Economic Surveillance

Through "surveillance," the IMF oversees the international monetary system, monitors global economic developments, as well as engages in a health check of the economic and financial policies of its 189 member countries. In addition, the IMF highlights possible stability risks to its member countries and advises their governments on potential policy adjustments, enabling the international monetary system to achieve its goal of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

INTRODUCTION

IMF surveillance comprises two parts: "bilateral surveillance," in which the IMF appraises and advises on the policies of each member country; and "multilateral surveillance," in which the IMF provides analysis of the world economy or a group of countries that share certain characteristics. By integrating bilateral and multilateral surveillance, the IMF can ensure a more comprehensive, consistent analysis of "spillovers"—that is, how one country's policies may affect other countries.

An important element of bilateral surveillance is the Article IV consultation, named after the article of the IMF's Articles of Agreement that requires a review of economic developments and policies in each IMF member country.

Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members' policies onto the global economy.

The IMF also monitors regional and global economic trends and analyzes the impact that member country policies may have on neighboring countries and the global economy. It issues periodic reports on these trends and analysis. The *World Economic Outlook* provides detailed analysis of the global economy and its growth prospects, addressing issues such as the macroeconomic effects of global financial turmoil and the potential for global spillovers, especially those that may result from the economic, fiscal, and monetary policies of large, globally central economies such as the United States, China, and the euro area. The *Global Financial Stability Report* assesses global capital markets and financial imbalances and vulnerabilities that pose potential risks to financial stability. The report updates medium-term fiscal projections and assesses developments in public finances. The IMF also publishes Regional Economic Reports that provide detailed analysis of major regions of the world.

BILATERAL SURVEILLANCE

The Article IV Consultation Process: An Annual Assessment

Article IV consultations cover a range of important macrocritical issues—fiscal, financial, foreign exchange, monetary, and structural—and focus on risks and vulnerabilities and policy responses. Economists and other staff members across the IMF participate in the Article IV consultation process.

The consultations consist of a two-way policy dialogue between the IMF and country authorities. The IMF team meets with an individual country's government and central bank officials, as well as other stakeholders—such as parliamentarians, business representatives, civil society, and labor unions—to help evaluate the country's economic policies and direction. The IMF staff then presents a report to the IMF's Executive Board, normally for discussion. The consultation then concludes, and the IMF sends country authorities a summary of the meeting. In most cases and after the member country agrees, the Board's assessment is published as a press release, along with the associated staff reports. In FY2018, the IMF conducted 134 Article IV consultations (*Web Table 2.1*).

A Review of Financial Stability Assessments

Checking the health of member countries' financial sectors is important to maintaining global financial stability. The IMF conducts mandatory assessments every five years of 29 countries whose financial sectors are deemed systemically important and assesses other members' financial sectors on a voluntary basis. These checks feature in-depth evaluation of resilience and regulation under the Financial Sector Assessment Program (FSAP), which IMF staff use to identify country-specific risks and propose actions to avoid financial crises.

The list of systemically important financial sectors (SIFS) and the frequency of the mandatory financial stability assessments will be considered during the forthcoming 2019 FSAP Review. In February 2018, IMF staff briefed Executive Directors on possible revisions to the methodology for identifying SIFS. Staff underscored the vital role of the FSAPs and noted the emphasis

on transparency, uniformity, evenhandedness, and data-driven analysis.

In developing and emerging market countries, financial stability assessments are conducted jointly with the World Bank. Both organizations will therefore be helping set the direction for monitoring global financial stability over the coming decade.

2018 Interim Surveillance Review

In April 2018, the Executive Board discussed the "Interim Surveillance Review." The staff paper argues that IMF surveillance has become better adapted to the global conjuncture and more integrated and risk-based. Bilateral and multilateral surveillance are underpinned by a shared and deeper understanding of global interconnectedness and linkages across sectors. Surveillance will be further enhanced ahead of the 2020 "Comprehensive Surveillance Review" by refining external sector assessments; sustaining progress on macrofinancial surveillance; and incorporating lessons from pilot efforts, including on macrofinancial, macrostructural, and emerging issues. The 2020 Review will also better anchor the IMF's surveillance in a world of rapid technological change.

Executive Directors welcomed the Interim Surveillance Review and broadly supported its main conclusions and recommendations. Noting that better integration of bilateral and multilateral surveillance has resulted in a stronger grasp of global risks and spillovers, they encouraged staff to make further efforts to understand and ensure in-depth and more consistent coverage of outward spillovers in surveillance, including through outreach with member countries. The Executive Directors recognized the efforts being made to strengthen external sector assessments and noted that fiscal policy advice continues to adapt to the evolving challenges of the membership. They welcomed the progress toward integrating macrofinancial analysis into bilateral surveillance and encouraged continued efforts to mainstream macrofinancial surveillance and extend its coverage. They saw a need to better leverage the IMF's expert analysis in its core areas of expertise and lessons from cross-country experience and called for better integration of capacity development with surveillance. And they emphasized the importance of the planned engagement with members and other stakeholders to identify priorities for the Comprehensive Surveillance Review, including to evaluate the traction of IMF surveillance.

MULTILATERAL SURVEILLANCE

Early Warning Exercise

The Early Warning Exercise is an important part of the institution's surveillance work and is conducted twice a year in coordination with preparation of the flagship publications (*World Economic Outlook, Global Financial Stability Report,* and *Fiscal Monitor*).

Findings are presented to the Executive Board and senior officials during the IMF–World Bank Spring and Annual Meetings. Follow-up to the Early Warning Exercise takes place in the context of bilateral and multilateral surveillance activities. The IMF and the Financial Stability Board cooperate closely on the Early Warning Exercise to provide an integrated perspective on risks and vulnerabilities. The IMF takes a leading role in macroeconomic, macrofinancial, and sovereign risk concerns, and the Financial Stability Board focuses on financial system regulatory and supervisory issues.

Vulnerability Exercise

Whereas the Early Warning Exercise uses a narrative approach to highlight low-probability but high-impact global risks, the Vulnerability Exercise uses empirical models to generate vulnerability ratings and crisis probability estimates at the sectoral (real, fiscal, financial, external) and country levels. As with the Early Warning Exercise, the work is closely coordinated with preparation of the flagships around the Spring and Annual Meetings. The final ratings for each country and sector are based on the judgment of IMF staff country teams. The results are presented to the Executive Board and are used to inform discussions with authorities and to help guide allocation of resources.

External Sector Report

The *External Sector Report* provides multilaterally consistent assessments of member countries' external sectors, including their exchange rates, current accounts, reserves, capital flows, and external balance sheets. This report complements the flagship reports (especially the *World Economic Outlook*) and the Article IV consultations. This report has been produced annually since 2012 and covers 28 of the world's largest economies, plus the euro area, representing over 85 percent of global GDP. The report is part of an ongoing effort to provide a rigorous and candid assessment of global excess imbalances and their causes and to ensure that the IMF is in a good position to address the possible effects of members' policies on global external stability.

The Executive Board discussed the 2017 report, issued along with individual economy assessments, in a formal session in July 2017. Directors broadly supported the findings of the report and encouraged staff to deepen their analysis on the drivers of excess imbalances. The 2018 report includes a number of methodological refinements and was again discussed in formal session.

Economic Outlook and Policy Challenges in the Gulf Cooperation Council Countries

In December 2017, staff produced "Gulf Cooperation Council: The Economic Outlook and Policy Challenges in the GCC Countries." This paper notes GCC countries are continuing to adjust to lower oil prices, with most having experienced substantial fiscal consolidation that has hampered growth in non-oil sectors. Growth prospects over the medium term remain subdued amid relatively low oil prices and heightened geopolitical risks.

The policy paper urges a focus on supporting the private sector's access to funding, diversifying the economy for sustainable growth, improving the business climate, reducing the role of the public sector in the economy, and (where fiscal space is available) using fiscal policy to support growth and job-enhancing reforms. The paper calls for reforms to incentivize nationals to work in the private sector and for the private sector to hire them, and to enhance female participation in the labor market.

POLICY ADVICE

The Managing Director's Global Policy Agenda

In April 2018, IMF Managing Director Christine Lagarde presented her Global Policy Agenda, "A Window of Opportunity Remains Open," to an informal session of the Executive Board. The agenda stresses that while the momentum behind the cyclical global expansion remains strong, escalating trade conflicts and financial market volatility suggest that medium-term risks remain skewed to the downside. To sustain the upswing, policymakers are called on to enhance financial

sector resilience, start rebuilding policy space, and implement structural reforms—including on corruption and governance. Countries are urged to work to promote an open and rules-based multilateral trade system that works for all and to durably reduce excess global imbalances. A cooperative approach to regulation will reap the benefits of financial technology while addressing potential risks to stability and integrity, the update suggests.

The agenda also notes that the IMF is embarking on major policy reviews, including on surveillance, the Financial Sector Assessment Program, program conditionality, concessional lending tools, debt sustainability analysis, and capacity development. It has also launched a comprehensive work program on the opportunities and challenges from digitalization.

Enhancing the Focus on Macrostructural Issues in Surveillance

In March 2018, staff briefed the Executive Board on progress on the initiative to enhance the focus on macrostructural issues in surveillance. Staff noted that the 32-country pilot has improved the quality of analysis of structural issues but that challenges remain—including further developing analytical tools and knowledge sharing, particularly for emerging markets and developing countries; better integrating structural issues into the macro policy framework, enhancing collaboration with other international organizations, and appropriately prioritizing topics. Staff will extend the pilot to another nine countries with a view to concluding by the end of 2018 and incorporate lessons learned from the pilot into broader surveillance in 2019.

MONETARY AND FINANCIAL ISSUES

Update on Trends in Correspondent Banking Relationships

In March 2018, IMF staff briefed the Executive Board on the IMF's work on correspondent banking relationships. Staff noted that the IMF employs a multipronged approach to correspondent banking relationships: monitoring trends, risks, and drivers; facilitating dialogue on solutions; providing tailored capacity development; and engaging on tail risk scenarios.

Monetary Policy Normalization Creates a Bumpy Road Ahead

The April 2018 *Global Financial Stability Report* finds that as advanced economies normalize their monetary policies amid signs of firming inflation, global financial conditions are still very accommodative compared to historic norms. Easy financial conditions may support near-term growth, yet they also pave the way for financial fragilities that increase risks to global financial stability and economic growth over the medium term. Although growth outcomes under current financial conditions are notably more favorable than three years ago, macroeconomic, geopolitical, or policy shocks could put up roadblocks to growth.

Some emerging market economies have taken advantage of benign external financial conditions to address imbalances and build buffers, while vulnerabilities continue to build in others. However, monetary policy normalization could tighten global financial conditions, leading to weakening capital flows that might increase rollover risk and reduce productive investment.

In this context, central banks must strike a delicate balance of gradually withdrawing monetary policy accommodation while avoiding disruptive volatility in financial markets. Continued clarity in central bank communications is key to maintaining this balancing act.

Benefits and Risks from Capital Flows

A September 2017 paper, "Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies," reflects an earlier Executive Board discussion. It finds that capital flows can bring substantial benefits for countries,

but that large and volatile capital flows can also give rise to systemic financial risks. Benefits tend to be greater for countries whose financial and institutional development enables them to intermediate capital flows safely.

The paper illustrates that postcrisis reforms, including the development of macroprudential policies, are helping to make financial systems more resilient to shocks from capital flows. It assesses the two frameworks put in place to help ensure that policy advice on capital flows is consistent and tailored to country circumstances—the macroprudential framework and the institutional view on capital flows. The paper concludes that the frameworks are consistent with key principles, including by avoiding both macroprudential policies and capital flow management measures as substitutes for needed macroeconomic adjustment.

Executive Directors supported this paper. They recognized that capital flows deliver significant benefits, but also have the potential to contribute to a buildup of systemic financial risk, especially if they are large and volatile. They also reiterated that macroeconomic policies, including exchange rate flexibility, need to play a key role in managing risks associated with capital flows, and that macroprudential policies and capital flow management measures should not be used to substitute for warranted macroeconomic adjustment.

Trade-Offs in Bank Resolution

A February 2018 IMF paper, "Trade-Offs in Bank Resolution," notes that during the global financial crisis, authorities faced something of a dilemma: bank bailouts could reinforce expectations of future public support for troubled financial institutions—possibly leading to excessive risk-taking and seeding the ground for the next crisis—but the use of public resources seemed necessary to prevent distress in one bank leading to systemwide crises. In most cases, failing banks were bailed out, with most of the costs and risks borne by taxpayers.

Since then, reforms have sought to reduce the likelihood of crises and minimize costs should a crisis occur—including by shifting the burden to private investors and improving the trade-off between bailouts and bail-ins. This paper revisits this trade-off in light of these developments. It supports the efforts to provide resolution authorities with effective bail-in powers, and stresses that frameworks should seek to minimize moral hazard with bailouts. The paper recognizes the continued need to allow for sufficient, albeit constrained, flexibility to be able to use public resources in the context of systemic banking crises. It calls for continued efforts to enhance loss-absorbing capacity, ensure that holders of bail-in-able debt are those best situated to absorb losses, and improve arrangements for cross-border resolution.

External Balances: Promoting Consistency in Annual Assessments

The IMF provides staff assessments of economies' external positions, including current account balances, real exchange rates, external balance sheets, capital flows, and international reserves, in its yearly *External Sector Report*. As noted earlier, efforts are under way to strengthen the methodology and assessments and promote consistency in the report.

As a tool to help estimate the impact of domestic and foreign influences on the current accounts and exchange rates of major economies, staff have used an External Balance Assessment (EBA), and the IMF has been developing a so-called "EBA lite" methodology for other countries over the past few years. The assessments use regression models and sustainability analysis to describe the effect of different influences. Reports are supplemented by staff judgments about the country-specific factors that models cannot capture.

Limitations of EBA and EBA lite are inherent in data comparability issues and methodological uncertainties. As these are well recognized, upcoming discussions on refinements will focus on improving the methodologies and their application.

Global Standards: Sharpening the Tools to Cut Systemic Risk

Financial sector supervisory standards have been used in the IMF's financial sector assessments since 2000, but a revision of its approach was deemed necessary. The assessments have been conducted against three main supervisory standards for banking, insurance, and securities, set by the Basel Committee on Banking Supervision, International Association of Insurance Supervisors, and International Organization of Securities Commissions, respectively. Two developments gave rise to a need for a revised approach: First, these supervisory standards have been updated and strengthened considerably since the global financial crisis. They have been expanded in scope and improved to account for gaps. Second, in line with the increased emphasis on systemic risk, a more focused review on areas requiring a deeper coverage was deemed necessary.

As a result of consultations with the Standard Setting Bodies (SSBs), an understanding was reached to refine the existing flexible approach. The SSBs and staff agreed that financial sector supervisory standards will continue to be used in one of two ways:

- **Graded assessment**: given that the various principles are interrelated, the standard will be assessed in full. The output will continue to be a "Detailed Assessment Report."

- **Focused review:** a standard can also be used as a benchmark to analyze specific prudential or supervisory gaps, without involving any graded assessment, and can be based on a subset of principles.

The decision about whether to conduct a graded assessment or a focused review will continue to be by agreement between staff and the authorities.

FISCAL POLICY

Recent Developments in International Corporate Taxation

In February 2018, IMF staff briefed the Executive Board on recent developments in international taxation, focusing on the US tax reform. The IMF has also continued its expanded work with area departments on international corporate tax issues in the context of bilateral surveillance. As of May 2018, approximately 20 selected issue papers, working papers, or annexes had been completed in the previous two years as part of Article IV reports.

Second-Generation Fiscal Rules

In March 2018, IMF staff briefed the Executive Board on the evolution of fiscal rules since the global financial crisis, presenting evidence that fiscal rules—when properly designed and supported by institutions and political will—can promote fiscal sustainability. Staff urged a careful balance between flexibility and simplicity, and suggested enhanced enforcement through higher reputational costs rather than sanctions.

The Platform for Collaboration on Tax

The Platform for Collaboration on Tax is a joint initiative of the IMF, Organization for Economic Co-operation and Development (OECD), UN, and the World Bank Group.

- **First Global Conference on Taxation and the Sustainable Development Goals:** In February 2018, the Platform held its first global conference. The conference explored how tax policies, tax administration, and legal structures can affect countries' ability to reach the Sustainable Development Goals. The effects include not only a country's ability to mobilize the necessary financing for investment to pursue the SDGs, but also how to boost investment and support growth, coordinate international corporate taxation, empower women, support environmental sustainability, design appropriate fiscal regimes around extraction of natural resources, and, not least, contribute to building government institutions and improve overall governance. In a conference statement, the Platform partners agreed to unite their individual work programs to collectively seek progress, especially through analysis, standard setting, and technical assistance.

- **Toolkit on tax bases:** In June 2017, the Platform provided practical guidance to developing countries to better protect their tax bases. The "Toolkit for Addressing Difficulties in Accessing Comparable Data for Transfer Pricing Analyses" can implement transfer pricing rules with incomplete data by helping them assess what prices would be expected between independent parties. The guidance will also help countries set rules and practices that are more predictable for business.

- **Draft toolkit on "The Taxation of Offshore Indirect Transfers":** In August 2017, the Platform sought public feedback on a draft of "The Taxation of Offshore Indirect Transfers—A Toolkit." This is designed to help developing countries tackle the complexities of taxing offshore indirect transfers of domestic assets by means of sales or transfers of shares or other interests in entities higher in the chain of ownership and located outside the country in which the valuable assets are located. Such taxation is already addressed in major models for bilateral double taxation treaties and through the OECD Multilateral Instrument. But many countries have not incorporated those principles into domestic law—a prerequisite if countries wish to impose taxation on gains realized in such transfers. The draft toolkit examines the principles underlying taxation of these transactions and sets out two primary models for adjusting domestic laws. Extensive comments were received from business, civil society, and some countries, and a revised version is expected in 2018.

State-Contingent Debt Instruments for Sovereigns

In May 2017, the IMF published a paper analyzing the potential role that state-contingent debt instruments could play in enhancing sovereign resilience. Executive Directors welcomed staff's balanced assessment of both the benefits as well as complications associated with such instruments.

Directors noted the theoretical case: by linking debt service to capacity to pay, state-contingent debt instruments could increase fiscal space, allowing greater policy flexibility in bad times. They could also potentially broaden the sovereign's investor base and open opportunities for risk diversification. And if issuance rose to a large share of public debt, it could significantly reduce the incidence cost of sovereign debt crises, and thereby enhance the resilience of the international financial system.

However, they highlighted staff's observation that take-up of the instruments had been limited in "normal times," pointing to challenges associated with data integrity, instrument complexity, and a first-mover problem on the part of issuers, among other issues. Staff analysis suggested that careful

instrument design, robust institutions and contracts, and official sector initiative/coordination could help overcome some of these complications.

Overall, Executive Directors saw a greater potential for these instruments to be used by developing economies vulnerable to natural disasters and commodity price shocks, than by mature economies with established debt markets. They suggested that the IMF pursue a gradual, targeted, and demand-driven approach consistent with this mandate.

EMERGING MARKETS

Emerging Markets: Developments and Prospects

In informal sessions in September 2017 and April 2018, staff briefed Executive Directors on developments and prospects in emerging markets. In both instances, staff noted that the global economic environment for emerging markets was supportive, but that balance-sheet vulnerabilities were elevated in many emerging markets, as were the risks from a sudden or excessive tightening of financial market. These vulnerabilities should be addressed while global conditions remain favorable. The September 2017 briefing emphasized the need to advance structural reforms to raise medium-term growth, build resilience, and reduce vulnerabilities. The April 2018 briefing placed greater emphasis on the dynamics of inflation as well as the need to mitigate the impact of demographic pressures to help raise overall income levels.

Emerging Europe: Bank Lending Improves

Bank lending in Central, Eastern and South Eastern Europe (CESEE) is improving now that deleveraging following the global financial crisis has come to an end. The better picture is supported by progressive reductions in bad loans that had soured lending prospects, even as their negative impact persists in some countries. That was the conclusion of reports in 2017 from the Vienna Initiative, launched with IMF support at the height of the crisis to help the region's banking sectors keep credit flowing.

External positions for the first half of 2017 improved among CESEE banks reporting to the Bank for International Settlements. Foreign bank funding increased overall, despite reductions for some countries. Lending accelerated outside the Commonwealth of Independent States, with consumer credit staging a firm recovery in nearly all countries. Improving economic outlooks have increased demand for credit and eased supply standards. However, group asset quality of some large banks, alongside changes in local regulation and local capital positions, weigh on some subsidiaries' supply stances and have resulted in selective lending strategies, the report finds.

The Vienna Initiative works on specific financial sector problems, including bad loans, the impact of regulatory reform, and capital market development. In March 2018, it set its sights on a model for the region that drives innovation and boosts productivity. The aim is to give fresh impetus to economic growth and promote convergence with high-income European Union countries.

LOW-INCOME AND DEVELOPING COUNTRIES

Debt Sustainability

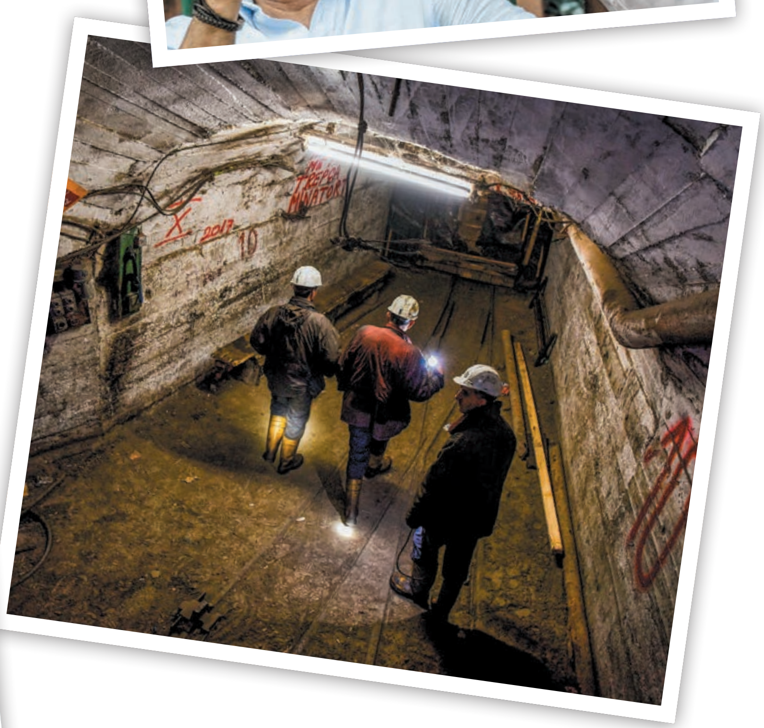
In September 2017, the Executive Board reviewed the "IMF-World Bank Debt Sustainability Framework for Low-Income Countries." Since 2005, this framework has been the cornerstone of the international community's assessment of risks to debt sustainability in low-income countries. The review proposes reforms to adapt and update the framework and

to make it more comprehensive. Changes include a revised approach to assessing countries' debt-carrying capacity based on an expanded set of variables, an improved methodology for predicting debt distress, and more tailored stress tests.

Executive Directors welcomed the comprehensive review and proposed reforms—especially the focus on more accurately flagging potential debt distress to better inform borrowing and lending decisions. They noted that the quality of the framework's outputs depends heavily on the quality of its inputs and called for efforts to ensure that debt sustainability assessments fully capture all sources of public sector debt.

Social Safeguards in Low-Income Countries

In June 2017, the IMF released "Social Safeguards and Program Design in PRGT and PSI-Supported Programs" following a Board discussion. This policy paper considers how countries can protect poor and vulnerable groups through the implementation of programs supported by the Poverty Reduction and Growth Trust (PRGT) and the Policy Support Instrument (PSI). The paper finds that targets for social and other priority spending were included in virtually all PRGT-supported programs and PSIs in low-income countries, and that these targets were met in more than two-thirds of cases. Furthermore, health and education spending has typically been protected. The paper recommends increasing efforts to strengthen social safety nets in these countries.



Executive Directors welcomed the findings that social spending has been protected in most programs and supported staff's proposals to improve the design of social safeguards measures in PRGT- and PSI-supported programs. They called for closer and more effective collaboration with the World Bank and other development partners and for consistent engagement with country authorities and external stakeholders (including civil society organizations) on social safeguard issues.

Capital Flows in Zambia

In May 2017, the IMF hosted a conference in Zambia on "Managing Capital Flows: Challenges for Developing Countries." Participants included Felix Mutati, Minister of Finance of Zambia; David Lipton, First Deputy Managing Director of the IMF; and Paul Krugman, Nobel laureate and Distinguished Professor of Economics at the City University of New York.

Participants agreed that capital flows to developing countries were generally beneficial—providing an important source of financing for investments and helping to maintain foreign exchange reserves. They stressed the importance of sound policies and macroeconomic stability to help reignite high-quality capital flows. The key takeaways were that the composition of capital flows matters for financial stability and growth, and effectively managing the capital inflow phase was the best protection against challenges that arise when they reverse.

OTHER TOPICS

Infrastructure Support

The IMF started an Infrastructure Policy Support Initiative (IPSI) in 2015 to help countries evaluate the macroeconomic and financial implications of investment programs and financing strategies and to bolster their institutional capacity for managing public investment. The initiative integrates the IMF's oversight of public investment with technical assistance and combines several analytical tools to help countries make the best use of resources for building infrastructure. Nine countries where infrastructure issues are particularly significant and constitute one of the key areas of the IMF's engagement with the authorities have been identified as IPSI pilots. These are Cambodia, Colombia, Honduras, Kyrgyz Republic, Serbia, Solomon Islands, Thailand, Timor-Leste, and Vanuatu.

A number of tools that have already been used to improve the quality and, in some countries, the quantity of infrastructure spending are now integrated into the IPSI program, including:

- public investment management assessments (PIMA) to help countries evaluate the strength of their public investment management practices and prioritize reforms to deliver well-planned and cost-effective public investment projects on schedule and within budget;
- Fiscal Risk Assessment Model for public-private partnerships (PFRAM), an analytical tool to assess the potential fiscal costs and risks arising from public-private partnerships; and
- a dynamic Debt-Investment-Growth (DIG) model that lets policymakers weigh the macroeconomic consequences of different financing strategies.

Building Fiscal Capacity in Fragile States

In June 2017, following an Executive Board discussion, the IMF published a paper that analyzes recent IMF capacity development (technical assistance and training) in fragile states and stresses the importance of targeting fiscal technical assistance to achieve fiscal stability, financial control, and secure revenues. The paper notes that when countries first become fragile, including immediately after a conflict or disaster, the focus should be on the easiest-to-collect taxes, setting up basic organizational structures for tax and customs administrations, and strengthening core administrative processes. On the expenditure side, the focus should be on annual budget preparation, control of budget execution, cash management, and basic fiscal reporting. Once countries become more stable, technical assistance can shift toward the modernization of fiscal institutions incrementally through medium-term revenue and expenditure strategies. It is also important to promote effective donor partner coordination.

Executive Directors welcomed the comprehensive and balanced analysis of how the technical assistance to fragile states differs from that to non-fragile states and the lessons that can be derived for future work in this area in order to better serve this important segment of the membership. They agreed that the strategy in fiscal capacity building has been broadly appropriate. They welcomed the increase in IMF fiscal technical assistance to fragile states over the past decade, facilitated by rising external funding.

Inequality and Poverty across Generations in the European Union

A paper issued in January 2018 shows that although rates of inequality and poverty in the European Union have been stable, a generational gap has arisen since the global financial crisis. Specifically, working-age people, and especially the young, are falling behind. The crisis exacerbated already-high youth unemployment rates and the trend toward creation of less-stable jobs. Social protection schemes managed to shield the real incomes of the elderly from the effects of the crisis, but they proved ill equipped to address the precariousness of young people's incomes.

Facilitating the integration of young people into the labor market is essential. This calls for providing employers with greater incentives to hire young people—including through targeted reductions in the labor tax wedge or tax credits at the lower end of the wage scale—and improving and adapting their skills, especially by protecting spending on education and training. Better access to social protection systems for workers in less stable jobs is also important.

Operationalizing Emerging Issues: Gender, Inequality, and Energy and Climate

In November 2017, staff briefed the Executive Board on efforts to incorporate recent work on gender, inequality, and energy and climate issues into the IMF's surveillance, analytical work, country pilots, and capacity development. Staff emphasized that the coverage of these issues in the IMF's work would be selective and where deemed macrocritical.

DATA

Data and Statistics Strategy

In March 2018, the Executive Board discussed an "Overarching Strategy on Data and Statistics at the Fund in the Digital Age," which outlines a move toward an ecosystem of data and statistics that enables the IMF and its members to better meet the evolving data needs in a digital world. The key elements of this strategy are:

- ***integration***—aligning currently fragmented initiatives and unifying the data management function;
- ***innovation***—taking advantage of Big Data for higher-frequency monitoring, and deploying new technologies to close data gaps and meet surveillance needs; and
- ***intelligence***—leveraging artificial intelligence for analyzing data and statistics.

The paper stresses that the IMF will continue to build statistical capacity across the membership, including with donor support. It will work with policymakers to understand the implications of the digital economy and digital data for the macroeconomic statistics, including new measures of welfare beyond GDP.

Executive Directors welcomed the overarching strategy for data and statistics, which should enable the IMF and its members to better respond to the challenges and opportunities of digitalization. They noted that the need to analyze larger and more heterogeneous amounts of data will require expanding the skills of staff. They appreciated the strategic priorities and supported the vision of a global data common—an integrated cloud-based network of country websites publishing key data needed by the IMF and markets to monitor economic conditions and policies. They saw merit in exploring the use of Big Data to support earlier detection of risks and to complement the compilation of official statistics. And they agreed that the IMF should continue to work with member countries to build statistical capacity.

Measuring the Digital Economy

Digitalization has transformed the way we work, consume, and engage with one another. But slow growth in GDP and productivity has exposed concerns that macroeconomic statistics do not fully capture gains achieved thanks to digital and digitally enabled products and activities.

A recent IMF staff paper proposes throwing a strong perimeter around the "digital sector" and distinguishing it from the "digital economy." Inside the perimeter are producers at the core of digitalization, such as online platforms, platform-enabled services, and suppliers of Information and Communications Technology goods and services. Outside the perimeter is the digital economy, a reflection of the effects of digitization on all sectors from agriculture to warehousing.

The paper discusses the interrelated core aspects of digitization on GDP, welfare, globalization, and productivity. It analyzes challenges in measuring activity related to the

digital sector. For example, proposals to include free digital services—including from platforms that collect user data—in calculations of GDP are not warranted. Interestingly, it puts the size of the digital sector at still less than 10 percent of most economies and the effect of undermeasurement of the digital sector on estimates of US labor productivity growth at no more than 0.3 percentage points, smaller than the post 2005 slowdown. The paper finds that improving national statistics agencies' access to data collected by government as part of its regular activities and to "Big Data" generated by the private sector can help overcome the measurement challenges.

Big Data: Challenges and Implications

In August 2017, staff briefed the Executive Board on a framework for analyzing the potential of Big Data to benefit macroeconomic and financial statistics and analysis. The main takeaways were (1) Big Data is not a static concept; it is far-ranging and rapidly evolving, requiring a long-term vision; (2) a strategic organizational plan to deliver measurable and large-scale results is needed; and (3) further research is needed to assess ways to use Big Data to effectively support IMF surveillance.

Macroprudential Policy Survey

The new IMF Macroprudential Policy Survey database contains information on measures that may be taken by member countries with the objective of containing systemic risk, in line with the definition of macroprudential policy as "the use of primarily prudential tools to limit systemic risk." In addition, the database contains information on the institutional aspects of the macroprudential policy framework in member countries.

The first vintage of the database includes countries' responses to what will be an annual survey and comprises macroprudential measures in place as of early 2018 and, in many cases, changes to these measures that have occurred since 2011. In addition, a report was issued providing detail on the survey design, and a description of the results of the first survey.

The database can be used by policymakers and researchers to analyze the impact of macroprudential measures within and across countries, thereby helping to generate further insights into the costs and benefits of such measures in mitigating systemic risk. It is also a valuable new resource for bilateral country surveillance and multilateral economic analysis.

The database is compiled exclusively from information provided by IMF member countries. As a result, the inclusion in or absence of a particular policy tool does not represent a judgment or decision by IMF staff or the IMF Board on whether a particular tool used by an IMF member should be considered "macroprudential" in nature. Similarly, the database provides no assessment of the various institutional arrangements reported by IMF member countries; such classifications and assessments are instead to be found in IMF staff reports and FSAP documents.

Data for Decisions Fund

The Data for Decisions (D4D) Fund is a new IMF trust fund dedicated to putting more and better data in the hands of decision-makers to support evidence-based macroeconomic policies, and to properly monitor progress in achieving the sustainable development goals (SDGs). It aims to strengthen

national statistical systems to cope with a more challenging national and international policy environment, promote transparency and accountability, and offer efficient solutions to capacity development. The fund is expected to provide about $33 million over five years. The target countries are mainly low-income and lower-middle-income countries worldwide, including fragile states.

The D4D Fund will have four modules: (1) Addressing Data Needs and Quality Concerns to help countries compile and disseminate data; (2) the Financial Access Survey to provide statistics to guide policymakers on how to advance financial inclusion; (3) Online Learning to develop training courses aimed at facilitating knowledge transfer to government officials as well as empowering civil society by better understanding data; and (4) Statistical Information Management to provide advice to streamline, standardize, and automate data management practices and infrastructure.

Special Data Dissemination Standard Plus

The highest tier of the IMF's Data Dissemination Initiative, the Special Data Dissemination Standard (SDDS) Plus, is intended primarily for economies that play a leading role in international capital markets and whose financial institutions are globally interconnected. During FY2018, Senegal subscribed to the SDDS.

Enhanced General Data Dissemination System

Under the enhanced General Data Dissemination System (e-GDDS), endorsed by the IMF Executive Board in May 2015, country authorities commit to publishing the data that support their ongoing policy dialogue with IMF staff. Publication must be according to a release schedule agreed upon in the Data Gaps Initiative in advance, with data easily accessible, including for machine-to-machine transmission.

The effort is fostering international cooperation, with the African Development Bank and the Inter-American Development Bank providing material support for the installation of information technology infrastructure (Open Data Platform) that sustains National Summary Data Pages in selected countries in Africa and the Western Hemisphere.

Implementation of the e-GDDS proceeded in a number of countries during the year. These include Aruba, Benin, Bhutan, Cambodia, Cameroon, Honduras, Jamaica, Kosovo, Malawi, Micronesia, Mongolia, Montenegro, Namibia, Nepal, Paraguay, Rwanda, Samoa, Senegal, Sierra Leone, Suriname, Swaziland, Tanzania, Uganda, and Zambia.

G20 Data Gaps Initiative

In September 2017, the Financial Stability Board and the IMF published the second progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2). The report updates the work undertaken since September 2016 and highlights the progress achieved through a new monitoring framework and a "traffic light" dashboard. The 2018 DGI work program includes three thematic workshops (on real estate prices, sectoral accounts, and securities statistics) and the annual Global Conference. Progress on the overall initiative will be reported to the G20 Finance Ministers and the Central Bank Governors in September 2018 in the Third IMF/FSB Progress Report of the DGI-2.

Gaps in Financial Inclusion

The IMF's annual survey of indicators tracking financial access—an important pillar of financial inclusion—shows that growth in the number of bank branches and ATMs is concentrated in Asia and that on average, adults in sub-Saharan Africa have access to five times fewer bank branches and ATMs than in the rest of the world.

Data from the latest Financial Access Survey also show that innovations such as mobile money services continue to make inroads and spread the benefits of technology. Afghanistan, for instance, has more than six times more mobile money agents than ATMs. Among other advances, this has helped civil servants receive pay through their mobile phones.

Financial inclusion is very dynamic, and the survey illustrates the importance of collecting more granular financial access data. For example, new data suggest progress in narrowing the gender gap to financial access. For instance, the survey shows that the share of female borrowers in Malaysia increased from 37 percent in 2004 to 44 percent in 2016.

Information in the survey is based on administrative data collected from commercial banks or other deposit-taking institutions and from digital financial service providers. The Financial Access Survey is conducted with generous financial support provided by the Netherlands' Ministry of Foreign Affairs and the Bill & Melinda Gates Foundation.

Fiscal Transparency and Fiscal Risk Management

Fiscal transparency is the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances. It is critical for effective fiscal management and accountability by helping ensure that governments have an accurate picture of their finances when making economic decisions, including the costs and benefits of policy changes and potential risks to the fiscal outlook. It also provides legislatures, markets, and citizens with information to hold governments accountable. Furthermore, fiscal transparency facilitates international surveillance of fiscal developments and helps mitigate the risk of transmission of fiscal spillovers between countries.

The IMF's Fiscal Transparency Code and Fiscal Transparency Evaluation are the key elements of the institution's ongoing efforts to strengthen fiscal monitoring, policymaking, and accountability among its member countries. The code is the international standard for disclosure of information about public finances. It consists of a set of principles built around four pillars: (1) fiscal reporting; (2) fiscal forecasting

and budgeting; (3) fiscal risk analysis and management; and (4) resource revenue management. For each transparency principle, the code differentiates between basic, good, and advanced practices to provide countries with clear milestones toward full compliance with the code and ensure its applicability to the broad range of IMF member countries.

During FY2018, the IMF published fiscal transparency evaluations of Brazil, Georgia, Turkey, and Uganda. As of April 2018, 19 Fiscal Transparency Evaluations had been published for countries across a range of regions and income groups.

Georgia has made substantial inroads in recent years to enhance disclosure and management of fiscal risks. The IMF supported the authorities in developing a framework for monitoring risks related to state-owned enterprises, establishing a sound legal framework to govern public-private partnerships (PPPs) and to better assess fiscal risks associated with long-term power purchase agreements (PPAs) in the hydropower sector. Using this information, the authorities could adjust the pace of its hydroelectricity expansion to better match demand and restructure the PPA contracts to reduce fiscal risks.

Disclosure of fiscal risks has also improved through expanding the analysis of macroeconomic and debt-related fiscal risks that Georgia was already publishing. This, combined with a suite of other reforms, such as the development of annual financial statements and introduction of program-based budgeting, has seen Georgia climb from 34th to 5th on the Open Budget Survey's rankings between 2010 and 2017. An IMF Fiscal Transparency Evaluation in 2016 also found that Georgia now meets the level of good or advanced practice in many areas, while highlighting areas for continued improvement.

Moldova published its first Fiscal Risk Statement (FRS) in December 2017. The FRS provides a comprehensive overview of key fiscal risks facing the country, and is a useful tool for assessing the consistency and credibility of fiscal policies.

The consolidated presentation allows assessment of the relative importance of each risk category and provides a basis for prioritizing risk mitigation measures. A risk category of "macroeconomic shocks" is identified as one with the highest potential impact and a high probability, and more frequent updates of macroeconomic forecasts are recommended as a measure to mitigate the risks. High risks also result from potential bailout of insolvent state-owned enterprises, and insolvent, systemically important banks whose impact will be estimated in future fiscal risk statements. The draft of the FRS was subject to public consultation and was discussed with members of parliament.

Fiscal Transparency Handbook

The *Fiscal Transparency Handbook* was published in April 2018. It provides detailed guidance on the implementation of the principles and practices set out in the 2014 Fiscal Transparency Code. It covers the first three Pillars of the Code (fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis and management); discusses key dimensions and principles under each pillar; and provides guidance on the requirements for meeting the basic, good, and advance practices for each principle, illustrated by many examples from countries around the globe.

The *Handbook* is aimed at a range of stakeholders: governments with an interest in promoting fiscal transparency; national oversight and accountability organizations, such as legislatures, supreme audit institutions, parliamentary budget offices, national statistics agencies, and independent fiscal agencies; international organizations; investors; international rating agencies; academia and researchers studying public finance and fiscal transparency; and others—in the public or private sectors—who have an interest in promoting transparency.

As a companion to the Code and Fiscal Transparency Evaluations, the *Handbook* will help countries strengthen their economic institutions in public financial management and improve fiscal governance. A subsequent version of the *Handbook*, planned for release in 2019, will incorporate the Code's Pillar IV.