

Changing Engagement

5. Prior to the global crisis, the Fund was often portrayed as losing relevance to the global economy, in view of its diminishing financing role and the widespread belief in the “Great Moderation.”² During the immediate pre-crisis period, except for low-volume lending to low-income countries, the IMF was almost exclusively focused on surveillance. Many of the large advanced and emerging economies had lost interest in engaging with the Fund. Key stakeholders argued for downsizing the Fund, as they saw little likelihood that the global economy would again need an “emergency firefighter” for emerging market economies.³ Consequently, the institution was seen as struggling to redefine its strategic role.

6. With the onset of the global crisis in 2007–08—and its origin in advanced economies—the Fund’s engagement with its member countries changed dramatically, as it was called upon to respond on an urgent and unprecedented basis. In many countries, it provided significant countercyclical financing and support for their budgets. In light of lessons learned from the crisis, the Fund also adopted new initiatives aimed at strengthening its surveillance and its ability to provide member countries with more complete assessments of global risks, linkages, and spillovers.

7. Did these changes influence the way the Fund is perceived? If so, did this mostly reflect the Fund’s increased financing role or did it truly reflect a *changed*

view of the IMF as a trusted advisor? And does more effective surveillance imply tipping the balance in favor of the Fund’s role as global watchdog at the expense of being a trusted advisor to its individual members? The Fund must inevitably grapple with achieving the right balance between these potentially conflicting roles, but is it also possible for the Fund to strengthen the latter without compromising the former? These are critical questions, as the answers are important determinants for how the Fund could maintain its relevance in a post-crisis world.

Why a “Trusted Advisor”?

8. As noted above, the Fund’s ability to gain traction with its policy advice depends on the confidence and trust its advice inspires. But does the IMF have a formal mandate to serve as a trusted advisor to its membership? Serving as a trusted advisor is not codified in the Articles of Agreement as an official role of the IMF, but it is widely acknowledged and referenced as fundamental to the IMF’s effectiveness, for instance, in the 2012 Integrated Surveillance Decision (ISD) (IMF, 2012b), Board papers, and numerous statements by Management, the Executive Board, and the International Monetary and Financial Committee (IMFC) (Box 1).⁴

9. Much of the policy dialogue with member countries is initiated by the Fund in performing its surveillance or financing roles, but country authorities might

²The term, “Great Moderation,” is often used to refer to the period from the mid-1980s until the onset of the global crisis in 2007–08. This period was characterized by a substantial decline in macroeconomic volatility in the major advanced economies, attributed in large part to improved macroeconomic policies and structural changes in the economies.

³At this time, it was almost inconceivable to most stakeholders that the Fund would be a lender to advanced economies, as such countries were seen as largely immune to balance of payments or financial crises.

⁴The IMF’s Articles of Agreement explicitly note the importance of collaboration for the purposes of the Fund: “(i) to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.” Indeed, “collaborate”, implying “more or less equal partners who work together” or “to work in partnership,” is used throughout the Articles of Agreement. Thus, the Articles of Agreement would seem to be implicitly noting the importance of being a trusted advisor.

Box 1. Is the IMF Expected to Be a Trusted Advisor?

The Fund is required to oversee member countries' compliance with their obligations under its Articles of Agreement. It does this in part through policy advice provided to members. In formulating policies (through the 2011 Triennial Surveillance Review, 2012 Integrated Surveillance Decision (ISD), transparency policy reviews, etc.) that guide this policy advice, Executive Directors have made it

clear that the Fund should be viewed by its membership as a *trusted advisor* to enhance acceptance of the Fund's advice. This is validated in practice, with multiple references being made in IMF policy documents (see, for example, this report's opening quotation from the ISD) and Management statements, to the IMF's role as a *trusted advisor* to member countries.

2007 (Deputy Managing Director):¹

"... Our primary goal is to be a trusted advisor to each of our member countries."

2010 (Managing Director):²

"Let me begin with IMF surveillance, and **our dual role as ruthless truth-teller and trusted policy advisor...**"

2011 (Deputy Managing Director):³

"Looking forward, we want to **strengthen the role of the Fund as a trusted advisor**... becoming a trusted advisor depends on, first and foremost, that your advice is worth listening to... the challenges are first, one of competence, and second, of character. It requires staff to show intellectual incisiveness, independence, seriousness of purpose and trustworthiness."

2011 (IMFC):⁴

"The Fund must remain a trusted advisor and avoid public clashes about short-term market sensitive issues."

2012 (Managing Director):⁵

"The crisis has changed us—new approaches, new tools, new relevance. The key contours of the future IMF are emerging... So what should the Fund look like for the future?
First off: the IMF must always be a trusted advisor."

2009 (Transparency Policy Paper):⁶

"... The policy allows for deletions of sensitive material from published documents so as to protect the member and **the Fund's role as confidential and trusted advisor...**"
"... publication expectations can lead to less frank discussions between authorities and staff and less candid staff reports, undermining **the Fund's role as a confidential and trusted advisor.**"

2005 (Managing Director):⁷

"... we see our role as that of a trusted advisor, helping our members become less vulnerable to external shocks or changes in market sentiment."

¹"Taking Advantage of the Benign Global Environment: A Time for Reforms," Remarks by Murilo Portugal, IMF Deputy Managing Director, at the Sixth Annual Regional Conference on Central America, Panama, and the Dominican Republic, 2007.

²"Crisis and Beyond—the Next Phase of IMF Reform," Dominique Strauss-Kahn, IMF Managing Director, at the Peterson Institute for International Economics, Washington, June 29, 2010.

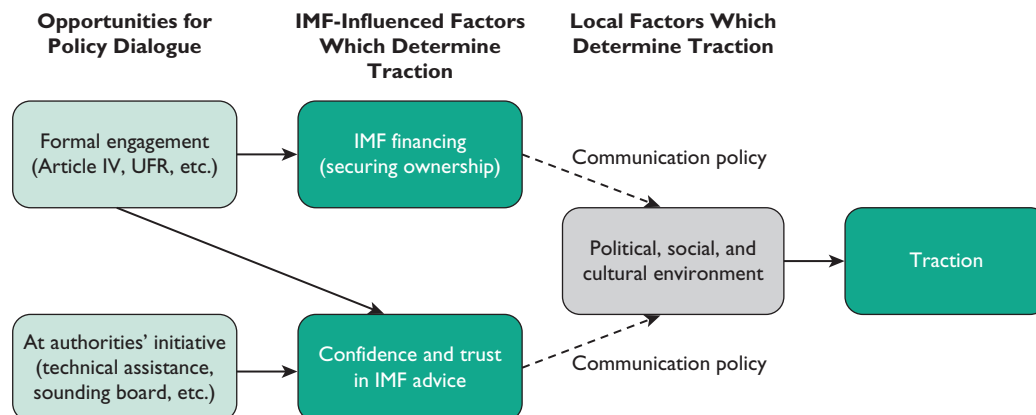
³Farewell Speech to Staff, John Lipsky, IMF Deputy Managing Director, November 2011.

⁴IMFC Statement by Didier Reynders, Deputy Prime Minister and Minister of Finance, Belgium, April 16, 2011.

⁵The Managing Director's Annual Meeting Speech in Tokyo: "The Road Ahead: A Changing Global Economy," October 12, 2012.

⁶"2009 Review of the Fund's Transparency Policy," IMF policy paper, October 26, 2009 (pp. 5, 14).

⁷"The Role of the IMF in Safeguarding Global Financial Stability," Remarks by Rodrigo de Rato, IMF Managing Director, at the Institut International d'Etudes Bancaires (IIEB), Barcelona, Spain, October 21, 2005.

Figure 1. Gaining Traction

also seek advice on their own accord. As illustrated in Figure 1 above, the Fund provides advice and engages in policy dialogue (i) through its formal interactions (e.g., multilateral/bilateral surveillance; during discussions of programs supported by IMF financing (use of Fund resources (UFR))); and (ii) at the initiative of country authorities (i.e., *demand-driven* advice). In formal interactions, the interest of the authorities to engage the Fund and the ensuing depth of the policy dialogue are important indicators of whether countries

consider the Fund a trusted advisor. In cases where advice is demand-driven,⁵ the authorities' decision to seek the Fund's advice might also signal their trust in the Fund and could provide the opportunity for the Fund to influence policy formulation at an earlier stage.

⁵Note that demand-driven advice and proactive policy dialogue could often take place during the course of the Fund's formal interactions.