**IMF-FSB Early Warning Exercise**

*In November 2008, the G20 asked the IMF and the Financial Stability Board (FSB) to collaborate on regular Early Warning Exercises (EWEs). The EWE assesses low-probability but high-impact risks to the global economy and identifies policies to mitigate them. It integrates macroeconomic and financial perspectives on systemic risks, drawing on a range of quantitative tools and broad-based consultations.*

**Integration with IMF surveillance**

The EWE is part of the IMF’s efforts to strengthen surveillance, especially the analysis of economic, financial, fiscal, and external risks as well as cross-sectoral and cross-border spillovers. It is conducted semiannually, in close coordination with the WEO, GFSR, and Fiscal Monitor, the IMF’s flagship publications on global surveillance. The IMF’s country, regional, and global surveillance activities are used to follow up on EWE findings and policy recommendations.

**Assessing systemic tail risks**

The EWE examines unlikely but plausible risks that would necessitate policy recommendations that could differ from those related to baseline projections presented in the IMF’s *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Fiscal Monitor*. The EWE does not attempt to predict crises. Rather, it seeks to identify the vulnerabilities and triggers that could precipitate systemic crises, and identifies risk-mitigating policies, including those that would require international cooperation.

**Collaborating with the FSB**

The FSB represents experts and policymakers from financial supervisory agencies and central banks in member countries, thus complementing the multilateral research and analysis at the IMF. Because the Exercise aims to provide an integrated perspective on risks and vulnerabilities, the IMF and the FSB cooperate closely on the EWE, each bringing to bear its own perspective. The IMF tends to take a leading role on economic, macrofinancial, and sovereign risk concerns, and the FSB on financial system regulatory and supervisory issues.

**Analytical underpinnings**

The EWE draws on a broad range of analytical work, market information, and expert opinions. These include a large empirical toolkit, market and country-specific insights gained through the IMF’s regular surveillance and crisis work, and consultations with market participants, academics, and country authorities. The EWE also monitors vulnerability indicators that assess individual country risks to macro, financial, fiscal, and external crises.

**Communicating the findings**

Following discussions at the IMF Executive Board and with the FSB, the EWE’s findings are presented to senior officials during the IMF-World Bank Spring and Annual Meetings. The findings also contribute to the discussion of tail risks in IMF surveillance more generally.

Also see [*The IMF-FSB Early Warning Exercise: Design and Methodological Toolkit*](http://www.imf.org/external/np/pp/eng/2010/090110.pdf); and *“*[Anticipating the Next Crisis](http://www.imf.org/external/pubs/ft/fandd/2009/09/ghosh.htm)” in [*Finance & Development*, September 2009](http://www.imf.org/external/pubs/ft/fandd/2009/09/index.htm)*,* at [http://www.imf.org](http://www.imf.org/external/index.htm).

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