

THE ACTING CHAIR'S SUMMING UP

EVALUATION BY THE INDEPENDENT EVALUATION OFFICE OF THE IMF'S MULTILATERAL SURVEILLANCE

Executive Board Meeting
March 24, 2006

Executive Directors welcomed the evaluation by the Independent Evaluation Office (IEO) of the Fund's multilateral surveillance, which has provided a valuable opportunity to take stock of achievements and identify areas for further improvement in the quality and effectiveness of this core activity of the Fund. Directors underscored the critical importance of effective multilateral surveillance in promoting global financial stability and sustained economic growth in an increasingly integrated world economy. Further, they observed that the IEO assessment is made all the more timely by the impending discussion of the Managing Director's proposals on the implementation of the Medium-Term Strategy, which can only be enriched by our consideration of the recommendations of this independent evaluation.

Directors observed that multilateral surveillance complements bilateral surveillance by adding global and cross-country perspectives to the analysis of developments in individual countries. They were encouraged by the report's broadly positive assessment of the quality of the analysis contained in the Fund's key multilateral surveillance outputs, and by its assessment that these products have been largely successful in identifying relevant issues and related risks in a timely manner. Directors considered that the wide and diverse public interest in these outputs, documented by the IEO's report, is a testament to this success.

Notwithstanding this broadly positive evaluation, Directors generally agreed with the report's assessment that there remains scope for further improving the Fund's multilateral surveillance. In particular, Directors took note of the recommendation that some of the outputs of multilateral surveillance should give less weight to descriptive information on developments and prospects, and more to analyzing economic policy linkages and the modalities of collective action. Directors also concurred with the report's finding that effectively integrating macroeconomic analyses with financial sector and capital market work remains a significant challenge, as does the task of effectively integrating multilateral analy-

sis with bilateral work. Complementary to these efforts, the scope of regional surveillance should be clarified. Directors called for further careful analysis of these issues, which are crucial for the effective discharge of the Fund's mandate.

Against this background, Directors held a substantive discussion on ways to improve the effectiveness of multilateral surveillance, based on the IEO's four recommendations. Most Directors looked forward to further consideration of the issues in the broader context of the upcoming discussion on the implementation of the IMF's overall Medium-Term Strategy.

Recommendation I

Directors took note of the report's call for the IMF to strengthen its role at the center of a more robust global peer review system by establishing a more proactive engagement with relevant intergovernmental groups. Most Directors concurred that, while the Executive Board and the IMFC remain the most appropriate fora for discussions of policy spillovers and possible responses, the IMF should also enhance the effectiveness of its participation in other fora—such as, but not limited to, the G-7 or the G-20—which also provide opportunities for a frank exchange of views on these issues. Directors stressed that the IMF should provide leadership to the global economic community in trying to promote cooperative solutions. In doing so, the Fund should draw on its unique strengths of near-universal membership and access to policymakers of all systemically and regionally important countries. At the same time, it would be important to ensure that the Fund does not depart from its core mandate in pursuing these efforts, and that they are carried out in a transparent manner. In this regard, Directors agreed that the surveillance notes prepared for the G-7 and G-20 meetings could be more focused on policy spillovers and options for addressing them, and that outputs directly targeted at senior national

policymakers would be helpful. Such notes should be consistent with the policy advice in Article IV and other surveillance discussions of the Executive Board. While a number of Directors also noted that greater continuity of IMF representation at these meetings could be considered, most Directors did not support the establishment of a unit whose sole or main purpose would be maintaining constant contact with relevant officials.

Recommendation 2

Most Directors welcomed the report's recommendation to enhance the roles of the Executive Board and the IMFC in multilateral surveillance. However, they considered that the IEO's characterization of formal *WEO* and *GFSR* sessions fails to do justice to the usefulness of these exchanges, noting that Board discussions in various multilateral surveillance contexts are generally free and open. At the same time, many Directors saw merit in the Board identifying and agreeing on key issues for ministers to discuss during the IMFC meetings, focusing on matters related to policy spillovers and scenarios for collective action. Most Directors did not support the setting up of a standing Board committee to monitor progress on strengthening the IMF's and the Board's surveillance activities. They considered, rather, that the full Board should retain ownership and oversight of this central surveillance function of the Fund.

Recommendation 3

Directors observed that, to heighten the impact of multilateral surveillance outputs on the global policy debate, they could be better targeted to their core audience, streamlined, and focused on key issues. While most Directors considered that a major streamlining and focusing of the *WEO* are not necessary and would detract from the quality of the underlying analysis, Directors offered a number of useful suggestions for further consideration. On issues of content, some Directors supported the suggestion to integrate better financial and capital market issues in the *WEO*'s Chapter I. They called for more analytical treatment and discussion of exchange rate issues, with some Directors cautioning the staff to be mindful of market sensitivities in the public communication of such analyses. Several Directors also considered that greater use could be made of scenario analysis, with sharper messages for policymakers. Most Directors did not find attractive the option of separating the chapters on special topics of the *WEO* and the *GFSR* and creating a separate globalization report to feature them. More generally, many Direc-

tors were not convinced of the merits of a new globalization report. Most Directors also did not favor changing the timing of the *WEO* and the *GFSR*. On presentation and communication issues, some Directors felt that the *WEO* and the *GFSR* should have more focused messages and better reflect the Fund's unique role and perspective, facilitated by more collaboration in the production of these two reports. A few Directors supported the issuance of a biannual Board statement on the state of the world economy. Some Directors also suggested that publication of surveillance products in languages other than English could facilitate the effective dissemination of the results of multilateral surveillance and of the key Fund messages to a broader audience.

Directors welcomed the opportunity to consider further the scope of regional surveillance. They observed that staff has taken various initiatives in recent years, including the more formally conducted surveillance of common currency areas, and the production of papers for regional Board seminars. Directors concurred that it would be useful to clarify, in the context of the medium-term strategic review, the scope of regional surveillance, including the role of regional outlooks prepared by staff. Directors also saw merit in focusing these efforts on regional economic interlinkages and policy spillovers, and in better integrating them with multilateral surveillance. Some Directors supported the possibility of reorienting some regional studies on the basis of their analytical focus, rather than on the basis of geography, but most Directors did not favor separating analytical chapters from regional outlooks. Directors looked forward to reviewing these issues further.

Recommendation 4

Directors took note of the report's recommendations on strengthening the structure of multilateral surveillance by defining organizational strategies and accountabilities. They agreed that it would be beneficial to clarify the operational goals of multilateral surveillance, but were not persuaded about the need for broad organizational changes. In particular, many Directors stressed that the risks and costs of fundamental organizational changes should be carefully considered before embarking on such steps. Directors agreed that priority should be given to strengthening the integration between multilateral and bilateral surveillance, particularly of systemically important countries. Many Directors were skeptical about the recommendation to establish a Surveillance Department. Directors looked forward to discussing these issues further in the context of the medium-term strategic review.