

**INFORMAL
SESSION TO
ENGAGE**

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To: Members of the Executive Board

From: The Secretary

Subject: **The Managing Director's Global Policy Agenda—Preliminary—Fall 2022**

Board Action: **Informal session to engage** Executive Directors

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THE MANAGING DIRECTOR'S GLOBAL POLICY AGENDA
"ACT NOW, ACT TOGETHER FOR A MORE RESILIENT WORLD"
FALL 2022

Reeling from multiple shocks, the global economic outlook looks increasingly difficult. Since last October, we have downgraded global growth and revised up inflation projections four times. Two years of pandemic, followed by the war in Ukraine, have taken a heavy toll on activity and global trade, exhausting both policy buffers and people's patience. Now, a 'cost-of-living crisis' threatens livelihoods everywhere, with the most vulnerable hit the hardest, and acute food insecurity is an unbearable hardship in too many parts of the world. Multi-decade inflation highs, tightening financing conditions, rising food and energy insecurity, capital flow disruptions, and record high debt levels point to a particularly difficult and uncertain period ahead—especially in the context of slowing growth in the US, Europe, and China. The increasing frequency and intensity of climate-related disasters—devastating floods, droughts, and wildfires—adds to these challenges. While the ongoing digital revolution brings new opportunities, the recent turmoil in crypto asset markets is a reminder of the risks of unfettered digitalization.

We must act now and act together to alleviate these hardships and build the resilience the world needs—but this will not be easy in an increasingly fragmented world. Policymakers need to act swiftly to address high inflation and the 'cost-of-living' crisis, which call for difficult policy choices. And policy actions in advanced economies will likely lead to negative spillovers, requiring support for vulnerable countries. Global action is also needed to address the escalating climate crisis, to capture the benefits and manage the risks of digitalization, and reduce inequality. However, intensifying geopolitical fragmentation is thwarting concerted action. With our social fabric already strained by the prolonged pandemic, we cannot afford to let circumstances worsen because of an inability to cooperate. The time to confront our shared challenges is now.

As a guardian of global financial stability, it is imperative that the Fund adapts to have the necessary tools to effectively serve our members in a more shock-prone world. We are taking action on several fronts. We are focused on sharpening our policy and analytical toolkit to deliver tailored and timely advice to help countries shore up their macro foundations to be more resilient to shocks. And, with so many members beset by multiple shocks, we are moving swiftly to adapt our policies and lending toolkit—fast tracking changes needed to meet the most urgent needs of our members, while ensuring that the entire complement of our lending tools remains fit-for-purpose in today's—and tomorrow's—world. As we work with our members, we remain mindful that gaining public traction for reforms is becoming more difficult following successive years of crises. On all these fronts, we continue to collaborate with our international partners to leverage on their expertise and financial support.

Act Now: Macro Policies to Address the Macro Shocks We Face Today

Policymakers should prioritize fighting inflation and protecting the most vulnerable to mitigate the impact of the 'cost-of-living crisis,' while addressing debt and other vulnerabilities. It will be essential to carefully calibrate and coordinate policies to manage trade-offs and bolster the effectiveness of the response.

- **Monetary policy** should stay the course to restore price stability. More frontloaded and aggressive monetary tightening is crucial to avoid inflation expectations from de-anchoring and prevent an erosion of incomes and worsening of inequality. Clear communication is needed to avoid unwarranted market volatility and mitigate spillovers.

- **Fiscal policy** should prioritize the protection of vulnerable groups through targeted near-term support to alleviate the burden of the cost-of-living crisis, while being guided by debt sustainability considerations. The overall stance of fiscal policy should support monetary policy, particularly where there is overheating.
- **External and financial policies** must safeguard macro-financial stability. Flexible exchange rates should continue to act as shock absorbers where applicable. Where shocks cannot be absorbed by exchange rates alone, policymakers could consider temporary foreign exchange intervention, where appropriate, and in near-crisis circumstances, capital flow management measures on outflows. As financial conditions tighten, macroprudential policies will need to become ever more vigilant to guard against systemic risks.
- **Structural reforms** can help address the supply side drivers of inflation and ease growth-inflation tradeoffs. Active labor market policies and other measures, such as earned income tax credits and investments in childcare, along with complementary product-market reforms, can help support labor force participation and mitigate supply-chain bottlenecks.

The Fund provides real-time policy analysis and advice—as well as a platform to share experiences—to help policymakers manage ongoing and prospective shocks.

- Our **bilateral surveillance** tailored to specific country circumstances is focused on the need to address inflation and the ‘cost-of-living crisis,’ including through a stronger emphasis on **inclusive policies**, as well as on targeted advice to address food security, in close collaboration with other agencies. We are also continuing to deepen our engagement on macro-financial surveillance and encouraging the use of multiple policy tools to address a confluence of shocks and risks, by operationalizing the **Integrated Policy Framework**. Our risk assessments will help members better prepare for shocks, by examining a range of potential outcomes, and providing advice on tailored contingency planning to address and preempt risks, in line with recommendations of the **Comprehensive Surveillance Review**.
- Our **multilateral surveillance** and analytical work will prioritize **inflation, monetary-fiscal policy interactions**, and risks to **financial sector stability**. In close collaboration with our partners, we are also assessing impact of, and risks related to, **global food insecurity** and developing policy advice, including on **trade and safety nets**. With risks of **fragmentation** and supply-chain disruptions still rising, we will continue to monitor implications for the global economy and review our priorities on **trade**. Tackling multiple shocks effectively also requires good *governance*, which we are supporting through the review of the **Framework for Enhanced Fund Engagement on Governance**.

Act Together: Global Solidarity to Help Those Most in Need

Global action is urgently needed to help countries and people hit hardest by shocks. Ending Russia’s war in Ukraine remains paramount. Many countries, especially low-income countries (LICs) are facing an acute food crisis. At the same time, volatile capital flows and rising debt and interest rates are putting at risk financial stability for many emerging markets (EMs) as well as some advanced economies (AEs). With limited or no policy space left, and the risk of rising social disparities and unrest, a growing number of countries will need financial support from the global community, along with timely and effective debt restructuring.

- **Food security:** Overcoming a major food crisis is imperative. This requires unwinding and refraining from restrictive practices by lifting export restrictions on food and fertilizers consistent with countries' commitments to the World Trade Organization (WTO) and, more broadly, safeguarding and strengthening the rules-based multilateral trading system.
- **Financial support:** Last year's SDR allocation helped countries boost reserves and deal with pressing needs, but new or prolonged shocks and spillovers have steadily eroded buffers. Further voluntary channeling of SDRs, additional donor financing, and activation of all layers of the Global Financial Safety Net (GFSN) are key to confront the challenges faced by LICs and EMs.
- **Debt:** Debt distress, or the risk of it, is a growing concern for much of the membership—for more than 60 percent of LICs and over 25 percent of EMs. It is therefore essential to have timely, effective, and well-coordinated debt resolution mechanisms. This calls for improving implementation of the G20 Common Framework for Debt Treatments (CF) and expanding creditor coordination to middle-income countries, as outlined further below.

We are committed to providing the financial support our members need in this rapidly changing global context—and are working to strategically adapting our lending toolkit to do just that. Just as we stepped up during the pandemic, we are ready to deploy the full range of our lending instruments. We also recognize the importance to further enhance our toolkit to address potentially larger and more acute financing needs of our members as they navigate these volatile times and prepare for future shocks:

- The recent establishment of the **Resilience and Sustainability Trust (RST)** represents a major reform to our lending toolkit, allowing the Fund to help the membership enhance resilience to climate shocks, such as through investment in climate-resilient agriculture that will help support food security, and pandemics. Having the RST up and running soon is one of our top priorities. Based on close collaboration with the World Bank (WB) and others, we expect several **RST-backed pilot programs** to be brought to the Board's consideration by the end of this year, which can help catalyze other financing, including from private sources. To provide this transformational support to our members, we need sustained efforts to meet the funding needs of the newly established RST. This includes additional pledges to channel SDRs to the RST, as well as converting existing pledges to contributions.
- In response to immediate needs of members, we [have established] a new **food shock window** under our emergency financing toolkit to address the urgent food-related balance of payments (BOP) needs. A concurrent debt service suspension by official bilateral and private creditors could help the poorest LICs most affected by the food crisis. At the same time, we are enhancing our modalities for **Staff Monitored Programs to allow for limited Board involvement** for countries that are experiencing particularly complex challenges. We are also exploring **additional options**, such as temporary access limit increase, surcharge relief, enhanced SDR channeling, and reviewing other lending parameters. Members' proactive access to Fund support to meet their balance-of-payment needs can help smooth the needed adjustment.

Assisting vulnerable members, especially LICs, will only be possible with stepped up contributions from economically stronger members. Contributions thus far are welcome. However, more is needed to close the funding gap for the Poverty Reduction and Growth Trust (PRGT)—through both SDR channeling and bilateral contributions through the first stage of the two-stage fundraising strategy agreed in July. It is essential to be able to provide concessional support to

our poorest members, in particular to fund the food shock window. There is also a need to replenish depleted resources in the Catastrophe Containment and Relief Trust (CCRT).

- In response to the world becoming more shock-prone, we have initiated a strategic discussion with our Board to explore broader ***lending toolkit reform options*** in a rapidly changing global context. We are ***reviewing and reinforcing our precautionary facilities*** to ensure that members with strong fundamentals have adequate buffers to deal with shocks and uncertainties. We will also undertake a review of the PRGT lending and financing reforms and consider other potential reforms that could reinforce our ability to support countries to nimbly respond to shocks. Lastly, program conditionality supporting our lending will continue to stay focused on macro-critical areas and be parsimonious, while fostering sustainable growth, with strengthened analysis of institutional and political capacity, in line with the recent Independent Evaluation Office's (IEO) recommendations.

We are also working with partners to tackle current and future debt challenges. Ensuring debt sustainability is critical for safeguarding our members' macroeconomic and financial stability and the success of Fund-supported programs.

- ***Debt restructuring:*** The recent progress made on Zambia's debt restructuring is welcome. Building on this momentum, we will work with our international partners to help strengthen and accelerate the ***implementation of the CF***. We will also explore ways to promote stronger creditor coordination for debt restructurings where the CF is not applicable and will develop further avenues to foster greater global consensus among debtor countries, official bilateral and private creditors, and international financial institutions, on debt challenges worldwide and appropriate ways to address them. We will continue to advance further reforms, in collaboration with stakeholders, to strengthen the ***contractual approach for sovereign debt restructuring*** and, together with the WB, provide more granular guidelines on ***collateralized financing practices***, while implementing our ***revised sovereign arrears policies*** to help facilitate debt resolution.
- ***Debt transparency and sustainability:*** As part of the Joint IMF-WB ***Multipronged Approach*** to Address Debt Vulnerabilities, we are working to improve ***debt transparency*** including by examining debtor creditor incentives, capacity, and governance issues, and exploring reform options. The roll-out of the new ***Sovereign Risk and Debt Sustainability Framework*** will help identify risks of sovereign distress and better align our debt sustainability framework with the lending framework.

Act Now, Act Together: Joint Action to Strengthen Future Resilience

With climate threats escalating, digital transformations accelerating, and inequality and fragility rising, we need to act now to manage the risks and capitalize on opportunities.

Climate change is compounding current challenges including food insecurity. The ongoing digital revolution is unlocking new opportunities but also raising risks to financial stability. But policy action on both fronts is lagging. The longer we wait, the more costly it will become to act. Growing inequality, fragility, and the risk of future pandemics add to the urgency for joint action to bolster resilience. The Fund has strategies for helping members tackle [climate](#), [digital](#), inequality, [gender](#) gaps, and [fragility](#)—supported by the [Budget Augmentation Framework](#).

- **Climate:** There are only a few years left until the atmosphere's absorptive capacity is exhausted so that the Paris target of limiting global warming to 1.5C may become infeasible. With this, the

global economy would enter uncharted territory, facing risks to welfare and macro-financial stability of hitherto unknown quality and intensity. Immediate policy action is more urgent than ever and should encompass a fair and balanced **climate accord among the largest emitters** on arresting the emissions of greenhouse gases. Moreover, policymakers need to ensure that any recourse to fossil fuels to address energy shortfalls is temporary. As energy prices normalize, this is an opportunity to introduce **carbon pricing or equivalent measures** to forcefully reduce emissions, while protecting vulnerable groups and safeguarding energy security. **Adaptation and just transition** require both policies and scaled-up financing for efficient green public investment, including from private sources. These efforts will need to be complemented by a reinforced **climate information architecture** and more broadly better macro climate data. In all these areas, the Fund is scaling up its analysis and advice, including through Article IV consultations, Financial Sector Assessment Programs, and policy papers.

- **Digitalization:** Policies should aim to leverage on the benefits of new digital technologies while mitigating risks. In support of these efforts, we are analyzing, jointly with the Bank for International Settlements (BIS), Committee on Payments and Market Infrastructures (CPMI), FSB, and the WB, modalities to improving **cross-border payments** including through new payment infrastructures and developing a framework for effective **policy responses to crypto assets**. We are also exploring the **implications of digital money for the international monetary system** with a view to developing policy principles to foster cooperation and stability.
- **Inequality, gender, fragility, and pandemic preparedness:** To lay the foundation for continued resilience, we will continue to enhance our [engagement on social spending](#), step up efforts to help members address macro-critical **gender** gaps, and provide customized support for the **fragile and conflict-affected states** (FCS). We are also continuing our support for global efforts to strengthen collaboration between finance and health, and scale up efforts to prevent, prepare and respond to future pandemics.

Our Capacity Development (CD) is helping build members' resilience. We continue to integrate CD with surveillance and lending, focusing on tailored technical assistance (TA) and training, particularly for our FCS members, and are increasingly providing CD on digitalization (including on GovTech), climate, and gender. We are modernizing CD management, administration, and delivery. We will enhance the strategic framework for Fund CD, following IEO recommendations, to enhance the impact, efficiency, and effectiveness of our support.

In today's more shock-prone world, a strong, quota-based, and adequately resourced Fund—a resilient Fund—at the center of the GFSN is more essential than ever. To be able to deliver on our ambitious agenda, preserve our financial strength, and bolster our legitimacy, progress toward governance reform and a timely and successful conclusion of the **16th General Review of Quotas** will be essential.

We are refining our **Enterprise Risk Management** framework to better support responsible risk taking in fulfilling the Fund's mandate. We are continuing to strengthen efforts to attract talent to support existing and new priority areas and improve staff **diversity and inclusion**.

Above all, we rely on the exceptional dedication and professional strength of our staff to serve our members in this complex and highly uncertain environment. We care deeply for our member countries and their people: we strive to deliver for them today and dare to shape a Fund that will deliver for them tomorrow.