

**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 2020**

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Questions:	Mr. Suryakumar, SPR (ext. 38005) Ms. Iancu, SPR (ext. 36098)

THE MANAGING DIRECTOR'S GLOBAL POLICY AGENDA (PRELIMINARY)
'CATALYZING A RESILIENT RECOVERY'
OCTOBER 2020

The global economy is slowly recovering, supported by extraordinary policy responses and measures to adapt to the impact of COVID-19. But with the pandemic still present in most countries, the recovery is partial and uneven and uncertainty exceptionally high. A resurgence of infections remains a key threat, and many countries may not return to the pre-COVID path of economic activity for several years. The crisis will inflict long-lasting scars—from the tragic loss of human life to damage to the workforce and firms, heavy debt burdens, systemic financial vulnerabilities, higher poverty, and deeper inequalities. Bold measures will be required to restore confidence, build more resilient economies, and help the most vulnerable.

As countries tackle different stages of the crisis, policies need to restore confidence by remaining supportive and nimble, and together with appropriate health measures, bolstering aggregate demand. A premature withdrawal of policy support could trigger liquidity shortfalls and insolvencies, undermine the recovery, and further compound the social and economic wounds from the crisis. Sustaining lifelines is a necessary interim step to prevent economic scarring, limit workers' exit from the labor force, retain economic ties, and prevent bankruptcies of viable firms. As lifelines unwind, fiscal resources freed from the crisis-targeted support should be redeployed for workers' retraining and green investment. Accommodative monetary policies should keep borrowing costs low, while financial policies must continue to safeguard macro-financial stability. With the crisis exposing and amplifying structural weaknesses, policies must also support structural change. Maintaining policy credibility will be critical, given growing public debt burdens and central bank balance sheets, and will need to be anchored by sound, sustainable, and transparent macroeconomic frameworks.

An expedited global solution to suppress the virus is a prerequisite for a durable economic recovery. The immediate priority is to develop, produce, and distribute medical treatments and vaccines. But in a pandemic, the global economy is only as strong as its weakest member. An uneven rollout of medical solutions would constrain the recovery. Accelerating universal access to vaccines will reduce the risk of flare-ups and is in the interest of all countries. Thus, the Fund will support international cooperation in this area, as well as actions to reduce trade barriers on medical supplies and equipment.

At a time when spending needs loom large, the crisis is exacerbating debt burdens across many countries, amplifying existing vulnerabilities, weighing on confidence, and stifling future growth prospects. Countries need to develop robust insolvency frameworks and efficient debt restructuring mechanisms. The Fund will continue to support members' efforts to restore debt sustainability and strengthen debt transparency, including by improving the architecture for sovereign debt resolution.

We are at a crucial moment where the right policies must also help build a resilient future. The pandemic has unfolded on the back of low productivity, climate change, and rising inequality over the last decade. Policies to underpin the recovery offer an opportunity to invest in structural transformation toward smarter, greener, and more inclusive growth. This calls for action to help expand digitalization, create jobs in resilient and low-carbon infrastructure, and support workers' transition from shrinking to expanding sectors. Technology should be used to help circumvent

mobility barriers posed by the pandemic and catalyze access to resources and information for vulnerable populations. Digital innovation can also broaden access to finance and other services for low-income households and small businesses, help transform the efficiency and transparency of governments, and resolve deficiencies in global payment systems. Low energy prices provide scope to reform distortionary and regressive subsidies, redirecting resources to more productive uses. Policies should also aim to enable universal access to basic health care and education; make tax systems more progressive and address illicit and tax-avoiding financial flows; and improve governance and fight corruption.

We must also work together to support the most vulnerable countries and people. Developing and emerging market countries have suffered a heavy setback from the crisis. They were severely hit given their more limited space to implement large fiscal responses, and their access to external market financing was more constrained and, in some cases, cut off altogether. Moreover, large segments of their population rely on daily wages outside formal safety nets and are facing large income losses. This year, the pandemic will reverse the progress made since the 1990s in reducing global poverty, and more than seventy million people could fall below the \$1.90 per day income threshold of extreme deprivation. The international community must do all it can to support the most vulnerable.

IMF Work Agenda and Operations

The Fund remains deeply committed to helping its members overcome the crisis, restore confidence, and tackle challenges on the road to a more resilient global economy, while protecting the most vulnerable people and countries.

In the first phase of the pandemic, the Fund focused its efforts on the immediate crisis response, deploying all available tools and resources. In continued close collaboration with our partners, we will now help members work on a durable exit, while also using the crisis as an opportunity for structural transformation. We are restarting targeted surveillance, stand ready to provide further financing tailored to the next stage of the crisis, and are adapting our country-centered approach to CD, while fostering information sharing by and with our member countries. We will prioritize our work, tightly focusing on activities of most importance to our membership during these extraordinary and challenging times. This streamlined work agenda will ensure that we can continue to meet members' evolving needs and support their efforts to achieve a more resilient and inclusive future.

Restoring confidence to rekindle global demand

We are resuming targeted bilateral **surveillance** activities and will further strengthen our analytical frameworks to focus on the pandemic, global risks, and policy responses. We will bolster analysis of macro-financial policies that help mitigate the fallout of the COVID-19 shock, and our policy advice on carefully reopening economies and unwinding exceptional policy measures. This, together with regular updates on policy responses through the COVID-19 policy tracker, will ensure fast learning from each other to bring growth back on track. In addition, we will analyze the impact of the pandemic on firms and workers, including threats to innovation and competition. As the pandemic abates, we will advance work on the Comprehensive Surveillance Review and the Review of the Financial Sector Assessment Program (with the World Bank), drawing on the experience from the crisis.

We are supporting members' efforts to reduce **debt** vulnerabilities, which damage confidence, increase debt transparency, and strengthen debt management capacity. We will help countries develop credible medium-term fiscal frameworks to restore market confidence and foster stronger growth and sustainable fiscal balances. We will update our work on the multi-pronged approach to address debt vulnerabilities, in collaboration with the World Bank. In addition to completing the reviews of the debt limits policy and the debt sustainability analysis for market-access countries, we are engaging with creditors to bolster our advice on sovereign and corporate debt restructuring and will undertake reforms of our policies, where needed, to promote timely resolution.

The Fund will continue to promote international cooperation and open **trade** as an engine for restoring global growth. The Fund will continue to provide rigorous, evenhanded and multilaterally-consistent assessments of external positions for the full membership through the *External Sector Report*. We will also continue to support modernizing the rules-based multilateral trading system, including to better cover services and digital commerce, strengthen rules on subsidies and technology transfer, and foster the achievement of climate goals without resorting to protectionist measures.

Making our economies more resilient

To prepare countries to better deal with shocks, we will further develop the **integrated policy framework** to advance the understanding of policy options, including monetary, exchange rate, macroprudential, and capital flow management measures. This work will be an input into the review of the Fund's Institutional View on the Liberalization and Management of Capital Flows, which will also draw on the IEO's evaluation of the Fund's advice on capital flows. We will also advance our work on unconventional monetary policy and the impact of low-for-long interest rates.

Harnessing the full potential of **digitalization** can help expedite and secure a resilient recovery. The Fund will support governments' digital transformation through advice and CD, and continue exploring the benefits, risks, and macro-financial implications of fintech on financial inclusion, monetary policy, and the international monetary system. It will develop an analytical framework for central bank digital currencies, consider options to address deficiencies in global payment systems, and develop a global approach to digital data frameworks. We will also build on our policy advice on legal and regulatory aspects of fintech and the regulatory and supervisory aspects of cyber risk.

The Fund will expand its work on **social and governance issues** as key levers in reducing inequality and strengthening social cohesion and resilience. We will assess the impact of the pandemic on gender and income equality and further operationalize the strategy for the Fund's engagement on social spending. We will strengthen the design of tax policies by further taking into account equity concerns, including in Fund programs. In addition to governance safeguards in emergency financing, we will continue our work to support fiscal transparency and fiscal institution building to foster good governance and anticorruption efforts. We will also be resuming work on illicit and tax-avoiding financial flows to help level the playing field within and across countries.

The stimulus measures supporting a post-crisis recovery present a unique opportunity to steer resources toward **climate** resilience. To further strengthen our policy advice, we will integrate climate change mitigation and adaptation into our surveillance; advance our assessments of climate risks through stress testing; and continue work on climate change data. Our work will also encompass guidance on international carbon price floors and border carbon adjustments. The Fund will complete a review of the Climate Change Policy Assessments and continue to contribute, in collaboration with others, to building resilient climate strategies and financial disclosures.

Assisting vulnerable countries

The pandemic has increased the risk of losing the development gains of the past decade. We remain alert to changing global financial conditions and risks for our member countries, particularly **emerging market countries**, and stand ready to provide policy advice and financial assistance, as needed. In partnership with the World Bank and other development partners, we will foster the reevaluation of financing needs of and sustainable financing solutions for **developing countries**.

The Fund provided financing with unprecedented speed and agility in the first stage of the crisis and will continue to support its members in the period ahead. We are considering options to further adapt our lending toolkit, including the establishment of a temporary Pandemic Support Facility, to meet urgent financing needs, helping our members preserve critical productive capacity during the

pandemic. We are assessing the case for continuing the temporary increase of annual access to our resources and for further increasing access limits to our concessional financing. We are also examining how to make better use of existing SDRs for low-income countries (LICs) and small developing states. For LICs, the G20 Debt Service Suspension Initiative (DSSI) has provided valuable debt deferral, but more support will be needed in the form of grants, debt relief, and concessional financing. Together with the World Bank, we are calling for an extension of the G20 DSSI. And for our poorest members, we are exploring additional debt service relief via the Catastrophe Containment and Relief Trust.

We also continue to enhance our engagement with **fragile and conflict-affected states**, including on monetary and financial policies, along with targeted CD. For **small and developing states**, the Fund is exploring ways to expand liquidity assistance in the event of large shocks and support national efforts to strengthen resilience to natural disasters.

Ensuring adequate Fund resources and continuing governance reform remains key.

In light of exceptionally high uncertainty, it is critical to maintain a strong, quota-based, and adequately resourced Fund at the center of the global financial safety net. To this end, we will make effective in January 2021 the doubling of the New Arrangements to Borrow (NAB) and the new round of bilateral borrowing arrangements. Fund resources will be kept under close review, including a possible activation of the NAB, to ensure that the Fund can continue to provide strong and timely support to the membership in the unfolding crisis. In line with the guidance provided by the Board of Governors, the process of governance reform will continue under the 16th General Review of Quotas to be concluded no later than December 2023.

The Fund will continue with resource optimization and business practices modernization.

The Fund will continue to manage its budget in a cost-effective, nimble, and prudent manner to deliver on this Global Policy Agenda and meet the evolving needs of its members. It will remain important to ensure that budgetary resources are appropriate to meet the demands from the crisis. We will advance efforts to modernize our business practices, bolster knowledge management, and move toward an integrated digital workplace that supports remote and flexible working arrangements, while continuing to increase workforce diversity and reducing our carbon footprint.