HISTORICAL AND LEGAL BACKGROUND

A HISTORY OF RESPONDING TO MEMBERS' NEEDS: MANDATE IN MOTION

The history of the IMF and the evolution of its mandate have been characterized by continuous adaptation to a changing international economic landscape and the emerging needs of its member countries. Since its inception in 1944, the Fund has persistently adapted its instruments and policies to a changing world economic order. In 1952, the Stand-By Arrangement established a system of temporary lending and repurchases that set the basis for the Fund's lending policy, subsequently enlarged with a succession of numerous lending facilities to respond to the differing needs of members for BOP support, including in responding to exogenous shocks, structural challenges, and emergency and ad hoc needs (see Figure 2). The Fund has also progressively modified its surveillance to adapt it, for instance, to the collapse of the Bretton Woods system in the 1970s (see Section 2.B), establishing a shared economic policy strategy through the "Partnership for Sustainable Global Growth"[4] following the fall of the Berlin Wall, and, in the wake of the Asian financial crisis, adopting the 1997 Amendment of the 1977 Decision on Surveillance Over Exchange Rate Policies (hereafter the 1977 Decision) to add sustainability of capital flows, and launching in 1999 the Financial Sector Assessment Program (FSAP) jointly with the World Bank, initially conducted on a voluntary basis. Other notable initiatives include the Fund's role in managing the Latin American debt crisis in the 1980s and the IMF–World Bank Heavily Indebted Poor Countries (HIPC) initiative in 1996, which provided debt relief to countries with unmanageable debt burdens and a strong commitment to reduce poverty.

The pace of reform has accelerated since the turn of the century, including catalytic changes following the Global Financial Crisis (GFC) and, more recently, adaptation to the COVID-19 pandemic, the war in Ukraine, and climate change. Prior to the GFC, a sharp decline in lending operations and deterioration in confidence in the Fund among emerging market economies (EMEs) led to growing questions about the IMF's continued relevance, which prompted a downsizing.[5] The GFC led to major policy reforms related to the Fund's resources, governance, surveillance, and lending, and to increased attention

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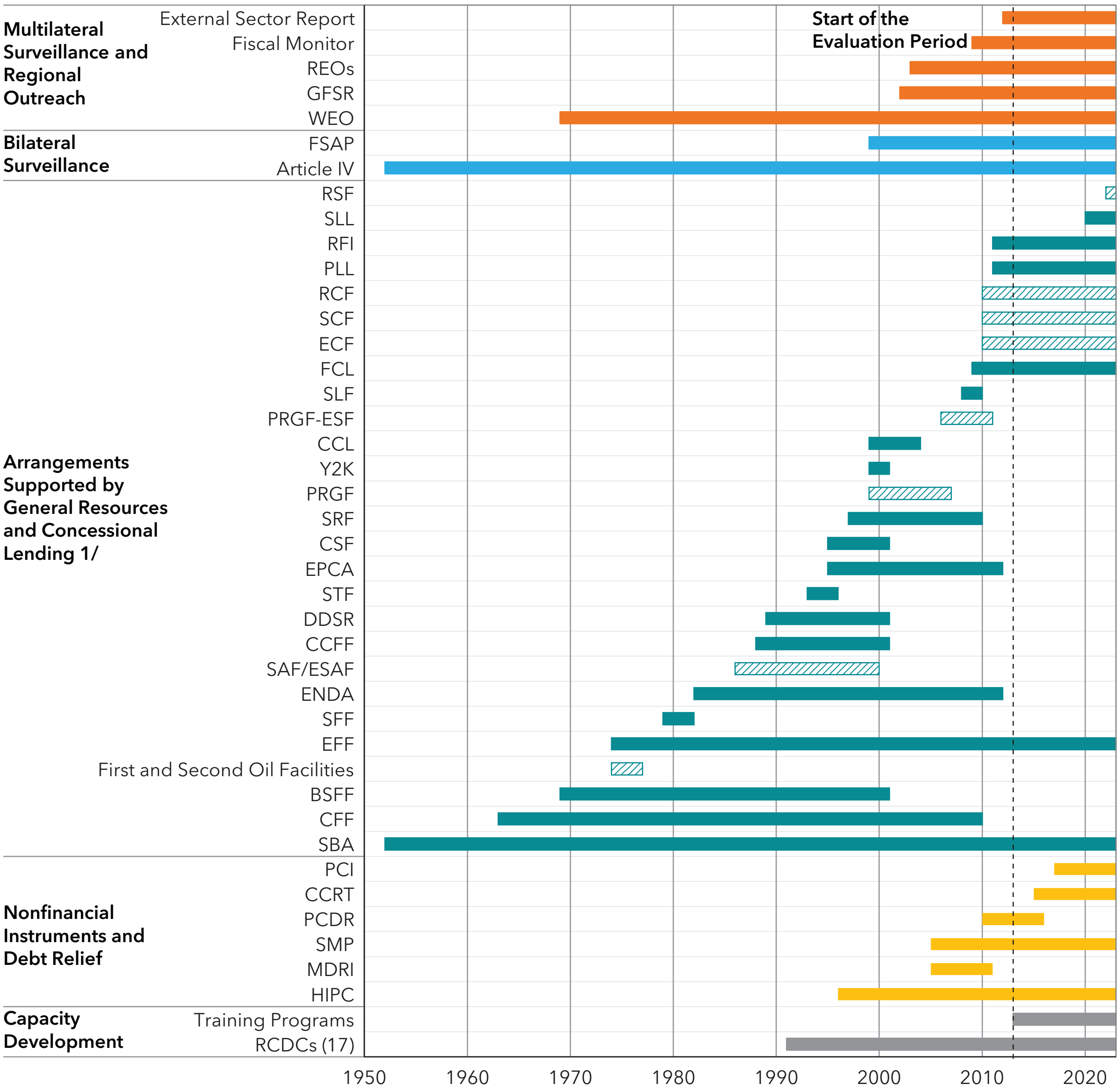
[4] The Partnership declaration was issued by the Interim Committee, the precursor of the IMFC. It outlined a common strategy promoted by the IMF for all countries that influenced the Fund's surveillance, which included objectives such as fiscal and monetary discipline, price stability, trade liberalization, freedom of capital movements, currency convertibility, market efficiency through structural reform, good governance, and sound banking systems (Interim Committee, 1996). For more in-depth information on the historical aspects of the evolving application of the IMF's mandate between 1944 and 2011, refer to Boughton (2024).

[5] Outstanding credit under the General Resources Account (GRA) fell to less than SDR 17 million by end-May 2008, from over SDR 47.5 billion in January 2004, as large creditors, such as Argentina, Brazil, and the Republic of Türkiye repaid their loans, and no large new arrangements were requested. Nearly 500 staff left the Fund between May 2008 and May 2009.

FIGURE 2. EVOLUTION OF FUND PRODUCTS, 1945–2023



Source: IEO staff.

Notes: BSFF = Buffer Stock Financing Facility; CCFF = Compensatory and Contingency Financing Facility; CCL = Contingent Credit Line; CFF = Compensatory Financing Facility; CCRT = Catastrophe Containment and Relief Trust; CSF = Currency Stabilization Fund; DDSR = Debt- and Debt-Service-Reduction; ECF = Extended Credit Facility; EFF = Extended Fund Facility; ENDA = Emergency Natural Disaster Assistance; EPCA = Emergency Post-Conflict Assistance; FCL = Flexible Credit Line; FSAP = Financial Sector Assessment Program; GFSR = Global Financial Stability Report; HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; PCDR = Post-Catastrophe Debt Relief; PCI = Policy Coordination Instrument; PLL = Precautionary and Liquidity Line; PRGF-ESF = Poverty Reduction and Growth Facility and Exogenous Shocks Facility; RCDC = Regional Capacity Development Center; RCF = Rapid Credit Facility; REO = Regional Economic Outlook; RFI = Rapid Financing Instrument; RSF = Resilience and Sustainability Facility; SAF/ESAF = Structural Adjustment Facility/Enhanced Structural Adjustment Facility; SBA = Stand-By Arrangement; SCF = Standby Credit Facility; SFF = Supplemental Financing Facility; SLF = Short-Term Liquidity Facility; SLL = Short-Term Liquidity Line; SMP = Staff Monitored Program; SRF = Supplemental Reserve Facility; STF = Systemic Transformation Facility; WEO = World Economic Outlook; Y2K = The Year 2000.

1/ Concessional lending and RSF facilities are shaded in green.

to financial stability, long-term growth potential, and addressing equity and inclusion issues.[6] More recently, in responding to the COVID-19 pandemic, the Fund moved swiftly, undertaking a wide range of measures, including providing prompt emergency financing support and approving a historically large US$650 billion general SDR allocation in 2021.[7] In 2022, the Fund activated a new Food Shock Window in its emergency lending framework to support addressing the global food shock that followed the war in Ukraine; and the Resilience and Sustainability Facility (RSF) to provide affordable long-term financing to low- and middle-income countries undertaking reforms to reduce risks to prospective BOP stability related to climate change and pandemic preparedness.

The evolving mandate is reflected in the systemic increase in Fund work, measured by its products and workstreams. Surveillance, lending, and CD products have increased considerably since the Fund's establishment (Figure 2 summarizes the evolution of the Fund's main products since 1945). Surveillance products have increased steadily. The number of annual Article IV reports has increased systematically as the membership expanded, with a growing range and complexity of topics covered, as have the FSAPs since they were added in 1999. Multilateral surveillance, which had mainly rested in the World Economic Outlook (WEO) since 1969, has gained significant depth since 2002, with a growing number of multilateral products and increased regional outreach with the Regional Economic Outlooks (REOs). The Fund's lending toolkit has also changed substantially. In this case, a number of facilities have been sunset or substituted by new, more updated ones. In delivering CD, the number of IMF Regional Capacity Development Centers has grown to 17 in 2023, from 2 in the early 1990s, while the framework for training programs has significantly expanded. In addition to products, Fund workstreams also have expanded, including enhanced information technology and statistical information, such as datasets and dashboards on newer policy areas, or increased engagement with other multinational fora and institutions. While each product and workstream has needed substantive institutional attention and human and budgetary resources (as we will see in Section 2), all this growth has been accomplished with the Fund's real budget remaining almost identical between 2003 and 2023 (see Figure 5).

THE EVOLVING APPLICATION OF THE IMF'S SURVEILLANCE MANDATE: ADAPTING TO CHANGE

The Fund's ability to continuously expand and deliver its work has been enabled by the built-in flexibility of the Articles of Agreement. The Articles accorded the Fund substantial leeway to interpret the mandate, introduce new policies, and operationalize the mandate as necessary through Board decisions. This built-in flexibility reflected the great uncertainty about how the world economy would evolve after the Second World War, and how member countries might call on the Fund to help them cope with new developments. While the term "mandate" is not specifically mentioned in the Articles, it has been interpreted as the Fund's purposes and powers as set forth in the Articles of Agreement and subsequently operationalized by successive Board decisions (IMF, 2010a). Consequently, an assessment of the IMF's surveillance mandate requires reference to both the Articles and to the ensuing Board decisions related to the mandate.

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[6] The GFC was unforeseen and led to major reforms, including the quadrupling of Fund resources to about US$1 trillion by 2013 through a doubling of quotas and enhanced bilateral lending. Other reforms were the 2010 governance reform, which realigned quotas and increased the weight of EMEs; the activation of precautionary lending through the Flexible and Precautionary Credit Lines; and the revision of surveillance to strengthen the analysis of interconnections of global markets, risk assessments, and macro and financial sector surveillance. From 2010, the Fund engaged in historically large-scale lending to Eurozone countries, in cooperation with the European Stability Mechanism, to address their fiscal and banking sector vulnerabilities (IEO, 2011; 2014; 2016).

[7] From March 2020–December 2021, the Fund approved 128 COVID-19 related commitments, totaling US$160 billion. Other reforms designed to respond to COVID-19 included temporarily increasing access limits of different lending facilities, approving a Short-Term Liquidity Line without ex post conditionality; revamping of the Catastrophe Containment and Relief Trust to provide relief on debt service owed to the Fund by the poorest member countries; and developing a fundraising strategy to increase the Poverty Reduction and Growth Trust's (PRGT's) loan and subsidy resources (IEO, 2023).

The current surveillance framework is anchored in Article IV as amended in 1978. The Second Amendment established the flexibility for members to choose their exchange rate arrangements and set out surveillance, lending, and technical assistance (TA) as distinct strands of the mandate. It was preceded by several years of instability following the collapse of the Bretton Woods system and followed the Board's 1977 Decision.[8] Following the Second Amendment, Fund members gained the autonomy to select their exchange arrangements and the scope of surveillance expanded to include members' policies beyond just exchange rate rules. This change was formalized through a revised Article IV, which introduced the obligation for the Fund to oversee the effective operation of the international monetary system (IMS) and members' exchange rate policies, among others. Hence, the Fund's surveillance mandate, as established in the Second Amendment (Article IV, Section 3), was twofold, and set the basis for "multilateral" and "bilateral" surveillance (Boughton, 2024).[9]

Following the 1978 amendment, the most consequential decisions taken by the Board in applying the Fund's mandate were the 2007 Decision and the 2012 ISD,[10] which set the current framework for the Fund's surveillance to engage in newer policy areas. As global imbalances widened in the mid-2000s, the Fund faced pressures to strengthen its surveillance efforts, particularly over exchange rate policies. Amending Article IV was not considered to be a practical solution, and efforts focused on ways to revise the 1977 Decision. The 2007 Decision did not alter members' obligations, and reformulated the Principles for the Guidance of Members' Policies under Article IV, Section 1.[11] Importantly, it elevated the financial sector as one of the core policies (IMF, 2007). This is a relevant example demonstrating the process whereby policy issues that were initially deemed to be "newer" areas of Fund work were subsequently integrated formally within the traditional core policies of the mandate (illustrated in Box 1). The ISD affirmed that the Fund's bilateral surveillance will focus on those policies "that can significantly influence present or prospective [BOP] and domestic stability," which has come to be known as the "macrocriticality" criterion (see Section 4.A). It also explicitly signaled four policies, i.e., exchange rate, monetary, fiscal, and financial sector policies as "always" being the subject of bilateral surveillance (both their macroeconomic aspects and macroeconomically relevant structural aspects). Coverage of other policies would be assessed against whether they met this macrocriticality criterion (IMF, 2012).

[8] Under the Bretton Woods system, the United States had agreed to fix the value of the U.S. dollar against gold, while other Fund members guaranteed the convertibility of their currencies into U.S. dollars within a narrow band around fixed parity rates.

[9] As noted in Boughton (2024), first, the Fund was to "oversee the international monetary system in order to ensure its effective operation, and [to] oversee the compliance of each member with its obligations," as specified in Section 1 of the new Article IV. Over time, the systemic oversight function came to be known as "multilateral surveillance." Second, the Fund was to "exercise firm surveillance over the exchange rate policies of members, and … adopt specific principles for the guidance of all members with respect to those policies." This second function, "bilateral surveillance," was the subject of the abovementioned 1977 Decision.

[10] For a more detailed discussion of the 2007 Decision on Bilateral Surveillance over Member's Policies (hereafter the 2007 Decision) and the 2012 ISD, including what elements of the ISD originated in the 2007 Decision, see Bossone (2024).

[11] In particular, the 2007 Decision clarified the distinction between members' obligations under Article IV and the desirable (but not required) goals for members' policies and introduced a new principle to cover the effects of exchange rate policies, not just the policies themselves, specifically by adding that: "A member should avoid exchange rate policies that result in external instability" (IMF, 2007).

BOX 1. OPERATIONALIZATION OF FINANCIAL SECTOR SURVEILLANCE

A relevant example of the evolution of the mandate and the mainstreaming and operationalization of newer areas into the core is that of financial sector surveillance. Before the 1990s, the Fund did not regularly include assessments of the soundness of the financial sector in Article IV consultations. This gap in surveillance and the need to focus on financial sectors and understand how financial weaknesses impacted macroeconomic aspects was evidenced in the Swedish, Mexican, and East Asian crises during the 1990s. An External Evaluation of Fund Surveillance in 1999 further stressed the need to place greater emphasis in surveillance on financial sector and capital market issues, and that more financial sector expertise was needed (IMF, 1999).

In response to these crises, the Fund launched three new vehicles to assess financial sector policies and conditions: the FSAP in 1999, the Global Financial Stability Report in 2002, and the Vulnerability Exercise for EMEs. These instruments paid particular attention to EMEs, seen at the time as the main potential sources of financial instability. The IMF also increased coverage of financial sector policies and conditions in Article IV consultations, as laid out in successive operational guidance notes for staff. In 2007, the Board clarified the aim of bilateral surveillance, centering on a country's external economic stability.

Organizational restructuring was also undertaken. In 2001, the International Capital Markets Department was created, which subsequently merged with the Monetary and Financial Systems Department in 2006. This merger led to the formation of the Monetary and Capital Markets Department (MCM), enhancing the integration of financial institution and capital market work.

The GFC further catalyzed the integration of financial sector surveillance into the core mandate. There was recognition that because of its global membership and governance and macroeconomic expertise, the IMF was well placed to identify and warn about financial and macrofinancial vulnerabilities and risks, and to provide an independent perspective to the collective efforts at regulatory reform. The IMF launched several initiatives to expand and strengthen financial surveillance, among them a decision to make financial stability assessments mandatory in 2010, with coverage at least every five years for jurisdictions with systemically important financial sectors (IMF, 2010b). While the 2007 Decision included the financial sector as part of the core policies, the expanded responsibilities were made explicit in the 2012 ISD and through the adoption of a new financial surveillance strategy (IEO, 2019a).

Sources: IEO (2011; 2019a); Boughton (2012); Towe (2024).

The ISD also integrated bilateral and multilateral surveillance, making Article IV consultations a vehicle for both types of surveillance, and providing guidance on the coverage of spillovers that could hinder the effective operation of the IMS. The 2007 Decision guided the Fund to cover spillovers in Article IV consultations only "to the extent that the member's policies undermine the promotion of its own external stability," and did not provide guidance on multilateral surveillance (IMF, 2007). The ISD subsequently established Article IV consultations as a vehicle for multilateral surveillance and guided the Fund to cover "the spillovers arising from policies of individual members that may significantly influence the effective operation of the international monetary system, for example by undermining global economic and financial stability" (IMF, 2012).[12] The ISD also implicitly distinguished between the coverage of spillovers in multilateral surveillance, which "focuses on outward spillovers arising from policies of individual members," and bilateral surveillance, which "covers the actual or potential impact of inward spillovers on a member's economic and financial stability" (IMF, 2021d).

Following the ISD, successive Board decisions further operationalized the surveillance coverage of newer policy areas. At the time of the ISD Board discussion, there was no consensus on a specific list of "other policies," nor was there an agreement on whether all or some of the policies impacted the membership. However, the principle that other policies could be examined if they were to significantly influence present or prospective BOP or domestic stability was agreed. This principle granted a considerable degree of discretion in determining the topics that could be covered. Following the ISD, the surveillance priorities and proposed criteria to operationalize the principles guiding Fund engagement on newer policy areas have been further clarified in the periodic surveillance reviews and subsequent staff guidance notes, as well as in the five specific policy strategies on governance, social spending, digital money, climate change, and gender, which are discussed further in this report (Figure 3). Annex 1 further analyzes the periodic surveillance reviews.

While these policy strategies provided specific details for their operationalization, the Board's approval only committed the Fund to their general terms in several cases. Formal Board meetings, such as those discussing the five specific strategies, can generally be delineated based on the type of proposal management puts forward. These proposals can take two forms: (i) a formal Decision that is drafted by the Legal Department, and (ii) a proposal for consideration. The governance strategy, for example, included a formal Decision to adopt specific text. The social spending, digital money, climate change, and gender strategies, by contrast, included proposals for consideration where the Board was agreeing to their general terms (e.g., the key elements or pillars) rather than the specific details. The ambition expressed publicly in these Board-approved strategies was therefore misaligned with the commitment imposed by the Board's decisions, creating a risk that country authorities and other external stakeholders either would put unsustainable demands on staff, or that the Fund would be unable to live up to the expectations of its members.

[12] The scope of multilateral surveillance is determined by the obligation of the Fund, under Article IV, Section 3(a), to "oversee the international monetary system in order to ensure its effective operation" (IMF, 2012).

FIGURE 3. KEY REVIEWS IN OPERATIONALIZING THE ISD

	Policy review	New policies or areas of engagement
2012	**INTEGRATED SURVEILLANCE DECISION**	Confirmed the four traditional core policies (exchange rate, monetary, fiscal, and financial sector) and specified the principles guiding engagement in additional policy areas.
2014	**TRIENNIAL SURVEILLANCE REVIEW**	Developed criteria to operationalize the principles guiding engagement in additional policy areas.
2015	**SURVEILLANCE GUIDANCE NOTE**	Further clarified the 2014 criteria for engagement in additional policy areas, as well as when and how to engage. Specified eight potential additional policy areas: jobs and growth, infrastructure, labor markets, social safety nets, public sector enterprises, governance, gender, and climate change.
2017	**APPROACH TO MACROFINANCIAL SURVEILLANCE**	Proposed to mainstream macrofinancial analysis in Article IV Consultations.
2018	**INTERIM SURVEILLANCE REVIEW**	Confirmed the 2012 ISD and 2014 criteria for engagement in additional policy areas. Recognized work done on governance, inequality, gender, and climate.
	GOVERNANCE POLICY STRATEGY	Articulated the principles that would underpin the Framework for Enhanced Fund Engagement to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding governance vulnerabilities, including corruption, that were judged to be macroeconomically critical.
2019	**SOCIAL SPENDING STRATEGY**	Outlined the scope, objectives, and boundaries of engagement and provides guidance on when and how to engage on social spending.
2021	**SUPPLEMENT TO THE 2015 SURVEILLANCE GUIDANCE NOTE**	Focused surveillance on the impact of the COVID-19 pandemic and expanded flexibility in terms of presentation of staff reports.
	COMPREHENSIVE SURVEILLANCE REVIEW	Confirmed the 2012 ISD and the 2014 criteria for engagement in additional policy areas. Recognized that the ISD is sufficiently flexible. Emphasized the concept of economic sustainability as a surveillance priority and specified five key policy areas: demographics, technological change, inequality, sociopolitical and geopolitical developments, and climate change.
	FSAP REVIEW	Emphasized the importance of climate, cyber, and fintech risks for financial stability and the need to address these issues in FSAPs.
	CLIMATE STRATEGY	Determined the need for a systematic and strategic integration of macrocritical aspects of climate change into the IMF's core activities. Proposed comprehensive coverage of climate-related policy challenges in Article IV consultations, expanding coverage of climate risk to all FSAPs, and scaling up of climate-related CD activity in line with member demand.
	DIGITAL MONEY STRATEGY	Determined a strategy for the Fund to strengthen, widen, and deepen its well-established work on digital money, while coordinating and collaborating closely with other institutions within the confines of its mandate.
2022	**SURVEILLANCE GUIDANCE NOTE**	Provided the most specific guidance on the coverage of governance and anti-corruption, inclusion (which includes social spending), climate, and gender.
	GENDER STRATEGY	The strategy comprised four key pillars: i. gender-disaggregated data collection and modeling tools for policy analysis; ii. a governance framework for an evenhanded approach based on gender macrocriticality; iii. strengthening collaboration with external partners; and iv. the efficient use of resources allocated to gender.

Source: IEO staff.