What is critical here is your mind-set
Work on Long-term Trends and Uncertainties at the IMF

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As is the case with many other organizations, the International Monetary Fund (IMF) has been using scenario planning (SP) as part of its foresight work, known inside the building as ‘Long-term Trends and Uncertainties’ (LTU). Within the IMF Alberto Behar and Kristina Kostial, working as respectively Senior Economist on the Scenarios Team and Deputy Director in the Strategy, Policy and Review Department, work on a daily basis with these issues. In this article, they explain, together with Rafael Ramirez, Professor of Practice and Director of the Oxford Scenarios Programme, Said Business School and Green Templeton College, University of Oxford, and with Normann Partners, and who advised the IMF in this work, explain why and how this is done and provide some insights on how this type of foresight work has helped the IMF in doing its work.

Engaging with long-term challenges and being agile in the face of uncertainty enhances the IMF’s effectiveness

The IMF’s primary mission is to ensure the stability of the international monetary system. It does so in three ways: surveillance of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and giving practical help to members through capacity development.

IMF surveillance and lending programs involve rigorous analysis of developments with horizons of up to five years. Yet the global economy is undergoing longer-term transformations that subject the future to considerable uncertainty and complexity. So, the question arose of how to incorporate these aspects in our analysis.

By their nature, long-term transformations are subject to Knightian Uncertainty. Such “unknowable unknowns” contrast with quantifiable risks, which have implicit or modelled distributions derived from past relationships or data. Scenario planning (SP) engages such uncertainty, thus complementing the IMF’s more established methods for discussing and quantifying economic risks. SP helps us surface and challenge assumptions and explicitly map our different mental models through which to interpret events. Notably, SP recognizes diverging views as an indispensable asset because the Knightian future is unknowable.

IMF in its second round of building and using scenarios

With strong support from and engagement with our top-level management, we are experimenting in the IMF with establishing SP in the institution while not overly formalizing it. As a learning institution, the IMF emphasizes SP as a learning process – documents are inputs, not final products. So far, we have done two rounds of SP.

* The views expressed in this paper are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

1 In particular, we have used the Oxford Scenario Planning Approach (Ramirez & Wilkinson, 2016; Ramirez, Churchhouse, Palermo, and Hoffman, 2017).
The first round, which started in 2012, commenced with the preparation of LTUs, on which we sought feedback from senior officials and the IMF’s Executive Board. Based on these LTUs, senior managers - in a dedicated two-day workshop - developed a set of scenarios.

The second scenario round started in 2016 and is in progress at the time of this writing. Here we asked junior staff and guests from outside the Fund to build new scenarios structured along axes representing two key uncertainties (the deductive method). This approach differed from the one we used in first round, which did not have pre-imposed structures (the inductive method). Implications of the scenarios were then discussed by management and the Executive Board and also used by various departments to think about specific problem sets that are relevant to our 189 member countries.

The current scenario set considered possible future contexts the Fund may face over 25 years and is structured by two key uncertainties. First, how much might technological change enhancing humans (or not) have mattered for the economy directly (e.g., the future of work and global income distribution), and indirectly through how policymakers and regulatory frameworks act? Second, to what extent might societies have come to trust the ability of established institutions to deliver services amid such changes? How such uncertainties might play out is depicted using three scenarios (Figure 1).

**Circle of Trust:** Technology raises productivity and well-being. Political systems deliver stability amid pressures on wages and demand for social services. Distributed Ledger Technologies make transactions more efficient but add systemic risks and challenge traditional regulators.

**Twin Peaks:** Automation has progressed, winners take all, and trust in political systems is eroded. Activity concentrates in powerful centers. Wage compression causes a global recession prompted by a crisis in a large economy. Shockwaves split the global economy into two blocs.

**Tech Race:** Technology is well integrated, but information mismanagement creates distrust in data and institutions. Corporations, individuals, and governments are in a competitive struggle amid political, economic, and social fragmentation.

**Figure 1: 2042 Scenarios (produced in 2017)**

Source: IMF
How LTU has influenced our work

According to Jeremy Bentham, Shell’s Vice President who heads their scenario team, effective SP leaves ‘fingerprints’ on the insights it generates. We have found several marks of our SP on IMF work. Examples are presented in Box 1.

Box 1: LTU Fingerprints on the IMF’s Work

*Surveillance:* Thanks to recognizing their importance for global financial stability, formerly ‘emerging’ trends like inequality are now part of our surveillance. LTU helped us gear up to advise how countries can assist those left behind by technological change and global economic integration. Scenarios inform Early Warning Exercises, which aid surveillance through discussions of vulnerabilities to plausible though low probability and high-impact risks.

*Lending:* In response to the Ebola outbreak, we established the Catastrophe Containment and Relief Trust to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters within a very short time frame. SP sensitized us to how the Fund can help stop a non-economic trigger from causing a global snowball effect on economic growth and stability.

*Capacity Development:* The scenarios helped assess how technological changes affect members’ needs and the modes for assistance.

IMF experimenting in incorporating LTU more in operational work

Attempts to tie scenario planning to our work program continue to show promise. For instance, the IMF is working on identifying new surveillance priorities and reviewing how it might better conduct surveillance. We want this review to look at the future surveillance landscape through the lens of uncertainties concerning long-term economic prospects, while exploring challenges and opportunities for our member countries and the global economy. Also, the sub-Saharan Africa Fall 2018 Regional Economic Outlook features new purpose-built scenarios in a chapter on the future of work. The scenarios, which describe potential paths for technology, global economic integration, and climate change, call for openness to adapt development strategies. The scenario set, which will feature at a special event in sub-Saharan Africa in December, will inform our dialogue with sub-Saharan African countries.

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