1 INTRODUCTION

CONTEXT

Central banks have been at the center of policy action since the start of the Global Financial Crisis (GFC). Many central banks in advanced economies (AEs) quickly lowered policy interest rates to zero or near-zero levels and then turned to unconventional monetary policies (UMP). The term is used here to include quantitative easing (QE), forward guidance about policy interest rates, schemes to encourage bank lending, negative interest rates, and exchange rate floors.[1] The fiscal stimulus provided in the early years of the crisis was soon withdrawn, leaving central banks as the "only game in town" to support the recovery (El Erian, 2016). With persistent headwinds to growth, UMP were progressively increased in scope, and the task of unwinding their application or "exit" remains at an early stage for most UMP users.

Initial actions to support liquidity and preserve financial markets in the heat of the crisis are generally seen to have been highly effective, while later measures to support demand seem to have had a more modest impact. For the United States, Kuttner (2018) concluded that "a preponderance of evidence" suggests that UMP succeeded in lowering long-term interest rates, which macro models suggest "are likely to have had a meaningful impact" on output and inflation. However, while the initial programs may have worked by calming turbulent financial conditions, effects of UMP seem to have diminished over time under more normal conditions "as the novelty wore off"; indeed, a number of researchers including Greenlaw and others (2018) are skeptical about the scale and persistence of the impact of QE on U.S. long-term interest rates. For other major advanced economies, Dell'Ariccia, Rabanal, and Sandri (2018) concluded that "most studies find significant cumulative effects" from UMP in lowering long-term interest rates, raising stock prices, and depreciating exchange rates. Evidence on how unconventional monetary policy affected output and inflation is "more limited" but "existing studies suggest positive impacts."

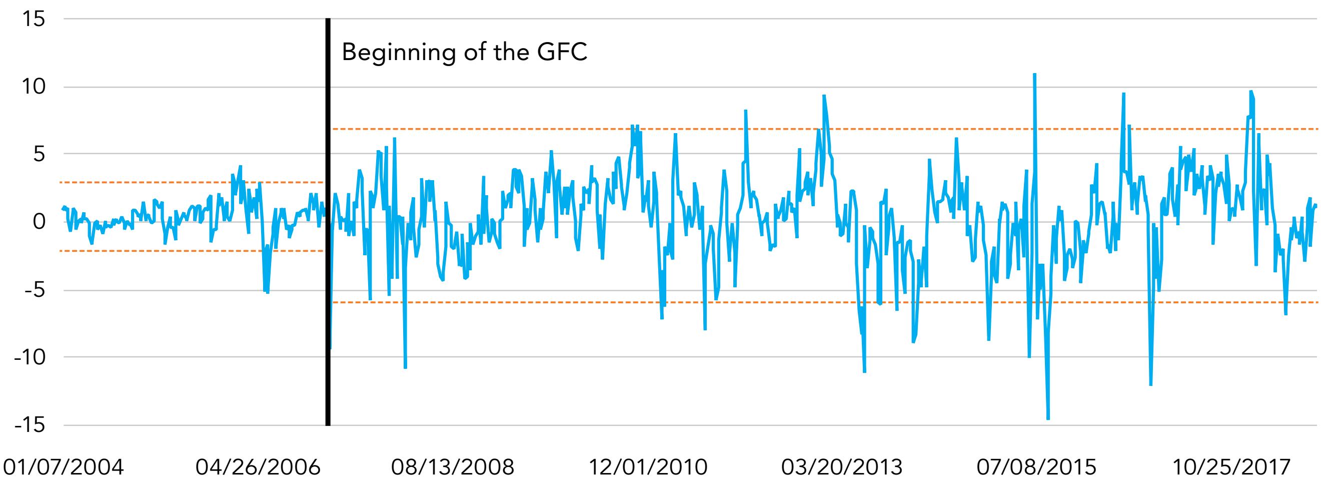
There has been continuing debate about the risks and side effects of UMP, particularly on financial stability. Proponents of UMP have noted that one aim of expansionary monetary policy, conventional or unconventional, is to ease financial conditions and encourage risk-taking (e.g., Lipton, 2017). Blanchard (2018) argued that the build-up in risks so far has been minimal: "some emerging market countries may have borrowed too much, but this is about it." However, others have worried that the extent of risk-taking may end up being excessive. Caruana (2011) advised that monetary policy should "lean against the build-up of financial imbalances even if near-term inflation remains low and stable." Some have warned that the financial stability risks are already deep-rooted because monetary expansion has lasted too long and relied too heavily on new and untried policy tools (White, 2016).

The impact of UMP on other countries, particularly emerging markets (EMs), has raised concerns. In the initial phase of the crisis, UMP stabilized financial conditions

[1] As use of these measures has persisted, some observers argue that they should now be regarded as part of the conventional toolkit of central banks (Posen, 2015).

FIGURE 1. EMERGING ECONOMIES: CAPITAL FLOWS

(Debt and equity, weekly, in billions of U.S. dollars)



Notes: Dashed lines indicate two standard error bands. GFC start date chosen in line with the Federal Reserve Bank of St. Louis timeline.
Sources: Updated version of Figure 8 in Carstens (2015), based on data from EPFR Global and FRED.

and the turnaround in demand in the major economies had a positive feedback on other AEs and EMs (Gagnon, 2015). However, many central bankers, particularly in EMs, have expressed serious concerns about the effects of subsequent rounds of UMP, when financial spillovers proved harder to manage and the growth benefits were less clear. Moreover, economies have also been exposed to volatility associated with shifts in expectations about "exit" (Tombini, 2013). Overall, large and volatile capital flows into and out of many EMs created difficult policy choices, prompting heavy foreign exchange interventions and the use of macroprudential policies (MPPs) and capital flow management measures (CFMs) (Rajan, 2013, 2015; Carstens, 2015) (Figure 1).

Spillovers from UMP have raised challenges for international policy cooperation. The G-20 took on a much more prominent role post-GFC as policymakers in the large advanced and emerging market economies came together to respond to the crisis and subsequently debated how to take account of potentially adverse spillovers from UMP on other countries as well as persistent questions about appropriate policies for strong, sustained, and balanced global growth (Rajan, 2018). However, the G-20 seems to have become a less effective forum for policy cooperation after the initial heat of the crisis passed.

The use of UMP has spurred broader debates on central banking issues. These issues will stay relevant since growth and long-term interest rates seem likely to remain significantly lower than in the "Great Moderation" period before the GFC, implying less room to use conventional monetary policy tools. Questions being considered include: (i) how best to respond to future cyclical downturns; (ii) how well the inflation targeting framework has survived the crisis and what modifications may be needed; and (iii) whether the transparency, accountability, and governance structure of central banks needs to be strengthened so future use of UMP is subject to greater public oversight (Tucker, 2018).

Over the past decade, the IMF has been actively engaged on all these aspects of UMP. First, the Fund was a staunch advocate of UMP from the start and has successfully used its flagship publications—particularly the *World Economic Outlook (WEO)*—along with speeches by Fund management and the annual Article IV consultations with the major advanced economies to communicate this message. Second, the Fund has monitored and analyzed the financial stability risks of these policies, particularly through another flagship publication, the *Global Financial Stability Report (GFSR)*, as well as bilateral surveillance. Third, the Fund has done extensive work on the relative efficacy of monetary policy and macroprudential policies in managing financial stability risks, underpinning advice to use macroprudential tools as the first line of defense to address such risks rather than using monetary policy to "lean against the wind." Fourth, the IMF has examined the broader issues for the monetary policy framework raised by the experience with UMP and considered the role of central banks in future periods of turbulence.

The IMF has also launched a variety of initiatives to address concerns about the spillovers from UMP, particularly for EMs. While thinking behind these initiatives sometimes pre-dated the GFC and none were intended to address exclusively concerns arising from UMP, the Fund responded quite quickly to adapt them to help EM members facing challenges from UMP in the AEs.

- A new product—the Spillover Report—was launched in 2011 to assess the cross-border impact of UMP, as well as other policies and developments.
- An Institutional View (IV) on Capital Flows was adopted in 2012 to provide "clear and consistent" advice on an expanded toolkit through which EMs could deal with increased volatility of capital flows.
- The 2012 Integrated Surveillance Decision (ISD) provided the Fund with a mandate to use Article IV consultations to raise concerns about the cross-country spillovers of countries' policies, including UMP.
- The IMF intensified its efforts to work through the G-20 to develop commitments on policy packages (monetary and financial policies, fiscal policies, and structural reforms) that would foster "strong, sustained, and balanced" global growth, and thereby also help facilitate an exit from UMP by the major advanced economies.
- The Fund bolstered its contribution to the global financial safety net, particularly through the development of a Flexible Credit Line (FCL) to provide liquidity support to countries with sound policies affected by external shocks and volatile access to capital markets.

EVALUATION SCOPE AND APPROACH

This evaluation assesses the value added and impact of this substantial volume of IMF work. Advice on monetary policy is a core area of IMF surveillance. The IMF also has an explicit mandate to foster international monetary cooperation. This evaluation seeks to provide evidence on how well the IMF performed in these areas over the past decade (2008–18)—a time of great activism and experimentation by central banks. It addresses—among other issues—the timeliness, traction, and evenhandedness of the Fund's advice. Key questions include:

- How much value and influence did the Fund have in its advice on implementation of UMP in the AEs?
- Did the Fund staff provide central banks with an independent perspective on their policy actions?
- How helpful was the Fund in supporting countries, particularly EMs, faced by spillovers from UMP?
- What has been the contribution of the Fund in analyzing and advising on broader consequences of UMP, particularly implications for financial stability?
- How effective was the Fund in contributing to global policy cooperation, including over the mix of monetary and fiscal policies?

This evaluation does not attempt to provide an assessment of the impact of UMP—domestically and cross-border—which (as indicated above) continues to be debated quite intensively. It relies on recent survey articles' assessments on these issues, while also recognizing that more definitive views about the efficacy of UMP will only be possible some years down the road.

Nevertheless, lessons learned thus far from the experience of the past decade can guide efforts to strengthen the Fund's capacity to conduct high-quality surveillance on monetary policy in the future. This is particularly important because monetary policy issues are likely to remain salient. In the near term, countries could benefit from the IMF's advice on ensuring that the exit from UMP is an orderly one for both countries normalizing their monetary policy stance and countries exposed to possible spillovers. Moreover, concerns about the next downturn are now building, at a time when still low policy rates across most jurisdictions leave central banks with limited conventional ammunition. Over the longer term, the use of UMP has raised many contentious issues about central banking. Moreover, the cross-border impacts of policy decisions on capital flows and financial conditions are likely to continue intensifying in a world with increasingly integrated financial markets. The evaluation also has implications for the conduct of the Fund's bilateral surveillance more generally to ensure value added and influence.

The evaluation rests on evidence and assessments provided in three thematic background papers and four papers offering detailed case studies of IMF advice to 20 countries and the euro area (see list in Annex 1).

- The three thematic papers cover: (i) IMF analysis of the risks and side effects of UMP; (ii) IMF efforts to encourage international monetary cooperation and the development of new multilateral products to help EMs; and (iii) IMF work on frontier central banking issues.
- The four papers on country experiences cover IMF advice to: (i) major advanced economies (MAEs)—the euro area, Japan, the United Kingdom, and the United States; (ii) other smaller advanced economies (AEs)—Canada, the Czech Republic, Denmark, Sweden, and Switzerland; (iii) EMs in Asia—China, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, and Thailand; and (iv) other selected EMs—Brazil, Mexico, South Africa, and Turkey.

The evaluation benefits from extensive interviews as well as review of internal and external documents. Interviews were conducted with current and former IMF staff, Executive Directors and their staff, member country authorities, particularly at central banks, experts in academia and think tanks, and financial market participants. In addition to the Article IV reports, the desk review included the IMF's flagship publications, particularly the *WEO* and *GFSR*; policy papers prepared by staff for discussion by the Executive Board; the Spillover Reports; Staff Discussion Notes (SDNs) and working papers; and speeches and blogs by management and senior staff. The evaluation draws on material from weekly surveillance meetings organized by the Monetary and Capital Markets Department (MCM) and Research Department (RES), that were an important venue for internal debate on UMP, and on policy notes prepared in advance of Article IV consultations. It also draws on documents from other organizations such as the Bank for International Settlements (BIS) and national central banks as well as academic and think tank publications.

The structure of the report is as follows: Chapter 2 lays out in broad terms the IMF's "corporate view" on UMP as it has evolved since the GFC, both related to its role in supporting growth and the IMF's views on how to tackle the financial stability risks from the use of UMP. Chapter 3 evaluates advice on UMP to the MAE and Chapter 4 to other AEs. Chapter 5 reviews the Fund's advice to EMs affected by spillovers from UMP. Chapter 6 is devoted to evaluating the Fund's contribution to multilateral efforts to assist EMs deal with spillovers and to foster international monetary cooperation. Chapter 7 describes the Fund's contribution to the broader debates on central banking raised by UMP. Chapter 8 covers institutional issues such as the allocation of Fund staff to monetary policy issues. Chapter 9 provides the evaluation's findings and recommendations.