

**Statement by the Managing Director on the Independent Evaluation Office Report on the
IMF Advice on Unconventional Monetary Policies
Executive Board Meeting
June 5, 2019**

I welcome the report of the Independent Evaluation Office (IEO) on the IMF Advice on Unconventional Monetary Policies (UMP). The report recognizes that the Fund's engagement on UMP since the Global Financial Crisis has been wide-ranging and, in many respects, impressive. The report offers valuable insights on how to further improve the timeliness and value added of the IMF's advice on UMP. Accordingly, I broadly support the general thrust of IEO's recommendations, which are helpful in informing Management's consideration of how to push forward the Fund's work in this area.

As noted in the IEO report, topics related to “central bank activism” are still being debated ten years after the onset of the global financial crisis (GFC). This includes a range of new questions, such as how best to manage monetary policy normalization, the use of UMP in future slowdowns, and whether UMP should be a part of the regular monetary toolkit in the new post-GFC global environment.

This ongoing attention to UMP underlines the key role that the Fund must play in analyzing the costs and benefits of these policies, including their spillover effects, and in advising central banks. Indeed, the Fund is uniquely well placed to play this role, because monetary policy and its interaction with other policy areas such as fiscal policy and financial stability are integral to its mandate, and because our near-universal membership provides a rich set of experience to draw and learn from.

In this context, I welcome the report's overall findings that the IMF's response to UMP has been extensive and often remarkable. Even though the unprecedented nature of the GFC made the provision of specific and assertive advice challenging, the Fund was prompt in assisting members who deployed UMP. The Fund was also ahead of the curve in several cases, such as our advice to the Euro area and Japan.

I am pleased that the report also highlights the Fund's pro-active monitoring of the potential build-up of financial stability risks from UMP and advice to countries affected by spillovers, including the development of a new macroprudential policy toolkit to manage these risks, a new Institutional View for advice on managing capital flows, and the Fund's contribution to the G-20 effort on greater international policy understanding and cooperation.

At the same time, the report concludes that there is a need to deepen work on costs and benefits of UMP and related policies, including advising on the role of monetary policy and macroprudential tools to address financial stability risks, and expanding the Fund's work on spillovers to more systematically include analysis and advice on financial spillovers. I agree that building on the Fund's comparative advantages by continuing to improve its analysis and advice on issues related to UMP must be a priority area, along with continued broad coverage of real and financial spillovers.

I therefore broadly support the thrust of the report's key recommendations, but with some important qualifications. Changes in the Fund's monetary policy work would need to be coordinated with other workstreams such as the Comprehensive Surveillance Review (CSR), our HR strategy, and budget discussions. On building expertise and improving our understanding of UMP, for example, I agree this is a priority and management will carefully consider how to best take this forward in the context of the Fund's budget and HR strategy. On bilateral surveillance, the issues of deepening engagement with authorities go beyond the narrow context of UMP, but lessons learned from this evaluation will help inform the broader analysis currently undertaken for the Comprehensive Surveillance Review.

RESPONSE TO IEO RECOMMENDATIONS

The IEO makes four recommendations in its report. Below is my proposed response to each of these.

Recommendation 1. Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed.

I broadly support the recommendation to build expertise and we are actively considering how best to enhance the IMF's role in the field of monetary policy. The Monetary and Capital Market Department is already establishing a new unit on monetary policy modelling, overseen by a Deputy Director with deep monetary policy expertise. At the same time, we will better leverage and enhance existing expertise. This work will also consider interactions of monetary policy with other policies in the context of our endeavors to arrive at an integrated policy framework. The specific approaches and their budgetary implications will be considered in budget discussions and in the context of the HR strategy, recognizing that there are competing priorities, including in follow-up to other IEO evaluations.

Recommendation 2. Deepen work on the costs and benefits of UMP and related policies, to develop a playbook on policy responses for use in future downturns.

I concur with the broad need for more work on costs and benefits of UMP in addition to what is already being done, including developing a playbook of policy responses and advice for

members on conditions for leaning against the wind. Both these are enormous tasks, competing with other diverse and extensive demands from our membership and work implications and the specifics of the work agenda will be considered in future work program discussions.

Recommendation 3. Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.

I welcome the report's recognition of spillover work at the Fund over the past decade and agree that with a near universal membership, the Fund is uniquely well-placed to analyze and provide advice on spillovers. I agree that the Fund should remain at the forefront of financial spillover work, as part of its continued broad coverage of spillovers across all sectors. The work on financial and other spillovers is being promulgated in various ways: The Fund's ongoing spillover work is given prominence as part of the WEO, and the risks, spillovers and policies related to capital flows are subject to ongoing internal debate and analysis;¹ further research on the appropriate policy mix for countries facing capital flow volatility, including as a potential result of UMP in other countries, is being conducted by Fund staff in the context of the work on the Integrated Policy Framework; the Fund's assessment of financial risks is being refined, for example in the GFSR with the use of the Growth at Risk methodology; finally, the ongoing Comprehensive Surveillance Review will consider approaches to better identify, preempt, and mitigate spillovers, and options to strengthen Fund surveillance modalities to enable timely engagement with member countries on evolving spillover issues and related policy responses.

Recommendation 4. Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

As the evaluation notes, a broader analysis of Fund engagement with members is being undertaken under the Comprehensive Surveillance Review. I agree that there are valuable lessons to draw on deepening country engagement in bilateral surveillance when assessing UMP that will usefully inform the CSR. At the same time, I believe that the analysis needs to consider Fund engagement with members in its entirety to make general recommendations on bilateral surveillance.

¹ See, for example, the April 2016 WEO analytical chapter "Understanding the Slowdown of Capital Flows to Emerging Markets" and April 2016 GFSR analytical chapter "The Growing Importance of Financial Spillovers from Emerging Market Economies."

Table 1. The Managing Director's Position on IEO Recommendations

Recommendation	Position
(i) Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed.	Qualified Support
(ii) Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns.	Qualified Support
(iii) Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.	Support
(iv) Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.	Qualified Support