Global Macroeconomic and Financial Stability

TOSSD Task Force Issues Paper[1] - Agenda item 5

12 –13 February 2020

I. INTRODUCTION

1. This paper discusses the treatment in TOSSD of support to macroeconomic and financial stability. This subject, not yet discussed by the Task Force, is included in the SDGs through targets 10.5 and 17.13:

- 10.5: Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations.
- 17.13: Enhance global macroeconomic stability, including through policy coordination and policy coherence.

2. In addition, the discussions by the Secretariat with a number of experts in macroeconomic and financial stability highlighted that, at this stage, it is unclear for them whether such activities are considered in TOSSD, and if so, on what grounds.

3. Macroeconomic stability generally refers to a situation with low and stable inflation, currency stability and the absence of large swings in economic activity. As noted by the World Bank, there is no universally accepted definition of financial stability, but the common feature in most of the definitions proposed is about "the absence of system-wide episodes in which the financial system fails to function (crises)" and "the resilience of financial systems to stress"[2]. Macroeconomic and financial stability are, of course, interconnected, and sometimes the term "financial stability" is understood to also cover macroeconomic stability and vice versa.

4. Cross-border transfers of resources aimed at supporting macroeconomic and financial stability in TOSSD-eligible countries fall under the perimeter of TOSSD Pillar I. Today, part of these cross-border flows are captured in the statistics of the Development Assistance Committee (DAC), including the IMF's concessional lending to Low-Income Countries through facilities available under the Poverty Reduction and Growth Trust (PRGT) Fund. The IMF's non-concessional lending to Middle-Income Countries is not covered in DAC statistics, as the IMF emphasises that the purpose of these loans (and of the IMF as an organisation) is short-term macroeconomic stabilisation rather than longer-term development. In TOSSD, these loans are in principle reportable as they contribute to the recipient countries' sustainable development, addressing SDG targets 10.5 and 17.13.

5. This paper focuses on the treatment of international macroeconomic and financial stability in TOSSD Pillar II – Global and Regional Expenditures for International Public Goods (IPGs). It starts with a brief review of the IPG character of macroeconomic and financial stability (section II). It then describes the actions undertaken in support of international macroeconomic and financial stability at the level of

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[2] See the World Bank's definition of financial stability https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/financial-stability

multilateral institutions (section III) and in provider countries (section IV). A number of proposals for reflecting these expenditures in TOSSD Pillar II are presented to the Task Force for discussion and approval.

II. International macroeconomic and financial stability as an International Public Good

6. The International Task Force on Global Public Goods, whose purpose was "elucidating the concept of global public goods"[3], has extensively analysed, and recognised, the IPG character of macroeconomic and financial stability[4]. Given the highly integrated nature of international financial markets, financial instability can quickly spread across countries with widely shared economic damages. For example, following the 2008 global financial crisis, 91 economies representing two-thirds of global GDP in purchasing-power-parity terms experienced a decline in output in 2009; these output deviations have also persisted over time[5]. The European sovereign debt crisis has shown that macroeconomic instability that starts in one country can be a cause of instability in other countries. Because of these contagion effects, global macroeconomic and financial instability is a "Global Public Bad" and preventing or addressing it is a "Global Public Good".

7. In the SDG framework, the importance of global macroeconomic stability as a prerequisite for sustainable development is recognised through target 17.3, placed under "systemic issues". In addition, the regulation of the global financial system (target 10.5) is seen as key for reducing inequalities. In a recent IMF staff discussion paper[6], the authors note that one of the challenges for achieving the SDGs is "to set the global conditions that help all countries generate and sustain stable growth. This requires a variety of global public goods, including stability, open trade, adequate international taxation, fair regulations, climate initiatives, and access to technology".

8. What are the main causes of extreme macroeconomic and financial instability? The economic literature has identified several causes[7], which can loosely be grouped in three categories:

- *Macroeconomic sources of instability:* unsustainable monetary and fiscal imbalances and low levels of financial reserves.

- *Vulnerable financial sector:* a poor regulation of the financial sector, which can lead to excessive risk-taking by financial institutions.

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[3] See International Task Force on Global Public Goods, "Meeting Global Challenges, Summary" (2006) https://www.keionline.org/misc-docs/socialgoods/International-Task-Force-on-Global-Public-Goods_2006.pdf

[4] See International Task Force on Global Public Goods, "Expert Paper Three, Financial Stability", (2006) https://www.regeringen.se/contentassets/931b86080a7547b698a4441a2440c4db/global-public-goods-financial-stability

[5] See Wenjie Chen et al., "The Global Economic Recovery 10 Years After the 2008 Financial Crisis", IMF Working Paper (2019) https://www.imf.org/~/media/Files/Publications/WP/2019/WPIEA2019083.ashx

[6] See Vitor Gaspar et al., "Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs", IMF Discussion Note (2019) https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444

[7] See International Task Force on Global Public Goods, "Expert Paper Three, Financial Stability", (2006) https://www.regeringen.se/contentassets/931b86080a7547b698a4441a2440c4db/global-public-goods-financial-stability

- *Weak financial infrastructure:* weak legal basis, inefficient functioning of payment[8] and settlement systems[9], etc.

9. Various actions at the level of multilateral institutions aim at preventing and/or addressing macroeconomic and financial instability. Section III discusses these actions, their financing and their potential inclusion in TOSSD Pillar II. Section IV examines relevant actions in provider countries. Examples are given to illustrate the potential orders of magnitude of these expenditures, were they to be included in TOSSD. In this regard, it is important to distinguish between actions aimed at preventing macroeconomic and financial crises, and actions aimed at managing and mitigating these crises once they occur.

III. Multilateral actions in support of international macroeconomic and financial stability

10. A number of multilateral institutions have been created to support global macroeconomic and financial stability through standard setting and international macroeconomic and financial surveillance. The IMF is generally considered as the most prominent of these institutions – global macroeconomic and financial stability is its core mandate and the scope of its activities covers many of the areas needed to deliver it. Other institutions, such as the Bank for International Settlements (BIS), the Financial Stability Board, the Paris Club of Official Creditors, the World Bank and the OECD also play a key role. At the regional level, a number of institutions have also been created to support international efforts to strengthen macroeconomic and financial stability, such as the ASEAN Finance Ministers' and Central Bank Governors' Joint Meeting, the Arab Monetary Fund or the European Systemic Risk Board.[10]

1. Crisis prevention

Limiting macroeconomic sources of instability

11. At the international level, efforts to limit macroeconomic sources of instability include:

- Development of international norms and guidelines for sustainable monetary and fiscal policy. A number of multilateral institutions, such as the IMF, develop standards for the conduct of monetary and fiscal policies and provide estimations of prudent levels of debt for countries in different circumstances.
- Multilateral surveillance: To achieve macroeconomic stability, it is necessary to identify potential risks before they lead to a crisis and provide early warnings of unsustainable imbalances. This macroeconomic surveillance function is insured at the international level by a number of

[8] The Bank of International Settlements (BIS) defines a payment system as consisting of "a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money". https://www.bis.org/cpmi/glossary_030301.pdf

[9] According to the definition of the Bank of International Settlements (BIS), a settlement system is "a system used to facilitate the settlement of transfers of funds or financial instruments". https://www.bis.org/cpmi/glossary_030301.pdf

[10] The European Systemic Risk Board (ESRB) was established in 2010 to oversee the financial system of the European Union (EU) and prevent and mitigate systemic risk.

multilateral institutions, such as the IMF, the OECD and the World Bank. The IMF, in particular, has an historic role in overseeing its members' macroeconomic and exchange rate policies.

- International efforts for macroeconomic policy coordination, for example those undertaken in the context of the G20 (e.g. the Mutual Assessment Process), can also play a key role in supporting global macroeconomic stability. The IMF has estimated that there are substantial potential benefits for the global economy if more coordinated policies could be pursued[11].

12. To illustrate the order of magnitude of expenditures for international macroeconomic surveillance that could be eligible to TOSSD Pillar II, Table 1 shows selected output expenditures from the IMF 2019 "Output Cost Estimates and Budget Outturn". All the activities related to multilateral surveillance and part of the activities related to bilateral surveillance[12] can be categorised as international macroeconomic surveillance. The total cost of these activities amounted to USD 548 million in 2019.

Table 1. Expenditures of the IMF for international macroeconomic surveillance

USD million	2015	2016	2017	2018	2019
Multilateral surveillance	**266**	**258**	**255**	**267**	**254**
Global economic analysis	130	127	126	127	121
Support and Input to Multilateral Forums and Consultations	23	24	23	23	23
Tools to prevent and resolve systemic crises	64	62	66	75	68
Regional approaches to economic stability	48	45	40	42	42
Bilateral surveillance					
Assessment of economic policies and risks	267	274	246	286	294

Source: IMF 2019 Output Cost Estimates and Budget Outturn
https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/09/24/FY2019-Output-Cost-Estimates-and-Budget-Outturn-48696

Limiting the vulnerability of the financial sector

13. Actions level to limit the vulnerability of the financial sector are of two main types:

- Multilateral institutions develop and promote the adoption of international standards for the supervision of the banking and financial sector (e.g. prudential and macro-prudential regulation): these norms aim at strengthening the resilience and stability of the financial sector by defining acceptable practices in terms of banks' capital and liquidity requirements or risk taking by financial institutions. The international reference institution in the area of financial regulation is the Bank of International Settlements (BIS)[13], including a number of its committees, in particular the Basel

[11] International Monetary Fund (IMF), 2010. "G-20 Mutual Assessment Process—Alternative Policy Scenarios", prepared for G-20 Summit of Leaders in Seoul, Republic of Korea.

[12] Strictly speaking, bilateral surveillance covers also issues related to financial stability which is discussed further below.

[13] The mission of the BIS is to "serve central banks in their pursuit of monetary and financial stability, to foster international co-operation in those areas and to act as a bank for central banks".

Committee on Banking Supervision[14]. The Financial Stability Board (FSB) is another important international body that was created to monitor, and make recommendations concerning, the global financial system.

- Multilateral institutions also provide a framework for credible and independent supervision of the financial sector. For example, a number of them, including the IMF, the World Bank or the BIS produce financial stability reports that serve as a reference worldwide, including for the business community.

14. Table 2 shows selected expenditures of the IMF that contribute to limiting the vulnerability of the financial sector. Although IMF bilateral surveillance does not exclusively focus on the financial sector, as it also covers macroeconomic stability issues, the related expenditures (USD 340 million in 2019) can provide an illustration of the order of magnitude of TOSSD in this area, noting that other multilateral institutions are active in this field too.

Table 2. Bilateral surveillance expenditures of the IMF

USD million	2015	2016	2017	2018	2019
Bilateral surveillance	**300**	**311**	**325**	**327**	**340**
Assessment of economic policies and risks	267	274	246	286	294
Financial soundness evaluations - FSAPs/OFCs	23	27	39	32	37
Standards and Codes evaluations	11	10	10	9	9

Source: IMF 2019 Output Cost Estimates and Budget Outturn
https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/09/24/FY2019-Output-Cost-Estimates-and-Budget-Outturn-48696

Strengthening the financial infrastructure

15. Multilateral institutions also play an important role in the development of international standards aimed at strengthening the international financial infrastructure (e.g. accounting standards) and the construction of efficient and predictable payment and settlement systems, which all contribute to financial stability. For example, with the Report on the Observance of Standards and Codes (ROSC) initiative, the World Bank and the IMF promote greater financial stability, both domestically and internationally, through the development, dissemination, adoption, and implementation of international standards and codes[15]. Another prominent multilateral institution in the area of financial infrastructure is the Committee on Payments and Market Infrastructures (CPMI) of the BIS. The CPMI is an international standard setter that promotes, monitors and makes recommendations about the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. At the

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[14] The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular co-operation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions.

[15] The World Bank and the IMF have recognised international standards in 12 policy areas, including 6 related to institutional and market infrastructure: Crisis Resolution and Deposit Insurance, Insolvency and Creditor Rights, Corporate Governance, Accounting and Auditing, Financial Market Infrastructures, Market Integrity.

regional level, examples of initiatives include the European Union Payment Systems Market Expert Group and the Executives' Meeting of Asia-Pacific Central Banks (EMEAP).

16. As an example, the expenditures of the IMF aimed at developing the international financial architecture amounted to USD 46 million in 2019[16] (Table 3).

Table 3. Expenditures of the IMF for "Development of international financial architecture"

USD million	2015	2016	2017	2018	2019
Development of international financial architecture	42	38	42	40	46

Source: IMF 2019 Output Cost Estimates and Budget Outturn
https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/09/24/FY2019-Output-Cost-Estimates-and-Budget-Outturn-48696

2. Crisis management: bailing out countries in crisis

17. When macroeconomic and financial crises occur, international surveillance and norm-setting remain, of course, key response tools for multilateral institutions. For example, the new banking supervision measures included in Basel III were developed in response to the 2008 financial crisis. However, one response tool that is specific to crisis management at the multilateral level is the financial support provided to bail out countries that are experiencing severe macroeconomic crises. The expenditures associated with these bail outs are addressed separately in this paper, given the large amounts involved.

18. As discussed in the Introduction, expenditures associated with bailing out a TOSSD-eligible country are in principle eligible to TOSSD and classified in Pillar I. However, one could also argue that expenditures associated with bailing out advanced countries make a significant contribution to international macroeconomic and financial stability, and should be eligible to TOSSD Pillar II. The Euro zone debt crisis was seen by many as the biggest threat to the global economy[17]. However, it should be noted that these bail outs usually involve very large volumes of finance in the form of emergency loans. As an example, Greece received a total of EUR 315 billion in emergency loans between 2010 and 2018, including both bilateral loans from Euro area Member States (EUR 52.9 billion) under the Greek Loan Facility[18], and multilateral loans from the European Financial Stability Facility and its successor the European Stability Mechanism (EUR 204 billion)[19], and from the IMF (about EUR 58 billion)[20]. The emergency loans were also accompanied by a series of debt relief measures[21]. Another example is Ireland that received a total of

[16] IMF activities in support of the international financial infrastructure are also included in other expenditure items.

[17] See the report "World Economic Situation and Prospects (WESP) 2012" by UNDESA https://www.un.org/en/development/desa/policy/wesp/wesp_current/2012wesp.pdf

[18] https://www.esm.europa.eu/assistance/greece#programme_timeline_for_greece

[19] https://www.esm.europa.eu/assistance/greece#programme_timeline_for_greece

[20] Based on IMF approvals: in 2010, a EUR 30 billion loan under a Stand-By-Agreement (SBA) https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew050910a ; in 2012, a EUR 28 billion arrangement under Extended Fund Facility https://www.elibrary.imf.org/view/IMF002/12690-9781475502442/12690-9781475502442/12690-9781475502442_A003.xml?redirect=true

[21] https://www.esm.europa.eu/assistance/greece

EUR 67.5 billion of bilateral and multilateral loans from the EFSF, the EU, individual EU Member States and the IMF[22].

19. The stabilisation of the Euro zone has most likely entailed positive international spill over effects to other regions, given the size and the global integration of its economy. In addition, this stabilisation directly contributed to global macroeconomic stability (as defined in target 17.13). On this basis, it could legitimately be argued that the emergency loans to Greece and other countries could count as global/regional expenditures for International Public Goods and be eligible to TOSSD Pillar II. However, the political impact of including such expenditures needs to be carefully thought through. The emergency loans received by Greece alone amounted to an annual average of EUR 39.3 billion[23] (USD 43.5 billion), which is more than all the additional activities reported in the TOSSD data survey put together (USD 35 billion). Although including these expenditures in TOSSD would support the transparency objective of the framework, it would draw attention to their relative cost compared to other sustainable development areas, which could be perceived as an intention to inflate TOSSD. In addition, it should be noted that the fiscal adjustment measures required in exchange for the financial support are often subject to controversies, in particular in the case of Greece, with some pointing out the unsustainable debt burden that Greece may be left with, and the majority of the Greek public thinking, according to a poll, that the bailouts harmed the country[24].

3. Proposal

20. It is proposed to cover, in TOSSD Pillar II, international standard-setting and surveillance activities aimed at:

- Preventing macroeconomic sources of instability.
- Limiting the vulnerability of the financial sector.
- Strengthening the international financial infrastructure.

21. At this stage, it is proposed to not cover official support provided for the purpose of bailing out advanced countries, given the large amounts involved and the potential controversies that this inclusion would trigger. However, Task Force members are invited to provide feedback on the relevance of doing so.

22. Table 4 summarises the proposal of the Secretariat:

Table 4. Proposal for reflecting in TOSSD Pillar II multilateral expenditures in support of international macroeconomic and financial stability

Multilateral activities	Eligibility to TOSSD Pillar II
Global and regional standard-setting for sustainable macroeconomic policies	Yes
International macroeconomic surveillance	Yes
Global and regional standard-setting for financial stability	Yes
International financial surveillance	Yes
Strengthening the international financial Infrastructure	Yes
Baling out advanced countries	Not at this stage.

[22] https://www.esm.europa.eu/assistance/ireland#programme_timeline_for_ireland

[23] Based on the emergency loans provided by the EU and its member states (disbursements), and the loans provided by the IMF (approvals).

[24] https://www.bbc.com/news/world-europe-45207092

Issues for discussion

- **Do Task Force members agree with the proposals in Table 4?**
- **How do Task Force members assess the relevance of including in TOSSD expenditures associated with bailing out advanced countries?**

IV. Actions in support of international macroeconomic and financial stability undertaken in the provider country

23. As explained in section II, macroeconomic and financial crises that start in one country can quickly spread to other countries. Therefore, actions and policies taken in provider countries in order to prevent, manage and address these crises do have the characteristics of an International Public Good. Macroeconomic and financial stability is the shared responsibility of several actors at the national level[25]:

- Central Banks play a prominent role in macroeconomic stability through their monetary responsibilities. In addition, although the scope and nature of their functions and mandates can differ, Central Banks generally all have a significant role in supporting financial stability.[26]
- Fiscal authorities in charge of budgetary and debt sustainability policies (ministries of finance).
- Supervisory authorities, in particular those in charge of banking supervision, when this responsibility is not assigned to the Central Bank.

24. Table 5 gives an overview of policy areas relevant for financial stability at the national level:

Table 5. Policies for financial stability

Policy area	Primary objective	Financial stability objective
Prudential	Limit distress of individual financial institutions	Address systemic risk
Monetary	Stabilise prices	Lean against boom-bust cycles in credit and asset prices
Exchange rate	Stabilise exchange rate	Reduce capital flow volatility
Fiscal	Manage demand countercyclically	Maintain fiscal buffers that allow a response to financial system stress

Source: Hannoun, H. (2010), Towards a Global Financial Stability Framework, 45th SEACEN Governors' Conference, Siem Reap Province.

[25] Other institutions, such as competition authorities, can have a role in financial stability but only those that have a direct responsibility are referenced here.

[26] For a survey on financial stability arrangements in OECD countries, see Oosterloo, S. and J. de Haan (2004): "Central banks and financial stability: a survey, Journal of Financial Stability" https://www.sciencedirect.com/science/article/pii/S1572308904000221.

1. Crisis prevention

Limiting macroeconomic imbalances

25. Debt sustainability at the national level can contribute to international macroeconomic and financial stability. Monetary policy actions by Central Banks can also have an impact as they aim at supporting price stability and promoting financial stability[27].

26. However, it should also be noted that national macroeconomic policies are largely driven by domestic goals which can sometimes differ from those of other countries. As noted in the report "Macroeconomic Policy Interdependence and the G-20"[28], "It is generally recognized that fiscal, monetary and exchange rate policies pursued in one country, particularly if it is a large country, do affect other countries. But it is equally recognized that every country has the sovereign right to undertake policies in a way to achieve its own domestic goals of full employment, low inflation and external balance."[29] Exchange rate policies pursued at the national level have sometimes been regarded as currency manipulations, which has led to tensions and protectionist trade measures in response to perceived unfair trade advantage. IMF economists have recently noted that monetary easing policies used both in advanced and emerging economies have "prompted concerns over so-called beggar-thy-neighbour policies[30] and fears of a currency war".[31]

Limiting financial vulnerabilities and strengthening the financial infrastructure

27. At the national level, countries aim to limit financial vulnerabilities through adequate supervision of the financial and banking sector, including through micro-prudential supervision[32] and macro-prudential policies[33]. These functions are generally assigned to the Central Bank, although sometimes they can be entrusted to a different supervisory body. Central Banks, and other supervisory bodies, play also an important role in supervising the proper operation of the financial market infrastructure that ensures the free flow of payments, securities and collaterals, and therefore improves the stability of the financial system.

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[27] See the speech of Luis de Guindos, Vice-President of the European Central Bank, on The ECB and Financial Stability https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181105.en.html

[28] See "Macroeconomic Policy Interdependence and the G-20", Brooking Institutions (2011) https://www.brookings.edu/multi-chapter-report/think-tank-20-macroeconomic-policy-interdependence-and-the-g-20/

[29] See the Introduction of the report "Macroeconomic Policy Interdependence and the G-20" https://www.brookings.edu/multi-chapter-report/think-tank-20-macroeconomic-policy-interdependence-and-the-g-20/

[30] A beggar-thy-neighbour policy is "a policy that seeks benefits for one country at the expense of others, or tries to cure an economic problem in one country by means which tend to worsen the problems of other countries." https://www.oxfordreference.com/view/10.1093/oi/authority.20110803095455931

[31] https://blogs.imf.org/2019/08/21/taming-the-currency-hype/

[32] Micro-prudential supervision is tasked with ensuring the stability of individual financial institutions.

[33] Macro-prudential policy is responsible for ensuring the stability of the banking and financial system as a whole, across individual institutions and over time. It is aimed at preventing and mitigating systemic risk.

28. As an illustration of the expenditures incurred in provider countries for promoting the stability of the financial system, table 6 shows the operating expenses of the Board of Governors of the US Federal Reserve, by division, office, or special account. At a minimum, USD 204 million could be considered as directly contributing to the stability of the financial system (financial stability - USD 13.1 million, supervision and regulation - USD 144.8 million, Reserve Bank Operations and Payment Systems - USD 46.3 million). To give another example, the European Central Bank's expenditures on banking supervision amounted to EUR 518 million in 2018[34]. It should be noted that these expenditures were fully covered by fees levied on the supervised entities.

Table 6. Operating expenses of the Board of Governors of the Federal Reserve, by division, office, or special account, 2017-18 (USD million)

Division, office, or special account	2017 budget	2017 actual	Variance 2017 actual to 2017 budget		2018 budget	Variance 2018 budget to 2017 actual	
			Amount	Percent		Amount	Percent
Research and Statistics	80.1	77.3	-2.8	-3.5	85.0	7.7	9.9
International Finance	33.4	31.6	-1.8	-5.5	34.7	3.1	9.9
Monetary Affairs	41.1	39.2	-1.9	-4.6	43.4	4.2	10.8
Financial Stability	12.7	11.8	-0.9	-7.1	13.1	1.3	11.2
Supervision and Regulation	143.4	133.8	-9.6	-6.7	144.8	11.0	8.2
Consumer and Community Affairs	35.3	34.1	-1.1	-3.2	37.6	3.5	10.2
Reserve Bank Operations and Payment Systems	44.7	41.7	-3.0	-6.8	46.3	4.6	11.1
Board Members	28.4	26.3	-2.1	-7.2	28.5	2.2	8.3
Secretary	11.3	11.2	-0.1	-0.7	12.0	0.7	6.3
Legal	32.1	29.5	-2.6	-8.0	32.0	2.5	8.3
Chief Operating Officer	17.7	16.6	-1.1	-6.1	19.2	2.6	15.4
Financial Management	12.8	12.4	-0.4	-3.5	13.1	0.7	5.8
Information Technology	116.0	111.1	-4.9	-4.2	118.2	7.1	6.4
IT income	-48.3	-48.4	-0.1	0.1	-52.8	-4.4	9.1
Management	137.0	133.7	-3.3	-2.4	137.7	4.0	3.0
Special projects[1]	16.4	12.4	-4.0	-24.4	14.5	2.1	17.1
Extraordinary items: strategic projects[2]	16.1	15.2	-0.8	-5.3	20.9	5.6	37.0
Survey of Consumer Finances[3]	0.6	0.7	0.1	10.3	1.2	0.5	74.1
Centrally managed benefits [4]	13.9	17.5	3.7	26.4	17.4	-0.2	-0.9
Total, Board operations	**744.6**	**707.8**	**-36.7**	**-4.9**	**766.7**	**58.9**	**8.3**
Office of Inspector General	34.3	33.8	-0.4	-1.2	35.9	2.1	6.2

1. Includes centralized Boardwide benefit programs. Return to table
2. Includes several strategic projects, including the Martin Building renovation. Return to table
3. Previously, the Survey of Consumer Finances was reported with extraordinary items. Return to table
4. Includes retirement and post-retirement benefits, which fluctuate due to changes in actuarial assumptions and demographics. Return to table

Source: US Federal Reserve Annual Report
https://www.federalreserve.gov/publications/2017-ar-federal-system-budgets.htm

[34] See chart 17 in the ECB 2018 Annual Accounts https://www.ecb.europa.eu/pub/pdf/annrep/ar2018~d08cb4c623.en.pdf

2. Crisis management: bailing out financial institutions

29. In order to respond to financial crises, large liquidity support can be provided to the financial sector, in general by the Central Bank but sometimes also by the treasury. One of the main functions of Central Banks, as lenders of last resort, is to provide liquidity to the banking system in times of crises. Emergency liquidity assistance, to the financial system as a whole or to individual monetary and financial institutions, is seen as "a crucial tool for central banks in times of crisis, enabling them to ensure that payment and settlement systems remain operational"[35].

30. It could be argued that bailing out the financial sector in a specific country, particularly when its economy is large, supports international financial stability given the international spill over effects (see section II). However, here again the political impact of including these activities in TOSSD should be taken into consideration. The cost of bailing out the financial sector, in particular in large and advanced countries, can reach orders of magnitude that are disproportionately larger than the rest of the TOSSD activities, even larger than bailing out some advanced countries. For example, Deborah Lucas, an MIT Professor, has estimated that the total direct cost, on a fair value basis,[36] of crisis-related bailouts following the 2008 financial crisis in the US was about USD 498 billion, which amounted to 3.5 percent of gross domestic product in 2009[37]. On the one hand, including the related expenditures in TOSSD would provide transparency on their cost vis-à-vis other sustainable development areas. On the other hand, this would probably raise questions on the purpose of the measure and its relevance for tracking the financing of the SDGs.

3. Proposal

31. It is proposed to cover in TOSSD Pillar II, the following efforts undertaken in the provider country in support of international financial stability:

- Regulation and supervision of the financial sector
- Supervising the proper operation of the financial market infrastructure

32. At this stage, it is proposed to <u>not</u> cover official support provided for the purpose of bailing out the financial sector, given the large amounts involved and the potential controversies that this inclusion would trigger. It is also proposed to exclude national macroeconomic policy formulation given that it can be driven by domestic goals which can sometimes differ from those of other countries. However, Task Force members are invited to provide feedback on the relevance of excluding these activities.

33. Table 7 summarises the proposal of the Secretariat:

[35] See the speech of Luis de Guindos, Vice-President of the European Central Bank, on The ECB and Financial Stability https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181105.en.html

[36] Fair value accounting is the practice of measuring assets and liabilities at estimates of their current value.

[37] See Deborah Lucas, Measuring the Cost of Bailouts (2019) http://gcfp.mit.edu/wp-content/uploads/2019/02/BailoutsV12.pdf

Table 7. Proposal for reflecting efforts undertaken in the provider country in support of international financial stability

Activities in the provider country	Eligibility to TOSSD Pillar II
Macroeconomic policy formulation	No
Regulation and supervision of the financial sector	Yes
Supervising the financial infrastructure	Yes
Bailing out private institutions	Not at this stage.

Issues for discussion

- **Do Task Force members agree with the proposals in Table 7?**
- **Task Force members are invited to provide feedback on the exclusion from TOSSD of expenditures for bailing out the financial sector and for the formulation and conduct of national macroeconomic policies.**