



2014 TRIENNIAL SURVEILLANCE REVIEW: CONCEPT NOTE

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INTRODUCTION

Objectives and Context. The overarching objective of the Triennial Surveillance Review (TSR) is to strengthen the effectiveness and traction of Fund surveillance, which is key for the Fund to fulfill its goal of promoting country-level and global economic and financial stability. In the aftermath of the crisis, the 2011 TSR laid out a wide ranging reform agenda that culminated in changes to the IMF’s surveillance framework through the adoption of the Integrated Surveillance Decision (ISD). With signs of recovery emerging, policymakers have shifted focus from crisis management and stabilization to the challenges of rebuilding resilience and reinvigorating growth in a difficult environment. These policy priorities are outlined in the Managing Director’s Spring 2013 Global Policy Agenda (Box 1). The 2014 TSR provides an opportunity to take stock of the extent to which the new initiatives introduced after the 2011 TSR, and the adaptations to surveillance envisaged in the Financial Surveillance Strategy (FSS) are serving the Fund’s commitments to the membership. Specifically, the TSR will consider how effectively the Fund is implementing the integrated surveillance framework, and how it can respond to new policy challenges. The review will also examine the evenhandedness of Fund surveillance and consider possible recommendations to strengthen this aspect of surveillance.

Box 1. The Managing Director’s Global Policy Agenda

The Global Policy Agenda presented to the IMFC during the 2013 Spring Meetings focused on moving from stabilization to growth. It charted a range of actions needed to invigorate a sustainable recovery and make the global economy more resilient. While these themes summarize the thrust of countries’ and the IMF’s policy agenda ahead of the 2013 Annual Meetings, many of them are relevant over a longer horizon and pertinent as background for the 2014 TSR.

The vast majority of these actions require effective coverage in surveillance and the 2014 TSR provides the opportunity to assess how effectively these are being implemented.

Policy Priorities of the Spring 2013 GPA

Invigorating a Sustainable Recovery

Table with 3 columns: Action, Region, and Description. Includes items like 'Progress on banking repair and union', 'Adopt fiscal and structural plans', 'Strengthen financial resilience', etc.

Restoring Resilience

Table with 3 columns: Action, Region, and Description. Includes items like 'Avoid financial fragmentation', 'Reform subsidies and entitlements', 'Link growth, job creation, and inclusion', etc.

Scope. With the 2011 TSR laying out a wide ranging agenda for surveillance reform, the 2014 review will take a more narrowly focused approach and be mindful of the need to make cost-neutral recommendations. The themes and associated outputs will cover areas that address the IMF’s core mandate of ensuring the stability of the international monetary system, provide the most value-added for the membership, and leverage the Fund’s comparative advantages. The review will be based on: (i) a review and analysis of Article IV reports and multilateral surveillance products; (ii) guidance from an External Advisory Group at key stages of the exercise; (iii) background studies; and (iv) surveys and interviews with country authorities, staff, and other stakeholders. A review of the Financial Sector Assessment Program (FSAP) will be conducted separately but concurrently with the TSR, with close coordination between the relevant authoring teams.¹ The TSR will also take into account the findings of other recent work, including the progress report on the implementation of the Financial Surveillance Strategy, the range of papers on debt issues, the LIC pilot on financial depth and macroeconomic policy, the set of Board papers on the experience with unconventional monetary policies and the challenges of exit from these policies, and the planned discussion of communication issues with the Executive Board.

2011 TSR FINDINGS AND RECOMMENDATIONS

The 2011 TSR highlighted the need to make Fund surveillance as interconnected as the global economy. To do this, the Board endorsed the Managing Director’s action plan with a focus on: (i) interconnectedness; (ii) risk assessments; (iii) financial stability; (iv) balance of payments stability; and (v) traction. The 2011 TSR also recommended steps to better integrate multilateral and bilateral surveillance including by considering changes to the Fund’s legal framework.

Progress to date. Since then, there has been significant progress in a number of areas, which was identified in “One Year After the 2011 Triennial Surveillance Review—Progress Report”:

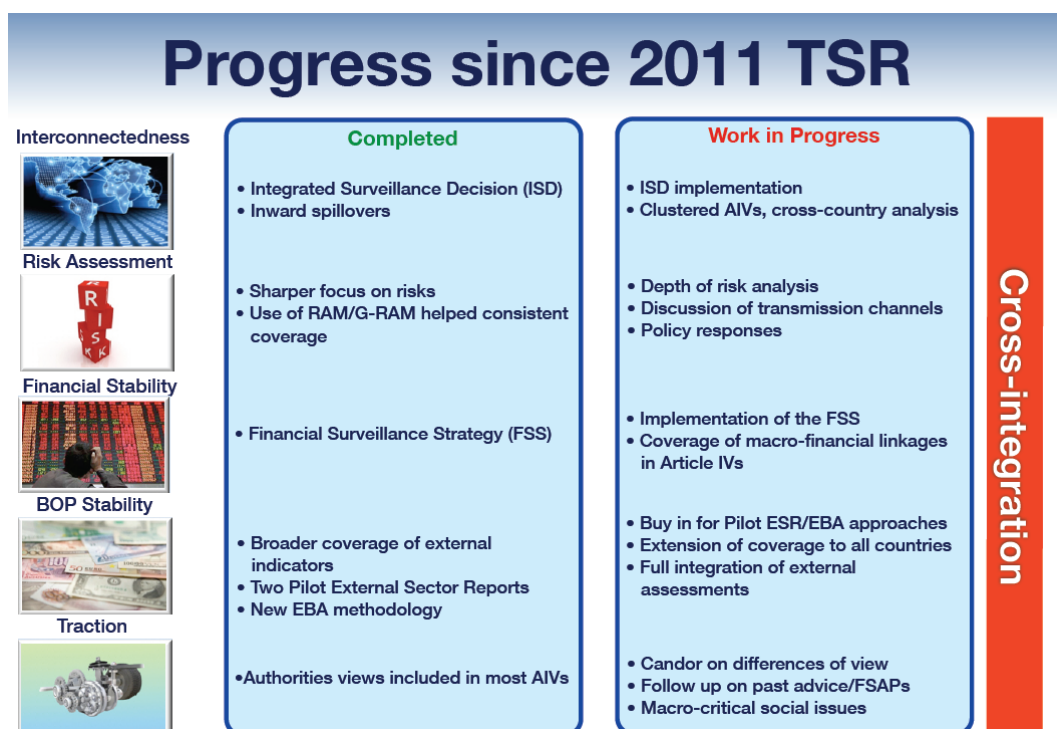
- i. On interconnectedness, the Fund adopted an Integrated Surveillance Decision in 2012. According to that decision, in addition to assessing the contribution of members’ policies to their domestic and balance of payments stability, Article IV consultations should cover potential or actual outward spillovers from members’ policies that may significantly influence the effective operation of the international monetary system, including by undermining global economic and financial stability.
- ii. Risk assessments have become more pointed, including through the use of risk assessment matrices for individual countries and the global economy, as well as the development of the new DSA framework for market access countries (MACs).
- iii. As part of the Financial Surveillance Strategy adopted in 2012, progress has been made in improving risk identification and policy analysis (e.g., macroprudential policy, monetary policy, low-income country pilot), fostering greater integration of instruments and products

¹ Joint surveys will be undertaken for the TSR and the FSAP review in order to avoid “survey fatigue” and elicit the broadest participation of respondents.

(e.g., mandatory FSAPs for the systemic 25 countries, better follow-up of FSAP recommendations in Article IV reports), and engaging more actively with stakeholders (e.g., influencing the global regulatory reform agenda through the Financial Stability Board, media coverage of GFSR messages). Furthermore, the 2013 Review of Data Provision to the Fund proposes measures to establish better reporting of financial and external data shortcomings in Article IV reports.

- iv. On balance of payments stability, the Pilot External Sector Reports (2012 and 2013) have used a multilaterally consistent approach to assess external balances based on the pilot External Balances Assessment methodologies; staff reports are covering a greater range of external indicators; and the Fund has adopted an institutional view on the liberalization and management of capital flows.
- v. On traction, specific changes include a clear statement of the authorities' views in staff reports, and an expansion of coverage of macro-critical social issues in some cases. The review of the Fund's Transparency Policy is expected to increase the role of the Fund in public debate and help build traction for its advice.

The full implementation of the 2011 TSR priorities is still work in progress. For example, coverage of outward spillovers in Article IV reports is at an early stage, as is experimentation with clustered Article IV consultations for interconnected countries, and cross-country policy lessons remain limited in Article IV consultations. While there is a sharper focus on risks, the depth of analysis varies and discussion of the transmission channels and policy responses could be strengthened; the coverage of macro-financial linkages remains in a nascent stage; and there is scope to improve discussion of external sector assessments and traction. More generally, there is still some way to go to ensure that the TSR priorities are fully integrated in Article IV consultations and multilateral surveillance products.



THEMES FOR THE 2014 TSR

Taking into account the priorities identified in the 2011 TSR, the Integrated Surveillance Decision, and subsequent Fund and Independent Evaluation Office (IEO) analyses, the 2014 TSR will be anchored around two major themes:

Theme 1: Integrated Surveillance Framework—Effective Implementation.² The review will assess whether the implementation of the 2011 TSR is delivering integrated surveillance, sharper focus on risks, and deeper analysis of financial and external stability issues, while providing sufficient flexibility to Article IVs to focus on key issues of national concern. In doing so, it will identify remaining gaps, and propose ways to address them. Specifically, the review will examine these issues by focusing on:

- *Institutional effectiveness.* Against a background of increased focus on multilateral surveillance in recent years, the review will assess whether the new institutional balance and integration between bilateral and multilateral surveillance is effective. In particular, the review will (i) examine whether the Fund is properly equipped internally to undertake integrated surveillance on a timely basis, to ensure that bilateral and multilateral surveillance become mutually reinforcing exercises; (ii) assess whether bilateral surveillance is able to focus effectively on country-specific concerns; (iii) evaluate whether bilateral surveillance leverages sufficiently cross-departmental expertise; and (iv) analyze how bilateral surveillance is being supported by the various multilateral surveillance exercises.³
- *The Fund's role in the international financial architecture.* The review will examine how changes in the international financial architecture may affect the mandate and role of the Fund in promoting global economic and financial stability. Examples of such changes include the increasing cross-border implications of financial regulation, macroprudential policies, and the higher volumes and changing patterns in capital flows.
- *Deeper analyses.* The review will analyze how the Fund can deepen analysis of linkages and risks across sectors, countries, institutions, and markets, including through strengthening quantified analyses of risks and spillovers, using the enhanced data sets emerging from the data gaps work. Domestic and cross-border macro-financial linkages will be a particular focus.

Theme 2: Policy Advice—Consistency and Focus. As the crisis has persisted, countries have experimented with unconventional policies and the Fund has reassessed its policy advice, including on fiscal and monetary policies, macroprudential regulation, and the liberalization and management of capital flows. The review will examine whether the Fund needs to clarify its views and advice on macroeconomic and financial policy frameworks, and whether Fund advice remains consistent across

² There is no legal requirement for the 2014 TSR to formally review the ISD itself. Thus no review of the ISD is envisaged given the limited time to assess the experience with its implementation.

³ The TSR will not examine the streamlining of flagship surveillance products.

countries in similar circumstances, or if any differences are well justified. In addition, the review will consider whether the Fund needs to focus on post-crisis challenges, such as high debt overhang and growth revival where relevant, and how it can best leverage its technical assistance and the expertise of other institutions, particularly in the area of jobs, inequality, and growth.

- *Policy compass.* The review will bring together the various strands of work that are underway—reassessing fiscal and monetary policies, and the guidance on macroprudential and capital flow measures—and form a view as to what policies would remain appropriate to meet the post-crisis challenges. In particular, the review will clarify the implications of ongoing work for our policy toolkit, and ensure that any new thinking on policies is quickly assimilated in our surveillance.
- *Consistency.* The review will examine the consistency of Fund policy advice across time and countries in the aftermath of the crisis and how effectively Fund policy advice was tailored to country circumstances. In particular, it will assess whether the policy mix was considered and well justified to achieve stability and growth.
- *Medium-term sustainability and growth.* As an aftermath of the crisis, the high debt overhang will likely remain a key challenge for many countries in the period ahead. The review will examine whether Fund advice is appropriately embedded in a comprehensive medium-term sustainable framework that integrates analysis of financial-fiscal-real linkages. Given limited fiscal and monetary policy room to maneuver, the need for structural reforms to spur growth and address inequality issues has also become macro-critical. Correspondingly, the review will consider in which cases it would be relevant for the Fund to focus its advice on macro-critical structural reforms within its core mandate, how can it be supported by Fund technical assistance and training, and how it can leverage the expertise of other institutions.

Concerns about the traction and evenhandedness of Fund surveillance have always existed but seem to have become more acute in the past few years. The review will seek to assess traction and evenhandedness across countries and groups of countries both in the implementation of the new surveillance framework and with regards to policy advice. The work on traction will draw on evidence from structured interviews with country authorities who have been working with the Fund for a long period, as well as surveys and findings in the IEO Evaluation on the Role of the Fund as “Trusted Advisor”; and the work on evenhandedness will be based mainly on case studies, in addition to surveys and interviews.

BACKGROUND STUDIES

The TSR will analyze the contribution of Fund surveillance on seven key issues related to the TSR themes. As these issues are developed further, we will seek inputs from external experts as appropriate.

- **Integrating bilateral and multilateral surveillance on a continuing basis.** Is our policy advice seen as coherent, timely, and consistent across various products? Is multilateral surveillance adequately supporting bilateral surveillance? What practical steps can be taken to strengthen

cross-country analyses? Is our bilateral surveillance appropriately tailored to country-specific priorities? Are the two workstreams adequately integrated and do we have the right balance between them? Flowing from this and from the other topics, what further steps are needed to integrate properly multilateral and bilateral surveillance in a continuous and sustainable manner to strengthen the implementation of the 2011 TSR priorities?

- **Multilateral surveillance—ensuring a focus on key topics and offering an up-to-date and coherent global view.** What should be the key focus of Fund advice in the multilateral setting, given its comparative advantage and mandate relative to other global institutions? Are there any gaps in the current practice? How can we have most influence with our assessments of the cross-border implications of financial regulation and macroprudential policies? How can we ensure successful implementation of the institutional view on the liberalization and management of capital flows?
- **Risks and spillovers—strengthening analysis.** How has spillover analysis in Article IVs evolved following the introduction of the Integrated Surveillance Decision? Has it been used in policy discussions with authorities and has it been well-integrated into our policy advice? What more should the Fund do to ensure it is equipped with the right tools to analyze the quantitative effects of the build-up of risks and potential spillovers across sectors and the world in a multilaterally consistent way and in real time? How can we expand and deepen our understanding of macro-financial linkages, and more generally integrate better work on financial sector risks? Can we extract data available in national balance sheets in an effective way, and promote their development where needed? How can we improve the qualitative narrative that accompanies the quantitative analysis to make a more convincing case and to gain traction with country authorities?
- **Fiscal policy advice.** Is our fiscal policy advice consistent across countries? Is it sufficiently embedded in a medium-term framework? Does it support growth and is it linked to the debt sustainability analysis? Does it take into account the fiscal implications of other policies (e.g., bank restructuring), and assess the implications of fiscal policy on the real economy? Are we providing consistent advice on the size, pace, composition, and timing of fiscal adjustment? Are we focusing on the appropriate set of indicators? Are we appropriately taking into account the initial debt level, its structure and level of development? Has the new DSA framework for advanced and emerging markets been implemented effectively? Is it being used in policy discussions?
- **Focus on medium-term structural policies to raise growth potential.** What should be the central focus (and boundaries) of the Fund’s advice on structural reforms? In which areas should such advice be focused? In which areas should such advice leverage Fund technical assistance/ the work of other institutions? Is there work underway in the Fund on structural policies that affect governance, and jobs and growth that should be better leveraged? How can we best promote financial deepening?

- **Evenhandedness.** How should evenhandedness be defined and assessed? Does it reflect the presentation of policy advice (including of authorities' views) as well as its content? What explains perceptions of lack of evenhandedness? Are these justified? Has the Fund been evenhanded in implementing the recommendations of the 2011 TSR? Has Fund advice remained evenhanded as policy frameworks evolved during and after the crisis? What practical measures could help the Fund in this respect?
- **Scope of Surveillance in Low-Income Countries.** What are the most relevant issues for Fund surveillance in LICs? How well are these covered by the 2011 TSR priorities? Are the most relevant issues being covered adequately in Article IV consultations? Going forward, is there a set of issues consistent across LICs that should be a priority for Fund surveillance?

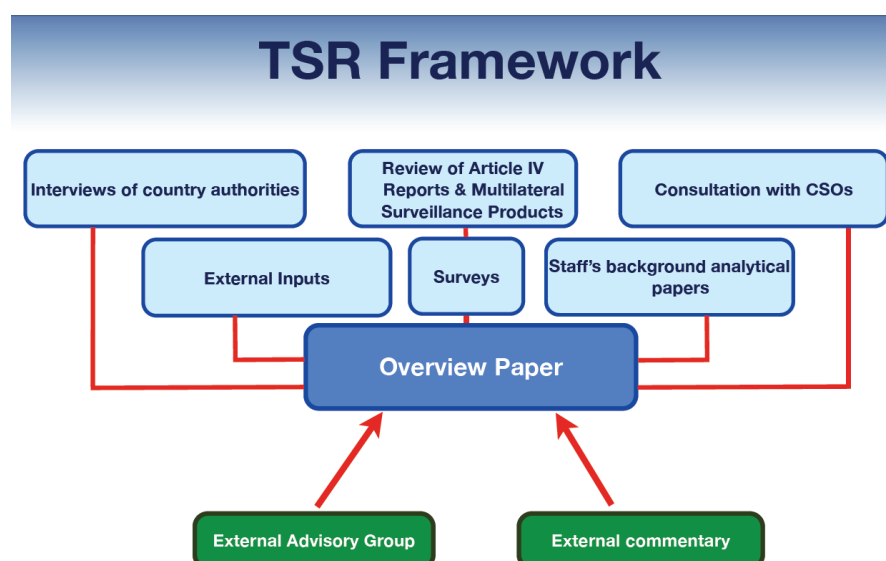
PROPOSED FRAMEWORK FOR THE 2014 REVIEW

Similar to the 2011 TSR, the review could employ a range of tools:

Surveys would gauge the views of country authorities; Executive Board members; staff; financial market participants; business and labor market representatives; media/think tanks; and CSOs.⁴

External Inputs would contribute independent views on key issues.

Background Studies. Background studies, involving cross-departmental teams, would provide an assessment of performance on key developments. One would examine the implementation of the Integrated Surveillance Decision.



⁴ Surveys will be designed using TRACES codes to help assess the value for money of Fund outputs.

Review of staff reports. Staff would review all 2013 Article IV reports and multilateral surveillance products to collect standardized qualitative information across a range of issues, including on the implementation of the 2011 TSR priorities, fiscal and monetary policy advice, and the liberalization and management of capital flows, as well as comprehensiveness versus focus on key relevant issues. These reviews will inform work on the evenhandedness of Fund surveillance.

Interviews with country authorities will gather views on Fund surveillance. These will particularly focus on assessing evenhandedness and traction, whether Fund surveillance has been successful in addressing issues of interest to country authorities, provided well thought yet practical policy advice, and brought to bear experiences from other countries. In-depth interviews with long-standing policy makers will also help to shed light on the evolution of traction in recent years.

In-reach/Outreach could be used to vet and refine early findings in more depth.

Interdepartmental Contact Group. This group would provide continued guidance to the TSR process and output, including on the choice of themes, content of analytical studies, and questions for the surveys.

External Advisory Group. This group would provide an independent check on staff's analysis and recommendations. As in 2011, it could have 10–12 members, comprising a diverse range of independent experts with broad regional representation and policy experience. Their views would be shared with the Board, and published as part of the TSR.

TIMELINE

The 2014 TSR will kick off with a concept note and informal Board meeting in September 2013. Work of staff, external experts, and the External Advisory Group would be ongoing from the fourth quarter of 2013 to mid-2014. A presentation of key findings would go to the Board in July 2014. The TSR main report and background studies would be issued to the Board in September.



ISSUES FOR DISCUSSION

Do Directors agree that proposed objectives and scope for the 2014 TSR provide the basis for a useful review of the effectiveness and traction of surveillance?

Do Directors agree with the proposed themes?

Do Directors agree with the proposed methods that the review will employ?