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BACKGROUND PAPER

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The IMF and Its Mandate—Financial Sector Surveillance

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Contents

Page

Abbreviations ____ iv

Executive Summary ____ v

I. Introduction ____ 1
A. Structure and Methodology of the Paper ____ 2

II. The Evolving Application of the Financial Surveillance Mandate ____ 3

III. Governance and Drivers of Change ____ 9

IV. Budget and Human Resource Issues ____ 18

V. Coordination ____ 23

VI. Overall Assessment ____ 30

Figures
1. Financial Sector Surveillance: Count of Relevant Paragraphs in Article IV Reports and Selected Issues Papers ____ 4
2. Financial Sector Surveillance: Count of Relevant Paragraphs in G7 and G20 Communiqués ____ 10
3. Financial Sector Surveillance: Count of Relevant Paragraphs in MD's GPAs, IMFC Communiqués, and Executive Board Work Programs ____ 11
4. Financial Sector Surveillance: Count of Relevant Paragraphs in Executive Board Budget Documents ____ 19

Annex
I. IMF Financial Surveillance—Key Milestones ____ 33

References ____ 36

ABBREVIATIONS

AD	Area Department (IMF)
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BIS	Bank for International Settlements
BOP	Balance of Payments
CD	Capacity Development
CFM	Capital Flow Management Measure
CSR	Comprehensive Surveillance Review
DGI	Data Gaps Initiative
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSS	Financial Sector Surveillance
FSSF	Financial Sector Stability Fund
FSSR	Financial Sector Stability Review
FTE	Full-Term Equivalent
GFC	Global Financial Crisis
GPA	Global Policy Agenda
ICM	International Capital Markets Department (IMF)
IMFC	International Monetary and Financial Committee
IPF	Integrated Policy Framework
ISD	Integrated Surveillance Decision
IV	Institutional View
MCM	Monetary and Capital Markets Department (IMF)
MPP	Macroprudential Policies
MTB	Medium-Term Budget
OECD	Organisation for Economic Co-operation and Development
SCSI	Standing Committee on Standards Implementation (FSB)
SDG	Sustainable Development Goal (United Nations)
SPR	Strategy, Policy and Review Department (IMF)
SSB	Standard Setting Body
TSR	Triennial Surveillance Review
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This paper reviews the significant expansion in the application of the IMF's mandate to cover financial sector issues in its macroeconomic surveillance in recent decades. This has often been driven by shortcomings in the Fund's surveillance that were exposed by crises—most notably the Mexican and Asian crises of the mid-1990s and the 2007–09 Global Financial Crisis (GFC)—but more recent expansions have also been driven by the Fund's growing interest in issues that had not previously been viewed as "macrocritical," including gender, financial inclusion, climate, and fintech.

In the context of the IEO's broader evaluation of the evolving application of the Fund's mandate, this study reviews the expansion of the Fund's financial surveillance since the GFC, with a particular emphasis on the 2012–23 period and focusing on governance processes. Rather than assessing the effectiveness of this expansion, the emphasis is on the governance processes that defined and operationalized these new applications of the financial surveillance mandate, with a focus on three specific questions: what were the key drivers for the expansion; how well were the budgetary and HR challenges dealt with; and to what extent were these new responsibilities coordinated with other agencies to avoid overlapping or inconsistent approaches?

Four case studies. Since the Fund's financial sector work has evolved in myriad different directions, the paper limits itself to examining four case studies: (i) the effort to integrate financial sector issues more effectively with the Fund's bilateral, "Article IV" surveillance; (ii) the extension of the Fund's surveillance to cover macroprudential policies; (iii) the decision to make financial stability assessments mandatory; and (iv) the introduction of a digital money strategy.

These cases illustrate important strengths in the Fund's governance of its financial sector surveillance mandate. Although these new applications of the mandate appear to have been largely driven by an internal recognition by Fund staff and management of the need to fill gaps in the Fund's surveillance toolkit, the Fund's existing governance processes meant that decisions were taken in close collaboration and consultation with the Fund's Board and the broader membership. Care was also taken to coordinate with other agencies that had an overlapping responsibility in these areas.

Despite these strengths, they also offer lessons that may be relevant for the future. These included the need for accompanying new applications of the mandate with clarity about how these would be resourced and coupling these with ex ante benchmarks to enable a monitoring and assessment of performance against initial commitments, including with regard to interagency coordination. To the extent that core mandates are funded by external donors, care should also be taken to ensure that these activities are still subject to normal Board oversight.

This study illustrates that internal processes can also be important for the effective execution of new applications of the mandate. These include management's active engagement in building internal consensus and driving change, the effective use of the Fund's internal accountability framework, and ensuring that new applications are clearly defined and clearly assigned to the Fund's area departments.

I. INTRODUCTION

1. **The scale and importance of the IMF's financial sector surveillance (FSS) has grown considerably since the mid-1990s, often in response to shortcomings exposed by crises**. Significant expansions in the Fund's surveillance of financial markets and institutions and in its related policy advice occurred in response to the Mexican and Asian crises of the mid-1990s and then again ten years later following the Global Financial Crisis (GFC). More recently, however, and somewhat more controversially, the application of the Fund's FSS mandate has also extended into non-traditional areas that had not previously been viewed as "macrocritical," including gender, financial inclusion, climate, and fintech.

2. **These expansions of FSS led to significant operational and policy changes for the Fund (Annex I) navigating the fact that the Fund's Articles did not fully anticipate the Fund's work in these areas**. These included a succession of steps to adapt bilateral surveillance modalities (e.g., the introduction in 1999 of assessments of financial stability under the Financial Sector Assessment Program (FSAP) and a series of measures to deepen the ability of the Fund to deliver effective financial policy advice); the introduction of new multilateral surveillance instruments (e.g., the inauguration of the Global Financial Stability Report (GFSR) in 2002); the introduction of new analytical tools (e.g., the vulnerability exercise and stress testing models); and significant organizational changes to facilitate delivery in these areas (e.g., the establishment of the International Capital Markets (ICM) Department in 2001 and its successor the Monetary and Capital Markets (MCM) Department in 2006). Decisions to widen the application of the Fund's surveillance mandate to cover financial sectors had to navigate the fact that the Fund's Articles did not fully anticipate the Fund's work in these areas (Takagi, 2018). Consistent with the Fund's governance structures these changes typically required a formal approval by the IMF's Executive Board. However, their genesis varied: many of the changes occurred in response to calls from the membership, but in many other instances the changes were initiated by the Fund's management and staff.

3. **This evolution and extension of FSS by the Fund also required consideration of the fact that these new responsibilities often overlapped with similar work done by other international bodies**. These included the World Bank, which was assigned a shared responsibility for financial sector assessments; the Financial Stability Board (FSB), which was assigned a shared responsibility for multilateral vulnerability assessments; the Bank for International Settlements (BIS), which also had responsibility for promoting international financial stability and the design of macroprudential and other financial stability frameworks; and the International financial standard setters, which had a shared interest in designing and assessing financial stability frameworks. And these overlapping responsibilities often meant that explicit steps were needed to avoid duplication and inconsistent approaches.

4. **In the context of the IEO's broader evaluation of the evolving application of the Fund's mandate, this paper reviews the expansion of the Fund's FSS since the 2007 GFC, with a particular emphasis on the 2012–23 period**. However, it should be noted at the outset

that this study does not seek to evaluate the effectiveness of these efforts, since this has been covered extensively in other recent IEO evaluations (e.g., IEO, 2019). Instead, the focus of this study is principally on the role of the Fund's governance structures in defining and operationalizing these new applications of the mandate. In particular, the following four questions are considered:

- *Evolution:* What were the key steps in the evolving application of the Fund's FSS mandate?
- *Governance and Drivers of Change:* What were the principal drivers of change, what criteria were used to justify these decisions, and how effective were the decision-making processes for broadening the Fund's in these new areas?
- *Budget and Human Resources Issues:* How well (and when) were budget and human resource issues considered and integrated in the evolving application of the mandate?
- *Coordination and Collaboration:* During and subsequent to the adoption of these new applications of the mandate, did the Fund coordinate and collaborate with other international organizations to maximize synergies and avoid overlap?

A. Structure and Methodology of the Paper

5. **Sections:** The paper is organized as follows. Section II describes the evolution of the Fund's FSS, and Section III reviews the decision-making processes for extending the application of the Fund's mandate, including the roles played by the Fund's Board, Fund management, other stakeholders. Section IV explores the extent to which care was taken to ensure that budgetary and human resources were made available to allow the Fund to effectively deliver on these new applications of the mandate, or whether the necessary trade-offs with existing activities were well articulated. Section V assesses the extent to which decisions in this area took account of potential overlaps and/or synergies with other institutions, and Section VI offers concluding lessons.

6. **Focus:** The application of the Fund's FSS mandate has evolved in multiple different dimensions over the past 10–15 years, but for the sake of tractability the latter three sections focus on a limited subset of case studies: (i) the decision to integrate FSS more effectively with the Fund's bilateral, "Article IV" surveillance; (ii) the decision to extend the ambit of FSS to cover macroprudential policies; (iii) the decision to make financial stability assessments mandatory under the FSAP for a subset of members; and (iv) the introduction of a digital money strategy.

7. **Sources:** This paper is based on both a desk review of IMF documents as well as extensive interviews. Documents covered included a broad range of Board papers, as well as a range of internal guidance and related notes. Interviews were conducted with Fund staff (both serving and retired), as well as officials from other relevant organizations. This paper also benefitted from the overlapping interviews, analysis, and other background work that was conducted for the other background papers and case studies that have been prepared for this evaluation.

II. THE EVOLVING APPLICATION OF THE FINANCIAL SURVEILLANCE MANDATE[1]

8. **Until the mid-1990s, financial sector developments and policies were not standard topics for IMF surveillance**. Although there were exceptions, the coverage of financial sector issues was typically idiosyncratic and often in response to the emergence of banking or similar crises. This gap reflected the Fund's mandate under its Articles, which defined its purpose as helping to address "disequilibrium in the international balance of payments (BOP) of its members (Article I)" and the long-standing view that the principal drivers of BOP difficulties were fiscal, monetary, trade, and exchange rate policies. For example, the IMF's 1989 Annual Report refers to surveillance as enabling "the Fund to analyse economic developments and policies in member countries; to examine members' fiscal and monetary policies and performance, and BOP situation; and to assess the impact of policies—including exchange and trade restrictions—on members' exchange rates and external accounts (IMF, 1989, p. 13)."

9. **The Fund's attention to financial surveillance underwent a significant expansion in response to the lessons learned from the 1994–95 Mexican debt crisis**. This included: a series of efforts to enhance the coverage of financial sector issues in the Fund's regular bilateral surveillance, starting with the introduction of the first ever "Guidance Note for the Monitoring of Financial Systems under Article IV Surveillance;" the establishment of the Financial Sector Assessment Program (FSAP), a joint IMF-World Bank program for assessing the resilience of members' financial systems; and an expansion of the Fund's multilateral surveillance over international capital markets, including by launching the GFSR. These and other initiatives during this period are detailed in Annex I.

10. **Notwithstanding these efforts, the 2007–08 GFC demonstrated that there remained critical shortcomings in the Fund's FSS**. This led to a second wave of initiatives that were aimed at enhancing the Fund's capacity to advise members on the identification and mitigation of systemic financial sector risks (see Annex I for details). And more recently, the Fund has embarked on a third wave of initiatives to expand the application of its FSS mandate to cover the financial sector risks related to new and emerging issues, including those related to digital money and climate change. These latter two waves of reform—which are described in more detail below—led to a significant increase in attention to financial sector developments and policies in the IMF's annual Article IV surveillance reports (Figure 1).

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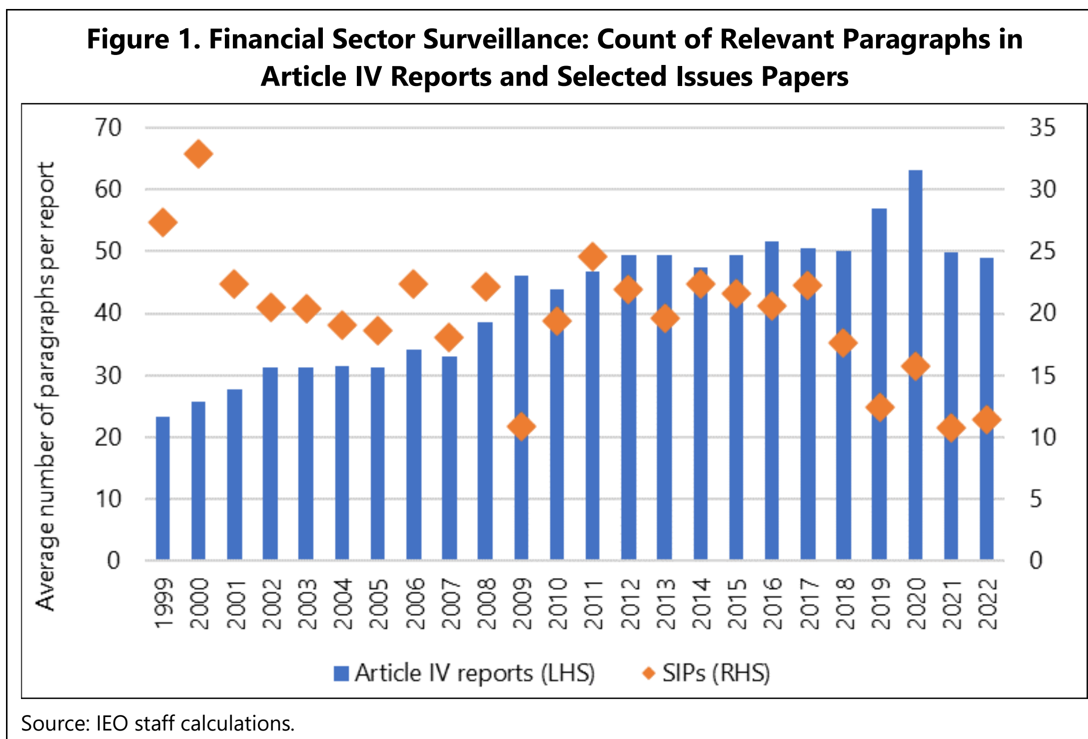
[1] This section borrows liberally from papers by Bossone (2008) and IEO (2019), which contain comprehensive descriptions of the historical evolution in the application of the FSS mandate.

Figure 1. Financial Sector Surveillance: Count of Relevant Paragraphs in Article IV Reports and Selected Issues Papers



Source: IEO staff calculations.

The Response to the Global Financial Crisis

11. **An important extension of the application of the Fund's FSS mandate following the GFC was in the area of macroprudential policies.**[2] This responded to the broad international consensus that prudential and regulatory policies had been too focused on idiosyncratic risk—i.e., the risk of failures of individual institutions—and that greater attention was needed to identifying and responding to systemic risk—i.e., the possible failure of broad swathes of the financial sector. In recognition of this gap, the G20's April 2009 communique called on the FSB, the BIS, and international standard setters to design regulatory policies "to identify and take account of macroprudential risks across the financial system."

12. **The Fund initially worked with others in the design of macroprudential policy frameworks, but soon began to take a lead role**. The November 2010 G20 Leaders Summit, "called on the FSB, IMF and BIS to do further work on macroprudential policy frameworks," and the three institutions collaborated closely in this area, including in the context of two subsequent follow-up reports.[3] However, in a series of papers, the Fund began to take responsibility for defining how to integrate macroprudential considerations with conventional macroeconomic policymaking, while the other two bodies focussed more on how macroprudential and microprudential policies should be integrated. The Fund's efforts culminated in the formal

[2] The Fund's work on macroprudential issues prior to the GFC was largely in the context of defining macroprudential indicators—i.e., statistics that could be used to gauge financial crisis risk.

[3] See the 2011 and 2016 joint reports.

integration of macroprudential considerations in the Fund's regular Article IV surveillance (IMF, 2014), and in 2017 the Fund launched an annual survey and cross-country database covering the use of macroprudential policy measures.

13. **A significant further extension of the application of the FSS mandate was the introduction of mandatory FSAP assessments in 2010** (IMF, 2010). Prior to this point, FSAP assessments had been voluntary, jointly conducted with the World Bank, and mainly focused on emerging market and developing countries. However, the GFC demonstrated the need for better coverage of the advanced economies, and in response the Fund moved to make periodic financial stability assessments ("stability modules") a mandatory part of IMF Article IV surveillance for 25 members with "systemically important" financial sectors. For these members, an FSAP "stability module" would be required every five years, and since the Bank lacked a surveillance mandate the IMF and World Bank responsibilities under the FSAP were bifurcated, with stability assessments the Fund's sole responsibility and development assessments assigned to the Bank.[4] The number of jurisdictions subject to the mandatory stability assessment was further expanded in subsequent years, and by 2021 reached 32 for which assessments would be required every 5 years, and 15 for which assessments would be mandatory every 10 years (IMF, 2021).

14. **At the same time, steps were taken to streamline the assessments of members' adherence to financial standards and codes**. These assessments had been introduced with the initial launch of the FSAP in 1999 and involve a review of financial regulation and supervision but had grown significantly in both number and complexity following the GFC. To help contain the burden of FSAP assessments, the Bank and the Fund agreed—in consultation with the international standard setting bodies—to enable FSAP teams to opt for "targeted assessments" that were focused on those principles that were viewed as being most systemically relevant (IMF, 2009). In 2014, the Fund took the additional step in establishing a "macrofinancial approach" for identifying those elements of the standards that were of most relevance for financial stability, and which would therefore be the focus of its financial stability assessments. There was also an easing of the expectation that FSAP assessments also include an anti-money laundering and combating the financing of terrorism (AML/CFT) assessment, with a shift to simply requiring the assessment within three years of the FSAP (IMF, 2014).

15. **Steps were taken to better coordinate the Fund's FSS with that of other international financial institutions, including in the context of the Early Warning Exercise**. In its April 2009 communique, the G20 reconstituted the Financial Stability Forum (FSF) as the Financial Stability Board (FSB), with an expanded membership, and called on the FSB and the IMF to "identify and report to the IMFC and the G20 Finance Ministers and Central Bank Governors on the build-up of macroeconomic and financial risks and the actions needed to address them." The purpose of this initiative was both to maximize synergies between these two agencies and

[4] The initial staff proposal was for a higher (three-year) frequency, on the argument that this would allow for the early identification of emerging systemic risk, but the Board consensus was for a five-year frequency, including because of resource limitations.

avoid conflicting messages. The Early Warning Exercise (EWE) involves semi-annual presentations to the G20, with the IMF focusing more on longer-term tail risks stemming from the macro-financial side, and the FSB focussing more on a nearer term financial sector risks from the regulatory and supervisory perspective.

16. **The Data Gaps Initiative (DGI) was another important part of the effort to enhance FSS by the Fund and others**. In 2009, the G20 called on the Fund and FSB to identify key data gaps that had impinged on global financial stability and to provide proposals for their remediation. This request was endorsed by the International Monetary and Financial Committee (IMFC) and led later that year to the identification of gaps in 20 areas and the launch of the DGI, which was a cooperative effort that included the BIS, the World Bank, other relevant international bodies (IMF and FSB, 2009). Regular reports were made to the G20 documenting progress, and in 2016 and 2022 a second and third phase were launched (DGI-2 and DGI-3), in the latter case to include data gaps in the area of climate change and fintech.[5]

17. **The 2012 Integrated Surveillance Decision (ISD) helped place many of these earlier operational changes more formally into the Fund's legal framework** (IMF, 2012a). The ISD made even more explicit the Fund's responsibility for surveillance of individual members' financial policies and added guidance on the conduct of member's policies that are relevant to domestic stability. But most importantly, it also required that Fund surveillance take account of spillovers of both financial and other domestic policies to other countries. This had the goal of better integrating the Fund's bilateral and multilateral surveillance mandates, but also of broadening the application of the Fund's surveillance mandate to take better account of the cross-border interconnectedness of financial systems and policies, including their potential implications for financial stability.

18. **Follow-up to the ISD included a 2012 financial sector strategy, the 2014 Triennial Surveillance Review, and a subsequent Action Plan** (IMF, 2012c; 2014b; and 2014f). The latter set as a priority the objective of mainstreaming macrofinancial policy advice, and launched series of "pilots" to achieve this goal, including by upgrading the skills of area department (AD) Article IV teams, integrating their work more effectively with MCM, and establishing a Financial Toolbox on the Fund's intranet to provide Article IV teams better access to the analytical bases that FSAP teams were using for their stability assessments.

19. **Several steps were taken to enhance the Fund's multilateral surveillance, many of which extended to cover financial sector issues**. Interdepartmental processes for identifying financial and macroeconomic crisis risks in emerging markets were expanded to include the

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[5] The initial set of gaps identified included those related to the activities of systemically important financial institutions, activities of the nonbank ("shadow banking") financial sector, cross-border portfolio flows, mapping inter-institutional financial linkages, data on credit default swaps and other complex structured financial products, the definition and monitoring of financial soundness indicators, etc. (IMF and Financial Stability Board, 2009). For further details see the DGI web site; and the Fund's Financial Soundness Indicators database covering data for around 150 countries.

advanced economies in early 2009, and then to cover low-income countries in 2011. For a discussion, see Robinson (2014). In 2011, in concert with the emerging work on the ISD, a further follow-up to the ISD was the launch of annual Spillover Reports, which aimed to improve the Fund's capacity to identify potential disruptive cross-border shocks, including those emanating from the financial sector. These exercises initially focussed on the "S5 economies" (China, the Euro Area, Japan, the United Kingdom, and the United States), but adopted a more thematic focus in 2014.[6] In 2012, a new series of annual External Sector Reports was initiated to formalize an internal interdepartmental process for a multilateral examination of the causes (including financial policies) of external imbalances among the largest economies.

20. **One of the more consequential effects of the ISD was that it provided a framework for the Fund to relax its historical antipathy toward capital flow management measures (CFMs)**. Pressures for taking this step had emerged as a result of the surge in cross-border capital flows toward emerging markets that was spurred by the extraordinary easing of monetary policies in the United States and elsewhere following the GFC. Work on this new framework was part of the post-GFC broader evaluation of the adequacy of the Fund's surveillance mandate, and also responded to a 2011 request from the IMFC for work on a "comprehensive, flexible, and balanced approach for the management of capital flows, drawing on country experiences." The result was the 2012 Board paper on the Fund's Institutional View (IV), which established the conditions when Fund staff would recommend CFMs and the types of instruments that would be most appropriate (IMF, 2012b). Following this initial codification, in 2017, the IV was extended to clarify the complementary role that macroprudential measures could play in mitigating the systemic risks posed by large and volatile capital flows (IMF, 2017b), and the IV was expanded in 2022 to codify the Fund's views on the pre-emptive use of CFM/MPMs (IMF, 2022a).

More Recent Expansions of the Application of the FSS Mandate

21. As the immediate pressures on member countries from the GFC eased, the Fund's attention shifted to addressing newer issues that have further expanded the application of the Fund's FSS mandate, including into areas that had previously been seen as less central to the Fund's core responsibilities.

22. **In 2020, the Fund published a series of papers that described work that had been underway by staff to develop an Integrated Policy Framework (IPF)**. This effort aimed to supplement the Fund's well-established framework for assessing the adequacy of conventional monetary and fiscal policy settings with a formal basis for integrating these with other instruments, including capital flow measures and macroprudential policies (IMF, 2020b).[7] Although this effort does not appear to have resulted yet in a systematic analytical approach for Fund advice or the

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[6] Stand-alone Spillover Reports were abandoned after 2015 in favor of thematic spillover chapters in the WEO.

[7] The 2020 IPF paper also cited the Integrated Surveillance Decision (albeit only in a footnote) as requiring that the Fund's policy assessment "be based on a comprehensive analysis of members' economic policies and strategy" (IMF, 2020, fn. 7).

type of decision tree that had been developed to guide the Fund's advice on CFMs, it has been heavily promoted as part of the Fund's surveillance toolkit, and the 2022 surveillance guidance note calls for Article IV teams to take account of the "insights from the IPF" (IMF, 2022d).[8]

23. **The Fund's interest in issues related to financial inclusion has also expanded in recent years, including in response to the global commitment to achieving the United Nation's Sustainable Development Goals (SDGs) and the G20**.[9] Although the Fund had historically deferred to the World Bank to cover issues related to financial inclusion, the intensified interest in this topic by the international community encouraged the Fund to move on this issue on several fronts. The Financial Access Survey was launched in 2009 and provides information on both the access to and the use of financial services from 2004. And the macro-relevance of financial inclusion was highlighted in a 2014 speech by MD Lagarde and was subsequently documented in IMF Staff Discussion Notes by Sahay and others (2015) and Čihák and Sahay (2020). And while the recent TSR and CSR did not signal a role for Fund surveillance in the area of financial inclusion, it was covered in the 2022 guidance note for Article IV surveillance (IMF, 2022d), and it has been termed a surveillance priority in the MD's Global Policy Agendas, often linked to the role of financial inclusion in enabling gender equity and poverty reduction.[10]

24. **In 2021, the Fund launched a new digital money strategy, building on earlier work that had explored the macrofinancial implications of this new instrument and the fintech sector** (IMF, 2020c and 2021f). With explicit reference to the Articles of Agreement and the ISD, the strategy built the argument that the Fund "has a mandate to help ensure that widespread adoption of digital money fosters domestic and international economic and financial stability. It must monitor, advise on, and help manage this far-reaching and complex transition." And the paper set out an ambitious agenda for the Fund's activities in this space, including coverage of issues stemming from digital money in Article IV consultations and pilot assessments of digital payments systems in FSAP assessments. However, the Board discussion of the proposed strategy suggested a less than a full consensus on the specifics and speed of implementation, and many Directors favored a "more modest, phased increase in resources calibrated to actual developments and finer details on work priorities."

25. **The Fund's new gender strategy also enhanced the application of the FSS mandate in this area**. It requires that where "gender gaps are judged to significantly influence present or prospective BOP and domestic stability, these issues should be covered in Article IV

[8] Some recent Article IV reports have sought to use the IPF framework to design a set of measures of financial market "imperfections" (e.g., bid-ask spreads) to indicate when foreign exchange interventions and other heterodox policies might be called for justified to deal with potentially disruptive capital flows.

[9] Presently, 8 of the 17 SDGs feature financial inclusion as an enabler. The G20 appears to have assigned a relatively modest role for the IMF in the area of financial inclusion. In 2010, the G20 Financial Inclusion Action Plan called on the World Bank and the IMF in their (joint) FSAP assessments to develop a "uniform standard" for coverage access issues and to improve data coverage on inclusion. That year, the Global Partnership for Financial Inclusion was established to carry forward the G20 Financial Inclusion Action Plan, although the IMF is not a member.

[10] For example, see the September 2016 and October 2019 GPAs.

Consultations" (IMF, 2022e). The new strategy provided limited detail about how this enhanced application of the mandate would be applied to FSS but did reference financial inclusion policies as well as the possibility that "monetary policy interventions that are needed for macroeconomic and financial stabilization may nonetheless disproportionately affect women."

26. **During the past decade, the Fund's has paid increasing attention to the macroeconomic and policy challenges related to climate change, and this work has been extended to its FSS** (IMF, 2021e). This has been in the context of: Article IV surveillance for "climate vulnerable" states; FSAP assessments, which now covers climate-related financial risks; IMF technical assistance; and Fund lending, which in 2022 was expanded to cover longer-term challenges, such as, climate changes under a new Resilience and Sustainability Trust. The Fund's multilateral surveillance through its flagship publications) and its research have also covered issues, such as, stress testing financial institutions for climate risk, the pricing of climate-related risks in equity markets, the impact of sustainable finance on financial stability, and the role of financial regulation and monetary policy in promoting climate change mitigation. The 2021 CSR formalized the coverage of climate issues in IMF surveillance, and the modalities for this work were spelled out in more detail in a 2021 climate strategy paper, including a proposal to cover climate issues in all FSAP assessments, in those cases where they were deemed to be of "systemic importance" (IMF, 2021d).[11]

III. GOVERNANCE AND DRIVERS OF CHANGE

27. This section examines the drivers for the expansion of the application of the Fund's mandate covering FSS, the criteria that were used to justify these decisions, and the effectiveness of the associated decision-making processes. However, as the discussion above has illustrated, the application of the financial surveillance mandate has been steadily expanded to cover a wide range of (and often very different) aspects over the past decades. So, for the sake of parsimony this paper will focus on a limited subset of these changes: the integration of macrofinancial considerations with Article IV surveillance; the decision to make stability assessments under the FSAP a mandatory part of Article IV surveillance; and the new digital money strategy.

Mainstreaming Macrofinancial Considerations in Bilateral Surveillance

28. **Staff and management have been principal drivers of the Fund's work on the financial sector with an important push by the G20 immediately after the GFC**. As described above, efforts to improve and deepen the coverage of financial sector issues in the Fund's regular bilateral surveillance date at least as far back as the mid-1990s, and its consistency with the Articles had already been well established. However, the 2007–08 GFC prompted renewed efforts to improve the quality and effectiveness of this work, driven at least partly by the G20's

[11] The strategy paper also detailed how the Fund's technical assistance also assists members with a range of financial sector issues related to climate change.

2008 call for the Fund "to better identify vulnerabilities, anticipate potential stresses."[12] And unsurprisingly, the intensity of references to financial sector issues in G20 (and G7) communiques rose sharply in response to the GFC and the these bodies' sponsorship of significant financial sector-related initiatives, both at the IMF and more broadly (Figure 2). Subsequently, however, staff and management, rather than the broader membership, seem to have been the principal drivers of these efforts, reflected by the fact that references to this issue in IMFC communiques diminished over the past 10–15 years and were largely retrospective, i.e., welcoming steps that had already been taken.

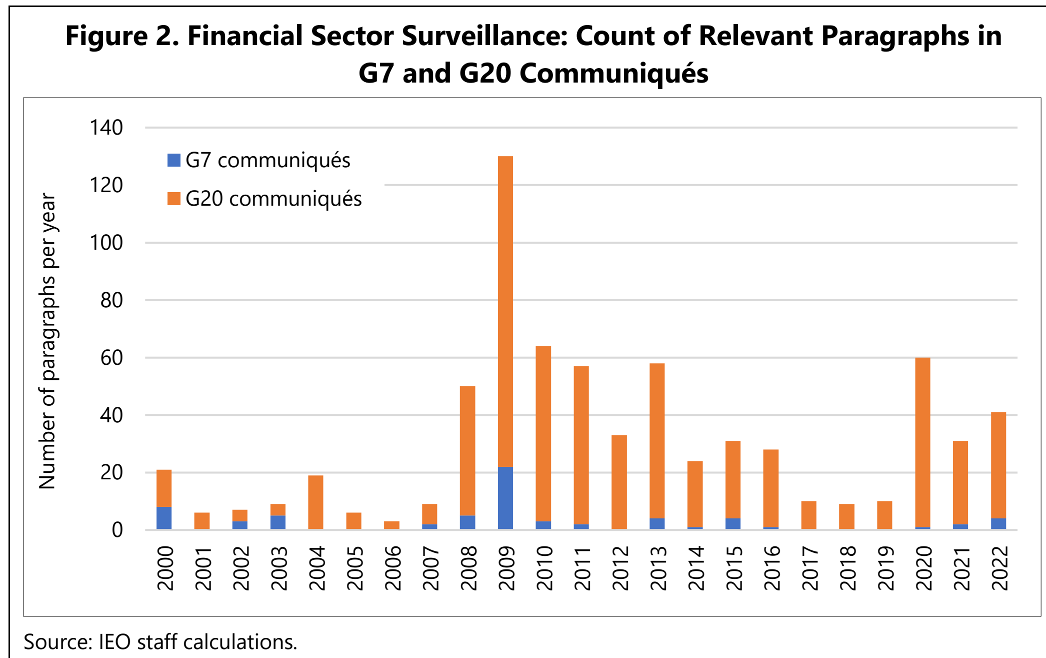


Figure 2. Financial Sector Surveillance: Count of Relevant Paragraphs in G7 and G20 Communiqués

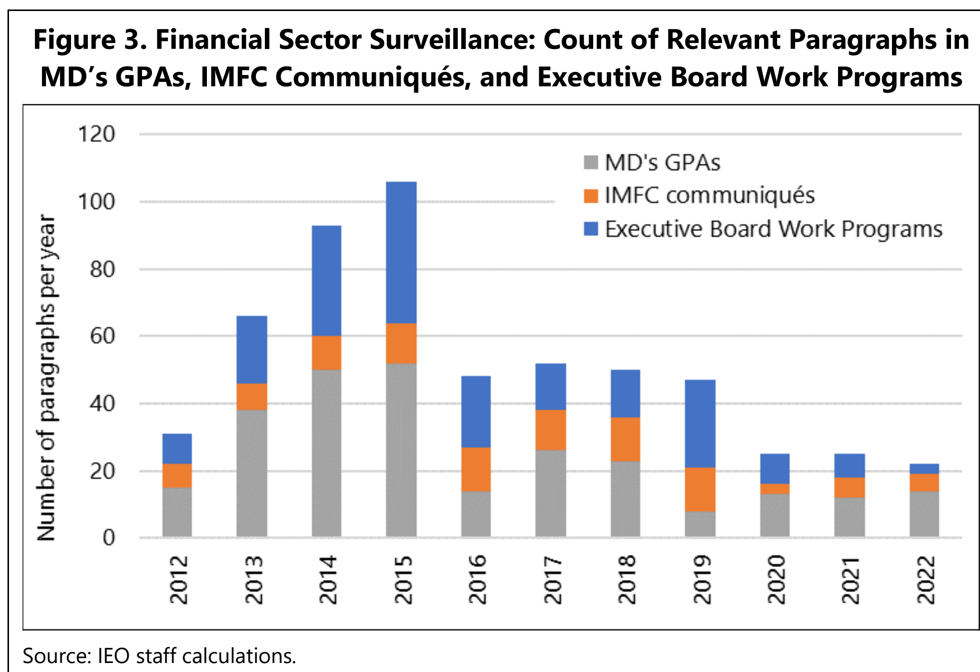
Source: IEO staff calculations.

29. **This said, the Board was provided with frequent opportunities to review and help shape the refinements to the application of the Fund's mandate in this area**. The Board endorsed the 2011 TSR's pledge to "further steps to mainstream financial stability analysis in bilateral surveillance" (IMF, 2011c). And after rejecting the initial draft, the Board also endorsed a 2012 financial sector strategy (the first ever) that aimed to "upgrade" financial surveillance (IMF, 2012c). The Board endorsed the 2014 TSR's call to make macrofinancial analysis an integral part of Fund surveillance (IMF, 2014b). And while the proposed follow-up steps that were detailed in the 2014 Action Plan were only issued to the Board for information, the Board was given the opportunity to discuss the 2017 results of an interdepartmental pilot exercise to better integrate macrofinancial surveillance with the Fund's regular Article IV surveillance. The issue was again covered extensively in the 2021 CSR, which led to the inclusion of a "macrofinancial surveillance strategy" in the May 2022 budget augmentation exercise (IMF, 2022b, Annex III).

[12] See G20 Communiqué, November 15, 2008.

30. **Management also helped drive the mainstreaming effort.** The MD's Global Policy Agendas—which have been used as a key signal of Fund priorities since 2012—contained mostly generic references to FSS, but these did increase in frequency in response to the commitments made in the 2014 TSR (Figure 3). More importantly, management took an unusually active role in driving the integration agenda that was initiated as part of the 2014 Action Plan (IMF, 2014d). The FDMD had long been responsible for overseeing the staff's financial sector work, and in 2014 established and chaired an interdepartmental working group to define and follow up on the 2014 Action Plan's commitments to improve FSS. The interdepartmental accountability framework, which requires department heads to define and discuss with management their annual work programs, was also used as a vehicle for promotion of FSS and the Action Plan. Although these departmental commitments tended to be somewhat imprecise and/or referred to the completion of specific cross-cutting projects, this process helped clarify the priority that management attached to these efforts.

Figure 3. Financial Sector Surveillance: Count of Relevant Paragraphs in MD's GPAs, IMFC Communiqués, and Executive Board Work Programs



Source: IEO staff calculations.

31. **Departmental responsibility for the definition and execution of FSS was relatively well defined** (see IMF, 2017, Annex II, for description). This is built on long-standing internal governance processes, which subjects all policy papers and country-specific surveillance documents to interdepartmental review and revision, signoff by the authoring department and the Strategy, Policy and Review (SPR) Department, and clearance by Fund management. In particular:

- Regarding the definition of the FSS strategy, MCM took the lead, given the department's subject matter expertise, but SPR typically co-authored the relevant Board papers, given its overarching responsibility for surveillance policy. And expectations regarding the content of FSS was made progressively more detailed in successive guidance notes, which were drafted by SPR but prepared in close collaboration with MCM.

- Responsibility for execution of the strategy was more diffuse: MCM was charged with providing experts for AD missions, when needed, as well the provision of stress testing and similar tools; both MCM and SPR were responsible for reviewing AD briefing papers and staff reports to ensure proper coverage of financial sector issues; and ADs were responsible for defining and delivering the Fund's specific macrofinancial policy advice to individual members.

- The annual departmental accountability exercise—which requires each department to set specific performance objectives, which are discussed with management—and as noted above these typically included references to departmental support for FSS and provided a basis for monitoring implementation.

32. **Although the application of the FSS mandate to Article IV surveillance is detailed in guidance notes, discretion is left to individual country teams and the interdepartmental review process for how this is operationalized**. And unlike other dimensions of the Fund's surveillance mandate, standardized metrics for defining the degree to which a member is subject to systemic risk have not been developed. For example, the most recent surveillance guidance note does require "a well-articulated view on systemic risk" but this is supposed to be based on "data and quantification where feasible" (IMF, 2022d). This contrasts with the tools that staff are required to use to assess reserve adequacy, possible exchange rate overvaluation, and debt sustainability. While stress testing tools have been developed and applied in the context of FSAP assessments, these too are not standardized, and typically are not easily applied to the Article IV process, including because of their data intensity and complexity.

33. **Lastly, the Fund has well-defined processes for assessing the effectiveness of the application of FSS mandate and adjusting it based on experience**. These chiefly centre on regular surveillance reviews—for example, both the 2014 and 2021 surveillance review contained assessments of the effectiveness of the Fund's macrofinancial surveillance, and in the 2021 review included a detailed background analysis.[13] The macrofinancial focus of the 2021 review was sharpened further by timing the concurrent FSAP review. The IEO has also provided a further opportunity for reflection on the FSS mandate, including in its 2019 evaluation (IEO, 2019). And Fund management responded to the Board's discussion the IEO evaluation with an implementation plan (IMF, 2019).

Macroprudential Policies

34. **As noted above, the expansion of the application of the Fund's FSS mandate to cover macroprudential policies (MPP) was prompted by a request by a 2010 call by the G20 for the Fund to work with the FSB and the BIS on such frameworks**. However, while this resulted in joint papers, the Fund began to take the lead in this area, with the FSB tending to

[13] Annual internal reviews of the "quality" of FSS have also been conducted by MCM and SPR, although interviewees expressed doubts about their impact.

focus more on guiding the work of the standard setting bodies as they introduced systemic risk to their supervisory frameworks. The Fund's work was driven mainly by an internal, staff recognition of the importance of MPPs for both reducing the risks of financial rises and for ameliorating the effects of crises when they occurred. References to MPPs in IMFC communiques and the GPA seemed to reflect acknowledgement of work already completed or underway rather than prescriptive direction setting.

35. **The relative novelty of MPPs and their role within Fund's FSS led the Fund to develop its approach in a gradual and consultative manner**. The staff engaged with a wide range of policymakers among the membership to identify best practices and gave considerable opportunity for the Board to review and the shape the direction of this emerging workstream.[14] For example, the Board's assessment of the 2011 "organizing framework" paper illustrated a range of views on the appropriateness of the Fund's access to firm-level data and the optimal design of macroprudential authorities at the country level. And "some" Directors at the 2013 discussion of the "key aspects" paper "stressed the need for the Fund to take a cautious approach, building up in-house expertise and conducting further research before drawing firm conclusions in this area." However, by the time of the 2014 TSR, the Board issued a more unqualified endorsement of the Funds' macroprudential work and later that year a guidance note was issued—like other surveillance guidance notes this document was not subject to Board discussion.

36. **The Board was given the opportunity to review and endorse the further extension in the application of its MPP mandate to cover the role of MPPS in managing capital flow volatility** (IMF, 2017). The summary of the Board discussion suggests broad support for the staff proposals, but this was coupled with explicit guidance for staff's policy advice in this area as well as debate about the potential merits of MPPs (and possibly CFMs) "to manage systemic risks that may arise from capital flows." But while the 2021 FSAP review and CSR contained detailed analysis of the Fund's approach to its MPP advice there was no apparent change to the Fund's approach, so the Board's guidance was limited to endorsing the staff's call for "additional efforts in the areas of systemic risk analysis to better anchor macroprudential policy advice" (IMF, 2021d).

37. **The G20 was also interested in the intersection between the Fund's approaches to MPPs and CFMs, largely from the perspective of interagency consistency**. In particular, there was a recognition of the potential for an overlap (and potential conflict) with the revisions that the Organisation for Economic Co-operation and Development's (OECD) was making to its own code on capital account liberalization. In February 2015, the G20 asked the OECD and IMF "to assess whether further work is needed on their respective approaches to measures which are both macroprudential and capital flow measures," and this issue was taken up by the G20's International Financial Architecture Working Group, and by 2018 the working group called for

[14] A list of the many international conferences that the Fund hosted on this topic can be found at https://www.imf.org/en/Publications/SPROLLs/Macroprudential-Policy#sort=%40imfdate%20descending.

efforts to "promote consistency" between the IMF's IV and the OECD's new Code (this issue is covered further in Section V below).[15]

38. **The internal governance of the macroprudential mandate is similar to that described above for the mainstreaming effort**. Policy papers were subject to inter-departmental review and management clearance. And while the application of the mandate was the responsibility of the country teams, their advice was also subject interdepartmental review, designed to ensure cross-country consistency of policy advice.

Mandatory FSAP

39. **As noted above, an important impetus for the 2010 decision to introduce mandatory FSAP assessments was the GFC and the subsequent G20 commitment to require its members to undergo regular assessments**. This commitment reflected a widespread acknowledgement that the voluntary nature of the program had allowed countries like the United States and some other major economies to avoid participation and concern that this had limited the capacity of the Fund from identifying the build-up of systemic risks prior to the GFC. In recognition of this shortcoming, the 2008 G20 Summit on Financial Markets and the World Economy included a commitment by G20 members to accept regular assessments every five years.[16]

40. **Although the G20 commitment itself did not require a change in the Fund's mandate, it did suggest that there would be support among the Board for making assessments a mandatory part of Article IV surveillance**. This was something that staff and management had long considered desirable, and the Board proved to be receptive to the concept when it was floated in a March 2010 Board paper, which was quickly followed up with a formal proposal that was approved in August (IMF, 2010a and 2010b).

41. **The legal basis and criteria for the 2010 decision were carefully framed**. Staff argued that it would be consistent with members' existing obligations under the Articles, as well as the 2007 Surveillance Decision that held that "financial sector policies will always be a subject of the Fund's bilateral surveillance." Moreover, the principle of uniformity would not be violated if FSAP stability assessments were made mandatory for a subset of members, so long as the differentiation of between members were based on "criteria that are relevant to the provisions of the Articles being implemented." The formal decision held, therefore, that the MD in consultation with the Executive Board would define the list of members subject to the mandatory stability

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[15] For details see Towe (2020).

[16] See the G20 "Declaration of the Summit on Financial Markets and the World Economy," November 15, 2008, and "Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability: Report of the Financial Stability Board to G20 Leaders," June 18, 2010.

assessments based on an "assessment of the size and interconnectedness of members' financial sectors."[17]

42. **The 2010 proposal did spark some controversy, since the staff's proposal for a three-year periodicity was rejected in favor of a five-year frequency, i.e., the G20 commitment**. This reflected the preference of some major shareholders to hew to the FSB's timetable.[18] The subsequent expansions of the mandatory stability assessments to cover a broader range of countries seem to have been driven by Fund staff initiative rather than a need to realign the Fund with G20 priorities. The Board discussion of the 2013 revision was uncontroversial, and staff did not raise again the periodicity of assessments. There was broad agreement with the decision to align the FSAP with the 2012 ISD by adding the requirement that assessments "cover spillovers from a member's financial sector policies when those policies undermine either the member's own stability or may significantly influence the effective operation of the international monetary system, for example by undermining global economic and financial stability."[19] This said, some Directors seemed to question whether the methodology used to determine which jurisdiction were subject to the mandate could miss others that might pose to the global financial system. The 2021 decision to expand the coverage of the mandatory FSAP also seems not to have been controversial, and Directors supported the expansion as a justifiable strengthening of the "risk-based approach to surveillance," although a "few" Directors appeared to complain that the 2021 review was overdue.[20]

43. **The decision to move to a mandatory FSAP stability assessment had the effect of further delinking the Fund's role in the FSAP from the Bank's, given that the Bank lacked the same surveillance mandate**. This was largely driven by Fund staff's concern that the "jointness" of the program was bureaucratically cumbersome, including because of the very different approaches and incentives of the two institutions.[21] The 2009 FSAP review had already taken the step of carving out for the Fund its own "financial stability module" for the FSAP—helping delineate more clearly the roles of the two institutions. While the 2010 Board paper stated that the decision "would not materially affect the status of the FSAP as a joint program with the World Bank," the paper made clear that this conclusion was conditional on the availability of necessary resources. The summary of the Board discussion suggests that the Board recognized this tension but left it unresolved.[22]

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[17] Neither the 2010 nor subsequent papers acknowledged that considerable judgment was still required to define the lists of systemically important financial sectors given the network metrics used and data limitations.

[18] See https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn10135.

[19] See the January 13, 2014 Press Release.

[20] That is, "a few Directors recalled that Fund policy requires the periodic review of the list and assessment frequency."

[21] Kranke (2020) documents that there had been "intense conflict between IMF and World Bank staff over the modular approach," which Bank staffed viewed as an "unwarranted retreat" from the joint approach to assessments.

[22] See https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn10135.

44. **As noted below, the decision to make the FSAP stability assessments mandatory for a subset of members, as well as their increased complexity in the wake of the GFC, left lower-income countries relatively less well served by the program**. Although the Board expressed explicit concern with this consequence in both 2010 and 2013, little additional budget resources were provided to address the gap. And in response Fund staff launched the Financial Sector Stability Fund (FSSF) in 2017, which was a donor-financed vehicle for delivering an FSAP analogue—Financial Sector Stability Reviews (FSSRs).[23] While an effective mechanism for overcoming budget constraints, this instrument meant that oversight and governance of an important and core part of Fund work was delegated to a subset of the membership—i.e., those providing funding for the trust fund.

Fintech and Digital Money

45. **The Fund's interest in fintech does not appear to have been driven by the G20 or the IMFC, and most G20 requests in this area seem to have been directed to the FSB**. For example, the Fund was not involved in the FSB's 2017 report on the financial stability implications of fintech, nor in subsequent FSB reports. Moreover, the Fund did not participate in the Global Partnership for Financial Inclusion, which was established to carry forward the G20 Financial Inclusion Action Plan. However, the February 2023 communique of the G20 Finance Ministers and Governors did call for joint work by the Fund and FSB on the macroeconomic and regulatory implications of crypto assets, and in response to this request the IMF and FSB published a joint paper on policies for crypto assets (IMF and FSB, 2023).

46. **There was, however, a significant and early push by the Fund's management for work in this area**. Interviews for this evaluation suggest that much of the Fund's early work was triggered by questions to staff by the Fund's management, and a growing awareness of the growing systemic importance of fintech and related technological innovations. The Bank/Fund Bali Fintech Agenda in 2018, which was reviewed and endorsed by the Boards of both institutions, also provided an early framework for defining the Fund's role in this area. Fund staff followed up with a series of Board papers that discussed the systemic issues around cryptocurrencies and fintech and the eventual 2021 digital money strategy carefully frames the Fund's role in this area against its broader mandate as defined in the ISD and the potential implications of digital money for the "international monetary system" (IMF, 2021f).

47. **As a result, Fund staff had already invested significantly in this area ahead of the 2021 strategy proposal**. As detailed in the 2021 paper, the Fund's efforts in this area already amounted to the equivalent of 15 full-term equivalents (FTEs) annually, and included coverage of digital issues in selected FSAPs, coverage in 2–3 Article IV and FSAPs annually, about 10 capacity development (CD) missions annually, and the establishment of an external advisory group in 2017. Moreover, the Fund had also invested in research and policy development on digital finance issues (including central bank digital currencies, assessing the financial stability

[23] For details see https://www.imf.org/en/Capacity-Development/what-we-do.

implications of fintech, etc.), and had collaborated in these efforts with a wide range of other intentional bodies, including the FSB, the BIS, and various standard setting bodies. However, the Board seems to have played a limited role in discussing and setting priorities in this area—e.g., the MD's Global Policy Agenda (GPA) and the Medium-Term Budget (MTB) began to make mention of fintech and digital money only in 2019.

48. **The 2021 strategy proposed significant additional resources for digital money in this area but left the internal governance for this work undefined**. The new resources proposed—equivalent to 50–75 FTEs—would be allocated roughly evenly between surveillance, CD, and policy development, and a latter budget paper provided an indication of how these would be allocated across departments. But neither document explained the mechanisms that would be in place to avoid the difficulties that the Fund already faced in applying its financial sector expertise to its Article IV surveillance.[24]

49. **Interestingly, the Fund's digital money strategy did not explicitly reference the ISD's usual criteria when defining its perimeter**. As noted in the 2022 surveillance guidance note, the ISD requires coverage of issues that are deemed to be "macrocritical" but also provides for coverage of an issue at a member's request if the Fund has expertise (IMF, 2022, Box 2). In the case of the digital money strategy, the perimeter appears to be defined more loosely—i.e., there would be a "focus on the policy implications of digital money for domestic and international economic and financial stability," with a subsequent reference to a small number of examples of areas that the Fund would not cover.

Assessment

50. **Governance processes around the expansions of FSS appear to have been robust in the four areas examined for this paper**. This is unsurprising given the fact that the Fund has well-established and effective mechanisms for ensuring that its activities align with its underlying legal and policy frameworks, and that they have the broad support, both internally and among the Fund's membership. However, the discussion above does suggest potential lessons:

- The expansions of FSS did not appear to be accompanied by specific and time-bound commitments to specific actions, nor were metrics defined for judging whether the expansions had achieved success. This reflects the fact that annual and medium-term budget and prioritization documents are not founded on a "theory of change" approaches that would link policies with outcomes, nor do they involve setting measurable objectives that can be subsequently monitored and evaluated. This gap is

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[24] The budget augmentation paper did refer to a cross-departmental coordination group as a supporting structure but offered no detail about what this would entail.

striking given the prominence that these types of approaches are given for individual IMF CD projects and lending programs.[25]

- Although the FSS mandate is well articulated in the staff guidance notes, the range of issues to be covered appears large, which risks unevenness in coverage. Moreover, the mandate lacks a well-defined and consistently applied metric for assessing financial stability, in contrast to some of the important elements of Article IV surveillance (e.g., debt sustainability, current account and exchange sustainability, reserve adequacy, etc.). And while it is debatable whether a reliable metric for grading systemic financial sector risk could be defined and credibly applied in an Article IV context, the inconsistency of how (or even whether) Article IV teams come to such judgements risks weakening the accountability of the Fund in its application of this mandate.
- The Fund was most effective in establishing a broad-based internal consensus for moving forward on new applications of the mandate when it was reinforced by the personal involvement and leadership of Fund management in their design and execution (e.g., in the case of macrofinancial integration and digital money). And the annual interdepartmental accountability exercise also provided a further strong signal of management commitment to monitoring the effective execution of these mandates, including through cross-departmental support.
- Although the Fund was successful in financing some elements of its expanded FSS using donor funding, this meant that the Fund's Board was not in a position to exercise its normal oversight of these activities, or to ensure that they were consistent with broader Fund priorities and policies.

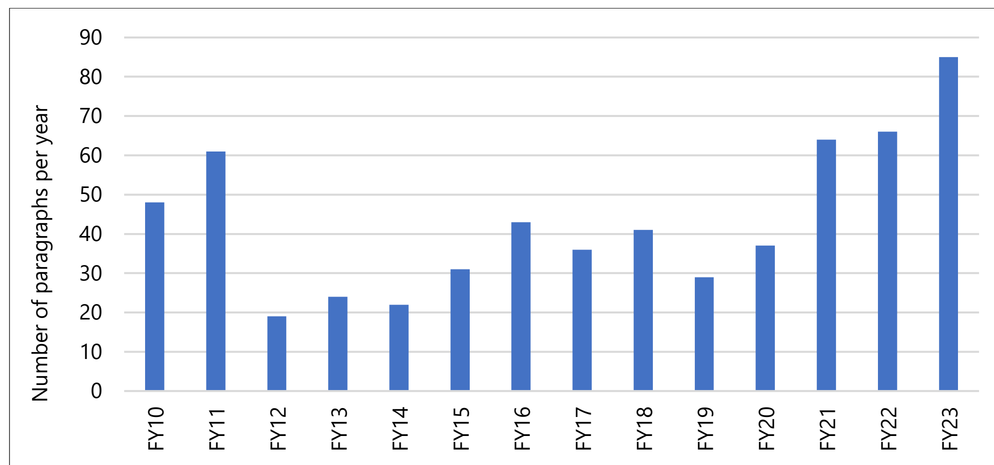
IV. BUDGET AND HUMAN RESOURCE ISSUES

51. **Budget considerations weighed heavily on the extensions in applying the Fund's FSS mandate over this period**. Even as the GFC crisis hit, the Fund engaged in a significant downsizing, and the March FY2008–10 MTB launched a three-year restructuring that involved significant reductions in both the Fund's operating budget and staff (IMF, 2007b). And the next ten years budgets were formulated under the assumption of zero growth in operating expenses, in real terms. Only in 2022, with the FY2023–25 MTB, was this constraint eased, with the adoption of a "budget augmentation framework" that permitted 2 percent annual increases in real net operating expenses over the three-year period (IMF, 2022b). And correspondingly, with the increased resources that were made available for FSS, especially for digital money and other new initiatives, the intensity of references to financial issues in the Fund's budget documents increased significantly (Figure 4). Against this background, this section reviews how budget and

[25] IMF CD projects are typically required to be accompanied by a well-defined log frame that maps out the specific and measurable objectives of projects, the interventions that would achieve them, and benchmarks to subsequently assess progress. IMF lending decisions are not based on formal log frames, but the IMF's conditionality framework means that lending involves the definition of macroeconomic performance objectives and the specific medium-term policy interventions that are assumed necessary for success.

human resource issues were considered and integrated in the decision to extend the application of the FSS mandate in the same four areas described above: the integration of macrofinancial considerations into Article IV surveillance; the adoption of a new application of the mandate covering macroprudential policies; the adoption of a mandatory FSAP requirement; and the introduction of a new digital money strategy.

Figure 4. Financial Sector Surveillance: Count of Relevant Paragraphs in Executive Board Budget Documents



Source: IEO staff calculations.
Note: FY denotes financial year. Budget documents include Medium-Term Budgets, Output Cost Estimates and Budget Outturns, Consolidated Medium-Term Income and Expenditure Frameworks, FY2016–18 Streamlining Proposals, and 2022 Budget Augmentation Framework. FY refers to financial year which starts on May 1 and ends on April 30. In the case of Medium-Term Budgets, dates refer to the first financial year in the three-year period. The 2022 Budget Augmentation Framework is classified as FY2023.

Mainstreaming Macrofinancial Considerations in Bilateral Surveillance

52. **Board endorsements of successive initiatives to improve the coverage of macrofinancial issues in its regular bilateral surveillance were typically unfunded, even when their budget and HR requirements were explicitly identified**. Although this can be partly explained by the extended period of flat budget constraints, explicit discussion of how existing commitment would need to be reprioritized to make room for new initiatives were often deferred. For example, the 2012 FSS strategy included costing estimates, but in the summary of its discussion, the Board simply recognized the importance of "adequate resources for the implementation of the strategy and looked forward to discussions on how to reallocate or augment the Fund's operational budget" (IMF, 2012c). Staff avoided raising budget issues in the 2017 mainstreaming paper, and perhaps not surprisingly the Board concluded by encouraging staff "to continue to focus on efficient ways to support knowledge-sharing, with a number of Directors emphasizing that this initiative be advanced within the Fund's existing budgetary envelope" (IMF, 2017a). The 2021 CSR included a request for 24 additional FTEs to support macrofinancial integration, but the Board again deferred substantive discussion, saying that "the specifics will be taken up in the context of the Fund's overall budget discussions" (IMF, 2021d).

53. **Moreover, although annual MTBs typically acknowledged the priority attached to strengthening macrofinancial integration, they did not provide significant new funding, except in terms of reprioritizing existing commitments**. Only more recently, have the Fund's budgetary processes begun to address the shortfalls from earlier commitments in this area: in anticipation of the 2021 CSR and proposals to relax the flat budget constraint with an "augmentation," the FY2022–24 MTB provided details of substantial additional resources for FSS (as well as other priorities), and these were then formalized in the FY2023–25 MTB.[26]

54. **In the absence of significant new funding, relatively ad hoc steps were taken to reprioritize and reallocate existing resources and personnel to support the mainstreaming effort**. MCM reorganized its so-called "financial surveillance" divisions to enhance the specialist skills of the macroeconomists that would typically be assigned to AD mission teams. MCM also invested in supporting ADs' efforts in following up on FSAP recommendations, invested in new analytical tools for assessing systemic risks that could also be used by Article IV teams, and offered training for AD staff. A macrofinancial division was established in RES and SPR also established a new macrofinancial unit to improve that department's support for mainstreaming.

55. **Donor funding was also seen as at least a partial workaround for the budget constraint**. As noted above, an FSSF was established in 2017, and budget documents indicated that its operations would fill gaps in the Fund's financial surveillance, by financing stability assessments for emerging market and developing economies. For example, Box 2 of the FY2020–22 MTB refers to the FSSR as a "complement" to the Fund's financial surveillance, and a similar reference was contained in the FY2021–23 MTB (IMF, 2020).

Macroprudential Policies

56. **Although the staff was careful to consult the Board as it developed and formalized the Fund's new application of the mandate over macroprudential policies, less information was provided about the budgetary resources and other trade-offs implied**. For example, the policy papers issued to the Board on MPP contained no information on resource implications of the Fund's work in this area. And only passing reference to this workstream appear in the MTBs until the 2022 Augmentation Framework and subsequent MTB, and even these latter documents provided only limited details of the specifics of staff work (IMF, 2022b and c).

57. **Despite this lack of coverage, significant resources were applied to this new workstream**. Resources were devoted to developing the Fund's policy positions, consulting with other relevant agencies, and delivering bilateral policy advice. The Board papers themselves involved significant cost (e.g., the FY2019–21 MTB estimated retrospectively that the 2017 MPP

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[26] The FY2023–25 MTB stated that "new spending on macrofinancial surveillance ($3.5 million) will deepen the quality of macrofinancial analysis. Fungible economists with macrofinancial expertise will be recruited into MCM for onboarding and support to country teams. In parallel, MCM staff will rotate to area departments to support mainstreaming. Another key deliverable will be expanding the toolkit for macrofinancial analysis (e.g., Growth-at-Risk) and how-to notes to assist country teams" (IMF, 2022c).

paper cost nearly $0.5 million (IMF, 2018). In addition, at least one division in MCM was devoted almost entirely to MPP policy development and supporting the coverage of MPPs in Article IVs and FSAPs, as well as compiling regular surveys of member policies in this area.[27] And in many cases ADs themselves were responsible for covering this new area without MCM assistance as a regular part Article IV surveillance.

58. **Since this MPP-related work was not fully funded, it likely crowded out other activities**. For example, during 2010–14 period the MCM division that was most heavily involved in the development of the Fund MPP positions scaled back its previous focus on monetary policies, leaving other departments to fill this gap. This risked inconsistent approaches by country teams, encouraged greater reliance by the Fund on donor-funding for its core analytical work, and possibly left the Fund less prepared than otherwise to address the challenges faced by monetary policymakers in withdrawing the zero interest rate policies introduced during the GFC and the more recent surge in inflation.

Mandatory FSAP

59. **The decision to make FSAP stability assessments a mandatory part of surveillance had significant budgetary implications that were acknowledged but not explicitly resolved**. Staff alerted the Board in the 2010 paper this step would be costly given the additional resources needed to assess larger and more complex financial systems, and that this would also reduce the resources available for assessments of other Fund members (IMF, 2010b). This tension was acknowledged in the summing up of the Board discussion, but while the Board agreed that the decision should "not come at the expense of conducting FSAPs on a voluntary basis in the rest of the membership," the Board again deferred any concrete discussion of the issue to later budget discussions, leaving the mandate effectively unfunded.[28] And while the Board viewed the budgetary implications of the 2013 expansion of the list from 25 to 29 as being "modest and manageable, …most Directors, however, expressed concern that the shift toward a more risk-based approach to financial sector surveillance has reduced the availability of voluntary FSAPs in jurisdictions with non-systemic financial sectors."[29] However, again the Board deferred resolution of this issue to subsequent "budget framework discussions."

60. **The shortfall in resources needed for non-mandatory FSAP assessments was treated candidly in the Board paper for the 2013 expansion** (IMF, 2013b). There the staff noted that the increased cost of assessing more complex financial systems, the expansion and complexity of the supervisory standards, and the coverage of new topics, such as macroprudential policies, had

[27] For example, in the past ten years, most FSAP assessments include a separate analysis of the macroprudential framework, and recent Article IV guidance notes have assumed that discussion of MPPs will be a standard part of surveillance.

[28] See https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn10135.

[29] See https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr1408.

"had a noticeable impact on FSAP delivery to the rest of the membership." And in the summary of the Board discussion, it was noted that "Directors emphasized the need to make sufficient resources available to ensure continued delivery of non-mandatory FSAPs."

61. **However, by the time of the 2021 expansion this concern seemed to have dissipated**. In particular, in approving an increase in the number of members subject to mandatory FSAPs from 29 to 47, the Board seemed satisfied with the staff's conclusion that the further budget impact of the substantial increase in the number to 47 (from 29) "could be addressed by reprioritization within MCM's budget," and made no mention of the effect on other members (IMF, 2021a). One possible reason for the diminished concern may have been the advent of the FSSF in 2017, since the 2021 FSAP review paper noted that assessments under the FSSR helped balance the supply and demand for voluntary FSAPs. [30]

Fintech and Digital Money

62. **Although the Fund had already invested significant resources in the area of digital money and fintech prior to the launch of the 2021 strategy, these did not seem to have been subject to Board discussion**. As noted above, the equivalent of 15 FTEs were already working in this area, but rarely were identified in the Fund's medium-term budget documents. However, by the time of the FY2019–21 MTB, general reference was made to funding for a Staff Discussion Note and other work on fintech issues, and the FY2022–24 MTB presaged the forthcoming strategy paper, albeit without detailed cost estimates (IMF, 2021).

63. **The 2021 digital money strategy proposed a significant increase in the number of FTEs devoted to this topic, rising to 70 by the end of three years**. However, this provoked an unusual backlash from the IMF's Board, with the summing up from the discussion indicating that "many" Directors "called for further prioritization and a more phased implementation of the strategy, given the complexity of the issue and the evolving regulatory environment" (IMF, 2021f). Although there seemed a consensus in favor of the Fund's work on this topic, the summing up made the usual deferral of decisions on resourcing to a later discussion of the "broader budget," and there seemed to be many that preferred a "more modest, phased increase in resources" for this topic.

64. **Notwithstanding the Board's hesitancy, the October 2021 IMFC communique seemed to provide a less qualified endorsement of Fund work in the area of digital money**. And as part of a broader augmentation of the Fund's budget envelope, the May 2022 MTB approved a sizable ($3.5 million) increase in outlays in FY2023 on this topic, albeit an amount that was less than the strategy proposed. And, as was the case for the FSAP, this budgetary gap was filled at least in part by donor funding (in FY2022, Japan pledged $15 million for a "digital money window").

[30] A description of the FSSF and its work can be found in MCM's annual report on capacity development at https://www.imf.org/-/media/Files/Publications/technical-assistance-annual-report/taar2022.ashx.

Assessment

65. **Each of the four new applications of the mandate discussed above were unfunded at the time of the Board's endorsement** This was the case despite the fact that budget and skills gaps were regularly flagged as impeding the effective implementation of the Fund's FSS mandate. The importance of filling these gaps was consistently highlighted in the external evaluations that were undertaken by the Fund following the Mexican, Asian, and Global Financial Crises; by the IEO in its 2019 evaluation of financial surveillance; and by staff in various Board papers on the topic.

66. **To some extent, the funding gaps can be explained by the Fund's flat budget constraint, which meant that additional resources needed to be found through prioritization exercises**. However, the MTBs and other relevant Board documents did not provide information to suggest that these reprioritization decisions were based on an analysis of their strategic costs and benefits relative to those related to the expansion of FSS. Moreover, for the most part these prioritization exercises did not utilize "zero-based budgeting" and strategic planning processes that might have enabled consideration of more fundamental (and possibly more impactful) organizational changes to improve the effectiveness of macrofinancial surveillance.

67. **Weak prioritization and budget allocation processes have long been flagged as weighing on the effectiveness of the Fund's efforts to expand the application of its FSS mandate**. Notably, a 2014 internal review of FSS highlighted, in addition to skills gaps and other issues, suggested that budget allocations between departments did not seem to reflect broader priorities, and cautioned that internal processes impeded the transfer of macrofinancial skills to departments where they were most needed (Demekas and Marston, 2014). Some of these same themes were highlighted by the IEO's 2019 review of FSS and again in the 2021 CSR, which called for "expanding macrofinancial talent" (IEO, 2019; IMF 2021c).

V. COORDINATION

68. Each of the four applications of the FSS mandate discussed above involved the Fund operating in areas that overlapped with work done by other international financial institutions, and in some cases required active partnerships in their execution. Moreover, given the organizational structure of the Fund, internal coordination was also an important pre-requisite for successful implementation of these applications of the mandate. This section reviews the extent to which these coordination issues were well identified at the point when the new applications of the mandate were developed and introduced and how well they were implemented over time.

Macrofinancial Integration[31]

69. **Since, for the most part, the macrofinancial work did not overlap with the activities of other agencies, the chief coordination challenge was internal**. In particular, the Fund's internal organizational structure was an important (and perennial) impediment extending the bilateral Article IV mandate to cover macrofinancial issues. In particular, the necessary expertise largely resided in MCM and not with the ADs that have been responsible for delivering on this new application of the mandate.

70. **Considerable effort was made to overcome this hurdle**. For example, the establishment of MCM included five new "financial surveillance" divisions—one for each AD—that were charged with providing AD mission teams with MCM experts and expertise as well as coordinating MCM's delivery of TA. However, this approach was gradually abandoned, at least partly because the ADs did not see significant additional value having MCM macroeconomists that were assigned to these divisions join AD missions, preferring instead to bring MCM staff with specialized financial expertise. In response, MCM shrank the surveillance divisions and defined five B-level staff as "regional advisors" who were responsible for liaison with their respective AD to identify the needs of their country teams and then for obtaining commitments from MCM specialized divisions for experts to participate in AD missions. These commitments have been embodied in the annual interdepartmental accountability exercise, overseen by management.

71. **Other efforts to improve interdepartmental coordination included the aforementioned 2014 interdepartmental working group.** It was chaired by the FDMD, which laid out a range of recommendations for improving the coverage of financial sector issues in Article IV consultations. This led to pilot cases (66 Article IV reports by 2016) that involved joint work by the ADs and MCM. And after a Board review in 2017, the initiative was extended to the broader membership (IMF, 2017a). Additional steps to improving coordination included the establishment in 2009 of the interdepartmental Financial Surveillance Group, which was aimed at identifying cross-cutting issues and identifying best practices in macrofinancial surveillance. This group was particularly active during the COVID-19 pandemic, providing an internal forum for discussing the Fund's "COVID Notes" that dealt with financial policies, but its last meeting appears to have been in early 2022.

72. **The macrofinancial pilots initiated in 2015 prompted other steps toward improving inter- and intra-departmental collaboration**. As outlined in the 2017 Board paper, besides enhancing the macrofinancial focus of the internal review process, some departments set up macrofinancial units to improve knowledge sharing, MCM and SPR were involved in spearheading macrofinancial "brainstorming" sessions to enable country teams to identify key macrofinancial

[31] Although this paper does not consider the coordination issues inherent in the Fund's multilateral macrofinancial surveillance, the G20's launch of the Early Warning Exercise, which required the Fund and the FSB to coordinate semi-annual presentations on global vulnerabilities, is an interesting example.

issues and resource gaps, MCM established a new "Toolbox" to enable AD teams to download quantitative bases for risk assessments, the Institute for Capacity Development (ICD) developed an internal training program to improve staff's macrofinancial skills, and concerted efforts were made to improve the internal mobility of staff to enable ADs to improve the skill mix of their staff (for further details see IEO, 2019).

73. **However, these efforts were still viewed as insufficient, and further steps to improve internal coordination were taken in response to the 2021 CSR and the May 2022 augmentation framework**. In addition to new staff for AD teams, as well as for macrofinancial policy-related analysis, the latter proposed significant new staff for the ADs, resources funding for expanding "the toolkit for macrofinancial analysis, training, and offering additional support through the internal review process."

Macroprudential Policies

74. **The application of the Fund's FSS mandate to macroprudential policy was developed after extensive outreach and coordination with other international bodies and the membership**. Staff, with the participation of management, either hosted or co-hosted numerous conferences, both at HQ and abroad, which included policymakers, academics, and senior staff from other relevant organizations.[32] These events provided considerable scope to build a consensus on the macroprudential policy framework that the Fund was developing, as well as on the Fund's role. And to help avoid a "one-size-fits-all" approach, the Fund invested significant effort toward surveying experience of a wide range of its membership on the use of MPPs, as well as by developing of a cross-country database of macroprudential measures.

75. **There was also extensive coordination between the Fund and the financial standard setting bodies (SSBs) in the development of their respective macroprudential frameworks**. This was particularly important given the need to ensure consistency of approaches, and these engagements also provided an opportunity for the Fund to offer the perspectives gained from its universal membership. The coordination took place in the context of the Fund's membership of the FSB, which took the lead in organizing the standard setters' response to the GFC, including the design of a macroprudential overlay to their respective supervisory and regulatory standards.[33] Coordination with the FSB and the BIS was also actively encouraged by the G20, which commissioned two joint reports on macroprudential frameworks that were issued in 2011 and 2016. The consistency of approaches was also facilitated by the participation in FSAP mission teams of senior financial supervisors, many of whom were participants in the SSBs.

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[32] A partial listing of these events can be found at https://www.imf.org/en/Publications/SPROLLs/Macroprudential-Policy#sort=%40imfdate%20descending.

[33] Although the Fund is typically not a full member of the various standard setters, it typically has observer or associate status and participates in meetings.

76. **With the encouragement of the G20, the Fund worked closely with the OECD as that body was revising its code on capital account liberalization, including to ensure consistency with the Fund's IV and macroprudential policy frameworks.** To this end, the OECD and the IMF produced joint papers to clarify their respective approaches, including with regard to macroprudential policies, and Fund staff participated in the OECD's multi-agency Advisory Task Force, which established in 2012 to help guide the Code's revisions (Towe, 2020). However, the IEO's recent evaluation of the Fund's approach to capital flows noted room for greater cooperation with the OECD and other agencies, and a number of these suggestions were taken up by the Fund in a 2021 "implementation plan" (IEO, 2020; IMF, 2021).[34]

77. **In the 2022 IV update, the Fund's also acknowledged and addressed the potential tension between the IV and the macroprudential measures set by the SSBs** (IMF, 2022a). These included the countercyclical capital buffer and liquidity coverage requirements under the Basel Framework as well as the surcharges that can apply to systemically important banks. The update opted to resolve the tension by indicating that in such instances "staff would refrain from assessing the appropriateness of such measures under the IV," which was justified with reference to the Fund's support for "international cooperation in this field" rather than the IV's usual benchmark of macrocriticality. However, the summing of Board meeting suggests that EDs took a slightly different view, concurring that "the IV is not the right framework to assess the appropriateness of such measures, while noting that they should still be categorized as CFMs if those measures qualify as such under the definition of CFMs in the IV, and discussed in surveillance if they are macrocritical or may generate significant spillovers, consistently with the Integrated Surveillance Decision."[35]

78. **The Fund has also worked with others as it has been developing its Integrated Policy Framework (IPF)—which has an important macrofinancial component.** With the encouragement of the G20 and with the BIS, which had been developing in parallel its own "macro financial stability framework," as a key interlocutor, Fund and BIS staff have engaged closely in the context of seminars to share information on their work. The G20's International Financial Architecture Working Group has apparently been interested in clarifying the differences between the two institutions' respective approaches, and a joint presentation and comparison of the two frameworks was made in September 2022.

[34] The plan includes references to joint workshops, continued participation in the OECD's Advisory Task Force, consideration of the adoption of an "assessment letter framework" for OECD requests for information on macroeconomic and financial stability conditions, and further work with the SSBs to address potential tensions between their macroprudential frameworks and the IV (IMF, 2021).

[35] Detailed guidance on how these issues were to be treated in Fund surveillance was issued in December 2023. See https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/12/11/Guidance-Note-on-The-Liberalization-and-Management-of-Capital-Flows-542289.

Mandatory FSAP

79. **Although the FSAP remains a joint Bank-Fund program, the post-GFC shifts in the application of the Fund's mandate have diminished the extent of coordination.** The 2009 decision to carve out the Fund's responsibility for the stability module and the residual as a (largely un-defined) "development module" for the Bank gave greater license for these products to be delivered separately rather than in the form of joint missions. The subsequent decision to make FSAP assessments a mandatory part of surveillance resulted in the share of FSAPs shifting towards mandatory FSAPs, and with their greater focus on advanced economies, this increased the share of Fund-only FSAPs. Yet for joint FSAPS, it also meant that members would be required to participate in the Fund's stability assessments but could opt out of the Bank's portion. This seemed to have been recognized at the time, since at the Board's discussion EDs "considered these developmental assessments to be an important complement to the Fund's stability analysis. They encouraged authorities to continue volunteering for these assessments and called for continued close cooperation between the Fund and the Bank in this area." However, by 2013, staff flagged that a shortcoming of joint missions was that the very broad coverage of FSAP assessments (particularly in emerging market and developing countries, where assessments are typically conducted jointly with the World Bank) limited their usefulness for surveillance (IMF, 2013b). And at least partly reflecting this concern, the number of joint missions correspondingly trended downwards.

80. **Many of the institutional bases for coordination with the Bank on FSAP-related issues have been de-emphasized**. With the adoption of the mandatory FSAP, the periodic Board reviews of the FSAP were no longer co-authored. And the role of the Financial Sector Liaison Committee, which had been established to coordinate the broader range of financial sector of the two institutions, also appeared to wane, although coordination of FSAP mission schedules remained relatively seamless. And while the Fund's 2021 FSAP Review framed the collaboration with the Bank in positive terms, the Bank's own 2021 Review recommended improving the effectiveness of the WB-IMF collaboration through the Financial Sector Liaison Committee (FSLC) (World Bank, 2021). Possibly as a result, both institutions have committed to reviving the FSLC, including by ensuring bi-annual meetings, chaired at a relatively senior level. Although interviews for this evaluation suggested that these coordination processes remained a work in process, the September 2023 joint statement by the IMF Managing Director and the Word Bank President also flagged the FSAP as a successful example of "joint action and collaboration."[36]

81. **The advent of the donor-funded FSSF also had implications for Bank-Fund collaboration**. In principle assessments under this technical assistance window are coordinated with the Bank, and Bank staff do attend the periodic meetings of the steering committee of the FSSF as observers, which provides an opportunity for information sharing. However, missions are not joint so this instrument effectively expanded the Fund's capacity to deliver financial sector assessments unilaterally to members that would ordinarily been covered by a Bank-Fund assessment.

[36] See https://www.imf.org/en/News/Articles/2023/09/06/pr23305-joint-statement-imf-managing-director-world-bank-president.

82. **The Fund has coordinated closely with the FSB on FSAP-related issues**. The GFC led to an increased reliance by the G20 on the FSB (and its predecessor the FSF) for global surveillance, and to forestall potential conflicts a letter was signed in 2008 by the heads of the two bodies to delineate responsibilities, including with regard to bilateral surveillance and the FSAP.[37] The FSB has taken on a role in monitoring the G20's commitment to regular FSAP assessments, which is done under the aegis of the FSB's Standing Committee on Standards Implementation (SCSI). The SCSI conducts regular "peer reviews" of G20 members following their FSAP assessments that include an evaluation of progress in implementing FSAP recommendations. Fund staff is a member of the SCSI, and care is taken by the SCSI to ensure the independence of the Fund's FSAP assessments. And while more recent peer reviews have tended to focus more on specific regulatory issues of interest to the FSB rather than following up on FSAP recommendations, the two processes have been well coordinated and have tended to be mutually reinforcing.[38]

Fintech and Digital Money

83. **The Fund coordinated its work on fintech and digital money from an early stage, although this rarely resulted in joint work**. Notably, the 2018 Bali Fintech Agenda was a joint Bank and Fund product and provided an early basis for defining the respective roles of the two institutions and for future coordination. Roughly coincidently, the FSB began an active program to coordinate the work of the financial standard setters to develop regulatory policies that could respond to the financial stability implications of "crypto assets." And similarly, the BIS also began extensive work on crypto currencies, including on the implications for monetary policies. These efforts, and those of the Fund, did not typically result in joint or coordinated work, with the possible single exception of a 2021 joint report to the G20 on the implications for cross-border payments of central bank digital currencies with the BIS and World Bank.

84. **The Fund's 2021 digital money strategy contained detailed references to the role of coordination and cooperation with other bodies but offered few commitments**. Coordination was emphasized in the summing up of the Board's discussion, which reiterated "the need to focus on the Fund's comparative advantage and to partner and collaborate with other international financial institutions, country authorities, standard setters, as well as the private sector, to maximize synergies and minimize duplication of work and foster knowledge sharing" (IMF, 2021f). However, the strategy provided few details about how this collaboration would occur. Moreover, the strategy made only a passing reference to the Bali Fintech Agenda, which had included relatively specific references to the relative responsibilities of the Bank and Fund,

[37] See https://www.fsb.org/wp-content/uploads/r_081113.pdf.

[38] The Fund has also coordinated with the Basel Committee as this body developed its own processes for monitoring its members' adherence to Basel III. For details see https://www.bis.org/bcbs/implementation.htm?m=89.

although the document seemed to be consistent with the boundaries that were established in that earlier document.[39]

85. **The relatively paucity of joint work with other institutions in this area partly reflects the specific nature of the IMF's mandate**. For example, the Fund has tended to focus on the implications of digital money for macroeconomic policymaking rather than on regulatory and supervisory implications, which has been the FSB's responsibility. And similarly, the Fund has not focused extensively on the implications of digitalization for financial inclusion, which has been an important emphasis for the World Bank given its development mandate. Nonetheless, Fund staff has liaised actively with other institutions active in this area, including in the context of the Fund's membership in the FSB and many of the SSBs, seminars, regular informal liaison, etc. However, interviews for this evaluation suggested that coordination and information sharing could be deeper, including to avoid the potential for overlap, competition for donor resources, and untapped opportunities for leveraging the deeper expertise of other institutions in the areas of financial inclusion and payments systems.

86. **The G20 has called for better interagency coordination in the area of digital finance.** In response, a joint IMF/FSB paper was issued in September 2023 to clarify "how the policy and regulatory frameworks [on crypto assets] developed by the IMF and the FSB (alongside SSBs) fit together and interact with each other" (IMF and FSB, 2023). And the recent Bank-Fund joint statement also made explicit reference to the respective institutions' work in supporting the "digital transition" and seemed to define both where institutional comparative advantages lay, and where coordinated work should take place.[40]

Assessment

87. **While coordination issues were typically well identified at the time of the adoption of new applications of the FS mandate, limited attention was paid to their operationalization and follow-up**. Board papers typically contained detailed descriptions of overlapping responsibilities and commitments to collaboration and reaping the benefits of institutions' expertise. However, these were not accompanied with frameworks for ensuring commitments were adhered to or for subsequently assessing their success and the possible need for their rethinking. For example, while the Bali Fintech Agenda was a "useful framing of the issues" it did not establish a basis for further coordination between the Fund and the Bank nor did it delineate clearly each institution's roles in this area. Indeed, interviews for this case study suggested that the Fund's interest in digitalization had at times led it to take on "financial inclusion" issues, which were more naturally in the Bank's domain. This may also have led to competition for donor funding for similar activities and may have resulted in the Fund's

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[39] The Bank and Fund followed up on the Bali Fintech Agenda with a joint paper that was presented to their boards in 2019.

[40] See https://www.imf.org/en/News/Articles/2023/09/06/pr23305-joint-statement-imf-managing-director-world-bank-president.

involvement in digital money issues in ways that did not fully leverage the Bank's long-standing expertise and involvement in payments issues. And, similarly, while the Fund, the BIS, and the SSBs have appeared to communicate well and frequently on their respective positions on issues around digital finance, the G20 requests for a joint paper seems to recognize the need for greater clarity in this area.

VI. OVERALL ASSESSMENT

88. **The case studies examined above illustrated important strengths in the Fund's governance of its FSS mandate**. These new applications of the mandate were typically driven by an internal recognition of important gaps in the Fund's surveillance toolkit, but were developed in close consultation with the G20, other agencies whose responsibilities may have overlapped, and the broader membership, including in the context of early preliminary briefings of the IMF's Board in order to solicit comment and build consensus. Responsibility for developing positions was also often shared across IMF departments to ensure a voice for internal stakeholders, either by asking departments to co-author papers or in the context of the Fund's rigorous internal review processes. Importantly, Management's efforts to promote the integration of financial sector issues into bilateral surveillance and to expand the Fund's work on digital finance issues also illustrated how a clear "top-down" commitment to new applications of the mandate can be a key driver for change and overcoming institutional inertia.

89. **This review also illustrated apparent shortcomings in these processes**. As already noted by the 2021 CSR, even after nearly two decades of efforts "limitations in macrofinancial expertise and competing priorities have constrained progress in integrating and deepening macrofinancial analysis" (IMF, 2021d). The discussion above suggests that these shortfalls resulted from limitations in the Fund's governance processes, but also offers possible lessons for the success of the Fund's more recent attempts to extend the application of its mandate to new areas:

- *Budgeting and reprioritizing*. As the CSR noted, many of the new applications of the FSS mandate that have been adopted in the past 15 years were not accompanied by explicit steps to fill resultant funding and skills gaps. While this may have partly stemmed from the overall cap in budget resources that the Fund was operating under during most of the evaluation period, it also reflected a governance process that permitted the adoption of unfunded mandates and limited frameworks for ensuring a strategic reprioritization of existing resources to accommodate new demands.

- *Benchmarking*. In addition, although the Fund has developed robust processes for conducting regular reviews of its surveillance, the extensions of the application of the FSS mandate surveyed here were typically not accompanied by ex ante benchmarks to assess performance against these initial commitments. This reflects the fact that the Fund's governance framework lacks a formal and integrated monitoring and evaluation system, like the one that the Fund uses to assess the performance of individual CD projects (see IEO, 2022, for further discussion).

- *Assessing effectiveness*. Governance of the Fund's FSS mandate may also be impacted by internal accountability processes that focus more on the delivery of products rather than on assessing the effectiveness of the Fund's efforts. For example, the MD's GPA and departmental accountability framework frequently reference the need to improve FSS but often these references are vague and/or refer to policy or research papers, pilot cases, and new analytical tools. What appears to be missing is a basis for judging the effectiveness of FSS or for ensuring the necessary enabling environment to make FSS an integral part of country work.

- *Perimeter and breadth*. A further factor that may complicate the effectiveness of the Fund's FSS mandate as it extends to areas that fall outside the traditional core of fund surveillance is the potential for ambiguity around how far the perimeter should be extended. The standard criteria would admit topics that are macrocritical, but this concept has typically been used to justify coverage in general, and it does not seem to have been used to determine the topic's relevance for surveillance for individual members.[41] Moreover, while efforts were made to improve the relevance of the FSAP for surveillance, including by clarifying the essential elements of a stability assessment, the FSAP's applicability for bilateral surveillance continues to be handicapped by the breadth of its coverage and complexity of financial stability tools. And while the Fund's recent digital money strategy sought to delineate how the new strategy would be applied in practice, its relevance for bilateral surveillance, and how this approach would be carried forward by the area department country teams, still seems imprecisely defined.

- *Inter-departmental responsibilities*. The Fund's internal organization can also play a role in determining the success of new applications of the bilateral surveillance mandate. Although the responsibility for these naturally fall to the area departments, they need to be both held accountable for delivering on new applications of the mandate and also provided the necessary budget and personnel resources. The efforts to integrate financial sector issues into Article IV surveillance was lent an important impetus when this accountability was better defined, but continues to be hampered by the fact that the Fund's financial sector expertise and the responsibility for delivery of FSAP assessments is still centred in MCM.

- *Cooperation with other institutions*. The case studies illustrate the considerable emphasis that management and the Board placed on leveraging from and coordinating with other agencies with responsibility in these new applications of the IMF's financial sector mandate. Both in the development and execution of these new applications of the mandate, staff have taken care to liaise with other institutions that have overlapping responsibilities. However, in many cases this has been more the form of keeping

[41] For example, see Clay Hackney, "Macro-Criticality: The International Monetary Fund's Black Box," The Global Anticorruption Blog, October 30, 2020. Box 2 in the 2022 Surveillance Guidance Note is also imprecise on this point.

counterparts informed about the Fund's work or positions, and often after these have been relatively well-established, rather than to partner with other agencies or to leverage their possibly deeper experience and expertise. And commitments to interagency collaboration were typically not accompanied by benchmarks that would allow these commitments to be monitored and their effectiveness evaluated. Similarly, although the Fund's post-ISD policies require it to defer to other agencies where its expertise on topics may be insufficient, bases have not been defined to allow an assessment of whether the Fund's expertise is sufficient and/or whether other agencies would be better placed to deliver policy advice in some of the areas where the application of the FSS mandate has been expanded.

- *External financing*. During the evaluation period, the Fund often sought donor funding to fill unfunded FSS mandates. While this strategy was successful in circumventing the budget constraint, it tended to remove what might otherwise be considered core Fund actives from normal Board oversight and governance, and also risked exposing the Fund to a reputational risk given that the Fund was competing with other international agencies for the same resources for often similar purposes.

ANNEX I. IMF FINANCIAL SURVEILLANCE—KEY MILESTONES

1994–95	Mexico Crisis	A sudden loss of international capital market confidence caused a massive depreciation of the peso and a near sovereign default.
1995	Whittome Report	This report was commissioned by the IMF to examine the IMF's failure to detect the emerging crisis and concluded that this at least partly reflected insufficient surveillance of financial market developments (Takagi, 2018).
1997	Enhancements to bilateral surveillance	The outcome of the 1997 Bilateral Surveillance Review was operational guidance that required staff reports for Article IV consultations to "include assessments of financial market developments and prospects as well as of problems and policy issues in the banking and financial sector" (IMF, 1997).
1997	Asian Crisis	Financial crises began to grip most of East and Southeast Asia, with South Korea, Malaysia, Indonesia, Thailand, and the Philippines being the worst affected.
1998	Enhancements to bilateral surveillance	In response to a call from the Interim Committee to intensify its surveillance of financial sector issues, including policy interdependence and risks of contagion, IMF's Monetary and Exchange Arrangements Department (MAE) releases a "Guidance Note for the Monitoring of Financial Systems under Article IV Surveillance."
1999	FSAP launched	The Financial Sector Assessment Program (FSAP) was launched as a joint exercise with the World Bank, to provide periodic (roughly every five years) assessments of financial stability and development needs. These were chiefly aimed at developing and emerging market economies, and owing to limitations on the IMF's mandate at the time participation was voluntary.
2000	Off-shore Financial Center (OFC) assessments	In response to a call from the Financial Stability Forum, the IMF establishes a framework for assessing stability risks emanating from OFCs.
2001	International Capital Markets (ICM) Department established	This new department was established to consolidate and strengthen the Fund's monitoring of capital market developments, including in response to the "Lipsky Report."
2001	VEE launched	The Vulnerability Exercise for Emerging Markets (VEE)
2002	GFSR launched	The International Capital Markets Report, which had been first semi-annual Global Financial Stability Report issued as a "flagship" IMF surveillance report, giving expanded prominence and depth to the Fund's surveillance of international capital markets.
2005	New surveillance guidelines	The 2004 Biennial Surveillance Review led to new guidance aimed at strengthening financial sector surveillance.
2006	Monetary and Capital Markets (MCM) Department established	In response to an outside expert report (the McDonogh Report), the ICM and MAE departments were merged to enhance financial surveillance by integrating the Fund's bilateral and multilateral financial surveillance functions.
2007	2007 Surveillance Decision	2007 Decision on "Bilateral Surveillance over Members' Policies" expands the scope of IMF surveillance to include all member policies that "can significantly influence present or prospective external stability," including "monetary, fiscal and financial sector policies," albeit implicitly limiting the examination of outward spillovers to those operating through the balance of payments channel.
2007	Global Financial Crisis	A collapse in the US housing market triggered massive losses in derivatives and other financial markets causing the failures in systemically important financial institutions in the US and abroad, and triggering the most severe macroeconomic crisis since the Great Depression.

2008	OFC assessment program integrated with FSAP.	In order to improve resource prioritization and to make the assessments of OFCs more risk focused, the OFC program it was integrated into the FSAP.
2009	EWE launched	In response to a call from the G20 in its November 2008 communique, the IMF and FSB moved to prepare coordinated reports on emerging risks, termed the Early Warning Exercise. These are delivered semi-annually to the IMFC.
2009	IMFC call for modernizing surveillance	In the wake of the GFC, the April 2009 communique calls for "enhancing IMF surveillance through improving its analysis of the macro-financial linkages, cross-border spillovers, and sources of systemic risk wherever they may arise."
2009	Further integration steps	Board approves further efforts to enhance macrofinancial bilateral surveillance, including by better integrating FSAP assessments, more use of balance sheet analysis, and enhanced cooperation with the World Bank on LIC financial sector challenges.
2009	Data Gaps Initiative (DGI) launched	The IMF initiates the DGI with the FSB and other agencies to help fill data gaps that were identified as having impeded the ability of the Fund and others to identify emerging risks to financial stability.
2009 and 2010	Mandatory FSAPs	The Fund moves to define the elements of an FSAP review that were core to a stability assessment in 2009 and in 2010 the Board agrees to make these mandatory for members with systemically important financial sectors.
2010	Financial Sector Surveillance and the Mandate of the Fund	Board reviews options for extending the Fund's mandate to enable better coverage of financial sector issues in surveillance, including amendments to the Articles, the integration of the FSAP with surveillance, and deepening coordination with the FSB and standard setters.
2011	VE-LIC launched	This expanded vulnerability exercises to cover the majority of low-income countries.
2011	Spillover Reports introduced	An exercise that looks at the potential for disruptive financial or other spillovers from China, the euro area, Japan, the United Kingdom, and the United States (the S5). These reports evolved to become more thematic, and since 2016 migrated to a special annual WEO chapter.
2011	Macroprudential policy frameworks begin to be launched	In response to calls by the G-20 for the IMF, the BIS, and the FSB to develop a macroprudential policy framework, the Fund issues an "organizing framework," the first in an extensive series of papers defining the Fund's approach to surveillance in this new area.
2012	2012 Integrated Surveillance Decision	2012 Decision on Bilateral and Multilateral Surveillance (often termed the 2012 Integrated Surveillance Decision, further strengthened the Fund's surveillance mandate including with regard to financial sector issues, by permitting assessments of policies and conditions that could have large outward spillovers even outside of the balance of payments channel.
2012	Surveillance Guidance Note	New guidance was issued to formalize the requirement that Article IV team to prepare risk assessment matrices, which define a member's most salient macro and macro financial risks, and to include public debt sustainability analyses.
2012	Institutional View on Capital Flow Measures	A new framework was established to enhance the capacity of Fund surveillance to assess the appropriateness of policies by members to counter disruptive surges in international capital flows.
2012	Strategy for financial surveillance	Triggered partly by the work leading up to the 2012 Surveillance Decision, the Board adopts the Fund's first-ever strategy for financial surveillance.
2013	External Sector Reports launched	These reports seek to identify potentially disruptive external imbalances, with reference to trade and capital flows, exchange rates, and domestic asset prices.

2013	Mandatory FSAPs expanded	Based on a new methodology to define systemic important financial sectors, the number of jurisdictions subject to the mandatory FSAP increased from 25 to 29, and the Board's decision also aligned the mandate with the 2012 Integrated Surveillance Decision.
2014	New emphasis on financial inclusion	The MD's October 2014 "Global Policy Agenda" refers to a new focus of IMF policy advice in the area of financial inclusion, which is followed up by a Staff Discussion Note and subsequent analysis and policy advice, including in the context of the FSAP and technical assistance.
2014	Triennial Surveillance Review (TSR) and MD's Action Plan	The TSR called for the Fund to make "macro-financial analysis an integral part of Article IVs, and step up advice on macro-prudential policy to address financial risks, particularly in integrated economies." The subsequent action plan contained commitment to numerous specific actions, including reviving the balance sheet approach, enhancing staff's access to tools for stress testing, and improving the "diffusion of leading practices" across departments.
2014	Guidance issued on macroprudential policy	Based on a series of earlier papers, and in support of the TSR action plan, the Fund issues specific guidance to define how its bilateral advice would be applied in the area of macroprudential policies.
2014	Role of supervisory standards amended	The Board endorsed a staff proposal to adopt a "macrofinancial approach" to supervisory standards assessments, which would limit the need for full assessments of supervisory standards as part of the FSAP, permitting more focused and risk-based approaches.
2017	Role of macrofinancial surveillance formalized	As a follow up to the 2014 triennial surveillance review, staff codified the role of macrofinancial analysis in Article IV consultations, including based on a series of pilot exercises.
2020	Integrated Policy Framework	Board reviews staff paper on an Integrated Policy Framework, which discusses the Fund's efforts to integrate its monetary and fiscal policy advice with its advice on capital flow management measures and macroprudential policies.
2021	New "Digital Money" Strategy	Board endorses the IMF's involvement—as part of its broader mandate—in to actively assist its members to "harness the benefits and manage the benefits of digital money." However, the Board seemed to be divided about the ambitiousness of the proposed strategy and many Directors called for "further prioritization and a more phased implementation of the strategy."
2021	Comprehensive Surveillance Review (CSR)	The CSR, and the subsequent revised surveillance guidelines, called for more rigorous and impactful assessments of financial sector risks, as well as better integration of FSAP recommendations and regular surveillance.
2021	FSAP review and revisions to mandatory FSAP	The Board approved an expansion of the list of members that would be subject to mandatory FSAP assessments (32 to be assessed every five years, and a further 15 to be assessed every 10 years) and affirmed the practice of scaled back and risk-based assessments of financial standards.

Source: Author.

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