



Independent Evaluation Office  
*of the* International Monetary Fund

EVALUATION UPDATE

# Multilateral Surveillance

## Revisiting the 2006 IEO Evaluation

2017



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*of the* International Monetary Fund

**MULTILATERAL SURVEILLANCE:  
REVISITING THE  
2006 IEO EVALUATION**

February 22, 2017

This report is part of an IEO series that revisits past evaluations. Reports in this series aim to determine whether the main findings and conclusions of the original IEO evaluations remain relevant, and to identify any outstanding and new issues related to the evaluation topic that merit continued attention. These assessments do not provide recommendations, and are based on desk reviews of IMF documents and interviews of IMF staff and members of the Executive Board.

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Contents	Page
Abbreviations .....	iv
Executive Summary.....	v
I. Introduction .....	1
II. Key Findings and Recommendations of the 2006 Evaluation.....	1
III. Developments Since the Evaluation.....	3
A. Strengthening Strategic Underpinnings .....	3
B. Strengthening Content and Impact .....	4
C. Enhanced Executive Board and IMFC Roles in Multilateral Surveillance .....	9
D. More Effective Participation in Global Policy Deliberations.....	10
IV. Conclusions .....	11
Annex 1. Key IMF Reforms and Initiatives on Multilateral Surveillance, 2007–15.....	13
References.....	17
Statement by the Managing Director.....	18

**ABBREVIATIONS**

CMSR	Consolidated Multilateral Surveillance Report
CGER	Consultative Group on Exchange Rate Issues
EBA	External Balance Assessment
ESR	External Sector Report
EWE	Early Warning Exercise
FSB	Financial Stability Board
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
<i>GFSR</i>	<i>Global Financial Stability Report</i>
GPA	Managing Director's Global Policy Agenda
G-RAM	Global Risk Assessment Matrix
G7	Group of Seven
G20	Group of Twenty
IMFC	International Monetary and Financial Committee
ISD	Integrated Surveillance Decision
LICs	low-income countries
MAP	Mutual Assessment Process
REO	Regional Economic Outlook
TSR	Triennial Surveillance Review
<i>WEO</i>	<i>World Economic Outlook</i>

## EXECUTIVE SUMMARY

Multilateral surveillance is the Fund's oversight of the international monetary system. It assesses global economic and financial developments, economic linkages between countries and regions, and policy options to deal with spillovers in a global context. It complements bilateral surveillance by providing global and cross-country perspectives, and by contributing to the overall objectives of IMF surveillance, i.e., to promote policies consistent with "the continuing development of the orderly underlying conditions that are necessary for financial and economic stability," as specified in Article IV of the IMF Articles of Agreement.

The 2006 IEO evaluation of IMF *Multilateral Surveillance* commended many aspects of the IMF's work in this area, but was concerned about the absence of an overall strategy that rendered the whole less than the sum of the parts, and undermined traction with policymakers. International policy linkages and spillovers were not sufficiently explored, dedicated analysis of exchange rate issues was too limited, forecasts and policy advice were excessively country-driven, and there was insufficient integration, both between multilateral and bilateral surveillance, and between macroeconomic and financial sector analyses within multilateral surveillance. The potential to influence countries' policies was not fully exploited, and using the same publications to reach multiple audiences had undermined communication and limited readership.

IMF multilateral surveillance has undergone significant reforms over the past decade, as the global financial crisis served as a catalyst for many reforms proposed by the IEO evaluation. The legal framework for surveillance was strengthened by the 2012 Integrated Surveillance Decision, which provides a more comprehensive basis for conducting IMF surveillance. New products and activities have closed gaps in pre-crisis analysis in areas such as vulnerabilities and spillovers in advanced economies, while the analysis of exchange rates and their consistency with external positions and economic fundamentals has been refined. These new reports and activities are appreciated by authorities in member countries and other stakeholders. Greater IMF involvement in global policy deliberations has been aided by the IMF's effective support to the G20, while the Early Warning Exercise has enabled a more structured discussion of risks.

At the same time, the expansion of overlapping multilateral surveillance products has limited policymakers' ability to absorb the information and analysis, and complicated the IMF's efforts to ensure consistency across the various products. Instances of different and sometimes contradictory messages across the expanded menu of reports point to the need for stronger inter-departmental cooperation. In this context, recent efforts at consolidation and streamlining offer promise. Finally, the impact of the post-crisis reforms can be measured rigorously only by assessing the effectiveness with which risks are articulated and whether multilateral surveillance is more influential in policymaking. Assessing this is beyond the scope of this limited review, and would require a new full-fledged evaluation.



## I. INTRODUCTION

1. **This report revisits the findings and recommendations of IEO's 2006 evaluation, discusses key reforms in multilateral surveillance implemented in the past decade, and discusses areas that may need further strengthening.** The discussion of IMF reforms is organized around the themes proposed by the 2006 evaluation, although no attempt is made to infer causality. The main focus of the 2006 evaluation was on the content of multilateral surveillance and on how effectively policy messages were communicated. It commended many aspects of this work, but found considerable scope to improve the content of multilateral surveillance and proposed channels through which the IMF could enhance its influence on global policy deliberations.
2. **The report is organized as follows.** Section II describes the main findings and recommendations of the 2006 evaluation, and the views of the Executive Board. Section III discusses key reforms of multilateral surveillance in the ensuing period, focusing on efforts to strengthen the strategic foundation of multilateral surveillance; improve its content and impact; enhance the roles of the Executive Board and IMFC in multilateral surveillance; and enhance the IMF's role in global policy deliberations. Section IV concludes by summarizing recent progress and highlighting outstanding issues and challenges for IMF multilateral surveillance. The report is based on a review of IMF documents, previous IEO evaluations, and interviews with IMF Executive Directors and staff.

## II. KEY FINDINGS AND RECOMMENDATIONS OF THE 2006 EVALUATION

3. **Content and quality.** The evaluation found that IMF multilateral surveillance, when effectively conducted and communicated, was an important global public good, with the potential to provide valuable inputs into policymaking. Multilateral surveillance products had been largely successful in selecting relevant issues, were well-crafted, featured high-quality analysis, and tended to be highly valued by their readers. At the same time, multilateral surveillance had not sufficiently analyzed options to deal with policy spillovers or exchange rate issues. Policy advice and forecasts predominantly reflected the views of IMF area departments, and the dominance of this "bottom-up" approach (i.e., driven by country-desks) often yielded optimistic forecasts. Further, the integration of macroeconomic and financial sector components of multilateral surveillance was hindered by the silo structure of the IMF's internal organization. In terms of identifying risks, the IMF's two flagship reports at the time—the *World Economic Outlook (WEO)* and *Global Financial Stability Report (GFSR)*—compared favorably with similar publications by other agencies. But the evaluation stressed that this finding was based on analysis of a period, 2000–05, of relative stability, when no major crisis had tested the IMF's "early warning" mechanisms.
4. **Use and delivery.** The evaluation found that attempts to reach multiple audiences through the same publications had complicated the task of communicating messages effectively. There was low readership, both internally and externally, of the *WEO* and *GFSR* due to lengthy,

and in the case of the *GFSR*, overly technical, presentations. Multilateral surveillance was not living up to its potential to influence policymakers, as the IMF was not sufficiently engaged in a proactive way with the G7, G20, and other similar fora, and because of the limited use of multilateral surveillance findings in bilateral surveillance. Finally, the arrangements for involving the Executive Board limited the contributions that Executive Directors and the International Monetary and Financial Committee (IMFC) could make to multilateral surveillance.

5. **The evaluation made recommendations** to clarify the strategic objectives of multilateral surveillance, improve its content and impact, and to enhance the involvement of the Executive Board and IMFC in multilateral surveillance, as well as the IMF's role in global policy deliberations<sup>1</sup>:

- The structure of multilateral surveillance should be strengthened by clarifying its operational goals and defining organizational strategies and accountabilities. Particularly for systemically important countries, the multilateral dimension of surveillance should be strengthened and multilateral and bilateral surveillance should be better integrated.
- The impact of multilateral surveillance should be enhanced by improving its content and form through streamlining and sharper focus. This could be achieved by shorter and more focused messages, coupled with a more strategic communications policy to better deliver key messages to target groups.
- The roles of the Executive Board and IMFC in multilateral surveillance should be augmented.
- The IMF's role at the center of a more robust global peer review system should be strengthened by establishing more proactive engagement with relevant intergovernmental groups.

Underpinning these recommendations, the evaluation offered a series of options and suggestions on how to implement them.

6. **The Executive Board endorsed the objectives embodied in each of these recommendations**, while expressing reservations about some of the IEO's specific suggestions on implementation. For example, Directors were not persuaded of the need for broad organizational changes such as the creation of a Surveillance Department. The Board was also not receptive to giving the Research Department sign-off authority on the briefing papers and staff reports for Article IV consultations on systemically important countries. Nor did it support the suggestion that the Board discussion of the *WEO* and *GFSR* focus on a few issues of critical importance in order to promote freer discussion and to agree on key issues for ministers to focus on at the upcoming IMFC meeting. Most Directors also did not support the option of separating

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<sup>1</sup> The order in which these recommendations are listed has been adjusted to facilitate the subsequent discussion.

the chapters on special topics of the *WEO and GFSR* that dealt with long-term issues and creating a separate globalization report to feature them.

### III. DEVELOPMENTS SINCE THE EVALUATION

7. **The IMF enacted significant changes to its surveillance framework and practices in response to the global financial crisis, which had exposed gaps and weaknesses.** IMF surveillance had provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak. While some risks were identified, particularly in the *GFSR*, they were presented in general terms, and were not well reflected in either the *WEO* or bilateral surveillance (IEO, 2011). Surveillance paid insufficient attention to the risks from contagion or spillovers, and the IMF's Vulnerability Exercise did not even cover advanced economies. Moreover, the 2007 Surveillance Decision (relating to bilateral surveillance) was not well suited to address these shortcomings.

8. **The reforms undertaken since the crisis align quite closely with the themes raised by the 2006 evaluation and its recommendations.** This section therefore discusses the major reforms of multilateral surveillance of the past decade in terms of the major themes of the evaluation's recommendations, while acknowledging that the crisis was the main catalyst for these reforms. The discussion focuses on reforms to: (i) strengthen the strategic foundation of multilateral surveillance and its integration with bilateral surveillance; (ii) strengthen its content and impact, and to better target its audiences; (iii) enhance the roles of the Executive Board and IMFC in multilateral surveillance; and (iv) enhance the IMF's influence in policy deliberations globally, particularly in inter-governmental groups.

#### A. Strengthening Strategic Underpinnings

9. **The impetus for modernizing the legal framework and clarifying the operational goals of Fund surveillance came from a number of sources,** not least the IMFC's call in October 2009 for a reassessment of the Fund's mandate to cover the full range of macroeconomic and financial sector policies that bear on global economic and financial stability. A series of papers and Board discussions on the need to reform and modernize the Fund's surveillance mandate, including its legal framework, followed, culminating in the Board's approval of the Integrated Surveillance Decision (ISD) in July 2012.

10. **The work leading up to the ISD highlighted a number of shortcomings.** For example, IMF (2012) indicated that: the legal framework for Fund surveillance was out of tune with the goal of modernizing surveillance; the framework for bilateral surveillance did not adequately capture economic realities, suffered from an exchange rate bias, and hampered discussion of policy spillovers; and surveillance lacked a clearly defined framework to tackle global issues requiring collective action. Board discussion of ways to address these issues showed little appetite for revising the Articles of Agreement (which was one of the options proposed by the

staff), but agreement was reached on revising the framework for surveillance through the ISD, which replaced the 2007 Surveillance Decision.<sup>2</sup>

11. **Among the chief objectives of the ISD were clarification of the framework for multilateral surveillance, better integration of bilateral and multilateral surveillance, and a strengthening of the coverage of international spillovers from member countries' policies.** As stated in its Preamble, "the Fund is of the view that better integrating bilateral and multilateral surveillance, including through the adoption of an integrated surveillance decision covering both responsibilities, would play an important role in providing guidance to both the Fund and its members regarding their mutual responsibilities under Article IV." The ISD further states that "bilateral and multilateral surveillance are mutually supportive and reinforcing and, accordingly, need to be operationally integrated."

12. **The ISD thus made Article IV consultations a vehicle not only for bilateral surveillance but also for discussing the global impact of domestic policies,** with the objective of promoting more comprehensive, integrated, and consistent spillover analysis, and formally enabling the Fund to consider in its discussions with a member country the full range of spillovers from its policies, particularly when they may have a significant impact on global stability.

13. **The ISD also clarified the operational goals of multilateral surveillance,** and provided an explicit definition of IMF multilateral surveillance, as "the exercise of its [the Fund's] responsibility to oversee the international monetary system in order to ensure its effective operation pursuant to Article IV, Section 3(a)." (IMF, 2012)

## **B. Strengthening Content and Impact**

14. **There was substantial expansion in the output of multilateral surveillance products and activities in the wake of the crisis.** New products emerged, including:<sup>3</sup>

- **The Fiscal Monitor**, a third Fund flagship report, issued on a semi-annual basis, first appeared in 2009 to assess the fiscal implications of the global financial crisis. Its assessment of fiscal developments, focuses in particular on fiscal sustainability risks, and also assesses tax and expenditure developments, including structural issues, fiscal frameworks, fiscal institutions, demographics, and macroeconomic trends.
- **Spillover Reports** were authorized by the Board on a trial basis in 2011 (i.e., before the approval of the ISD) to examine spillovers from the policies of five systemically important

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<sup>2</sup> The 2007 Surveillance Decision also aimed to address perceived shortcomings of bilateral surveillance but was deemed inadequate following the further gaps in surveillance exposed by the global financial crisis.

<sup>3</sup> Annex 1 provides a fuller list of reforms and initiatives on multilateral surveillance than discussed in the text. This section focuses on the major changes, and provides commentary from a number of sources.

economies: China, the Euro Area, Japan, the United Kingdom, and the United States. The reports were prepared as background documents for the five respective Article IV consultations, and a consolidated Spillover Report was also issued, drawing from the individual reports.<sup>4</sup> Although individual spillover reports were not issued after 2011, consolidated Spillover Reports were prepared on an annual basis through 2015 (when it was decided to integrate the analysis into the *WEO*).<sup>5</sup> Moreover, following the ISD, the content of the individual country spillover reports could be incorporated into the Article IV report for the respective country.

- **External Sector Reports (ESR)** have been issued annually since 2012 (the first three years as pilot reports). They aim to provide a multilaterally consistent analysis of the exchange rates and external positions of major economies by examining current account positions, reserves, capital flows and external balance sheets. The ESR utilizes the External Balance Assessment (EBA) methodology for assessing the current account balances and exchange rates that would be consistent with economic fundamentals and policy settings.<sup>6</sup>

15. **A key motivation for the post-crisis reforms was to strengthen the IMF’s capacity to detect and warn about risks and vulnerabilities.** These efforts mostly focused on advanced economies, vulnerabilities stemming from the financial sector, and spillovers from domestic policies onto the global economy.<sup>7</sup> Jointly with the Financial Stability Board (FSB), in 2009 the IMF launched an Early Warning Exercise (EWE), presented to the IMFC twice a year and designed to identify tail risks and “connect the dots” between different risks and vulnerabilities.<sup>8</sup> As inputs to surveillance, it developed vulnerability exercises for advanced economies, adding to the existing exercise for emerging markets, and a Global Risk Assessment Matrix (G-RAM), presenting a list of global risks for use in operational work.

16. **Concurrently, the IMF’s original flagship products were streamlined.** While the *WEO* and *GFSR* peaked in size immediately after the crisis, they have since been shortened—by 25-30 percent in terms of word-count relative to the two-year period before the 2006

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<sup>4</sup> In each case, key partner countries were asked confidentially about outward spillovers from the economy in question, to provide a basis for the analysis.

<sup>5</sup> Receptivity towards the Spillover Report had been mixed among authorities, while some IMF staff questioned the rationale for a standalone Spillover Report, viewing spillover analysis to be a longstanding and appropriate focus of the *WEO*.

<sup>6</sup> The EBA is an extension of the Consultative Group on Exchange Rate methodology developed in the 1990s to provide exchange rate assessments for a number of advanced economies from a multilateral perspective.

<sup>7</sup> IEO (2014) and Robinson (2014) discuss the IMF’s enhanced focus on risk and vulnerability.

<sup>8</sup> The IMF became a member of the FSB following its establishment in 2009. Prior to the crisis, the IMF was an observer at the Financial Stability Forum (the FSB precursor).

evaluation—and more attention has been devoted to communications and targeting of audiences.

17. **In terms of integrating macroeconomic and financial sector surveillance, much of the progress has occurred at the bilateral level**, including, the ongoing pilot “macro-financial” Article IV Consultations, and the greater frequency of financial system stability assessments (FSSAs) for economies with systemically important financial sectors and their subsequent incorporation into Article IV Consultations.<sup>9</sup> At the multilateral level, IMF staff indicate that communication between the main flagship teams has become closer in recent years, with the objective of ensuring adequacy of coverage and consistency of messages, while avoiding unnecessary overlaps. And analysis of macro-financial spillovers has become more rigorous following the crisis. Moreover, the aforementioned EWE provides another regular opportunity for IMF staff to identify macro-financial vulnerabilities at the global and country levels, and to direct attention to areas where policy coordination may be beneficial. However, as discussed below, the IMF still does not produce an analytical synthesis of the major messages of its multilateral flagships, as suggested by a number of prior reports, including the 2006 IEO evaluation.

### **Readership and impact**

18. **A key objective of the 2006 evaluation was to widen the readership of multilateral surveillance and heighten its policy impact.** To assess progress in these areas, this review draws on interviews with IMF staff, previous IEO evaluations, and background work for the 2014 TSR by external commentators, in particular a paper by Boorman and Ter-Minassian, which reports on the results of interviews with country authorities, financial market participants and IMF staff (IMF, 2014a), and the report of the External Advisory Group (IMF, 2014b).

19. **The aforementioned sources indicate considerable improvement in terms of reader appreciation for the *WEO* and *GFSR*, although reactions appear more mixed for some of the newer products.**

20. **The *WEO* is the most widely read and utilized of IMF reports.** Virtually all interviewees thought that the *WEO* had improved in recent years, including in sharpening its analysis of spillovers and risks. Regarding the 2006 evaluation critique that multilateral surveillance suffered from an excessively “bottom-up” approach, with policy advice and economic forecasts predominantly reflecting the views (and often the optimism) of IMF Area Departments, some market participants viewed the *WEO* as more candid and less influenced by country authorities and the IMF Executive Board, and therefore more useful to them, than Article IV reports. Moreover, the Research Department now has its own forecasting capacity that is utilized on an

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<sup>9</sup> FSSAs for such economies were made a mandatory part of bilateral surveillance with a frequency of at least five years in 2010.

ongoing basis, partly for cross-checking area department forecasts—although country-level projections for the *WEO* remain the responsibility of area department staff.

21. **The *GFSR* is also seen as a product that has improved significantly over the past decade.** Its first chapter was reported to be widely read and appreciated, especially by market participants, some of whom valued its greater focus than the *WEO* on downside risks. Market participants also appreciated the increased analytical depth of the report. Central banks in particular valued the technical work in the analytical chapters of *GFSRs*, finding them to be more useful than the more general analysis characterizing earlier *GFSRs* (IEO, 2011a). On the other hand, some government officials found the analytical chapters of the *GFSR* overly technical and difficult to read. Also, some staff believe that the links between *GFSRs* and FSAPs could be strengthened, in particular by better distilling recurrent or even systemic lessons from FSAPs into *GFSRs*.

22. **Market participants appreciated the unique overview provided by the Fiscal Monitor of the state of public finances in a broad range of IMF member countries,** based on a consistent data set of fiscal indicators needed for the analysis of fiscal stability and sustainability. Country authorities interviewed for the 2014 TSR expressed a range of views. Some valued the scope offered by the Fiscal Monitor for comparisons and benchmarking fiscal performances, while others were more skeptical, viewing fiscal sustainability to be too dependent on country-specific factors to be judged using cross-country comparisons of simple numerical benchmarks. Most country authorities also indicated in 2014 that they would like to see more focus on structural fiscal challenges, including those in emerging market and low-income countries—a trend more evident in recent years. A separate concern relates to the inevitable overlap between the Fiscal Monitor and the *WEO*, which has increased the scope for inconsistency in messaging, as indeed occurred following the crisis (see below).

23. **With regard to the ESR,** country authorities interviewed for the 2014 TSR welcomed the broader coverage of external sector assessments in the EBA methodology (*vis-à-vis* the IMF's earlier CGER exercise) but had reservations about drawing policy conclusions from the new approach, which they regarded as not fully developed, and a few expressed discontent with the results of the exercise. Some interviewees for this review expressed skepticism about the value added of the ESR beyond Article IV Consultations and the *WEO*, whose respective mandates already include assessing countries' external positions from bilateral and multilateral perspectives. Others, while supportive of the ESR and its underlying methodology, considered the IMF's advice on the policies needed to boost global demand and reduce global imbalances had been too timid—both before and after the introduction of the ESR.

24. **The quality and relevance of Regional Economic Outlooks (REOs) has been improving over time.** As late as 2011, the IEO found that authorities did not consider the REOs as useful or insightful as other IMF surveillance products (IEO, 2011a). More recently, however, surveys conducted by Area Departments indicated that authorities' receptivity has improved. At the same time, it is not apparent that REOs focus sufficiently on intra-regional linkages and

spillovers, as recommended by the 2006 evaluation, as analyses of spillovers appear as the exception rather than the rule.

### **Weighing rewards and concerns**

25. **Overall, authorities seem to appreciate the approach that multilateral surveillance has followed in the crisis aftermath.** The new products are viewed as needed to detect and warn about emerging risks and vulnerabilities, or to highlight spillovers, thus filling gaps in the pre-crisis framework, or helping to focus on areas in need of strengthening. Indeed, some interviewees for this review were proponents of further expansion of multilateral surveillance, particularly in the areas of integrating macroeconomic and financial sector analysis, balance sheet analysis and medium-term spillover risks.

26. **A number of concerns have nonetheless been expressed about the expansion in multilateral surveillance products following the crisis, ranging from proliferation and inconsistent messaging, to the possibility of crowding out other valued activity.** For example, the 2014 TSR's external advisory group indicated: "the TSR background studies highlight that the array of products has become almost impossible to digest and absorb. In our view, the volume of new products is a symptom of a disconnect between the producers and consumers of surveillance. We strongly recommend streamlining, mainstreaming and integrating the various strands of work." (IMF, 2014b). Several policymakers interviewed by the IEO for its crisis response evaluation (IEO, 2014) concurred with this assessment regarding the discussion of risks, indicating that the number of initiatives had grown beyond their capacity to absorb the results. IEO (2014) also reported that several policymakers were concerned that two of the systemic problems that manifested in the post-Lehman period—the crisis in the euro area and the destabilizing capital flows that followed the announcement of prospective tapering of quantitative easing by the Federal Reserve—were not highlighted in an effective or timely manner.

27. **A related concern is that proliferation can lead to inconsistent messaging.** Two examples from the IEO's 2014 evaluation of the IMF response to the crisis are noteworthy in this context. First, there was initial inconsistency of messaging on fiscal policy, with the *WEO* and other Research Department papers arguing for sustained fiscal stimulus, even as the Fiscal Monitor and other Fiscal Affairs Department papers warned about the dangers of growing public deficits and debt (Dhar, 2014). Second, the *WEO*, *GFSR*, *EWE*, and *GPA* (Global Policy Agenda) presented somewhat inconsistent messages in early 2013 about the likely impact of the prospective U.S. exit from quantitative easing—with some authorities interviewed by the IEO commenting that IMF warnings about the volatility stemming from quantitative easing and its tapering were not delivered with clarity (Robinson, 2014). These findings also suggest that silos within the Fund remained resilient, while the overlapping surveillance products may have strained the internal review process, limiting its effectiveness. Indeed, some IMF staff expressed concern about the increased difficulty of maintaining consistency across the larger number of overlapping products, and the opportunity cost of maintaining such consistency.

28. **Multilateral surveillance has absorbed a larger share of resources over the past decade.** The 2006 IEO evaluation reported that multilateral surveillance-related activity accounted for 8.5 percent of the cost in staff years of the IMF’s administrative budget in fiscal year 2005. Although recent data are not directly comparable, it is apparent that the share of resources devoted to multilateral surveillance has expanded significantly: during fiscal years 2011-16, multilateral surveillance averaged nearly 21 percent of the budget (IMF, 2016).<sup>10</sup> Some interviewees for this review were concerned that the increased emphasis on multilateral surveillance may be crowding out other activity, including the attention devoted to bilateral surveillance.

29. **To address some of these concerns, the IMF initiated steps towards consolidation in 2015.** Thus the Spillover Report was folded into the *WEO* as of 2016; the regional trends chapter of the *WEO* was eliminated to avoid duplication with REOs; the full Fiscal Monitor (including conjunctural analysis) was moved to an annual schedule; and the *GFSR* is to be further streamlined (IMF, 2015).

### C. Enhanced Executive Board and IMFC Roles in Multilateral Surveillance

30. **Executive Board and IMFC involvement in multilateral surveillance has been enhanced through the provision of more focused documentation and presentations on risks**—in addition to the discussion at the Board of the new products noted in Section B above.

31. **The EWE presentations to the IMFC since April 2009** are perhaps the most tangible example of greater involvement of this body in IMF multilateral surveillance, in particular its assessment of systemically important risks.<sup>11</sup> The addition of EWE presentations to the longer-standing briefings to the Executive Board on “World Economic and Market Developments” and the more recent briefings on regional developments by Area Departments, are intended to cover the full gamut of baseline and tail risks. IEO (2014) reported that the EWE was generally praised by those authorities who attended EWE presentations. At the same time, some officials have questioned their focus on tail risks, since it is difficult to get the attention of ministers and governors on low probability events when they are eager to brainstorm about more current risks. It is also difficult to identify new and relevant tail risks every six months. Reflecting these factors, in practice the EWE discussions have tended to encompass central as well as tail risks. A separate concern with the EWE is that many senior policymakers interviewed (in the context of IEO, 2014)

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<sup>10</sup> A 2014 TSR background paper (IMF, 2014c) also reported a sharp rise in the share of resources absorbed by multilateral surveillance between FY07 and FY14.

<sup>11</sup> The IMFC presentation is preceded by a draft presentation of the same material to the Executive Board.

were unaware of the main messages of the EWE, due to its restricted attendance and limited debriefing by the participants.<sup>12</sup>

32. **Since 2011, the IMF has produced summary documents targeted primarily at the IMFC,** initially intended to summarize key messages emerging from its multilateral surveillance (Consolidated Multilateral Surveillance Report), and subsequently restructured to a more policy-oriented document, the Managing Director’s Global Policy Agenda (GPA), that links a discussion of the global outlook with policy requirements for member countries as well as implications for the IMF’s own work. The two issues of the CMSR in September 2011 and April 2012 highlighted key risks facing the global economy, and discussed suitable policies and collective actions to address them. The CMSRs were well received by some authorities, who saw them as promising initial attempts to integrate the messages of the flagship reports. The GPA is less an attempt to summarize analytical insights from the Fund’s flagship multilateral surveillance reports, and more a synopsis of global challenges, policy priorities, and the role of the Fund in supporting the membership. A number of interviewees were favorably inclined towards the GPA, which was viewed as a more effective instrument for policy discussions and to communicate the Fund’s key messages ahead of its Spring and Annual Meetings. At the same time, authorities who hoped the CMSR would evolve into a consolidation of the analytical messages of the flagship reports were unsure why it had been terminated. Some staff suggested that internal organizational issues (e.g., which unit should be in charge of preparing the CMSR) were a contributory factor.

#### **D. More Effective Participation in Global Policy Deliberations**

33. **In the crisis aftermath, the G20 played an important role in global policy coordination, and the IMF was key to its work in the immediate post-crisis period.** The G20 leaders announced at their September 2009 summit in Pittsburgh that they had designated this group to be the “premier forum for our international economic cooperation.” The G20 leaders also asked the IMF “to assist our Finance Ministers and Central Bank Governors” in a “process of mutual assessment by developing a forward-looking analysis of whether policies pursued by individual G20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy, and to report regularly to both the G20 and the IMFC, building on the IMF’s existing bilateral and multilateral surveillance analysis, on global economic developments, patterns of growth and suggested policy adjustments.” The IMF was thus given an explicit remit for close involvement in the work of the G20, particularly for assisting with its mutual assessment process (MAP).

34. **The elevation of the G20’s role in the crisis and the IMF’s work for this group thus created an additional channel for influencing international economic cooperation,** facilitated by the Fund’s recognized macroeconomic and financial sector expertise. IMF

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<sup>12</sup> This concern was more prevalent in multi-country constituencies, where it is more difficult to de-brief interested parties.

management and staff played an effective role in the work of the G20. IMF Managing Directors have participated in G20 leaders' summits and meetings of finance ministers and central bank governors, while senior IMF staff have participated in meetings of deputies.<sup>13</sup> The IMF's G20 Surveillance Notes and MAP reports constituted key documentation for G20 discussions. The IMF also provided analytical reports on a range of special topics, and co-authored reports with other international organizations for use by the G20. These reports have all been published, in contrast to most IMF work for G7 meetings.

35. **Finally, enhanced collaboration with the FSB—including in preparing the EWE—is generally applauded.** At the same time, concerns have been expressed as to whether the IMF's membership of the FSB could constrain its motivation to critically examine financial sector issues and policies, particularly in the event that IMF views were contrary to FSB-endorsed policy proposals (IEO, 2014).

#### IV. CONCLUSIONS

36. **There has been significant progress in attaining the major objectives of the 2006 evaluation,** outlined in paragraph 5, as IMF multilateral surveillance underwent a major revamp following the crisis. The 2012 Integrated Surveillance Decision provides a more comprehensive basis for conducting IMF surveillance than the previous framework. New products have closed gaps in pre-crisis analysis in areas such as advanced economy vulnerabilities, while the analysis of exchange rates and their consistency with external positions and economic fundamentals has been refined and broadened. Authorities and other stakeholders appreciate the enhanced quality of the longstanding IMF flagships, the *WEO* and *GFSR*. More focused documents and presentations have improved the quality of interactions with the Board and IMFC, while the IMF's role in global policy deliberations was also enhanced following the crisis.

37. **The introduction of new and overlapping multilateral surveillance products has entailed both benefits and costs.** The new products clearly fall within the Fund's mandate, and there is a constituency and rationale for each of the new products. Moreover, viewing analytical issues and risks from different perspectives reduces the risk of gaps and blind spots. At the same time, some policymakers have expressed concern that the enlarged set of multilateral surveillance products has made it more difficult to absorb and discern the Fund's key messages, even as internal efforts to ensure consistency across the larger number of products have become more extensive and costly. Moreover, the elevated share of resources allocated to multilateral surveillance over the past decade does suggest a need to ensure that the activities comprising

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<sup>13</sup> At the height of the G20's prominence in the immediate aftermath of the global financial crisis, authorities and Executive Directors from non-G20 countries expressed concern that the locus of multilateral policy discussions was shifting away from the IMFC and IMF. These officials were concerned that the G20's elevated role could result in a diminished role for the IMF, even if IMF staff continued to play an important role in supporting the G20. Such concerns, however, appear to have subsided.

multilateral surveillance each have clear justification within the overall framework of surveillance products.

38. **In this context, recent measures to consolidate and further streamline multilateral surveillance products are welcome.** Nonetheless, the challenge of ensuring value-added and consistency across the menu of products remains.

39. **Does the IMF need to provide a concise, consolidated message on the global outlook and risks?** The 2006 evaluation proposed that the IMF regularly deliver such a succinct document that would integrate the key messages from the *WEO* and *GFSR*. Post-crisis reports such as the IMF's 2011 TSR and IEO (2011b), IEO (2014) also proposed that the main policy messages of surveillance be consolidated into a single brief report for senior policymakers. The CMSR aimed to provide such a report, but was replaced within a year by the GPA, which has evolved into a more operational document, and does not aim to summarize the deeper insights of the Fund's flagship reports. Proponents of the current approach argue that the GPA better complements the flagships, each of which already contain their own Executive Summaries. The contrary view is that the lack of a consolidated analytical message on the outlook and risks is indicative of the institution's ongoing difficulty in overcoming departmental silos—in addition to the inherent difficulties of integrating economic and financial analyses of the global economy into a single document.

40. Finally, **the impact of the post-crisis reforms can only be rigorously measured** by assessing the extent to which multilateral surveillance has become more helpful to authorities, whether it is more influential in policymaking, and whether it is more effective in assessing risks. Such an assessment is beyond the scope of this review, and would require a full-fledged evaluation.<sup>14</sup>

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<sup>14</sup> A forthcoming IEO evaluation of financial sector surveillance is expected to address aspects of these issues.

## ANNEX 1. KEY IMF REFORMS AND INITIATIVES ON MULTILATERAL SURVEILLANCE, 2007–15

Date of Action	Reform/Initiative	Notes
July 2007	Introduction of January and July Updates of <i>WEO</i>	
September 2008	The Board discusses the 2008 Triennial Surveillance Review (SM/08/287; SUR/08/104).	Identifies four highest priority areas: (i) risk assessment; (ii) integration of macroeconomic and financial sector surveillance; (iii) multilateral perspectives; and (iv) exchange rate assessments.
October 2008	The Board adopts a first Statement of Surveillance Priorities (SM/08/316; DEC/14182).	Lays out surveillance priorities for next three years. Operational priorities are: (i) improving analysis of financial stability; (ii) deepening understanding of linkages; (iii) risk assessment; and (iv) exchange rate analysis.
November 2008	The IMF and FSB enhance collaboration following Washington G20 Summit (see SM/09/17; BUFF/09/26).	Agree to cooperate in conducting early warning exercises, with the IMF taking the lead in assessing macro-financial risks and systemic vulnerabilities.
March 2009	First semi-annual Vulnerability Exercise prepared for advanced economies	
April 2009	The IMF and FSB conduct first Early Warning Exercise (EWE) as a dry run for 2009 Spring Meetings (methodology formalized in the fall of 2009) (see SM/09/214; BUFF/09/149).	A semi-annual exercise focused on systemic risks and vulnerabilities across financial institutions, markets, and countries, with particular emphasis on tail risks—low probability but high impact events—and cross-border spillovers.
	Introduction of Joint Foreword for <i>WEO</i> and <i>GFSR</i>	Signed by the Economic Counsellor and the Financial Counsellor. Discontinued after April 2010.
July 2009	“Toward a Stable System of Exchange Rates” discussed in an informal Board seminar (FO/DIS/09/112).	The first review of the stability of the international monetary system since 1999.
	Fiscal Monitor launched as a staff position note “The State of Public Finances: A Cross-Country Fiscal Monitor” (SPN/09/21).	
September 2009	G20 Mutual Assessment Program (MAP) launched at Pittsburgh Summit.	The IMF to analyze whether policies pursued by individual G20 countries are collectively consistent with growth objectives.
	The Board approves revised Statement of Surveillance Priorities (SM/09/235; DEC/14436).	Operational priorities unchanged.
October 2009	Bilateral Surveillance Guidance Note issued (SM/09/265).	Enumerates, among other elements, (i) candor; (ii) evenhandedness; (iii) consideration of country circumstances; and (iv) multilateral perspectives, as requirements for effective surveillance.

<b>Date of Action</b>	<b>Reform/Initiative</b>	<b>Notes</b>
December 2009	The Board endorses the general framework for the Fund's involvement in the G-20 mutual assessment process (SM/09/283; BUFF/09/206).	
April 2010	The Board discusses "Modernizing the Surveillance Mandate and Modalities" (SM/10/74; BUFF/10/51)	The Board supports the introduction of spillover reports and a new multilateral surveillance decision, improved risk assessments, and improve analysis of international linkages.
	The Board discusses "Financial Sector Surveillance and the Mandate of the IMF" (SM/10/75; BUFF/10/51).	Lays out options for strengthening financial sector surveillance.
June 2010	First G20 MAP presented at Toronto Summit.	
December 2010	Surveillance Guidance Note updated (SM/10/324).	Made to reflect technical updates on such issues as: Article IV cycles, lapse-of-time rules, mandatory financial stability assessments for jurisdictions with systemic financial sectors, and transparency rules.
July 2011	Pilot Spillover Reports prepared (FO/DIS/11/140).	Individual reports designed to assess the external effects of domestic policies in five systemic economies: China, the Euro Area, Japan, the United Kingdom, and the United States. Individual spillover reports not repeated.
	Introduction of Consolidated Spillover Report	Initial report aimed to draw overarching lessons from the five individual Spillover Reports. The 2014 and 2015 Spillover Reports did not confine themselves to spillovers from the systemic five economies.
September 2011	The IMF conducts first vulnerability exercise for LICs (VE-LIC) based on framework introduced in March (FO/DIS/11/44).	VE-LIC to be conducted annually.
	First <i>Consolidated Multilateral Surveillance Report</i> presented to IMFC (SM/11/256, Rev. 1).	Draws on multilateral surveillance products, such as <i>WEO</i> and <i>GFSR</i> , to present a consistent overall assessment.
October 2011	The Board discusses 2011 Triennial Surveillance Review (SM/11/233; BUFF/11/139).	Identified 6 areas needing particular attention: (i) interconnectedness; (ii) risk assessment; (iii) financial stability; (iv) external stability; (v) legal framework; and (vi) increasing traction.
March 2012	"Enhancing Surveillance—Interconnectedness and Clusters" issued (FO/DIS/12/37).	
April 2012	Second <i>Consolidated Multilateral Surveillance Report</i> presented to IMFC (SM/12/80, Rev. 1).	

<b>Date of Action</b>	<b>Reform/Initiative</b>	<b>Notes</b>
June 2012	Global Risk Assessment Matrix (G-RAM) introduced (SM/12/246, Rev. 1).	Provides a summary of key global risks and assessment of their likelihood.
July 2012	The Board adopts the Integrated Surveillance Decision, to take effect January 2013 (SM/12/156; DEC/15203).  Pilot External Sector Report launched (SM/12/166).	Provides a framework of surveillance for a highly integrated world, by better integrating bilateral and multilateral surveillance.  Provides a multilaterally consistent analysis of exchange rates and external positions of largest economies (28 countries plus the Euro Area). The assessment of current accounts and exchange rates is based partly on the External Balance Assessment (EBA) approach.
September 2012	The Board endorses new Financial Surveillance Strategy (SM/12/231; BUFF/12/106).	Proposes (i) strengthening analytical underpinnings of macro-financial risk assessments and policy advice; (ii) upgrading instruments and products to foster integrated policy response to risks, and (iii) engaging actively with stakeholders to improve traction and impact of financial surveillance.
October 2012	Guidance Note for Surveillance under Article IV Consultations released (SM/12/246, Rev. 1).  Introduction of the Managing Director's Global Policy Agenda.	Highlights five operational priorities: (i) interconnections; (ii) risk assessment; (iii) financial stability; (iv) balance of payments stability; and (v) traction, while enumerating, among other things, (i) candor; (ii) evenhandedness; (iii) practicality; and (iv) multilateral perspectives, as elements of effectiveness.  The Consolidated Multilateral Surveillance Report was replaced by the Managing Director's Global Policy Agenda, which covers not only policy priorities for the membership but also the role of the IMF and the current agenda for strengthening Fund operations.
	Introduction of unified Summing-Up of Executive Board discussion of <i>WEO</i> , <i>GFSR</i> , and Fiscal Monitor.	
July 2013	"German–Central European Supply Chain" issued as the first Cluster Report (FO/DIS/13/100).	
August 2013	"The Nordic Regional Report—Staff Report for the 2013 Cluster Consultation" issued as part of pilot project to cluster Article IV consultations (SM/13/230, Sup. 1; SUR/13/84).	Complements national Article IV consultations with Denmark, Finland, Norway, and Sweden.
April 2014	"The Baltic Cluster Report—Staff Report for the 2014 Cluster Consultation" issued to cluster Article IV consultations for Estonia, Latvia, and Lithuania (SM/14/90; SUR/14/32).	Examines common themes and challenges facing the three Baltic countries.

<b>Date of Action</b>	<b>Reform/Initiative</b>	<b>Notes</b>
September 2014	The Board discusses 2014 Triennial Surveillance Review (SM/14/227; BUFF/14/94)	The review found that there was still a need to refine, adapt, and reinforce surveillance to ensure its effectiveness and relevance, especially in five operational priority areas: (i) risks and spillovers; (ii) macro-financial surveillance; (iii) structural policies; (iv) cohesive and expert policy advice; and (v) client-focused approach.
November 2014	The Managing Director's Action Plan for Strengthening Surveillance issued (SM/14/313).	The five-year Action Plan focuses on the priority areas identified in the 2014 TSR.
January 2015	The Global Risk Assessment Matrix (G-RAM) circulated to the Board for the first time.	Began to be circulated to the Board on a quarterly basis and it can be shared confidentially with country authorities.
March 2015	Guidance Note for Surveillance Under Article IV Consultations issued (SM/15/71)	Where relevant, Article IV consultations should discuss potential or actual spillovers as required by the ISD and can draw from experiences in other countries.
April 2015	Report on the Initial Steps in Implementing the Managing Director's Action Plan for the 2014 Triennial Surveillance Review	The EBA methodology has been extended to a broader group of countries, with the launch of "EBA-lite" in late 2014 as an additional tool for external sector assessments. An EBA-lite-type methodology for low-income countries is being developed. In addition, there are efforts to further integrate bilateral and multilateral surveillance and to improve the clarity and coherence of multilateral surveillance messages, including through streamlining of reports.
August 2015	First full-fledged External Sector Report released.	

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**Statement by the Managing Director on the Independent Evaluation Office Report on  
Multilateral Surveillance—Revisiting the 2006 Evaluation**

*I would like to thank the Independent Evaluation Office (IEO) for preparing this concise and timely report, which provides an update of how the Fund's multilateral surveillance has evolved over the last decade. I am pleased with its main conclusion that significant recent reforms in this area have largely addressed the shortcomings identified in the 2006 report, and concur that some issues need our continued attention.*

The Fund's multilateral surveillance delivers oversight of the international monetary system through analysis of global economic and financial developments, economic linkages, and policy options to address spillovers in a global context. Its objective is to promote policies that are consistent with the "continuing development of the orderly underlying conditions that are necessary for financial and economic stability."

The main conclusion of the report is reassuring. The significant reforms of IMF multilateral surveillance, propelled by the financial crisis, have largely addressed the main issues raised in the 2006 report. Indeed, new multilateral surveillance products and enhanced rigor of macro-financial spillovers analysis have closed previously identified gaps. Moreover, the Integrated Surveillance Decision (ISD) now provides a more comprehensive basis for conducting IMF surveillance.

The report points to the challenge of maintaining consistent messaging across several multilateral surveillance flagships. We have made progress and will continue our efforts to coordinate messaging, both at staff and management levels, including with regard to risks and vulnerabilities.

Overall, I would like to note that management and staff remain fully committed to enhancing the role of multilateral surveillance in providing valuable inputs to policymaking. We will also work to ensure that multilateral and bilateral surveillance are mutually reinforcing and operationally integrated and consistent. In this context, the findings of this report provide useful insights.