

The Chairman's Summing Up
IEO Evaluation—IMF Financial Surveillance
Executive Board Meeting 19/2
January 15, 2019

Executive Directors welcomed the report of the Independent Evaluation Office (IEO) on IMF Financial Surveillance. They welcomed the IEO's recognition of the substantial upgrade to the Fund's financial surveillance work as a result of the many initiatives launched to strengthen the Fund's work in this area since the Global Financial Crisis. At the same time, they shared the view that there is scope to further enhance the quality and impact of the Fund's financial surveillance. In this regard, they welcomed the Managing Director's broad support for the IEO findings and recommendations.

Directors supported Recommendation 1 on strengthening financial and macrofinancial analysis in Article IV surveillance, including by further integrating analysis from the Financial Stability Assessment Program (FSAP) in Article IV consultations and increasing the financial skills and expertise of country teams. Further progress in this area will require finding a right balance in the allocation of financial surveillance resources between FSAP and Article IV surveillance. A number of Directors supported the suggestion to strengthen the follow-up of FSAP-identified vulnerabilities and risks in Article IV consultations. Directors noted that the upcoming Comprehensive Surveillance Review and FSAP Review will provide an opportunity to consider Recommendation 1 and related specific suggestions.

Directors broadly concurred with Recommendation 2 to revisit the current approach to allocating FSAP resources to achieve a more flexible, dynamic, and risk-based allocation across countries and issues. Most Directors agreed with the proposal to review the number of mandatory financial stability assessments, but some were skeptical about reducing the number of jurisdictions subject to mandatory assessments (S29) or the frequency of their assessments, including because of the high speed of change in financial markets. Many Directors were open to reducing the number of jurisdictions subject to mandatory assessments every five years. A number of these Directors supported or were open to limiting mandatory assessments every five years to the five jurisdictions with the most systemically important financial sectors (S5). A number of other Directors, however, were opposed to limiting mandatory assessments to the S5. Directors stressed that the revised approach to allocating FSAP resources should strike a balance among several factors, including evenhandedness and transparency in the selection process, the systemic nature of national financial systems, the voluntary nature of financial stability assessments for most of the membership, and market signaling risks from selecting countries based on vulnerabilities. Directors also agreed that the scope and focus across FSAPs could be reviewed to better tailor assessments to country circumstances including risks and regulatory gaps while also avoiding over-reliance on off-the-shelf international best practice. This will help increase

value added and make better use of staff and authorities' time and resources. Many Directors agreed or were open to the suggestion that in jurisdictions that conduct sophisticated stress tests, FSAPs should focus on designing risk scenarios and reviewing authorities' models to limit the resource burden on the Fund and the authorities. Other Directors felt, however, that the Fund should not cut back on stress testing in advanced economies to ensure a consistent quality of such tests. Directors looked forward to discussing the above issues in the context of the FSAP review.

Directors welcomed the finding that the Fund's multilateral financial surveillance is well regarded and influential. At the same time, they noted room to enhance its traction by increasing rigor and transparency, and by deepening collaboration with international partners. Along these lines, they broadly supported Recommendation 3, including making more GFSR data and analysis available online, subject to copyright constraints, and adapting the GFSR presentation to make it an easier read for busy country officials, who are its main audience. Directors also supported continuing to deepen cooperation with international partners, such as on the Early Warning Exercise (EWE) with the Financial Stability Board (FSB), without compromising the Fund's capacity to raise out-of-the-box issues. Some Directors supported wider dissemination of the EWE to senior officials, while others cautioned that wider dissemination could weaken its effectiveness. Directors stressed the need for the Fund to continue its work with international regulatory agencies to assess the impact of reforms, drawing on its areas of comparative advantage and subject to resource availability.

Directors supported Recommendation 4 that the Fund should continue to enhance its analytical tools to improve the understanding of macrofinancial linkages. They considered that exchange of views between the Fund and major central banks, as well as developing simplified tools and increasing internal outreach, is helpful for this purpose. While a few Directors encouraged staff to explore the feasibility of conducting global stress tests in partnership with the Bank for International Settlements and the FSB, others expressed doubts in view of data constraints.

Directors welcomed the recognition of the Fund's significant efforts to upgrade the macrofinancial skills of its economists but agreed that this area remains work in progress. They underscored that it is critical to ensure that country teams have the knowledge and support to integrate financial and macrofinancial analysis into Article IV consultations. In supporting Recommendation 5, Directors noted that targeted enhancements from the HR Strategy can help ensure that Fund staff develop the expertise needed for effective macrofinancial surveillance. They also looked forward to discussing issues pertaining to attracting and retaining a deeper pool of financial talent in the context of the Comprehensive Compensation and Benefits Review.

Directors agreed that to fully meet its responsibilities and objectives, the Fund should devote adequate resources to strengthening financial surveillance and concurred with Recommendation 6 on the need for additional resources for this work. Most Directors

considered that an increase in resources should come from reallocation of some resources from other activities and seeking efficiencies. A few Directors thought that there should be an overall budget increase. Many Directors called for costed options for resource reallocation to help the Board in making an informed decision. Directors noted that relevant tradeoffs will be considered in the context of the Fund's budget discussions, the FSAP Review, and the Comprehensive Surveillance Review.

In line with established practice, management and staff will give careful consideration to today's discussion in formulating the management implementation plan, including approaches to monitoring progress and to discussing the interrelated recommendations in an integrated manner.