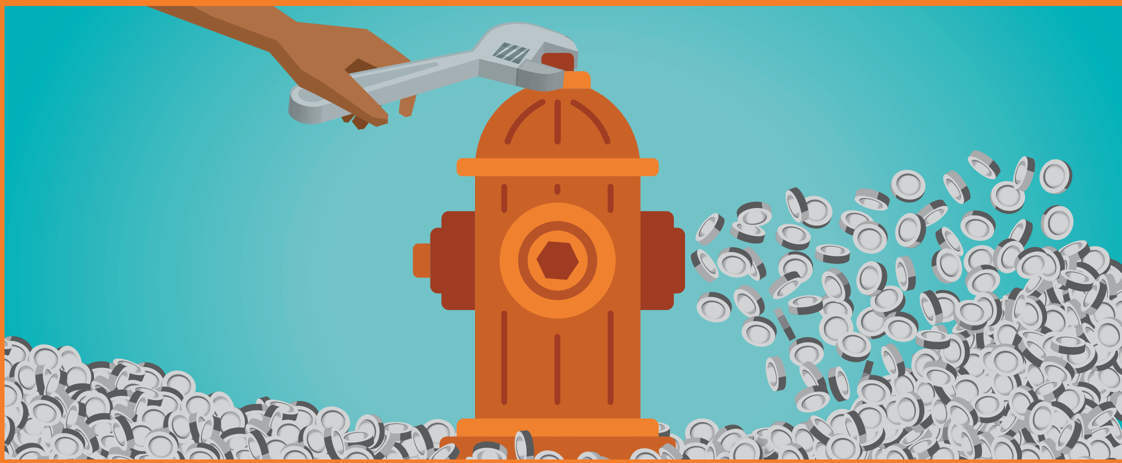
EXECUTIVE SUMMARY

The Global Financial Crisis (GFC) and the slow recovery from its aftermath prompted active and often innovative policy efforts over the past decade from central banks, which are only being gradually unwound. Many central banks in major advanced economies used unconventional monetary policies (UMP)—quantitative easing and new forms of forward guidance, for instance—to stimulate their economies. Central banks in smaller advanced economies pioneered novel steps such as the introduction of negative policy interest rates and exchange rate ceilings. Emerging markets felt the effects of UMP through swings in global liquidity and capital flows, to which they responded through a combination of policies: exchange rate adjustment, foreign exchange intervention, macroprudential policies, capital flow management measures, and precautionary financing arrangements. Accusations of "currency wars" put a strain on international monetary cooperation. Central bank activism triggered intense debates about how best to manage monetary policy normalization; the use of UMP in future slowdowns; the design of monetary policy frameworks; and central bank governance.

The IMF's response to these developments has been wide-ranging and in many respects impressive. Notwithstanding the considerable uncertainty and limited previous experience on which to draw in formulating advice, the Fund provided early support and validation to the major advanced economy central banks leading the way on UMP and urged aggressive use in others moving more slowly. It monitored the potential buildup of financial stability risks from UMP and helped to develop a new macroprudential policy toolkit to manage such risks, thus increasing confidence in aggressive use of UMP to meet short-term macroeconomic goals. Fund staff drew attention to and analyzed cross-border spillover through new products and techniques. Staff also reconsidered advice to countries being affected by these spillovers in a new Institutional View on managing capital flows. The IMF contributed to the G-20's effort to encourage greater international policy cooperation and introduced new precautionary instruments to help deal with, inter alia, volatile conditions in global capital markets.



While recognizing these achievements, this evaluation also identifies shortcomings in the IMF's engagement on UMP, often reflecting long-standing challenges that have limited the value added and influence of the Fund's advice. The absence of deep expertise on monetary policy issues limits the Fund's ability to provide cutting-edge advice when it is most needed, namely when central banks are contemplating novel actions in the face of unprecedented circumstances. In area departments, country teams often rotate quite quickly and engagement through the Article IV consultation is quite discontinuous, limiting familiarity with country circumstances and the building of relationships. While discussions with Fund staff are appreciated as a useful dialogue with well-informed interlocutors, country officials typically turn elsewhere when looking for expert monetary policy advice. The Fund could have done more to draw lessons from experience with UMP and—once the immediate need for both monetary and fiscal stimulus in the initial years of the GFC had passed—to explore costs and benefits of alternative mixes between monetary and fiscal policies. In emerging market countries, some members still feel that the Fund has not gone sufficiently far to appreciate the policy challenges they face from financial spillovers and volatile capital flows. There have also been long-standing limits on the IMF's traction in encouraging international policy cooperation, and challenges to designing precautionary financing instruments that attract broad interest across the membership.

The recommendations of the evaluation aim to help the IMF raise its game on monetary policy issues.

- *Build a small core group of top monetary policy experts at the IMF* to keep abreast of, and contribute to, cutting-edge discussions on frontier issues in the central banking community, support institutional learning at the Fund, and provide in-depth advice to country teams as and when needed.

- *Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns,* which may well occur in circumstances with limited scope for conventional monetary easing. Building on the IMF's comparative advantage, this workstream could draw on cross-country experience to assess and advise on the macroeconomic impact of different UMP instruments, the relative uses of monetary and fiscal policies as countercyclical stabilizers, and the roles of monetary policy and macroprudential tools to address financial stability risks.

- *Make sure the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows,* drawing on its global multilateral mandate, universal membership, and breadth of country experience. The Fund's advice on dealing with volatile capital flows could be re-assessed in light of experience and changing circumstances. The recently initiated IEO evaluation on this topic could provide useful lessons for staff's work on an integrated policy framework now getting under way. The IMF's work on financial spillovers could be re-energized, including further research on how finetuning the policy mix in "source" countries could help to alleviate adverse spillovers on "receiving" countries, which would help to foster international policy cooperation.

- *Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.* Longer tenure of mission chiefs, less turnover among country teams, more consistent handover procedures, and more engagement outside the Article IV cycle would all help develop the deeper relationships and understanding of country circumstances that are critical for providing timely, value-added advice on monetary policy and more broadly. These issues could be considered in the broader context provided by the 2020 Comprehensive Surveillance Review now getting under way.