I. INTRODUCTION

1. **This evaluation assesses IMF financial surveillance.** For the IMF, financial surveillance includes a broad range of activities at the country and global levels occurring at the intersection of its financial sector work and its broader surveillance activity. The key goals of financial surveillance are to advise individual member countries on policies to foster financial stability and financial development, as well as to inform the IMF membership of vulnerabilities and risks to global financial stability and policies to address them.

2. **Following the Global Financial Crisis (GFC), the international community strengthened the IMF's oversight role over financial systems.** There was recognition that because of its global membership and governance, and its macroeconomic expertise, the IMF was well placed to identify and warn about financial and macrofinancial vulnerabilities and risks and to provide an independent perspective to the collective efforts at regulatory reform. The expanded responsibilities were made explicit in 2012 in a new surveillance decision (IMF, 2012a) and the adoption of a new financial surveillance strategy (IMF, 2012b). In 2014, the IEO examined how, as part of its response to the crisis, the IMF expanded and deepened its financial surveillance activities; it concluded that progress was being made and provided recommendations on how these efforts could be further strengthened (IEO, 2014).

3. **This evaluation examines the strategic directions, relevance, quality and efficacy of IMF financial surveillance activities and outputs focusing on the period since the IMF adopted the 2012 Financial Surveillance Strategy.** It also covers a longer period when relevant. The emphasis is on the analysis and advice to countries with systemically important financial sectors, but the evaluation also examines financial surveillance in a broad range of member countries. While recent years have been a period of significantly less financial stress than during the GFC, the role of IMF surveillance has remained critical, requiring the membership to remain alert and avoid complacency.

4. **Financial surveillance poses greater challenges for the IMF than surveillance over fiscal or monetary policies.** First, as described in Section II, the IMF's responsibilities and activities in financial surveillance have only gradually evolved, and its access to necessary information and data remains constrained. Second, financial vulnerabilities and risks can change much faster than fiscal, structural and monetary developments—a challenge for IMF surveillance, which tends to be a periodic rather than continuous exercise. Third, while the IMF is generally encouraged to be a "ruthless truth-teller," on financial matters it needs to take care not to become a catalyst for the risks that it identifies. This is especially important because cross-border spillover and contagion of financial risks can be faster and more pronounced than in other areas. Finally, until relatively recently, the economics profession, including most IMF economists, had paid relatively little attention to macrofinancial linkages and risks, and the analytical framework for such work is not well developed.

5. **The IMF conducts its surveillance at two levels—bilateral and multilateral.** Bilateral refers to surveillance activities and products focused on a single country, while multilateral surveillance examines the global economy. The main instruments for bilateral financial surveillance are annual Article IV consultations and periodic assessments under the Financial Sector Assessment Program (FSAP).[1] The biannual *Global Financial Stability Report* (*GFSR*) and Early Warning Exercise (EWE) are the key vehicles for IMF multilateral financial surveillance. As part of surveillance, the IMF also cooperates with other organizations, e.g., with the Financial Stability Board (FSB) and the World Bank.

6. **The evaluation draws on eight thematic background papers (see Annex 1 for abstracts of these papers) and in-depth case studies covering 14 countries and the Euro area.** Evidence includes reviews of IMF documents (internal and publicly available) and documents from other organizations; interviews with member country authorities, partner organizations, financial market participants, academics and other external experts; and interviews with and surveys of the offices of Executive Directors (OED) and of IMF staff (see Monasterski, 2018).

7. **The remainder of this report is organized as follows.** Section II describes the evolution of the IMF's financial surveillance responsibilities and how activities have evolved since the GFC. Sections III and IV examine bilateral and multilateral surveillance, respectively, evaluating strengths and identifying challenges of the various products. Section V discusses the analytical toolkit used in financial surveillance. Section VI explores how the IMF organizes its financial surveillance work, including budgetary resources and talent management. Section VII provides an overall assessment and makes recommendations to further strengthen IMF financial surveillance.

II. IMF FINANCIAL SURVEILLANCE—EVOLUTION AND CHALLENGES[2]

8. **The goals and outputs of IMF financial surveillance have greatly expanded in the aftermath of the GFC with clear priority given to jurisdictions with systemically important financial sectors.** For decades, the IMF's responsibilities and attention to financial systems increased gradually in response to periodic financial crises and a growing recognition that open capital accounts and financial liberalization tend to magnify contagion and spillovers. After the GFC, financial surveillance became more widely accepted as a central element of IMF work, enshrined in Board decisions and expanded activities, and a critical contributor to achieving the IMF's overall mandate. The GFC also made clear the need to focus financial surveillance on the countries with systemically important financial sectors, including those where the crisis originated.

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[1] In this report FSAP is used for the mandatory financial stability assessments for the 29 jurisdictions with systemically important financial sectors, as well as the voluntary FSAPs for the rest of the membership.

[2] This section draws on Takagi (2018), Stedman (2018).