

STAFF RESPONSE TO THE EVALUATION BY THE INDEPENDENT EVALUATION OFFICE OF THE IMF'S MULTILATERAL SURVEILLANCE

Executive Board Meeting
March 24, 2006

Staff welcomes the IEO's findings, which affirm the high quality of the Fund's multilateral surveillance products, noting that they have been largely successful in identifying relevant issues and related risks in a timely manner. The staff is also pleased to note that the IEO report confirms the wide interest generated by these outputs within very diverse audiences.

Staff notes that the IEO, in evaluating the quality of multilateral surveillance, focused on hitherto underexamined aspects of quality, such as consistency of coverage with the Fund's comparative advantage, and relevance and timeliness of analyses, which yielded useful insights. At the same time, the report's assessment of the substantive quality of multilateral surveillance could have been more rigorous. For example, the report does not evaluate the ex post accuracy of assessments of risks and vulnerabilities in the various multilateral surveillance outputs. Some of the conclusions drawn by the IEO report in interpreting stakeholder surveys results also seem to reflect as much the authors' perceptions as objective evidence. For instance, regarding the readership of the main reports, it is not clear why it should be considered a failure if principal policymakers read a summarized version from their officials. Likewise, the assessment that "it is not clear that regional outlooks effectively serve a regional surveillance function" is not well substantiated in the report (indeed, it appears to disregard the views expressed by a very high share of nonindustrial country officials). Finally, the claim that the interaction between *GFSR* issues and the G-7 or G-20 is limited ignores the influence of *GFSR* analyses on the agenda of the Financial Stability Forum, the preferred G-7 forum for financial stability issues.

As regards recommendations, staff sees merit in the report's call for stronger integration of the various facets of surveillance, a more proactive role for the Fund in multilateral settings, and a more targeted communications strategy based on well-articulated and "client-focused" products. Indeed, these elements are present in the Managing Director's report

on the Fund's Medium-Term Strategy. At the same time, for the reasons given below, staff has some reservations with regard to some of the report's more specific proposals, particularly, but not exclusively, those under Recommendation 4, and whether they would deliver the desired results. In this respect, staff welcomes the fact that the report puts forward these proposals as "possible options" to be further explored, rather than as specific and firm recommendations. In any case, to avoid unnecessary proliferation of parallel initiatives, these proposals would have to be assessed against viable alternatives, especially those discussed in management's Medium-Term Strategy.

Turning to specifics, we agree with the report's call for a more proactive role in relevant groups (Recommendation 1), and an enhanced role for the Board and the IMFC in multilateral surveillance (Recommendation 2), but we are not convinced that the specific proposals spelled out under these recommendations would work. This said, we feel that the Board is better placed than the staff to comment on issues related to its own work processes.

We see merit in some streamlining of multilateral surveillance outputs and efforts to achieve greater "client-focus" (Recommendation 3), but some of the report's proposals to implement this recommendation would seem to go in the opposite direction. For example, we agree that providing an executive summary of the whole *WEO* would be useful (indeed, a summary of the analytical chapters is already offered in the *WEO*'s Foreword). However, shortening can be carried to excess. In particular, leaving the special topics chapters to a different publication (even if it were the Report on Globalization), as suggested by the IEO, would risk losing vital analytical content and thus diminish, rather than enhance, the persuasiveness and impact of the Fund's multilateral surveillance. Likewise, while we concur that there is scope for better integration and complementarity between the *WEO* and the *GFSR*—indeed, modalities to achieve this are being considered in the context of the Medium-Term Strategy, we think that untying

the release of these publications from the cycle of twice-yearly IMFC meetings for the sake of avoiding bunching could significantly reduce their impact on policy discussions in this forum.

We also welcome the call for a clarification of the scope and outputs of regional surveillance, as also envisaged in management's Medium-Term Strategy. We do not believe, however, that making the Executive Board responsible for determining the precise selection of topics would be in keeping with its institutional role or a useful development.

We welcome some elements of the recommendation to strengthen the structure of multilateral surveillance by clarifying operational goals (Recommendation 4). However, in our view, the fundamental organizational changes presented for consideration go beyond the IEO's purview. Moreover, we are not convinced, given the report's generally positive assessment of the Fund's multilateral surveillance products, that drastic organizational changes are warranted. While the option to make greater use of the internal Surveillance Committee, chaired by management, to form institutional positions on systemically important issues, has merit and is consistent with the proposals in management's medium-term strategic review, consideration of such an option is a management prerogative. The option of creating a

new surveillance department is unwarranted, while the less radical options, such as to change sign-off responsibilities for papers on systemically important countries, are poorly motivated and their potential downsides (e.g., more complicated bureaucracy) not recognized.

Moreover, the report does not convincingly argue that the causes of the problem identified are organizational. Therefore, rather than organizational solutions, which may disrupt the activity of key departments without achieving much progress, it would seem preferable to explore more substantive approaches to achieving greater integration. The IEO is right in emphasizing the importance of internal incentives in this respect, and this issue warrants further reflection. Some of the proposals of the medium-term strategic review are likely to help in this regard, for example to require Article IV reports on systemic countries to include a section on spillovers. Staff is also exploring a more strategic approach to communications around multilateral surveillance outputs, including better targeting of our efforts to the specific needs of various audiences both within and outside the Fund. This should contribute to strengthen the Fund's multilateral surveillance role in informing both bilateral surveillance and the broader public debate.