

# IMF Interactions with Advanced Economies

## I. Introduction and Overview

1. This paper focuses on IMF interactions in advanced economies. Like the other country papers prepared for the evaluation, it looks at the evidence on whether interactions were effective and whether they were well managed in the group of countries under study. It focuses on interactions with the authorities of 30 advanced economies in a surveillance-only context—in as much as surveillance was the primary vehicle through which the Fund interacted with the authorities of these economies during 2001–08.<sup>1</sup> It also considers the Fund's interactions with other in-country stakeholders, especially as they affected interactions with the authorities.

2. The paper finds that IMF interactions with advanced economies had limited effectiveness. Many authorities had little interest in what the Fund could provide beyond an objective assessment of policies and prospects and a good exchange of views. Staff working on these economies saw their role as considerably broader in some areas than did their counterparts, for example in contributing to the international coordination of policies and/or the development of policy frameworks, and they expended much effort in these (and related) areas. But only minorities of authorities found the work compelling and the interactions engaging. More generally, the Fund lacked a convincing strategy for bridging differences between the authorities and staff on the scope of the Fund's engagement and for increasing the authorities' interest in the analysis it could provide. Nor was it successful in using the new transparency policy to enhance leverage, as many authorities discouraged media outreach when the messages were likely to be critical. Meanwhile, a desire (reinforced by management) to avoid displeasing the authorities, was a fact of life for staff working on the advanced economies, and a challenge to the independence of their analysis; the consequences for the identification and management of global risks were

especially troubling in respect to the large advanced economies, given their systemic importance. The paper identifies missed opportunities for strengthening country relationships, underpinned by weak staff incentives for interactions and uneven management attention.

3. The paper is organized as follows. The remainder of this chapter profiles the advanced economies and the evidence on which the chapter is based, and summarizes the policy guidance governing interactions during the evaluation period. Chapter II discusses interactions with the authorities of advanced economies. Chapter III discusses interactions with other in-country stakeholders. Chapter IV discusses the management of interactions with advanced economies. Chapter V concludes.

### A. Country coverage

4. The evaluation covers IMF interactions with 30 economies corresponding to the *World Economic Outlook (WEO)* definition of advanced economies.<sup>2</sup> Taken together, the 30 economies are large and systemically important by any measure: they had a combined GDP of close to \$41 trillion in 2008, amounting to 68 percent of global GDP measured with current exchange rates, or 54 percent of global GDP using purchasing-power-parity exchange rates; and, they accounted for more than 80 percent of worldwide stock market capitalization in 2008.

5. Within the group of advanced economies, the main report and this paper present the evidence for “large advanced economies” and “other advanced economies” as distinct subgroups; the G-7 economies constitute the large advanced economies and remaining 23 economies the other advanced economies. This is because the survey and interview data reveal important differences between the two groups of countries

<sup>1</sup>Aspects of interactions in the context of Financial Sector Assessment Programs (FSAPs) and multilateral surveillance were covered by earlier IEO evaluations. See IEO (2006a and 2006b).

<sup>2</sup>The evaluation used the October 2008 *WEO* to construct its country groups. The 30 advanced economies are: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Malta, Netherlands New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

in their perceptions about interactions with the Fund. The 30 advanced economies are managed by three IMF area departments: 22 of the 30 advanced economies are covered by the European Department (EUR); 6 are covered by the Asia and Pacific Department (APD); and 2 by the Western Hemisphere Department (WHD).

6. The evaluation uses a sample of ten advanced economies for more in-depth analysis. This subset comprises four large advanced economies—Germany, Japan, the United Kingdom, and the United States—and six smaller advanced countries—Australia, Austria, Korea, New Zealand, Sweden, and Switzerland.

## B. Evidence base

7. Sources of evidence for the paper include survey, documentary, and interview data developed specifically for the evaluation, as well as data drawn from previous evaluations.<sup>3</sup> The evaluation's extensive survey evidence covers the authorities and civil society organizations (CSOs) in the 30 advanced economies, and IMF staff working on these countries. The evaluation survey of country authorities was answered by 50 respondents from 28 advanced economies, for an overall country response rate of 83 percent.<sup>4</sup> Responses to the staff survey totaled 71, covering work on 29 advanced economies. The civil society survey received 155 responses from civil society representatives in 29 of the 30 advanced economies.

- The evaluation team reviewed the Fund's internal documentary record for the ten countries in the evaluation sample. The material included confidential briefing memoranda to management, mission back-to-office reports, and inter-departmental correspondence on related country issues. This material gave the IEO a window into internal debates about staff positions on particular issues, whether and how IMF management may have contributed to an issue, and how

country views influenced the internal debate and decisions.

- Country visits by the evaluation team to Australia, Germany, Japan, Switzerland, and the United Kingdom provided opportunities for in-depth interviews with a representative spectrum of authorities and others in those countries. The team also interviewed the U.S. authorities. In addition, taking advantage of the IMF Spring and Annual Meetings in Washington, plus teleconferences, the evaluation team interviewed at headquarters many representatives of the authorities and Fund staff who worked on the evaluation sample countries, and met with representatives from think tanks, market participants (including bankers), and the media. IEO staff also took advantage of travel related to other activities to interview authorities and stakeholders in nonsample countries. Broadly speaking, the interviews focused on what aspects of the Fund's interactions were most successful, what aspects were least successful, how far innovations in surveillance had been carried through at the country level and whether they had worked, suggestions for how the surveillance process could be better managed, and, in the case of nongovernment interviewees, what had been the nature of interactions with Fund staff.
- Other evidence includes material drawn from earlier IEO evaluations and several external analyses conducted in the context of this evaluation. In particular, the team examined previous evaluations of the Financial Sector Assessment Program (FSAP), multilateral surveillance, and the Fund's exchange rate advice (IEO 2006a, 2006b, and 2007)—and also several studies that were specially commissioned by IEO for this evaluation.

## C. Policies and guiding principles

8. The Fund's interactions with the advanced countries are, in the main, governed by its policies on bilateral surveillance, particularly exchange rates, and on financial sector surveillance. In turn, this guidance flows directly from the Articles of Agreement, in particular Article IV that states that "the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." The guidance to Fund staff on the conduct of surveillance, and recent conclusions of the Executive Board.<sup>5</sup> They are briefly summarized below.

<sup>3</sup>The evaluation managed risks of interpretation by applying judgment grounded in triangulation across different sources of evidence, which—as in all such endeavors—may contain measurement and/or interpretation errors. The evaluation survey was quite complex, with many questions and many respondents from a large number of countries; this raises the risk that some questions may have been interpreted differently by different recipients. Interview bias is a common feature of such evidence, subject to potential biases by both interviewers and interviewees. Finally, the use of the documentary evidence is, of course, also subject to bias, not the least of which is its having been written for another time and for another audience, one quite familiar with the Fund's culture and issues.

<sup>4</sup>For the authorities' survey in each economy, one questionnaire was sent to the ministry of finance and one to the central bank, with each requesting an institutional rather than a personal response.

<sup>5</sup>Guidance to staff on the conduct of bilateral surveillance is set out in "The 2007 Surveillance Decision: Revised Operational Guidance," June 2009, and the "Statement of

9. The guidance for interactions with advanced countries covers:

- *Policy dialogue.* Staff are expected to foster a frank policy dialogue to support members' receptiveness to Fund advice. The dialogue should include cross-country comparative studies to add value to policy discussions and, more generally, consultations should attempt to bring to bear other countries' experiences in addressing similar problems, drawing out policy implications. Spillover effects to and from others should be discussed where relevant.
- *Scope and selectivity.* Priority is for macro-economic issues related to external sustainability, vulnerability to balance of payments or currency crises, sustainable growth with price stability, and the systemic or regional impact of policies in large economies. Financial sector issues should receive thorough coverage. Bilateral surveillance should be informed by multilateral and regional surveillance.
- *Communication of policy messages.* To strengthen communication of the Fund's messages on policy, staff are encouraged to develop outreach programs and enhance contacts beyond authorities. Press conferences should be held after Article IV missions and/or Board meetings, unless departments see reasons not to hold them, notably if authorities object. Similar guidance is embodied in the conclusions of reviews of the Fund's policies on transparency and communications.<sup>6</sup> The Fund's 2008 Triennial Surveillance Review (TSR), for example, emphasized that "improvements in brevity, timeliness, and clarity, and a strategic delivery of a few key messages are also needed."

Surveillance Priorities," October 2008. This updates the "Guidance on Operational Aspects of the 2007 Surveillance Decision" which in turn replaced the May 2005 Surveillance Guidance Note, as well as two notes in December 2006 and February 2007 on implementing the Fund's Medium-Term Strategy, especially with respect to surveillance agendas. The 2005 Guidance Note replaced the Operational Guidance Note for Staff following the 2002 Biennial Surveillance Review; it consolidated guidance on issues bearing on surveillance contained in various notes and memoranda. Issued after the evaluation period, but relevant here, is new guidance for financial sector surveillance ("Financial Sector Guidance Note," April 24, 2009) that sets out: (i) how to identify risks to macro-financial stability; (ii) policy and regulatory considerations; and (iii) operational issues. There is also separate guidance for FSAPs and FSAP updates. See <http://www-int.imf.org/depts/pdr/Surveillance/Financial-Sector/FSAP/fsap-procedures-guide.pdf>; <http://www-int.imf.org/depts/pdr/Operational-Guidance/Surveillance-GNMay2005.doc>; <http://www.imf.org/external/np/pp/eng/2008/080408.pdf>; and <http://www-int.imf.org/depts/pdr/Operational-Guidance/SM02292.pdf>.

<sup>6</sup>See, for example, <http://www-int.imf.org/depts/pdr/Transparency-Publication/Guidance-Notes/Guidance-Note-April06.pdf>.

## II. IMF Interactions with the Authorities

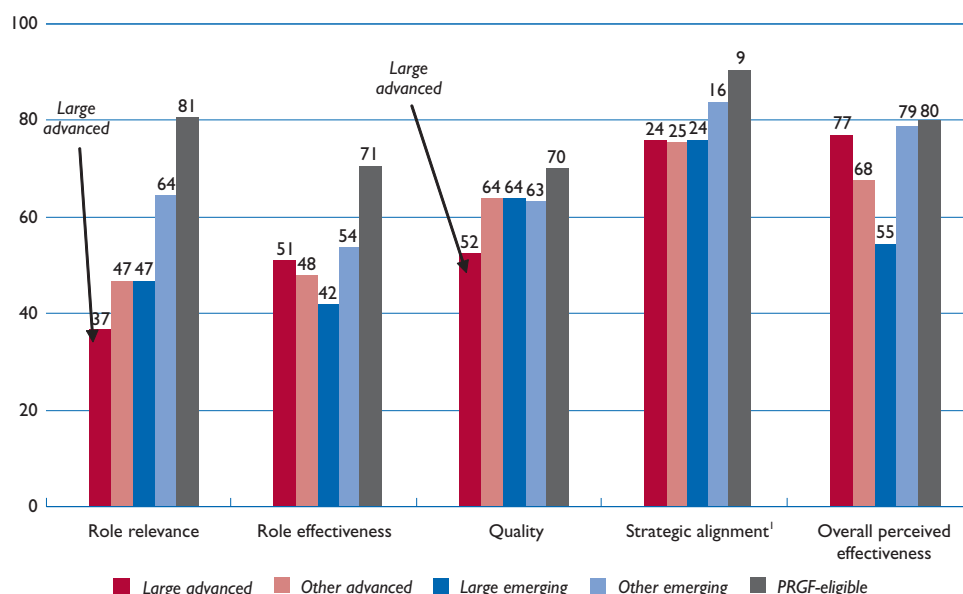
10. This chapter considers the evidence on the effectiveness of IMF interactions with the authorities of the advanced economies. It begins with the survey-based indicators of interactions developed in the main report, looking within their component parts for further insights about interactions with the authorities of advanced economies. It then turns to interactions on three specific themes of particular interest in the context of advanced economies, namely: (i) international policy coordination, including spillover analysis; (ii) cross-country analysis and sharing of the lessons of experience; and (iii) financial-sector/macro linkages.

11. The weight of the evidence considered in the chapter suggests that the Fund faced major challenges in its interactions with advanced economies over the evaluation period. The authorities of large advanced economies in particular were not enthusiastic about the relevance or effectiveness of Fund interactions with them in many roles that the staff thought quite important. And they rated the quality of many IMF activities as "average." Meanwhile staff in large majorities felt they expended much effort on what they saw as relevant and high-quality activities in their work on large advanced economies, although only a minority felt their interactions were actually effective. In respect to the individual themes considered in the chapter, the evidence suggests that staff produced many papers for the authorities, for the IMF Executive Board, and for external publication—but important exceptions notwithstanding, their official counterparts did not find the work compelling. For the other advanced economies, the conclusions are similar to these but generally less pronounced.

### A. Indicators of interactions

12. The main report uses survey-based indicators to compare the country groups' perceptions about different aspects of interactions. This section analyzes some of those indicators for the advanced economies in more depth, to see what insights they may provide about interactions with those countries.

13. Figure 1 reproduces the composite indicators of interactions from Box 2 of the main report. As shown, the large advanced economies' indicators are the lowest of all country groups for role relevance and quality. They are similar to other advanced and large emerging economies on strategic alignment (the difference between what the authorities wanted and what staff aim to do). And on the two measures of effectiveness shown in the chart, they provide a mixed picture, as they reflect different weights attached to various

**Figure 1. Composite Indicators of Interactions (Authorities' Results)**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the ten purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so ("a fair amount" or "very much").

roles.<sup>7</sup> The other advanced economies' indicators for relevance and quality were generally higher than those for the large advanced economies by some 20–25 percent, and somewhat lower for the role effectiveness and overall perceived effectiveness.

### Large advanced economies

14. How are these indicators to be understood? The indicators are composite scores, driven by micro-data derived from the underlying survey answers. For relevance, the underlying data is illustrated in Box 1, which shows that there are only two roles—(i) providing an independent assessment of policies and prospects and (ii) contributing to a good exchange of views whether or not there was an agreement—for which most large advanced economies wanted interactions with the Fund. And as illustrated in Box 2, these two roles are rated highly by the authorities; staff also rate both highly for relevance and

effectiveness. Meanwhile, at the other end of the spectrum, there is a similar convergence, in which the authorities and staff agree that activities are low priority—such as monitoring support and capacity building.

15. But in between, it is more complicated—as large majorities of staff working on these countries think certain activities are priorities and the authorities do not. Indeed, as shown in the lower panel of Box 1, several of these activities go to the heart of how staff see their job, such as to contribute to the development of policy frameworks, public debate about policies, and—of heightened importance following the recent decision by the membership—the coordination of international policies. Yet only minorities of the authorities, as shown in the upper panel of Box 1, think these are important roles for the Fund. This “strategic dissonance,” coupled with the lack of support staff feel they get from management and senior staff when tensions arise with the authorities explains much of why staff working on the large advanced economies feel as they do about their effectiveness (Figure 2).<sup>8,9</sup>

<sup>7</sup>Taken together, one would expect low relevance and low quality to add up to low effectiveness. But as Figure 1 shows, they do not—at least not for overall perceived effectiveness. Among the survey respondents from the large advanced economies, 77 percent said that interactions were effective or very effective over 2007–08. The reconciliation of this relatively high score with the much lower scores for role relevance and quality (37 percent and 52 percent, respectively) lies in the fact that the authorities (implicitly) attach little value to the aspects they consider unimportant and low quality and much more weight to activities that matter to the large advanced economies and that the Fund does well. This can be seen by constructing an index including only the two most highly rated roles—which yields a score of 81 percent, compared with 51 percent for the broader measure of role effectiveness.

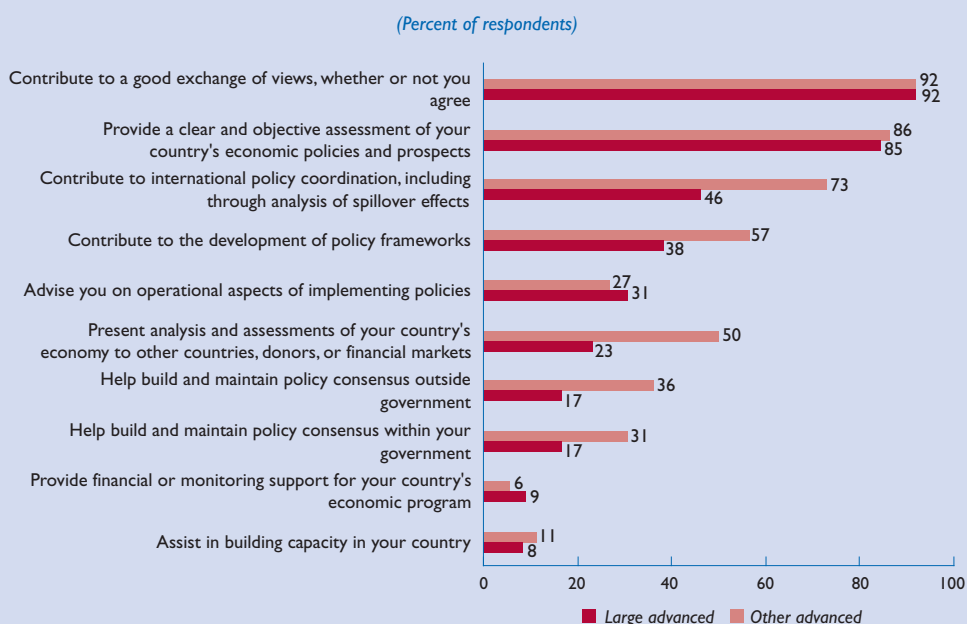
<sup>8</sup>The staff ratings show the usual pattern of much more positive quality and relevance scores by staff than the authorities. The twist here is on overall perceived effectiveness, for which the staff rating is extremely low—only 22 percent for 2001–08 (not shown), and 45 percent for 2007–08—notwithstanding much higher scores for role relevance and quality (61 percent and 75 percent, respectively). In turn, this reflects the high implicit weights the staff attach to individual roles with very low effectiveness scores, such as the Fund's contribution to the development of policy frameworks, international policy coordination, and the development of policy consensus outside government.

<sup>9</sup>Figure 9 later in the paper discusses the issue of management backing for staff in cases of disagreement.

### Box I. Relevance Indicator: Ten Roles

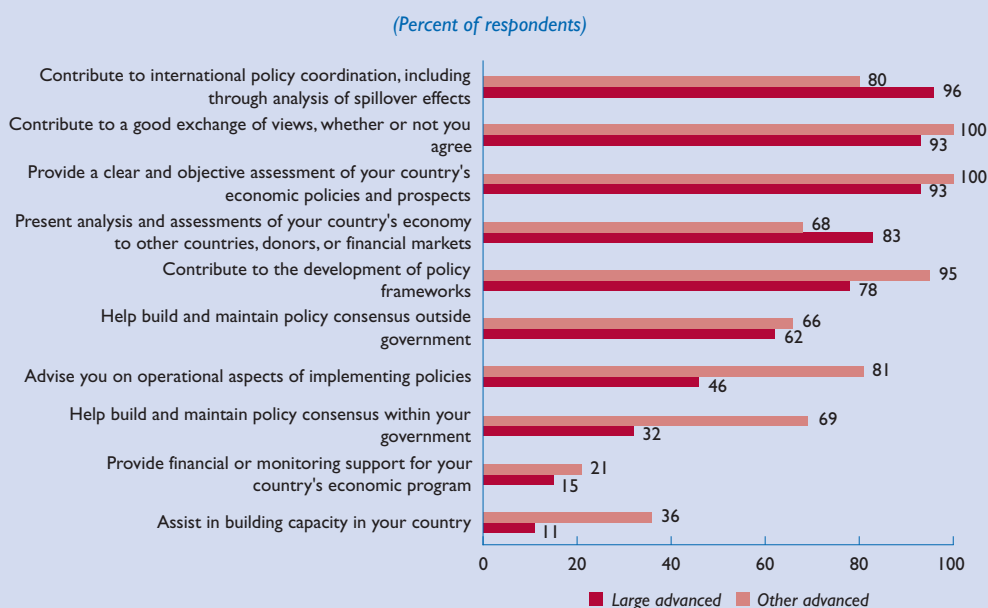
**Authorities.** The underlying survey data for the authorities' views on the ten roles and purposes is shown below. It shows the share of survey respondents of the large

advanced economies and the other advanced economies who said they had wanted the Fund to engage in a role "a fair amount" or "a great deal" over the past two years.



**Staff.** The underlying survey data for the staff views on the ten roles and purposes is shown below. It shows the share of staff survey respondents working on the large

advanced and other advanced economies who said they had aimed to carry out the particular role "a fair amount" or "a great deal" over the past two years.





### Box 2. Role Effectiveness: Authorities' and Staff Views

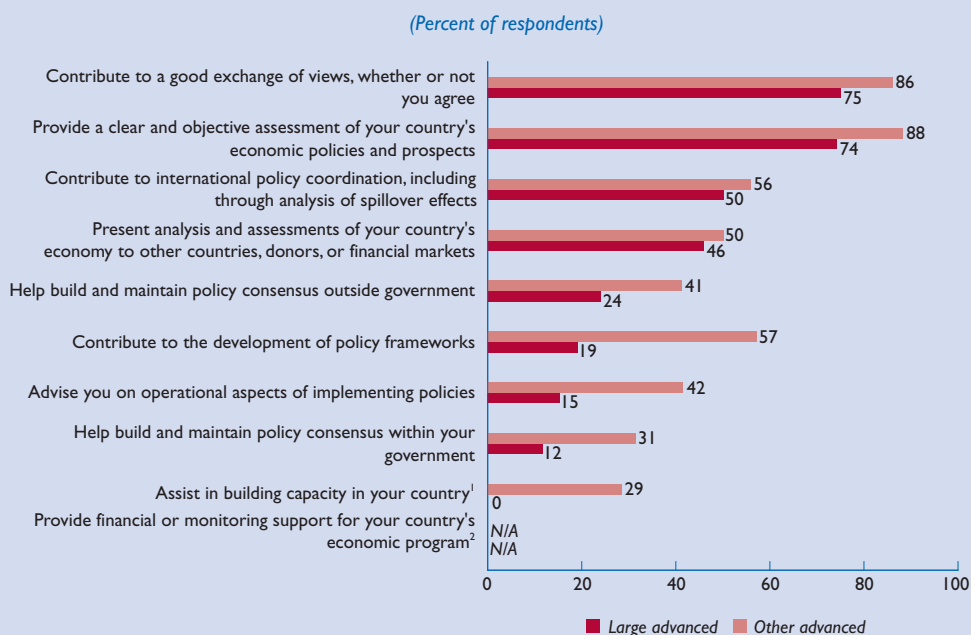
**Authorities.** Shown below is the share of authorities' survey respondents of the large and the other advanced economies who said that interactions in each of the

respective roles had been "effective" or "very effective" over the past two years.



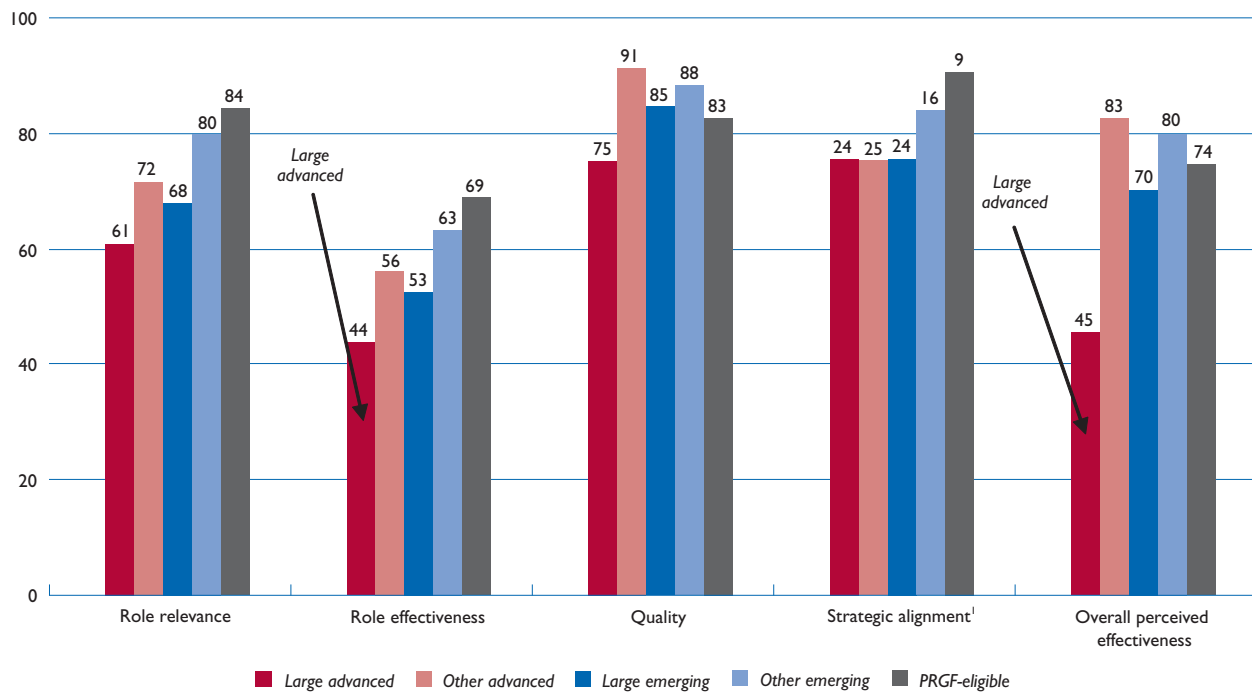
**Staff.** Shown below is the share of staff survey respondents working on the large and other advanced economies

who said interactions in each of the respective roles had been "effective" or "very effective" over the past two years.



<sup>1</sup>Includes only those who responded that their country received IMF technical assistance or training.

<sup>2</sup>Includes only those who responded that their country had an IMF financial or monitoring program.

**Figure 2. Composite Indicators of Interactions (Staff Results)**

<sup>1</sup>Inverted scale. The average absolute percentage point difference across the ten purposes between how much the authorities wanted the IMF to fulfill each purpose and how much staff aimed to do so ("a fair amount" or "very much").

16. There are two views about what drives the low interest of the authorities of the large advanced economies in some of these functions that staff see as key—a debate that is highly relevant to the challenge the institution now faces as it implements its new responsibilities on the coordination of policies. On one view, the authorities simply do not want staff (or other outsiders) at the policy table, especially on issues related to possible actions that they might be encouraged to take to avoid adverse spillovers to other countries. The other view focuses on quality, which is seen as not good enough to warrant a seat at the policy table. The evaluation took the view that an in-depth review of the quality of Fund products was beyond its scope, but it did ask authorities and staff about their perceptions of different dimensions of quality, as summarized in the quality indicators of Figures 1 and 2 and detailed in Box 3. In this context it is noteworthy that the large advanced economies rated quality lower than did any other country group, as shown in Figure 1.

17. Boxes 1–3 suggest strong differences between the authorities of the large advanced economies and staff views on virtually all polled issues. On quality and relevance, staff rate interactions 25 percentage points higher than the authorities. While on perceived overall effectiveness, they are more than 25 percentage points

below. These are wide variations by any measure, suggesting major disconnects between the authorities and staff on the fundamental purposes and results of interactions.

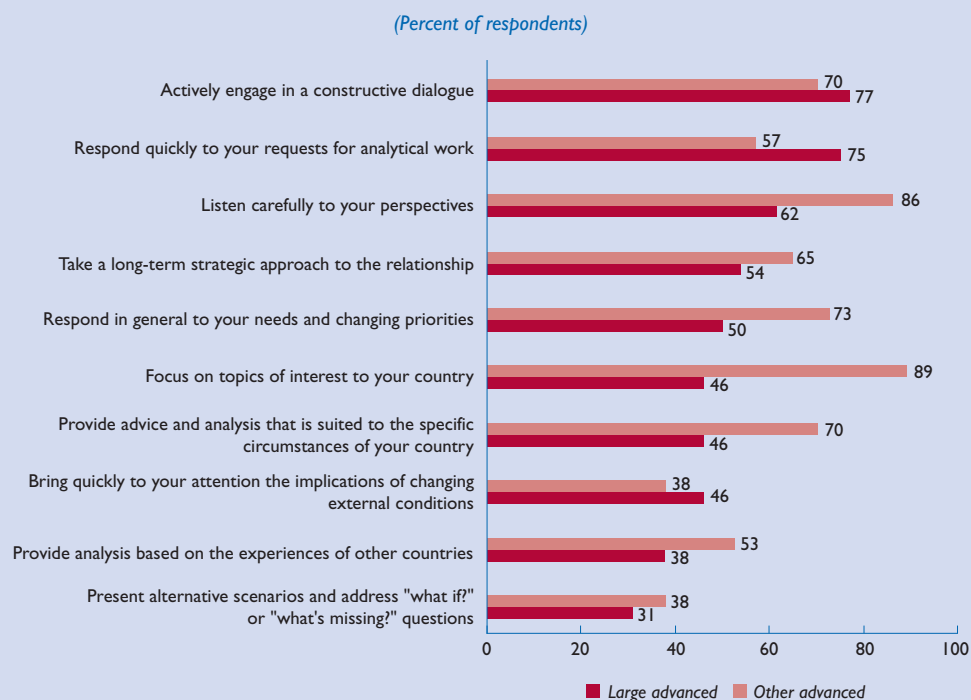
#### Other advanced economies

18. For the other advanced economies, the underlying relevance and quality indicators numbers are more favorable to the Fund than are those for the large advanced economies, but even these are not that high (47 percent and 64 percent, respectively). Conversely, staff have a much more positive view of interactions with them than with the large advanced economies. Large majorities of other advanced economies wanted Fund involvement on two additional roles beyond the two indicated by the large advanced economies, viz., contributing to the development of policy frameworks and to international policy coordination, including spillover analysis—two roles that are among the staff's top priorities as well. In terms of quality, majorities of the other advanced economies rated eight of the ten polled attributes as good or excellent. The other advanced economies' ratings for overall perceived effectiveness are lower than those of the large advanced economies (57 percent for 2001–08), but improving (68 percent for 2007–08).

### Box 3. Quality Indicator: Ten Attributes

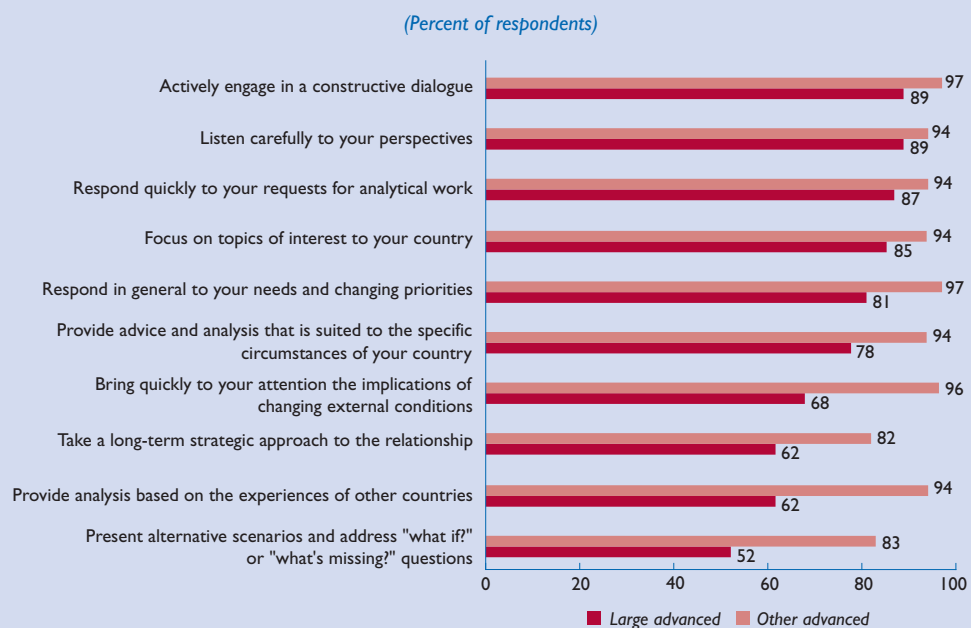
**Authorities.** Shown below is the share of authorities' survey respondents of the large and the other advanced economies who said the Fund had done a "good" or an

"excellent" job on the following ten attributes over the past two years.



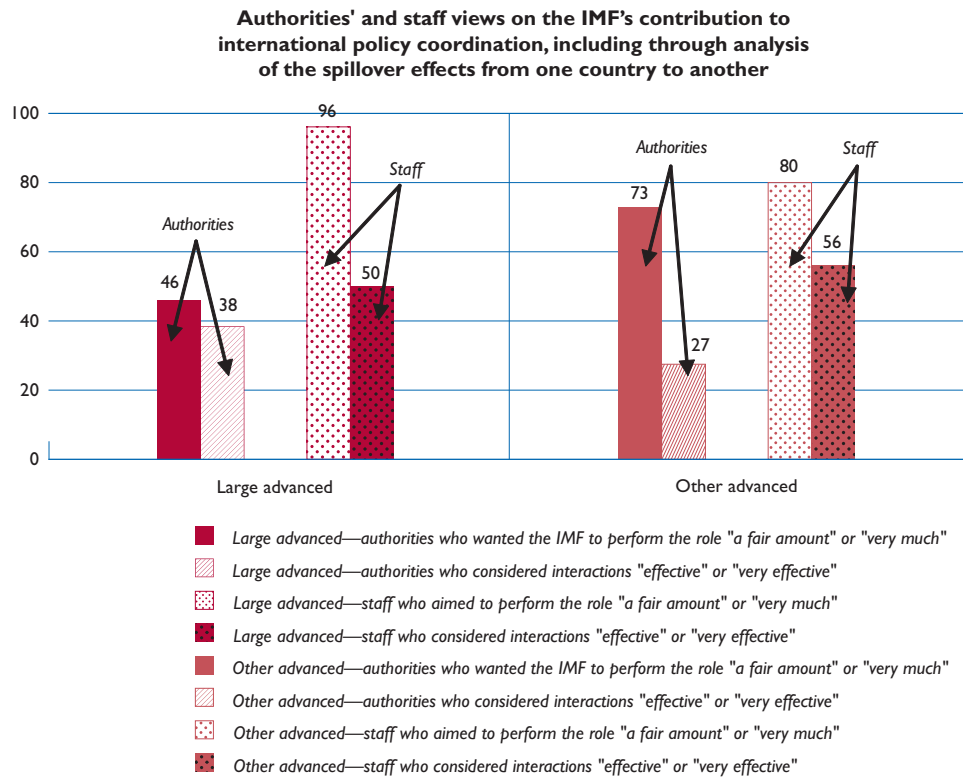
**Staff.** Shown below is the share of staff survey respondents working on the large and the other advanced economies who said the Fund had done a "good" or an

"excellent" job on the following ten attributes over the past two years.





**Figure 3. Views on International Policy Coordination, Including Analysis of Economic and Financial Spillovers**  
(Percent of respondents)



## B. Key themes

19. This section examines interactions in the context of three themes: (i) the Fund's contribution to international policy coordination, including the analysis of spillovers—a topic of increased interest going forward; (ii) cross-country analysis; and (iii) macro-financial sector linkages, drawing on the evaluation's more detailed survey, interview, and documentary evidence. It explores what lies behind the findings from the indicator analysis that the authorities of many advanced economies had serious doubts about the relevance, quality, and effectiveness of many Fund activities involving interactions with them, while staff felt they do high-quality and relevant work, albeit also of limited effectiveness.

### *International policy coordination, including spillover analysis*

20. Given the preponderance of systemically important countries among the advanced economies, a natural question concerns the Fund's role in and interactions on international policy coordination and the analysis of

economic and financial spillovers. This question was asked in the evaluation survey, and received decidedly different answers from different groups of respondents—including the large advanced economies, the other advanced economies, and the staff, as shown in Figure 3.

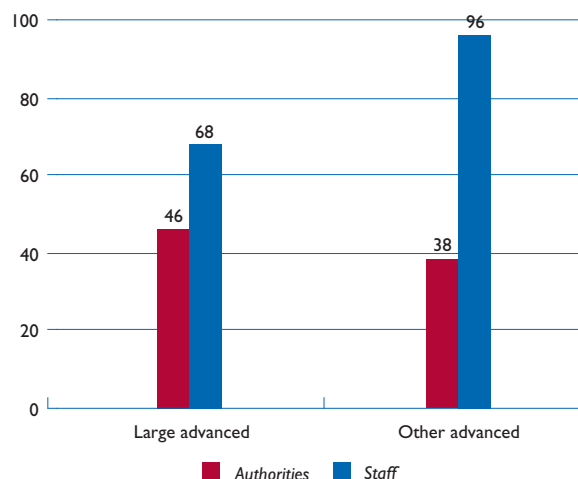
21. Most striking is the limited apparent interest of the large advanced economies in such activities. Among such survey respondents, fewer than half (46 percent) said they wanted the Fund to contribute to international policy coordination including the analysis of spillovers, while among the other advanced economy respondents 73 percent wanted the Fund to do it. Almost all staff (96 percent) working on large advanced economies, and 80 percent of those working on the other advanced countries, said they aimed to do it. On the effectiveness of this work, there is a greater meeting of minds between large advanced authorities and staff—40–50 percent said the Fund's analysis was effective or very effective. Among the other advanced economies, by contrast, only 27 percent of the authorities felt that the analysis was effective or very effective, while twice as many staff felt this way.

22. Article IV documents for the advanced economies are replete with examples of analytical work

on policy coordination, including the analysis of spillovers.<sup>10</sup> The internal documentary evidence reviewed by the evaluation team—including management feedback on mission briefs and back-to-office reports—suggests that senior staff and management continuously pushed staff to add to and sharpen the analysis of spillovers. With respect to the United States, for example, this work covered: the contribution of net trade with the United States to growth in its trading partners; the contribution of the U.S. current account deficit to Japanese and euro area surpluses; influences of the United States on the world economy through trade, stock markets, interest rates, and exchange rates; cross-country productivity growth and the U.S. current account deficit; and wealth spillovers from foreign holdings of U.S. assets. Non-U.S. examples include: the impact of yen depreciation on Asian economies and the impact of structural and fiscal reforms in Japan on global growth and external imbalances; the impact of growth in China on patterns of world trade; trade and investment linkages between China and Korea; interrelationships between U.S. and European growth and German economic growth, and the impact of growth spillovers from Germany elsewhere in Europe; the risks for New Zealand of its banks' dependence on international capital markets for funding; and the macroeconomic impact of immigration to the United Kingdom from central Europe.

23. Interviewees from large advanced economies were not impressed by all this material on policy coordination and spillover analysis, with doubts about Fund relevance and effectiveness recurring themes of the conversations. Rather, interviewees expressed a range of views, from dissatisfaction with what the Fund had done in this area to a lack of interest in the Fund's doing any more. In general, there was a lack of interest in discussions of spillovers and global imbalances, which some saw as the Fund's cue for going on about China's exchange rate, the U.S. fiscal deficit, and Europe's structural rigidities. One official observed that the Fund had failed to bring an international perspective to the Article IV consultation with his country. While a former official from a large advanced economy said that he and his colleagues had been struck by the view that the country had been given an easy time in its Article IV discussion. Echoing these views, a senior staff member working on a large advanced economy said that the ministry of finance has made it clear that there is little interest in Fund views other than spillovers to the country from the rest of the world. Another

**Figure 4. Changing External Conditions: How Well Has the Fund Done in Alerting the Authorities? Authorities' and Staff Views**  
(Percent of respondents who answered that the IMF did a "good" or an "excellent" job)



observer in a large advanced economy questioned whether and how the Fund was tying together its work and advice on major global financial centers.

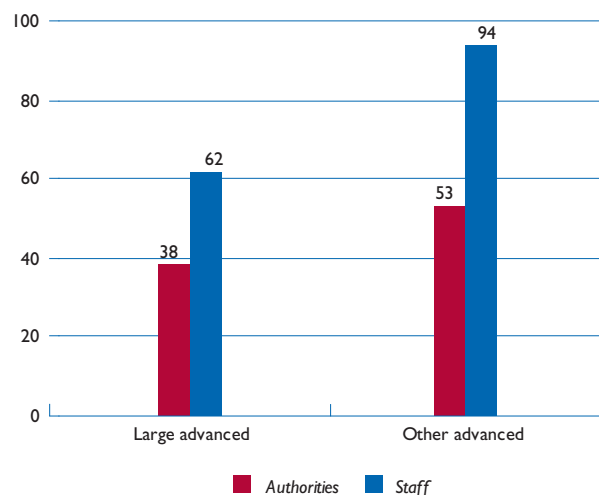
24. Officials from the other advanced economies saw things differently, but in the survey rated the effectiveness of interactions on international coordination even lower than did the large advanced economies. (See the right-hand panel of Figure 3.) They looked to the Fund for an analysis of spillovers emanating from the large advanced economies and other sources, and saw this function as central to the Fund's job. In light of the (then) unfolding financial crisis, some questioned why the Fund had not taken a more forthright stance delving into monetary and financial sector policies of large advanced economies that affected others (in particular pointing to the lack of U.S. participation in the FSAP). Others expressed their appreciation for the work the Fund had done on spillovers. One such interviewee said that work done on global approaches to various problems had been quite valuable.

25. In both the large and the other advanced economies, many of the authorities felt that the Fund had not effectively alerted them to the implications of changing external conditions (Figure 4). Only 46 percent of the survey respondents from large advanced economies said the Fund did a good or an excellent job in this role, and even fewer (38 percent) of those from other advanced economies said so. The staff, meanwhile, rated their own performance almost twice as highly: 68 percent of those working on large advanced economies, and 96 percent of those working on other advanced economies, said that staff did a good or an excellent job.

<sup>10</sup>For example, see the Fund's 2008 Triennial Surveillance Review, Thematic Findings, page 9, which cite multiple instances of spillover analysis for advanced economies in 2007: Austria, euro area (2), Hong Kong SAR, Iceland (3), Ireland, Japan (2), Korea (2), Malta, New Zealand, Portugal (2), United Kingdom (3), and United States (3).

**Figure 5. Cross-Country Analysis: How Did the Fund Do? Authorities' and Staff Views**

(Percent of respondents who answered that the IMF did a "good" or an "excellent" job)



### Cross-country analysis

26. The provision of analysis based on the experiences of comparator countries and lessons learned is one aspect in which the IMF work should be excellent. Is it? The survey and interview evidence provided by the authorities suggest that in the evaluation period it was not, although Fund staff did much relevant work towards this end.

27. Here too the evaluation survey results show wide differences between the authorities' and staff views on the Fund's work. As illustrated in Figure 5, only 38 percent of the surveyed authorities from large advanced economies and 53 percent of those in other advanced economies thought that in areas of its expertise and mandate the Fund did a good or excellent job of providing analysis based on the experience of other countries. Most of the remainder rated the Fund's performance "average," with 10–15 percent rating it "poor." Among staff, by contrast, more than 60 percent of those working on large advanced economies, and 94 percent of those working on other advanced countries, thought that the Fund had done a good job.

28. The evidence suggests that staff did a great deal of work in areas involving comparator and cross-country analysis. Much of this work was incorporated into the multilateral surveillance documents the *World Economic Outlook (WEO)* and the *Global Financial Stability Report (GFSR)*, and into the *Regional Economic Outlooks (REOs)*, all of which were meant to inform bilateral surveillance as well. During the evaluation period, the Fund also brokered country-to-country cross fertilization, as in presentations to the Austrian authorities on Canada's experience with

a large, front-end-loaded, expenditure-based fiscal adjustment. Cross-country analysis also took place through country team work on multiple countries, as in Australia and New Zealand, exploring methodological issues related to the estimation of equilibrium exchange rates, analyzing housing price developments, and understanding the impact of commodity prices on structural fiscal balances, including through comparisons with other OECD countries. Meanwhile, much cross-country research was done on topics such as inflation targeting, and sometimes the findings of that work provided the basis for advice to individual countries, such as Switzerland. Other examples from the evaluation sample countries include the pulling together of extensive cross-country evidence and analysis on taxes, government spending, and other variables and focusing it on the size and role of government in an individual country, such as Sweden.

29. Notwithstanding the staff effort on cross-country issues, the evaluation interviews suggest a failure to convert that effort into a systematic—and valued—feature of Fund interactions with advanced economies. Interviewed officials from advanced economies said that IMF missions' knowledge of relevant experience in other countries often seemed more a matter of happenstance, depending on which countries the team members had recently engaged with. But, as in other areas and on other topics, interviewees expressed a full range of views.

30. The authorities from large advanced economies expressed limited interest, at best, in the kind of cross-country analysis the Fund was providing. Published evidence suggests that even a country such as Canada, whose authorities were generally receptive to the Fund's advice, found that in the course of its Article IV consultation the Fund contributed too little that was new (Box 4). During the evaluation interviews with officials from large advanced economies, one interviewee did not see a need for any work on cross-fertilization from the Fund, while another wanted more, and a third said there was very little at present. Among staff working on large advanced economies, one said that he would be surprised to hear that the authorities were interested in the experiences of others, as they saw themselves as far ahead of their peers. Another said the Fund could and should do better on this. And a third stressed the importance of the Fund's functional departments in providing the essential cross-country perspective.

31. Interviewed officials from other advanced economies expressed much greater interest in cross-country analysis than those in the large advanced economies—but also, for the most part, greater dissatisfaction with the Fund's performance. Authorities generally complained that the Fund provided too little cross-country analysis. Some cited the erratic nature of the Fund's ability to advise on cross-country issues, and wished that the Fund had more to say about relevant

#### Box 4. Canada's Article IV Consultations: What's New?

A research paper by a Canadian academic examined Canada's experience with the Article IV process over the period 1999–2005.<sup>1</sup> The author interviewed Department of Finance officials and reviewed staff reports and selected issues papers. The paper found that Department of Finance officials:

- ✓ liked the mix of Fund staff and were not concerned with mission turnover;
- ✓ found staff to be competent, knowledgeable about Canada, and technically skilled;
- ✓ expected Fund staff to bring something to bear from their own or other countries;
- ✓ felt that Fund staff rarely contributed cross-country analysis and that the OECD performed better on structural issues and on providing “relevant policy advice that was usable;”
- ✓ welcomed the check on the robustness of the department's own analysis provided by the consultations—if anything, it was the best external review the department received;
- ✗ but in the end, thought that Fund staff did not really bring anything new to the table.

<sup>1</sup>See Momani (2006).

practices/experience in other countries. One interviewee put it more positively, saying that through interactions he hoped to receive recommendations based on international experiences.

#### Macro-financial linkages

32. The global financial crisis has shown yet again the importance of integrating macroeconomic and financial sector surveillance. This was a key recommendation from the IEO's 2006 *Evaluation of the Financial Sector Assessment Program*, which called for the links between the FSAP and surveillance to be strengthened, and suggested that in countries with important financial sectors the Article IV consultation should be fully integrated with an annual FSAP update, with a single integrated mission covering both.<sup>11</sup> That evaluation also suggested using a name-and-shame approach to encourage systemically important countries that had not yet volunteered for the FSAP, to do so. Today, among the advanced economies, the United States stands alone without an FSAP, although one has now been scheduled and the staff preparation is under way.

<sup>11</sup>See IEO (2006a).

33. The evaluation interviews with advanced economy officials pointed to progress in coordinating macroeconomic and financial sector surveillance, albeit with a long way still to go. Representative of the authorities' positive views, one official noted that the FSAP was a useful part of interactions, as indeed was the overall work on financial sector issues. Still another noted that the most successful staff visits had been in 2007 when IMF staff influenced the authorities and convinced them to act promptly on problem banks. Some authorities called for annual FSAP updates to be integrated into the Article IV process and most stressed the importance of close Fund involvement through the FSAP process. Authorities in smaller advanced countries were particularly in favor of an integrated approach, as several noted their desire to see annual FSAP updates integrated with Article IV. There was, however, a clear sense that more needed to be done. As one official from a large advanced economy put it: although the financial stability analysis had been combined better with the macro analysis over time, the two were still not well integrated; it was basically a question of two wings, and not a single bird. There was some positive commentary by banking sector interviewees, with one comment to the effect that the IMF is very valuable and influential on financial services issues, and another praising the FSAP. An interviewed journalist said that the IMF had covered the financial crisis well.

34. Several of the authorities commented that limitations in the Fund's financial sector skills constrained its ability to do financial sector surveillance. One official found the Fund's macro and financial sector knowledge to be broadly comparable to that of his authorities, noting that in both cases the specialist knowledge of the financial sector was lacking. Another felt that the IMF delegation is not capable enough to handle financial sector issues, and that there needs to be greater integration between traditional macro surveillance and financial sector surveillance. The financial sector, generally, was cited as a problem area for the Fund, with one authority of the view that the Fund needs to stay on top of financial sector issues and another suggesting that the IMF had done extensive work on financial sector issues in the past, but the main problem now was macro-prudential linkages. One interviewee gave a specific example of the Fund's financial sector deficiency, observing that for part of the evaluation period the mission team did not have the requisite nonbanking financial sector experience to be able to conduct a rigorous financial sector assessment. On balance, authorities in the smaller advanced economies were generally more content with staff technical skills, including on the financial sector. (The question of staff skills is examined further in Chapter IV below.) For example, one official from one of the other advanced economies said that an event had occurred during a staff visit, in which an important weakness in the regulatory



system surfaced. IMF staff convinced the authorities of the need to act promptly; they also provided concrete recommendations for legislation.

35. Staff who were interviewed stressed the challenges of integrating financial and macro surveillance—highlighting the specialized skills needed for financial sector analysis. In the words of one staff member, macro-financial analysis is difficult because there is no received wisdom and governments are reluctant to talk about it. Financial analysis must often be very detailed, requiring complex assessments of the quality of portfolios, risks to the fiscal sector, and linkages to the private sector, as well as implications for exchange rate policy and for the conduct of monetary policy. Corresponding to the views expressed by some authorities, several staff members see this type of expertise as lacking. One staff member said the Fund has not kept up with financial markets as it should have, while another said that Fund preparation on financial sector issues never got the staff onto the same page as the financial sector regulators. The structure of surveillance missions themselves was also cited by staff as having limited the effectiveness of the Fund's interactions concerning the financial sector. According to one staff member, good interactions require having the right person from MCM on the mission team, but since financial sector expertise is very micro, it is hard to get someone who knows every area. Similarly, another said that the team would have benefited from more in-depth analysis, but there is a limit as to what you can do with two to three MCM representatives on a team for two weeks, compared to the thirty staff members who work on an FSAP for two to three months. One staff member noted that Fund staff were in favor of combining Article IV and FSAP updates, but that the institution was not there yet.

36. Meanwhile, the internal documents that were provided for the evaluation point to increasing attention to financial sector issues in recent years.<sup>12</sup> Each of the 2007–08 surveillance assessments for the ten evaluation sample countries gave some prominence to financial topics, with some being quite specific and others simply stating that more work was to be done

on macro-financial linkages. In the large advanced economies, the work program included, in one case, an examination of options for strengthening deposit insurance and banking supervision; in another, an analysis of the efficiency of financial sector institutions; in a third, an analysis of, and planned input into, planned financial sector reforms; and an evaluation of financial sector stress and risks, building on the recent FSAP. Similar work program items were included in the surveillance agendas for the other advanced economies, such as an assessment of risks identified in a recent FSAP; monitoring the implementation of FSAP recommendations; the monitoring of bank exposure to foreign currency lending; and the development of recommendations to improve financial sector supervision. For one other advanced economy, the work included getting a better understanding of the linkages from financial sector development to potential growth.

### III. IMF Interactions with Other Stakeholders in Advanced Economies

37. Looking at IMF interactions with stakeholders beyond the monetary and fiscal authorities, this chapter examines recent developments in such interactions, and constraints on their effectiveness. It finds that an increasing amount of outreach took place to parliamentarians, civil society, the media, think tanks, and market participants over the evaluation period. It also finds very limited interest among the authorities of advanced economies in having the Fund engage in public discussions about their policies, especially through the media, which blocked a potential avenue for the staff to gain traction for its work on the advanced economies—a topic taken up in Chapter IV.

#### A. Recent developments

38. The Fund's transparency policy took effect at the beginning of the evaluation period, putting a premium on the publication of Article IV reports and related papers. Companion efforts to enhance Fund staff communications emphasized outreach to in-country stakeholders beyond the authorities—to parliamentarians as the countries' elected officials, to representatives of civil society as key constituencies, including the media as vehicles for getting messages out to the wider public, and market participants, with whom Fund staff had long interacted as part of its fact-finding work. Staff interactions with many of these stakeholders intensified during the evaluation period. For example:

- *Parliamentarians.* Staff interactions took place through seminars, meetings with visiting groups of parliamentarians at IMF headquarters and in the field, and management speeches to members

<sup>12</sup>The Fund's 2008 Triennial Surveillance Review (TSR) noted that financial sector surveillance now figured more prominently in area department business plans than hitherto and that more than 80 percent of mission chiefs felt they paid more attention to it than in the past. Stakeholder surveys carried out by SPR for the TSR suggest that staff reports added significant value in identifying vulnerabilities and macro-financial linkages across the three country groups, including the advanced economies. This said, the TSR's review of staff reports indicated that the IMF is generally better at identifying vulnerabilities than at analyzing the transmission of real economy-financial risks. It indicated that difficulties in identifying key risks and risk transmission hindered assessments of financial sector stability, while limitations in economic theory and in the empirical work on how the financial sector affects the real economy were arguably the biggest challenge for the economics profession.

of parliaments, often under the aegis of the Parliamentary Network of the World Bank. Documentary evidence for the evaluation sample countries shows that staff reached out to parliamentarians, including members of the National Diet of Japan, members of parliaments in Austria, Germany, Switzerland, and, since 2008, the United Kingdom and the United States.<sup>13</sup>

- *Civil society.* As noted in Chapter I of this paper, the evaluation survey of civil society received 155 responses from representatives of civil society in 29 advanced economies.<sup>14</sup> The large majority of responses were from private sector associations, think tanks, and academics, but also from many NGOs; relatively few were from the media and labor unions. Ninety-four respondents said that they had had interactions with Fund staff between 2001 and 2008. Their responses portray staff as respectful, listening, and aware of host-country cultures, though with lower scores on cultural sensitivities from the NGO representatives. Over half of the survey respondents who had met with staff did not answer the questions<sup>15</sup> on whether (i) their views were taken into account in IMF discussions with the government and (ii) their discussions with the IMF generally contributed to building national support and initiative towards “IMF-backed policies.” Of those who did answer, about 80 percent said their views had been reflected and about half said that their discussions had contributed to building national support for policies.
- *Trade unions.* According to the responses to an EXR survey of country teams carried out in 2007, staff had met with trade union representatives in the previous two years in 80 percent of the advanced economies; exceptions included Japan, the Netherlands, Switzerland, and the United States. The surveyed staff said they found the meetings to be useful in all cases, with almost half reporting that the meetings influenced the IMF’s policy advice, although those reporting such influence made very general observations on the nature of that influence, such as that “Labor market rigidities [were] one of the most important economic issues facing the country, as reflected in the country’s persistently high unemployment rate.”

<sup>13</sup>See Hammer and Warren (2009).

<sup>14</sup>Scholte (2009) covered Canada, France, and the United Kingdom among the advanced economies, although its focus was on PRGF-eligible countries and to a lesser extent the emerging economies. The report noted that the “largest number and the greatest depth of IMF interactions with civil society have so far always involved associations based in North America and Western Europe.”

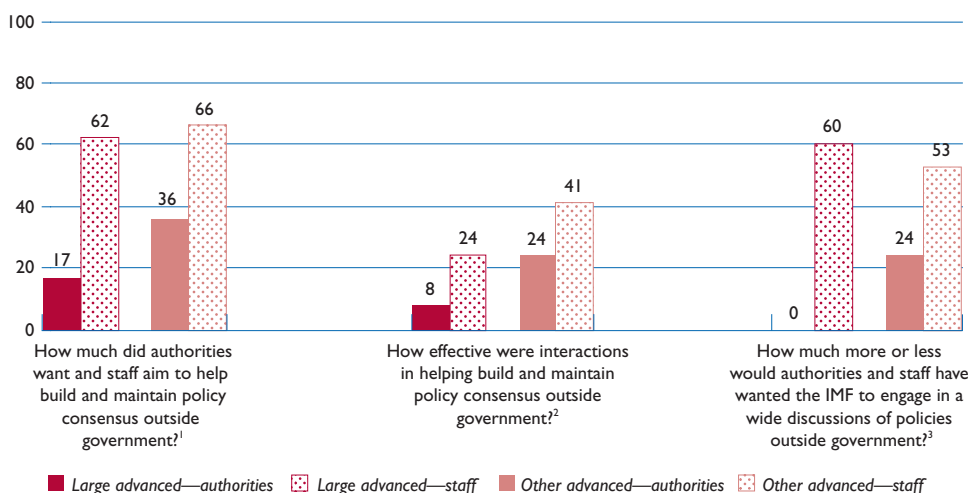
<sup>15</sup>“No response,” “not applicable,” or “don’t know.”

- *Market participants, think tanks, and academia:* In mid-2005, RES and area departments, especially the European Department, began conducting more outreach events associated with the *World Economic Outlook*. During the evaluation period, MCM and EXR worked to intensify outreach on the *GFSR* to financial markets and to the private sector, and greater efforts began to be made to use senior staff in outreach to key European financial centers. In October 2008, for the first time, the *WEO* and the *GFSR* were covered together during an international conference call in which analysts and academics from all over the world took part.
- *Media and other stakeholders.* IMF area departments also used *Regional Economic Outlooks (REOs)* to engage with the authorities and other stakeholders in member countries. EUR’s first *REO* was launched in London in 2007; the second in Frankfurt; and the third in Brussels. Along with country seminars and presentations, they provided opportunities for IMF senior staff to engage with technical staff, academics, and policymakers from a number of countries in the region, including in Austria, Belgium, France, Germany, Italy, and the Netherlands, and the United Kingdom. They also provided occasions for press briefings, conferences, and interviews, as well as meetings with other stakeholders. The presentations of APD’s many *REOs* were accompanied by outreach activities in major cities in the region, and at meetings of ASEAN and APEC. APD recently expanded its non-*REO*-related activities, both through media events and high-level regional seminars and conferences hosted by the Fund and also in collaboration with regional entities such as the Japan Bank for International Cooperation and the Hong Kong Monetary Authority. WHD’s *REOs* largely targeted the region’s emerging-market audience, with no events in Canada or in the United States.

## B. Constraints on more—and more effective—outreach

39. Fund staff faced considerable challenges in translating these outreach efforts into influence on policy debates within advanced economies during the evaluation period. In these countries, interactions with other stakeholders, especially the media, can in principle provide a source of traction which is otherwise in short supply. In underlining this point, one senior staff member stated that the overwhelming factor in the 2001–08 period was the transparency initiative, which led to a situation where the authorities



**Figure 6. Do the Authorities of Advanced Economies Want Outreach?**

<sup>1</sup>Share of respondents answering “a fair amount” or “very much.”

<sup>2</sup>Share of respondents answering “effective” or “very effective.”

<sup>3</sup>Share of respondents answering “somewhat more” or “much more.”

had a greater incentive to be interested in the work of the Fund because the media dimension became more important.

40. However, the survey evidence suggests that IMF outreach in their countries is not high on the advanced economies’ agenda, although staff see things differently. Indeed, as shown in Figure 6, only 17 percent of the respondents from large advanced economies and 36 percent of the respondents from the other advanced economies said they wanted the IMF to be involved at least to some extent in helping to build/maintain policy consensus through contacts outside government.<sup>16</sup> Asked whether the IMF was effective or not in this role, only 8 percent of the respondents from large advanced economies, and 24 percent of those from the other advanced economies, said the Fund was effective or very effective. The numbers for staff are much higher.

41. The evaluation survey also asked the authorities whether they wanted more, less, or about the same amount of outreach with a variety of groups going forward (Figure 7). The authorities from large advanced economies generally said they wanted “about the same” amount for parliamentarians, media, and CSOs, including think tanks, both before and after policy decisions were made. The only departure was with respect to market participants, for which 36 percent of the authorities from large advanced economies said they would like more outreach. The authorities

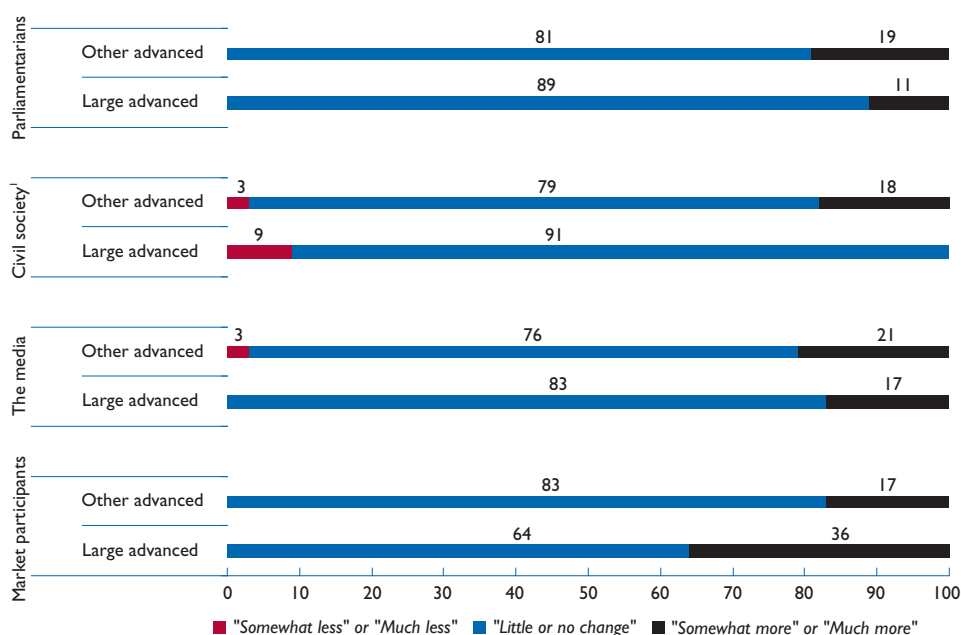
of other advanced economies wanted a little more outreach than the authorities from large advanced economies in most categories, but they did not highlight a need for extra outreach to market participants. The survey results also suggest that the authorities in the other advanced economies are more open to IMF engagement with civil society—80 percent of the civil society respondents in other advanced economies said that the authorities had encouraged their interactions with the Fund, compared with only 58 percent in the large advanced group.

42. Notwithstanding the limited enthusiasm for staff outreach indicated in the authorities’ survey responses, interviewed officials expressed an interest in the Fund doing more to communicate its views. One recurring suggestion was for greater use of end-of-mission roundtables with outsiders as well as officials, at which the conclusions could be presented and discussed. Another suggestion was to hold more seminars on particular country-specific issues—a move that would be strongly welcomed by think tanks, CSOs, and others. Interviewed officials generally supported the holding of end-of-mission press conferences, whose timing would be set in advance, even in countries where this is not yet the practice.

43. But internal documents and other interviews show that IMF staff pushed the authorities of several countries to do just this, to no avail. And the survey painted a different picture of the authorities’ views on such approaches. As shown in the right-hand panel of Figure 6, none of the respondents from the large advanced economies supported the idea

<sup>16</sup>The other response choices were framed in terms of “not very much” or “not at all.”

**Figure 7. Surveyed Authorities' Views on IMF Outreach: Do They Want More, Less, or About the Same?**  
(Percent of respondents)



<sup>1</sup>At an early stage of policy discussions.

of wider discussion through more public seminars and the like, and only 24 percent of the respondents from the other advanced economies wanted more.

44. The Fund website suggests that end-of-mission press conferences were held in only half the advanced economies during the evaluation period. Press conferences/calls associated with the publication of the Public Information Notice and the Staff Report took place in the remaining countries, with the exceptions of Australia and New Zealand. End-of-mission press conferences became more common over the course of the evaluation period, and the U.S. mission held a press conference for the first time in 2007. Among the large advanced economies, Canada (until recently), Japan, and the United States were the only countries that allowed this practice, with Switzerland among the other advanced economies. Among the evaluation sample countries, by 2008, all except New Zealand allowed for the publication of the concluding statement of the Article IV consultation mission.

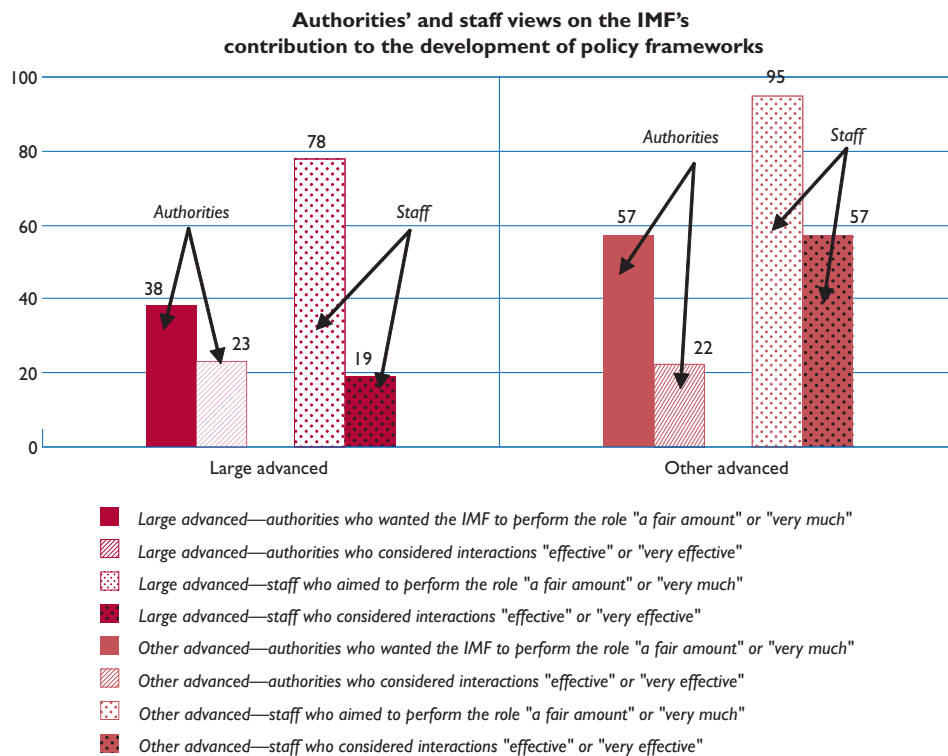
## IV. Management of Interactions

45. Were interactions with the advanced economies well managed? This chapter addresses three dimensions

of this question—strategy, staffing, and relationship management. It draws the following conclusions:

- First, and important also for the other findings, the Fund did not have an effective strategy for increasing the interest of advanced economies in interactions with it beyond a good exchange of views, especially in view of the limitations on outreach discussed above.
- Second, the management of staffing helped with the large advanced economies, as mission chief tenures were longer than elsewhere. But rapid turnover was a major complaint of the other advanced economies, both in the survey and in the interviews. Across the advanced economies, staff sometimes sacrificed candor for harmony in the relationship—an approach that reduced tensions with important shareholders but did not enhance effectiveness. Meanwhile, staff skills, while good, did not have the cutting-edge power needed to get/sustain the attention of some authorities.
- Third, and more broadly, the Fund's approach to relationship management was not systematic: it fell short on staff incentives; Fund management's own interactions with authorities was uneven; and there were missed opportunities to the relationship with country authorities as circumstances changed.

**Figure 8. Views on the Fund's Contribution to the Development of Policy Frameworks**  
(Percent of respondents)



### A. Strategy

46. As set out in Chapter I above, the Articles of Agreement require the Fund to exercise firm surveillance over members' exchange rate policies. Article IV staff guidance covers the provision of information on (i) the country's economic situation and outlook, (ii) confidential policy advice, and (iii) crucially for systemically important countries, the risk of international spillovers with adverse implications for external stability. Also, the guidance urges staff to "foster a frank policy dialogue that supports members' receptiveness to Fund advice."

47. Figure 8 captures the central strategic challenge that staff face in supporting the advanced countries' "receptiveness to Fund advice." While almost 80 percent of the surveyed staff working on the large advanced economies countries aimed to contribute to country policy frameworks, fewer than 40 percent of the surveyed officials from the large advanced economies said they wanted such contributions. For the other advanced economies, both numbers are slightly higher, but the disconnect between the authorities and staff is broadly the same. And in both cases, low effectiveness ratings followed.

48. But the scale of the disconnect between the authorities' and staff views on priorities for interactions went much further. As touched on in Chapter II and summarized in Box 5, there were very large differences between what the authorities thought were worthwhile activities for interactions and what staff thought. For the large advanced economies there were four roles for which the staff and the authorities had differences of view of between 40 and 60 percentage points. For the other advanced economies, there were similarly large differences between the authorities and staff on the purposes of interactions, but also several areas of agreement on high priority items (independent assessment and good exchange of views) and low priority items (programs and capacity building). These large differences raise questions about how such large differences in perspectives have persisted and their implications managed.

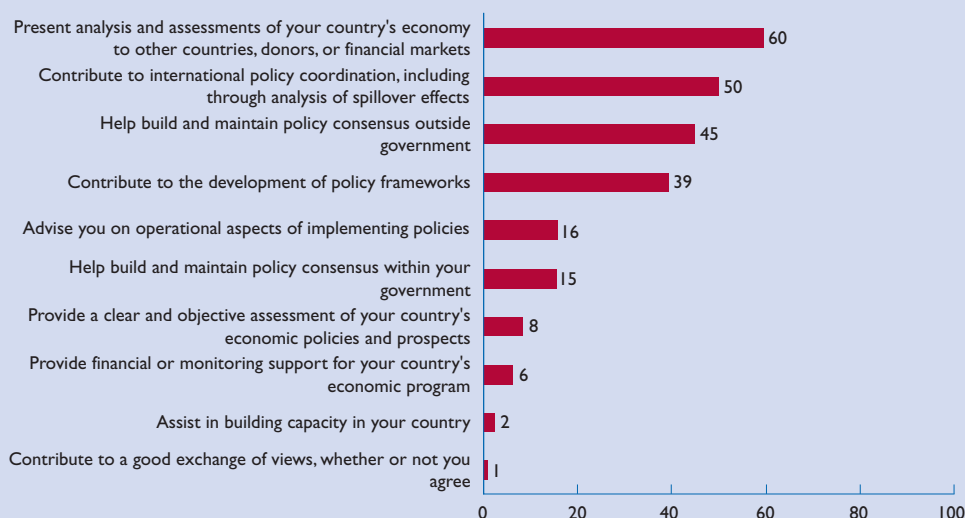
49. In this context, the evaluation evidence suggests the Fund lacked an effective strategy for bridging such large differences in perspective about the role of the Fund in the advanced economies. The picture that emerges from the interviews and internal documentary evidence, including the surveillance agendas—suggests a three-pronged strategy for the Fund's

### Box 5. Strategic Dissonance Between the Authorities of Advanced Economies and Staff

**Large advanced economies.** The figure below shows the underlying survey data on the relevance of ten queried purposes. For each of the ten items, it shows the proportion of staff working on the large advanced economies who responded that they had aimed to carry out the role

“a fair amount” or “a great deal” minus the proportions of the authorities of the large advanced economies who said they wanted the fund to engage in that role “a fair amount” or “a great deal.”

*(Percent of staff who thought IMF “aimed” to perform each role minus percent of authorities who “wanted” the IMF to do so)*



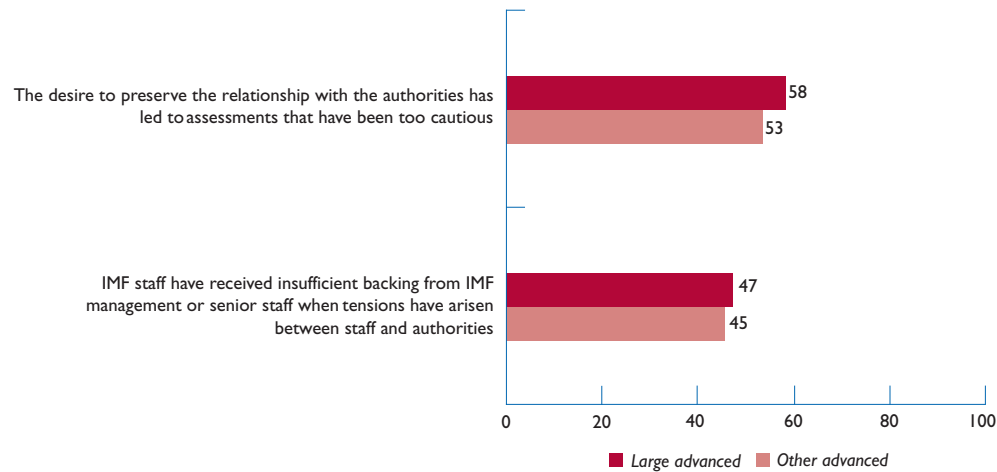
**Other advanced economies.** The figure below shows the underlying survey data on the relevance of ten queried purposes. For each of the ten items, it shows the proportion of staff working on the other advanced economies who responded that they had aimed to carry out the role

“a fair amount” or “a great deal” minus the proportions of the authorities of the other advanced economies who said they wanted the fund to engage in that role “a fair amount” or “a great deal.”

*(Percent of staff who thought IMF “aimed” to perform each role minus percent of authorities who “wanted” the IMF to do so)*



**Figure 9. Staff Views on Cautious Assessments and Management Support**  
(Percent of staff answering "strongly agree" or "agree")



approach to interactions with the advanced economies at the country-level, consisting of: (i) writing reports; (ii) avoiding conflict with the authorities; and (iii) to enhance traction, pursuing as much in-country outreach as the authorities felt comfortable with. But these efforts amounted to little more than swimming against the tide. Meanwhile, other evaluation evidence—from the surveys (see Figure 7, for example) and the authorities' interview evidence discussed in Chapter II—shows that the strategy failed to achieve effective interactions, especially in the large advanced economies.

50. Staff are clearly aware of the problem. As illustrated earlier in the chapter (in Figure 2), staff working on the large advanced economies rated the effectiveness of interactions much lower than did staff working on any other country group/subgroup, and lower than did the authorities of any country group/subgroup. Only 22 percent of staff survey respondents working on large advanced economies said they thought interactions were effective/very effective for the evaluation period as a whole and only 45 percent thought so for 2007–08, compared with 70–83 percent for the other four country groups. In other words: staff working on large advanced economies do not feel that they are getting through.

## B. Staffing

51. Discussed below are three staff-related issues highly relevant to strategy: staff independence and candor, skills, and continuity. On independence and candor, the evidence raises questions about staff independence in preparing and presenting professional assessments to the authorities; it also highlights the lack of institutional guidance and training to staff on managing trade-offs between candor on the one hand and

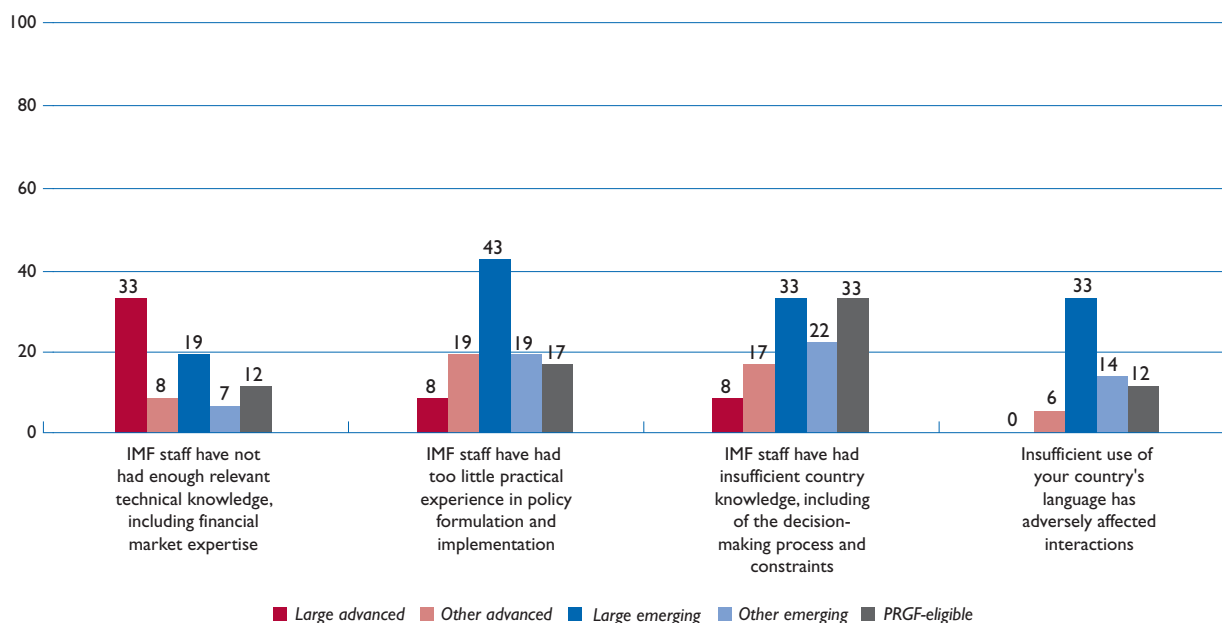
diplomacy on the other. On skills, the survey results for the large advanced economies and the interviews with officials from both the large and other advanced economies point to the importance of professional excellence for obtaining traction, and also communications skills for delivering tough messages. Finally, for the other advanced economies albeit not for the large advanced economies, limited staff continuity deterred the building of relationships of trust between the staff and the authorities.

## Professional independence and candor

52. The evaluation evidence suggests that management and staff strove to avoid disagreements with the authorities as far as possible, with very difficult implications for institutional integrity and staff morale. More than half of the surveyed staff working on advanced economies said that a desire to preserve the relationship had caused them to make assessments that were “too cautious,” as shown in Figure 9.<sup>17</sup> Asked whether they had received insufficient management support when tensions arose, 46 percent agreed or strongly agreed (47 percent of the staff working on large advanced economies and 45 percent of the staff working on other advanced economies).

53. Evaluation interviews generally corroborated the survey finding that staff had toned down their conclusions. One staff member said that their strategy was to try not to antagonize the authorities because of the risk that they would pick up the phone to management and complain. Another said management was

<sup>17</sup>These ratings suggest that staff are somewhat more cautious with advanced countries than with countries in other groups. See Figure 14 of the main report.

**Figure 10. Authorities' Views on IMF Staff Skills***(Percent of authorities who responded "agree" or "strongly agree")*

not inclined to push hard on sensitive issues such as banking reform. And yet another said management effectively told the team that they did not want the mission to say anything that the finance minister did not like. And from the authorities, one official of a large advanced economy was of the view that the staff message is generally not given firmly enough. And another said that there might be occasions where they would welcome stronger pressure from the Fund, either put confidentially to the minister or even in the concluding statement. Yet another confided that much effort is put into influencing the staff's final press statement to ensure that it is supportive of the authorities' policy. He also said that in his experience, mission chiefs have been too ready to tone down their conclusions at the last minute after discussion with officials.

54. But several of the interviews provided nuances. One staff member who had worked on large advanced economy said that when staff disagreed with the authorities' analysis, it was often professionally difficult to push back: given the depth of the analytic capability underpinning the authorities' position, it often seemed prudent to accept that position. In the view of one mission chief it is hard to add value when the other side has 30–40 Fund-level economists. Another wondered what five or six economists could bring to bear; the tendency was to give the authorities the benefit of doubt. Though several interviewees portrayed staff as cautious, and sometimes overly so, some saw the staff approach as

diplomatic and helpful for getting results. Indeed, as one government official said, it was helpful that the tone of exchanges and advice was not confrontational and that helps get things done.

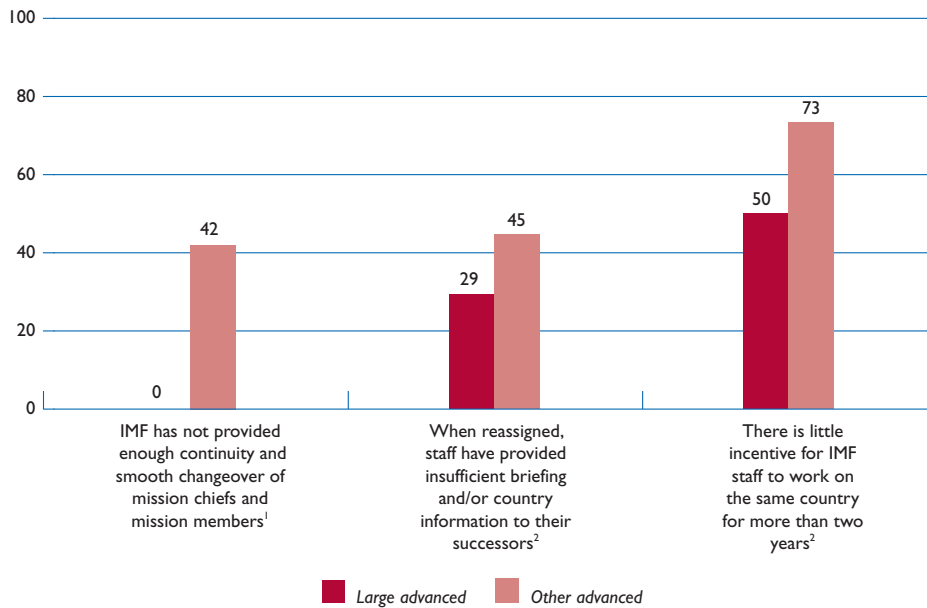
### Skills

55. Advanced economy authorities' responses to the evaluation survey generally portrayed staff as respectful, well prepared, and well educated. Figure 10 shows that survey respondents from the large advanced economies thought that Fund staff had adequate country knowledge and practical experience, but too little relevant technical knowledge, including financial sector expertise. Some of the authorities (fewer than 20 percent) from the other advanced economies voiced concern about the staff's country knowledge and practical experience in policy formulation. Figure 10 also suggests that IMF staff language skills were not a major issue in the advanced economies—either for the authorities from large and other advanced economies. This said, in interviews both national officials and staff noted that language skills were of course important, if mission chiefs were to interact with ministers in non-English-speaking countries and to help get a sense of the politics of a country.

56. The evaluation interviews also supported these generally favorable views about staff skills, albeit with a few concerns—again mostly on the financial sector. On the positive side, interviewees from one evalua-



**Figure 11. Staff Turnover and Continuity**  
(Percent of respondents)



<sup>1</sup>Percent of authority respondents who answered "agree" or "strongly agree."

<sup>2</sup>Percent of staff respondents who answered "agree" or "strongly agree."

tion sample country praised the strong professionalism of staff on macroeconomic issues; interviewees from another highlighted the staff's knowledgeable engagement on inflation targeting; and, from yet another, the quality of staff work on consumer debt levels and housing market valuations. On the negative side, interviewees from one country observed, as noted earlier, that for part of the evaluation period the mission team lacked enough experience of the nonbanking financial sector to be able to conduct a rigorous financial sector assessment.

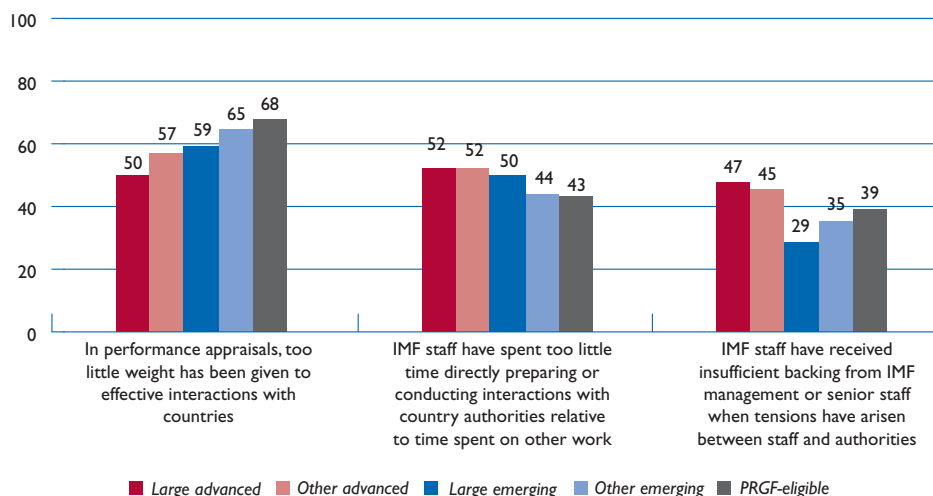
### Turnover

57. Staff continuity clearly affects the institutional relationship. In this context, IMF staff turnover was a concern for the authorities of many of the other advanced economies, though not for the authorities of the large advanced economies countries. As shown in Figure 11, more than 40 percent of the survey respondents from the other advanced economies said that the Fund had not provided enough continuity or a relatively smooth changeover of mission chiefs and mission members. None of the survey respondents from the large advanced economies shared this view.

58. This difference among the advanced country groups is also reflected in the staff survey responses. Half of the staff working on large advanced economies

and 73 percent of those working on other advanced economies said that staff had little or no incentive to work on a country for more than two years. The latter proportion is similar to those for the PRGF-eligible and emerging market country groups. In turn, these responses are consistent with the finding that the tenure of mission chiefs working on large advanced economies was roughly twice that for the other advanced economies. Also, 29 percent of the staff working on large advanced economies, and 45 percent of the staff working on other advanced economies, said that they had received too little briefing/handover from their predecessors.

59. Interviewed authorities expressed a range of views on the turnover issue. Some country officials were quite relaxed about staff turnover. Other officials—mostly from other advanced economies—saw staff turnover as a problem, echoing concerns raised by officials of some emerging economies and PRGF-eligible countries. Some highlighted the costs to the authorities of educating new mission chiefs about country conditions and institutions, while others said they thought that turnover had worsened, with many changes to the Article IV team and new members not as knowledgeable as those they replaced. But others thought things had improved, indicating that continuity in the discussions required that IMF staff turnover not be too rapid: this had been the case some years

**Figure 12. Staff Incentives for Interactions***(Percent of staff who responded “agree” or “strongly agree”)*

back and the situation is now better. These differences of view were also reflected in the survey results, and in the evaluation interviews with banking association members, one of whom said that turnover did not matter one way or the other, as there were no discernable differences between mission chiefs; all were experts with a clear view, while recognizing that differences in personal style reflected the variety of cultures of the different mission chiefs' home countries. However, another observer remarked that the costs of staff rotation should not be underestimated.

60. Interviewed staff spoke more generally about Fund turnover policies than about the specifics pertaining to the advanced economies. One mission chief said that excessive turnover of country teams was a major problem, and reflected the fact that management had sided with “staff vested interests” in frequent turnover. He deplored the fact that mistakes were made because the staff did not know about country-specific factors. Another noted that the institution does not nurture country specialists as did the OECD, for example.

### C. Relationship management

61. The authorities' responses to the survey gave mixed signals about how the Fund managed its relationship with them. As shown in Box 4 of the main report, all of the large advanced economies and 89 percent of the other advanced economy survey respondents said the Fund's relationship management was conducive to effective interactions. But far fewer of them rated highly the Fund's performance on long-term strategic approach to the relationship. Only 54 percent of the responding authorities from

large advanced economies (and 65 percent of those from other advanced economies) thought the Fund did a good or excellent job here, with about 38 percent of large advanced economy respondents (and 24 percent for other advanced economies) rating the Fund's performance as “average.”<sup>18</sup> Meanwhile, the BIS and ECB scored better in the survey questions on relationship management.

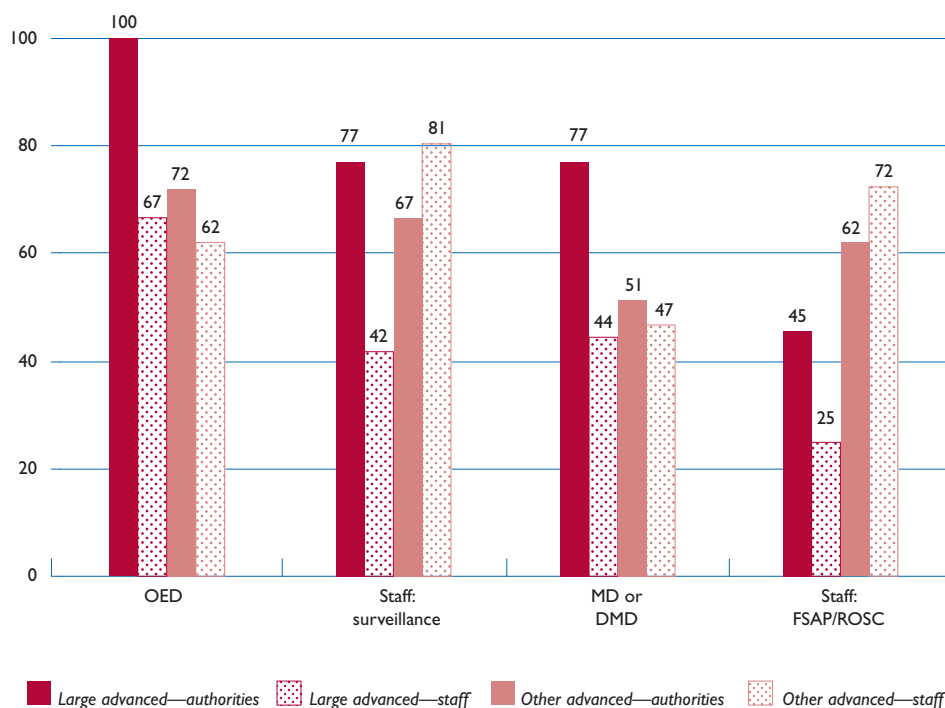
62. The evidence also points to several specific qualitative concerns, discussed below, including (i) staff incentives; (ii) the conduct of IMF management's interactions with the authorities; and (iii) the care with which the institution has addressed the particular sensitivities and concerns of country counterparts.

### Staff incentives for interaction

63. Area department staff said that face-to-face interactions with the authorities and other stakeholders were neither satisfactorily rewarded nor resourced. About 55 percent of staff respondents working on advanced economies said that such interactions with the authorities was given too little weight in their annual performance reviews. More than 50 percent said they thought too little time was devoted to interactions relative to other work. More than 45 percent reported not getting adequate support from senior staff and/or management on disagreements with the authorities. As Figure 12 shows, these concerns are not limited to staff

<sup>18</sup>Staff were more sanguine: 60 percent of those working on G-7 economies, and 82 percent of those working on other advanced economies, thought the Fund did a good or excellent job.

**Figure 13. Authorities' and Staff Views on IMF Interlocutors**  
(Percent of respondents)



Note: Shows the share of authorities who responded that interactions were “effective” or “very effective.” Results for staff working on FSAPs/ROSCs include only those who interacted with them.

working on the advanced economies, but rather are endemic across area department staff.

### Effectiveness of different interlocutors

64. The survey results suggest that some channels for interactions with the authorities were more effective than others, with IMF management the least effective of all. Figure 13 shows the responses of authorities and staff to the survey question on the effectiveness of three channels of interaction for the advanced economies—staff working on surveillance, staff working on FSAP/ROSCs, the Executive Directors’ offices, and IMF management. The highest survey ratings from the authorities of the large advanced economies and the other advanced economies went to the Executive Directors and their staff; and the lowest went to FSAP staff by the respondents from the large advanced economies, and to the Managing Director/Deputy Managing Director (MD/DMD) by respondents from the other advanced economies. The MD/DMDs scored much higher among the authorities from the large advanced economies. Among the staff, only 44 percent thought MD/DMDs interactions were effective. In interviews, a few staff pointed to instances when, in their

view, management had been ineffective in pursuing important issues during meetings with authorities.

### Missed opportunities

65. Interviews with authorities and staff point to a number of instances where the Fund missed opportunities to strengthen the country relationship. For example, the Fund lost influence with the authorities in a large advanced economy following a change in government that saw the retirement of a key individual who had been a conduit for, and actively sought, the Fund’s advice; subsequently mission staff could not re-establish substantive contact on a regular basis with senior management in the finance ministry and did not meet with the finance minister. In another large advanced economy, where there was a long tradition of interactions between the Fund and staff in the main economic institutions, Fund staff had access to officials at the highest levels, including very good access to the finance minister at mission-end; however, over the last few years of the evaluation period, Fund staff observed that senior officials tended to be less open, advancing the standard policy line and prepackaging the discussions, while meetings were short, and senior officials

did not appear to be actively engaged. In-country presence, in this case Korea, exemplified another type of missed opportunity: after a long period of rebuilding the relationship after the East Asia crisis, Fund management decided to close the resident representative office in Seoul, despite widespread advice to the contrary, to the effect that closure would undermine hard-won trust and constitute a significant loss of on-the-ground perspectives and ongoing contacts with banking and other groups.

## V. Conclusions

66. The evidence presented in this paper points to limited effectiveness of IMF interactions with the advanced economies, and especially the large advanced economies. The authorities of many of these countries had limited interest in the work the Fund could provide beyond an objective assessment of policies and prospects and an exchange of views, interactions they widely considered to be effective. One important topic on which most large advanced economies did not want to interact with the Fund on international coordination of policies and the analysis of economic and financial spillovers, for which they rated interactions as ineffective. The other advanced economies had greater interest in a Fund role here, but they also rated interactions on it as ineffective. In areas such as cross-country analysis and macro-sectoral linkages, the evidence considered suggests that staff did a lot of papers but did not succeed in making its mark with the advanced economies.

67. The Fund's transparency policy, launched at the start of the evaluation period, affected interactions in important ways. It clearly influenced interactions with stakeholders such as the media, contacts with which grew over the period. It also affected interactions with the authorities themselves. Fund staff saw the transparency initiative as a vehicle for gaining leverage with the authorities of the advanced economies, who now had to worry about what the Fund said. However, the authorities of some advanced economies that had been major proponents of the Fund's transparency policy in practice resisted the timely disclosure and dissemination of mission findings. This greatly diminished the scope for enhanced leverage.

68. In evaluating the management of interactions, the paper focused on strategy, staffing, and relationship management. On strategy, the evidence points to large differences between the authorities and staff on priorities for interactions. It also suggests the Fund lacked an effective strategy for bridging these differences and for increasing the authorities' interest in the analysis it could provide. On staff-related issues, a particularly troubling finding—emerging from the evaluation interviews with the authorities and staff as well as from the staff survey—is that a desire to preserve the country relationship (and possibly protect their careers) had led to assessments that were too cautious. Clearly a desire to please the authorities, or at least to avoid displeasing them, was a fact of life for staff working on the advanced economies, and a challenge to the independence of their analysis. On relationship management, the paper found missed opportunities for strengthening the country relationship, underpinned by weak staff incentives.

## References

- Hammer, Michael, and Shana Warren, 2009, "Engagement of Parliamentarians with the IMF," IEO Background Paper BP/09/09 (Washington: IEO).
- Independent Evaluation Office of the International Monetary Fund (IEO), 2006a, *Report on the Evaluation of the Financial Sector Assessment Program* (Washington).
- \_\_\_\_\_, 2006b, *An Evaluation of the IMF's Multilateral Surveillance* (Washington).
- \_\_\_\_\_, 2007, *IEO Evaluation of IMF Exchange Rate Policy Advice, 1999–2005* (Washington).
- \_\_\_\_\_, 2009, *IMF Performance in the Run-Up to the Current Financial and Economic Crisis: An Issues Paper* (Washington).
- International Monetary Fund, 2009, "Triennial Surveillance Review" (Washington).
- Momani, Bessma, 2006, "Assessing the Utility of, and Measuring Learning from, Canada's IMF Article IV Consultations," *Canadian Journal of Political Science*, Vol. 39, No. 2 (June), pp. 249–69.
- Scholte, Jan Aart, 2009, "IMF Interactions with Member Countries: The Civil Society Dimension," IEO Background Paper BP/09/08 (Washington: IEO).