FOREWORD

In the aftermath of the Global Financial Crisis, central banks in the largest advanced countries innovated aggressively to restart growth and combat persistent deflationary risks, while policymakers elsewhere were faced by spillovers from extremely easy global liquidity conditions. This report evaluates how the IMF responded through its advice to both the initiators of unconventional monetary policies (UMP) and to countries affected by the cross-currents. Lessons from this evaluation are very relevant as monetary policy seems likely to remain a central policy focus, especially as the next global economic slowdown may well arrive with many central banks having very limited room for conventional easing.

The evaluation finds that in many ways the IMF's response to these issues at the core of its surveillance mandate was impressive. From the outset, it provided timely validation of UMP to central banks leading the way, while pressing for similar action elsewhere where monetary support was slower in coming. It monitored incipient financial stability risks from these policies and helped develop a macroprudential policy toolkit to manage such risks. The Fund also mobilized to analyze cross-border spillovers through new products, develop a framework for giving advice on managing ensuing capital flows, assist the G-20 in its efforts to promote greater international policy cooperation, and introduce new precautionary instruments to help deal with global financial volatility.

At the same time, this evaluation also identifies some shortcomings in IMF engagement on UMP. Limited depth of expertise on monetary policy issues and rapid rotation on country teams impeded the Fund's capacity to provide persuasive, cutting-edge advice tailored to country circumstances. The report also finds that the Fund could have done more to explore the merits of alternative policy mixes that could have limited side-effects from UMP, and that some countries feel that the Fund has not yet gone sufficiently far to appreciate the challenges emerging markets face from volatile capital flows. Long-standing limits on the IMF's traction in fostering international cooperation and challenges to designing attractive precautionary financing instruments also emerge from the evaluation.

The report sets out four recommendations aimed at raising the IMF's game on monetary policy issues. I am glad that all of these were broadly endorsed by the Managing Director and by the Executive Board when it met to discuss the report in June 2019. Importantly, Directors concurred that the IMF needs to deepen its expertise on monetary policy, so that it can better leverage its comparative advantage in the analysis of alternative policy mixes and international spillovers, drawing on its very broad country experience. I look forward to more detailed decisions to move this agenda forward in the year ahead.

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