

**PROGRESS REPORT TO THE IMFC ON THE ACTIVITIES OF THE
INDEPENDENT EVALUATION OFFICE OF THE IMF**

April 5, 2019

1. **Overview.** The top priorities for the IEO over the past six months were completion of the evaluation of IMF financial surveillance and follow-up on last summer's external evaluation of the IEO. The IEO also continued work on the evaluation of IMF advice on unconventional monetary policies, now nearing completion, and selected new evaluation topics for the year ahead.
2. **IMF Financial Surveillance.** This evaluation found that the IMF had substantially upgraded its financial surveillance work in the period since the Global Financial Crisis but also identified considerable room for further improvement.
3. Key achievements include: delivery of high-quality, in-depth assessments under the Financial Sector Assessment Program (FSAP) of the most systemically important financial jurisdictions; contributions to the development of a broad range of diagnostic tools (such as stress tests) and new policy approaches (such as macroprudential instruments); increased attention in Article IV surveillance to macrofinancial linkages; and the establishment of the *Global Financial Stability Report* and the Early Warning Exercise as leading sources of analysis and insight on the global financial system.
4. Notwithstanding this progress, the IMF's financial surveillance has been uneven. There is still a need to strengthen financial and macrofinancial work in Article IV consultations. The allocation of resources in the FSAP is weighted toward systemic jurisdictions, where the program seems to be at risk of diminishing returns. Moreover, resource constraints and talent management policies have slowed the needed build-up of financial and macrofinancial expertise. These are critical issues, given the IMF's position as the only international financial institution with the mandate to conduct financial surveillance in all countries as well as the global economy, and given that these issues are at the core of the IMF's responsibilities.
5. The report set out six inter-related recommendations aimed at strengthening IMF financial surveillance through a combination of new initiatives and adjustments to existing programs.
 - Deepen financial and macrofinancial analysis in Article IV consultations, including by taking practical steps to better integrate FSAP analysis.
 - Revisit the current approach to allocating FSAP resources to achieve a more flexible, risk-based allocation across countries and issues.
 - Continue to enhance the impact of multilateral surveillance by increasing rigor and transparency and by deepening collaboration with international partners.

- Strengthen efforts to be a center of excellence for financial and macrofinancial research.
- Intensify efforts to attract, develop, and retain a deeper pool of financial talent.
- Consider devoting significant additional resources to financial surveillance.

6. The Managing Director welcomed the report, noting that it offered valuable and constructive insights on how to further improve the quality and impact of financial surveillance. Executive Directors broadly supported the report's recommendations in a Board discussion on January 15, 2019. Management will prepare an implementation plan (MIP) for consideration by the Board within six months. In addition, the report's findings and recommendations will feed into the upcoming 2020 Comprehensive Surveillance Review, FSAP Review, and human resources strategy and compensation benefits reviews now underway, as well as ongoing budget discussions about resource priorities.

7. **Follow-up on external evaluation of the IEO.** Good progress has been made in following up on the Third External Evaluation of the IEO discussed by the Board in July 2018.

- The IEO has refined the process for selecting topics for future evaluations, in particular to enhance transparency and inclusivity. In this context, the Executive Board endorsed an IEO proposal to introduce a new, shorter evaluation product on a pilot basis to allow the IEO to respond more nimbly to Board concerns.
- The Board approved a framework to deal with the significant number of actions from past MIPs that have remained outstanding for a long period of time. The framework provides the basis for some outstanding actions to be reinforced and others to be retired. This "triage" process will be applied later this year in the context of the Tenth Periodic Monitoring Report (PMR).
- The Board also endorsed steps to: increase IEO involvement in the preparation of Summings Up for Board discussions of IEO reports; strengthen the process for follow-up on IEO recommendations by making MIP actions more specific, measurable, actionable, and relevant and by discussing PMRs in formal Board meetings; and further enhance collaboration between the IEO, management, and staff.

8. **IEO work program.** The IEO is in the final stages of its evaluation of the IMF's advice on unconventional monetary policies and expects to present the evaluation to the Board after the Spring Meetings. Consistent with the enhanced process for topic selection, the IEO consulted with Executive Directors and other stakeholders about its future work program and subsequently announced topics for its next set of evaluations. An update of the 2009 evaluation on *IMF Involvement in International Trade Policy Issues* is now underway. The IEO has begun work on two new full-scale evaluations: IMF policy advice on capital flows; and adjustment, debt, and growth in IMF-supported programs. It has also initiated a shorter evaluation on IMF collaboration with the World Bank on macro-structural issues, using the new format for such evaluations.