

Foreword

Exchange rate surveillance lies at the core of the IMF’s responsibilities. This report concludes that the IMF was simply not as effective as it needs to be to fulfill this core responsibility. While acknowledging the progress made in some areas over the period reviewed (1999–2005), the report identifies an “effectiveness gap” in the Fund’s performance, suggests reasons for its existence, and points to a number of measures to help remedy it. In this context, the report calls for a major refocus of efforts aimed at enhancing the effectiveness of the IMF’s analysis and advice as well as reenergizing its contribution to policy dialogue with member countries—a view broadly endorsed by the IMF Executive Board.

The problems highlighted cannot be solved overnight, and it will take time to implement the report’s recommendations. In the period between the inclusion of the topic in the IEO’s work program in June 2005 and its discussion at the IMF Executive Board in May 2007, the IMF has pursued several policy initiatives related to its exchange rate policy advice. These initiatives include reviewing the 1977 Surveillance Decision (culminating in approval of a new Decision in June 2007); considering a new “remit” for surveillance; and undertaking a multilateral consultation on global imbalances. By design, the IEO evaluation was based on the record through 2005 and did not deal directly with these current policy discussions. It focused instead on issues of both the substance and procedure of surveillance over exchange rate policies. In particular, while the report argues that a revalidation of the fundamental purpose of surveillance is warranted, no direct connection was made between the shortcomings noted in this report and the review of the 1977 Decision. Indeed, the report highlights that there are problems to be addressed, without delay, irrespective of whether or when changes are made to the Surveillance Decision. The key to solving these problems lies in ensuring the trust of countries and willingness to cooperate within whatever legal framework is in place, and this will take time and concerted efforts.

The report contains tough messages. It is a strength of the IMF that it allows such a frank and independent assessment to be made. As there is no professional consensus on many of the analytical issues involved, it is perhaps not surprising that staff and management have a different perspective from that taken in the report, as is apparent from their responses. Nevertheless, the IEO maintains that, no matter how complicated the issues, the performance bar for the IMF must be set very high. Fortunately, there is agreement that the issues covered in the report are important, and that further improvements are necessary. It is hoped that the IEO’s findings will contribute to discussions on how these are to be accomplished.



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