a formal review every three years; the last of these Triennial Surveillance Reviews (TSRs) was conducted in 2011.

Group of Twenty Mutual Assessment Process

The Mutual Assessment Process (MAP), an approach to policy collaboration conceived by the Group of Twenty (G20) at its 2009 Pittsburgh Summit, is designed to ensure that collective policy action benefits all. The IMF was asked by the G20 to identify—in collaboration with other international institutions—whether policies pursued by individual G20 countries were consistent with the G20's collective growth objectives. The IMF was also asked to help the G20 membership develop *indicative guidelines* and to use them to identify and evaluate large imbalances among members every two years.²

At the September 2013 *St. Petersburg Summit*, the G20 stressed the importance of ongoing cooperation to address the global challenges of economic growth, jobs, and financial stability. It reiterated its commitment to develop credible medium-term fiscal strategies to ensure sustainable *public finances* in advanced economies, taking into account near-term economic and budgetary conditions. The G20 also committed to monitor and minimize the negative *spillovers* of policies implemented for domestic purposes and reaffirmed its pledge to cooperate to achieve a lasting reduction in global imbalances.

At their February 2014 meeting, G20 finance ministers and central bank governors committed to develop ambitious but realistic policies to lift their collective GDP by more than 2 percent above the trajectory implied by current policies over the next five years. This commitment was informed by IMF staff analysis, and G20 countries agreed to take actions, including increasing investment, lifting employment and participation, enhancing trade, and promoting competition, in addition to implementing macroeconomic policies.³ These actions will form the basis of their comprehensive growth strategies and the 2014 Brisbane Action Plan.

Early Warning Exercise

In November 2008, the G20 asked the IMF and the Financial Stability Board (FSB) to collaborate on regular Early Warning Exercises (EWEs), which assess low-probability but high-impact risks to the global economy and identify policies to mitigate them. The exercises integrate macroeconomic and financial perspectives on systemic risks, drawing on a range of quantitative tools and



Previous top A display panel for the Jakarta Stock Exchange in Indonesia **Previous bottom** A worker at a rice factory in Thailand **Far left** Congolese workers rebuild a neighborhood in Brazzaville **Far right** Tea tins at a factory in Colombo, Sri Lanka **Left** A potato processing plant in Kosovo **Right** A cauliflower field in Kolkata, India



broad-based consultations. The IMF generally takes a leading role on economic, macrofinancial, and sovereign risk concerns, and the FSB, which represents experts and policymakers from financial supervisory agencies and central banks in member countries, on financial system regulatory and supervisory issues.

EWEs identify both the vulnerabilities and triggers that could precipitate systemic crises, and possible risk-mitigating policies, including those that would require international cooperation. They play a role in the IMF's efforts to strengthen surveillance, especially in the areas of economic, financial, and fiscal risks as well as cross-sectoral and cross-border spillovers.

Following discussions at the IMF Executive Board and with the FSB, the EWE's findings are presented to senior officials during the Spring and Annual Meetings. The Executive Board was briefed on EWEs in October 2013 and April 2014.

2014 Triennial Surveillance Review

The IMF's precrisis surveillance suffered from well-documented weaknesses. Surveillance did not adequately identify and warn about mounting risks, in particular from advanced economies. The Fund's 2011 TSR identified needed improvements, such as ensuring that Fund surveillance is as interconnected as the global economy itself.

At an informal Board meeting in September 2013, the Executive Board discussed an IMF staff concept note for the 2014 TSR.⁴ The review would cover areas that address the IMF's core mandate

of ensuring the stability of the international monetary system, provide the most value added for the membership, and leverage the Fund's comparative advantages. It would be based on (1) a review and analysis of Article IV reports⁵ and multilateral surveillance products, (2) guidance from an external advisory group at key stages of the exercise, (3) background studies by external experts and staff, and (4) surveys and interviews with country authorities, staff, and other stakeholders. A review of the Financial Sector Assessment Program (FSAP) would be conducted separately but concurrently with the TSR, with close coordination between the relevant authoring teams. The review would also take into account the findings of other recent work.

Bilateral surveillance

IMF staff continually monitor members' economies. They visit member countries—usually annually—to exchange views with the government and the central bank and consider whether there are risks to domestic and global stability that argue for adjustments in economic or financial policies, in a process known as Article IV consultations. Discussions mainly focus on exchange rate, monetary, fiscal, and financial policies. The IMF staff also typically meets with other stakeholders, such as parliamentarians and representatives of business, labor unions, and civil society, to help evaluate the country's economic policies and direction.

The staff presents a report on the meetings to the IMF's Executive Board, normally for discussion, upon which the consultation is concluded by the Executive Board. The Board's views are subsequently transmitted to the country's authorities. In recent years,

Left A bank branch inside a store in São Paulo, Brazil

Right A wholesale date market in Tunisia



surveillance has become increasingly transparent. Almost all member countries now agree to publish a press release summarizing the views of the Board, as well as the staff report and accompanying analysis. Many countries also publish a statement by the staff at the conclusion of an IMF consultation. During the year, the IMF conducted 123 Article IV consultations (see Web Table 3.1).

Multilateral surveillance

The IMF also monitors global and regional economic trends and analyzes spillovers from members' policies onto the global economy. The key instruments of multilateral surveillance are the regular publications *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Fiscal Monitor* (FM), all part of the World Economic and Financial Surveys. The WEO provides detailed analysis of the state of the world economy, addressing issues of pressing interest, such as the current global financial turmoil and economic downturn. The GFSR provides an up-to-date assessment of global financial markets and prospects, and highlights imbalances and vulnerabilities that could pose risks to financial market stability. The FM updates medium-term fiscal projections and assesses developments in public finances.

The IMF also publishes, as part of its World Economic and Financial Surveys, *Regional Economic Outlook* (REO) reports, providing more detailed analysis for five major regions of the world. In FY2014, REOs were published in April and October on Asia and the Pacific, the Middle East and Central Asia, Sub-Saharan Africa, and the Western Hemisphere, and in October on Central, Eastern, and Southeastern Europe. Publication of the REOs is typically coordinated with extensive outreach events in each region. Press releases summarizing REO findings are posted on the IMF's website, along with the reports themselves and transcriptions and webcasts of press conferences held upon publication.⁶ The Executive Board's discussion of issues in international taxation and the role of the IMF is included in Chapter 4.

Pilot External Sector Reports

Since 2012 the IMF has prepared a Pilot External Sector Report, which places the external positions of systemically large economies in a globally consistent setting. Together with the Spillover Report and Article IV consultations (with their heightened focus on spillovers), the Pilot External Sector Report is part of a continuous effort to ensure the IMF is in a good position to address the possible effects of spillovers from members' policies on global stability and to monitor external sectors in a comprehensive manner.

The Executive Board discussed the 2013 Pilot External Sector Report at an informal meeting in July 2013. This second pilot report covered the period 2012 through the first half of 2013. The report integrated the analysis from the Fund's bilateral and multilateral surveillance to provide a coherent assessment of exchange rates, current accounts, reserves, capital flows, and external balance sheets. It took into

account feedback received on the previous report by placing a greater emphasis on capital flows and through further refinements to the external balance assessment methodology.

Spillover Reports

Since 2011, the IMF has prepared Spillover Reports analyzing the impact of economic policies in the world's five largest economies—China, the euro area, Japan, the United States, and the United Kingdom—on partner economies. At an informal meeting in July 2013, the Executive Board considered the 2013 Spillover Report. According to the report, five years after the global financial crisis, the severe tensions and risks rooted in 2011 in some of the “systemic five” had abated, but all five were still operating below potential, that is, they were not contributing to global activity as much as they might. If they could somehow close their output gaps, global output would be closer to potential by 3 percentage points.

The mandate to examine spillovers as a central part of the Fund's revamped surveillance framework has put the Fund in a much better position to assess the global impact of country policies and to provide advice on such policies with benefits to its multilateral work. This could enhance the dialogue across countries and would allow fuller consideration of how to achieve rapid and sustainable growth by helping to build a more shared diagnosis.

As events warrant, the Executive Board is kept abreast of developments in the world economy that merit particular attention. In January 2014, the Executive Board was also briefed on spillovers from Venezuela to other countries in the region, due to the lack of official Article IV consultations with Venezuela.

Global liquidity

The global financial crisis and associated policy interventions have highlighted how financial shocks are transmitted in an interconnected global economy. Global liquidity has been discussed in the context of spillovers from the general monetary easing in advanced economies—focusing not only on the immediate effects from particular measures, but also on the global financial stability implications of prolonged accommodation.

At an informal meeting in March 2014, the IMF staff briefed the Executive Board on issues for multilateral surveillance in regard to global liquidity. Drawing on analytics, the IMF policy paper prepared for the briefing⁷ suggested indicators across various types of economies for tracking global liquidity, based on the expected impact of those indicators on macrofinancial conditions and stability across countries. For monitoring purposes, the indicators were organized into a dashboard tracing their trends over time. The dashboard tracked well the evolution of global financial conditions, with several indicators already monitored in flagship multilateral surveillance products.

Cluster reports

One of the recommendations of the 2011 Triennial Surveillance Review was strengthening of work on interconnectedness and spillovers. As part of its response to that recommendation, the IMF has undertaken a pilot to cluster Article IV consultations and assess spillovers across groups of interconnected countries, by examining the risks from common shocks, highlighting shared policy challenges, and identifying potential gains from policy coordination. These cluster reports complement the Article IV consultations for the countries concerned.

In August 2013, the Executive Board considered the Nordic Regional Report on Denmark, Finland, Norway, and Sweden.⁸ Executive Directors welcomed recent progress at the Nordic and European levels in setting up mechanisms to deal with distressed banks, which should help resolve many of the current differences in supervisory practices and resolution preferences. They noted that the development of a banking union at the European level provides a valuable opportunity for deeper regional coordination that is also in alignment with the broader European scheme.

A second cluster report, the German–Central European Supply Chain Cluster Report, was considered by the Board in July 2013.

Review of the Fund's Strategy on Anti–Money Laundering and Combating the Financing of Terrorism

In March 2014, the Executive Board reviewed the Fund's strategy on Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT).⁹ Executive Directors acknowledged the Fund's contribution to the response by the international community to money laundering and the financing of terrorism and encouraged continued cooperation in this area with the World Bank, the Financial Action Task Force (FATF), and the FATF-style regional bodies (FSRBs). They also highlighted the important role played by the Fund in capacity-building efforts in member countries on AML/CFT.

Executive Directors endorsed the 2012 revised AML/CFT standard and the new assessment methodology for the Fund's operational work, which was expected to result in more focused and meaningful assessments because of the greater attention paid to risks and country context. They noted that deficiencies in a country's AML/CFT regime can have important implications for macroeconomic and financial stability and broadly supported the direction taken by the IMF staff in including financial integrity issues in Article IV consultations and IMF-supported programs when these issues are macro-critical.

Executive Directors reaffirmed that AML/CFT assessments are an important part of the Reports on the Observance of Standards and Codes (ROSCs) program¹⁰ and of the Financial Sector Assessment Program (FSAP), and stressed the importance of

ensuring adequate quality of assessment reports across the range of assessor bodies. They noted that, with the expansion of the FATF and FSRBs network in recent years, the Fund has increasingly drawn upon the FATF/FSRBs assessments for the purposes of its own work, in application of the burden-sharing arrangements between the international financial institutions and the FATF/FSRBs. In this respect, Executive Directors welcomed the steps taken by the FATF to strengthen quality and consistency controls for future assessment reports and looked forward to all assessor bodies implementing similar controls. They encouraged the staff to participate actively in the review mechanisms, as resources permit. The current system of converting all assessments into ROSCs following a pro forma review will be maintained.

Executive Directors also stressed the importance of timely and accurate AML/CFT input into every FSAP report. They agreed that, where possible, this input should be based on a comprehensive, quality AML/CFT assessment and, in due course, on targeted updates/ROSCs, in line with the approach taken under other standards and codes.

To facilitate this, Executive Directors encouraged continued efforts by all assessor bodies to align their assessment schedules with the FSAPs. They also noted that, consistent with the general policy, the staff would, if necessary, supplement the information derived from the ROSCs to ensure the accuracy of AML/CFT input. In addition, they recognized that there may be instances where comprehensive assessments or targeted updates against the prevailing standard will not be available. Executive Directors generally agreed that, in these instances, the staff may need to derive key findings on the basis of other sources of information.

Executive Directors noted the resource implications of (1) the increased inclusion of AML/CFT issues in surveillance and in Fund-supported programs, (2) the assessments under the revised methodology, and (3) the IMF staff's participation in the strengthened quality and consistency controls. In light of the overall budget situation, most Executive Directors considered it appropriate for the staff to reduce the number of Fund-led comprehensive assessments to two or three per year. Executive Directors noted that the next review of the AML/CFT program would be expected to be completed within the next four years.

Financial sector surveillance

Financial Surveillance Strategy

The IMF's Financial Surveillance Strategy was adopted by the Executive Board in September 2012 in line with a key recommendation of the 2011 Triennial Surveillance Review. The strategy sets out concrete and prioritized actions over three to five years to strengthen financial surveillance to help the Fund fulfill its mandate of ensuring the effective operation of the international monetary system and supporting global financial



Left A laboratory assistant at a health center in Ngoma, Rwanda
Right A woman sells tortillas at a market in Mexico City

stability. It is built on three main pillars: improving risk identification and policy analysis, fostering an integrated view of financial sector risks in products and instruments, and engaging more effectively with stakeholders.

In September 2013, the Executive Board was briefed on progress in implementing the strategy.¹¹ Over the first year of implementation, it was reported, progress had been made on each of the three pillars, especially on improving risk identification and policy analysis. This had laid the necessary groundwork for strengthening financial surveillance.

However, resource constraints had impeded progress in other areas, such as increasing the frequency of FSAPs to vulnerable countries beyond the 25 listed as of systemic importance. Over the next year, implementation would focus on those areas where further progress was most needed.

Review of mandatory financial stability assessments under the Financial Sector Assessment Program

In September 2010, the Executive Board made stability assessments under the Financial Sector Assessment Program a mandatory part of bilateral surveillance under Article IV for 25 jurisdictions with systemically important financial sectors. In December 2013, the Executive Board reviewed experience with the first cycle of mandatory assessments and the lessons learned from the financial crisis.¹²

Executive Directors highlighted the success in implementing the decision, with mandatory financial stability assessments already

completed or under way for almost all of the jurisdictions identified. They noted that the use of a more risk-based approach to financial sector surveillance had enabled the IMF to allocate FSAP resources more effectively and had helped strengthen the integration of FSAP assessments and Article IV consultations in these jurisdictions.

Executive Directors agreed that it was necessary to align the legal basis for mandatory financial stability assessments with the 2012 Integrated Surveillance Decision. The decision made Article IV consultations a vehicle for both bilateral and multilateral surveillance, enabling the IMF, in an Article IV consultation, to examine spillovers arising from a member's domestic policies when these could significantly influence the effective operation of the international monetary system. Consistent with that approach, mandatory financial stability assessments would also cover spillovers from a member's financial sector policies when those policies either undermined the member's own stability or could significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability.

Executive Directors endorsed the proposal to modify the methodology for determining systemically important financial sectors to incorporate lessons from the crisis, in particular, the importance of interconnectedness. They took note of the 29 jurisdictions whose financial sectors had been determined by the Managing Director to be systemically important. The list of jurisdictions and the methodology itself, it was observed, would need to be periodically reviewed. (At an informal meeting in November

2013, the Executive Board was given a technical briefing on the list of systemically important financial centers.)

At the same time, most Executive Directors expressed concern that the shift towards a more risk-based approach had reduced the availability of voluntary FSAPs in jurisdictions with non-systemic financial sectors.

Low-income countries

Because of the particular challenges they face, low-income countries are a particular focus for the IMF. In addition to the specific areas of attention discussed in the remainder of this section, the IMF engages with these countries by providing financing, on concessional terms, to member countries that are eligible for the Poverty Reduction and Growth Trust (PRGT) and have balance of payments problems; see “Concessional Financing” later in the chapter.

2013 Vulnerability Exercise for Low-Income Countries

In September 2013, the Executive Board discussed the 2013 “Low-Income Countries Global Risks and Vulnerabilities Report.”¹³ Executive Directors concurred that the examination of specific adverse shock scenarios—a temporary shock to growth in emerging markets and a protracted sluggish growth shock in the euro area—was both timely and appropriate. The shocks considered had been smaller in magnitude than those examined in the 2012 paper on low-income country vulnerabilities, reflecting a decision to focus on proximate risks rather than less probable tail risk scenarios.

Executive Directors broadly agreed with the report’s policy recommendations. They welcomed the continued resilience of growth in most low-income countries since the global financial crisis, but noted that there was little room for complacency given the uneven progress in rebuilding fiscal and external buffers and the significant downside risks to the global economy. Executive Directors called for countries to enhance their resilience through rebuilding fiscal and external buffers and developing well-targeted fiscal adjustment measures, stronger efforts to develop domestic financial markets, and strengthening institutional capacity. A proactive engagement between low-income countries and the IMF would be important, it was noted, including technical assistance that was well aligned with the reform needs in vulnerable countries.

Executive Directors noted that, in the event of a serious adverse external shock, the countries’ external financing needs would need to be filled through a combination of domestic policy adjustment and external support, depending on country circumstances. The IMF and other international financial institutions were well positioned, it was observed, to provide financing in support of sound policies, but increased aid from bilateral donors would also be needed. Executive Directors emphasized that in situations where fiscal adjustment is needed due to a global shock, this adjustment should safeguard priority expenditures, including infrastructure and poverty-related spending, and prioritize measures such as phasing out universal energy subsidies, strengthening revenue administration, and implementing well-designed tax reforms.

Executive Directors reiterated the importance of concluding the distribution of the remaining gold sales windfall profits to secure the Fund’s ability to provide adequate financial support over the

Box 3.1

How women help economic growth

A September 2013 IMF study found striking economic benefits from increased female participation in the workforce. The paper, “Women, Work, and the Economy,”^a made the case for policymakers to give women equal opportunities to participate in the workforce. For example, the study found, if the number of female workers were raised to the same level as that of men, GDP would expand in the United Arab Emirates by 12 percent, in Japan by 9 percent, and in the United States by 5 percent.

The paper pointed to a variety of obstacles to women’s workforce participation. The number of women in the workforce remains far below that of men the world over, it noted, with only about half of women of working age employed. Women account for most unpaid work, and when they are paid, they are overrepre-

sented in the informal sector and among the poor, and they continue to be paid less than men for the same jobs.

Government tax and spending policies as well as labor market regulation can be reformed to help boost female employment, according to the study. For example, taxing individual rather than family income—which in many economies imposes a higher marginal tax on the second earner in households—would encourage women to seek employment. Linking social benefits to participation in the workforce, training, or active labor market programs can also help increase female employment, as can the availability of good, affordable child care and greater opportunities for paternity and maternity leave.

^a The paper is available at www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf.

longer term (see “Gold Sales” in Chapter 5). Given limits on the available external financing, they underscored the importance of channeling resources to vulnerable countries and those most affected by shocks. They also highlighted the importance of integrating the results of the vulnerability exercise into Fund surveillance and program-related work.

Policy on debt limits in fund-supported programs

In January 2014, the Executive Board informally discussed a staff proposal for the review of the Fund’s debt limits policy. The proposal built on input received during an earlier Board discussion in March 2013¹⁴ and extensive consultations with stakeholders carried out by the IMF staff in the ensuing months. In reviewing the Fund’s debt limits policy in March 2013, most Executive Directors agreed that because no changes were needed to the design of debt limits in programs funded under the General Resources Account (GRA), the focus of the discussion was on the details of debt conditionality in IMF arrangements with low-income countries. Executive Directors asked the staff to come back with revised proposals for a new framework for such arrangements.

Aid for trade

The IMF is one of the six core partner agencies of the World Trade Organisation’s Enhanced Integrated Framework, a global partnership between least-developed countries, donors, and international organizations that supports countries in becoming more active players in the global trading system. The heads of these agencies met in Geneva in July 2013, during the Fourth Global Review of Aid for Trade,¹⁵ to examine how to use development assistance to connect developing- and least-developed-country firms to value chains. The agency heads recommitted to helping the world’s poorest communities get more from global trading networks as the international community moves to a post-2015 development agenda.

Sustaining long-run growth and macro stability in low-income countries

At an informal meeting in March 2014, the Executive Board discussed the role of structural transformation and diversification in sustaining long-run growth and macroeconomic stability in low-income countries. Empirical analysis by the IMF staff using a newly constructed cross-country data set, complemented by country case studies, to examine patterns of diversification and transformation since the mid-1960s, formed the basis for the discussion.¹⁶

Most low-income countries have historically been heavily dependent on a narrow range of traditional primary products and on a small number of export markets for the bulk of their export earnings and sources of growth. These patterns have been changing over the past two decades, the analysis found, albeit with

significant variation in the extent of diversification both across and within regions. According to the analysis, there is still ample scope to upgrade the quality of the countries’ existing export basket or introduce new higher-value-added products, not only in manufacturing but also in agriculture—often the least productive sector. Development policies should therefore include rather than abandon agriculture.

Cross-country empirical evidence presented in the analysis points to a range of general policy and reform measures that have proven effective in promoting diversification and structural transformation. These include improving infrastructure and trade networks, investing in human capital, encouraging financial deepening, and reducing barriers to entry for new products. But there is no one-size-fits-all recipe, as evidenced by the diversity of experiences recorded in the country case studies. The analysis introduced a new diversification toolkit, developed by the IMF staff and now publicly available,¹⁷ which provided easy access to highly disaggregated, product-level data on export diversification and product quality. The toolkit would enable country authorities and mission teams to conduct more detailed, country-specific analysis.

Emerging markets

The Executive Board is briefed periodically or meets informally on issues or topics of interest in regard to emerging markets. During the year, several such briefings and meetings took place. At an informal meeting in September 2013, the Board discussed developments and prospects for growth in emerging market economies; the meeting included a presentation by the IMF staff, “Emerging Markets: Where Are They, and Where Are They Headed?” The Board was also briefed at an informal meeting in February 2014 on recent developments in emerging markets and in April 2014 on emerging market policy experience in handling external volatility.

Vienna 2 Initiative

The European Bank Coordination Initiative (known as the Vienna Initiative), launched at the height of the global financial crisis, is a framework for safeguarding the financial stability of emerging Europe in the wake of the financial crisis. It was relaunched as “Vienna 2” in January 2012 as a new wave of crisis in the euro area unfolded. The Vienna 2 Initiative is designed to help avoid disorderly deleveraging of Western parent banks in respect to their affiliates in the countries of central, eastern, and southeastern Europe (CESEE); ensure that potential cross-border financial stability issues are resolved; and achieve policy actions, notably in the supervisory area, in the best joint interest of home and host countries.

The IMF is a member of the Vienna 2 Initiative Steering Committee, along with the European Bank for Reconstruction and Development, European Investment Bank, World Bank Group,

and European Commission, and the home and host countries—Albania, Italy, and Romania. The initiative publishes the quarterly *CESEE Deleveraging and Credit Monitor*, makes recommendations to relevant European institutions for improvements in supervisory coordination and cross-border bank resolution, and organizes “Host Country Cross-Border Banking Forums” that provide an opportunity for dialogue between the banks that are systemically important in a country and major interlocutors of those banks: the monetary authority and regulator, the parent international banking groups, and the latter’s regulators. During the year covered by this report, these forums were organized for Albania, Croatia, and Serbia.¹⁸

Priorities for 2014

At its January 2014 meeting, the Steering Committee agreed on five priorities for the initiative in 2014:¹⁹ promoting an all-inclusive banking union, with a special focus on non-EU members in southeastern Europe; closely monitoring deleveraging and credit trends in CESEE countries; tackling the critical nonperforming loan problem in the CESEE countries through a coordinated multistakeholder effort; increasing credit enhancement and risk mitigation to support new credit in the context of still-high risk perception in the region; and developing faster local funding sources in CESEE countries.

Arab countries in transition

As of the end of April 2014, the IMF had approved a total of \$10 billion in financial support for Arab countries in transition (ACTs). The Fund-supported programs of Jordan, Morocco, and Tunisia were on track, and the Fund was in discussions with Yemen on a possible new arrangement under the Extended Credit

Facility and stood ready to engage in program discussions with Egypt should the authorities request such support. IMF engagement also took the form of working with donors, providing policy advice, and building capacity. During the year the Fund conducted almost 180 technical assistance missions in the Middle East and North Africa, and its various training events were attended by about 1,100 participants from the region.

During the year, the Board was briefed on ACTs at a number of informal meetings: developments and key policy challenges (October 2013), recent developments and outlook, including Deauville Partnership efforts (February 2014), and the economic reform agenda (March 2014). An April 2014 IMF staff report on the regional economic outlook and key challenges noted that despite uneven progress, there were early signs of improvement and macroeconomic stabilization in some ACTs.²⁰ Persistently weak growth and subdued private investment amid heightened regional insecurity continued to weigh, however, on the task of reducing unemployment.

This situation called for accelerated reform efforts by the authorities to achieve higher, more inclusive, and more private-sector-led growth, supported by external partners. In addition, mobilizing affordable external financing could help boost well-implemented public investment and provide a short-term impetus to growth and employment, thereby stabilizing difficult sociopolitical conditions on the ground and providing space for deeper structural reforms.

Small states

More than one-fifth of IMF members are countries with populations of under 1.5 million (small states). Three out of four small states are islands or widely dispersed multi-island states; others are

Left Farmers pick strawberries for export in Morocco **Right** Bauxite mining trucks in Ocho Rios, Jamaica



landlocked, and some are located far from major markets. These small states are a diverse group representing all income categories, but all of them face size-related constraints. They have higher fixed and variable costs of providing public goods, with little scope to exploit economies of scale. In the private sector, higher costs have led to concentrated markets with less competition.

Very high shares of imports and exports in most small states help them to overcome weak competition and to invigorate growth. But this high degree of openness, along with hindrances to diversification, has made them more vulnerable to shocks in global markets. Domestic financial markets in small states tend to be shallow. They have less favorable access to global capital as investors often perceive them to be more risky. To make matters worse, most small states are prone to natural disasters and some are particularly susceptible to climate change.

In recent years, the IMF has endeavored to enhance its engagement in small states, an area that has received steady attention in its work agenda. This renewed focus on small states has been repeatedly welcomed by IMF member countries, including in the October 2013 communiqué of the International Monetary and Financial Committee. This increased emphasis on small states reflects the growing recognition of these countries' special needs and challenges and the role that the IMF can play in helping them address these challenges but also learn from them.

One example of this increased engagement is the *Asia and Pacific Small States Monitor*, which published its inaugural issue in April 2014.²¹ The *Monitor*, which is expected to be published quarterly, focuses on recent macroeconomic developments and topical issues covering the small states of the Asia and Pacific region. A staff guidance note has also been issued to enhance the IMF's engagement with its small member countries.

To weather natural disasters and other external shocks, small states have used a number of IMF financing instruments, including the Rapid Credit Facility, a type of emergency assistance. Delivery of technical assistance and training, particularly through the IMF's regional technical centers, plays a vital role in building small states' capacities (see "Capacity Development" in Chapter 4). The IMF is also collaborating closely with other international institutions and development partners to meet small states' needs and learn from their experiences.

FINANCING AND THE GLOBAL SAFETY NET

A core IMF role is to provide financial assistance in line with the IMF's policies and procedures to member countries experiencing actual, prospective, or potential balance of payments problems. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth,

while undertaking policies to correct underlying balance of payments problems.

IMF financing provides a cushion that eases the adjustment policies and reforms that a country must make to correct its balance of payments problem and restore conditions for strong economic growth.

Financing resources

The IMF can use its quota-funded holdings of currencies of financially strong economies to provide financing to its members.²² The Executive Board selects these currencies generally on a quarterly basis based on members' balance of payments and reserve positions. Most are issued by advanced economies, but the list also has included currencies of emerging market economies, and in some cases of low-income countries, as well. The IMF's holdings of these currencies, together with its own special drawing right (SDR) holdings, make up its usable resources for providing financing. If needed, the IMF can temporarily supplement these resources through borrowing—both through its standing borrowing arrangements and through bilateral arrangements. At April 30, 2014, the IMF's outstanding borrowings under bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangements to Borrow, amounted to SDR 47.3 billion (\$73.28 billion).²³ (Additional sources of financing resources are discussed elsewhere in this report: see "Gold Sales" in Chapter 5 for information on use of proceeds from the IMF's gold sales for financing provided to low-income countries, as well as the discussion of resources for debt relief to low-income countries via the Poverty Reduction and Growth Trust later in this chapter. See also "Review of the Adequacy of the Fund's Precautionary Balances" and "Risk Management" in Chapter 5 for information on measures the Fund takes to safeguard its financial resources.)

Borrowing arrangements

The IMF has two standing sets of credit lines, the General Arrangements to Borrow (GAB, established in 1962) and the New Arrangements to Borrow (NAB, established in 1998 and significantly expanded in 2010). Under these arrangements, a number of member countries or their institutions stand ready to lend additional funds to the IMF, through activation of the arrangements. As of April 30, 2014, 31 bilateral borrowing arrangements were in effect, for SDR 276.5 billion.

The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions, including a number of emerging market economies. A proposal by the Managing Director to "activate" the NAB becomes effective only if it is accepted by participants representing 85 percent of total credit arrangements of participants eligible to vote and is then approved

by the Executive Board. The NAB can be activated for periods of up to six months; once activated, it can provide up to SDR 370.0 billion (about \$573.4 billion) in supplementary resources. The NAB was activated twice during the time period covered by this report, in October 2013 and April 2014, with each activation for the maximum six-month period.

The GAB enables the IMF to borrow specified amounts of currencies from 11 advanced economies (or their central banks). A proposal for calls under the GAB may be made, however, only when a proposal for the establishment of an activation period under the NAB is not accepted by NAB participants.

The GAB and an associated credit arrangement with Saudi Arabia have been renewed, without modifications, for a period of five years from December 26, 2013. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion (about \$26.3 billion), with an additional SDR 1.5 billion (\$2.3 billion) available under the associated arrangement with Saudi Arabia. The GAB has been activated 10 times, the last time in 1998. Drawings under the GAB count toward a member's commitment under the NAB, and vice versa.

Bilateral borrowing agreements

Resources available to the IMF under a set of 2012 bilateral borrowing agreements serve as a second line of defense to the Fund's quota and NAB resources.²⁴ Against the background of very difficult economic and financial conditions in the global economy, in 2012, 38 countries committed to increase IMF resources further by \$461 billion through such agreements.

Engagement with regional financing arrangements

Regional financing arrangements provide financial assistance to countries in difficulties, drawing on resources pooled or committed at the regional level. Since the global financial crisis, these arrangements have been recognized as an important layer of the global financial safety net.

Regional financing arrangements potentially have an important impact on the functioning of the international monetary system and on the work of the Fund. There are synergies between these arrangements and the Fund in terms of increased firepower in global response to crises, better understanding of economies and policies through the sharing of experiences and expertise, and strengthened ownership of adjustment programs and associated policies. At the same time, the existence of multiple layers in the global financial safety net could pose coordination challenges due to the diverse mandates of regional financing arrangements and multilateral institutions such as the Fund.

At an informal meeting in May 2013, the Executive Board discussed the IMF's engagement with regional financial arrangements, based

on an IMF staff paper²⁵ and issues raised at an IMF-G20 seminar on the role of regional financial arrangements in the international financial architecture and cooperation with the IMF. The paper summarizes the current landscape of regional financing arrangements and discusses coordination between the IMF and these arrangements to date, as well as options for enhancing cooperation, noting that there have been increasing calls for a more structured approach to coordinating lending by regional financing arrangements and the Fund. The introduction of more structured coordination, it notes, might enhance the predictability of such cofinancing and increase the efficacy of crisis fighting.

Program design

IMF resources are usually made available to members under a financing "arrangement." The member's economic program being supported by an IMF arrangement is formulated by the country assisted by the IMF and presented to the Executive Board in a "Letter of Intent," to which are normally attached a memorandum of economic and financial policies and a technical memorandum of understanding. Once an arrangement is approved by the Board, IMF resources are usually released in phased installments over the period of the arrangement. (The Board's review of debt limits in Fund arrangements is discussed earlier in the chapter.)

Financing instruments and facilities

Over the years, the IMF has developed various financing instruments and facilities that are tailored to address the specific circumstances of its diverse membership. All countries have access to the General Resources Account. PRGT-eligible members (low-income countries) may borrow on concessional terms through several IMF financing facilities under the PRGT, and a variety of facilities offer financing to all IMF members on nonconcessional terms if they are eligible for the PRGT. The IMF reviews its facilities periodically to ensure that they remain responsive to the membership's needs.

Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument

In February 2014, the Executive Board discussed the review of the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).²⁶ Executive Directors considered that the FCL and the PLL had both provided valuable insurance to members against external shocks and helped boost market confidence during a period of heightened risks. They broadly agreed that the FCL, PLL, and RFI should remain in the Fund's lending toolkit, which was an important component of the strengthened global financial safety net. At the same time, they saw scope for further refinements and welcomed efforts to enhance their effectiveness, transparency, and attractiveness while also preserving the revolving nature of the Fund's limited resources. The review was completed in early

FY2015 and the Executive Board approved the proposals on unification (also known as alignment) and enhanced transparency.

Executive Directors reiterated that FCL and PLL support provides a temporary supplement to reserves during periods of heightened external risks and that countries making use of these resources are expected to exit in a timely manner. They underscored that assessing external risks remains an important aspect in access and exit discussions. With regard to the RFI, most Executive Directors supported keeping the existing access limits unchanged.

Executive Directors generally agreed that the approach of full scoring of precautionary arrangements in the forward commitment capacity remained appropriate, providing important assurance that committed resources would be available to the membership in all circumstances.

The IMF staff was asked to return to the Board with further analysis and proposals to enhance transparency and predictability in qualification assessments and access and exit discussions, including the unification of the criteria for assessing FCL and PLL qualification, as well as indicators of institutional strength and external stress. It was noted that Executive Directors would take stock in three years' time, or sooner if necessary, of experience with the use of the FCL, PLL, and RFI, and assess the need for a comprehensive review of each of these instruments, including a review of commitment fees, at that time.

Conditionality

When the IMF provides financing to a member, understandings are reached with the authorities on economic policies needed to

overcome the balance of payments problems that led it to seek financial aid from the international community. More specifically, in accordance with the Fund's Articles of Agreement and implementing decisions of the Executive Board, program conditions are established on the use of Fund resources, with the aim to ensure that such resources are provided to the member to help it resolve its balance of payments problems in a manner consistent with the Articles of Agreement and that establishes adequate safeguards for the temporary use of the IMF's resources. Reforms to the GRA lending toolkit approved in 2009 streamlined program conditionality in order to enhance national ownership of strong and effective policies.

Conditionality in IMF-supported programs generally consists of variables or measures that are of critical importance for achieving the member's program goals—that is, the underlying macroeconomic and structural policies—or for monitoring program implementation, or are necessary to implement specific provisions of the Articles of Agreement or policies adopted under them. As noted above, conditionality also provides safeguards for the temporary use of IMF resources. The IMF reviews conditionality regularly as part of its effort to assess policies and adapt to a changing environment.

Review of conditionality in countries with evolving monetary policy regimes

Over the past decade there have been significant changes in monetary policy regimes, particularly in developing countries, which need to be taken into account when establishing monetary policy conditionality in Fund-supported programs. There are clear guidelines and established practices for monetary conditionality for money-targeting and inflation-targeting frameworks. However,



Left Men craft carpets in Peshawar, Pakistan **Right** Rehabilitation of an old block in Bucharest, Romania.

there was no specific conditionality framework for countries with evolving monetary policy regimes. At a meeting in March 2014, the Executive Board reviewed monetary policy conditionality in countries with evolving monetary policy regimes.²⁷

Executive Directors saw merit in employing a review-based approach to monetary conditionality and broadly endorsed the IMF staff's proposal to enhance the existing framework by introducing a monetary policy consultation clause (MPCC) as an additional tool for monetary policy conditionality that could be used for countries that have the capacity to adjust policy settings in a flexible way to achieve their monetary policy objectives. The MPCC would be based on a specified central path for a target variable (i.e., monetary aggregate or inflation) that would normally have a single tolerance band. A formal consultation with the Executive Board would be triggered if the target variable deviates from the band. Directors noted that many developing countries with scope for independent monetary policy were moving toward more flexible and forward-looking monetary policy frameworks, generally focused around the broad objective of achieving price stability. A weaker relationship between monetary aggregates and inflation implied a decline in the relevance of monetary aggregates as reliable indicators of the monetary stance in countries with low inflation, changing financial landscapes, and facing exogenous shocks. Moreover, the nonobservances of reserve money targets in Fund-supported programs had typically not been correlated with inflation deviations in countries that had already achieved single-digit inflation levels.

Executive Directors considered that the MPCC could enhance monetary policy conditionality in programs in which countries have a strong track record of policy implementation, a relatively low and stable inflation rate, and adequate technical capacities. In this regard, Executive Directors generally pointed to the importance of de facto central bank autonomy in monetary operations, macroeconomic and financial stability, and the capacity for quantitative analysis of the inflation process, for successful implementation of the flexible monetary policy framework under the MPCC.

Executive Directors underscored the importance of evenhanded application of the standard and urged the staff to consider, on a case-by-case basis, whether it would be appropriate for a member to use the MPCC, noting that some countries may not currently meet all the institutional guideposts or have other characteristics that make the use of the MPCC premature. They emphasized the importance of the proposed consultation clause in safeguarding the use of Fund resources. They considered that the traditional framework for monetary policy conditionality would continue to be relevant for many countries, including those with less-developed institutional frameworks and a track record of relatively high inflation. Nonetheless, it was observed, the Fund should support developing countries that seek to modernize their conduct

of monetary policy. Executive Directors welcomed the staff's efforts to build institutional capacity and enhance data provision and analysis in these countries.

Executive Directors supported a measured approach by the staff to the introduction of the MPCC in countries where conditions for successful implementation are broadly in place. Directors looked forward to taking stock of implementation of the new conditionality framework once sufficient experience had been gained. It was requested that the Operational Guidance Note on Conditionality be updated to incorporate the enhancements of the review-based monetary conditionality framework discussed by the Board.

Financing during the year

The main resources for Fund financing are provided by member countries through their payment of quotas. Borrowing provides a temporary supplement to quota resources and has played a critical role in enabling the Fund to meet members' needs for financial support during the global economic crisis. However, there are increasing concerns about delays in implementing the quota increases under the Fourteenth General Review and the Fund's continued reliance on borrowed resources.

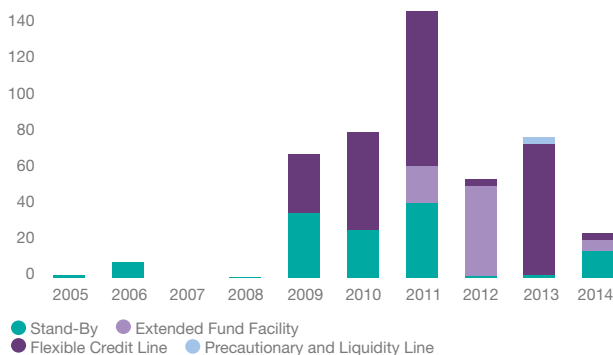
Nonconcessional financing

During the financial year, the Executive Board approved nine arrangements in the IMF's General Resources Account (nonconcessional financing facilities), for a gross total of SDR 24 billion (\$37.2 billion).²⁸ Almost 60 percent of these commitments were represented by three Stand-By Arrangements (SBAs) for Romania, Tunisia, and Ukraine amounting to SDR 13.9 billion (\$21.5 billion), Romania's SBA being a follow-on arrangement and treated as precautionary. About one-quarter of these commitments (SDR 6.3 billion, or \$9.7 billion) were for five new extended arrangements under the Extended Financing Facility (EFF) for Albania, Armenia, Cyprus, Jamaica, and Pakistan. In addition, a successor arrangement under the Flexible Credit Line for Colombia was approved (SDR 3.9 billion, or \$6.0 billion).

In total, by the end of April 2014, purchases²⁹ from the General Resources Account reached SDR 11.7 billion (\$18.1 billion), with purchases by the three euro area program countries (Greece, Ireland, and Portugal) accounting for 76 percent of the total. Repurchases for the period amounted to SDR 20.6 billion (\$32 billion). These included an early repurchase (repayment) by Hungary, in August 2013, of its remaining obligation under its 2008 Stand-By Arrangement.³⁰

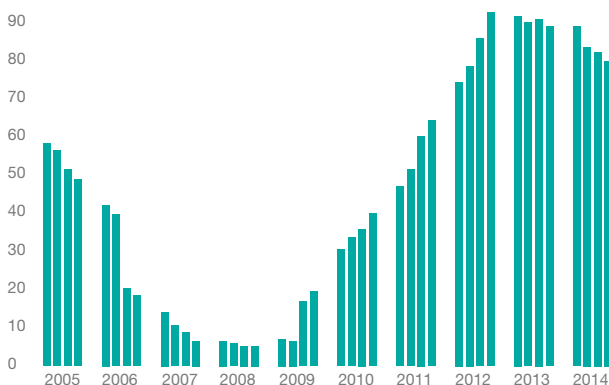
Table 3.1 provides general information about the IMF's financing instruments and facilities, and Table 3.2 and Figure 3.1 detail the arrangements in the GRA approved during the year, with Figure 3.2 offering information on financing amounts outstanding over the last 10 years.

Figure 3.1
Arrangements approved during financial years
ended April 30, 2005–14
(Billions of SDRs)



Source: IMF Finance Department.

Figure 3.2
Nonconcessional financing outstanding, FY2005–14
(Billions of SDRs)



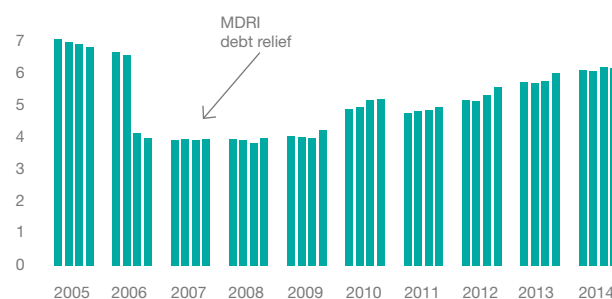
Source: IMF Finance Department.

The rate of charge for nonconcessional financing during the year is discussed in Chapter 5 (see “Income, charges, remuneration, and burden sharing” in that chapter).

Concessional financing activity in FY2014

The Fund committed loans during the year amounting to SDR 0.14 billion (\$0.22 billion) to its low-income member countries from the Poverty Reduction and Growth Trust. Total concessional loans from the PRGT to 60 members amounted to SDR 6.1 billion (\$9.5 billion) at April 30, 2014. Detailed information regarding new arrangements and augmentations of access under the Fund’s concessional financing facilities is provided in Table 3.3. Figure 3.3 illustrates amounts outstanding on concessional loans over the last decade.

Figure 3.3
Concessional financing outstanding, FY2005–14
(Billions of SDRs)



Source: IMF Finance Department.

Note: MDRI: Multilateral Debt Relief Initiative.

The Fund continues to provide debt relief to eligible countries under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). As of April 30, 2014, 36 countries had reached their decision points³¹ under the HIPC Initiative; of these, only Chad has yet to reach the completion point. All countries that reach the completion point under the enhanced HIPC Initiative, and those with per capita incomes below \$380 and outstanding debt to the Fund at the end of 2004, are eligible for debt relief under the MDRI. Afghanistan, Haiti, and Togo did not have MDRI-eligible debt with the Fund and therefore did not receive debt relief under this initiative from the IMF. In total, the IMF has provided debt relief of SDR 2.6 billion under the HIPC Initiative and SDR 2.3 billion under the MDRI, including debt relief to two non-HIPC countries.

No assistance was provided through the Post-Catastrophe Debt Relief (PCDR) Trust during the year. This trust was established in June 2010 to allow the Fund to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters.

Policy Support Instrument

In addition to the IMF’s concessional financing facilities (see Table 3.1), the IMF also offers a Policy Support Instrument (PSI) to countries that have established broadly sustainable macroeconomic positions and do not generally require IMF financing. The PSI provides more frequent IMF assessments of a member’s economic and financial policies than is available through surveillance. This support from the IMF delivers clear signals to donors, creditors, and the general public on the strength of a country’s policies.

The Executive Board completed its final reviews under the existing PSIs and granted new three-year PSIs for Mozambique, Rwanda, and Uganda during the year.³²

Table 3.1
IMF financing facilities

Credit facility (year adopted) ¹	Purpose	Conditions	Phasing and monitoring
CREDIT TRANCHES AND EXTENDED FUND FACILITY³			
Stand-By Arrangements (SBA) (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions.
Extended Fund Facility (EFF) (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt up to 4-year program, with structural agenda, with annual detailed statement of policies for the next 12 months.	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions.
Flexible Credit Line (FCL) (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual.	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record.	Approved access available up front throughout the arrangement period, subject to a midterm review after 1 year.
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies.	Strong policy frameworks, external position, and market access, including financial sector soundness.	Large frontloaded access, subject to semiannual reviews (for 1–2-year PLL).
SPECIAL FACILITIES			
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need.	Efforts to solve balance of payment difficulties (may include prior actions).	Outright purchases without the need for full-fledged program or reviews.
FACILITIES FOR LOW-INCOME MEMBERS UNDER THE POVERTY REDUCTION AND GROWTH TRUST			
Extended Credit Facility (ECF) (2010) ⁵	Medium-term assistance to address protracted balance of payments problems.	Adopt 3–4-year ECF arrangements (may be extended to a total of 5 years). ECF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.
Standby Credit Facility (SCF) (2010)	To resolve short-term balance of payments and precautionary needs.	Adopt 12–24-month SCF arrangements.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews (if drawn).
Rapid Credit Facility (RCF) (2010)	Rapid assistance for urgent balance of payments needs where an upper-credit-tranche-quality program is not needed or feasible.	No review-based program necessary or ex post conditionality.	Usually in a single disbursement.

¹ Except for that financed by the Poverty Reduction and Growth Trust (PRGT), the IMF's lending is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or Special Drawing Rights (SDRs)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchasing foreign currency or SDR assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchasing its currency from the IMF with foreign currency or SDRs. ECF, RCF, and SCF concessional lending is financed by a separate Poverty Reduction and Growth Trust. For PRGT lending, the Executive Board agreed on April 8, 2013, that once the quota increase under the Fourteenth General Review of Quotas becomes effective, access norms and limits as a percentage of quota should be reduced by half.

² The rate of charge on funds disbursed from the General Resources Account (GRA) is set at a margin over the weekly interest rate on SDRs. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 200 percent of quota; 30 basis points for amounts in excess of 200 percent and up to 1,000 percent of quota; and 60 basis points for amounts in excess of 1,000 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By, Flexible Credit Line, Precautionary and Liquidity Line, or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement. For facilities for the low-income members under the Poverty Reduction and Growth Trust, an interest rate mechanism was established in 2009 linking the concessional interest rates to the SDR interest rate and regular reviews. At these reviews, the applicable interest rates are set as follows: if the average SDR interest rate observed in the most recent 12-month period is less than 2 percent, the interest rate for ECF and RCF loans shall be set at 0 percent per year, and at 0.25 percent per year for SCF loans; if the average SDR interest rate is 2 percent or more, up to 5 percent, the interest rate for ECF and RCF loans shall

Access limits ¹	Charges ²	Schedule (years)	Installments
Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years). ⁴	3¼–5	Quarterly
Annual: 200% of quota; cumulative: 600% of quota.	Same as above.	4½–10	Semiannual
No preset limit.	Same as above.	3¼–5	Quarterly
250% of quota for 6 months; 500% of quota available upon approval of 1–2-year arrangements; total of 1,000% of quota after 12 months of satisfactory progress.	Same as above.	3¼–5	Quarterly
Annual: 50% of quota; cumulative: 100% of quota.	Same as above.	3¼–5	Quarterly
Annual: 100% of quota; cumulative: 300% of quota.	0% through end of 2014.	5½–10	Semiannual
Annual: 100% of quota; cumulative: 300% of quota; Precautionary: annual 75% of quota and average annual 50% of quota.	Same as above.	4–8	Semiannual
Annual: 25% (shocks window 50% of quota); cumulative (net of scheduled repayments): 100% (shocks window 125% of quota)	Same as above.	5½–10	Semiannual

be set at 0.25 percent per year, and at 0.5 percent per year for SCF loans; if the average SDR interest rate is greater than 5 percent, the interest rate for ECF and RCF loans shall be set at 0.5 percent per year, and at 0.75 percent per year for SCF loans. A precautionary arrangement under the SCF is subject to an availability fee of 15 basis points per year on the undrawn portion of amounts available during each six-month period. In December 2012, the Board agreed to extend an exceptional temporary interest waiver on concessional loans to end-December 2014 in view of the global economic crisis.

³ Credit tranches refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the *first credit tranche* and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper-credit-tranche* drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside an arrangement is rare and expected to remain so.

⁴ Surcharge introduced in November 2000. A new system of surcharges took effect on August 1, 2009, replacing the previous schedule: 100 basis points above the basic rate of charge on amounts above 200 percent of quota, and 200 basis points surcharge on amounts above 300 percent of quota. A member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, August 1, 2009, had the option to elect between the new and the old system of surcharges.

⁵ ECF previously known as Poverty Reduction and Growth Facility.

Termination of the Emergency Post-Conflict and Natural Disaster Assistance Administered Subsidy Account

In 2001, the Fund established an administered account to subsidize Emergency Post-Conflict Assistance (EPCA) provided from the GRA to PRGT-eligible countries. In 2005, the purposes of the account were expanded to include subsidization of Emergency Natural Disaster Assistance (ENDA). This account, the EPCA/ENDA Subsidy Account, was financed through bilateral contributions provided by 19 member countries, originally amounting to SDR 40.9 million.

A reform of the IMF's facilities for PRGT-eligible countries, which became effective in January 2010, established the Rapid Credit Facility (RCF). The RCF provides concessional financial assistance to low-income countries facing an urgent balance of payments need and thus replaced the subsidized use of emergency assistance previously provided from the GRA. In accordance with the EPCA/ENDA Subsidy Account Instrument, the process of terminating the account began in late 2013, following the repayment earlier in the year of the last outstanding EPCA/ENDA credit by low-income countries.

The account was terminated on February 1, 2014. It had enabled subsidization of SDR 406 million in purchases made since 2001 under EPCA/ENDA.

The remaining balance of subsidy resources in the account at the time of termination, SDR 10.6 million, was disposed of in accordance with the wishes of the 19 members that had originally

provided the resources. Eleven contributors requested that their remaining contributions, totaling SDR 7.1 million, be transferred to one of the four PRGT (mainly RCF or General) subsidy accounts. The remaining eight contributors transferred their shares into accounts that support IMF technical assistance, had their contributions returned to them, or had their contributions placed in a temporary administered account pending a final decision on the disposition.

Table 3.3
Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2014
(Millions of SDRs)

Member	Effective date	Amount approved
NEW THREE-YEAR EXTENDED CREDIT FACILITY¹ ARRANGEMENTS		
Burkina Faso	December 27, 2013	27.1
Mali	December 18, 2013	30.0
Sierra Leone	October 21, 2013	62.2
Subtotal		119.3
AUGMENTATION OF EXTENDED CREDIT FACILITY ARRANGEMENT²		
Subtotal		
NEW STANDBY CREDIT FACILITY ARRANGEMENT		
Subtotal		
DISBURSEMENT UNDER RAPID CREDIT FACILITY		
Mali	June 18, 2013	10.0
Samoa	May 24, 2013	5.8
Subtotal		15.8
Total		135.1

Source: IMF Finance Department.

¹ Previously Poverty Reduction and Growth Facility.

² For augmentation, only the amount of the increase is shown.

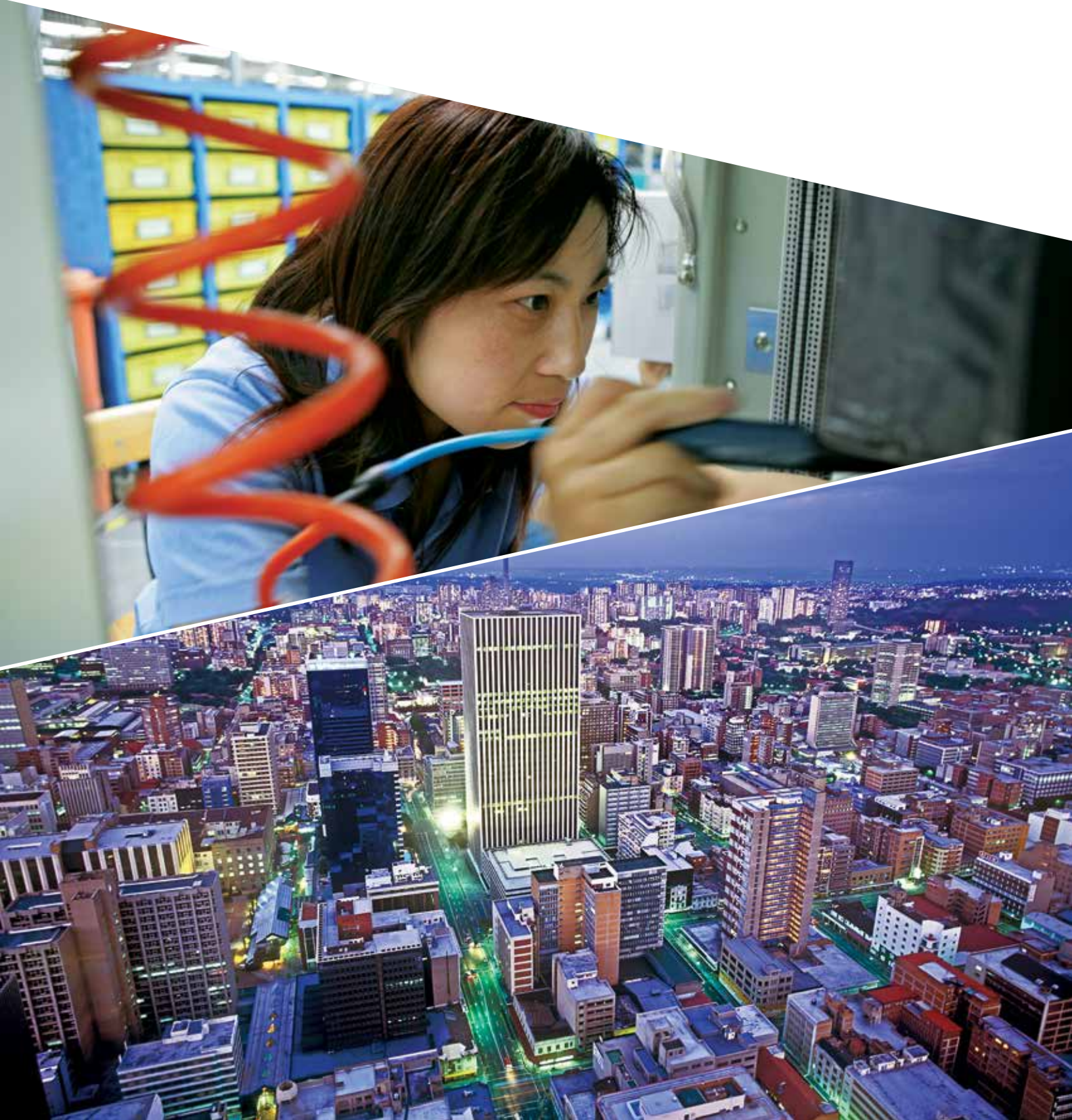
Table 3.2
Arrangements in the General Resources Account approved in FY2014
(Millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
NEW ARRANGEMENTS			
Albania	36-month Extended Fund Facility	February 28, 2014	295.4
Armenia, Republic of	38-month Extended Fund Facility	March 7, 2014	82.2
Colombia	24-month Flexible Credit Line	June 24, 2013	3,870.0
Cyprus	36-month Extended Fund Facility	May 15, 2013	891.0
Jamaica	48-month Extended Fund Facility	May 1, 2013	615.4
Pakistan	36-month Extended Fund Facility	September 4, 2013	4,393.0
Romania	24-month Stand-By	September 27, 2013	1,751.3
Tunisia	24-month Stand-By	June 7, 2013	1,146.0
Ukraine	24-month Stand-By	April 30, 2014	10,976.0
Subtotal			24,020.4
AUGMENTATIONS OF ARRANGEMENTS¹			
Bosnia and Herzegovina	33-month Stand-By	January 31, 2014	135.3
Subtotal			135.3
Total			24,155.6

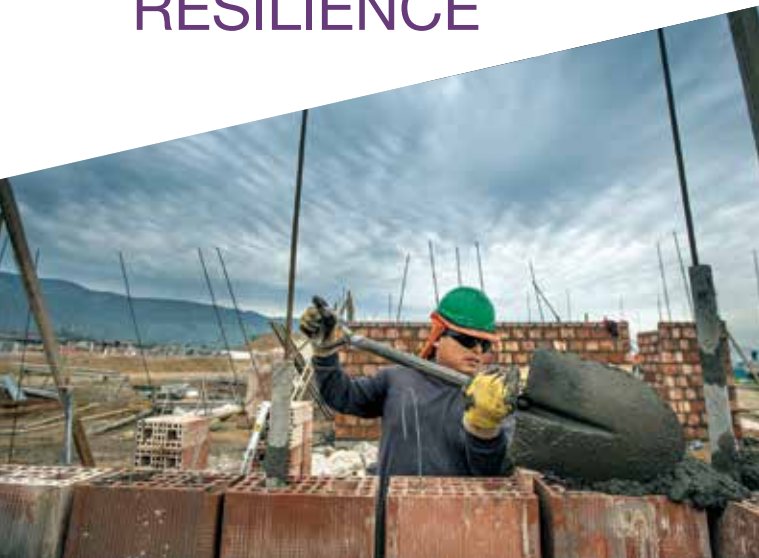
Source: IMF Finance Department.

¹ For augmentation only the amount of the increase is shown

4 SUPPORTING A SUSTAINABLE RECOVERY AND RESTORING RESILIENCE



SUPPORTING A SUSTAINABLE RECOVERY AND RESTORING RESILIENCE



POLICY ADVICE

In the course of overseeing the international monetary system, underpinning programs in member countries, helping countries strengthen their institutions and capacities, and monitoring member countries' economies, the IMF provides policy advice to member countries on a variety of issues pertaining to economic stability.

Fiscal policy

Reassessing the role and modalities of fiscal policy in advanced economies

In the wake of the global financial crisis, advanced economies have experienced much larger shocks than was previously thought possible, and sovereign-bank feedback loops have amplified sovereign debt crises. This has led to reassessing what constituted “safe” sovereign debt levels for advanced economies and prompted a more risk-based approach to analyzing debt sustainability. Precrisis views about the interaction between monetary and fiscal policy have also been challenged by the surge in central bank purchases of government debt. This surge has helped restore financial market functioning, but to minimize the risk of fiscal dominance, it is critical that central bank support be a complement to, not a substitute for, fiscal adjustment.

At an informal meeting in July 2013, the Executive Board was briefed on how developments during and after the global financial crisis had changed economists' and policymakers' views on fiscal risks and fiscal sustainability, the effectiveness of fiscal policy as a countercyclical tool, the appropriate design of fiscal adjustment programs, and the role of fiscal institutions. According to the IMF staff paper prepared for the briefing,³³ the crisis provided evidence that fiscal policy is an appropriate countercyclical policy tool when monetary policy is constrained by the zero lower bound, the financial sector is weak, or the output gap is particularly large. Nevertheless, a number of reservations regarding the use of discretionary fiscal policy tools remain valid, particularly when countries face “normal” cyclical fluctuations.

In the design of fiscal adjustment programs, given the nonlinear costs of excessive front-loading or delay, the paper found that countries not under market pressure could proceed with fiscal adjustment at a moderate pace under a medium-term adjustment plan to enhance credibility. Front-loading is more justifiable in countries under market pressure, the paper found, though even these countries faced “speed limits” that governed the desirable pace of adjustment. The proper mix of expenditure and revenue measures is likely to vary, depending on the initial ratio of government spending to GDP, and must take into account equity considerations.

The crisis also revealed the challenges involved in establishing credible medium-term budget frameworks and fiscal rules to

underpin fiscal policy that are flexible enough to respond to cyclical fluctuations, according to the paper. Shortcomings in fiscal reporting also point to a need for reassessing the adequacy of fiscal transparency institutions.

Fiscal policy and income inequality

Rising income inequality in advanced and developing economies has coincided with growing public support for income redistribution, at a time when fiscal restraint is an important priority in many countries. At an informal meeting in February 2014, the Executive Board discussed an IMF staff paper³⁴ on fiscal policy as the primary tool for governments to affect income distribution, including options for reform of expenditure and tax policies to help achieve distributive objectives efficiently in a manner consistent with fiscal sustainability and recent evidence on how fiscal policy measures can be designed to mitigate the impact of fiscal consolidation on inequality.

Both tax and expenditure policies need to be carefully designed to balance distributional and efficiency objectives, according to the paper, including during fiscal consolidation. The appropriate mix of instruments will depend on administrative capacity, as well as on society's preferences for redistribution, the role envisaged for the state, and political economy considerations. In advanced economies, options include using means testing, with a gradual phasing out of benefits as incomes rise to avoid adverse effects on employment; raising retirement ages in pension systems, with adequate provisions for the poor whose life expectancy could be shorter; improving the access of lower-income groups to higher education and maintaining access to health services; implementing progressive personal income tax rate structures; and reducing regressive tax exemptions.

Options in developing economies, the paper found, are consolidating social assistance programs and improving targeting, introducing and expanding conditional cash transfer programs as administrative capacity improves, expanding noncontributory means-tested social pensions, improving access of low-income families to education and health services, and expanding coverage of the personal income tax. Innovative approaches, such as the greater use of taxes on property and energy (such as carbon taxes) could also be considered, the paper noted, in both advanced and developing economies.

International taxation and the role of the IMF

In the discussion of the Executive Board work program in June 2013, it was urged that the IMF increase its presence in discussions on international tax issues. At an informal meeting in July 2013, the Board reviewed key issues and initiatives in this area and considered a work plan based on the IMF's mandate and macroeconomic expertise, which would complement the work of other institutions, notably the Organisation for Economic Co-operation and Development (OECD).³⁵

The IMF Staff has carried out this work plan, focusing on macro-relevant cross-country spillovers from national tax design and practices (e.g., tax avoidance by multinationals). The work explores understudied aspects of the spillover issue, such as quantifying magnitudes. Drawing on the Fund's extensive analytical and technical expertise in the economics and practicalities of international taxation, including its technical assistance and its near-universal membership, the staff also assessed issues of special importance for developing countries under the current international tax architecture and arrangements. The staff has cooperated closely with the OECD, as well as the United Nations

Previous top A switch production technician in Shanghai, China
Previous bottom Johannesburg, South Africa, at dusk **Far left** A construction worker in Santiago, Chile **Far right** All-female staff at Bharatiya Mahila Bank in India **Left** An Egyptian archeological technician restores pottery in Giza, Egypt **Right** Workers at a shoe factory in Ethiopia



and European Commission, and conducted extensive outreach to civil society organizations and the private sector.

Standardized assessment tools

Countries at all income levels often grapple with conflicting demands for both higher spending and lower taxes. In these circumstances, measures to strengthen tax administration effectiveness are critical if the necessary fiscal space is to be found to improve public services, reduce poverty, and improve social outcomes, while collecting taxes fairly, efficiently, and transparently. While much has been achieved in reforming and modernizing tax administrations, there is still no single effective approach to assessing the relative strengths and weaknesses of a tax administration.

The IMF established the Code of Good Practices on Fiscal Transparency in 1998, in the wake of the Asian financial crisis. Its aim was to help governments provide a clear picture of their structure and finances.³⁶ Despite steady improvements in the comprehensiveness and quality of fiscal reporting, the recent economic crisis revealed many shortcomings in understanding government fiscal positions. A 2012 IMF study identified a need to strengthen fiscal reporting and introduce more comprehensive

assessments of fiscal risks. A revised draft Fiscal Transparency Code has been developed to strengthen surveillance activities related to fiscal transparency (see Box 4.1). It includes a new Fiscal Transparency Evaluation that will replace the fiscal module of the Report on the Observance of Standards and Codes (fiscal ROSC).

The new evaluation takes a more analytical, modular, and graduated approach to evaluating countries' fiscal reporting practices and outputs. The IMF has developed other new tools for assessment and surveillance described in Box 4.2. For a discussion of how the global financial crisis changed views on fiscal policy in advanced economies, see "Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies" earlier in this chapter.

Fiscal sustainability

Unification of discount rates used in external debt analysis for low-income countries

Following an extended period of historically low interest rates in advanced economies, the discount rate used in World Bank–IMF debt sustainability analyses (DSAs) became a weak measure for

Box 4.1

Update of the Code of Good Practices in Fiscal Transparency Initiative

Fiscal transparency allows better-informed debate by both policymakers and the public about the design and results of fiscal policy and helps establish accountability for its implementation. By strengthening understanding of macroeconomic policies and choices, fiscal transparency can improve access to domestic and international capital markets. It also helps to highlight risks to the fiscal outlook, allowing an earlier and smoother policy response to changing economic conditions, thereby reducing the incidence and severity of crises.

The new Fiscal Transparency Code^a provides information needed for good fiscal management and decision making in three main areas: fiscal reporting, budgeting and fiscal forecasting, and fiscal risk analysis and management. The enhanced focus on fiscal risk is a particular improvement on the original code, which devoted relatively little attention to the area. This shortcoming became evident during the global financial crisis when the realization of contingent liabilities was a major factor behind the deterioration in fiscal positions. The Code places greater emphasis on the quality of published information, rather than the procedures and laws underlying them. It also takes into account different levels of institutional capacity across member countries, differentiating between basic practices, achievable by all members; good practice, providing an intermediate goal and requiring stronger institutional

capacities; and advanced practice, reflecting international standards, in line with the current state of the art.

The Fiscal Transparency Evaluation (FTE) takes a more analytical, quantitative approach to assessing published fiscal data and sources of fiscal risk, identifying not just the weaknesses in a country's practices, but also the size of the reporting gaps. These quantitative measures help distinguish between more and less macro-critical shortcomings in fiscal transparency, allowing for more targeted recommendations. The FTE provides an accessible summary of the strengths and weaknesses of country practices and the option of a fiscal transparency action plan to lay out the concrete steps to better support technical assistance by the IMF and other partners.

A draft of the Fiscal Transparency Code was released for public consultation in July 2013, and eight FTEs have been undertaken in countries in a range of income levels and regions. Based on the findings of these evaluations and feedback from consultations with key stakeholders and the public, a final version of the Code will be submitted to the Executive Board for approval and publication in 2015.

^a The Code is available at www.imf.org/external/np/fad/trans/code.htm.

discounting cash flows over the longer term. Estimates of the burden of debt service were inflated, leading to an unjustifiable narrowing of the assessed borrowing space available to countries under the joint Debt Sustainability Framework for Low-Income Countries (DSF).

In October 2013, the Executive Board approved a proposal for the unification of discount rates used in external debt sustainability analysis for low-income countries.³⁷ The proposal was also approved by the Executive Board of the World Bank. The unification simplifies the system used by the two institutions in analyzing external debt issues in low-income countries by replacing the different methodologies previously used with a single discount rate. Analytical tools affected by these changes include the Debt Sustainability Analysis and the calculation of concessional lending rates. The new unified discount rate was set at 5 percent, a level broadly aligned with the discount rate currently used for calculating the grant element of long-term U.S. dollar-denominated loans, and will remain unchanged until the completion of the next review of the DSF by the Executive Boards of the World Bank and the IMF in 2015.

Sovereign debt restructuring: Recent developments and implications for the Fund's legal and policy framework

Since the 2005 Board review of sovereign debt restructuring, there have been important developments in the area. In 2012, Greece launched the largest sovereign debt restructuring in history. Other recent restructurings include those in Belize, Jamaica, and St. Kitts and Nevis. Separately, ongoing litigation against Argentina could have pervasive implications for future sovereign debt restructurings. In May 2013, the Executive Board discussed an IMF staff paper on recent developments in sovereign debt restructuring and their implications for the Fund's legal and policy framework.³⁸

Executive Directors broadly supported IMF staff plans to proceed on four areas for follow-up work identified in the paper. First, debt restructurings had often been too little and too late, thus failing to reestablish debt sustainability and market access in a durable way. Overcoming these problems was likely to require addressing the timeliness and scope of debt restructurings action on several fronts. This could be achieved, it was observed, by enhancing the rigor and transparency of debt sustainability and market access assessments and taking measures to alleviate the costs associated with restructurings. In addition, it would be useful to explore possible reforms to the Fund's lending framework that would allow for a more calibrated approach in high debt situations, prevent the use of Fund resources to bail out private creditors ahead of a restructuring, and ensure better outcomes for the membership.

Second, while creditor participation had been adequate in recent restructurings, the contractual, market-based approach to debt restructuring in evidence at the time of the discussion was

becoming less potent in overcoming collective action problems, especially in predefault cases. In response, consideration could be given to making the contractual framework more effective, including through the introduction of more robust aggregation clauses into international sovereign bonds, bearing in mind the intercreditor equity issues that such an approach may raise. The IMF could also consider ways to condition use of its financing more tightly to the resolution of collective action problems, it was noted.

Third, the growing role and changing composition of official lending called for a clearer framework for official sector involvement, especially with regard to non-Paris Club creditors,³⁹ for which the modality for securing program financing commitments could be tightened. Fourth, although the collaborative, good-faith approach to resolving external private arrears embedded in the lending-into-arrears policy remained the most promising way to regain market access postdefault, a review of the effectiveness of the lending-into-arrears policy was in order in light of recent experience and the increased complexity of the creditor base. Consideration could also be given to extending the lending-into-arrears policy to official arrears.

Public Debt Management Forum and U.S. Treasury Roundtable on Treasury Markets and Debt Management

The global financial crisis brought to light a number of previously underappreciated areas of interconnectedness and vulnerabilities in both the financial and sovereign spheres that have to be taken into account to keep markets liquid and deep. Senior debt managers, treasury officials, and central bankers from 40 advanced and emerging market economies, together with private market participants and academics, met in Washington, D.C., in June 2013 for the Thirteenth International Monetary Fund Public Debt Management Forum and Third U.S. Treasury Roundtable on Treasury Markets and Debt Management.⁴⁰ Hosted by the IMF, the event drew senior representatives from the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the World Bank.

Participants discussed the definition and measurement of liquidity in government bond markets and the benefits of having a liquid bond market. Fostering liquid government bond markets is a key policy objective for debt management, but it also involves trade-offs. In countries where the priority is market access to ensure that the government's financing needs are met, liquidity might be sacrificed in favor of offering diverse products demanded by nontraditional investors. Participants agreed that as the world enters uncharted territory with respect to the exit from unconventional monetary policy, efforts to strengthen the resilience of debt portfolios and to foster deep and liquid debt markets would continue to be a priority. (See also section on monetary policy in this chapter.)

Revision of the IMF–World Bank Guidelines for Public Debt Management

As a result of financial sector and macroeconomic policy developments, especially in response to the recent financial crisis, many countries' debt portfolios have undergone structural changes in terms of both size and composition over the last decade. At their meeting in Moscow in February 2013, the G20 finance ministers and central bank governors requested a revision of the original 2001 Guidelines for Public Debt Management and their 2003 amendments. The IMF and World Bank staffs, with inputs from the OECD, issued Revised Guidelines for Public Debt Management in April 2014.⁴¹ The new guidelines are designed to strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce member countries' external vulnerabilities. They will be used by the two institutions as a framework for technical assistance and by the IMF as background for discussions in the context of its surveillance activities. They may also be used as reference material by third-party consultants and experts dealing with public debt management issues.

Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries

To address shortcomings in identifying fiscal vulnerabilities and assessing risks to debt sustainability against the backdrop of increased concerns over fiscal policy and public debt sustainability in many advanced economies, the framework for fiscal policy and public debt sustainability analysis in market access countries was reviewed by the Executive Board in August 2011.⁴⁰ The review identified several areas for improvement: the realism of baseline assumptions, risks associated with the debt profile (financing structure), analysis of macrofiscal risks, vulnerabilities related to the level of public debt, and coverage of fiscal and public debt aggregates. The review called for a risk-based approach and discussed the importance of contingent liabilities as a source of risk and the use of fan charts as complementary tools.

A Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries reflecting the issues highlighted above was issued in May 2013. It called for more analysis in countries facing greater potential vulnerability and commensurately less in countries facing lower risks. This approach is also in line with the recommendations of the 2011 Triennial Surveillance Review to focus on a more granular assessment of risks and macrofinancial linkages. (See also the proposed reforms to the Fund's debt limit policy in the section on debt limits in Fund-supported programs in Chapter 3.)

Monetary policy

Global impact and challenges of unconventional monetary policies

Prior to the crisis, central banks in major advanced economies set monetary policy in the context of an established framework, largely built on a stable banking system. With the downturn in the real economy and risks of deflation, optimal short-term interest rates became negative. Central banks could thus no longer rely on their traditional instrument—the short-term policy rate—to loosen monetary conditions and provide needed support for demand. Central banks turned to unconventional monetary policies (UMPs) to restore market functioning and intermediation, and to provide support to economic activity at the zero lower bound on short-term interest rates.

At an informal meeting in September 2013, the Executive Board discussed an IMF staff paper on the global impact and challenges of UMP.⁴³ The paper found that UMP to support activity at the zero lower bound on short-term interest rates had reduced long-term rates and had positive effects on economic activity and inflation in UMP countries. However, continued UMP of this type was associated with risks: complacency in the reform agenda, financial stability, and central bank credibility. It also presents policy challenges for many emerging markets that have been struggling with the management of large and volatile flows of capital following the global financial crisis. Overall, however, the paper found, UMP had so far been beneficial both for UMP countries and on a global basis. Stronger structural, financial, and fiscal reforms were needed in UMP and non-UMP countries to lay the foundation for strong and sustained medium-term growth, and to reduce the burden on UMP. While UMP had been—and remained—critical, it could not substitute for other policies and reforms of a more structural nature.

Exit from UMP to support market functioning and intermediation should by and large occur seamlessly as markets normalized, according to the paper. Exit from policies to support activity, eventually leading to rate hikes, was not yet warranted given economic conditions at the time the paper was issued. Exit would lead to some normal interest rate changes, both in UMP and non-UMP countries, but there could be additional volatility due to market reactions beyond the control of the central bank. This volatility could have significant spillovers to the rest of the world, the paper noted, with risks to macroeconomic and financial stability. Non-UMP countries should take measures, the paper advised, to safeguard their stability in preparation for exit and lay the foundation for sustained medium-run growth. If instability occurred, they should use buffers as well as appropriate policies to limit risks.

International policy coordination could in principle improve global outcomes by mitigating negative cross-border externalities

from UMP, according to the paper. The IMF could support UMP policy implementation and exit by providing a global perspective on these policies through surveillance, policy buffers to avoid potential side effects, and objective analysis of the potential gains from international policy cooperation.

At an informal meeting in May 2013, the Executive Board was briefed on recent experiences and prospects in regard to unconventional monetary policies. According to the IMF staff paper that formed the basis for the briefing,⁴² central banks in the euro area, Japan, United Kingdom, and United States had adopted a series of unconventional monetary policies that had largely succeeded in restoring the functioning of financial markets and intermediation.

However, the policies had had a mixed effect on the rest of the world. Early announcements had buoyed asset prices globally, and likely benefited trade, whereas later announcements had had smaller effects and increased capital flows to emerging markets, with a shift to Latin America and Asia. Fiscal, structural, and financial sector reforms were found to be essential to ensuring macroeconomic stability and entrenching the recovery, eventually allowing for the unwinding of unconventional monetary policies.

At an informal meeting in July 2013, the Executive Board was briefed on credit and funding indicators of global liquidity. A note prepared for the Board briefing⁴⁵ reviewed concepts of global liquidity and discussed measurement approaches used by various interlocutors, including the Bank for International Settlements, academics, and the IMF staff. Some measures that could be regularly monitored by policymakers were also presented.

Macroprudential policy

Key aspects of macroprudential policy

The crisis underscored the costs of systemic instability at the national and global levels and highlighted the need for macroprudential policies to achieve financial stability. In July 2013, the Executive Board concluded discussions of an IMF staff paper on key aspects of macroprudential policy.⁴⁶ Executive Directors welcomed the analysis and the general approach to this relatively new policy area, recognizing the still-limited experience and the range of challenges in ensuring the effectiveness of macroprudential policy. They noted that the staff paper provided useful insights for policy discussions and a good basis for the Fund's advice on macroprudential policy in its regular surveillance, financial sector assessments, and technical assistance.

Nonetheless, Executive Directors considered that developing macroprudential policy remained a work in progress and urged the staff to continue to sharpen its analytical work, accumulate experiences, and advance understanding of macrofinancial linkages and conditions for effective macroprudential policy. Executive Directors stressed that macroprudential policy should be used to contain systemic risk, including systemic vulnerabilities from procyclical feedback between credit growth and asset prices and from interconnectedness within the system, but that it should not be overburdened with other objectives.

Executive Directors also emphasized that macroprudential policy could not substitute for sound macroeconomic policies and that



Left Employees at a cooperative make ceramics in Uruguay
Right A store announces discounts in Sintra, Portugal





Left A man picks tea leaves in Uganda **Right** Construction in Hong Kong, China

to be effective, it needed to be complemented by appropriate monetary, fiscal, and other financial sector policies, and supported by strong supervision and enforcement. Operationalizing it required an ability to assess systemic risk, assemble and deploy macroprudential tools suitable for the goals, and monitor and close regulatory gaps. Executive Directors emphasized that strong institutional and governance frameworks were essential for the effective conduct of macroprudential policy, although the appropriate arrangements would clearly depend on individual country circumstances, including legal frameworks. Executive Directors generally considered that the central bank has an important role to play in conducting macroprudential policy, but that care must be taken to ensure that its independence is not undermined.

Noting that macroprudential action, or lack thereof, could create potential spillovers, Executive Directors highlighted the need for international coordination. Most Executive Directors agreed that the Fund should play a key role in contributing to the development of macroprudential frameworks, in collaboration with standard setters and country authorities and respecting the mandates of other international financial institutions. The Fund should use its existing instruments, including surveillance, the Financial Sector Assessment Program, and technical assistance to facilitate its dialogue with national authorities on macroprudential policy. The goals were to strengthen the institutional underpinnings for macroprudential policy, help analyze evolving risks, policy linkages, and spillovers, and advise on the policy response appropriate for each country.

Regulatory reform

In her April 2014 Global Policy Agenda, the IMF's Managing Director called for a strong push to complete national and global financial regulatory reforms. The IMF's work would include

policy issues related to the macroeconomic and financial stability implications of global financial regulatory reform and the role of policy cooperation. The Board was updated on progress in regulatory reform at informal meetings in June 2013 and December 2013.

Priorities were to resolve the too-big-to-fail problem, including implementing effective cross-border resolution of systemically important firms; complete the regulatory reform agenda, including further work on consistency of risk weighting and accounting convergence; find ways to address shadow banking risks; and make derivatives markets safer. Inconsistent cross-border approaches, especially with regard to various national structural initiatives, needed to be actively tackled to avoid increasing global financial fragmentation. (See also the discussion of the 2013 Pilot External Sector Report and Spillover Report in Chapter 3.)

Jobs and growth

The IMF's Articles of Agreement commit the institution to "the promotion and maintenance of high levels of employment and real income."⁴⁷ Job creation and growth with inclusion are imperatives that resonate today in every IMF member country. While some advanced economies face the challenge of supporting aggregate demand with limited fiscal space in the aftermath of the Great Recession, many other countries have to address ways to generate growth and create jobs in the face of the strong ongoing global megatrends of technological change, globalization, and significant shifts in demographics. The latter include rapid population aging in some parts of the world and the entry of a large number of new workers into the labor force in others. Low female labor force participation represents a significant missed opportunity to strengthen economic development and growth in many countries.

As outlined in an IMF paper published in March 2013,⁴⁸ the Fund can help countries devise strategies to meet these challenges by reviewing the theoretical and empirical state of the art in relevant policy research so as to provide the best evidence-based advice. In September 2013, the IMF issued a Guidance Note on Jobs and Growth Issues in Surveillance and Program Work, to improve analysis and policy advice in four key areas that were identified in the paper as showing scope for improvement: enhancing examination of macrocritical domestic policies to ensure that they are directed toward keeping the economy operating broadly at capacity, consistent with available fiscal and monetary policy space; conducting more systematic analysis of the growth and employment challenges and the identification of the most binding constraints on inclusive growth and jobs to provide more tailored and relevant policy advice; integrating policy advice on reforms of tax and expenditure policy more systematically; and enhancing advice on labor market policies based on currently available empirical evidence, and greater collaboration with international institutions, such as the World Bank, the OECD, and the International Labour Organization on the impact of these policies on growth, productivity, job creation, and inclusion.

During the year, the IMF organized a number of seminars on the issue, including a seminar on growth and jobs in Europe held during the Annual Meetings in Washington in October 2013.

Reserve adequacy

In December 2013, the Executive Board discussed a paper concerning further considerations on assessing reserve adequacy,⁴⁹ a topic the Board had previously examined in March 2011.⁵⁰ Executive Directors agreed that international reserve buffers complement sound policies and institutions in underpinning a country's external stability and can play an important role in preventing or mitigating crises. They observed that reserve adequacy assessments should capture country-specific characteristics and noted that the paper moved in this direction, broadly in line with recommendations by the Independent Evaluation Office.

Executive Directors broadly concurred that the paper had added insights to the IMF's analytical framework presented in the 2011 paper on assessing reserve adequacy. Nevertheless, they emphasized the importance of judgment in gauging reserve adequacy and cautioned against a mechanical application of any metric. Executive Directors welcomed the IMF staff's approach of moving away from assessing reserve adequacy for countries grouped by standard income-based classifications. They generally endorsed a classification that takes into account different degrees of market maturity and economic flexibility.

Executive Directors agreed that the paper's revised metric for reserve adequacy in members with less mature markets and in low-income countries had improved the analysis on reserves

relative to traditional benchmarks. Most Executive Directors endorsed the staff's suggestions to alter the computation of the reserve adequacy metric for countries highly dependent on commodity trade. Executive Directors generally supported the staff's proposals to better reflect the volatility of capital flows in assessing the adequacy of official reserves.

Executive Directors welcomed the proposed methods to better measure the cost of reserves in countries with market access and in low-income countries. They saw scope for tapping reserves as part of the policy response to stem capital outflows but reiterated the importance of maintaining appropriate macroeconomic policies and of addressing preemptively emerging vulnerabilities. In this regard, Executive Directors called for further work to strengthen the Fund's policy advice on foreign exchange market interventions and a fuller discussion of alternatives to reserves accumulation such as central bank swap lines, Fund arrangements, and regional financing arrangements, including in the broader context of reforms to the international monetary system.

QUOTAS AND GOVERNANCE

Review of quotas

When a country joins the IMF, it is assigned an initial quota based on a formula that helps assess a member's relative position in the world economy. The IMF's Board of Governors conducts general quota reviews at regular intervals (of not more than five years). Any changes in quotas must be approved by an 85 percent majority of the total voting power, and a member's quota cannot be changed without its consent.

In December 2010, the Board of Governors approved a comprehensive quota and governance reform, including completion of the Fourteenth General Review of Quotas and adoption of a proposed amendment to the Articles of Agreement to move to an all-elected Executive Board (the "Board Reform Amendment"). The reform also included two forward-looking elements: the Board of Governors asked the Executive Board to (1) bring forward the timetable for completion of the Fifteenth General Review of Quotas to January 2014⁵¹ and (2) complete a comprehensive quota formula review by January 2013.⁵²

Once the 2010 Quota and Governance Reform package becomes effective,⁵³ there will be an unprecedented 100 percent increase in total quotas and a major realignment of quota shares that will better reflect the relative weights of the IMF's member countries in the global economy.

In January 2014 the Executive Board adopted a report to the Board of Governors on the 2010 Quota and Governance Reforms and the Fifteenth General Review of Quotas,⁵⁴ indicating that

they deeply regretted the delay in implementing the Fourteenth Review quota increases and the Board Reform Amendment.⁵⁵ As of mid-January 2014, 141 members (of the 113 required) representing 76.1 percent of quota (short of the 85 percent required) had agreed to the Board Reform Amendment.⁵⁶ Work on the Fifteenth Review was put on hold pending effectiveness of the quota increases under the Fourteenth General Review of Quotas, which requires entry into force of the Board Reform Amendment.

The Executive Board proposed that the deadline for the completion of the Fifteenth Review be moved from January 2014 to January 2015 and urged the remaining members who had not yet consented to the quota increases under the Fourteenth Review and accepted the Board Reform Amendment to do so without further delay. The Executive Board proposed that the Board of Governors request the Chairman of the International Monetary and Financial Committee (IMFC) to consult with the membership and to advise the IMFC at its 2014 Spring Meeting on progress in making the Fourteenth Review and the Board Reform Amendment effective, and the available options for completing the current round of the quota reform process, with the objective of completing the Fifteenth Review by January 2015. These proposals were approved by the Board of Governors effective February 12, 2014.

At the Spring Meetings, the IMFC expressed its deep disappointment with the continued delay in progressing the IMF quota and governance reforms agreed to in 2010 and the Fifteenth General Review of Quotas, including a new quota formula. If the 2010 reforms are not ratified by year-end, it will call on the IMF to build on its existing work and develop options for next steps and schedule a discussion of these options.

Quota formula

The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP based on market exchange rates (weight of 60 percent) and on PPP exchange rates (40 percent). The formula also includes a “compression factor” that reduces the dispersion in calculated quota shares across members.

In completing the Fourteenth General Review of Quotas and approving the Board Reform Amendment, the Board of Governors requested that the Executive Board conduct a comprehensive review of the quota formula. The Executive Board’s discussions under the review were to provide building blocks for agreement on a new quota formula, with the intent of better reflecting members’ relative positions in the global economy.

At an informal meeting in June 2013, the Executive Board discussed a staff paper on a data update and further considerations on the quota formula.⁵⁷ The paper updated the quota database

by one year through 2011, continuing the broad trends observed in previous data updates. In particular, the calculated quota share of emerging market and developing countries increased further by 1.3 percentage points, reflecting gains in all quota variables. In addition, the paper explored alternative approaches that could address the concerns previously expressed on the openness variable. In this context, it took stock of recent improvements in data availability and then explored the impact of possible changes in the formula, including use of a cap and a lower weight for the openness variable.

The paper also examined the possible links between variability and broader measures of balance of payments difficulties. This work extended that presented in previous papers, which focused on balance of payments difficulties involving use of Fund resources. The paper did not identify any significant correlation between variability and these broader measures. In addition, the paper presented a range of illustrative simulations involving possible reforms of the formula using the updated quota database. No proposals were presented at this stage.

During and after the informal meeting, Executive Directors requested illustrative calculations of the quota formula, provided by the IMF staff in July 2013.

CAPACITY DEVELOPMENT

Capacity development through technical assistance and training helps member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. It is closely linked to the IMF’s surveillance and lending activities and is highly appreciated by member countries.

During a review of the IMF’s capacity development strategy by the Executive Board in June 2013,⁵⁸ Executive Directors endorsed a number of reform proposals: (1) updating the policy statement covering capacity development services; (2) mandating regular and well-integrated reviews to put capacity development on an equal footing with surveillance and financing activities; (3) implementing a two-level prioritization system to reflect both individual country demands and the IMF’s overall objectives; (4) utilizing donor funding where objectives coincide and relying on the IMF’s own financing when donor support is not available; (5) strengthening the monitoring and evaluation framework, including incorporating feedback from evaluation results into the prioritization and delivery of capacity development; and (6) taking advantage of advances in information and communication technology to enhance the effectiveness and reach of the IMF’s capacity development activities, including expanding online course offerings.

Progress has been made toward implementing these reforms. At an informal meeting in April 2014, the Executive Board discussed a new policy and practices statement, which was to be refined to

incorporate Executive Directors' comments. The two-level prioritization system was first used for planning FY2015 activities. The Institute for Capacity Development (ICD), established in May 2012, has been spearheading the effort to enhance synergies between technical assistance and training, and has introduced new technologies for training. For monitoring and evaluation, the IMF's results-based management framework is being expanded to cover all capacity development activities, and it will provide input into the institution's evaluation framework for capacity development, which is being revised as part of the new policy and practices statement.

Four standardized assessment tools that had been piloted and implemented by the IMF for fiscal issues are expected to inform the IMF's technical assistance activities (see Box 4.2).

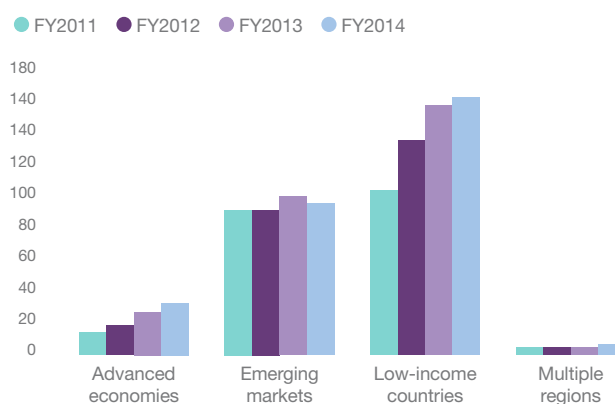
Technical assistance initiatives

Demand for technical assistance from member countries continued to be strong in FY2014. IMF technical assistance covered a full range of topics related to macroeconomic and financial stability and was delivered mainly by four IMF departments: Fiscal Affairs, Legal, Monetary and Capital Markets, and Statistics. Low- and lower-middle-income countries received the greatest share of IMF technical assistance, similar to the case in the past, but a large majority of the IMF's membership benefited (see Figures 4.1–4.4).

Responding to urgent needs

The IMF continued to respond swiftly to meet urgent needs for technical assistance in a broad set of countries. For instance, the IMF advised on rationalizing spending and strengthening social safety nets in the face of a major economic crisis in Ukraine. In Cyprus, it helped the authorities improve tax policy and administrations, reform public financial management, and prioritize public expenditures. In Albania, the IMF helped the authorities control expenditure arrears, improve commitment controls, and

Figure 4.1
Technical assistance delivery by income group, FY2011–14 outturn
(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

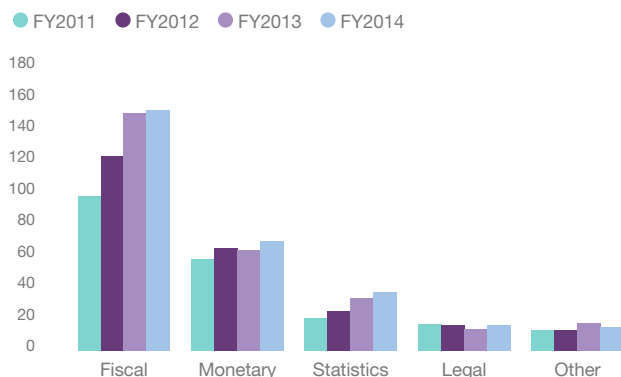
Box 4.2

New standardized assessment tools

Four standardized assessment and surveillance tools have been developed by the IMF in consultation with stakeholders. These tools will impart a stronger conceptual and analytical orientation to IMF technical assistance on fiscal issues and improve the tracking of results.

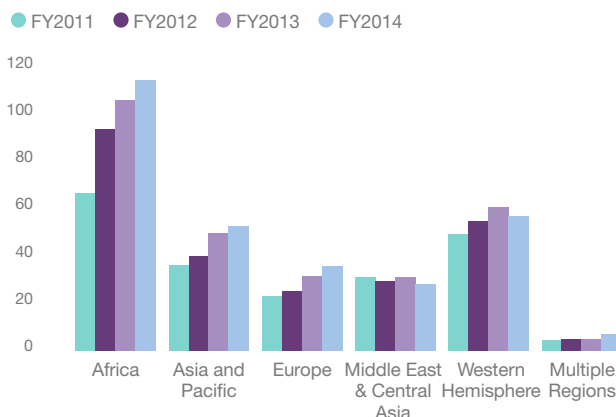
- *The Revenue Administration Fiscal Information Tool (RA-FIT)* gathers and analyzes tax and customs information to help establish baseline indicators for assessing revenue performance of IMF member countries. A first report based on the submissions of 85 countries was prepared in April 2014.
- *The Revenue Administration Gap Analysis Program (RA-GAP)* estimates the gap between current and potential revenue collections. Detailed gap estimates for four countries were completed in FY2014 and were under way in eight countries during FY2015.
- *The Tax Administration Diagnostic Assessment Tool (TADAT)* provides a framework for standardized assessments of tax administration performance, which will help improve prioritization and sequencing of reforms. It is an international public good, designed and governed in close cooperation with international partners. Initial pilots in Zambia and Norway were completed and additional pilots are scheduled for FY2015. The TADAT Secretariat, located at IMF headquarters and supported by a donor-financed trust fund, began operations in early 2014.
- *The Fiscal Transparency Evaluation* replaces the fiscal module of the Reports on the Observance of Standards and Codes (ROSCs). It offers a stronger focus on identifying and managing fiscal risks and allows for better integration with natural resource transparency issues.

Figure 4.2
Technical assistance delivery by topic,
FY2011–14 outturn
(Person-years of field delivery)



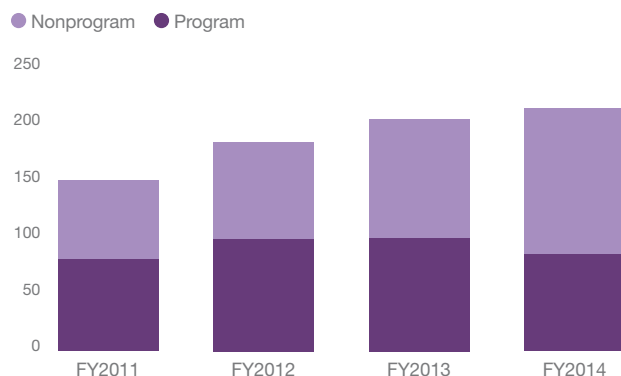
Source: IMF Institute for Capacity Development.

Figure 4.4
Technical assistance delivery by region, FY2011–
2014 outturn
(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

Figure 4.3
Technical assistance delivery by program status,
FY2011–2014 outturn
(Person-years of field delivery)



Source: IMF Institute for Capacity Development.

strengthen tax administration. In a number of countries under distress, such as Guinea-Bissau, Libya, Mali, Niger, and Somalia, the IMF assisted the authorities with improving budget formulation (Libya and Somalia) and strengthening public financial management (Guinea-Bissau, Mali, and Niger). In European crisis countries, the IMF advised countries on fiscal policy and management issues, corporate and household insolvency, judicial reforms, and claims enforcement in order to facilitate early and rapid rehabilitation of viable businesses and to improve debt collection.

Helping member countries to develop capacity

Technical assistance was also delivered to assist countries with building sound institutions and boosting resilience to shocks.

The recent crisis demonstrated that all member countries, including advanced economies, can benefit from support for addressing existing institutional weaknesses and adapting to rapid global economic and financial developments. Technical assistance on fiscal issues helped implement policy reforms and foster efficient fiscal management. These activities are based on established best practices and the application of various new diagnostic tools (see Box 4.2). Examples in the fiscal area include developing capacity for analyzing revenue and spending, implementation of a medium-term expenditure framework, public financial management, revenue administration, managing revenue volatility and spending pressures in resource-rich countries, and managing fiscal risks from public-private partnerships.

The IMF provides a wide range of technical assistance in some member countries. In China, for example, the IMF is assisting the authorities with implementation of a medium-term expenditure framework, treasury management, control of local government borrowing, and modernizing government accounting. In Liberia, the IMF assisted in the design and implementation of the soon-to-be-operational Liberia Revenue Authority and the establishment of a Taxpayer Service Center, as well as in reengineering information technology systems and developing audit capacity. In Myanmar, the IMF advised on reforming budgetary, treasury, and accounting systems and modernizing tax policy and administration. In Latin America, the IMF supported, for example, a forum of 16 national treasuries to exchange experiences and enhance cross-country cooperation on cash management, financial management information systems, legal and institutional frameworks, and implementation of treasury single accounts.

In the monetary and financial area, the IMF launched comprehensive technical assistance programs to support central bank modernization and financial sector reform in many low- and

middle-income countries. Financial sector regulation and supervision and monetary operations continue to be a focus in these countries. The assistance helped countries develop capacity to mitigate potential risks to financial systems stemming from weak regulation and supervision of banks and nonbank financial institutions and to strengthen central bank operations. For instance, in Myanmar, the IMF focused its assistance on institutional capacity building. In the eastern Caribbean, a comprehensive IMF program strengthened the region's financial systems. South Sudan received assistance in modernizing its central bank operations. The IMF's continued support to Nigeria helped reform the banking sector. In the Philippines and Indonesia, the IMF's medium-term technical assistance strengthened banking regulation and supervision.

Support was also provided to advanced economies on crisis management, including bank resolution and restructuring, systemic risk identification, and implementation of the new global regulatory and supervisory standards. In addition, the IMF worked with the World Bank to launch Phase II of the Debt Management Facility as a joint multidonor trust fund to address the need for strengthening public debt management in low-income countries.

The IMF also supported countries in strengthening their fiscal and financial legal frameworks. Work focused on crisis management and bank resolution, bank regulation, central banking, tax law, public financial management (fiscal rules, budget laws), and anti-money laundering and combating the financing of terrorism,

which is increasingly integrated with the IMF's program and surveillance agenda. In March 2014, the Executive Board met to review the Fund's strategy on AML/CFT. Executive Directors endorsed the revised FATF standard and new assessment methodology for the IMF's operational work and encouraged continued cooperation with the World Bank, the Financial Action Task Force, and the FATF-Style Regional Bodies.

In low-income countries, external financial support helped build statistical capacity, for example, in Bangladesh, Lao P.D.R., and Myanmar. Japanese financial support allowed the Fund to post long-term macroeconomic statistical advisers in the field to provide intensive assistance.

In June 2013, the IMF welcomed the Paraguayan authorities' launch of its first national AML/CFT plan.⁵⁹ Further to an IMF assessment that revealed important deficits in Paraguay's AML/CFT system, the Paraguayan authorities requested the IMF's technical assistance to support the development of a national AML/CFT strategy, and in February 2012, former President Fernando Lugo signed a decree declaring the project a national priority. The program began in September 2012, with the IMF acting mainly as a facilitator, sharing its international experience and advising the authorities on ensuring consistency with international AML/CFT standards. The plan, which benefited from technical assistance from the IMF and the Inter-American Development Bank, will help protect the integrity of Paraguay's economic system and preserve public order and national security from the threats of organized crime and terrorism.

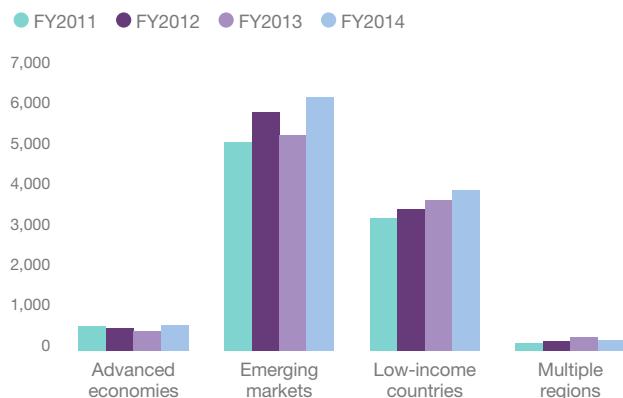


Left Enumerators collect data for a census in Myanmar **Right** A shipping terminal at the port of Piraeus, Greece



Figure 4.5
Training delivery by income group,
FY2011–2014

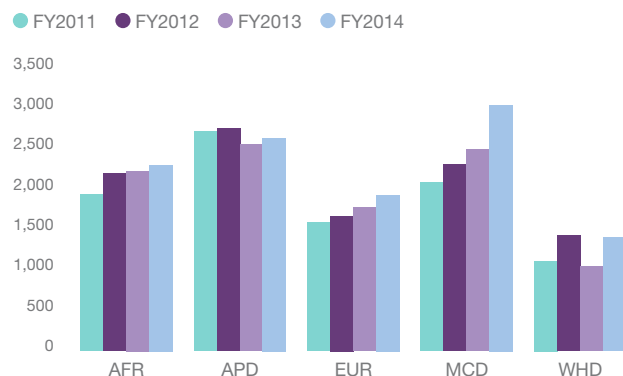
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.7
Training delivery by region,
FY2011–14 outturn

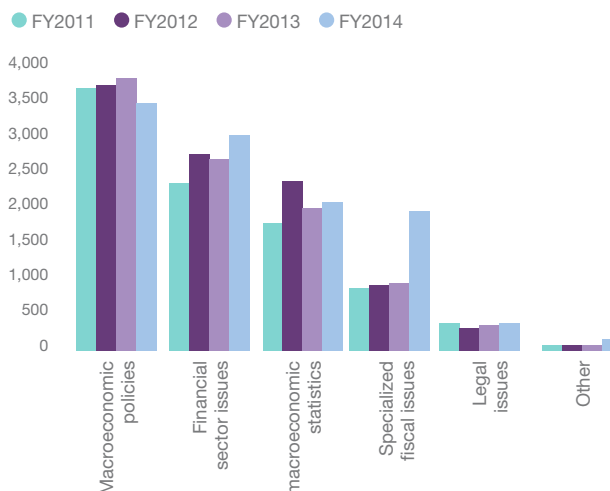
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.6
Training delivery by course group,
FY2011–2014

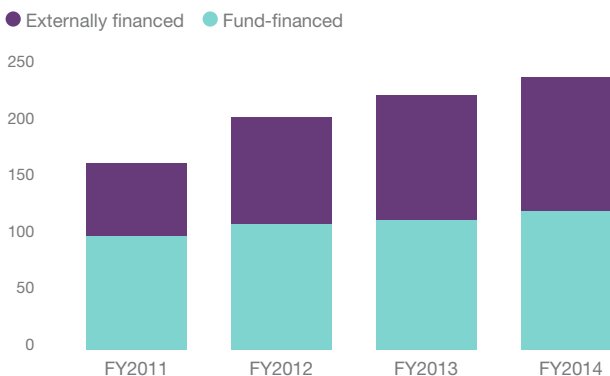
(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Figure 4.8
Capacity development spending,
FY2011–14 outturn

(Participant-weeks of training)



Source: IMF Institute for Capacity Development.

Training

The IMF's training program is an integral part of the Fund's capacity building and strives to respond to evolving global macroeconomic developments and policy challenges, membership demands, and technological innovations. Last year, ICD delivered a number of courses on new topics of strategic importance for the Fund's membership, such as preventing financial crises, restoring financial sector health, and fostering inclusive growth. These courses provide theoretical lectures, analytical tools, and hands-on workshops (see Figures 4.6–4.8 and Box 4.3). A new online course program was developed in partnership with the nonprofit organization edX and launched with two courses: Financial Programming and Policies and Debt Sustainability

Analysis. To exploit synergies between technical assistance and training in partnership with donors, the IMF's new Africa Training Institute started operations in June 2013. The institute is colocated with AFRITAC South in Mauritius and shares the same director.

To enhance the synergy between technical assistance and training, the ICD staff cooperated with the IMF's Regional Technical Assistance Centers (RTACs) to develop new courses, including a course on economic issues in regional integration; RTAC experts and IMF staff teamed up to deliver a course and related technical assistance on banking supervision and regulation in Central

America; and the Singapore Training Institute cooperated with the Technical Assistance Office for Lao P.D.R. and Myanmar to deliver a customized course to officials in Myanmar.

During the financial year, with the support of external donors and training partners, 178 training events were delivered through the ICD program, and about 6,300 officials attended training. Emerging market economies received the largest volume of IMF training, at about 60 percent of total training for the year (Figure 4.5). In terms of regional distribution, the Middle East and Central Asia, and Asia and the Pacific received the largest volume of training during the year (Figure 4.7).

External support

Donor support continues to bolster the Fund's ability to deliver technical assistance and training to member countries. New contributions totaling \$181 million were received during FY2014, and activities financed by donors totaled \$147 million. The IMF leverages external support of capacity development through vehicles, such as RTACs, Regional Training Centers, topical trust funds, and bilateral partnerships (see Figure 4.8).

The nine RTACs are effective vehicles for delivering hands-on technical assistance. The midterm evaluations for the Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic; Africa Regional Technical Assistance Center East; and Africa Regional Technical Assistance Center West show that the technical assistance offered is of excellent quality, high relevance, and strongly owned by their member

countries. The Africa Regional Technical Assistance Center West increased its activities significantly during the first half of FY2014. With the support of the center, member countries registered further progress toward reforming their economic and financial institutions. The Pacific Financial Technical Assistance Center, the first RTAC and pioneer of the IMF's local approach to capacity development, celebrated its 20th anniversary in 2013.

The network of RTACs expanded in FY2014. The Africa Regional Technical Assistance Center West 2 opened officially in March 2014, in Accra, Ghana, completing the network of five regional centers in Africa. This fulfills the IMF's 2002 commitment to extend the network to serve all sub-Saharan African countries. In addition, five RTACs—Africa Regional Technical Assistance Centers (East, West, and South), the Caribbean Regional Technical Assistance Center, and the Middle East Regional Technical Assistance Center—received additional donor financing to enable them to scale up operations.

Regional Training Centers and regional training programs complemented the training at IMF headquarters by providing off-site training. Most Regional Training Centers are fully or partly funded by the host countries with some contributions from other donors such as Australia and Japan. They serve the needs of Africa (the Africa Training Institute and the Joint Partnership for Africa in collaboration with the African Development Bank), the Asia and Pacific region (the Singapore Regional Training Institute and the joint China-IMF Training Program), Europe and Central Asia region (Joint Vienna Institute), the Middle East (the IMF–Middle East Center for Economics and

Box 4.3

New ICD courses

A number of face-to-face courses were delivered for the first time during the year, at the Fund's headquarters or in some of its regional training centers:

- *Macroeconomic Surveillance* presents methods to evaluate current financial sector issues and explore their links to the macroeconomy, including how to extract market information to assess expectations about macroeconomic variables and to detect a buildup of vulnerabilities that may threaten financial stability. It covers topics such as banking crises, risk management and models, and systemic risks.
- *Financial Inclusion* focuses on the issue of access to finance—a topic of growing relevance to policymakers throughout the world—explores the complex interrelations between financial inclusion and the more familiar concept of financial depth,

and discusses how to enhance access to credit and its associated macroeconomic impact and policy implications.

- *Inclusive Growth* responds to global concerns about poor growth prospects, high unemployment, and inequities in income and opportunities. The course focuses on the micro and macro policies to promote shared economic growth, employment creation, and equitable income distribution, and how to translate economic growth into poverty reduction and broad-based improvements in living standards.
- *Early Warning Exercise* provides approaches to identifying risks and vulnerabilities in the fiscal, external, and financial sectors, including a taxonomy of crises and an introduction to the Fund's Vulnerability Exercises for advanced and emerging economies, as well as spillover and contagion analysis.

Finance, located in Kuwait), and Latin America (the Joint Regional Training Program for Latin America, based in Brasilia). As noted previously, thanks to the generous financial contribution and logistical support of the Mauritius government—the host country—as well as Australia and China, the Africa Training Institute started operations in June 2013.

Topical trust funds deliver systematic technical assistance on specific topics to low- and lower middle-income countries. The Managing Natural Resource Wealth and Tax Policy and Administration topical trust funds, with five-year budgets of \$25.3 million and \$27 million, respectively, completed three years of operations in FY2014. The IMF's Anti-Money Laundering/Combating the Financing of Terrorism Topical Trust Fund, successfully completed its first funding cycle in April 2014, delivering 73 bilateral projects in 35 countries. In December 2013, a pledging session was conducted at the IMF's headquarters in Washington, D.C. where international donors renewed their support for the IMF's technical assistance in this area.⁶⁰ Donors pledged \$22.1 million to finance wide-ranging capacity development activities over the second five-year phase of the AML/CFT Topical Trust Fund, which began operations in May 2014. Pledges (in order of size of contribution) from Switzerland, Qatar, Luxembourg, the United Kingdom, Norway, Japan, France, and the Netherlands are expected to meet about 80 percent of the trust fund's needs over the next five years.

The \$8.4 million five-year Tax Administration Diagnostic Assessment Tool trust fund was officially launched in FY2014, financed by Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom's Department for International Development (DFID)(see Box 4.1).

The IMF also cooperated with the World Bank on three technical assistance initiatives. In April 2014, the IMF joined Phase II of the Debt Management Facility, a multidonor initiative established by the World Bank. Combining the expertise of the two institutions, the facility comprehensively covers debt management issues and supports capacity development on debt sustainability for more recipient countries. The IMF also renewed its participation in another multidonor initiative, the Financial Sector Reform and Strengthening Initiative Phase III. Finally, the Supporting Economic Management in the Caribbean program, which is financed by Canada, was extended through August 2014.

The IMF continued to deepen partnerships with donors. Japan, the largest donor to technical assistance, contributed \$153 million in FY2010–14. The European Union (EU) has become one of the top donors to IMF technical assistance, with a contribution of \$97 million during the same period. The IMF is working with the EU on revising the current framework agreement between the two institutions, which will enable them to enter into new financing arrangements for FY2015–17. Canada significantly increased its contributions, including the signing

of two agreements totaling Can\$35 million for technical assistance to Ukraine, the Caribbean region, and other countries. Switzerland made an additional \$4 million contribution to IMF technical assistance. Korea, a relatively new donor, signed a contribution agreement for \$15 million over five years.

DATA AND DATA STANDARDS INITIATIVES

The quality of data provided by member countries under the Articles of Agreement is essential to the success of IMF surveillance. Data dissemination standards help enhance the availability of timely and comprehensive statistics, which is critical to the pursuit of sound macroeconomic policies.

General Data Dissemination System, Special Data Dissemination Standard, and Special Data Dissemination Standard Plus

The Special Data Dissemination Standard (SDDS) was established in 1996 to guide members in the provision of their economic and financial data to the public. The General Data Dissemination System (GDDS), established the following year, provides a framework to help countries evaluate their needs and sets priorities for improving their statistical systems. In 2012, the SDDS Plus was created to help address data gaps identified during the global financial crisis. The SDDS Plus is aimed at countries with systemically important financial sectors, although all SDDS subscribers are encouraged to adhere. The SDDS Plus includes standards for nine additional data categories beyond the SDDS, which interested countries commit to fully observe by the end of 2019. No country adheres to the SDDS Plus at this time. To facilitate adherence to this demanding standard, in March 2014 the Executive Board supported the IMF staff's proposal to lengthen the timeliness of three of the nine data categories.

In FY2014, there were no new subscribers to the SDDS, with the number of subscribing economies remaining at 71 as of the end of the year. Palau,⁶¹ Myanmar,⁶² and the Marshall Islands⁶³ began participation in the GDDS, bringing the total number of GDDS participants to 111 at the end of the year (excluding the economies that have graduated from the GDDS to the SDDS). Today more than 95 percent of the IMF's member countries participate in the GDDS or SDDS.

In May 2013, the IMF organized a workshop on the SDDS in Gaborone, Botswana, for officials from central banks, national statistical offices, and ministries of finance from seven African countries—Botswana, Ghana, Kenya, Namibia, Nigeria, Seychelles, and Uganda.⁶⁴ At the workshop, Mauritius, an SDDS subscriber since 2012, provided a peer perspective. The purpose of the workshop, which was cohosted by the authorities of Botswana, with financial support from DFID, was to improve the national statistical systems of sub-Saharan African countries



Left A beekeeper in rural Yemen **Right** A stock index at a brokerage house in east China

that are currently part of the GDDS, with the goal of focusing the development of their national statistical systems toward meeting the requirements of the more stringent SDDS.

Argentina's consumer price index and GDP data

The Executive Board met in December 2013 to consider the Managing Director's report on Argentina's progress in implementing remedial measures to address the quality of the official data reported to the Fund for the Consumer Price Index for Greater Buenos Aires (CPI-GBA) and gross domestic product (GDP).⁶⁵ While noting that Argentina had not adopted the measures called for by the Fund to address the inaccurate provision of CPI-GBA and GDP data, the Executive Board recognized Argentina's ongoing work and intention to introduce a new national CPI in early 2014. The Board also noted that Argentina was working to address the shortcomings in its GDP data.

In light of these developments, the Executive Board adopted a decision calling on Argentina to implement specified actions to address the quality of its official CPI and GDP data according to a specified timetable. The decision called on Argentina to implement an initial set of specified actions by end-March 2014. Further actions needed to be implemented by end-September 2014 and end-February 2015. The Managing Director was required to report to the Executive Board within 45 days of each of the deadlines on the status of Argentina's implementation of the specified actions, at which time the Executive Board would review this issue in line with IMF procedures.⁶⁶ The Fund noted the importance of the ongoing discussions with the Argentine authorities to improve the quality of Argentina's official CPI and GDP data and stood ready to continue this dialogue, and, more

generally, to continue strengthening the relationship between Argentina and the Fund.

Other data and statistics activities

G20 Data Gaps Initiative

The IMF and Financial Stability Board, in collaboration with the Inter-Agency Group on Economic and Financial Statistics (IAG), organized a conference of G20 senior officials on the G20 Data Gaps Initiative (DGI) at the IMF headquarters in Washington, D.C., in June 2013.⁶⁷ The initiative focuses on the implementation of 20 recommendations outlined in the report "The Financial Crisis and Information Gaps" endorsed by the G20 Finance Ministers and Central Bank Governors in November 2009. The main purpose of the conference was to take stock of the advancements being made, discuss main messages emerging from the G20 bilateral consultations by the IMF staff, and identify issues requiring further action and priorities.

Attended by senior representatives from G20 members, as well as the Netherlands, Spain, and Switzerland, the conference featured presentations and contributions from the eight international financial institutions working on the G20 recommendations, including the FSB Secretariat, and the members of the IAG-Bank for International Settlements, European Central Bank, Eurostat, IMF (chair), the Organisation for Economic Co-operation and Development, United Nations, and World Bank. The conclusions of the conference informed the next progress report delivered to the G20 Ministers of Finance and Central Bank Governors in September 2013.

Participants underlined the need to ensure that the data emerging from the DGI are of high quality, timely, consistent,



Left An oil refinery in Százhalombatta, Hungary **Right** Staff sort diamonds in Gaborone, Botswana

and comparable among countries, and that they should be made available to policymakers. They also identified a number of key challenges including confidentiality concerns that limit broader data sharing, lack of source data, and adequate resources for statistics.

At their meeting in Moscow in July 2013, the G20 Finance Ministers and Central Bank Governors welcomed the continued progress made by the G20 economies on closing information gaps under the DGI as a prerequisite for enhanced policy analysis. The fourth annual progress report on the DGI of October 2013 noted that considerable progress had been made across the full range of the DGI 20 recommendations. Significant data enhancements are under development. Overall, there was strong support for and a growing sense of ownership among G20 economies in the DGI.

To ensure complete implementation of the recommendations, and the timely provision of comparable economic and financial statistics, the momentum behind the initiative needed to be maintained and adequate resources provided for statistical work. Strengthened collaboration among national agencies and continued international cooperation and consultation were essential for the success of the initiative. The strategy should focus on completing the ongoing work in implementing the recommendations and communicating to policymakers and analysts the availability, benefits, confidentiality rules, and policy relevance of the enhanced and new data emerging from the DGI. Notwithstanding some national implementation issues that may arise, implementation of a significant portion of the recommendations was expected to be completed by end-2015.

Data on government revenues from natural resources

For about one-third of the Fund's membership, revenues from natural resources are macro-critical, but available data have been limited and not comparable across countries. In February 2014, the IMF developed a draft standard template for countries to use for the collection of data on government revenues from natural resources, based on the revenue classifications of the *Government Finance Statistics Manual 2001* (GFSM 2001).⁶⁸ The template would allow such data to be collected in an analytically relevant and cross-country-comparable format, although the Fund does not plan to collect these data directly. The template was posted on the IMF's website for feedback and for testing by member countries.

Currency composition of foreign exchange reserves

In June 2013 the IMF released the quarterly data on the currency composition of official foreign exchange reserves (COFER) with an expanded currency range, separately identifying two additional currencies—the Australian dollar and the Canadian dollar.⁶⁹ COFER is an IMF database containing end-of-period quarterly data of reporting countries and jurisdictions. COFER data provide a crucial insight into the evolution of the currency composition of foreign exchange reserves, facilitating analysis of developments in international financial markets. These timely aggregate statistics on the currency composition of member countries' official foreign exchange reserves are relevant to the work of the IMF and generate considerable analytical interest from users in central banks, other official institutions, and the private sector.

With the separate identification of Australian-dollar and Canadian-dollar reserves, seven currencies are now distinguished

in COFER data: the U.S. dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar, and Canadian dollar. All other currencies are included indistinguishably in the category of “other currencies.” COFER data are reported to the IMF on a voluntary and confidential basis. As of the end of April 2014, there were 144 reporters, consisting of member countries of the IMF, nonmember countries/economies, and other foreign-exchange-reserve-holding entities. COFER data are publicly disseminated on a quarterly basis in aggregate format so as not to reveal individual country information.

Release of updated survey results

Updated data for a number of ongoing IMF surveys were released during the year. In December 2013, the IMF released preliminary results from its 2012 Coordinated Direct Investment Survey (CDIS), a worldwide survey of bilateral direct investment positions.⁷⁰ Direct investment is a category of cross-border investment in which a resident in one economy has control or a significant degree of influence on the management of an enterprise resident in another economy. The 2012 survey includes data from 88 economies, two more than in the 2011 preliminary results. New CDIS participants are Burkina Faso and Tanzania. The IMF posted revised and more comprehensive data in June 2014.

In June 2013, the IMF released revised results from its CDIS for 2009–11.⁷¹ The coverage of foreign direct investment positions was expanded to 100 participating economies for 2011, with four new CDIS participants—Albania, Guinea-Bissau, Senegal, and Togo. The database—available publicly at <http://cdis.imf.org> and through the IMF eLibrary—presents detailed data on “inward” direct investment (i.e., direct investment positions with a nonresident foreign direct investor) cross-classified by economy of investor, and data on “outward” direct investment (i.e., direct investment positions abroad by a resident foreign direct investor) cross-classified by economy of investment. All participants in the CDIS provided data on inward direct investment and most participants (about two-thirds) also provided data on outward direct investment.

In November 2013, the IMF released preliminary results from its 2012 Coordinated Portfolio Investment Survey (CPIS), the only global survey of portfolio investment holdings.⁷² The CPIS collects information on the stock of cross-border holdings of equities and long- and short-term debt securities broken down by the economy of residence of the issuer. The results—identifying the value of positions in equity and debt securities as of end-2012—cover 78 CPIS-participating economies, the same economies that participated in the end-2011 CPIS data collection.

Box 4.4

First statistical forum spotlights role of statistics for global economic and financial stability

A forum organized by the IMF Statistics Department in November 2013 discussed the key role of statistics in support of effective policy actions taken by country authorities and policy advice provided by the IMF.^a The forum, the first of its kind, took place in Washington, D.C., providing a unique setting for policy discussions on cutting-edge statistics among a broad range of stakeholders: academics, private sector analysts, data compilers, and decision makers. Participants discussed recent progress in closing data gaps exposed by the global financial crisis: risk exposures in international and sectoral balance sheets, cross-border linkages and spillovers, shadow banks and global contagion, fault lines in the public sector, and potential problems from capital flows.

In his welcoming remarks, IMF First Deputy Managing Director David Lipton noted that the recent global crisis had reaffirmed the relevance of traditional residence-based economic and financial statistics but stressed that the crisis “also revealed a need for more and better data, data that go beyond traditional statistics.” New data sets are needed, he said, “especially as the focus of policy has shifted to the stability of global and domestic financial systems and to questions about interconnectedness, global risks, and vulnerabilities.”

During the discussions, participants underscored the critical importance of reliable, timely, granular, and internationally comparable data. They also stressed the need for accurate assessments of risks and the IMF’s role in helping its members develop sound macroeconomic policies based on high-quality statistics. A general theme at the forum was that the need for more data must be matched by better use of existing data, particularly in the development and application of analytical frameworks. Participants recognized that users’ data needs can be met only if more resources are devoted to statistics, with priorities set to keep costs and benefits in mind.

Participants underscored the usefulness of standards and consistent approaches to gathering information to optimize the advantages of comparability and accurate measurement across countries. They also agreed that more work was warranted to disseminate available data, promote greater interaction between data users and producers, and enhance collaborative efforts between public and private sectors to compile standardized data.

^a See PR No. 13/447, “IMF Statistical Forum Discusses the Role of Statistics for Global Economic and Financial Stability” (www.imf.org/external/np/sec/pr/2013/pr13447.htm).

Complete CPIS results are available on the IMF website at <http://cpis.imf.org/>. In response to data gaps highlighted by the financial crisis, a number of enhancements will be incorporated into the CPIS in the next data collection.

In September 2013, the IMF released the results of the fourth annual Financial Access Survey (FAS).⁷³ The 2013 round had a response rate of over 96 percent with 186 reporting jurisdictions, including two countries reporting data for the first time, and was conducted with generous financial support from the Netherlands' Ministry of Foreign Affairs. The FAS is the most comprehensive source of global supply-side data on financial inclusion, encompassing internationally comparable basic indicators of financial access and usage by corporations and households. The database is available free of charge through the FAS website and IMF eLibrary.

ENGAGEMENT WITH OTHER ORGANIZATIONS

The IMF works collaboratively with a number of other organizations that are also involved in global economic issues, each with its unique areas of responsibility and specialization.

Group of Twenty

During the global financial crisis, collective action by the G20 was critical for avoiding even greater economic difficulties, and G20 leaders have subsequently continued to reaffirm their commitment to reinvigorating economic growth. The IMF's collaboration with the G20 has consequently increased since the onset of the global crisis. At the request of G20 leaders, the IMF provides technical analysis to support the G20's multilateral Mutual Assessment Process (see Chapter 3). Collaborative work

with the G20 has extended beyond the MAP into other areas, including the G20 Data Gaps Initiative, which works on ways to address gaps in data revealed by the global crisis.

The Executive Board is briefed regularly on IMF management's participation in G20 meetings; it also receives periodic briefings on the MAP and IMF participation in it.

Financial Stability Board

The Financial Stability Board brings together government officials responsible for financial stability in the major international financial centers, international standard-setting bodies, committees of central bank experts, and international financial institutions. It is designed to coordinate at the international level the work of national financial authorities and international standard-setting bodies and to develop and promote the implementation of effective regulatory, supervisory, and other financial sector policies.

The IMF formally accepted membership in the FSB in September 2010; following the FSB's recognition as an association under Swiss law, the Executive Board approved the IMF's acceptance of membership in the FSB as an association under Swiss law in March 2013. Collaboration between the two organizations is guided by each institution's mandate and a joint letter signed in 2008 by the IMF and the Financial Stability Forum (the predecessor of the FSB). The IMF takes the lead on surveillance of the global financial system and assessment of countries' implementation of international financial sector supervisory and regulatory policies and standards. The FSB is responsible for elaboration of these policies, promoting international collaboration and assessment of financial system vulnerabilities. The IMF is also represented on the FSB's Steering Committee.

Left A cable-car overlooks Alaverdi, Armenia **Right** A farmer dries his corn harvest in Bhutan





Left Vendors in historic Cartagena, Colombia **Right** Fruit processing in South Africa

The IMF collaborates with the FSB on twice-yearly Early Warning Exercises (see Chapter 3). It regularly participates in various working groups and works with the FSB in connection with the G20 Data Gaps Initiative; it has worked as well on a joint FSB, IMF, and World Bank report to the G20 on the effects of regulatory reform on emerging market and developing economies.

World Bank Group

The staffs of the IMF and World Bank collaborate closely on country assistance and policy issues that are relevant for both. IMF assessments of a country's general economic situation and policies provide input to the World Bank's assessments of potential development projects or reforms. Similarly, World Bank advice on structural and sectoral reforms is taken into account by the IMF in its policy advice. The IMF and World Bank staffs jointly prepare country debt sustainability analyses under the Debt Sustainability Framework developed by the two institutions (see discussion earlier in this chapter). Under the Joint Management Action Plan on World Bank–IMF Collaboration, IMF and World Bank country teams discuss their country-level work programs, which identify macro-critical sectoral issues, the division of labor, and the work needed from each institution in the coming year.

Through the HIPC Initiative and MDRI (see Chapter 3), the IMF and World Bank Group work together to reduce the external debt burdens of the most heavily indebted poor countries. The two institutions also cooperate to alleviate poverty based on a shared Poverty Reduction Strategy Paper approach—a country-led plan for linking national policies, donor support, and the development outcomes needed to reduce poverty in low-income

countries. Their collaborative *Global Monitoring Report* assesses progress toward achieving the Millennium Development Goals; the 2013 edition had rural-urban dynamics as a central theme. The two institutions also work together to make financial sectors in member countries resilient and well regulated, via the Financial Sector Assessment Program.

Other areas of collaboration between the two organizations include development of standards and codes and improvement of the quality, availability, and coverage of data on external debt.

Other organizations

United Nations

The IMF has a Special Representative to the United Nations, located at the UN Headquarters in New York. Collaboration between the IMF and the United Nations covers areas of mutual interest, including cooperation on tax issues and statistical services of the two organizations, as well as reciprocal attendance and participation at regular meetings and specific conferences and events. In recent years, the IMF has contributed to the UN-led process of developing the “Post-2015 Agenda” and new Sustainable Development Goals (SDGs), which are expected to replace the existing Millennium Development Goals (MDGs) when they expire at the end of 2015, including through participation in UN interagency working groups. The Fund is collaborating with the World Bank, multilateral development banks, and the UN on helping to address the data challenges involved. The IMF has also worked with the International Labour Office on issues related to employment, as well as social protection floors; the UN International Children's Fund on fiscal issues and social policy;

the UN Environment Programme on the green economy; and the World Food Programme on social safety nets and early assessments of vulnerability.

European Commission and European Central Bank

IMF participation, early in the global financial crisis, in financing for EU members facing balance of payments needs led to an extension of the IMF's collaboration with EU institutions, in particular with the European Commission (EC) and the European Central Bank (ECB), later in the crisis, when euro area countries requested IMF support. This enhanced cooperation among the IMF, the EC, and the ECB in program countries has become known as the "Troika." Although the IMF coordinates closely with the other members of the Troika, the institution's decisions on financing and policy advice are ultimately taken by the Executive Board. The IMF also works closely with the EC on issues affecting low-income countries, including on the financing of capacity development.

Deauville Partnership

The IMF actively participates in the Deauville Partnership, an international effort launched by the Group of Eight, together with regional partner countries and international financial institutions, in May 2011 to mobilize assistance for the Arab countries in

transition. The dedicated platform for coordination of the Deauville Partnership brings together the regional and international financial institutions participating in the partnership to ensure effective and coordinated support for the partner countries; facilitate information sharing, mutual understanding, and operational dialogue with the partner countries; coordinate monitoring and reporting of joint actions in support of the partnership; and identify opportunities for collaboration on financial assistance, technical assistance, and policy and analytical work.

International Labour Organization and International Trade Union Confederation

The IMF's mandate includes contributing to the promotion and maintenance of high levels of employment and real incomes through the expansion and balanced growth of international trade. Given the importance of employment for sustainable and inclusive growth, IMF-supported programs often contain recommendations pertaining to the labor market. As labor market policies are not a core area of IMF expertise, the Fund works with other international, regional, and local organizations in this area. The IMF has an active partnership with the International Labour Organization, with which it pools expertise to better understand the impact of macroeconomic policies on job creation. It also interacts regularly with the International Trade Union Confederation and its affiliates.

5 FINANCES, ORGANIZATION, AND ACCOUNTABILITY



FINANCES, ORGANIZATION, AND ACCOUNTABILITY



BUDGET AND INCOME

Income, charges, remuneration, and burden sharing

Income model

The current income model for the IMF, endorsed by the Executive Board and approved by the Board of Governors in 2008, includes the establishment of an endowment in the IMF's Investment Account funded from the profits of the sale of a limited portion of the institution's gold holdings (see "Gold Sales" later in the chapter). The account's objective is to invest these resources and generate returns to contribute support to the IMF's budget while preserving the endowment's long-term real value. A broadening of the IMF's investment authority to enhance returns on investments is a key element of the model. In January 2013, the Executive Board adopted new rules and regulations for the Investment Account that provided the legal framework for implementation of the expanded investment authority, authorized under the Fifth Amendment to the Articles of Agreement, which became effective in February 2011.⁷⁴

Charges

Pending the investment of resources held in the endowment, which will be phased over a three-year period (funding to the

endowment's strategic asset allocation started in March 2014), the main source of IMF income continues to be its financing activities. The basic rate of charge (the interest rate) on IMF financing comprises the SDR interest rate plus a margin expressed in basis points. For FY2015 and FY2016, the Executive Board agreed to keep the margin for the rate of charge at 100 basis points. The margin was adopted under the rule for setting the basic rate of charge adopted by the Board in December 2011. Under this rule, the margin is set so as to cover the IMF's financing-related intermediation costs and allow for a buildup of reserves. In addition, the rule includes a cross-check to ensure that the rate of charge maintains a reasonable alignment against long-term credit market conditions.⁷⁵

Surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches⁷⁶ and under Extended Arrangements; these are referred to as level-based surcharges. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (with the same threshold as above) that remains outstanding for more than 36 months.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the General Resources Account. A refundable commitment fee is charged on amounts available under GRA arrangements, such as Stand-By Arrangements, as well as Extended, Flexible Credit

Line, and Precautionary and Liquidity Line Arrangements, during each 12-month period. Commitment fees are levied at 15 basis points on amounts available for drawing up to 200 percent of quota, 30 basis points on amounts in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts over 1,000 percent of quota. The fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are past due by less than six months.

Remuneration and interest

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, or less than 80 percent of that rate. The rate of remuneration is currently set at the SDR interest rate, which is also the current interest rate on IMF borrowing.

At April 30, 2014, the IMF's outstanding borrowings under bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangement to Borrow, amounted to SDR 47.3 billion (\$73.3 billion).

Burden sharing

The IMF's rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations equally between creditor and debtor members. Quarterly interest charges that are overdue (unpaid) for six months or more are recovered by increasing

the rate of charge and reducing the rate of remuneration (burden-sharing adjustments) to make up for the lost income. The amounts thus collected are refunded when the overdue charges are settled.

In FY2014, the adjustments for unpaid quarterly interest charges averaged less than 1 basis point, reflecting the rise in IMF credit outstanding owing to the effect of the global crisis on members and a similar increase in member reserve tranche positions. The adjusted rates of charge and remuneration averaged 1.10 percent and 0.09 percent, respectively, in FY2014.

Net income

The IMF's net income in FY2014 was SDR 2.6 billion (\$4.0 billion), reflecting primarily income from high levels of financing activity and income from its investments held in the Investment Account. As required by International Financial Reporting Standards (amended IAS 19, *Employee Benefits*), FY2014 income includes gains of SDR 1.1 billion (\$1.7 billion) arising from the immediate recognition of all changes in the IMF's defined-benefit obligation of postemployment benefit plans and the associated plan assets. In past years, actuarial gains or losses were amortized under the previous accounting standard.

Gold sales

The IMF adopted an income model that includes an endowment funded from the profits of the sale of a portion of the institution's gold holdings. The Executive Board agreed in July 2009 that in addition to funding the endowment, part of the gold sale proceeds would also be used to increase the IMF's resources for concessional financing to low-income countries.

Previous top Managing Director Christine Lagarde addresses the Development Committee in April 2014 **Previous bottom** Signage highlights the theme for the Spring Meetings **Far left** David Lipton, First Deputy Managing Director, speaks at a seminar on sovereign debt restructuring in October 2013 **Far right** Members of the press photograph the G20 officials at the 2013 Annual Meetings **Left** Financial Counsellor and Director José Viñals presents the April 2014 Global Financial Stability Report **Right** Economic Counsellor Olivier Blanchard talks to the media about the April 2014 World Economic Outlook

Global Financial



The Board approved the sale of 403.3 metric tons of gold in September 2009, representing one-eighth of the institution's total holdings. The gold sales were initiated in October 2009 and concluded in December 2010, generating total proceeds of SDR 9.54 billion. Of this amount, SDR 2.69 billion represented the gold's book value and SDR 6.85 billion represented profits. All sales were based on market prices, which were higher than the \$850 per ounce that was assumed in 2008, when the Board endorsed the revised income model. The actual average sales price was \$1,144 per ounce, resulting in "windfall" profits from the gold sales. Of the SDR 6.85 billion in gold sales profits, the Board decided to place SDR 4.4 billion in the special reserve; the remaining SDR 2.45 billion, corresponding to the windfall profits, was placed in the IMF general reserve pending further discussions on its ultimate disposition.

As part of a low-income countries financing package for 2009–14, the IMF Executive Board approved in February 2012 the distribution to IMF members of SDR 700 million (about \$1.1 billion) of the SDR 2.45 billion. The distribution was to become effective only after members had provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—that is, SDR 630 million (about \$978 million)—would be transferred, or otherwise provided, to the PRGT.⁷⁷ This threshold was reached in October 2012, and the distribution was made later that month.

The Executive Board discussed the use of the remaining windfall gold sales profits of SDR 1.75 billion (\$2.7 billion) on several occasions in 2011. During these discussions, the Board considered three main options: facilitating contributions to increase the concessional financing capacity for low-income countries, boosting the IMF's precautionary balances, and adding to the gold endowment. As part of a strategy to ensure the longer-term sustainability of the PRGT, Executive Directors approved, in September 2012, the distribution of the remaining windfall gold sales profits, in proportion to members' quota shares. The decision mandated that for the distribution to occur, members must give satisfactory assurances that an amount equivalent to at least 90 percent of the distribution would be made available to the PRGT.

In October 2013, the IMF announced that the required threshold had been reached.⁷⁸ As of April 30, 2014, 155 countries had committed to provide their share of the distribution to the PRGT, for a total of SDR 1,652 million (\$2.56 billion) in additional capacity for concessional financing in low-income countries. Managing Director Christine Lagarde thanked the member countries, noting that their actions had "secured critical resources to provide adequate levels of financial support to the poorest countries for years to come" and praising the "strong and universal commitment of our membership to help the world's poorest countries." The IMF continues to seek contributions from remaining members to maximize concessional financing capacity.

Table 5.1
Budget by major expenditure category, FY2013–17
(Millions of U.S. dollars)

	FY2013		FY2014		FY2015	FY2016	FY2017
	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
ADMINISTRATIVE EXPENDITURES							
Personnel	835	802	861	820	893	912	931
Travel ¹	125	119	123	114	128	134	128
Buildings and other	181	180	190	195	196	199	202
Contingency reserves	18	—	12	—	7	7	7
TOTAL GROSS BUDGET	1,159	1,102	1,186	1,129	1,224	1,252	1,268
Receipts ²	-161	-154	-179	-160	-197	-197	-198
TOTAL NET BUDGET	997	948	1,007	969	1,027	1,054	1,070
Carry-forward ³	41	—	42	—	42		
TOTAL NET BUDGET INCLUDING CARRY-FORWARD	1,038	948	1,049	969	1,069	1,054	1,070
CAPITAL							
Facilities and information technology	162	89	41	158	52	41	4

Source: IMF Office of Budget and Planning.

Note: Components may not sum to totals because of rounding.

¹ FY2013 and FY2016 include travel to the Annual Meetings held abroad.

² Includes donor-financed activities, cost-sharing arrangements with the World Bank, sales of publications, parking, and other miscellaneous revenue.

³ Resources carried forward from the previous year under established rules.

Table 5.2**Administrative expenses reported in the financial statements, FY2014**

(Millions of U.S. dollars, unless otherwise indicated)

FY2014 NET ADMINISTRATIVE BUDGET OUTTURN	988
Timing differences	
Pension and postemployment benefits costs	327
Capital expenditure—amortization of current and prior years' expenditure	49
Amounts not included in the administrative budget	
Capital expenditure—items expensed immediately in accordance with International Financial Reporting Standards	18
Reimbursement to the General Department (from the Poverty Reduction and Growth Trust, Post-Catastrophe Debt Relief Trust, and Special Drawing Rights Department)	(75)
TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS	1,307
MEMORANDUM ITEM:	
Total administrative expenses reported in the audited financial statements (Millions of SDRs)	861

Sources: IMF Finance Department and Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Conversions are based on the effective weighted average FY2014 U.S. dollar/SDR exchange rate for expenditures of about 1.52.

Administrative and capital budgets

In April 2013, in the context of the FY2014–16 medium-term budget, the Executive Board authorized total net administrative expenditures for FY2014 of \$1,007 million, as well as a limit on gross expenditures of \$1,227 million, including up to \$42 million in carry-forward of unspent FY2013 resources for possible spending in FY2014 (Table 5.1).⁷⁹ It also approved capital expenditures of \$41 million for building facilities and information technology capital projects.

The IMF's work during the year continued to be driven by the need to alert the membership to potential risks to the global recovery and to financial stability worldwide. Relative to the prior year, overall spending was unchanged in real terms. The budget envelope continued to be set at a higher level in recognition of additional resources equivalent to \$53 million to meet crisis-related demands.

Actual net administrative expenditures in FY2014 totaled \$988 million, \$19 million below the total net budget. The “underspend” was down significantly from that in the previous year, reflecting more effective utilization of the budget. Capital budget expenditures for facilities and information technology totaled \$144 million, including amounts appropriated in prior years. The largest share of that spending was for the HQ1 renewal program, \$92 million (see Box 5.1). Information technology (IT) spending totaled \$37 million for core infrastructure replacements and upgrades, data management projects, and IT security. Progress continued on two major capital building projects. The Concordia renovation was substantially completed and the building was opened for operation in April 2013. The HQ1 renewal program,

an occupied building renovation, has moved from the design to the construction phase. Completion is expected in 2017.

For financial reporting purposes, the IMF administrative expenditures are accounted for on an accrual basis in accordance with International Financial Reporting Standards (IFRS). Those standards require accounting on an accrual basis and the recording and amortizing of employee benefit costs based on actuarial valuations. Table 5.2 provides a detailed reconciliation between the FY2014 net administrative budget outturn of \$988 million and the IFRS-based administrative expenses of \$1,307 million (SDR 861 million) reported in the IMF's audited financial statements for the year.

In April 2014, the Board approved a budget for FY2015, including net administrative expenditures of \$1,027 million and a limit on gross administrative expenditures of \$1,265 million, including up to \$42 million in carry-forward of unspent FY2014 resources. For the third year in a row, the limit on net administrative expenditures (excluding the carry-forward) remained unchanged in real terms relative to the prior year. The capital budget was set at \$52 million, comprising \$22 million for building facilities and \$30 million for IT projects. Indicative budgets for FY2016 and FY2017 were also presented to the Board.

The FY2015–17 medium-term budget was formulated within the IMF strategic planning framework with an overall envelope and resource allocations that provide for the delivery of the Fund's priorities. The changing needs of the IMF's membership have been met within a flat budget through efficiency measures and better utilization and reallocation of existing resources. In particular,

resources have been freed up through reallocation to cover additional activities in fragile states and the Middle East, enhanced multilateral surveillance work, and strengthened risk management, as well as for additional costs of IT and physical security.

Arrears to the IMF

Overdue financial obligations to the IMF fell from SDR 1,298 million at the end of April 2013 to SDR 1,295.5 million at the end of April 2014 (Table 5.3). Sudan accounted for about 76 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 6 percent, respectively. At the end of April 2014, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, the remaining two-thirds, of overdue charges and interest. More than four-fifths represented arrears to the General Resources Account, and the remainder to the Trust Fund and the PRGT. Zimbabwe was the only country with protracted arrears to the PRGT. The general SDR allocation in August 2009 has facilitated all protracted cases in remaining current in the SDR Department.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied to address the protracted arrears. At the end of the financial year, Somalia and Sudan remained ineligible to use GRA resources. Zimbabwe will not be able to access GRA resources until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of technical assistance, and removal from the list of PRGT-

eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT.

Audit mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that, under the IMF's By-Laws, exercises general oversight over the annual audit.

External Audit Committee

The three members of the EAC are selected by the Executive Board and appointed by the Managing Director. Members serve three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different member countries and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, EAC members have significant experience in international public accounting firms, the public sector, or academia.

The EAC selects one of its members as Chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. It meets in Washington, D.C., each year, normally in January or February to oversee the planning for the annual audit, in June after the completion of the audit, and in July to brief the Executive Board. The IMF staff and the external auditors consult with EAC members throughout the year. The 2014 EAC members were Jian-Xi Wang (Chair), a

Box 5.1

Building renovation progresses

After years of planning, the older of the IMF's two headquarters buildings (HQ1) in downtown Washington, D.C., started an extensive renovation to replace aging and failing building systems that were nearing the end of their life and in urgent need of replacement or refurbishment. Without replacement, system failure was likely over the next three to five years.

Renovation work began in HQ1 on May 1, 2013, with much of the work during the first year on the lower levels. Construction workers put in over 400,000 person/hours in demolition activities, removing and recycling over 4,000 tons of debris, and installing 680,000 pounds of sheet metal ductwork, 110,000 feet of pipe, and 659,000 feet of electrical wire, in replacing the central mechanical and electrical systems that support the second floor and below.

As of April 2014, progress had been made toward installing a new, flexible, and energy-efficient central plant and creating a

structure that will provide more natural light when these areas are reopened. The public spaces such as the main atrium, gallery, and cafeteria remained closed due to ongoing demolition.

Conducting a major renovation in an occupied building presents challenges that do not exist with traditional construction sites. Procedures were put in place at the onset of the project to protect those who conduct the daily work of the Fund while construction goes on around them.

Renovation work will continue, moving floor by floor up the building as the project progresses. Once renovation work commences on an office floor, the affected building users move temporarily to workspaces in the IMF's other building (HQ2). When work is completed, the renovated building is expected to significantly cut energy bills and help the IMF achieve the highest sustainability standards.

Table 5.3

Arrears to the IMF of countries with obligations overdue by six months or more and by type, as of April 30, 2014
(Millions of SDRs)

	Total	General Department (including Structural Adjustment Facility)	By type	
			Trust Fund	Poverty Reduction and Growth Trust
Somalia	234.6	226.3	8.3	—
Sudan	979.9	898.0	81.8	—
Zimbabwe	81.1	—	—	81.1
Total	1,295.5	1,124.4	90.1	81.1

Source: IMF Finance Department.

certified public accountant and Chairman of Beijing Dalio Public Welfare Foundation; Gonzalo Ramos, Secretary General of the Public Interest Oversight Board; and Daniel Loeto, a chartered accountant and Chief Accountant of the Bank of Botswana.

External audit firm

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for conducting the IMF's annual external audit and expressing an opinion on IMF's financial statements, including the accounts administered under Article V, Section 2(b), of the Articles of Agreement and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors.

The external audit firm is appointed for a term of five years, which may be renewed for up to an additional five years. Deloitte & Touche LLP, currently the IMF's external audit firm, was initially appointed in 2004. Deloitte & Touche issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2014. With the prior approval of the Executive Board, the external audit firm can provide additional audit-related services. The fees for such services cannot exceed 33 percent of the value of the five-year audit contract. The provision of non-audit-related services by the external audit firm is prohibited.

Office of Internal Audit and Inspection

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the IMF's risk management, control, and governance processes. OIA's audit coverage includes the IMF staff, the Executive Board, offices of the Executive Directors, and the Independent Evaluation Office and its staff. In line with best practices, OIA reports to IMF management and its activities are overseen by the EAC, thus ensuring its objectivity and independence.

During the year covered by this report, OIA completed audits and advisory reviews in the areas of controls and procedures to safeguard and administer the IMF's financial assets and accounts; IT audits to evaluate the adequacy of IT management and the effectiveness of security measures; and operational and effectiveness reviews of work processes, associated controls, and the efficacy of operations in meeting the IMF's overall goals.

Separate from its internal audit function, OIA also serves as Secretariat to the Advisory Committee on Risk Management. In this capacity, OIA coordinates production of an annual risk management report to the Board and supports informal briefings of the Board on risk management (see the next section, "Risk Management").

The Board is informed of OIA activities twice a year via an activity report that includes information on the OIA's planned audits and reviews as well as the results and status of audit recommendations, and all audit reports are shared with the Board. The most recent informal Board briefing on these matters, as of the end of the financial year, had taken place in February 2014. No material or significant weaknesses that would have a bearing on the IMF's internal control structure and financial statements were identified. The overall implementation rate of OIA recommendations in the first half of the year improved in comparison to the rate for the previous year.

Risk management

During the year, the Advisory Committee on Risk Management continued to support the implementation of the IMF's risk management framework. As noted in the previous subsection, it prepares an annual report on key risks facing the IMF and informally briefs the Executive Board on risk management issues, as it did, during the financial year covered by this report, in May 2013.

In July 2013, the Board discussed the 2013 Report on Risk Management prepared by the committee, which was informed by the results of a departmental risk survey in which departments were asked to provide their views on the strategic and operational risks faced by the Fund. Executive Directors broadly



Left Managing Director Christine Lagarde presents the findings of the staff survey at a town hall meeting **Right** Staff Association Committee Chair Aissata Sidibé shares staff concerns at a town hall meeting on the HQ1 Renewal project



concluded with the overall risk assessment. A number of Executive Directors noted that future reports could benefit from more analysis of mitigation strategies, including a review of past implementation. They also looked forward to proposals from the Managing Director for strengthening the Fund's risk management framework.

Review of the adequacy of the Fund's precautionary balances

Precautionary balances are one element of the IMF's multilayered framework for managing financial risks, which also includes the strength of the Fund's lending policies and its preferred creditor status. These balances, comprising retained earnings held in the Fund's reserves and the Special Contingent Account, are ultimately available to absorb possible financial losses, thereby helping protect the value of reserve assets that members place with the Fund and underpinning the exchange of international reserve assets through which the Fund provides assistance to countries with financing needs.

In February 2014, the Executive Board conducted a review of the adequacy of the Fund's precautionary balances,⁸⁰ which is normally undertaken every two years under a framework agreed to by the Executive Board in 2010. This framework provides an indicative range, linked to developments in total IMF credit outstanding, that is used to guide decisions on adjusting the target for precautionary balances over time.

Executive Directors generally agreed that the rules-based framework for assessing the adequacy of precautionary balances adopted in 2010 remained broadly appropriate. At the same time, they reiterated the continued importance of judgment and Board

discretion in light of a broad assessment of financial risks facing the Fund.

Executive Directors observed that while the overall balance of risks facing the Fund had remained broadly unchanged since the previous review, some risks had moderated, reflecting small decreases in credit outstanding and the forward-looking credit measure, and the decline in market perceptions of correlated risks. They noted, however, that the Fund still faced large concentrated exposures, mainly to euro area countries, and that this regional concentration was expected to remain high for some time, given the lengthening of the average maturity of Fund credit.

In light of these developments, Executive Directors broadly supported retaining the existing indicative target for precautionary balances of SDR 20 billion. They noted that this target was close to the midpoint of the updated indicative range derived from the framework.

Executive Directors reiterated the importance of maintaining a minimum floor for precautionary balances to protect against an unexpected increase in credit risks, particularly after periods of low credit, and to ensure a sustainable income position. They agreed that this floor should remain at SDR 10 billion for the time being. They noted that this issue should be revisited in the future now that reserves had exceeded the floor for the first time under the framework, and as the longer-term evolution of credit became clearer and the implementation of the Fund's new income model progressed.

Executive Directors noted the projected steady increase in reserve accumulation. They looked forward to discussions of policies that could affect the pace of reserve accumulation.

HUMAN RESOURCES POLICIES AND ORGANIZATION

Human resources

To be effective in the dynamic, integrated global economy, the IMF must maintain a cutting edge in key areas of competence and remain an employer of choice for talented professionals. Agility in dealing with new or unexpected issues, while at the same time ensuring that all employees of the Fund are treated fairly, is essential to its continued success.

In FY2014, the IMF continued its focus on strong recruitment, quickly responded to the results of the 2013 Staff Survey, and developed a new leadership development framework to strengthen people management skills.

Workforce characteristics

External recruitment continued to rise for the third consecutive year, with a 9 percent increase in 2013. This represents a total external hire of 176 staff, mainly among midcareer economists and support staff, with a relatively small number of B-level, or managerial level, hires.

Among the new hires, 93 were economists, about 10 percent more than in 2012. These hires focused on midcareer level, as the Economist Program (EP) remained the same size (29) as in the previous year. In other career streams, hiring at A9–B5 decreased by 4 percent, largely due to fewer B-level hires.

The IMF relies primarily on economists with a substantial number of years of analytical and policymaking experience to replenish

ranks in area and functional departments. A total of 58 midcareer economists were recruited in 2013, a 14 percent increase from the previous year. While the majority of midcareer hires were macroeconomists (48), 10 were experts in fiscal policy and the financial sector.

Of specific note this year was the launch of the Externally Financed Appointee Program. This centralized recruitment program will supplement departmental hiring of midcareer economists. The program was developed in response to the interest from member countries in having their public sector officials gain Fund experience, with the cost financed by the member countries. To date, three member countries (Japan, Korea, and Sweden) have committed to participate and six appointees are expected to begin in calendar year 2014.

In 2013, 478 contractual employees were hired, reflecting a slight increase, 2 percent, over 2012. Most contractual hiring—69 percent—was at the professional level and was short term. Consistent with the aim of improving support to economists, 62 research assistants were hired representing 41 percent of all support contractuales.

As of April 30, 2013, the IMF had 2,119 professional and managerial staff and 459 staff at the support level. A list of the institution's senior officers and its organizational chart can be found on pages 73 and 74.

Diversity and inclusion

The IMF makes every effort to ensure that the staff is diverse in terms of geographic region and gender. It also monitors other aspects of diversity, including educational background, and

Box 5.2

Safeguards assessments: Policy and activity

When the IMF provides financing to a member country, a safeguards assessment is carried out to obtain assurances that the member's central bank is able to adequately manage the resources it receives from the IMF and provide reliable information. Safeguards assessments are diagnostic reviews of central banks' governance and control frameworks and complement the IMF's other risk management measures, which include limits on access, conditionality, program design, measures to address misreporting, and postprogram monitoring. The assessments are conducted independent of other IMF activities such as surveillance, program discussions, and technical assistance. As of April 2014, 259 assessments had been completed, and 15 were finalized during the year covered by this report, including one voluntary assessment in the Middle East region conducted at the request of the authorities.

In addition to the assessments, safeguards activities include monitoring of progress in addressing recommendations and other developments in central banks' safeguards frameworks for as long as IMF credit remains outstanding. About 70 central banks are currently subject to safeguards monitoring. Activities during the year also included two seminars on safeguards assessments held for central bankers at the IMF–Middle East Center for Economics and Finance and at the Joint Partnership for Africa. The seminars focused on the safeguards policy and its application, with emphasis on the importance of effective governance and oversight.

The safeguards policy is subject to periodic reviews by the Executive Board; the last review, in 2010, marked the policy's tenth anniversary, and the next review is planned for 2015.

recruits actively from all over the world.⁸¹ Of the 188 member countries at end-April 2014, 143 were represented on the staff. Web Tables 5.1–5.3 show the distribution of the IMF’s staff by geographic region, gender, and country type.

The institution continues to make progress towards its diversity goals, but challenges remain. Hiring of nationals from underrepresented regions reached 49 percent of all external hiring at the A9–B5 level for 2013, the highest since 2009. One-third of the 2013 EP intake were nationals from underrepresented regions. While progress is being made towards diversity by nationality representation, the Fund faces challenges in attracting women economists. While the share of women among total staff hires in Grades A9–B5 was broadly the same, the share of women in the EP dropped from 52 percent to 36 percent.

During the year several measures were also introduced to improve the cultural and demographic inclusiveness of the work environment. A new inclusion index was derived from the Staff Survey results, with measures added to departmental accountability frameworks; cross-cultural competence assessment and training was added to the diversity curriculum. The objective of these measures is to further support diversity of staff and to encourage different perspectives to be presented and given a fair hearing.

Management salary structure

IMF management remuneration is reviewed periodically by the Executive Board; the Managing Director’s salary is approved by the Board of Governors. Annual adjustments are made on the basis of the Washington, D.C., consumer price index. Reflecting the responsibilities of each management position, as of July 1, 2013, the salary structure for management was as follows:

Managing Director	\$482,080
First Managing Director	\$419,190
Deputy Managing Directors	\$399,240

The remuneration of Executive Directors was \$247,280, and the remuneration of Alternate Executive Directors was \$213,910.

Human resources reforms

Staff Survey

The 2013 Staff Survey concluded in early FY2014, with follow-up efforts targeted towards creating a more enabling environment and strengthening people management. Specifically, measures to increase mobility of staff across and within job families were designed and introduced, including the development of a new mobility program for office assistants. Increased offerings and the access to training for staff was undertaken to support career development, with 1,250 new training slots on offer. Also implemented was strengthened guidance to support more

transparent and consistent people management decisions (promotion selection and performance review).

Leadership

To further support the people management focus within the Fund and facilitate a shift towards a more innovative and agile work environment, updated roles and responsibilities and competency profiles for all managerial levels were developed. Implementation of this framework will continue in FY2015 and will be the foundation for development and assessment of all managers.

Client service

An online human resources client service system was introduced in May 2014 with the objective to improve quality and timeliness of service delivery. Service-level agreements were implemented for key transactions, with performance regularly monitored. The result was a 91 percent client satisfaction rate for FY2014.

Extension of term of IMFC Chair

The IMF’s policy advisory committee, the International Monetary and Financial Committee, deliberates on the principal policy issues facing the IMF and the international monetary and financial system. The committee has 24 members, reflecting the composition of the IMF Executive Board. Each member country that appoints, and each group of countries that elects, an Executive Director appoints a member of the committee. The IMFC meets twice a year, at the IMF–World Bank Spring and Annual Meetings.

In December 2013, IMFC members asked Tharman Shanmugaratnam to extend his term as Chairman of the committee by one year upon the conclusion of his term. Minister Tharman, who was selected as Chairman for a term of up to three years, accepted the extension and will remain as Chairman through March 2015. In requesting the extension, the members cited Minister Tharman’s strong leadership as valuable in the committee’s deliberations and the continuity of his leadership in the year ahead as particularly helpful in ensuring that all members’ views are taken into account, including with respect to significant ongoing reforms.

ACCOUNTABILITY

Independent Evaluation Office

The IMF’s Independent Evaluation Office, established in 2001, evaluates IMF policies and activities with the goal of increasing the institution’s transparency and accountability, strengthening its learning culture, and supporting the Executive Board’s institutional governance and oversight responsibilities. Under its



Left Deputy Managing Director Naoyuki Shinohara shares his views at a seminar on emerging markets in April 2014
Right Deputy Managing Director Min Zhu has the floor at a seminar on Latin America in October 2013

terms of reference, the IEO is fully independent of IMF management and operates at arm's length from the Board, to which it reports its findings.

Executive Board reviews of IEO reports and recommendations

IMF forecasts

In March 2014 the IEO released its evaluation “IMF Forecasts—Process, Quality, and Country Perspectives.” The evaluation found that the processes and methods used to generate short-term forecasts for Article IV consultations and the *World Economic Outlook* are well structured and, in general, appropriately tailored

to country-specific characteristics. By and large, country officials have confidence in the integrity of IMF forecasts. In terms of forecast quality, the evaluation concluded that the accuracy of IMF forecasts was comparable to that of private sector forecasts. There were no significant biases except during certain episodes. Specifically, the evaluation found a tendency for significant overpredictions of GDP growth in the WEO during regional or global recessions as well as during crises in individual countries. It also found that short-term forecasts of GDP growth and inflation made in the context of IMF-supported programs tended to be optimistic in high-profile cases characterized by exceptional access to IMF resources and that at the first program review, forecast biases were typically reduced or reversed.

Box 5.3

In Memoriam: Wabel Abdallah

The IMF community was shocked and saddened by the death in January 2014 of Wabel Abdallah, the IMF’s Resident Representative in Afghanistan. Mr. Abdallah was among more than 20 people killed in an attack at a restaurant in Kabul. His death marked the first time the IMF has lost a staff member in this way.

A Lebanese national, Mr. Abdallah was appointed Resident Representative in June 2008. He joined the Fund from the Central Bank of Lebanon in 1993 and held positions in a number of IMF departments, including the Middle East and Central Asia Department, the Statistics Department, and the Human Resources Department. His pre-IMF career was rich

and varied, encompassing positions as a senior lecturer at Columbia University, an economic advisor to Lebanon’s mission to the United Nations, and an economic advisor to the governor of the Central Bank of Lebanon.



A staff gathering was held in January to remember Mr. Abdallah, and an In Memoriam page on the IMF’s intranet also offered staff an opportunity to share their memories of a cherished colleague.

Based on these findings, the evaluation recommended that the IMF should promote a culture of learning from past forecast performance, provide appropriate guidance to economists on best practices in forecasting for the short and medium term, and enhance transparency by describing its forecasting process to the public and by making historical forecasts more easily accessible.

During their discussion of the evaluation in February 2014, Executive Directors expressed broad support for all of these recommendations.

IEO work program

In response to a recommendation in the second external evaluation of the IEO (see discussion later in this section), the IEO prepared an evaluation of recurring issues from a decade of evaluations that was discussed by the Executive Board in mid-2014.

Work on evaluations of the IMF's response to the global financial crisis, statistics at the IMF, and IMF self-evaluation systems, is ongoing.

The IEO launched a new initiative to revisit past evaluations 5 to 10 years after they were first issued. During the year covered by this report, one report was completed revisiting the 2005 evaluation of IMF technical assistance. All completed evaluations (including information on ongoing evaluations, issues papers, IEO Annual Reports, and other documentation) are available on the IEO website.⁸²

Implementation of Board-endorsed IEO recommendations

Soon after the Executive Board discussion of an evaluation, IMF management presents to the Board a forward-looking implemen-

tation plan for Board-endorsed IEO recommendations. These management implementation plans aim to ensure systematic follow-up and monitoring of the implementation of Board-endorsed IEO recommendations.

In June 2013, the Executive Board discussed the management implementation plan arising from the IEO evaluation of the role of the IMF as trusted advisor.⁸³ In its report, which was discussed by the Board in February 2013, the IEO had evaluated in what circumstances the Fund was viewed as a trusted advisor to its member countries and made recommendations aimed at addressing the key challenges identified by the evaluation. The Executive Board agreed that the proposals contained within the implementation plan fulfilled the framework's requirement.

Follow-up to the second external evaluation of the IEO

The Executive Board launched a second external evaluation of the IEO in August 2012.⁸⁴ When the Board discussed the evaluation report in March 2013, Executive Directors endorsed many of the external panel's recommendations for further enhancing the IEO's effectiveness.

In February 2014, the Board approved proposals to implement these recommendations, including steps to provide a more accurate recording of the outcome of Board discussion of IEO reports, increase interactions between the IEO and the International Monetary and Financial Committee during the Spring and Annual Meetings, and strengthen monitoring of the follow-up on IEO recommendations endorsed by the Board.

Left Managing Director Christine Lagarde meets with Kenyan parliamentarians in Nairobi, Kenya, in January 2014 **Right** Deputy Managing Director Nemat Shafik moderates a panel at a staff event for International Women's Day in March 2014



Transparency

The IMF's transparency policy, enacted in 1999 and most recently revised in June 2013, states that the institution "will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure." This principle, according to the policy, "respects, and will be applied to ensure, the voluntary nature of publication of documents that pertain to member countries."⁸⁵ The Executive Board receives annual updates on the implementation of the policy; these reports are part of the information the IMF makes public as part of its efforts in the area of transparency. The 2013 update, published in October 2013, is available on the IMF's website.⁸⁶

Review of transparency policy

In February–March 2013, the IMF conducted public consultation on views of its transparency policy, in preparation for the institution's subsequent review of the policy. Though comments were welcomed on any or all aspects of the policy, views were specifically solicited in regard to the policy's strengths and weaknesses, ways it could be improved, whether there had been an improvement or deterioration in the policy over the preceding five years, and how well the policy was performing relative to those of other institutions, including in regard to the accessibility, frequency, and usefulness of documents.

At two meetings in June 2013, the Executive Board conducted a review of the transparency policy, based on an IMF staff paper.⁸⁷ Executive Directors noted that two decades of reform had transformed the Fund's transparency and that the Fund had been able to contribute to public debates during the global financial crisis through open discussion of risks and policy options and to respond to heightened public scrutiny of its increased financing activities. At the same time, the transparency policy had given members comfort to continue publishing country reports, with the assurance that the most sensitive information would be protected. It was observed that the Fund was now broadly at par with other institutions with similar mandates as regards the amount and types of information that it publishes. Notwithstanding this progress, Executive Directors agreed that there was room to enhance transparency to further improve the effectiveness of Fund surveillance and policy advice and enhance its legitimacy with members. A number of specific areas were identified:

Increasing publication rates and reducing lags. Executive Directors broadly supported the staff's proposal to extend a stronger publication regime to all staff reports on the use of Fund resources and policy support instruments as a way to strengthen the Fund's accountability to its shareholders. Most Executive Directors also agreed with the proposals to encourage faster release of information—including defining prompt publication as being within 14 days of Board consideration, issuing factual statements in case of delayed publication, and introducing lower-profile publication

for reports published more than 90 days after Board consideration. Executive Directors took note of the staff's clarification that defining prompt publication and shortening the normal period for deletion requests would not establish a binding deadline.

Clarifying external communication. Executive Directors agreed to streamline external communication products to reduce the risk of inconsistent messages. They supported the adoption of a single term "press release" for all external communication products and the discontinuation of the term "public information notice."

Better explaining the Fund's rules on confidentiality. Executive Directors considered how best to reconcile the Fund's role as a trusted advisor to individual members and its function as global watchdog. In this context, they supported the staff's proposals to encourage a common understanding of the Fund's rules on confidentiality between staff and members, including through clearer staff guidance; clarifying confidentiality rules at the start of each mission, including when confidential information would need to be disclosed to the Executive Board; and strengthening departmental review to avoid leakage of confidential information.

Monitoring evenhandedness. Executive Directors supported the proposal to strengthen monitoring in this area and urged the staff to continue to explore ways to reinforce candor and evenhandedness.

Adapting the transparency policy to the new surveillance framework. Executive Directors broadly agreed on the need to adapt the transparency policy to recent surveillance reforms. They agreed that the introduction of a publication regime for a new category of multicountry documents was a good way to ensure that the Fund publishes candid multilateral surveillance, while respecting members' needs concerning confidentiality. Executive Directors generally saw the need to adapt the modification rules for Article IV staff reports to take into account the implications of the Integrated Surveillance Decision.

Facilitating public access to the Fund's archives. Executive Directors welcomed the progress on implementing the 2009 reforms to the archives policy and saw a case for further efforts to digitize other documentary material and to streamline procedures for declassifying these materials. Most Executive Directors also saw scope for reducing the lags for public access to Executive Board minutes from five to three years. A significant minority of Executive Directors favored retaining the existing lags in order to strike a balance between informing the public about the Board's views and maintaining the candor of Board discussions. (The lag time was subsequently reduced to three years; see the next section.)

The transparency policy is expected to be reviewed next no later than 2018.

Public access to minutes of Executive Board meetings

After further discussion, the Executive Board agreed in March 2014 to reduce the lag for public access to minutes of most Board meetings from five to three years,⁸⁸ while retaining the five-year lag only for minutes of discussions that involve use of Fund resources or a Policy Support Instrument. This was the fourth such reduction since 1996. Reduction of the lag for public access to Board minutes had been frequently mentioned during the consultations for the review of the transparency policy, including by civil society organizations. The Board considered that the decision strikes the right balance between informing the public about the Board's views, maintaining the candor of Board discussions, and ensuring that access to Board meeting minutes does not jeopardize ongoing Fund operations. To allow time for the Fund and members to implement the new rules, the Board agreed to a transition period of six months; the new rules apply to minutes of all Board meetings taking place on or after August 27, 2014.

Review of communications strategy

Independent of its reviews of the transparency policy, the Executive Board has conducted periodic reviews of the communications strategy since 1998. Most recently, in February 2014 the Executive Board was updated on implementation of the strategy, including the main developments in Fund communications since 2007 and the key communications challenges in the period ahead. The communications strategy was subsequently reviewed in July 2014.

Outreach and engagement with external stakeholders

The objectives of IMF outreach are twofold: first, to listen to external voices to better understand their concerns and perspectives, with the aim of improving the relevance and quality of IMF policy advice; and second, to strengthen the outside world's understanding of IMF objectives and operations. Among the specific groups with which the IMF engages in its outreach activities are civil society organizations and youth leaders, trade and labor unions, parliamentarians, academics, think tanks, and the media. Tools such as social media, videos, and podcasts have formed an increasing part of the IMF's outreach strategy in recent years.

The IMF's Communications Department has primary responsibility for conducting the IMF's outreach activities and its engagement with external stakeholders. As the institution's policies have evolved—for instance, in its increased focus on promoting poverty reduction in low-income countries through a participatory approach and its emphasis on transparency and good governance—outreach and communication have become an integral part of IMF country work as well.

Outreach by IMF management and senior staff

As the importance of the IMF's outreach efforts has grown in the face of the crisis and aftermath, the management team has played an increasingly important role in those efforts. Outreach by management and senior IMF staff provides an opportunity to articulate the institution's strategic vision and the key policy priorities for the membership at large; to marshal support for policymakers for difficult national reforms that carry both domestic and global benefits; to learn more about issues affecting key stakeholders in member countries, including nontraditional constituents, with the aim of strengthening IMF analysis and policy advice; and to reinforce the IMF's commitment to providing needed support to members, particularly those most affected by the crisis.

The Managing Director, the Deputy Managing Directors, and senior IMF staff travel extensively in all five regions, meeting with authorities and key stakeholders in member countries and taking advantage of numerous opportunities to further the IMF's outreach objectives.

Outreach to youth, labor unions, and parliamentarians

The IMF continued to place emphasis on its outreach to civil society organizations, youth, trade unions, and parliamentarians. It proactively engages with members of parliament, a group that plays an important role in their countries' economic decision-making process, through already-established "umbrella" parliamentary organizations, such as the Parliamentary Network on the World Bank and International Monetary Fund, Commonwealth Parliamentary Association, Global Organization of Parliamentarians Against Corruption, and North Atlantic Treaty Organization (NATO) Parliamentary Assembly. At the country level, the IMF also reaches out to parliamentarians on the committees that have oversight of economic issues.

The Fund and the World Bank support the Parliamentary Network, whose mission is to provide a platform for parliamentarians around the globe to advocate for increased accountability and transparency in international financial institutions and multilateral development financing. Through the network, the IMF has held specialized conferences, such as one in Rwanda in 2012 on private sector development. It also holds workshops for members of parliament during the Spring and Annual Meetings to provide an overview of the main economic challenges as well as of latest research on topics that the Fund is developing. In addition, the Fund organizes country- and issue-specific outreach to discuss specific economic issues that members of parliament will legislate on in their national parliaments.

In its seventh year, the IMF Fellowship Program for civil society organizations sponsored the participation of 54 members of such organizations and youth from 43 countries in the IMF–World

Box 5.4**Regional Office for Asia and the Pacific initiatives to strengthen policy dialogue**

Various high-level conferences organized by the Regional Office for Asia and the Pacific (OAP) in cooperation with other institutions brought together senior policy makers and leading academics during the year to discuss issues relevant to the region. A conference in Bangkok—coorganized by OAP and the Bank of Thailand—focused on challenges relating to the interaction of monetary, fiscal, and macro-prudential policies. A seminar jointly organized in Tokyo by Hitotsubashi University and OAP discussed

options for emerging markets in dealing with unconventional monetary policies implemented by systemic central banks, including the implications of exit. A conference held in Tokyo—jointly organized by the Financial Services Agency of Japan, the Asian Development Bank Institute, and OAP—discussed key challenges faced by financial authorities in maintaining financial stability while ensuring availability of long-term finance and fostering a competitive financial industry.

Bank Spring and Annual Meetings. Civil society was also invited to provide input—through public consultations—on issues such as the revised draft of the fiscal transparency code, economic spillovers in international taxation, and the 2014 triennial surveillance review.

In recent years, the IMF has also stepped up its engagement with youth worldwide with the goal of exchanging ideas about solutions to the challenges young people face, in particular unemployment. The Fund continued to collaborate with the International Labour Organization (ILO), with a focus on three areas: the Social Protection Floor initiative, joint research and capacity building, and social dialogue. In addition to country-level engagement by IMF staff, the Managing Director met several times with the leadership of the International Trade Union Confederation. The IMF also engaged with labor organizations and civil society organizations on its work on Fiscal Policy and Income Inequality and the Fund's growth and job agenda.

The IMF continued to help the community in Washington, D.C. and around the world by providing donations for humanitarian relief, volunteering, and grants to support local community and global initiatives. A cornerstone of these efforts is the Helping Hands Campaign, through which Fund staff members make donations to support organizations serving needy communities, which the IMF matches at 50 percent.

IMF regional offices**Regional Office for Asia and the Pacific**

As the IMF's window to the Asia and Pacific region, the importance of which continues to grow in the global economy, the Regional Office for Asia and the Pacific (OAP) monitors economic and financial developments to help bring a more regionally focused perspective to IMF surveillance. It seeks to enhance the understanding of the IMF and its policies in the region and to

keep the IMF informed regarding regional perspectives on key issues. In this capacity, OAP has increased bilateral and regional surveillance with an expanding role in Mongolia, active support and participation on work involving Japan, and increased regional surveillance with forums in Asia, including ASEAN+3 (the Association of Southeast Asian Nations plus China, Japan, and Korea) and Asia-Pacific Economic Cooperation. OAP also contributes to capacity development in the region through the Japan-IMF Scholarship Program for Asia, the Japan-IMF Macroeconomic Seminar for Asia, and other macroeconomic seminars. Furthermore, OAP conducts outreach activities both within Japan and in the region and engages in dialogue with Asian policymakers by organizing conferences and events on current policy issues central to the IMF's work (see Box 5.4).

Regional Office in Paris and Brussels

The IMF Europe Office, located in Paris and Brussels, serves as liaison to European Union institutions and member states, as well as international organizations and civil society in Europe. The office engages with institutions such as the European Commission, the European Central Bank, the European Stability Mechanism, the European Parliament, the Economic and Financial Committee, and the Eurogroup Working Group, on euro area and EU policies as well as EU-IMF country programs. It also represents the IMF at the Organisation for Economic Co-operation and Development. More broadly, it fosters the dialogue on global economic issues with EU institutions, international organizations, and governments and civil society in Europe and meets frequently with representatives from industry associations, unions, academia, and the financial sector. It also supports the IMF's operations in Europe, including in economic surveillance, IMF-supported programs, and technical assistance, and helps to coordinate communication and outreach activities across the region.

EXECUTIVE DIRECTORS AND ALTERNATES

as of April 30, 2014

APPOINTED

Meg Lundsager <i>Vacant</i>	United States
Daikichi Momma <i>Isao Hisbikawa</i>	Japan
Hubert Temmeyer <i>Steffen Meyer</i>	Germany
Hervé de Villeroché <i>Vacant</i>	France
Stephen Field <i>Christopher Yeates</i>	United Kingdom

ELECTED

Menno Snel <i>Willy Kiekens</i> <i>Oleksandr Petryk</i>	Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Netherlands, Romania, Ukraine
José Rojas <i>Fernando Varela</i> <i>María Angélica Arbeláez</i>	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, República Bolivariana de Venezuela
Andrea Montanino <i>Thanos Catsambas</i>	Albania, Greece, Italy, Malta, Portugal, San Marino
Wimboh Santoso <i>Rasheed Abdul Ghaffour</i>	Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam
ZHANG Tao <i>SUN Ping</i>	China
Jong-Won Yoon <i>Ian Davidoff</i> <i>Vicki Plater</i>	Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, Vanuatu
Thomas Hockin <i>Mary T. O'Dea</i>	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Audun Groenn <i>Pernilla Meyersson</i>	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Momodou Saho <i>Chileshe M. Kapwepwe</i> <i>Okwu Joseph Nnanna</i>	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Republic of South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
A. Shakour Shaalan <i>Sami Geadah</i>	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
Johann Prader <i>Omer Yalvac</i> <i>Miroslav Kollar</i>	Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey
Rakesh Mohan <i>Kosgallana Ranasinghe</i>	Bangladesh, Bhutan, India, Sri Lanka
Fahad Alshathri <i>Hesham Alogeel</i>	Saudi Arabia
Daniel Heller <i>Dominik Radziwill</i>	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan
Paulo Nogueira Batista, Jr. <i>Hector Torres</i> <i>Luis Oliveira Lima</i>	Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago
Aleksei V. Mozhin <i>Andrei Lusbin</i>	Russian Federation
Jafar Mojarad <i>Mohammed Daïri</i>	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia
Alvaro Rojas-Olmedo <i>Sergio Chodos</i>	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
Kossi Assimaidou <i>Nguéto Tiraina Yambaye</i> <i>Woury Diallo</i>	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

SENIOR OFFICERS

as of April 30, 2014

Christine Lagarde *Managing Director*
David Lipton *First Deputy Managing Director*
Naoyuki Shinohara *Deputy Managing Director*
Min Zhu *Deputy Managing Director*
Olivier J. Blanchard, *Economic Counsellor*
José Viñals, *Financial Counsellor*

AREA DEPARTMENTS

Antoinette Monsio Sayeh
Director, African Department

Chang Yong Rhee
Director, Asia and Pacific Department

Reza Moghadam
Director, European Department

Masood Ahmed
Director, Middle East and Central Asia Department

Alejandro M. Werner
Director, Western Hemisphere Department

FUNCTIONAL DEPARTMENTS

Gerard T. Rice
Director, Communications Department

Andrew Tweedie
Director, Finance Department

Sanjeev Gupta
Acting Director, Fiscal Affairs Department

Sharmini A. Coorey
Director, Institute for Capacity Development

Sean Hagan
General Counsel and Director, Legal Department

José Viñals
Director, Monetary and Capital Markets Department

Olivier J. Blanchard
Director, Research Department

Louis Marc Ducharme
Director, Statistics Department

Siddharth Tiwari
Director, Strategy, Policy, and Review Department

INFORMATION AND LIAISON

Odd Per Brekk
Director, Regional Office for Asia and the Pacific

Christian Mumssen
Director, Offices in Europe

Axel Bertuch-Samuels
Special Representative to the United Nations

SUPPORT SERVICES

Mark W. Plant
Director, Human Resources Department

Jianhai Lin
Secretary of the Fund, Secretary's Department

Frank Harnischfeger
Director, Technology and General Services Department

Susan Swart
Chief Information Officer, Technology and General Services Department

OFFICES

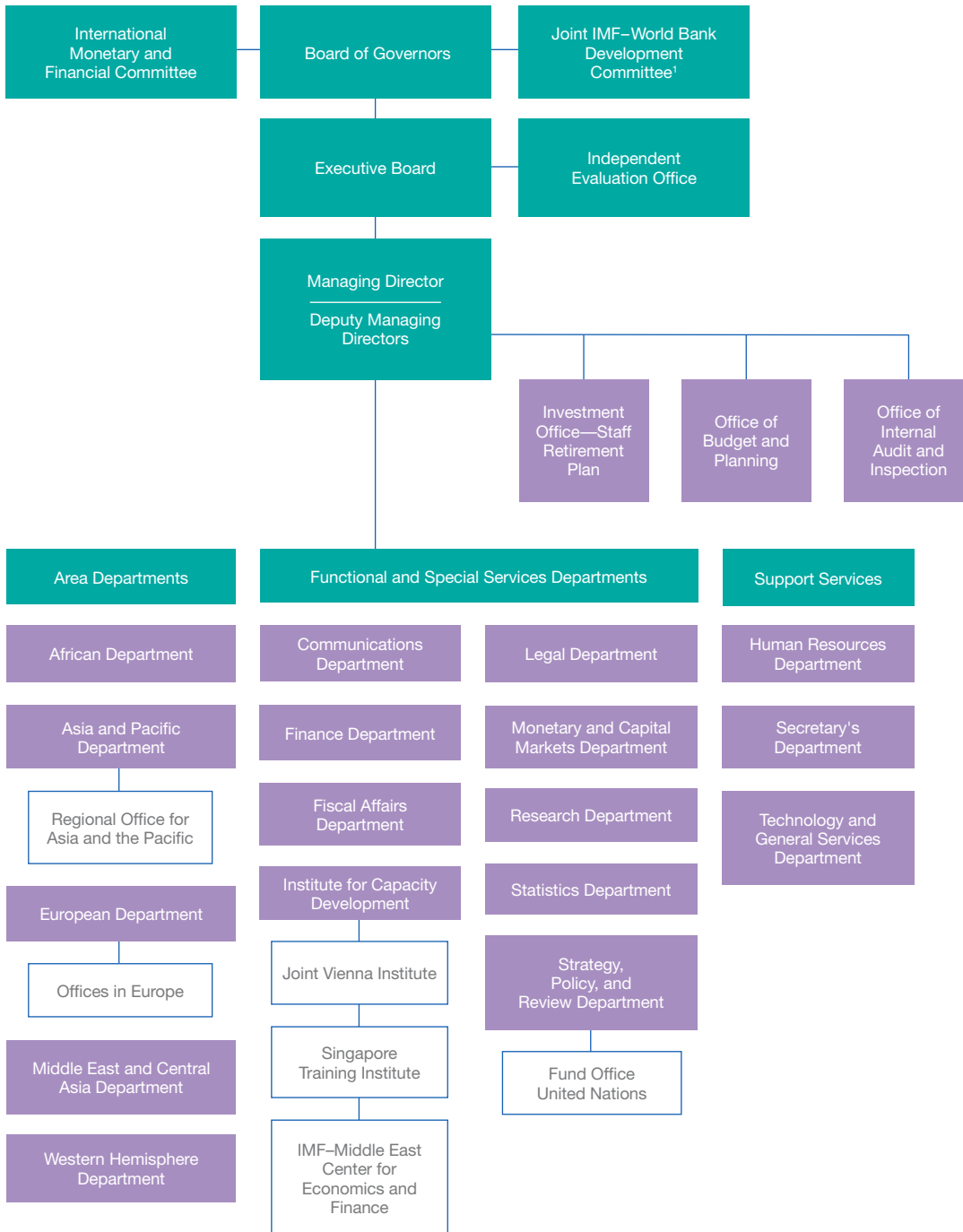
Daniel A. Citrin
Director, Office of Budget and Planning

Clare Brady
Director, Office of Internal Audit and Inspection

Moises J. Schwartz
Director, Independent Evaluation Office

IMF ORGANIZATION CHART

as of April 30, 2014



¹ Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

NOTES

- 1 The IMF's financial year (FY) begins on May 1 and ends the following April 30.
- 2 Information on the findings and recommendations of the MAP and IMF staff analysis can be found at www.imf.org/external/np/g20/index.htm.
- 3 See the "Macroeconomic and Reform Priorities Report," prepared by the IMF staff, with inputs from the OECD and World Bank (www.g20.org/sites/default/files/g20_resources/library/G-20%20Macroeconomic%20Reform%20Priorities%20Report%20Feb%2012%202014.pdf).
- 4 See "2014 Triennial Surveillance Review—Concept Note" (www.imf.org/external/np/pp/eng/2013/100813.pdf).
- 5 As part of the IMF's annual consultation with each member country under Article IV of the Articles of Agreement, an IMF team visits the country to exchange views with officials and consider risks to domestic and global stability that argue for policy adjustments. On its return to IMF headquarters, the team submits a report to the Executive Board for discussion—the "Article IV report"—and the Executive Board concludes the consultation. See Web Box 3.1, "Bilateral Surveillance," for additional information.
- 6 See www.imf.org/external/pubs/ft/reo/reorepts.aspx.
- 7 See "Global Liquidity—Issues for Surveillance" (www.imf.org/external/np/pp/eng/2014/031114.pdf).
- 8 See PR No. 13/324, "IMF Executive Board Discusses Nordic Regional Report on Denmark, Finland, Norway, and Sweden" (www.imf.org/external/np/sec/pr/2013/pr13324.htm).
- 9 See PR No. 14/167, "IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)" (www.imf.org/external/np/sec/pr/2014/pr14167.htm).
- 10 See "Factsheet—Standards and Codes: The Role of the IMF" (www.imf.org/external/np/exr/facts/sc.htm).
- 11 See "Financial Surveillance Strategy—Progress Report" (www.imf.org/external/np/pp/eng/2013/091213.pdf).
- 12 See PR No. 14/08, "IMF Executive Board Reviews Mandatory Financial Stability Assessments under the Financial Sector Assessment Program" (www.imf.org/external/np/sec/pr/2014/pr1408.htm).
- 13 See PR No. 13/376, "IMF Executive Board Discusses 2013 Low-Income Countries Global Risks and Vulnerabilities Report" (www.imf.org/external/np/sec/pr/2013/pr13376.htm).
- 14 See "Debt Limits in Fund Programs with Low-Income Countries" (www.imf.org/external/np/pp/eng/2013/030113.pdf).
- 15 See PR No. 13/252, "Heads of Agency Pledge to Do More to Support Poorest Countries to Benefit from Trade" (www.imf.org/external/np/sec/pr/2013/pr13252.htm).
- 16 See "Sustaining Long-Run Growth and Macroeconomic Stability in Low-Income Countries—The Role of Structural Transformation and Diversification" (www.imf.org/external/np/pp/eng/2014/030514.pdf).
- 17 See www.imf.org/external/np/res/dfdifm/diversification.htm.
- 18 For additional information, visit www.vienna-initiative.com.
- 19 See PR No. 14/11, "Vienna Initiative Sets Priorities for 2014" (www.imf.org/external/np/sec/pr/2014/pr1411.htm).
- 20 See "Toward New Horizons—Arab Economic Transformation Amid Political Transitions" (www.imf.org/external/pubs/ft/dp/2014/1401mcd.pdf).
- 21 See PR No. 14/164, "IMF Launches Quarterly Bulletin on Asia and Pacific Small States" (www.imf.org/external/np/sec/pr/2014/pr14164.htm).
- 22 Chapter 4 explains the IMF's quota system.
- 23 This figure includes outstanding drawings from the 2009–10 round of bilateral borrowing agreements which were discontinued as of April 1, 2013. There are no outstanding drawings under the new round of borrowing in 2012 (the 2012 Bilateral Borrowing Agreements), which serves as a second line of defense to quota and NAB resources.
- 24 See "Factsheet—IMF Standing Borrowing Arrangements" (www.imf.org/external/np/exr/facts/gabnab.htm).
- 25 See "Stocktaking the Fund's Engagements with Regional Financing Arrangements" (www.imf.org/external/np/pp/eng/2013/041113b.pdf).
- 26 See PR No. 14/84, "IMF Executive Board Discusses FCL, PLL, and RFI Review" (www.imf.org/external/np/sec/pr/2014/pr1484.htm).

- 27 See PR No. 14/148, “IMF Executive Board Reviews Conditionality in Evolving Monetary Policy Regimes” (www.imf.org/external/np/sec/pr/2014/pr14148.htm).
- 28 This is a gross amount, not netted for canceled arrangements. Amounts have been converted to U.S. dollars employing the SDR 0.645290/U.S. dollar exchange rate on April 30, 2014.
- 29 Disbursements under financing arrangements from the General Resources Account are termed “purchases,” and repayments are referred to as “repurchases.”
- 30 See PR No. 13/306, “Hungary Repays Early Its Outstanding Obligations to the IMF” (www.imf.org/external/np/sec/pr/2013/pr13306.htm).
- 31 Debt relief under these initiatives is provided in a two-step process: interim debt relief in the initial stage, referred to as the decision point, and when a country meets its commitments, full debt relief at the completion point. For more information on these initiatives, see “Factsheet—Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative” (www.imf.org/external/np/exr/facts/hipc.htm) and “Factsheet—The Multilateral Debt Relief Initiative” (www.imf.org/external/np/exr/facts/mdri.htm).
- 32 See PR Nos. 13/231, “IMF Executive Board Completes Sixth Review under Policy Support Instrument for Mozambique and Approves a New Three-Year PSI” (www.imf.org/external/np/sec/pr/2013/pr13231.htm); 13/239 “IMF Executive Board Completes Sixth Review under Policy Support Instrument for Uganda and Approves a New Three-Year PSI” (www.imf.org/external/np/sec/pr/2013/pr13239.htm), and 13/483, “IMF Executive Board Completes Seventh and Final Review under the Policy Support Instrument with Rwanda and Approves New Three-Year PSI” (www.imf.org/external/np/sec/pr/2013/pr13483.htm).
- 33 See “Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies” (www.imf.org/external/np/pp/eng/2013/072113.pdf).
- 34 See “Fiscal Policy and Income Inequality” (www.imf.org/external/np/pp/eng/2014/012314.pdf).
- 35 See “International Taxation and the Role of the IMF” (www.imf.org/external/np/pp/eng/2013/062813.pdf).
- 36 The Code is available online at www.imf.org/external/np/fad/trans/code.htm.
- 37 See PR No. 13/408, “IMF Approves Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries” (www.imf.org/external/np/sec/pr/2013/pr13408.htm).
- 38 See PIN No. 13/61, “IMF Executive Board Discusses Sovereign Debt Restructuring—Recent Developments and Implications for the Fund’s Legal and Policy Framework” (www.imf.org/external/np/sec/pn/2013/pn1361.htm).
- 39 The Paris Club is an informal group of 19 official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. See www.clubdeparis.org.
- 40 See PR No. 13/233, “Public Debt Management Forum and U.S. Treasury Roundtable on Treasury Markets and Debt Management Held at IMF Headquarters” (www.imf.org/external/np/sec/pr/2013/pr13233.htm).
- 41 See PR No. 14/181, “IMF–World Bank Publish Revised Guidelines for Public Debt Management” (www.imf.org/external/np/sec/pr/2014/pr14181.htm).
- 42 See “Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis” (www.imf.org/external/np/pp/eng/2011/080511.pdf).
- 43 See “Global Impact and Challenges of Unconventional Monetary Policies” at www.imf.org/external/np/pp/eng/2013/090313.pdf
- 44 See “Unconventional Monetary Policy—Recent Experiences and Prospects” (www.imf.org/external/pp/longres.aspx?id=4764).
- 45 See “Global Liquidity—Credit and Funding Indicators” (www.imf.org/external/np/pp/eng/2013/071613b.pdf).
- 46 See PR No. 13/342, “IMF Executive Board Discusses Key Aspects of Macroprudential Policy” (www.imf.org/external/np/sec/pr/2013/pr13342.htm).
- 47 Specifically, one of the purposes of the Fund is “to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”
- 48 See “Jobs and Growth: Analytical and Operational Considerations for the Fund” (www.imf.org/external/np/pp/eng/2013/031413.pdf).
- 49 See PR No. 14/96, “IMF Executive Board Discusses Further Considerations on Assessing Reserve Adequacy” (www.imf.org/external/np/sec/pr/2014/pr1496.htm),
- 50 See “Assessing Reserve Adequacy” in Chapter 3 of the IMF’s *Annual Report 2011: Pursuing Equitable and Balanced Growth* (www.imf.org/external/pubs/ft/ar/2011/eng/).
- 51 See PR No. 10/418, “IMF Executive Board Approves Major Overhaul of Quotas and Governance” (www.imf.org/external/np/sec/pr/2010/pr10418.htm).

- 52** The outcome of the comprehensive quota formula review was presented in the Executive Board's report to the Board of Governors in January 2013. See PR No. 13/30, "IMF Executive Board Reports on the quota Formula Review" (www.imf.org/external/np/sec/pr/2013/pr1330.htm).
- 53** No increase in quotas under the Fourteenth General Review can become effective until three general conditions have been met: (i) consent to quota increases by members having at least 70 percent of quotas as of November 5, 2010, (ii) entry into force of the proposed Amendment on the Reform of the Executive Board, and (iii) entry into force of the Amendment on Voice and Participation. Only condition (ii) is pending. Entry into force of the proposed amendment requires acceptance by three-fifths of the members representing 85 percent of the total voting power.
- 54** See PR No. 14/22, "IMF Executive Board Reports to the Board of Governors on the 2010 Reforms and the Fifteenth General Review of Quotas" (www.imf.org/external/np/sec/pr/2014/pr1422.htm).
- 55** The report included a resolution to this effect which was adopted by the Board of Governors.
- 56** Forty-seven members had not yet accepted the Board Reform Amendment. Acceptance by the United States is needed to reach the required acceptance threshold for the amendment.
- 57** See IMF Staff Paper "Quota Formula—Data Update and Further Considerations" at www.imf.org/external/np/pp/eng/2013/060513.pdf.
- 58** See PIN No. 13/72, "IMF Executive Board Reviews the Fund's Capacity Development Strategy" (www.imf.org/external/np/sec/pn/2013/pn1372.htm).
- 59** See PR No. 13/208, "IMF Welcomes Paraguay's First Anti-Money Laundering and Combating the Financing of Terrorism Plan" (www.imf.org/external/np/sec/pr/2013/pr13208.htm).
- 60** See PR No. 13/527, "Donors Pledge \$18.9 Million to Strengthen Technical Assistance on Anti-Money Laundering and Combating the Financing of Terrorism" (www.imf.org/external/np/sec/pr/2013/pr13527.htm).
- 61** See PR No. 13/316, "Palau Begins Participation in the IMF's General Data Dissemination System" (www.imf.org/external/np/sec/pr/2013/pr13316.htm).
- 62** See PR No. 13/449, "Myanmar Begins Participation in the IMF's General Data Dissemination System" (www.imf.org/external/np/sec/pr/2013/pr13449.htm).
- 63** See PR No. 14/89, "The Republic of Marshall Islands Begins Participation in the IMF's General Data Dissemination System" (www.imf.org/external/np/sec/pr/2014/pr1489.htm).
- 64** See PR No. 13/160, "Special Data Dissemination Standard Workshop in Gaborone, Botswana" (www.imf.org/external/np/sec/pr/2013/pr13160.htm).
- 65** See PR No. 13/397, "Statement by the IMF Executive Board on Argentina" (www.imf.org/external/np/sec/pr/2013/pr13497.htm).
- 66** See "Strengthening the Effectiveness of Article VIII, Section 5" ([www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-\(04/10\)](http://www.imf.org/external/pubs/ft/sd/index.asp?decision=13183-(04/10))).
- 67** See PR No. 13/251, "G20 Officials Welcome Progress in implementing the G20 Data Gaps Initiative" (www.imf.org/external/np/sec/pr/2013/pr13251.htm).
- 68** See PR No. 14/54, "IMF Statistics Department Drafts Template to Collect Data on Government Revenues from Natural Resources" (www.imf.org/external/np/sec/pr/2014/pr1454.htm).
- 69** See PR No. 13/236, "IMF Releases Data on the Currency Composition of Foreign Exchange Reserves with Additional Data on Australian and Canadian Dollar Reserves" (www.imf.org/external/np/sec/pr/2013/pr13236.htm).
- 70** See PR No. 13/486, "IMF Releases Results from 2012 Coordinated Direct Investment Survey" (www.imf.org/external/np/sec/pr/2013/pr13486.htm).
- 71** See PR No. 13/230, "IMF Releases Revised Results and Expands Coordinated Direct Investment Survey to 100 Economies" (www.imf.org/external/np/sec/pr/2013/pr13230.htm).
- 72** See PR No. 13/444, "IMF Releases Results of 2012 Coordinated Portfolio Investment Survey" (www.imf.org/external/np/sec/pr/2013/pr13444.htm).
- 73** See PR No. 13/345, "IMF Releases 2013 Financial Access Survey Data" (www.imf.org/external/np/sec/pr/2013/pr13345.htm).
- 74** See "New Rules and Regulations for the Investment Account" in the IMF's *Annual Report 2013: Promoting and More Secure and Stable Global Economy* (www.imf.org/external/pubs/ft/ar/2013/eng/).
- 75** See "Charges" in Chapter 5 of the IMF's *Annual Report 2012: Working Together to Support Global Recovery* (www.imf.org/external/pubs/ft/ar/2012/eng/).

- 76** Credit tranches refer to the size of a member's purchases (disbursements) in proportion to its quota in the IMF. Disbursements up to 25 percent of a member's quota are disbursements under the first credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Disbursements above 25 percent of quota are referred to as upper-credit-tranche drawings; they are made in installments, as the borrower meets certain established performance targets. Such disbursements are normally associated with Stand-By or Extended Arrangements (and also the Flexible Credit Line). Access to IMF resources outside an arrangement is rare and expected to remain so.
- 77** Because gold sales profits are part of the IMF's general resources available for the benefit of the entire membership, they cannot be placed directly in the PRGT, which is available only to low-income member countries. Accordingly, using these resources for PRGT financing required a distribution of the resources to all IMF member countries in proportion to their quota shares, on the expectation that members would direct the institution to transfer these resources (or would provide broadly equivalent amounts) to the PRGT as subsidy contributions. See "Factsheet—Gold in the IMF" (www.imf.org/external/np/exr/facts/gold.htm) and "Factsheet—IMF Quotas" (www.imf.org/external/np/exr/facts/quotas.htm).
- 78** See PR No. 13/398, "IMF Secures Financing to Sustain Concessional Lending to World's Poorest Countries over Longer Term" (www.imf.org/external/np/sec/pr/2013/pr13398.htm).
- 79** The difference between gross and net expenditures relates to receipts, which are primarily external donor financing for capacity development activities carried out by the IMF.
- 80** See "IMF Executive Board Discusses the Adequacy of the Fund's Precautionary Balances" (www.imf.org/external/np/sec/pr/2014/pr1475.htm).
- 81** Progress on diversity is addressed separately in the *Diversity Annual Report*.
- 82** See www.ieso-imf.org/ieso/pages/IEOHome.aspx. Printed copies of many IEO evaluation documents are also available from the IMF Bookstore (www.imfbookstore.org).
- 83** See PR No. 13/302, "IMF Executive Board Discusses Implementation Plan in Response to Board-Endorsed Recommendations for the IEO Evaluation of the Role of the IMF as Trusted Advisor" (www.imf.org/external/np/sec/pr/2013/pr13302.htm).
- 84** The first external evaluation was completed in 2006.
- 85** For the full text of the IMF's transparency policy, see "The Fund's Transparency Policy" (www.imf.org/external/np/pp/eng/2009/102809.pdf).
- 86** See "Key Trends in Implementation of the Fund's Transparency Policy" (www.imf.org/external/np/pp/eng/2013/100313.pdf).
- 87** See PR No. 13/270, "IMF Executive Board Reviews the IMF's Transparency Policy" (www.imf.org/external/np/sec/pr/2013/pr13270.htm).
- 88** See PR No. 14/86, "IMF Executive Board Reduces Lag of Public Access to Executive Board Minutes" (www.imf.org/external/np/sec/pr/2014/pr1486.htm).

CREDITS

This Annual Report was prepared by the Editorial and Publications Division of the IMF's Communications Department. David Hawley, Jeremy Clift, and Nagwa Riad oversaw the work of the Report team, which was under the direction of the Executive Board's Evaluation Committee, chaired by Menno Snel. The editors were S. Alexandra Russell (who also served as chief writer and coordinated the drafting and production processes), Cathy Gagnet, and Michael Harrup. Nagwa Riad and Anthony Annett made substantial contributions to the writing. Akshay Modi and Suzanne Alavi provided editorial and administrative assistance.

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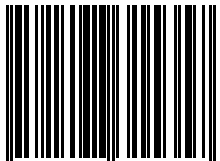
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