

IEO COMMENTS ON MANAGEMENT AND STAFF RESPONSES TO THE EVALUATION OF IMF EXCHANGE RATE POLICY ADVICE, 1999–2005

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The IEO report concluded that there was an effectiveness gap over the period 1999–2005 in the IMF’s core responsibility for providing exchange rate policy advice. It is clear from the responses of management and staff that there is a very different perception to that of the IEO of the scale and nature of that gap, and of the steps needed to close it. Rather than respond in detail to staff’s and management’s interpretation of the IEO report, which in our view downplays the significance of survey evidence and of the examples intended to illustrate issues based on the totality of evidence gathered by the IEO, we think it is more constructive to highlight three key factors that seem to drive the different perceptions, in the hope that this will facilitate a better understanding of the issues at stake.

The Need for Additional Action

Management and staff comments have raised the possibility that ongoing initiatives will address most problems, with apparently little or no need for further intervention, at least in the short run. The IEO could not conclude that the effectiveness gap had narrowed significantly over the period through 2005, even though improvements in analysis in some areas are recognized in the report. The important judgment was that the gap at the end of the sample period remained significant and needed to be addressed. Of course, by design, the IEO did not evaluate effectiveness since the end of the sample period in 2005 and, thus, cannot assess the impact of new initiatives. Nonetheless, it is clear that some of the issues flagged, to the extent that they reflect the need for changes in incentive structures or other actions, remain unaddressed. In one important respect, we view the responses of management and staff as providing continuing evidence of a problem that surfaced in the IEO report, namely the failure to distill lessons from the critiques from authorities and some staff on how the IMF’s work could be improved. A greater willingness is required to reach out, including to large emerging market economies, to establish what underlies the concerns raised.

The Appropriate Benchmark for Performance

We make no bones about the need to set a high bar in terms of effectiveness of exchange rate policy advice. A high bar is needed to ensure that the surveillance function is conducted effectively and with evenhandedness. The IMF has an obligation to each and every one of its members both to assess their policies and to bring to the table the best policy advice based on the wide experience within the membership. In the IEO’s view, therefore, noting that in a majority of cases there were some positive signs, or concluding that the situation was “generally adequate” is an inadequate bar. What management and staff may view as unrealistic in some respects, we view as increasingly challenging but necessary. Examples of shortcomings in the IMF’s work in a significant minority of economies, including some of the largest, should prompt, as a matter of urgency, efforts to resolve the problems that have been identified. This is critical not only for the impact on the IMF’s effectiveness in those economies, but also to protect the integrity of the system as a whole.

The Importance of Policy Dialogue

The IEO report distinguishes between the strong evidence of a polite to-and-fro and more troubling evidence that the policy dialogue was not as effective as it needs to be in many parts of the membership, especially in the advanced and large emerging market economies that have the most impact on the system. Our recommendations suggest ways to address this deficiency, including by having the first full Executive Board review of exchange rate policy since 1999, to allow the underlying problems to be better defined and to provide guidance to staff in key areas; and to assign a much higher weight to ensuring that dialogue is effective. The latter would involve listening more carefully to authorities’ views, and designing the staff and management engagement in a way that would

maximize relevance and usefulness to the authorities and to the Executive Board. We maintain that the judicious integration of surveillance and technical assistance activities, greater integration and

management of relevant activities within the Fund, and a greater appreciation of the specific concerns of policymakers, would need to be key components of a response.