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The IMF and the social dimensions of growth: A content analysis of recent Article IV surveillance reports 2014–2015

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Preface

The primary goal of the International Labour Organization (ILO) is to work with Member States towards achieving full and productive employment and decent work for all. This goal is elaborated in the ILO Declaration on Social Justice for a Fair Globalization [adopted by the International Labour Conference in 2008],[1] which has been widely adopted by the international community. Comprehensive and integrated perspectives to achieve this goal are embedded in the Employment Policy Convention, 1964 (No. 122), the *Global Employment Agenda* (2003) and – in response to the 2008 global economic crisis – the *Global Jobs Pact* (2009) and the conclusions of the *Recurrent Discussion Reports on Employment* (2010 and 2014).

The Employment Policy Department (EMPLOYMENT) is engaged in global advocacy and in supporting member States in placing more and better jobs at the center of economic and social policies and growth and development strategies. Policy research and knowledge generation and dissemination are essential components of the Employment Policy Department's activities. The resulting publications include books, country policy reviews, policy and research briefs, and working papers.[2]

The *Employment Policy Working Paper* series is designed to disseminate the main findings of research on a broad range of topics undertaken by the branches of the Department. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed within them are the responsibility of the authors and do not necessarily represent those of the ILO.

Azita Berar Awad
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[1] See http://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS_099766/lang--en/index.htm

[1] See http://www.ilo.org/employment

Foreword

On the basis of a recent content analysis of the International Monetary Fund's (IMF) Article IV surveillance consultations, this paper argues that the Fund has improved its coverage of labour market and inclusive growth considerations it its policy analysis and recommendations. It updates the work of Islam et al. (2013) and analyses the Article IV consultations in light of the IMF's commitment to address these concerns in its (2013) *Jobs and Growth* report.

The findings are on the whole positive, with greater consideration of issues such as unemployment, sector-intensive employment, inclusiveness and social protection. The IMF had also proposed tools such as a template to analyse and project labour market trends (Abdih et al., 2012). However, this paper finds that the IMF's discussion of labour markets and inclusive growth often lacked depth, and the usage of such tools has been far from systematic. This limits the helpfulness of policy advice, as the linkages between growth, employment creation, poverty reduction and social protection remain unclear. In turn, this underplays the role of strengthening the formal economy, as well as fostering social and financial inclusion, to achieve macroeconomic stability and resilience.

In light of its role as guarantor of the international monetary system and its support of the 2030 Sustainable Development Goals (SDGs), it is essential that the IMF systematically incorporate poverty-employment and inclusion-employment linkages in its analysis and policy recommendations. Only then can the IMF help countries achieve macroeconomic stability and resilience in a comprehensive and meaningful framework.

It is hoped that colleagues at the IMF will take this as an opportunity to further refine their work. It may also serve as opportunity to collaborate with the International Labour Organization (ILO) and other institutions to develop a comprehensive framework to analyse labour market and social inclusion issues.

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All remaining errors and omissions are solely the responsibility of the authors.

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Abstract

This content analysis examines the International Monetary Fund's (IMF) Article IV surveillance consultations for low- and middle-income countries over the period 2014-2015 in view of the IMF's (2013) commitments to better incorporate labour market and inclusive growth considerations. It covers the consultations for 101 countries (92 full staff reports and 9 Public Information Notices), building on Islam et al.'s previous (2013) critique of the scope and coverage of the Article IV consultations.

This paper finds that, while the IMF has made strides to expand its coverage and analysis of labour market and inclusive growth issues, more could be done to strengthen the analytical framework and to link such considerations with the IMF goals of strengthened macroeconomic stability and resilience. Recommendations include expanding the quantitative and qualitative dimensions of the IMF's analysis – especially the linkages between strengthened labour market and inclusive growth outcomes on the one hand, and improved macroeconomic stability and resilience on the other. Other suggestions are to embark on a longitudinal country study and a pilot project to enhance the analytical framework of IMF surveillance work.

Key words: International Monetary Fund (IMF), Article IV consultation, content analysis, developing countries, inclusive growth, labour market analysis, social protection, fiscal policy, monetary policy

Abbreviations

ALMP	active labour market policy
EU	European Union
GDP	gross domestic product
HIPC	Highly Indebted Poor Countries
ILO	International Labour Organization
IMF	International Monetary Fund
LIC	low-income country (World Bank definition)
LMIC	lower middle-income country (World Bank definition)
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MIC	middle-income country
OECD	Organisation of Economic Co-operation and Development
PES	public employment service
PIN	Public Information Notice (IMF)
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
SPF	Social Protection Floor
TSR	Triennial Surveillance Review (IMF)
UMIC	upper middle-income country (World Bank definition)
UN	United Nations
VAT	value added tax
WHO	World Health Organization

1. Introduction

The international monetary and financial system has changed dramatically since the end of World War II, and with it the challenges faced by its main custodian, the International Monetary Fund (IMF). Since its foundation in 1946, the IMF has had to adjust to the increasing complexity of a globalized economy and has gone through a transition from international monetary institution to international financial institution with a broader range of responsibilities. The global financial crisis in 2007-2008 stressed the case for a global financial authority that covers all areas that may impact its Member States' stability, and that adjusts its mandate drawing on the lessons learnt from the recent recession. The devastating consequences of the economic downturn have been widely seen as representing the shortcomings of the conventional macroeconomic framework established and guarded by the IMF as one of the Bretton Woods institutions (Blanchard et al., 2010; Islam et al., 2013).

In particular, the global rise in unemployment in the aftermath of the global financial crisis prompted the IMF to strengthen its commitment to "the promotion and maintenance of high levels of employment and real income", as proclaimed in its Articles of Agreement (IMF, 2011a)[1]. Part of this process has been the reassessment of the focus, criteria and assumptions that are the basis for the Fund's Article IV consultations and the macroeconomic policy advice offered therein. The Article IV consultations play an important surveillance role and are an established source of information on the macroeconomic conditions of the IMF's Member States. In different policy statements published after the crisis the IMF rightly highlighted the need to strengthen its focus on the social dimensions of growth. For instance, the 2009 *Bilateral Surveillance Guidance Note* stipulates that "Article IV reports should include information on political and social developments when they are relevant for analysis of economic policies" (p. 20).

In an International Labour Organization (ILO) research paper, Islam et al. (2013) undertook a content analysis of the 2009-2010 IMF Article IV consultations for a sample of 30 low-income and 20 middle-income countries. Besides assessing the documents' policy advice on fiscal adjustments and inflation targets, the paper examined the extent to which the IMF gave attention to employment generation, poverty reduction and the expansion of social protection. The analysed consultations were found to insufficiently cover these themes; while there was ample reference to poverty reduction, the underlying analysis, as well as the policy advice, remained "rudimentary". Reference to important initiatives such as the Social Protection Floor (SPF) and Millennium Developments Goals (MDGs)[2] were not adequately represented. In the few cases where employment analysis was undertaken, Islam et al. (2013) identified a strong pattern in terms of linking employment to growth, high public sector wages and labour market rigidities. With respect to the other themes analysed, the Fund demonstrated a predilection for a "one size fits all" approach promoting fiscal adjustments, low fiscal deficits and low public debt-to-gross domestic product (GDP) ratios. The paper made a case for:

[1] Specifically, Article I (ii) states as a purpose of the Fund "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."

[2] The paper looked specifically at MDG1b, a new target that was selected as part of the global monitoring system and defined as progress towards "full and productive employment and decent work for all, including young men and women" (UN, 2015a).

> Moving beyond monitoring debts, deficits and inflation from the perspective of simple numerical targets that are of questionable empirical validity. (…) The discussion of fiscal issues needs a more explicit development dimension. (…) Finally, there is a case for redressing the insufficient emphasis given to the poverty-employment link. (…) An adequate reflection of the challenge of providing broad-based and productive employment as a sustainable route out of poverty might require the harnessing of expertise outside the Fund (Islam et al., 2013, p. 32).

Weisbrot and Jorgensen (2013) make similar findings in their study of IMF Article IV surveillance reports for the then 27 European Union (EU) Member States for the period 2008-2011; the recommendations focus on fiscal consolidation, reducing social spending and measures weakening the bargaining power and income of labour. Ortiz et al. (2015) note a general trend towards austerity measures – especially in developing countries – after an initial phase of fiscal stimulus in their review of public expenditure and adjustment measures for 187 countries over the period 2005-2014. However, Weisbrot and Jorgensen (2013) also note that the IMF has undertaken serious measures to remedy deficiencies in their Article IV consultations in 2012-2013.

Since 2010, the Fund has undertaken various efforts to engage in more in-depth labour market and social policy analysis. One concrete outcome was the development and adoption of a *Template for Analysing and Projecting Labor Market Indicators* in 2012, which aims to support the IMF's analytical work on the linkages between employment and output growth for its surveillance work (Abdih et al., 2012). A shift in focus is also reflected in pertinent policy documents, such as the *Triennial Surveillance Review* (TSR)[3]. The 2011(b) TSR conceded weaknesses in its surveillance work in the areas of employment and poverty reduction, and recommended strengthening the coverage of macro-social issues that "pass the test of being critical to the assessment of members' stability" (as cited in IMF, 2013a, p. 32). The 2014(a) TSR further emphasized this point, reading:

> More specifically, labor market issues are *at the top of the policy agenda* [authors' emphasis] for a critical mass of the membership, reflecting the shared challenge of achieving more durable, job-rich and inclusive growth. In all macro-critical aspects of labor markets, we will continue to collaborate with and leverage the expertise of other institutions. However, the Fund will also strategically invest in strengthening institutional capacity in certain aspects of labor market policies where the needs of the membership are greatest (IMF, 2014a, p. 6).

In addition, this most recent TSR declares:

> Given the ongoing complexity of policymaking, the Fund faces an equally complex task in providing useful policy advice. The answer is not for surveillance to cover all bases in all countries, but to *tailor advice to country circumstances* [authors' emphasis] (ibid, p. 2).

In an overarching *Jobs and Growth* report (2013a) the IMF discussed its role in supporting countries to meet the challenge of strengthening aggregate demand with limited fiscal space in the aftermath of the global financial crisis. Among other things, it noted that "there can also be circumstances where a "jobs strategy" may be needed to complement a growth strategy" (p. 17) due to the lags and instabilities that can exist in the relationship between growth and job creation. Such a strategy should include measures to ensure macroeconomic stability, active labour market policies (ALMPs), financial inclusion mechanisms and investments in education and infrastructure. The report emphasized the importance of a "robust social protection scheme (such as designed under the Social Protection Floor initiative), also addressing the needs of informal sector workers including

[3] Through its Triennial Surveillance Reviews (TSR), the Fund seeks to keep its surveillance work relevant by adjusting the nature of macroeconomic assessment and policy advice to the changing challenges of the global economy.

women" (IMF, 2013a, p. 21). Finally, the report also underlined the importance of examining inclusive growth, including the links between growth, employment-creation, poverty reduction and income inequality. Such links underpin the role of active policies – such as sectoral diversification, social protection and financial inclusion – and strengthened macroeconomic stability and resilience.

The report also contained the IMF's first own content analysis of 30 Article IVs across advanced economies (8), emerging economies (12) and low-income economies (10). The findings suggested that (i) while the condition of the labour market was mentioned in all reports, "the depth of the analysis appears limited" (IMF, 2013a, p. 35); (ii) likewise, most reports provided some description of inequality and poverty, particularly in low-income countries, but analytical work was rare; and (iii) although most of the consultations discussed the effect of austerity measures on social spending, "only few propose[d] options for mitigating the resulting impacts on the poor" (ibid). The Fund also made special provisions for policy advice to fragile states, where building up institutions is important for strengthening overall macroeconomic stability and inclusive growth outcomes (IMF, 2012).

Building on the results of Islam et al. (2013) and the Fund's own content analysis from 2013(a), this paper seeks to assess the extent to which the Article IV consultations published since 2014 reveal an actual shift in focus with respect to the social dimensions of growth. The main questions examined are:

(1) Does the IMF provide a balanced discussion on labour market and inclusiveness, including analytical elements?

(2) Does this discussion feed into pertinent policy recommendations? What patterns can be identified in terms of the advice given?

(3) Are social goals reflected in the proposed macroeconomic framework?

(4) Is the discussion on monetary and fiscal policies tailored to country circumstances, rather than pursuing a "one-size-fits-all" approach?

An updated analysis of the content of the IMF's Article IV surveillance work is timely due to 2015 being the target year of the MDGs as well as the adoption year of the 2030 Development Agenda and the Sustainable Development Goals (SDGs). The IMF (2015a; 2015b) has stressed the importance of macroeconomic stability and resilience in achieving the MDGs and the SDGs, and underlined the Fund's role in supporting counter-cyclical policies, providing concessional loans, as well as assisting with structural and institutional reforms. Moreover, the spillover effects of the global financial crisis and the remedial policies of the advanced economies on the developing world demonstrated the vulnerability of developing countries to external shocks and the sluggish global recovery, once again prompting the IMF to advocate macroeconomic stability and resilience to safeguard future growth. In turn, examining the poverty-employment link to improve labour market and socially inclusive outcomes is crucial to strengthening macroeconomic stability and resilience in developing countries, both in light of the SDGs and the IMF's prior (2012; 2013a) commitments to a revised macroeconomic framework.

Consequently, it is a shared task for the international community to integrate both the SDGs and maximize efforts to achieve inclusive and sustainable growth. As the main financial and monetary authority exerting influence on policy making in Member Countries, the IMF retains a key role in this process. It is therefore of major importance to continuously review the content of the Article IV consultations and critically assess the extent to which the IMF complies with the announcements expressed in pertinent documents such as the *Jobs and Growth* report (2013a).

The paper is structured as follows. Section 2 introduces the methodology used for the content analysis, while also pointing out its limitations. Section 3 presents the main findings on the discussion and analysis of the themes of employment and social protection in the Article IVs. Section 4 examines to what extent the macroeconomic framework proposed in the staff reports serves social purposes, notably the creation of decent work, and poverty and inequality reduction, and whether a deviation from the "one-size-fits-all" course of action can be observed. Section 5 concludes by summarizing the changes observed and suggesting avenues for future progress.

2. Methodology

The content analysis was carried out in two steps. First, 101 IMF Article IV consultations for low- and middle-income countries – based on the World Bank's 2015 income classifications[4] – published between 1 January 2014 and 30 September 2015[5] were reviewed based on a key word search. Where available, the full Article IV staff report was used (92 countries); for the remaining 9 countries, the Public Information Notices (PIN) announcing the IMF Executive Board's conclusion of the Article IV consultations were used, as these notices highlight the Board's assessment of IMF staff recommendations vis-à-vis the country in question. In a second step, a sample of 12 countries was analysed in more depth. The idea behind this procedure is to identify general trends for the two main areas of interest, and then to back these findings with a more detailed discussion on the nature of the analysis and policy recommendations provided by the IMF.

By covering all Article IV consultations that were publicly available in that period, the possibility of selection bias is minimalized. The eligible 101 documents were scanned for key words that indicate whether or not the topics of interest were discussed in the consultation reports[6]. For the second part of the analysis, a sample of 12 countries was picked by creating a random sequence with Microsoft Excel, based on the criteria that each region (East-Asia and Pacific; Europe and Central Asia; Latin America and the Caribbean; Middle-East and North Africa (MENA); South Asia; and Sub-Saharan Africa) and each income group (low-income, lower-middle and upper-middle income) be equally represented. The countries analysed in-depth are: Brazil, Cabo Verde, India, Guatemala, Lebanon, Madagascar, the Republic of Moldova, Myanmar, Nepal, Serbia, Thailand and Yemen.

Both the key word search and the in-depth analysis focus on the categories described in the next section. While the first explores *whether* they are taken up in the Article IV consultations, the latter investigates *to what extent* this happens and whether the changes in the IMF's discourse since 2010 on these issues can be observed.

A method of coding of variables was applied to identify if the IMF consultation recommended and referred to a certain policy. Specific key terms were identified, and sentences that capture the incidence of a particular form of policy advice were also taken into account. A variable was coded 1 = "increase" if an increase or expansion in policy is recommended and 0 = "no" if policy A is not recommended.

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[4] Low-income countries (LICs): GDP per capita of USD 1045 or less; lower-middle-income countries (LMICs): GDP per capita of between USD 1045 and USD 4125; upper-middle-income countries (UMICs): GDP per capita of between USD 4126 and USD 12745; and high-income countries (HIC) GDP per capita of USD 12746 or more (World Bank, 2015).
[5] See Appendix A for a full list of the consultations.
[6] See Appendix C for a comprehensive list of key words used for the different categories.

The results were analysed with regard to the IMF's (2013a, 2013b) commitments stated in its *Jobs and Growth* report. Where there were significant differences between income group and regions, these results are presented and discussed. With regard to regions, variations in IMF policy discussions and advice in special subgroups, such as fragile states (see IMF, 2015c), Highly-Indebted Poor Countries (HIPC)[7] and small island developing states (UN-OHRLLS, 2015) are also discussed where relevant[8].

2.1 Overview of the variables

Part I: Inclusive growth

One of the central policy debates in global development is the extent to which the conventional macroeconomic framework is able to support the process of employment creation and poverty reduction other than through the process of growth itself. A strengthened focus on the social dimensions of growth can be demonstrated in various ways: (1) by analysing the current situation of employment, poverty, inequality and social protection, either through a general discussion or through pertinent diagnostics (statistics, projections and graphs); by (2) referring to national development plans and/or international initiatives that campaign for poverty reduction and full employment; or (3) by providing concrete policy recommendations that promote public policies for inclusive growth – ideally responding to the main shortcomings analysed in (1).

Part II: Macroeconomic policy advice

In their 2013(b) *Guidance Note*, the IMF identifies both employment and income distribution as important concerns for achieving inclusive growth. Consequently, this section analyses the design and impact of (a) tax policy and (b) expenditure policy. Furthermore, in their (2013) review of Article IV reports, Islam et al. found that IMF macroeconomic advice recommended fiscal consolidation and low, single-digit inflation targets, irrespective of the country's developmental status or particular circumstances. Consequently, this part explores the extent to which IMF macroeconomic policy discussions vary between countries, regions and income-groups in terms of fiscal and monetary policy recommendations, including the linkages with labour markets and social inclusion.

A complete list of variables, their rationale and the key words used for the word search is listed in Appendices B and C.

2.2 Limitations

This content analysis is limited by a number of factors. It focuses on the Article IV surveillance reports, taking only occasional note of IMF Selected Issues papers relating to the countries in question. At times, the Article IV reports may focus purely on the fiscal, financial and monetary recommendations, leaving the discussion of labour markets, inclusive growth, social protection and inequality to the Selected Issue papers or other IMF publications. There is also a potential problem in restricting the period of analysis to 2014-2015: IMF Article IV reports often refer to earlier versions, which may cover poverty and development considerations in greater detail. Moreover, by considering both full IMF

[7] The Heavily Indebted Poor Country (HIPC) Initiative was initiated in 1996 by the World Bank, the IMF and other multilateral, bilateral and commercial creditors to ensure that the poorest countries in the world are not overwhelmed by unsustainable debt burdens. It reduces the debt of countries (currently 35) meeting strict criteria (IMF, 2015d).

[8] See Appendix A.IV-VI for the list of countries in these subgroups.

Article IV staff reports (92 of the 101 countries examined) and the Public Information Notices (PIN) announcing the IMF Executive Board's conclusion of the Article IV consultations (9 of the 101 cases examined), there are problems with comparability, as the extent of the discussions publicly disclosed are different. There is also a risk of selection bias, as these reports are made public by agreement of the governments involved.

A further limitation is the need to assess the breadth and depth of labour market and social progress considerations under discussion in view of the IMF's mandate and expertise. The IMF (2013b) noted its own limitations in being able to tackle all of these issues. Consequently, we attempt to analyse the IMF Article IV reports under consideration in light of the labour market and poverty analytical tools that the Fund itself has discussed in policy documents (e.g. IMF, 2013a). Nevertheless, this content analysis will argue at times that the IMF should expand the depth of its analysis in order for its reports to be more comprehensive and pertinent with regard to national policy.

Related to this is the fact that any content analysis relies on the subjective judgement of the authors to a certain extent, which can lead to disagreements about which discussions or policies fall under the different categories and whether or not they should be included in the study.

3. Employment, inclusiveness and the Article IV consultations

This chapter focuses on the coverage and nature of the analysis of labour market issues, poverty reduction and social protection in the Article IV consultations in the sample of 101 countries. We first provide some theoretical considerations that aim to make the case for including the themes of employment and social protection in the Article IV consultations.

3.1 The IMF and employment

3.1.1 Theoretical considerations

The promotion of full and decent employment is of major importance globally, with differing priorities across regions and income levels. The recently endorsed Sustainable Development Goals (SDGs) establish it as an end in itself[9], as well as a way to foster other key international development objectives[10].

This section examines (i) whether the IMF Article IV reports surveyed analyse labour market issues in the country in question and (ii) what sort of policy recommendations are made in these reports. Another point of interest is (iii) whether or not the reports make use of the IMF's *Template for Analyzing and Projecting Labor Market Indicators* (Abdih et al., 2012) as a framework for analysis of the labour market, or make similar projections regarding labour market developments.

The traditional advice with regard to labour markets is structural reforms aimed at increasing flexibility, since the neoclassical economic view attributes labour market

[9] Goal 8 calls to "promote inclusive and sustainable economic growth, employment and decent work for all" (UN, 2015b).
[10] More and better employment contributes to Goals 1 (ending poverty), 5 (gender equality), 10 (reducing inequality) and 12 (sustainable consumption and production) (UN, 2015b).

rigidities to high hiring and firing costs linked to onerous legislation. The Fund also traditionally advocated macroeconomic policies such as fiscal consolidation and single-digit inflation rate targeting in order to provide for a stable macroeconomic environment, thereby indirectly contributing to increased employment outcomes. Indeed, the IMF's (2013a) *Jobs and Growth* report underlines the importance of macroeconomic stability in underpinning growth and employment-creation. In fact, the report suggests that, in the event of a tradeoff between inclusive growth/poverty reduction policies and macroeconomic stability, IMF staff should favour the latter (p. 1). As such, the IMF emphasizes macroeconomic stability – defined as "low inflation and output volatility" (ibid, p. 1) – to create an enabling environment for the private sector to grow and create jobs. In contrast, institutions such as the ILO argue that such stability is necessary, but not sufficient, to ensure growth and job-creation.

Commentators such as Islam et al. (2013) underline the need for IMF macroeconomic policy recommendations to be linked with employment, poverty reduction and development objectives, especially in low- and middle-income countries. Moreover, the World Bank (2013) and the ILO (e.g. Aleksynska, 2014) argue that labour market regulation need not significantly increase hiring and firing costs to the point that they jeopardize employment creation.

In response to these critiques and recent experience, the IMF undertook to examine job and growth issues in their surveillance and programme work in 2013(a). Specifically, the Fund sought to incorporate labour market, social protection and income distribution considerations in their work – including in the Article IV Surveillance Reports – in order to provide analysis and policy recommendations adapted to countries' particular circumstances.

To make this analysis more comprehensive, IMF staff in the Middle East and Central Asia Office produced a *Template for Analyzing and Projecting Labor Market Indicators*, complete with unemployment projections under different growth scenarios and employment-growth elasticities (Abdih et al., 2012). In the IMF's (2013b) *Guidance Note* on the subject, this template is used to analyse the labour market conditions in several developing countries to provide both a more comprehensive context discussion and to ensure that recommendations take into account the labour market factors. The IMF (2013b) hopes that more systematic integration of policy advice on reforms of tax and expenditure policy will encourage:

- Higher labour force participation, including by women;
- Stronger job creation;
- Progress in reducing inequalities in income distribution; and
- More effective protection for the most vulnerable.

Moreover, in a developing country context, many of the policies aimed at improving working conditions and bringing workers into the formal sector would contribute to the IMF core aims of macroeconomic stability by strengthening the revenue base and improving productivity. Formal wage labour is easier to supervise and tax. Furthermore, workers in the formal sector are more likely to benefit from social protection floors such as health and unemployment insurance, as well as from recognized skills acquisition, thereby increasing worker productivity and strengthening the job searching and matching process. The need to take into account employment considerations is also stressed in a separate IMF (2012) *Guidance Note on engagement with countries in fragile situations*, where sudden reforms might undermine political and social stability. The IMF also seeks to help less developed countries address their most immediate constraints:

> In developing countries, the most binding constraints could include adequate financing for private sector activity, weak institutions of governance, and insufficient human capital and infrastructure (ibid, p. 15).

Although this suggests that IMF structural reform policy recommendations will increasingly include a labour market dimension, they will still focus on creating an enabling environment for employment and economic growth, rather than advocating that governments adopt a more active role.

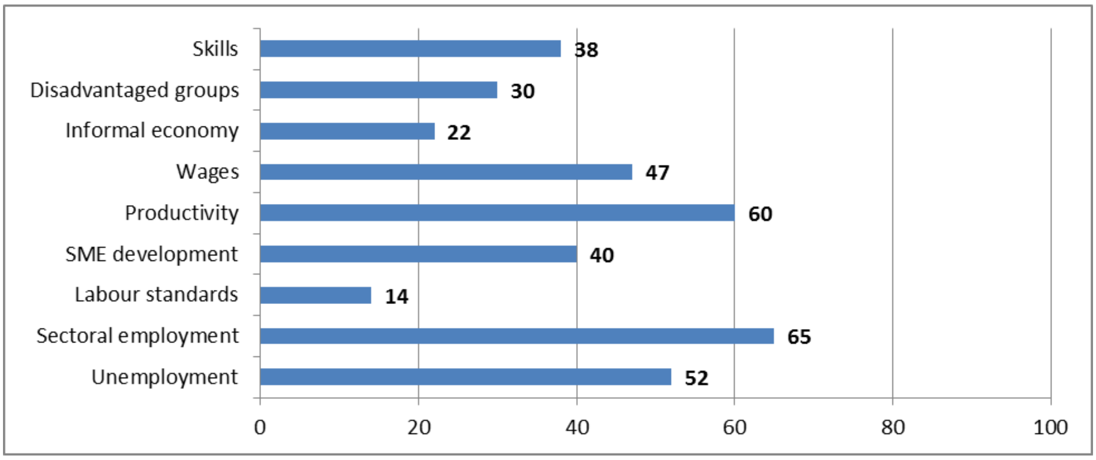
This section examines the treatment of several labour market issues in the Article IV surveillance reports for 101 IMF Member States over the period January 2014-October 2015.

3.1.2 Findings

3.1.2.1 Overview

The IMF Article IV surveillance reports discuss labour market issues in 69 of the 101 cases examined, mainly in the upper-income (86.1 per cent of reports) and lower-middle categories (76.3 per cent of reports); it was also discussed in 70.0 per cent of low-income country reports. This may reflect the need to address labour market issues in the upper-income countries in order to transition to the high-income category, as the formal economy workforce is larger than in the low-income and lower middle-income subgroups. Figure 1 below illustrates the focus topics of the labour market discussion: sectoral employment (65/101 consultations), productivity (60/101 consultations) and unemployment (52/101 consultations).

Figure 1. IMF discussion of selected labour market topics



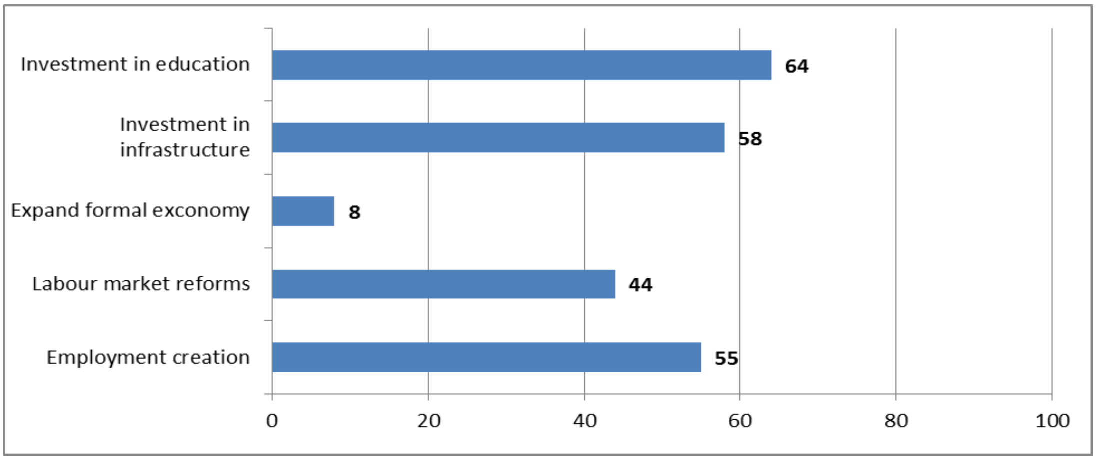
Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

This is consistent with the IMF's and World Bank's approach to poverty reduction expressed in the Global Monitoring Report 2014/15:

> In all countries but even more so in developing economies, economic growth is more effective in fostering poverty reduction and broad-based prosperity if the pattern of growth becomes more labor intensive and if poor people's work becomes more productive. Consequently, labor productivity, the sectoral composition of growth and its impact on job creation matter for poverty alleviation (World Bank, 2014, p. 35).

Figure 2 highlights the major labour market policy recommendations: greater or continuing investment in education (64/101 consultations), investment in infrastructure (58/101 consultations) and employment creation (55/101 consultations). Such policies would address the skills mismatch, improve worker and capital productivity and help with sectoral diversification and potentially with the structural transformation.

Figure 2. IMF discussion of selected labour market policy recommendations



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

The recommendation to invest more/continue investing in infrastructure is most prevalent in the lower middle- and low-income countries reports (73.7 per cent and 60.0 per cent of reports respectively), where the marginal return to capital is likely to be higher than in upper-income countries. At the regional level, the IMF made this recommendation mainly in the East Asia and the Pacific (94.4 per cent), the Middle East and North Africa (MENA) (88.9 per cent) and South Asia (83.3 per cent) regions.

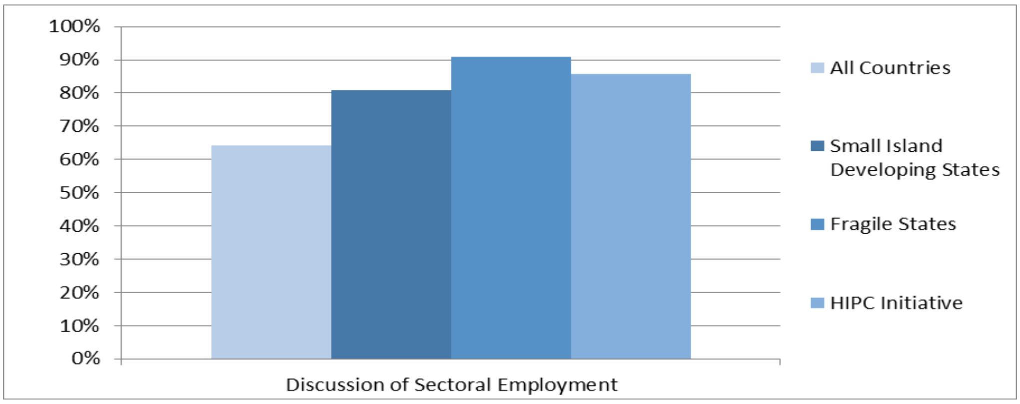
3.1.2.2 Unemployment, sectoral employment and diversification

The IMF (2013a) states that "many governments have set for themselves the goal of "inclusive growth"—growth where the benefits are widely shared across the population—and have realized that enabling strong employment growth is an essential part of the strategy to achieve that goal" (p. 5). The IMF identifies the employment of disadvantaged groups – notably women and youth – as a priority.

Unemployment was a major topic of discussion in those reports dealing with upper middle-income (70.0 per cent) and lower middle-income (57.9 per cent) countries – especially in those dealing with the MENA (100 per cent), South Asia (66.7 per cent) and Europe and Central Asia (64.7 per cent). This reflects the larger size of the formal sector in the upper middle-income and European and Central Asian countries, hence their vulnerability to downturns such as the persistent weak demand after the global financial crisis. Moreover, unemployment figures may be misleading about the scale of quality employment, as they treat wage employment, informal employment and underemployment as the same (Majid, 2014). Consequently, in economic downturns, workers in lower-income countries will shift from the formal to the informal sector and not be counted as unemployed. The IMF may wish to make greater use of "decent" employment figures, along the lines devised by Majid (2014) or Saboia and Kubrusly (2014) for a more comprehensive analytical framework for unemployment.

Sectoral employment was also important in the lower middle-income subgroups (81.6 per cent) and the low-income (80.0 per cent) – including in all the reports relating to countries in the MENA, as well as in South Asia. The IMF's (2013a) *Jobs and Growth* report underlined the importance of sectoral employment considerations, noting that "both the Growth Commission report and World Bank's (2013) *World Development Report on Jobs* stress the importance of diversification and structural transformation as an essential part of the process of catch up" (IMF, 2013a, p. 14). Sectoral diversification and the development of new economic sectors, especially in manufacturing and services, can generate productive employment opportunities, as well as reduce vulnerable employment and exposure to commodity prices. This is especially pertinent to single-commodity economies, as is the case of many fragile states and small island developing states. Figure 3 below shows that some 90.9 per cent of reports pertaining to fragile states and 85.7 per cent pertaining to the Highly-Indebted Poor Countries (HIPC) covered sectoral employment issues.

Figure 3. IMF discussion of sectoral employment in special country subgroups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Given the importance of unemployment and sectoral employment considerations in the IMF's (2013a) *Jobs and Growth* report, it would be interesting to examine whether discussions on these issues in the Article IV consultations are linked and result in concrete policy recommendations. Table 1 below captures this link, including the one with the related issue of the participation of disadvantaged groups. We note that in Cabo Verde, the Democratic Republic of Congo, Haiti and Namibia (4/16 reports), there is a regular correspondence between sectoral employment and sectoral diversification discussions. Conversely, the sectoral employment discussion and employment creation policy recommendation are linked in 6/16 reports in Table 1.

Table 1. Linkages between unemployment and sectoral employment in selected reports

Country	Unemployment	Disadvantaged Groups	Employment Creation	Sectoral Employment Discussion	Sectoral Diversification
Brazil	x				
Cabo Verde	x	x	x	x	x
Democratic Republic of Congo			x	x	x
The Gambia					x
Guatemala					
Haiti				x	x
India			x	x	
Lebanon	x	x	x		
Madagascar			x	x	
Moldova, Republic of			x		
Myanmar			x	x	
Namibia	x	x	x	x	x
Nepal				x	
Serbia	x				
Thailand				x	
Yemen	x		x		

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Table 2 below illustrates IMF references to sectoral employment in selected countries. The IMF advocated generating employment in the agricultural sector as means of addressing poverty (Cabo Verde, Democratic Republic of Congo, The Gambia, Madagascar and Nepal – 5/16 reports). In other cases, the focus was more on diversification to reduce dependence (Djibouti), to create jobs (Namibia, Uzbekistan) or as part of the structural transformation (Thailand).

Table 2. IMF reference to sectoral employment in selected reports

Country	IMF reference to sectoral employment
Cabo Verde	With its high dependence on tourism and remittances, Cabo Verde remains vulnerable to changes in external conditions. This underscores the importance of adopting reforms that enhance competitiveness and support economic diversification. (p. 21)
Democratic Republic of Congo	Staff (…) recommended to the authorities to increase social spending and investment in labor intensive sectors such as agriculture, and improve the business environment, including through infrastructure development to promote private sector participation in employment creation. (p. 10)
Djibouti	Djibouti's fundamental development challenges remain to reduce widespread poverty and unemployment, and diversify its economy to reduce dependence on the ports (PIN).
The Gambia	While the recent development of the tourism sector has helped The Gambia diversify its economy, the [Programme for Accelerated Growth and Employment] recognizes the need for reforms to make progress towards further economic diversification to benefit from untapped potential in fisheries and agro-processing. (p. 19)
Madagascar	Agriculture, tourism, and construction are the key employment-generating sectors. While agriculture accounts for about 80 percent of employment, it is dominated by low productivity subsistence farming with yields that are barely enough to feed a family. Overall, agriculture contributes about 25 percent of GDP. (p. 17)
Namibia	Despite some progress in economic diversification, it has not led to sufficient job creation. (p. 18)
Nepal	There is significant room to boost competitiveness to develop industry and agriculture, which would provide domestic employment opportunities. (p. 15)
Thailand	Reallocating workers from agriculture into manufacturing and modern services could boost productivity. Indeed, in the past, this inter-sectoral shift, reflecting structural transformation, accounted for a considerable share of productivity growth in Thailand (…). However, over the last few years this process has stalled, with both agricultural employment and agricultural productivity nearly stagnant. (p. 59)
Uzbekistan	Continued and determined efforts are also needed to promote a more diversified, private-sector-led economy that can generate productive jobs and sustain inclusive growth. (PIN)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

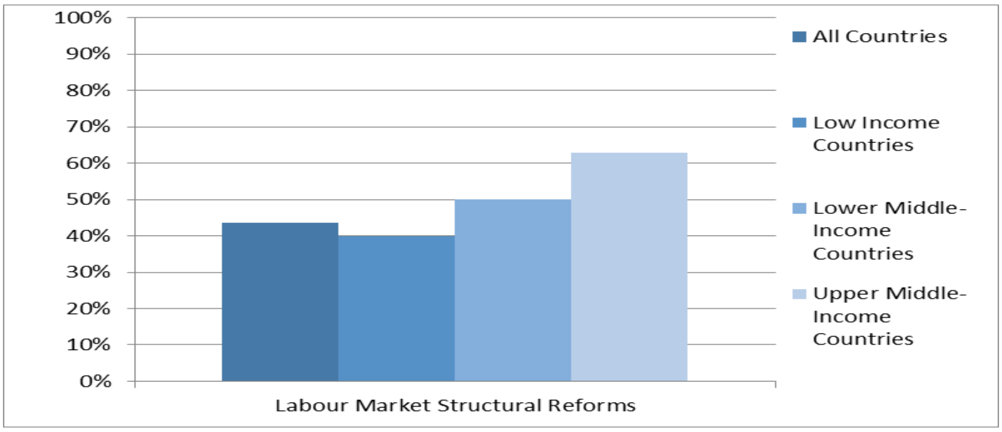
Overall, employment creation was explicitly recommended in 55/101 consultations, roughly equally in the three income categories examined. It was mentioned most often in the MENA Countries (100 per cent), South Asia (83.3 per cent) and Europe and Central Asia (72.2 per cent) reports. It was also mentioned in 66.7 per cent of both the fragile states and small island developing states reports. However, coherent policy recommendations to create employment require a detailed analysis of the linkages between wages and productivity, the informal economy and labour market institutions.

3.1.2.3 Labour market reforms

Productivity concerns underlie much of the discussion on wages and labour standards. The IMF is keen for wage increases to be linked to productivity gains to avoid inflationary pressure or segmenting labour markets – either between the formal and informal economies or between the unionized and non-unionized sectors. Reference to productivity issues occurred in 60/101 Article IV reports, with slightly more in the upper middle-income countries (74.4 per cent) than in the other income groups, possibly due to greater global competition among these countries and the high-income ones in the manufacturing and services sectors. Productivity emerged most prominently in those reports relating to Latin America and the Caribbean (88.2 per cent) and Sub-Saharan Africa (76.5 per cent). Discussion of productivity issues relates to other topics, such as wages (e.g. for Cabo Verde), skills levels and matching. The latter is the case for the Republic of Moldova where the IMF (2014) advocates "refocusing the education system to labor market needs would play an important role in raising productivity, job creation and reversing migration trends" (p. 15).

Wages are an important issue as they reflect employment in the formal economy. Wage employment is a necessary – albeit not sufficient – condition for workers to be brought into the formal economy and potentially benefit from occupational safety and health legislation, social protection and access to finance. Some 47/101 consultations discussed wage-related issues, mainly in the upper middle-income bracket (70.0 per cent), focusing on wage levels in the public sector. This is especially apparent in the MENA Region (88.9 per cent), East Asia and the Pacific (77.8 per cent) and small island developing states (71.4 per cent), where the state sector plays a large role in employment and services provision. Wages are discussed in a variety of contexts, including as a source of inflationary pressure (e.g. Brazil and Myanmar), their alignment with productivity (e.g. Cabo Verde) or in the context of fiscal consolidation (e.g. Serbia and Yemen). In the case of Lebanon, the IMF notes the downward pressure exerted by the refugee population on local wages, with "More than 60 percent of refugees work in the low-skilled sector (agriculture, personal services and construction), and are willing to accept much lower wages than Lebanese workers, putting downward pressure on wages and displacing Lebanese workers" (p. 7).

Figure 4. IMF discussion of labour market reforms across income groups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Labour market institutions comprise collective bargaining and minimum wages, which the IMF (2013a) tends to view as potential obstacles to labour market flexibility: "examples of institutions and policies that (…) affect macro-flexibility are minimum wages, tax wedges, and the structure of collective bargaining" (p. 17). While less important overall (cited in 44/101 consultations), labour market reforms figured in 62.8 per cent of upper middle-income countries (see Figure 4 above), as well as in all the MENA Region and in 58.8 per cent of the East Asia and the Pacific and Latin America and the Caribbean regions respectively. This may reflect the IMF's views about the limited impact of most labour market institutions in the developing country context:

> "Albeit tentative, the conclusions of empirical research suggest that formal labor market institutions in developing countries have modest impacts on aggregate employment, reducing income inequality for those that are covered by them but deepening labor market duality (Betcherman, 2013)" (IMF, 2013a, p. 20).

This stems from the large size of the informal sector and limited institutional capacity to implement active labour market policies (ALMPs). However, studies such as Alix et al. (2015) illustrate the potential of ALMPs such as public employment services (PES) in low-resource environments; Gazier (2015) cites the example of the public employment service in Cameroon using the social media to strengthen the job searching and matching process.

Table 3 below illustrates the linkages between these discussions and the resulting recommendation to increase the flexibility of the labour market in selected consultations – usually by reducing wage increases, increasing productivity or by making labour standards less rigorous.

Table 3. Linkages between productivity, wages, labour standards, the informal economy and labour market flexibility in selected reports

Country	Productivity	Wages	Labour standards	Informal economy	Increase labour market flexibility
Brazil	x	x			x
Cabo Verde	x	x	x	X	x
Democratic Republic of Congo					
The Gambia				x	
Guatemala	x			x	x
Haiti	x				
India					x
Lebanon		x	x	x	x
Madagascar		x			
Moldova, Republic of	x	x			
Myanmar	x	x			
Namibia	x	x			x
Nepal	x				x
Serbia		x	x		
Thailand	x				x
Yemen		x			

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Only in the case of Cabo Verde were productivity, wages, labour standards and the informal economy all mentioned as rationales for increasing labour market flexibility. Although the informal economy was only mentioned in 22/101 reports, it figured in 66.7 per cent of those relating to the MENA Region and 39.4 per cent of those relating to fragile states. This reflects the important role of the informal economy in the non-oil sector in the MENA Region and as one of the vulnerabilities contributing to state fragility. At times, the Article IV consultations discuss the informal economy as an obstacle to raising further revenues, as in the case of Madagascar: “Notwithstanding several reform efforts since the 1990s, tax revenues have fallen back to historically low levels because of a growing informal economy, weakening tax and customs administration, and increasing corruption” (p. 19).

Table 4 below gives an idea of the comments and recommendations for labour market reforms. High unit labour costs are concerns in Brazil, Lebanon and Zambia. In the case of India, increased labour market flexibility is linked to both employment-intensive sectors and women’s participation, while for Lebanon, concern about wage increases is offset by recommendations to invest in electricity provision and social protection.

Table 4. IMF reference to labour market reforms in selected countries

Country	IMF Reference to labour market reforms
Brazil	Persistently high unit labor costs continue to dampen competitiveness. (PIN)
Cabo Verde	Improving the performance of the labor market is particularly important to increase productivity, raise employment, and reduce inequality. (…) A new Labor Code—which is being finalized through broad-based consultation with stakeholders—should help reduce inflexibility with regards to working hours, disciplinary measures, and redundancy regulations (p. 19)
India	Recent steps by some states (for example, Rajasthan) to increase labor market flexibility are welcome and should be complemented by further reforms at the national level. Such reforms are key to increasing employment in the formal sector, broadening the manufacturing base, and harnessing India's demographic dividend. More flexible labor markets would boost female labor force participation, which has been falling in recent years. (p. 25)
Lebanon	[Staff] noted that Lebanon might have lost some competitiveness, and the pending wage increase could pose additional problems. Staff called for measures to lower the cost of doing business, improve services—in particular electricity provision—and promote jobs, while also strengthening social safety nets. (p. 23)
Nepal	Labor market reforms and improvements in the efficiency of markets through competition, e.g. in fuel distribution and goods and passenger transport, would support broader economic development. (p. 13)
Zambia	To foster job creation, inclusive growth, and economic diversification, Directors encouraged the authorities to improve the business climate by restraining labor costs and ensuring a stable regulatory environment. (PIN)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Expansion of the formal sector to reduce informal and vulnerable work was discussed as a policy recommendation in 8/101 reports, mainly in the Europe and Central Asia Region (23.5 per cent of reports) and MENA Region (22.2 per cent of reports). Perhaps due to lacklustre growth in these regions, the governments can rely less on the free market to create formal economy jobs and should undertake reforms to encourage formalization. In most cases, the IMF links this recommendation with broader labour market reforms; for instance, in the case of Lebanon, the Article IV report reads that "over time, modernizing labor market legislation and improving compliance with labor laws would limit the informal labor market" (p. 24). Active policies such as sectoral targeting do not seem to be countenanced within the sample of countries analysed in detail. However, the IMF may be relying on addressing the skills mismatch as a surer way to allow labour to move from low productivity, non-wage employment to higher productivity, formal wage employment.

3.1.2.4 Skills mismatch

If aligned with labour market needs, skills development and education raise the long-run productivity of the economy while also allowing for the development of new economic sectors. Although skills were discussed in only 38/101 consultations, the IMF recommended investing in education in 64/101 consultations, underlining the importance of skills in expanding formal employment and productivity gains, especially for growth in manufacturing, services and small and medium-sized (SME) enterprise. The skills mismatch was discussed in 57.9 per cent of lower middle-income country reports and 46.5 per cent of upper middle-income country ones. At the regional level, the skills mismatch was cited as a problem in 88.9 per cent of MENA reports, 70.6 per cent of European and Central Asian ones, as well as in 66.7 per cent of South Asian ones. A labour force with the appropriate skills level can work in higher value, higher productivity sectors, which can also contribute to reducing the size of the informal economy.

The examples in Table 6 below suggest that IMF references to skills development are linked to addressing the skills mismatch and improving labour productivity. In the case of Cabo Verde and Thailand, the reports refer to vocational training, while the consultation on

Lebanon deals with the challenges of integrating refugees into the workforce and the brain drain.

Table 6. IMF reference to skills development in selected reports

Country	IMF reference to skills
Cabo Verde	In addition to making labor regulations more employment-friendly, the authorities should explore providing more funding for vocational training and other skills enhancement. This would help address the skill mismatch, which has been found to be an important factor in explaining the decline in total factor productivity. (p. 20)
Guatemala	Higher social spending would not only help reduce poverty, but also build a skilled and productive labor force, thereby fostering competitiveness and sustaining growth. (p. 21)
Lebanon	The refugee crisis has added to these pressures, by increasing the labor force but also shifting the economy toward lower-productivity sectors as most refugees are lower-skilled (…). This de-skilling process could become even more pronounced if the refugee crisis continues. Improving economic prospects could help retain higher-skilled workers and move to higher-productivity sectors. (p. 24)
Moldova, Republic of	Refocusing the education system to labor market needs would play an important role in raising productivity, job creation and reversing migration trends. (p. 15)
Thailand	Putting greater emphasis on practical subjects and cognitive skills in schools, improving teacher standards, and aligning vocational training with labor market demand would prepare the workforce better for the challenges of the modern economy. (p. 16)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

3.1.2.5 Use of the template for analysing labour market indicators

In the sample of 101 reports reviewed for the period 2014-15, only two made use of Abdih et al.'s (2012) template for labour market analysis: Iran and Lebanon. A further three country reports (Armenia, Brazil and Costa Rica) made use of employment projections under different scenarios in the coming years, but without the employment-growth elasticities. Overall, this is a disappointing finding given the IMF's announcement to make extensive use of the template as a standardized tool to for a strengthened labour market analysis (IMF, 2013a).

Admittedly, one challenge is access to good data, especially in low-income and fragile states with limited resources for data collection and collation. Several of the Article IV consultation reports underscored the challenges in collecting and collating reliable data for many of the macroeconomic and development indicators (e.g. Guinea-Bissau), which may hamper the ability of IMF staff to make accurate and useful projections. However, this should not preclude the application of the template with a caveat that the projections are subject to greater uncertainty. Moreover, many lower and upper middle-income country reports did not include the template, despite discussion of labour market issues (e.g. India and Romania).

3.2. The IMF and inclusiveness[11]

3.2.1 Theoretical considerations

Social protection has long been recognized as a fundamental human right and its positive effects on the reduction of poverty and inequality are widely recognized. Four targets of the newly endorsed SDGs are devoted to the extension of social protection systems[12], moving it to the top of the international development agenda.

In addition to their immediate effect on the micro level, social policies can have a strong impact on meso and macro developments, notably though the stabilization of aggregate consumption and support of the structural transformation. The latter is of particular importance for developing countries. Many of today's Organisation of Economic Co-operation and Development (OECD) countries scaled up their social protection schemes in periods of accelerated growth, allowing them to smooth the transition of workers towards more productive sectors of their economies. The income security provided by social transfers is also likely to prevent workers from having to engage in informal employment (Behrendt, 2014). Pertinent schemes such as unemployment benefits have also proved to improve the quality of job matching, leading to more stable employment in the long term (Acemoglu, 2001; Ernst, 2015).

Social policies are therefore closely linked to the IMF's core mandate of guarding macroeconomic stability, as stressed by the Fund's former Managing Director Dominique Strauss-Kahn in 2011:

> Ultimately, employment and equity are building blocks of economic stability and prosperity, of political stability and peace. This goes to the heart of the IMF's mandate. It must be placed at the heart of the policy agenda.

The aim of this section is to determine to what extent the IMF fosters the expansion of social policies in its Member Countries through the Article IV surveillance. In particular, it looks at (i) whether the reports discuss the themes of poverty, inequality and social protection; (ii) to what extent they deal with these issues in an analytical manner; (iii) whether the findings feed into policy recommendations; and (iv) what the nature of these recommendations is.

First, we look for explicit mention of the Millennium Development Goals (MDGs) and the Social Protection Floor (SPF), and the willingness to advise mobilizing the domestic revenue necessary to meet the financing requirements implicit in the commitment to these two initiatives.

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[11] The term inclusiveness is used in this paper to cover the issues of social protection and the reduction of poverty and inequality.

[12] The targets read: 1.3: "Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable"; 3.8: "Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all"; 5.4: "Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate"; and 10.4: "Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality" (UN, 2015b).

An analysis of the reference to the SPF initiative serves the purpose of assessing whether the IMF has moved towards promoting universal social protection schemes. The traditional "social safety nets" approach pursued by the Bretton Woods institutions aims at providing needs-based and short-term relief to the poor in rough periods, rather than fighting chronic poverty at its roots (Social Protection Advisory Group, 2011). It argues against a universal approach to social protection as, in the face of budget constraints, governments in developing countries should minimize 'leakages' of social transfers to the non-poor and the near-poor (Islam et al., 2013). This approach is inadequate for coping with the socio-economic consequences of large-scale macroeconomic crises. The financial downturn of 2008-2009 demonstrated that countries with comprehensive social protection schemes are in a much better position to cushion the effects of economic contractions; not only do they work as automatic stabilizers during a crisis, but they also help to re-stimulate growth after its occurrence (ILO, 2014). Evidence suggests that in the absence of social protection schemes, the effect of the crisis on unemployment and poverty incidence would have been much worse (Ortiz and Cummins, 2013).

The recognition of the benefits of adequate social protection for everyone is the basis of the SPF initiative, promoting nationally defined packages of essential social security guarantees over the life cycle. While the ILO and the World Health Organization (WHO) are the leading agencies, the IMF is an official coalition partner. The initiative seeks to guarantee basic income security and access to social services for all, while paying particular attention to the most vulnerable groups of society. While the authors acknowledge that the IMF's conception of social protection traditionally differs significantly from the one the ILO pursues[13], the content of the Article IV reports was examined with respect to the IMF's duties as a cooperating partner in the SPF alliance. The Fund reaffirmed its commitment to extending social protection coverage in the *Jobs and Growth* report, promoting "a robust social protection scheme (such as designed under the Social Protection Floor initiative)" (IMF, 2013a, p. 21).

This section also pays attention to the general discourse and analytical quality of the Fund's work on inclusiveness, and the extent to which domestic resource mobilization is promoted. It seeks to clarify the extent to which the Article IV consultations consider poverty reduction a by-product of growth, instead of promoting determined public action[14].

The discourse on pensions and health care is mainly analysed in the context of coverage extension versus fiscal consolidation. The Bretton Woods institutions have traditionally promoted a pension regime that relies to a great extent on occupational and private schemes to ease the burden on the public budget (Baldock et al., 2012). After the shortcomings of this approach became evident in the aftermath of the stock market collapse, some change had been visible in the World Bank's privatizing approach to old-age pensions. Weisbrot and Jorgensen (2013), however, found IMF advice on pensions as well as on health care to one-dimensionally focus on limiting public spending.

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[13] For a more detailed overview of the social safety net approach followed by the Bretton Woods institutions as compared to the ILO's Social Protection Floor initiative, see e.g. Deacon, 2013.

[14] Evidence suggests that, while economic growth is a strong determinant for poverty reduction, its "pro-poor" potential is best used if combined with re-distributional efforts (Klasen, 2003). Berg and Ostry (2011) find that a more equal income distribution can help prolonging a growth spell, suggesting policymakers to pursue redistributive policies not only for the sake of reducing inequality but to also for fostering sustainable growth.

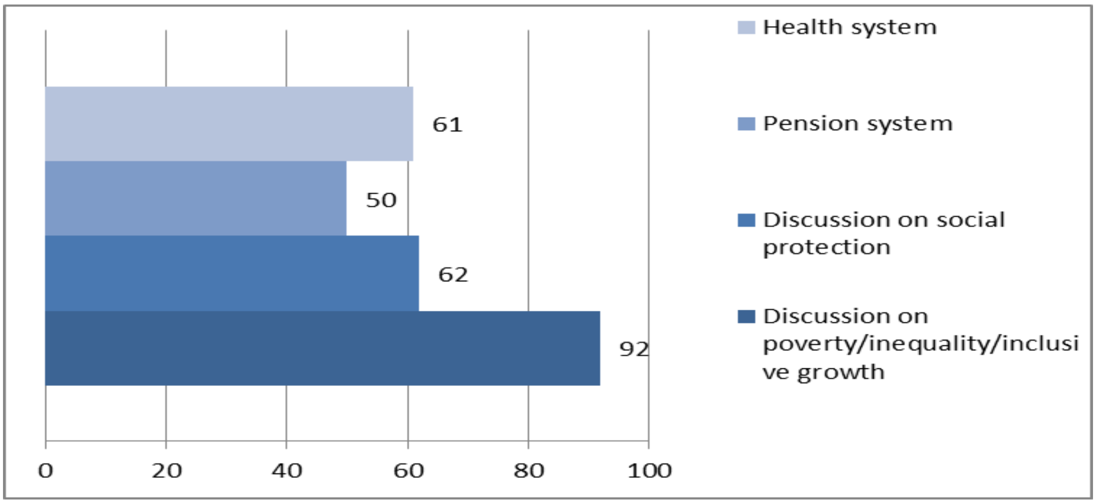
3.2.2 Findings

3.2.2.1 Discussion and analysis: General trends

Frequency Analysis

Figure 5 shows the frequency distribution of variables related to social protection for the 101 countries analysed. Most staff reports (92 out of 101) provide some description of inequality, inclusiveness, and poverty. A slim majority (62) discusses trends in social protection; 50 cases include reference to pensions and 61 cases to health care. These results are roughly consistent with the findings of both Islam et al. (2013) and the IMF's own Article IV content analysis (2013a); hence they do not suggest a clear trend towards higher or lower coverage of these themes.

Figure 5. IMF discussion of social protection policy and recommendations

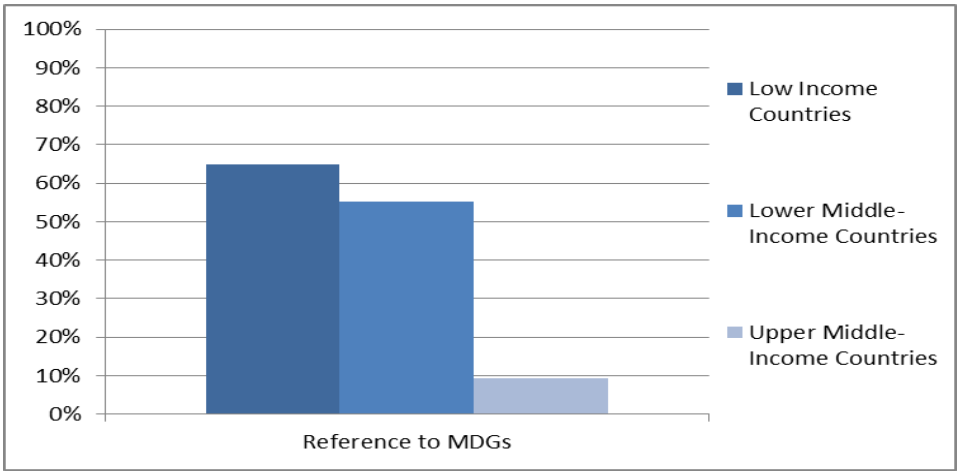


Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Specific reference to the SPF was not found in any of the consultations. This is a discouraging result, considering that Islam et al. (2013) found at least one Article IV consultation promoted the SPF in 2009-2010. The MDGs are mentioned in 41 of the 101 country reports analysed, either in the main text or in the statistics section[15]. Hence, compared to the findings of Islam et al. in 2013, where 6 out of 50 reports explicitly mentioned the MDGs, we can observe a positive trend. Not surprisingly, mention of the MDGs is more pronounced in low-income countries (LICs) and lower middle-income countries (LMICs) (Figure 6). The regional decomposition of the results also suggests that the IMF refers to the MDGs predominantly for the consultations with countries in South Asia, Sub-Saharan Africa and East Asia and the Pacific (Figure 7), where most LICs can be found.

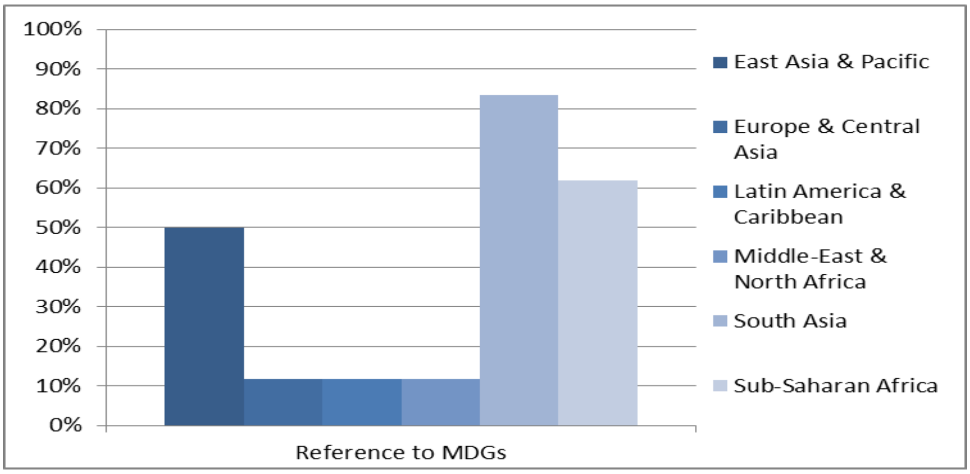
[15] Explicit reference to MDG 1b was not made in the text, whereas the tables in the annex usually provide statistics on the employment-to-population ratio.

Figure 6. IMF discussion of the MDGs across income groups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Figure 7. IMF discussion of the MDGs across regions



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Analytical quality

A review of indicators for analytical depth of the 12 in-depth sample country reports (Table 7) reveals that, while the IMF widely refers to the government-issued documents (e.g. poverty reduction strategy papers), in-depth analytical elements – such as providing own estimates on poverty or inequality statistics and projections or dealing with inclusiveness in the form of Selected Issues papers – are rare. Important aspects like the poverty-employment link and analysing the determinants of previous poverty reduction are also not adequately represented.

Table 7. Depth of poverty/inequality analysis in selected reports

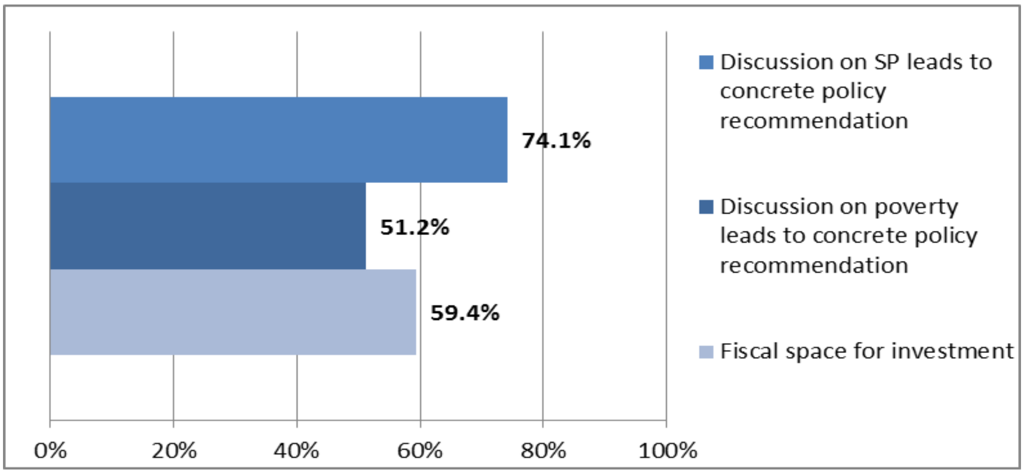
Country	Discussion	Progress on MDGs	Figures in main text	Use of own estimates for statistics	Determinants of previous poverty reduction	Reference to authorities' views	Link to employment	Selected Issues Paper
Brazil	x		x	x	x			
Cabo Verde	x	x				x	x	
Democratic Republic of Congo	x	x				x	x	
Guatemala	x	x	x	x			x	
Haiti	x	x				x		
India	x	x						x
Lebanon	x		x		x	x	x	
Madagascar	x	x	x			x	x	x
Moldova, Republic of	x					x		
Myanmar	x	x				x	x	
Nepal	x	x	x		x	x		
Serbia								
Thailand	x					x		
Yemen	x	x				x	x	

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

3.2.2.2 Policy Recommendations

Figure 8 shows the share of cases in which a general reference to poverty or social protection in the discussion part was actually reflected in pertinent policy recommendations. The content analysis suggests that, in three quarters of the cases (74.1 per cent), a discussion on social protection led to concrete policy advice, whereas in only half (51.2 per cent) of the cases where poverty and/or inequality were discussed, this was translated into direct policy recommendations[16]. In 62.8 per cent of the reports that discuss poverty and/or inequality, the IMF suggested creating or safeguarding fiscal space for social spending.

Figure 8. IMF policy recommendations on social protection



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

[16] The interrelatedness of poverty reduction and social protection measures implies that, in a part of these cases, reference to poverty or inequality was absorbed by policy advice on social protection.

While the IMF generally mentions the need to “improve” social protection, it seems that the advice given rarely suggests an actual extension of social security schemes. In many cases it de facto advocated the opposite by proposing a narrower targeting regime. While half of the 12 reports that were analysed in detail gave recommendations on social benefits, 4 out of 6 advised limiting the scope of coverage to “the most needy”. While in some cases it might be useful to give priority to the poorest parts of the population, the IMF seems not to take into account that most of these countries have limited capacity to implement effective targeting schemes. Furthermore, social policies should not be limited to tackling extreme poverty. The need to build political support for progressive social policies requires a broader conceptualization of poverty that focus not just on the currently poor, but also the near-poor and the interests of the burgeoning middle class in developing countries who often lack economic security (Islam et al., 2013). The narrow targeting proposed by the IMF (see Table 8 for examples) would exclude the near-poor, who could be pushed below the poverty line (compare with Ortiz et al., 2015).

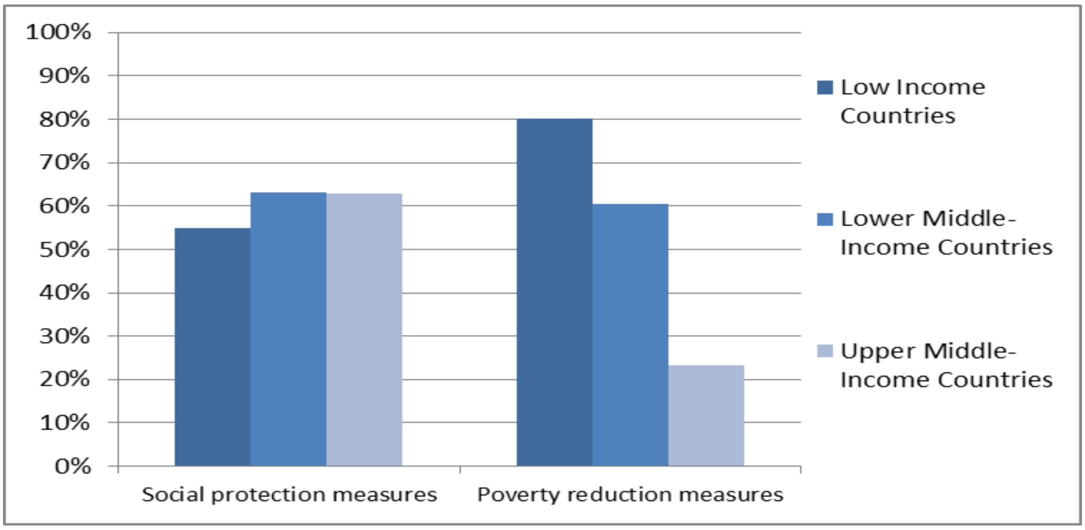
Table 8. IMF reference to social protection targeting in selected reports

Country	IMF reference to social protection targeting
Guatemala	Staff urged the authorities to develop a *more targeted and sustainable* social safety net. *Eliminating blanket subsidies* and reorienting them to poverty-reducing outlays (such as education and health) will build social cohesion and improve human capital. (p. 11)
Lebanon	Social services and safety net reform: Social services and the social safety net are weak. The following reforms would help: (iv) social safety nets: improving targeting to the most needy. (p. 6)
Madagascar	It will be important to scale up and target fiscal spending in favor of the most vulnerable. (p. 6)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Policy recommendations on social protection were roughly evenly distributed among the income groups, with a slight tendency towards higher income groups. In contrast, policy advice on poverty reduction efforts is clearly more prominent in LICs. These trends suggest that, for low-income economies, the IMF focuses on poverty reduction measures other than social protection, such as structural reforms, investment in infrastructure and education, along with general measures to accelerate economic growth.

Figure 9. IMF social protection and poverty reduction policy recommendations across income groups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

This impression is backed by the results of the in-depth analysis of the 12 sample countries (Table 9). When promoting increased social spending, the IMF seems to have a preference for investment in infrastructure. Although in some cases, poverty reduction is presented as a by-product of growth, most Article IV reports suggest that the IMF has acknowledged that increased social spending is a necessary component of poverty reduction.

Table 9. Nature of poverty discussion in selected reports

Country	IMF policy advice on poverty reduction
Brazil	Poverty, inequality, and unemployment have been on a declining trend for more than a decade, thanks in part to effective social policies, but further progress will depend crucially on strong and sustained economic growth. (p. 6)
Democratic Republic of the Congo	Promoting inclusive growth is imperative given the persistently high poverty rate. (…) Staff thus recommended to the authorities to increase social spending and investment in labor intensive sectors such as agriculture (…). (p. 10)
Moldova, Republic of	The NDS—Moldova 2020, which was published in November 2012, focuses on several critical areas to boost economic development and reduce poverty. These include education, infrastructure, financial sector, business climate, energy consumption, pension system, and judicial framework. (p. 4)
Nepal	Further expenditures on health and education could help reduce the human effects of poverty and improve the productivity of the workforce. (p. 13)
Haiti	Sustained growth is essential for poverty reduction and social cohesion. Given the tapering of aid, staff argued that the impetus to growth needs to come from structural reforms and institutional strengthening. (p. 8)
India	Expediting structural reforms is the only feasible option to boost both actual and potential growth, create jobs to absorb India's rapidly-growing labor force, and reduce poverty. (p. 8)
Lebanon	Higher social spending, including through the National Poverty Targeting Program, would help reduce poverty and address social needs. (p. 16)
Myanmar	Investments in infrastructure, boosting access to finance, and agricultural reform are critical to spread economic opportunities. The latter is particularly important for the reduction of poverty in rural areas. (p. 10)

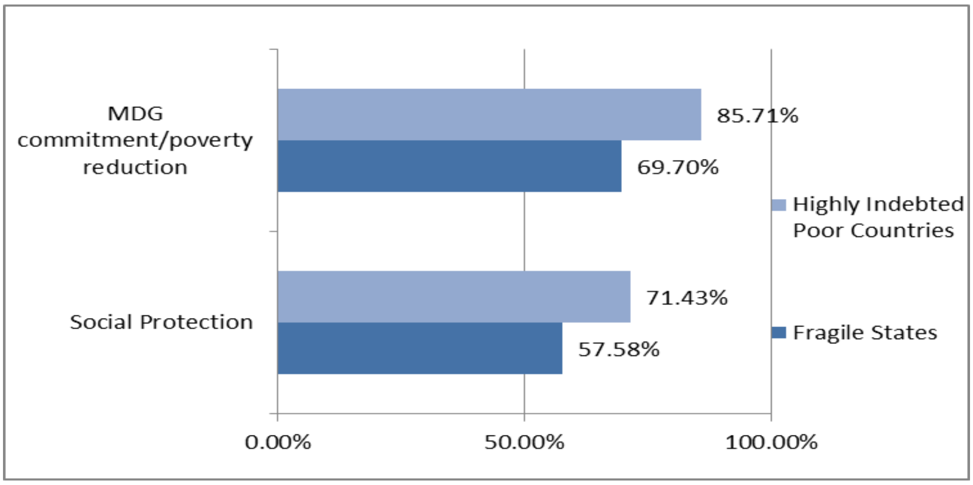
Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

3.2.2.3 Fragile states and HIPCs

For both fragile states and the Highly-Indebted Poor Countries (HIPC), the IMF has stressed the importance of investments in poverty reduction and social protection. In terms of the HIPC, the IMF suggests that "for debt reduction to have a tangible impact on poverty, the additional money needs to be spent on programs that benefit the poor" (IMF, 2015d). In fragile states, "explicit attention to inclusive growth, job creation, and basic social safety nets would likely be a central component of the country's and international community's medium-term strategy" (IMF, 2012, p. 8). The observed coverage of poverty reduction measures and social protection strengthening in the policy recommendations given to the HIPC is expectedly higher than the sample average (85.7 per cent as compared to 46.9 per cent for poverty reduction; 71.0 per cent as compared to 61.2 per cent for strengthening social protection). Regarding fragile states, however, the coverage of social protection issues in the policy recommendations is surprisingly low, with 57.6 per cent for strengthening social protection. In the cases of Belarus, Burundi, Comoros, Kiribati, Kosovo[17], Timor-Leste and Tuvalu, social protection is not mentioned in the policy recommendations at all.

[17] As defined in United Nations Security Council Resolution No. 1244 of 1999.

Figure 10. IMF social protection policy recommendations across regions

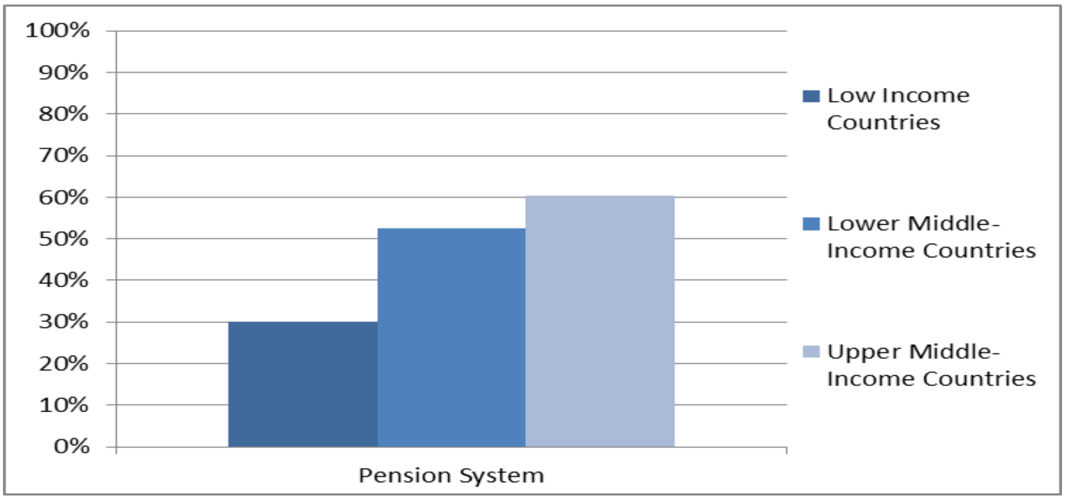


Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

3.2.2.4 Pensions

Reference to the pension system is higher in the Article IV reports for middle-income economies than in those for low-income economies (Figure 11). This is an expected outcome as higher income groups tend to have higher old-age dependency ratios due to the positive correlation between GDP and life expectancy (OECD, 2014). Reference to pensions is the highest in Latin America and the Caribbean, where most countries are characterized by costly and unequal pension schemes (World Bank, 2012).

Figure 11. IMF discussion of pensions policy across income groups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

The discussion on pensions usually focuses on fiscal consolidation rather than coverage increases. Half of the 12 reports that were analysed in more depth discussed the sample countries' pension system, and only in the cases of Brazil and India did the discussion not centre on fiscal consolidation. While the Bretton Woods institutions traditionally favour privatized pension schemes, the IMF advised the Indian government to "enact legislation formalizing the New Pension Scheme and the Pension Fund Regulatory and Development Authority" (p. 27). In the case of Brazil, the minimum old-age pension is linked to increases in the reservation wage, which is presumed to hinder labour force participation. For the remaining reports of the sample the tone of policy advice on pensions is such that it seeks to lower the cost of the schemes – for example by raising the statutory pensionable age so that people have to work longer to receive full benefits, or lowering the benefit replacement rates. Table 10 provides insights into the general tone of the discussion on pensions in the sample reports:

Table 10. IMF reference to pensions in selected reports

Country	IMF reference to pensions
Lebanon	(Public sector) Salary increases will directly and permanently impact pensions. Pensions are adjusted in line with salary increases granted to those in active duty, and not just to reflect cost of living adjustments, as standard practice in many countries. In addition, pension benefits are also granted to surviving spouses and unmarried, divorced or widowed daughters of retirees, if unemployed—thus significantly extending the period over which pension benefits are drawn. (p. 9)
Moldova, Republic of	Reform of the social security system is needed to put its finances on a sustainable path, deal with demographic pressures, and reverse the decline in the replacement rate. Staff recommended adjusting past earning to halt the drop of the replacement rate, increasing retirement age, increasing contributions from self-employed and farmers, and refraining from ad-hoc pension increases. (p. 12)
Serbia	The authorities recognized that curbing the sizeable spending on public wages and pensions is critical for a durable fiscal adjustment. Thus, the program envisages a reduction of the wage and pension bills to more sustainable levels of 7 and 11 percent of GDP, respectively. (p. 14)
Thailand	As elsewhere, aging will lead to higher health care spending, particularly in the public sector given Thailand's universal coverage. (…) As a result, the public sector may have to step in with additional support. At the same time, the existing formal sector social security scheme may not be sustainable, given low contribution rates and low retirement age. (p. 58)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

3.2.2.5 Health Care

The health care system is discussed more often in LICs and LMICs, where the need for increasing health care coverage is generally higher than in upper middle-income countries (UMIC). This is also reflected in the regional decomposition, which shows that health care is predominantly mentioned in East Asia and the Pacific, and Sub-Saharan Africa.

In contrast to the proposed pension policies, the IMF's advice on health care tends to focus more on coverage extension than on fiscal consolidation. For instance, in the case of the Democratic Republic of the Congo the IMF recognizes a "trade-off between current macroeconomic stability and future growth" (p. 9) and promotes the creation of fiscal space for spending on health and education.

4. Macroeconomic policy advice in the Article IV consultations

The purpose of this chapter is twofold: firstly, to check whether the social goals discussed in the previous chapter, notably employment creation and poverty and inequality reduction, are reflected in the macroeconomic framework proposed by the sample of Article IV consultations. Secondly, to examine whether the fiscal and monetary policy advice given appears to be balanced and tailored according to country preferences.

4.1 Combining growth with employment and equality

4.1.1 Rationale

For reasons already discussed in Section 3, the scope of responsibilities of the IMF has changed drastically in the last decades. "Megatrends", notably the post 2007 global recession and demographic changes, have led to rising unemployment globally, hitting women and youth the hardest. Technological innovation and globalization, while having a great positive impact on growth and poverty reduction, have led to a rise in within-country inequality in many countries (IMF, 2013a). While the adverse effects of both high unemployment and income inequality on economic growth and macroeconomic stability are well known, not enough has been done to connect the conventional macroeconomic framework to the agenda of structural transformation that is at the core of developing country concerns today. In recent years, the IMF seems to have undertaken to explore ways to combine employment and equality objectives with its traditional mandate of safeguarding the macroeconomic stability of its member states. For instance, the *Growth and Jobs* report (2013a) suggests fiscal policies that can help to foster job creation and decrease inequality. For developing countries, the IMF proposes to enhance redistribution by broadening the tax base through reduced tax exemptions and improved compliance mechanisms, and to raise public spending progressivity through eliminating energy subsidies and better targeting education and health spending. In terms of pensions, the IMF suggests "putting pension systems (which highly favour upper-income groups in developing economies) on sound financial footing, while expanding coverage of minimum 'social pensions' to a larger share of the population" (IMF, 2013a, p. 25). In the same document, the Fund discusses the possibility of trade-off effects between growth, employment and equality objectives:

> It is therefore important that staff assess the impact of fiscal policies on all *three target variables (growth, employment, and, where relevant, income distribution)* [authors' emphasis], and recommend policies that promote the overall best outcome, taking into account sustainability requirements and country preferences. In many cases, it will be possible to offset undesired outcomes by designing appropriate structures of taxation and spending. For example, the impact of a high uniform value added tax on the purchasing power of lower-income groups can be offset through targeted transfers (provided there is sufficient administrative capacity for targeted transfers) (IMF, 2013a, p. 18).

This section is devoted to clarifying whether the latest Article IV consultation reports reflect this new course of action in terms of the fiscal policy advice given. The sample is examined in terms of the use of the concrete fiscal policy measures proposed by the IMF (2013a) in the *Jobs and Growth* report. The section then focuses on the structure of spending and taxation proposed besides these measures. Particular attention is paid to the prescription of regressive taxes, notably an increase of the value added tax (VAT), and whether the IMF indeed advises offsetting measures like the increase of social transfers in these cases.

4.1.2 Findings

4.1.2.1 The use of employment-fostering and "pro-poor" fiscal policies

Of the tax policy measures suggested in the *Jobs and Growth* report (IMF, 2013a), advice to reduce tax exemptions and improve tax efficiency was given in most of the sample reports. Suggestions to lower business taxes and reduce the labour tax wedge, in contrast, were not made in any of the documents (Table 11 below).

Table 11. Tax policy measures in selected reports

Country	Reduce tax exemptions	Improve tax administration/fight tax evasion	Lower business taxes	Reduce labour tax wedge (targeted at women, low-skilled workers)
Brazil	x			
Cabo Verde	x	x		
Haiti	x	x		
India		x		
Lebanon	x	x		
Madagascar	x	x		
Moldova, Republic of		x		
Myanmar	x	x		
Nepal	x			
Serbia		x		
Thailand	x	x		
Yemen		x		

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

With respect to the expenditure policies proposed (Table 12), measures that entail reducing or reallocating spending – notably reducing energy subsidies, reallocating spending towards education, health and infrastructure, and narrower targeting of social protection – are more prominent than measures that involve increasing public spending. Child subsidies, social pension schemes and active labour market policies are only proposed in one case respectively, and hiring and wage subsidies are not mentioned in any of the reports.

Table 12. Expenditure policy measures in selected reports

Country	Reduce untarget-ed energy subsidies	Reallocate spending toward education, health and/or infrastructure	Hiring and wage subsidies	Public works pro-grammes	ALMPs	Increase child-care subsidies	Narrow social protection schemes [18]	Social pension scheme	Targeted cash transfers
Brazil	x	x					x		
Cabo Verde									
Haiti	x	x							
India	x	x							x
Lebanon		x		x			x		
Madagascar	x	x		x		x	x		x
Moldova, Republic of		x							
Myanmar		x					x		
Nepal		x					x		x
Serbia		x		x	x		x		
Thailand		x						x	x
Yemen	x	x		x			x		x

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

4.1.2.2 Progressive versus regressive fiscal policy measures

Table 13 gives an impression of the type of fiscal policy advice given in the 12 sample countries. Raising or implementing a VAT appears to be the standard recommendation whenever a country's VAT rate is low in regional comparison. Half of the sample countries were advised to either implement a VAT or increase it. While goods and services taxes are regressive, they are an important income source, especially in countries where revenue collection through more progressive taxes like payroll taxes is difficult due to high informality rates. It is, however, important to acknowledge the adverse effects of regressive taxation on the poorer parts of the population and to put in place compensating measures. The IMF itself has stressed the need to counterbalance VATs with key social spending (IMF, 2011b). With respect to the 12 sample countries, a proposed VAT increase was usually accompanied by the suggestion to increase social or infrastructure spending of some kind.

Strikingly, other, more progressive types of taxes such as inheritance taxes were merely proposed in one out of 12 cases (Thailand). In two cases, Brazil and Haiti, the IMF suggested to raise fuel taxes, which tend to be a heavier burden for the poor and have adverse effects on their mobility. In the case of Brazil, the regressive tone of fiscal policy advice is further backed by suggesting "reduced benefits and tighter eligibility criteria for survivor pensions, unemployment and sickness benefits, and salary bonuses for private employees with low earnings" (p. 14), a downward revision of the minimum wage and a corresponding cut in pension benefits.

[18] The IMF specifically suggests: to tighten eligibility criteria and job search requirements for social benefits; to reduce the duration and level of social benefits when too high; to increase effective retirement age; and to strengthen rules for disability pensions when too high (IMF, 2013a, p. 24).

The sample also records a high occurrence of advice on reducing energy subsidies (5 out of 12 cases). The commitment to energy subsidy reforms has become a key pillar of the IMF's environmental work, which has potential progressive implications for its fiscal policy advice. Recent IMF research suggests a causal relationship between energy subsidies and public social spending:

> "(…) we find that public spending in education and health were on average 0.6 percentage point of GDP lower in countries where energy subsidies were 1 percentage point of GDP higher. Moreover, the crowding-out is stronger when fiscal space is narrow, rising to about 0.8 when the debt-to-GDP ratio reaches 70 per cent, and among the net oil importers." (Ebeke and Lonkeng Ngouana, 2015, p. 23).

Coady et al. (2015) projected energy subsidies would reach USD 5.3 trillion this year, which is more than the global average on public health expenditure. Reforms in energy subsidies could therefore have far-reaching progressive distributional effects – if the IMF helps promote the use of the potential expenditure savings for social spending.

Table 13. Progressive vs. regressive fiscal policy advice in selected reports

Progressive fiscal policies	Regressive fiscal policies
Reducing energy subsidies: Brazil, Haiti, India, Madagascar, Yemen	**VAT increase/implementation:** Guatemala, Haiti, India, Lebanon, Myanmar, Thailand
Introduce an inheritance tax: Thailand	**Raise fuel taxes:** Brazil, Haiti

Source: IMF Article IV consultations and equivalent reports (January 2014-October 2015)

4.2 Tailoring macroeconomic policy advice to country circumstances

4.2.1 Rationale

The IMF's core mandate of safeguarding macroeconomic stability involves giving countries detailed advice about their fiscal and monetary policies that is suitable to their particular economic and developmental circumstances. In their 2013 review, Islam et al. criticized the Fund for adopting a "one size fits all" approach reflecting the dominant economic orthodoxy at the time in their Article IV surveillance reports, rather than tailoring the recommendations to suit the specific national situations.

Traditionally, the IMF argued that fiscal and monetary policy should provide for a stable macroeconomic environment – indirectly contributing to growth, employment creation and development objectives by creating an enabling environment for the private sector. This meant counselling for fiscal prudence, avoidance of large public debts, and single-digit inflation targets in order to ensure monetary stability. This can be seen as part of the wider doubts about the sustainability of deficit spending (see e.g. Barro, 1989; Wigger, 2009) and the emerging consensus about inflation targeting frameworks in developed countries (see e.g. Mishkin, 2011).

However, the challenges facing developing countries in particular are different from those of developed countries, as they require specific macroeconomic policy advice adapted to their levels of economic and human development, let alone to their size, demographic and economic structures. For instance, Chowdhury and Islam (2012) note that an excessive focus on fiscal consolidation through instruments such as fiscal rules risks sideling key public investment and social protection spending. Recent IMF literature has acknowledged that fiscal austerity is likely to raise inequality (Woo et al. 2013), and to have adverse effects on short- and long-term unemployment, private demand and GDP growth, with wage earners hit harder than profit- and rent-earners (Ball et al., 2011; Guajardo et al., 2011). IMF studies such as Berg et al. (2012) and Takizawa et al. (2004) also note the value of productively investing natural resource bonanzas in education, health and infrastructure to expand the country's productive potential, rather than place the funds aside. Consequently, the IMF itself has advocated that priority public spending be exempted from fiscal rules (see, e.g.. Schächter et al., 2012).

With regard to monetary policy, Anwar and Islam (2011) criticize single-digit inflation targets for neglecting "threshold" effects in the growth-inflation trade-off – "setting too low an inflation target can impose opportunity costs in terms of foregone growth and employment creation" (p. 2). In the case of the Republic of Korea, Kim and Lee (2011) note that the upper limit on inflation in the 1970s was probably around 20 per cent – which was also the period of economic take off for the country (p. 9).

Furthermore, the monetary transmission mechanism in many developing countries is underdeveloped, which would justify a more interventionist approach from their monetary authorities (see e.g. Mishra and Montiel, 2012; Montiel, 2015) and consequently variegated advice for the different countries in their Article IV reports.

Anwar and Islam (2011) also note the technical challenges faced by developing country monetary authorities in rigidly targeting single-digit inflation targets, such as the risk of imported inflation through oil or food prices, as well as the technical and data requirements to accurately model prices for a Taylor Rule-style inflation targeting framework. While such a framework might be both suitable and feasible for upper middle-income countries such as Colombia, they pose challenges for lower income countries.

The IMF itself recognizes that "there is no single 'silver bullet' strategy for any country nor any 'one size fits all' approach for all countries" (2013a, p. 1). Macroeconomic policy advice must be tailored to country-specific circumstances. This section examines the Article IV reports to determine whether there is a predilection for orthodox recommendations such as fiscal consolidation, uniform numerical and low, single-digit inflation targets, or whether there have been changes towards a more nuanced approach.

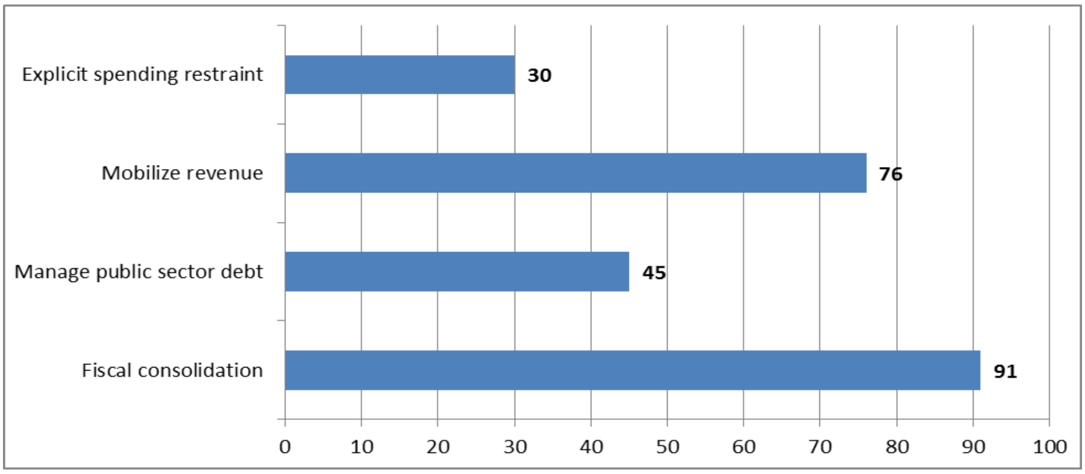
4.2.2 Findings

4.2.2.1 Fiscal consolidation

As shown in Figure 12, the issue of fiscal consolidation is paramount in the IMF Article IV consultations analysed. In a large majority of the reports (91 out of 101), the IMF encourages countries to engage in fiscal discipline. Among those, most documents propose a combination of measures to achieve the recommended fiscal stance, with revenue mobilization (76) being the predominant policy advice, followed by the containment of public sector debt (45). Relatively few consultations called for explicit spending restraints (30). Hence, compared to the findings of Islam et al. (2013) – where at least half of the sample reports recommended curbing public expenses – we can observe a trend in IMF policy advice towards mobilizing additional revenue when promoting fiscal austerity.

Table D.1 in the Appendix illustrates some of the IMF policy recommendations for fiscal consolidation in selected reports.

Figure 12. IMF fiscal policy recommendations



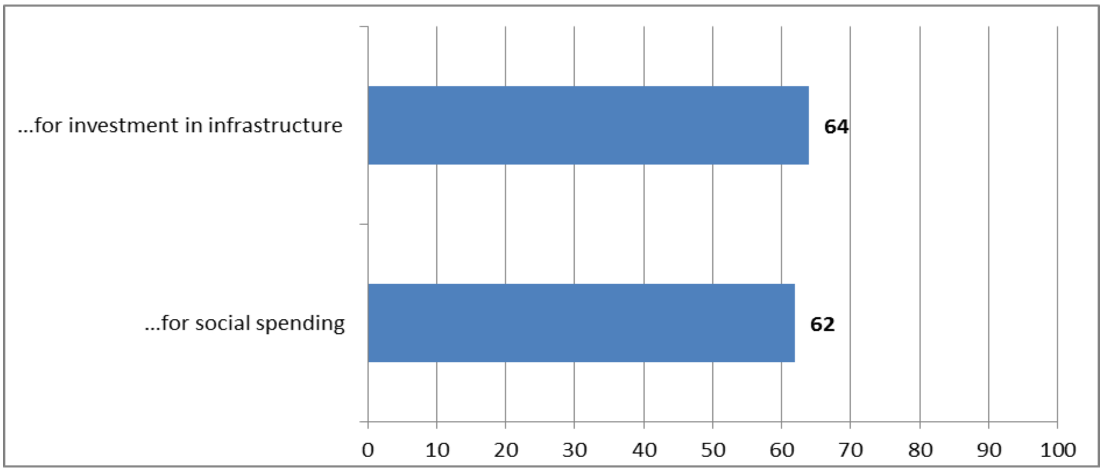
Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

These findings are in line with the IMF's global policy course as expressed in recent publications. After the Fund had called for fiscal stimuli as an immediate response to the great recession between 2008 and 2010, this line of action was reversed after 2010 (ILO, 2014), when IMF papers promoted major austerity measures "when the recovery is securely underway" and structural public finance reforms "even in countries where the recovery is not yet securely underway" (IMF, 2010, p. 3; see also, e.g., Ortiz el al., 2015). While one could argue that this reflects the IMF's return to its pre-crisis stance, the findings also indicate a positive turn to some extent. The trend away from spending cuts and towards mobilizing revenue reflects the findings of an IMF working paper by Woo et al. (2013), which noted that the adverse effects of austerity policies on inequality and unemployment are much stronger if based on the expenditure restraints. The paper further suggested that "progressive taxation and targeted social benefits and subsidies introduced in the context of a broader reduction in spending can help offset some of the adverse distributional impact of consolidation" (p. 3).

Figure 13 shows that the recommendation for fiscal consolidation was often justified by the need to invest in infrastructure and social spending. Indeed, in its (2013a) review of its surveillance reports, the IMF had concluded that "while the majority of reports examined discuss the likely effect of fiscal consolidation on social spending, only few propose options for mitigating the resulting impacts on the poor" (p. 35). Infrastructure and social spending both contribute to helping the poor through immediate relief and job creation, but also by expanding the productive frontier through improved human capital (education and health) and improved physical capital (communications, transportation and housing).

Notwithstanding these benefits, the IMF often merely suggested safeguarding current levels of spending, rather than proposing an actual increase in spending in this area (see Table 14).

Figure 13. IMF rationale for creating fiscal space



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Table 14. IMF advice on protecting social spending in selected reports

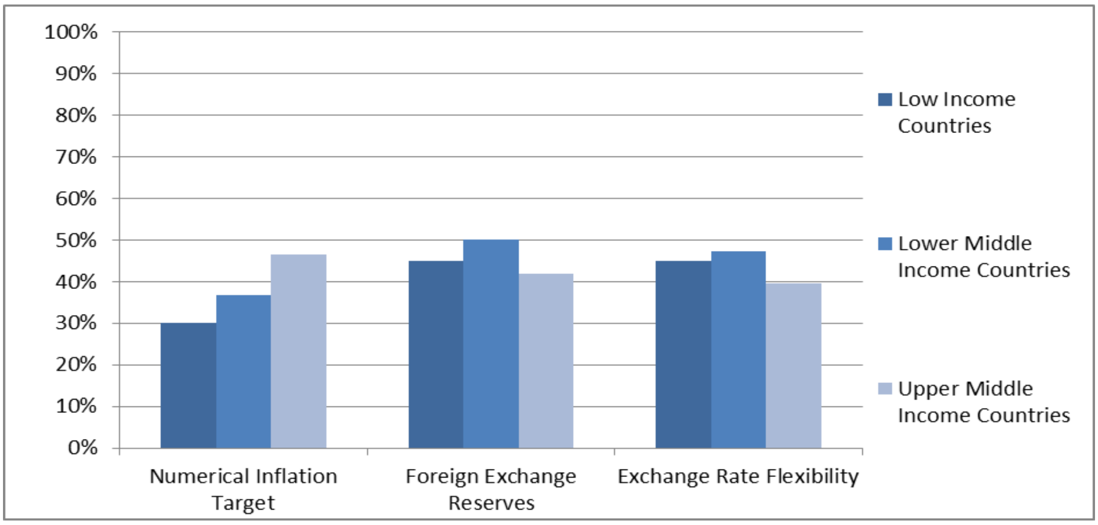
Country	IMF advice on safeguarding social spending
Armenia	With lower growth, available financing, and few risks to inflation or sustainability, staff sees merit in a higher deficit in the 2015 budget, with increased spending going to capital outlays. (PIN)
Belize	Spending on infrastructure, public safety, and flagship social programs should be protected. (PIN)
Colombia	They highlighted the importance of mobilizing non-oil revenues to meet the authorities' medium term fiscal targets while protecting social and infrastructure spending. (PIN)
Democratic Republic of Congo	The authorities are encouraged to build on the hard gained macroeconomic stability and vigorously mobilize domestic revenues to boost social and infrastructure spending. Such an increase in spending is required to turn the current stability into sustainable improvement in social indicators and poverty reduction. (p. 13)
Samoa	They encouraged the authorities to restrain current expenditure and to sustain recent improvements in revenue administration, with care taken to safeguard priority health, social, and investment spending. (PIN)
Zimbabwe	Directors encouraged the authorities to fully implement their revised fiscal plan for 2014 and be ready to take additional actions if needed, while protecting priority infrastructure and social spending. (PIN)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

4.2.2.2 Monetary policy advice: Overview

Of the 101 IMF Article IV surveillance reports surveyed, 43 supported the adoption or maintaining of a single-digit numerical inflation target. Of these, roughly one third stated an explicit numerical target in the range of 3-8 per cent. Conversely, 45 reports advocated moving towards or preserving a flexible exchange rate, while 48 reports recommended increasing foreign exchange reserves. In several cases (e.g. Samoa), the IMF recommended maintaining a fixed exchange rate to reduce exposure to external volatility. Collectively, the results suggest that the IMF is moving from the "one size fits all" approach criticized earlier by Islam et al. (2013) and moving towards more nuanced recommendations. Figure 14 below illustrates the breakdown of monetary policy recommendations by income group:

Figure 14. IMF monetary policy discussion topics across income groups



Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

4.2.2.3 Uniform numerical inflation targets

The IMF recommended single-digit inflation targets in 46.5 per cent of the reports relating to upper middle-income countries and 36.8 per cent of those relating to lower middle-income countries, compared to 30.0 per cent of those concerning low-income countries. This suggests continued support for an orthodox inflation-targeting monetary policy framework, albeit more nuanced by income level. Indeed, the (IMF, 2013a) *Jobs for Growth* report states: "Macroeconomic stability remains critical, with the understanding and acceptance that inflation is a regressive tax and disproportionately hurts the poor" (p.29). At the regional level, the recommendation to adopt a single-digit inflation target is most pronounced among the reports for Europe and Central Asia, and Latin America and the Caribbean (52.9 per cent of reports in both regions respectively). This is logical insofar that these countries tend to be more developed and have the resources and expertise to shift towards an inflation-targeting framework. Moreover, dollarization and euroization is present in many countries in the Caucasus and Central Asia, as well as some in the Americas; moving towards an inflation-targeting regime is recommended as a measure to increase trust in the local currency and "de-dollarize" (Ben Naceur et al., 2015).

Moreover, as Montiel (2015) argues, the monetary policy transmission mechanism in lower income countries is weak, compromising the ability of the central banks to accurately forecast and target inflation in many cases. As a result, Montiel recommends a "flexible" inflation target – perhaps even by anchoring the exchange rate – to control inflation. This would require adequate foreign exchange rate reserves to serve as buffers in case of shocks. At the different income levels, the IMF recommendation to move towards a more flexible exchange rate predominates in the lower middle-income category (47.4 per cent of reports), followed by the low-income (45.0 per cent) and upper middle-income (39.5 per cent) categories. Again, this suggests a certain orthodoxy in monetary policy recommendations as exchange rate flexibility is necessary for inflation targeting. Low-income countries are reluctant to float their exchange rates due to their greater exposure to external volatility, typically arising from a lack of financial depth as well as dependence on commodity prices and foreign capital (Agénor and Montiel, 2015). Furthermore, in view of the challenge of the weak transmission mechanism, it is questionable whether low, single-digit inflation targets are desirable, let alone feasible, in this case.

Table 15 below presents examples of the advice given by the IMF to selected developing and transition countries regarding single-digit inflation targeting in the band of 1 to 6 per cent. The central banks of Brazil, Guatemala, Serbia and Thailand have explicit inflation targeting frameworks. It is noteworthy that the Fund advised a low-income country (in this case, the Democratic Republic of Congo) and a small lower middle-income country (Guatemala) to adopt a similar inflation target range as upper middle-income countries (Serbia and Thailand), or large emerging economies (Brazil and India). This suggests a continued preference for an orthodox inflation targeting framework, without adaptation to the country specific circumstances.

Table 15. IMF reference to inflation targets in selected reports

Country	Inflation Target	IMF reference
Brazil	4.50%	The renewed emphasis in communication on the 4.5 percent inflation target and the readiness to use the policy instruments to prevent second round effects from the ongoing correction of relative prices will bolster the credibility of the monetary framework. (p. 21)
Democratic Republic of Congo	4 to 6%	There is also the need to build policy space and strike the right balance between various macroeconomic objectives. Staff recommends targeting inflation at around 4 to 6 percent, which would create additional space for reserve accumulation. (p. 9)
Guatemala	5 to 6%	Directors advised strengthening the monetary transmission mechanism and policy framework by reinforcing the inflation target as the primary objective of monetary policy, including through a gradual enhancement of exchange rate flexibility. (p. 58)
India	2 to 6%	Staff views the medium-term 4 percent inflation target set out by the Patel Committee report as broadly appropriate. However, in view of India's large weight on food in its CPI basket and structurally-high food inflation, achieving this target will require ramping up food supply commensurate with strong consumption demand. The associated band (+/- 2 percent) is appropriate in light of India's susceptibility to food supply and external shocks (p. 10)
Madagascar	-	Against this background, staff advised the authorities to continue to maintain a floating exchange rate and pursue a monetary policy aimed at steadily increasing international reserves and maintaining single-digit inflation. (p. 15)
Serbia	4%	The inflation targeting system remains appropriate for Serbia, and should be underpinned by consistent implementation of monetary and exchange rate policies. (p. 24)
Thailand	1 to 4 %	The Cabinet has approved the use of headline inflation instead of core inflation and has set the target for the year-average CPI inflation at 2.5±1.5 percent for 2015. (…) Staff welcomes the switch to using headline inflation target, which is likely to facilitate communication with the public by focusing on the most relevant and best understood measure. (p. 11)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

Nonetheless, on the whole IMF recommendations to vulnerable states – small island developing states, fragile states and states benefitting from the HIPC initiative – seem to be less orthodox. A single-digit inflation target is recommended in only 27.3 per cent of fragile states' reports and 19.1 per cent of small island developing states'. Among the HIPC initiative countries, the higher incidence of recommendations for a single-digit inflation target (33.3 per cent), coupled with the low incidence of advice to adopt exchange rate flexibility (14.3 per cent), suggests using an exchange rate anchor to target inflation, as opposed to an inflation targeting framework – a proposition adapted to these countries' circumstances. Among all vulnerable countries, the recommendation of the IMF to increase foreign exchange reserves (48.5 per cent of fragile states; 47.6 per cent of small island states; and 42.9 per cent of HIPC initiative states) demonstrates a need for buffers to protect these economies in case of external shock. Again, this suggests more nuanced advice as many small island developing states anchor their exchange rates or rely on dollarization and euroization, due to the small size of their economies and dependence on fuel and food imports or a limited range of commodity exports.

4.2.2.4 Financial inclusion

Financial inclusion is one means to address the weaknesses in the monetary transmission mechanism (Montiel, 2015) and to stimulate job creation, innovation and sectoral diversification through support to small- and medium-sized enterprises (SMEs). The latter often lack access to capital to expand due to their small size and lack of financial education by management at the initial stages. Furthermore, access to finance can help those in vulnerable employment save and insure through basic savings account and microinsurance services, and smooth their consumption, thereby increasing overall macroeconomic resilience. Indeed, the IMF recognizes financial inclusion as an important component of monetary policy, whether left to the central bank or otherwise (see, e.g., IMF, 2013a, p. 21).

In terms of analysis of policies conducive to SMEs – including microfinance structures – 40/101 reports mentioned them. They figured mainly in the reports relating to lower middle-income countries (52.6 per cent of reports), presumably due to the role of SMEs in employment creation, strengthening the formal economy and driving growth towards upper middle-income status. Access to finance and a skilled workforce play a part in bolstering SME growth. At the regional level, the South Asian and MENA reports refer to SMEs most frequently (83.3 per cent and 77.8 per cent respectively); the IMF had previously noted the difficulties in opening and running small businesses in these countries (e.g. Ding et al., 2014; IMF, 2014b), with the limited role of the non-oil sector in the MENA states and the need for financial inclusion in South Asia. In contrast, the Latin American, Caribbean and Sub-Saharan African countries already have strong and innovative microfinance institutions to support SMEs. Below are some examples of the recommendations for the SME and microfinance sectors. However, Table 16 also shows that, although financial inclusion is a recurring theme in the Article IV reports surveyed, detailed policy recommendations are lacking.

Table 16. IMF reference to financial inclusion for SMEs in selected reports

Countries	IMF reference to SMEs and Microfinance
Madagascar	The financial sector is not in a position to fully support economic development, in light of the low levels of access to financial services for individuals as well as small and medium-sized enterprises (SMEs). A coherent support framework for financial inclusion needs to be put in place addressing access to savings, credits, insurance, and payment systems. (p. 46)
Moldova, Republic of	The lack of access to finance has been identified by the OECD as the top business constraint for firms in Moldova. (p. 15)
Myanmar	The goals of Financial Sector Development Plan consist of improving opportunities of people's investment and to increase the paid-up capital for developing the small and medium enterprises (p. 62)
Namibia	According to the 2014 Enterprise Surveys (conducted by the World Bank), access to finance is perceived by firms as the biggest business environment obstacle, despite the progress in financial inclusion. (p. 18)
Serbia	Improving the business environment. The authorities committed to a number of short- and medium-term measures, aimed at removing obstacles to private sector development, attracting new investments, and fostering job creation. (p. 21)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

4.2.2.5 Discussion of trade-offs

The IMF (2013a) *Jobs and Growth* report cautions about potential growth-macroeconomic stability trade-offs when proffering advice to Member States. Table 17 cites some of the comments regarding such trade-offs in selected reports:

Table 17. IMF reference to trade-offs in selected reports

Country	IMF reference to tradeoffs
Brazil	Many Directors pointed to the benefits of targeting a higher primary surplus over the next two years in further strengthening policy credibility and the fiscal position, although some cautioned about the growth impact of such adjustment. (PIN)
Cabo Verde	Looking farther ahead, ambitious fiscal consolidation holds the key to ensuring macroeconomic stability and providing a sound basis for private sector-led growth. (p. 21)
Democratic Republic of Congo	Staff supported the authorities' fiscal policy stance, but stressed the need to create more fiscal space. Balancing the budget has essentially relied on expenditure adjustments which could be avoided by increasing revenues and improving the quality of spending. (...) Given the country's enormous needs for infrastructure and social spending (e.g., education and health), this situation has created an unwanted tradeoff between current macroeconomic stability and future growth. (p. 9)
Guatemala	The main challenge is to unleash higher and more inclusive long-term growth, while enhancing resilience to shocks and preserving macroeconomic stability (p. 4)

Source: IMF Article IV consultations and equivalent reports, Jan. 2014-Oct. 2015.

This reflects the IMF's continued challenge in reconciling macroeconomic stability and growth. In many cases, productive investment is necessary for structural reforms to expand the productive economic potential frontier in terms of infrastructure and social spending such as education and health. In turn, this will help bolster macroeconomic stability and resilience. There should not be a trade-off between growth and stability; rather there should be a re-orientation of spending towards those key areas that strengthen the underlying economic structure and expand the productive economic frontier, notably productive infrastructure and social protection spending.

Part of this challenge stems from the IMF's belief that the private sector is the lead driver of growth. Consequently, the government's role is to provide an enabling environment by ensuring macroeconomic stability. In the case of Brazil, the (2015) PIN states that "prioritization of reforms and greater private sector participation will be key to success", while, in the (2014) PIN for South Africa, IMF Directors "encouraged greater private sector participation" in "infrastructure projects, especially in power supply". While the private sector does play an important role in growth and productive employment creation, such arguments tend to underplay the role of governments in providing key physical and human infrastructure to enable the private sector to thrive.

Similarly, while the IMF underlines the importance of inclusive growth, this can seem at odds with advice on fiscal consolidation and macroeconomic stability. In the case of the Democratic Republic of Congo, the (2015) Article IV report affirms that:

> Promoting inclusive growth is imperative given the persistently high poverty rate. International experience suggests that sustained high growth and adequate social spending is vital for reducing poverty (p. 9).

However, when contrasted with the IMF's statement about the "unwanted tradeoff between current macroeconomic stability and future growth" (p. 9) in the country as cited in Table 17 above, it is unclear which overall policy message the Fund seeks to send. This suggests that more needs to be done to explore the growth-macroeconomic stability link.

5. Conclusion

The IMF has made some strides to attune its reporting and recommendations to employment, poverty reduction and social protection considerations. The scope of the research done and the self-reflection expressed in recent publications like the *Jobs and Growth* report (IMF, 2013a) give rise to the hope that the IMF is aiming to strengthen its commitment to the social dimensions of growth. This paper critically assessed the extent to which recent Article IV consultations reflect an actual shift of the Fund's country surveillance work along these lines.

Labour markets analysis

From the 101 Article IV surveillance reports surveyed for the period 2014-15, it is clear that the labour market is discussed in the majority of the reports, albeit with different levels of detail and focuses. The discussion of sectoral employment issues – especially in agriculture – in 65 of the 101 reports surveyed suggests a growing awareness of the role of pro-employment policies in these areas to both drive economic growth and reduce poverty. This is supported by the recommendation to invest in education in 63 of the reports examined. That said, a more systematic linking of labour market considerations to macroeconomic policies – including careful consideration of the employment-poverty and "decent" employment-intensity considerations – is needed to ensure that recommendations are both suited and viable for the country in question. The *Template for Analyzing and Projecting Labor Market Indicators* devised by Abdih et al. (2012) measures the impact of potential growth on employment outcomes. If combined with a balanced discussion on productivity and quality of employment, it provides a suitable framework to move from one-dimensionally measuring and fostering growth to engaging in a more nuanced discussion on inclusive growth. However, it has only been fully utilised in 4 of the 101 reports examined, which proves that the Fund does not make use of the available data in this area and that its priorities clearly lie elsewhere. The IMF should undertake to apply the template systematically to strengthen its labour market analysis in future Article IV surveillance reports.

Social protection and inclusion

Most of the reports discussed poverty or inequality or social protection. This discussion takes place in a somewhat analytical manner, mainly expressed through large reference to the MDGs, the use of statistical figures in the main text to some extent, and taking position to the governments' poverty reduction strategies. Further analysis of the country-specific determinants of poverty reduction – mainly by more strongly linking poverty and employment – would be desirable. While poverty issues are widely discussed, only in half of the cases does this feed into actual policy recommendations. This is done even less so for fragile states, where the IMF itself has declared social protection a major priority area (IMF, 2012). The nature of policy advice on poverty reduction, if provided, focuses on investments in infrastructure and education, demonstrating a lacuna in terms of immediate measures. Third and most importantly, the IMF lacks commitment to a more holistic and universal concept of social security by still focusing narrowly on the extremely poor. This is manifested in both advocating for "more efficiency" and "more adequate targeting" for social benefits and old-age pensions in particular, as well as in the absence of mention of the Social Protection Floor (SPF), to which the Fund has committed as one of the official coalition partners of the initiative.

Macroeconomic policy advice

IMF macroeconomic advice remains focused on the twin goals of fiscal sustainability and price stability. The Fund counselled fiscal consolidation in most of the consultations; however, this was increasingly justified by the need to create fiscal space for infrastructure investment or social spending. With regard to taxation policy, recommendations focused on reducing tax exemptions, improving tax administration and/or fighting tax evasion, in line with the IMF's (2013a) *Jobs and Growth* report. At the same time, the IMF advised increasing VAT – a regressive tax – in most of the reports examined in-depth, albeit accompanied by suggestions to increase social or infrastructure spending. Expenditure advice focused on replacing energy subsidies with direct cash transfers to the poor. It is unclear to what extent the IMF has explored the link between increasing formal employment and increasing the tax base, and consequently government revenue.

Monetary policy advice remained geared towards low, single-digit inflation targets (1-6 per cent in the sample), although the IMF appeared to be less dogmatic in the case of HIPC and fragile states. Financial inclusion is one means for an "active" monetary policy to increase SME growth and creation, but also to strengthen the monetary transmission mechanism. The Fund does identify problems of access to finance in many of the sample countries, but refrains from making concrete suggestions to remedy these.

Avenues for further progress

While this content analysis examined the Article IV consultations' coverage of several areas (labour markets, inclusive growth, macroeconomic policy), further research is needed to provide stronger advice as to how the IMF might improve the outcomes of its surveillance activities. One suggestion would be to conduct a case study of the evolution of IMF advice in two Member States over a period of 20 years, including a detailed examination of the evolution of the labour market, the incidence of poverty, social protection mechanisms and macroeconomic trends. This would provide both a longitudinal and a comparative perspective to review IMF advice and its impact on national development.

It is hoped that the shift in the IMF's commitment to the social dimensions of growth as currently expressed in major statements and publications bears more fruit in its future surveillance work. An actual shift in course requires the Fund to more deeply analyse the interconnections between growth, employment and inclusiveness and go beyond the traditional indicators when assessing a country's performance in these areas. In a developing country context, it is not enough to take notice of changes in growth, unemployment and poverty rates. *How* to achieve this growth, create *quality* employment and reduce poverty *sustainably* are major issues in this discussion not yet adequately captured by the Article IV surveillance reports.

This will be important for the Sustainable Development Goals (SDGs), including rendering them meaningful for people in vulnerable situations. Improving employment and inclusion outcomes is fundamental to strengthening macroeconomic stability and resilience – as well as improving the livelihoods of the most vulnerable. Just as achieving and monitoring progress towards the SDGs will require the collaboration of various international organizations, governments and social partners, so could the agencies' individual country work benefit more from combined expertise in the form of data exchange, regular consultations and joint pilot projects.

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Appendix

Appendix A List of Article IV consultations reviewed for 2014-2015

Appendix A.I List of Article IV consultations reviewed for 2014-2015

Country	**Report Number**	**Publication Date**
Afghanistan	14/128	01/05/2014
Algeria	14/341	11/12/2014
Angola	14/274	01/09/2014
Armenia	15/65	11/03/2015
Azerbaijan	14/159	01/06/2014
Belarus	14/226	01/05/2015
Belize	14/280	01/07/2014
Bhutan	14/178	01/07/2014
Bosnia and Herzegovina	N/A	12/05/2015
Botswana	14/204	01/07/2014
Brazil	13/312	01/03/2015
Bulgaria	14/23	01/05/2015
Burkina Faso	14/215	01/07/2014
Burundi	14/293	01/09/2014
Cabo Verde	14/296	01/09/2014
Cameroon	14/212	13/06/2014
China	14/235	01/07/2014
Colombia	14/141	01/05/2015
Comoros	15/34	09/02/2015
Congo, Democratic Republic of	14/301	01/10/2014
Congo, Republic of	14/272	01/09/2014
Costa Rica	15/29	04/02/2015
Djibouti	15/84	27/02/2015
Dominican Republic	14/281	13/06/2015
Ecuador	14/393	20/08/2014
Egypt	15/33	01/01/2015
El Salvador	15/13	01/01/2015
Ethiopia	14/303	01/10/2014
Fiji	14/321	11/11/2014
Gabon	15/47	23/02/2015
Gambia, The	15/272	21/09/2015
Ghana	14/129	01/05/2014
Grenada	14/196	01/07/2014
Guatemala	14/287	01/09/2014
Guinea-Bissau	15/194	21/07/2015
Haiti	15/157	24/06/2015
Honduras	14/282	13/06/2014
India	14/57	01/02/2015
Indonesia	15/74	19/03/2015
Iran, Islamic Republic of	14/93	01/04/2014
Iraq	15/235	18/08/2015
Jamaica	14/169	01/06/2014
Jordan	14/152	01/06/2014

Kazakhstan	14/242	01/08/2014
Kenya	14/302	02/10/2014
Kiribati	14/138	01/05/2014
Kosovo[19]	15/131	21/05/2015
Lao People's Democratic Republic	15/45	26/02/2015
Lebanon	14/237	01/07/2014
Lesotho	14/201	01/07/2014
Macedonia, The former Yugoslav Republic of	14/231	01/07/2014
Madagascar	15/24	09/02/2015
Malaysia	15/58	03/03/2015
Maldives	15/68	04/03/2015
Mauritania	15/35	12/02/2015
Mauritius	14/107	01/05/2014
Mexico	14/319	01/11/2014
Micronesia, Federated States of	15/128	15/05/2015
Moldova, Republic of	14/190	01/07/2014
Mongolia	15/109	01/04/2015
Montenegro	15/26	04/02/2015
Morocco	15/43	23/02/2015
Myanmar	14/307	06/10/2014
Namibia	15/276	01/10/2015
Nepal	14/214	01/07/2014
Niger	15/63	11/03/2015
Nigeria	14/103	01/02/2015
Palau	14/110	06/05/2014
Panama	14/157	01/06/2014
Papua New Guinea	14/325	10/11/2014
Paraguay	15/37	29/01/2015
Peru	14/21	01/05/2015
Philippines	14/245	01/08/2014
Romania	15/79	27/03/2015
Rwanda	14/343	01/12/2014
Samoa	15/191	20/07/2015
Senegal	15/2	01/01/2015
Serbia	15/50	01/02/2015
Seychelles	15/201	01/07/2015
Somalia	15/208	29/07/2015
South Africa	14/338	03/12/2014
South Sudan	14/345	01/12/2014
Sri Lanka	14/285	01/09/2014
Sudan	14/364	01/12/2014
Suriname	14/316	31/10/2014
Swaziland	14/223	01/07/2014
Tajikistan	15/268	01/06/2015
Tanzania, United Republic of	14/120	01/05/2014
Thailand	13/323	09/04/2015
Timor-Leste	14/478	22/10/2014
Tonga	15/107	01/04/2015
Turkey	14/329	21/11/2014
Turkmenistan	15/149	01/04/2015
Tuvalu	14/253	28/08/2014

[19] As defined in United Nations Security Council Resolution No. 1244 of 1999.

Uganda	15/175	07/07/2015
Uzbekistan	15/414	15/09/2015
Vanuatu	15/149	16/06/2015
Viet Nam	14/311	01/10/2014
Yemen	14/276	01/09/2014
Zambia	15/152	01/05/2015
Zimbabwe	14/202	01/07/2014

Appendix A.II List of Article IV consultations reviewed: Public Information Notices (PIN) only

Bosnia and Herzegovina
Djibouti
Dominican Republic
Ecuador
Honduras
Tajikistan
Timor-Leste
Turkmenistan
Uzbekistan

Appendix A.III List of Article IV consultations in the sample for detailed analysis

Brazil
Cabo Verde
Guatemala
India
Lebanon
Madagascar
Moldova, Republic of
Myanmar
Nepal
Serbia
Thailand
Yemen

Appendix A.IV List of fragile states (IMF, 2015c)

Afghanistan
Bosnia and Herzegovina
Burkina Faso
Burundi
Cameroon
Comoros
Congo, Democratic Republic of
Congo, Republic of
Egypt
Ethiopia
The Gambia
Guinea-Bissau
Haiti
Iraq
Kenya
Kiribati
Kosovo
Madagascar
Mauritania
Micronesia, Federated States of
Myanmar
Nepal
Niger
Nigeria
Somalia
South Sudan
Sri Lanka
Sudan
Tuvalu
Timor-Leste
Uganda
Yemen
Zimbabwe

Appendix A.V List of Highly Indebted Poor Countries (HIPC) (IMF, 2015d)

Afghanistan
Burkina Faso
Burundi
Cameroon
Comoros
Congo, Dem. Rep. of
Congo, Rep. of
Ethiopia
Ghana
The Gambia
Guinea-Bissau
Haiti
Honduras
Madagascar
Mauritania
Niger
Rwanda
Senegal
Tanzania
Uganda
Zambia

Appendix A.VI List of small island developing states (UN-OHRLLS, 2015)

Belize
Cabo Verde
Comoros
Dominican Republic
Fiji
Grenada
Haiti
Jamaica
Kiribati
Maldives
Mauritius
Micronesia, Federated States of
Palau
Papua New Guinea
Samoa
Seychelles
Suriname
Timor-Leste
Tonga
Tuvalu
Vanuatu

Appendix B Categories for analysis

Part I: Inclusive growth

One of the central policy debates in global development is the extent to which the conventional macroeconomic framework is able to support the process of employment creation and poverty reduction other than through the process of growth itself. A strengthened focus on the social dimensions of growth can be demonstrated in various ways: (1) by analysing the current situation of employment, poverty, inequality and social protection, either through a general discussion or through pertinent diagnostics (statistics, projections and graphs); (2) by referring to national development plans and/or international initiatives that campaign for poverty reduction and full employment; or (3) by providing concrete policy recommendations that promote public policies for inclusive growth – ideally responding to the main shortcomings analysed in (1).

Part I A: Variables representing labour market coverage

1) General analysis of the state of the labour market: this variable is defined as the IMF discussing (or at least mentioning) the current labour market and employment conditions and identifying inadequacies in key policy areas: unemployment, sectoral employment, labour standards/legislation, support to small and medium-sized enterprises (SMEs), productivity, wages, job quality/informality, employment prospects for women and youth, and skills mismatches[20].

2) Use of the *Template for Analysing and Projecting Labour Market Indicators* or similar diagnostic tools: this variable indicates whether the IMF has engaged in more in-depth analysis through the use of statistical tools, specifically the aforementioned template, which was developed to support the IMF's analytical work on the linkages between employment and output growth (IMF, 2013a). For the sample, we also examine the use of alternative labour market projections and trend analysis, including detailed discussion of figures in the reports.

3) Policy recommendations centred on employment creation: sectoral diversification, labour market reforms, formalization and investment in infrastructure and/or education.

Part I B: Poverty and Social Protection

The global poverty reduction agenda now rests on two interrelated pillars: (a) the attainment of the Millennium Development Goals (MDGs) by 2015 as endorsed by the UN system in 2000; and (b) progress towards a 'social protection floor' as endorsed by the UN system in 2009.

1) Explicit reference to the MDGs and/or the Social Protection Floor (SPF) initiative.

2) General discussion on poverty and the SPF: this is a fairly broad variable covering the discussion, or at least mention, of poverty and/or inequality incidence, social security transfers, access to education, old age pension, essential health care or related issues such as inclusive growth

[20] As this list comes close to the ILO framework, it should be clarified that it should merely serve as a rough framework to investigate whether there is a somewhat comprehensive discussion that covers different aspects of employment.

3) Policy recommendations for extending or improving the social protection system and strengthening the MDG/SDG commitments: this category specifies statements by the IMF that promote either the extension or the improvement of social programmes and policies, including those generally directed towards more effective poverty reduction.

Part II A: Combining Growth with Employment and Equality

In their 2013(a) Guidance Note, the IMF identifies both employment and income distribution as important concerns for achieving inclusive growth. This section analyses the design and impact of (a) tax policy and (b) expenditure policy:

1) Tax policy, as reflected by recommendations to reduce tax exemptions; improve tax administration and fight tax evasion; lower business taxes; and reduce the labour tax wedge. These categories reflect the IMF paradigm that government macroeconomic policy should create an enabling environment for the private sector to drive growth and employment creation as these measures effectively support SMEs (IMF, 2013a).

2) Expenditure policy, as demonstrated by advice to reduce untargeted energy subsidies; to reallocate spending towards social and infrastructure development; public works programmes; active labour market policies (ALMPS); as well as various social transfers (childcare subsidies, social protection, pensions, targeted cash transfers). The IMF (2013a) and others (e.g. Kawai and Morgan, 2013) argue that energy subsidies favour wealthier segments of society and consequently should be replaced with targeted cash transfers to the poor. This variable reflects IMF discussions regarding subsidy reform. Social and infrastructure development are policies to bolster inclusive growth. ALMPs comprise public employment services, training services and employment subsidies directed at easing the transition from unemployment to employment. Certain social transfers, such as childcare subsidies, aim to promote women's participation in the labour market. Others, such as social pension scheme, depend on the national setting. In a low-income setting, the IMF believes that pensions favour the wealthier sections of the population – including those in public employment. However, in a middle-income setting, pensions are an integral part of the social protection schemes to be constructed and extended over the entire population. This variable is used to determine the extent to which the IMF distinguishes between country income levels.

Part II B Tailoring Macroeconomic Policy Advice to Country Circumstances

In their (2013) review of IMF Article IV reports, Islam et al. found that IMF macroeconomic advice recommended fiscal consolidation and low, single-digit inflation targets, irrespective of the country's developmental status or particular circumstances. Consequently, this part explores the extent to which IMF macroeconomic policy discussions vary between countries, regions and income-groups:

1) Fiscal policy recommendations, such as fiscal consolidation, public debt management (including numerical deficit targets) and revenue mobilization. This reflects IMF advice to reduce government deficits and debt accumulation.

2) Justification for fiscal consolidation: this variable captures the justification for fiscal consolidation in the text, usually to provide fiscal space for (i) social spending or (ii) investment. Alternatively, fiscal consolidation is justified by (iii) the need to provide for a stable macroeconomic environment. At times, all three of these rationales occur in a report.

2) Manage public sector debt. This variable indicates IMF recommendations to manage government debt and improve public financial management.

3) Mobilize revenue. This reflects IMF advice to increase government revenue through reformed or improved taxation systems and/or other means.

4) Explicit Spending Restraint. This variable indicate the presence of IMF explicit recommendations for restraining spending.

5) Numerical Deficit Target. This refers to the IMF supporting the enactment of or the continued support for a fiscal rule.

6) State-Owned Enterprises (SOEs). This reflects discussions about SOEs, including the effects of government subsidies to them, their role in the economy and their contribution to government debt.

7) Reduce Government Wage Bill.

9) Numerical Inflation Target. This reflects discussion of an inflation target in a report.

10) Exchange Rate Flexibility. This indicates whether or not the IMF supports moving to or maintaining a flexible exchange rate regime in the country in question.

11) Financial Inclusion. This variable refers to IMF recommendations to bolster financial inclusion. Where possible, we discuss the specific policies the Fund advocates in the reports.

Appendix C Key words for word search

Appendix C.I List of key words: Labour market

Labour Market Theme	**Category**	**Key Words**
Discussion	Labour market (General)	labor, labor market; (based on other results)
	Unemployment	unemployment, employment, job, jobless, seek
	Disadvantaged groups (women, youth)	women, woman, female, youth, young
	Sectoral employment	sector, agricultur-,
	Labour standards	labor, labor standards, legislation, law, labor cost, cost of labor
	Small and medium-sized enterprises (SMEs)	small and medium, enterprise
	Productivity	productiv-
	Wages	wage, salar-
	Informal economy	informal, shadow
	Skills mismatch	education, skills, mismatch, human capital, school-, training
	Migration/Immigration	migrati-, migrant
Analytical Tools	Use of IMF (2012) template	template, projection, trend
	Use of other projections/statistics in text	projection, trend, labor, analysis, scenario, growth, employment
Policy Recommendations	Employment creation	employment, job
	Sectoral diversification	sector, agricultur-, diversif-
	Labour market reforms	labor market, structural reform
	Formalization	informal, shadow
	Investment in infrastructure	infrastructure, public investment, social investment
	Investment in education	education, skills, human capital, school-, training

Appendix C.II List of key words: Inclusiveness

Inclusiveness Theme	**Category**	**Key Words**
Discussion	Inclusiveness	social, inclusi-, equal, equity, poor, poverty, access
	Reference to MDGs	MDG, millennium
	Reference to SPF	social protection floor
	Discussion on poverty/inequality/inclusive growth	social, inclusi-, equal, equity, poor, poverty, access, growth
	Discussion on social protection	social protection, social, health
	Pension system	pension
	Health system	health, social
Policy Recommendations	Extension/improvement of SP	social, inclusi-, equal, equity, poor, poverty, exten-, coverage
	Strengthen MDG commitment/poverty reduction	MDG, millennium, poverty, poor

Appendix C.III List of key words: Fiscal policy

Fiscal Policy Theme	**Category**	**Key Words**
Recommendations	Fiscal consolidation	fiscal consolidation, debt ratio, discipline
	Manage public sector debt	public debt, public sector, public financial management
	Mobilize revenue	revenue, tax, income
	Improved budgeting/revenue management	public financial management, management
	Explicit spending restraint	restraint, limit, target
	Numerical deficit target	deficit target, limit
	State-owned enterprises (SOEs) reform	public enterprise, state-owned enterprise, enterprise
	Subsidy reform	subsid-
	Reduce government wage bill	wage, salar-, income
Tax system reform	Tax system reform (general discussion)	tax
	VAT/Regressive tax	VAT, value-added,
	Offsetting measure(s) for poor	offset, poor, social, transfer
Justification for fiscal consolidation	Fiscal space for social spending	fiscal, social, development, safeguard, preserv-,
	Fiscal space for investment	fiscal, investment, infrastructure, development, safeguard, preserve-
	Stable macroeconomic environment	stable, stability, macroeconomic, confidence

Appendix C.IV List of key words: Monetary policy

Monetary Policy Theme	Category	Key Words
	Numerical inflation target	inflation target, target, objective
	Foreign exchange reserves	foreign exchange, reserve, buffer
	Exchange rate flexibility	flexibility, flexible
	Financial inclusion	inclusion, inclusi-
	Monetary transmission mechanism	transmission

Appendix D Fiscal consolidation: Additional information

Table D.1 IMF reference to fiscal consolidation in selected reports

Country	IMF reference to fiscal consolidation
Brazil	An ambitious and front-loaded fiscal adjustment effort, embedded in a realistic medium-term fiscal plan, is imperative for reducing public debt and bolstering policy credibility. (p. 20)
Cabo Verde	Fiscal consolidation remains critical to safeguard macroeconomic and debt sustainability. (p. 1)
Democratic Republic of Congo	The fiscal stance is expected to remain consistent with the fiscal anchor, which continues to be appropriate to tame inflation expectations. (p. 7)
Guatemala	Hence, it was agreed that fiscal sustainability should be gradually bolstered over the medium term. (p. 15)
India	Fiscal consolidation should continue. The quality of the consolidation should be improved, underpinned by comprehensive tax reform (such as introducing the goods and services tax and improving tax administration) and measures to further reduce subsidies.
Lebanon	Putting the public debt on a sustainable downward path can only be achieved through strong fiscal consolidation. (p. 15)
Moldova, Republic of	Moldova has achieved an impressive degree of fiscal consolidation in recent years, but fiscal discipline has weakened recently and public debt is again on an upward trend. (p. 10)
Thailand	Over the medium term, fiscal consolidation and structural reforms are essential to accelerate growth, while maintaining stability. (p. 17)
Yemen	The immediate challenge is to reduce the fiscal deficit for 2014 within the limits of the available financing, in a manner that will be consistent with preserving macroeconomic stability. (p. 16)

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