



July 30, 2014

2014 TRIENNIAL SURVEILLANCE REVIEW—EXTERNAL STUDY—REPORT ON INTERVIEWSPrepared By Jack Boorman and Teresa Ter-Minassian^{1,2}**CONTENTS**

EXECUTIVE SUMMARY	2
A. Multilateral Surveillance	2
B. Surveillance Under Article IV Consultations and FSAPs	5
C. Organizational and Staffing Issues	7
INTRODUCTION	7
MULTILATERAL SURVEILLANCE	9
A. The Traditional Flagship Reports	9
B. The Newer MS Products and Tools	10
C. The Fiscal Monitor	10
D. The Spillover Report	11
E. The Pilot External Sector Report	12
F. Multilateral Risk Assessment Tools	13
BILATERAL SURVEILLANCE	14
A. Coverage and Value-Added of BS	14
B. Integration and Consistency of BS and MS	17
EVENHANDEDNESS AND TRACTION OF SURVEILLANCE	18
A. Evenhandedness	18
B. Traction	19
DATA AND ORGANIZATIONAL ISSUES	21
A. Knowledge and Data Management	21
B. Organizational and Staffing Issues	22
ANNEX	
List of Interviews	25

¹ The authors are former Directors of the Policy Development and Review, and Fiscal Affairs Departments, respectively. They thank Z. Arvai and D. Moore (both SPR) for their support in preparing records of the interviews.

² This paper represents the views of the authors and does not necessarily represent IMF views or IMF policy. The views expressed herein should be attributed to the author and not to the IMF, its Executive Board, or its management.

EXECUTIVE SUMMARY

1. This paper reports the main findings of a set of structured interviews conducted by the authors with country authorities, financial market participants, and IMF staff, on the implementation of the reforms to IMF surveillance initiated by the 2011 Triennial Surveillance Review (TSR). These reforms called for increasing the focus of surveillance on: (i) interconnectedness; (ii) risk assessments; (iii) financial stability; (iv) external stability and sustainability; and (v) traction.

2. Steps to date to implement the reforms have included: the adoption by the IMF's Executive Board in 2012 of the Integrated Surveillance Decision (ISD); a generalized use in surveillance activities of risk assessments for individual countries and the global economy; the adoption of a Financial Surveillance Strategy;³ strengthening the tools to assess balance of payments stability and sustainability; and steps aimed at increasing the traction of surveillance.⁴

3. In a nutshell, the interviews suggested that the thrust of these reforms is generally endorsed by country authorities, market participants and most IMF staff. There is also broad recognition that significant progress has already been made in implementing many of the reforms. However, further progress is seen to be needed, in particular in:

- Strengthening the tools of analysis of policy spillovers, macro-financial linkages, risk assessment, and external sector assessments;
- More closely integrating, and strengthening the synergies between bilateral and multilateral surveillance; and
- Increasing the value added—and the traction—of bilateral surveillance for a broader range of member countries.

4. Unless additional staff resources are provided, these objectives will need to be addressed in an environment of significantly constrained budgets, in all likelihood requiring difficult managerial decisions on priorities, procedures, resource allocation, and generation of appropriate incentives. The authors hope that this report can provide useful background for such decision-making.

A. Multilateral Surveillance

5. The above-mentioned reforms have led to a further expansion of the scope and instruments of multilateral surveillance (MS), which had already been underway since the onset of the global financial crisis in 2008–09. This expansion has been reflected in a number of developments, including: a further strengthening of the two traditional flagship reports, the World Economic

³ See [The IMF's Financial Surveillance Strategy](#), IMF 2012.

⁴ See Sect. I of the paper for details.

Outlook (WEO) and the Global Financial Stability Report (GFSR)); the creation or refinement of new products and analytical tools, namely the Fiscal Monitor (FM), the Spillover Report (SR), the Pilot External Sector Report (ESR), and the Global Risk Assessment Matrix (G-RAM); and the creation of new tools to broaden vulnerability assessment exercises beyond their traditional focus on emerging market countries to advanced markets and low-income countries. Interviewees' views on the value and effectiveness of these innovations in the pursuit of the objectives of the 2011 TSR varied significantly.

6. Both the WEO and the GFSR drew substantial praise from a broad range of interviewees. The WEO is seen as providing a broad and forward-looking overview of the global economy, systemic risks, and the needed policy responses. A wide range of country authorities use it as a key input in their forecasting exercises. Market participants view it as among the best sources of global macroeconomic forecasts available. The WEO is also widely read by the IMF staff, and its main messages are often discussed with country authorities during Article IV consultation missions. Most interviewees commented that the WEO has improved in recent years, especially in sharpening its analysis of spillovers and risks.

7. The GFSR is also generally seen as a product that has improved significantly over the past decade. The first chapter is widely read and appreciated, especially by market participants, most of whom value its greater focus than the WEO's on downside risks. However, many—both those in the markets and among country authorities—regard the analytical chapters as too technical and somewhat difficult to read. A number of interviewees noted occasional differences in tone and messages between the two flagships. Views differed, however, on the extent to which their messages should be harmonized.

8. Interviewees' opinions were distinctly more mixed regarding the newer additions to the MS toolkit. The degrees of knowledge and use of these instruments were found to vary significantly across the range of interviewees. Among those who were familiar with all or most of them, many, especially among staff, expressed the view that their number, size and frequency may have gone too far, and should be scaled back, not least because of the staff resources absorbed by their preparation, and the distraction caused to other activities, including bilateral surveillance.

9. The Fiscal Monitor drew strong support from financial market participants, who saw it as providing a unique overview of the state of the public finances in a broad range of IMF member countries, based on a consistent data set of fiscal indicators essential for the analysis of fiscal stability and sustainability. Country authorities' views were more mixed. Several valued the scope offered by the FM for country comparisons and benchmarking of fiscal performances; others were less enthusiastic, expressing concern with what they saw as an effort to find universally applicable fiscal rules or benchmarks to judge the sustainability of a country's fiscal position.

10. Most authorities would like to see greater focus in the FM on structural fiscal issues, and comparative analyses of country responses to structural fiscal challenges, including lessons from successful and unsuccessful tax and expenditure policies and institutional reforms. Several also would welcome greater focus in the FM on emerging markets and LICs. Several area department

staff questioned the need for semi-annual FMs, expressing concern about the resources absorbed by the report, which they would prefer to be devoted instead to more direct support by the Fiscal Affairs Department (FAD) to bilateral surveillance. FAD staff noted, however, that the total staff resources absorbed by the FM are only a fraction of those absorbed by the WEO and by the GFSR.

11. Interviewees' opinions on the effectiveness of the Spillover Report were more diverse (and on balance less positive) than for the other MS products. There was no challenge to the focus on spillovers, but discomfort with its execution in the Spillover Reports. A number of authorities from the larger countries, who had some familiarity with them, found these reports unwieldy and their methodology rather opaque. Others were more positive, but urged further experimentation with their coverage, regarding both countries and issues. Authorities from smaller countries and market participants were generally unfamiliar with the reports.

12. Most area department staff interviewed expressed concern about the amount of resources absorbed by the preparation of SRs, and the range and quality of the analytical tools used in them. Some of these staff questioned whether the reports aided the assessment of risks to the countries on which they worked or, rather, distracted attention from their own country-specific work. Some also believed that their frequency should be reduced, or that they should be absorbed into the WEO. Staff from the functional departments involved, while recognizing the need to strengthen the tools of analysis used in the reports, stressed their importance in focusing IMF surveillance on the growing interconnectedness of countries' economies and policies, and therefore believed that they should be continued on a stand-alone basis.

13. As regards the pilot External Sector Reports, country authorities generally welcomed the broader focus in the new methodology of external balance assessment (EBA), compared with the narrower one of the Consultative Group on Exchange Rates (CGER) that had focused primarily on exchange rates. At the same time, several noted the still experimental nature of the methodology and the degree of judgment involved in it, and therefore cautioned against drawing as yet strong policy conclusions from it. Views from area department staff largely echoed those of country authorities. Staff from functional departments stressed that the reports provide a needed discipline on individual country assessments, as the methodology requires multilaterally consistent assumptions. The market participants interviewed showed little or no familiarity with the ESR.

14. Neither the G-RAM nor most of the expanded vulnerability exercises are published or shared with country authorities. Consequently, no views on their usefulness and effectiveness could be obtained from the latter or from market participants. Staff, although concerned about the amount of time absorbed by the vulnerability exercises, generally found them useful in stimulating a collective reflection on the risks facing the country of their responsibility, and comparing such risks with those of relevant peers. Most staff found the G-RAM to provide a useful standardized background for their discussion with country authorities of the global factors affecting the risk assessment for that country. Some stressed, however, the importance of not losing sight of regional or country-specific factors relevant to that assessment.

B. Surveillance Under Article IV Consultations and FSAPs

15. Interviews with country authorities, market participants and staff sought their views on issues of coverage, focus and perceived value-added of the evolving bilateral surveillance (BS); on the extent to which BS and MS have achieved increased integration and consistency; on the evenhandedness and traction of surveillance; and on knowledge and data requirements to meet the objectives set out by the 2011 TSR. Interviews with staff also elicited views on internal issues—such as the role of the review process in surveillance, and staffing constraints—that were said to be important to the effective implementation of the ongoing surveillance reforms.

16. Country authorities unanimously welcomed the increased focus of Article IV consultations on financial sector developments and macro-financial linkages. Most also expressed appreciation for the streamlining and increased focus on risks of the Financial Sector Assessment Programs (FSAP), although some felt that the IMF should go further in those directions. Most authorities also welcomed the increased focus of Article IV consultations on risks, although several referred to a need to strengthen the analytical quality of risk assessments. Some authorities also commented favorably on the increased focus on spillovers in the Article IV consultations with their countries. Most, however, were more interested in the analysis of inward rather than outward spillovers.

17. Views were more varied regarding the coverage of social and structural issues—outside the core fiscal, financial and external areas—in Article IV consultations. A number of authorities strongly endorsed the increased focus of the IMF on some of these issues, which they viewed as of crucial importance to a sustainable growth agenda in their countries. Others, however, thought that the IMF staff should stick to its traditional areas of comparative advantage, leaving to other relevant institutions to advise on structural issues outside the Fund’s traditional mandate.

18. Country authorities’ views were also quite varied regarding the value-added of bilateral surveillance. Several authorities, including from small developing countries, mentioned that they found the IMF staff’s analysis too general, and insufficiently grounded in the institutional and political specificities of their country, to be of great value in addressing their concrete policy challenges. What country authorities seemed to appreciate more was the broad international perspective the IMF staff can bring to the table, and they would like to see more use made of it. Specifically, many of them mentioned that they would like to see Article IV reports and Selected Issues Papers (SIPs) include analyses of experiences of countries that had faced similar challenges in addressing issues of current relevance to their country.

19. Staff views on the expansion of coverage of BS were also mixed. They largely echoed those of country authorities as regards the increased focus on the financial sector, and on risks. As regards the coverage of structural issues, several area department staff felt that they lacked the necessary expertise to deal with such issues in acceptable depth, and that attempts to advise authorities in those areas could undermine the credibility of the IMF advice in its core areas of expertise. Some staff, especially mission chiefs for low-income countries, however, disagreed, believing that the IMF could not be silent on macro-relevant structural issues. In their view, the Fund should invest in building needed in-house expertise, while also collaborating more with other institutions that have

such expertise. Both categories of staff emphasized that they would welcome more clarity from Management and the Executive Board on the desired extent of IMF involvement in these issues, the priority to be afforded to work on specific structural issues, and the related resource requirements.

20. Market participants indicated they value Article IV staff reports and FSAPs not as sources of up-to date information on short term developments, but because they provide a more independent and deeper analysis of macro-economic trends, policies and prospects and financial risks than most alternative official or market sources.

21. Feedback from the interviews suggest that further efforts are needed to strengthen interdepartmental cooperation and synergies, to achieve the desired degree of integration and consistency of messages between MS and BS. Most country authorities tended to regard the analysis of other countries in MS surveillance documents as more candid, and therefore more useful, than in Article IV reports. When, however, faced with differences in messages regarding their own country, they tended to privilege those in the Article IV report, as being relatively more attuned to the economic, institutional and political “realities on the ground”.

22. Views on integration of BS and MS also differed between area and functional departments. Several staff from area departments complained about instances of “a cacophony of messages” between MS documents and Article IV reports, and about the large amount of their time absorbed by reviewing MS documents to avoid such inconsistencies. In contrast, functional departments’ staff saw MS products as providing the broader perspective on individual countries’ economic developments and policies that is required by the growing global interconnectedness, and that represents a useful check on the advice provided by the IMF in BS activities. These staff also emphasized that Article IV consultation missions could and should draw more from MS work in their discussions with the authorities on the issues of spillovers, and of financial and external stability issues. More generally, many stressed the need for greater synergy between MS and BS, and a lower burden on area department staff in the preparation of the MS products.

23. Country authorities’ perceptions of evenhandedness of IMF surveillance varied significantly. Criticism was voiced mainly by some large EMs authorities, who felt that the IMF emphasizes vulnerabilities in their countries significantly more than those in advanced ones. Authorities from some of the latter, in contrast, pointed to, among others, the increased focus on spillovers and on growth, jobs and inequality, as well the increased flexibility of the IMF on capital controls, as evidence of growing evenhandedness by the Fund. Several non G-20 countries and their respective mission chiefs voiced concern about a disproportionate focus of IMF surveillance resources on the G-20.

24. Regarding the traction of IMF surveillance, most country authorities stressed that they take Article IV consultations seriously, provide exposure of the mission to the top economic policy-makers and to a broad range of stakeholders, and are willing to listen to constructive criticism, although some are more sensitive than others when such criticism is aired publicly. Some noted that sound economic analysis is a necessary but not sufficient condition for the implementation of IMF recommendations, as government policies have to reflect socio-political factors that may not be

adequately taken into account by the IMF staff in its advice. A number of authorities commented that the traction of Fund surveillance had also much to do with the quality and openness of their dialogue with the IMF staff. Several mentioned the relatively rapid turnover of mission teams, and the decline in the seniority and experience in such teams in the wake of the downsizing exercise, as factors that can weaken the traction of surveillance.

C. Organizational and Staffing Issues

25. Many comments from those interviewed—especially from staff, but also from some authorities and from financial market participants—echoed long-standing complaints about the state of knowledge and data management in the IMF, in particular the capacity for storage and retrieval of the wealth of economic and policy information and experience gathered by IMF staff in its interactions with member countries.⁵ Several country authorities and most market participants indicated that they would like to see the IMF play a greater role as a collector and aggregator of economic and financial data in different areas.

26. Interviews with staff from both area and functional departments pointed to a number of organizational and staffing issues that, if not addressed in a timely manner, could hinder further progress in the implementation of the IMF's reformed surveillance agenda. A generalized complaint by the staff of most area departments is that the increased requirements of both multilateral and bilateral surveillance have had to be addressed with an envelope of resources that has been slightly reduced from pre-downsizing levels. For their part, functional departments have devoted most of the significant additional resources they have received since the downsizing to externally funded TA, policy development, and MS activities, with the result that their support to BS, through both mission participation and review, has been squeezed, with perceived adverse effects on the quality of BS. Some country authorities also raised the issue of decreased participation of functional department staff, especially from MCM and FAD, in Article IV consultation missions.

INTRODUCTION

27. **This paper reports the main findings of a set of structured interviews, conducted by the authors with a representative range of country authorities, financial market participants, and IMF staff,⁶ on the implementation to date of the reforms to IMF surveillance initiated by the 2011 TSR.⁷** The concept note for **the 2014 TSR**, discussed by the Board in September 2013,

⁵ See sect. IV of the paper for details.

⁶ 23 interviews were conducted with country authorities, 11 with market participants, 23 mission chiefs and 7 IMF staff from various functional departments. The sample of countries (listed in Annex 1) was chosen having a view to geographic balance, mix of levels of development, and length of experience of the authorities with Fund surveillance.

⁷ Interviews (limited to country authorities) on perceptions of the effectiveness of IMF surveillance were also conducted as background for the 2011 TSR, and their findings were reported in a background paper to that review (IMF Board Paper, May, 15, 2011).

calls for the review to focus on an assessment of: a) the effectiveness of implementation of the integrated surveillance framework ushered in by the 2011 TSR; and b) the consistency, focus, traction and evenhandedness of the policy advice provided by the IMF to member countries in its surveillance activities. These issues also constituted the main focus of the interviews reported in this paper, although many interviewees in each of the three groups—and especially staff—spoke candidly about their views on other related issues.

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

29. **Progress to date in the pursuit of these objectives has included:**

- i. The adoption in 2012 of the **Integrated Surveillance Decision (ISD)**, mandating that Article IV consultations identify and discuss outward spillovers from members’ policies that may significantly affect the effective operation of the international monetary system.
- ii. More systematic use of **risk assessments** in surveillance activities, and the development of an improved **debt sustainability assessment (DSA)** framework for market access countries.
- iii. The adoption, also in 2012, of a three-pronged **Financial Surveillance Strategy (FSS)** that aims to: (a) strengthen the analytical underpinnings of macro-financial risk assessment and policy advice; (b) update the instruments and products of financial surveillance, to foster an integrated policy response to risks, including through more focused and frequent FSAPs; and (c) strengthen the IMF’s engagement with a range of stakeholders, including the Financial Stability Board (FSB) and other regulatory bodies, with a view to influencing the global financial regulatory agenda.
- iv. Strengthening the tools to assess balance of payments stability and sustainability, including two pilot **External Sector Reports (ESRs)** using a new **External Balance Assessment (EBA)** methodology; and
- v. Steps aiming to **increase the traction of surveillance**, including expansion of its coverage to macro-critical social issues; a clearer statement of the authorities’ views in Article IV reports; and intensified outreach to increase the visibility of the IMF’s policy advice.

30. The interviews reported in this paper focused on seeking stakeholders’ views on the effectiveness of the reforms outlined above, as well as on possible steps to increase such effectiveness.

MULTILATERAL SURVEILLANCE

31. **There has been a substantial expansion of the scope and instruments of MS in recent years**, reflected in: the evolution of the two traditional flagship reports (the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR)); the creation or refinement of new products and new analytical tools, namely the Fiscal Monitor (FM), the Spillover Report (SR), the pilot ESR, and the Global Risk Assessment Matrix (G-RAM); and the expansion of various vulnerability assessment exercises beyond the traditional focus on emerging markets (VEE), to include advanced countries (VEA), low-income countries (VE-LIC) and the summary Early Warning Exercise (EWE), presented by IMF Management to the IMFC in a restricted session. The rest of this section summarizes the views of country authorities, market participants, and a representative range of area and functional department staff on these MS tools.

A. The Traditional Flagship Reports

32. **Both the WEO and the GFSR drew praise from a broad range of interviewees.** Many, especially in financial markets, noted that that no other institution—public or private—has the capacity, access, and knowledge to produce anything like the GFSR and the WEO. Both products are viewed by market participants as "bridging the divide between academics and Wall Street."

33. **Nearly all interviewees regarded the WEO as the IMF's premier, and most widely recognized and used, MS product.** It is seen as providing a broad and forward-looking overview of the global economy, systemic risks, and the needed policy responses. A wide range of country authorities use it as a key input in their forecasting exercises. In financial markets, the WEO is used most actively by those interested in the IMF's views on prospects and risks for the global economy, especially for the larger countries. Some market participants view the WEO as more candid and less influenced by country authorities and the IMF Executive Board, and therefore more useful to them, than Article IV reports. The WEO is also widely read by the IMF staff, and its main messages are often discussed with country authorities during Article IV consultation missions. The analytical chapters are thought to vary somewhat in quality, but to be generally theoretically sound, and to cover issues of global relevance, critical to policy debates. Some interviewees mentioned the recent work on fiscal multipliers as a good example of this. Virtually all interviewees thought that the WEO had improved in recent years, especially in sharpening its analysis of spillovers and risks—taking heed of some of its weaknesses in the lead-up to the global crisis of 2008.

34. **The GFSR was also generally seen as a product that has improved significantly over the past decade.** The first chapter is widely read and appreciated, especially by market participants, some of whom value its greater focus than the WEO's on downside risks. Market participants also appreciate the increased analytical depth of the report, and cited as an example its analysis of bank losses and recapitalization needs, especially in Europe. However, many—both in the markets and among country authorities—saw the analytical chapters as too technical and somewhat difficult to read. At the same time, the knowledge and expertise of those capable of producing this material is widely respected—and relied upon both within and outside the IMF. Some in the private financial

sector would welcome more frequent dialogue with the staff that produce the GFSR, saying that such exchanges would be beneficial to both parties.

35. **A few authorities thought that the WEO and GFSR should be combined; most others disagreed.** Whether combined or separate, some saw a need to ensure greater consistency in the messages of these two flagship products, and argued that a common introduction to the two reports would help achieve that aim. Amongst staff, there were also varying views and attitudes regarding consistency of messages. Some regarded differences in messages as confusing and harmful to the dialogue with country authorities. Others felt that, in an era of such great uncertainty, it is unrealistic to assume that there is a single view that should prevail on often quite controversial issues, such as the role of fiscal policy in promoting growth and ensuring macro-economic stability, or the extent of risks from the exit from unconventional monetary policies. The same division of opinions regarding the need for more consistent messages from the IMF prevailed among the market participants interviewed.

36. **Country authorities seem to be more sensitive to the analysis and messages conveyed by the GFSR than they are to other MS products, probably because of its presumed “traction” with market participants.** The reported reluctance of some countries to provide detailed financial sector data for the GFSR, and a pushback from some authorities (including through Management) regarding issues deemed to be “market sensitive,” have contributed to the GFSR’s reliance on multilateral (e.g., from the BIS) sources, rather than national ones. Some staff in area departments have also pushed back, citing market sensitivity, e.g., on the reporting by the GFSR on corporate debt.

B. The Newer MS Products and Tools

37. **Interviewees’ opinions were distinctly more mixed as regards the newer additions to the MS toolkit.** Also, the degree of knowledge and use of these instruments was found to vary significantly across the range of interviewees. Among those who were familiar with all or most of them, many, especially among staff, expressed the view that their number, size and frequency may have gone too far, and should be scaled back, particularly in view of the resources absorbed in their preparation.

C. The Fiscal Monitor

38. **The FM is the newest addition to the MS flagship products,** having begun in 2009, focusing initially on the fiscal implications of the global financial crisis. **Views on its value added varied both among and within categories of interviewees. Market participants** were enthusiastic supporters of the FM which, in their opinion, provides a unique overview of the state of the public finances in a broad range of IMF member countries, based on a consistent data set of fiscal indicators needed for the analysis of fiscal stability and sustainability. Some referred to this dataset as a very valuable public good provided by the IMF.

39. **Country authorities'** views were more mixed. Several valued the scope offered by the FM for comparisons and benchmarking of fiscal performances; others less so. In particular, some expressed concern with efforts to find universally applicable rules or benchmarks to judge the sustainability of a country's fiscal position. In their view, sustainability is too dependent on country-specific factors to be judged using simple numerical benchmarks. Most country authorities would like to see greater focus in the FM on structural fiscal issues, and comparative analysis of country responses to structural fiscal challenges, including lessons from successful and unsuccessful tax and expenditure policies and institutional reforms. The October 2013 issue of the Monitor, "Taxing Times," focusing on current tax reform needs and options, was mentioned as a good example of the direction in which the FM should evolve. A number of authorities thought that the FM should focus more on issues relevant to emerging market and low-income countries.

40. **Area department staff** were less positive on the FM, especially as currently focused, as they saw it as absorbing scarce FAD resources that could be better used to support bilateral surveillance more directly, as well as demanding staff time in their own departments, to provide data and review the document. Several would prefer to see the frequency of the Monitor reduced to once a year. On the other hand, FAD staff noted that the staff resources absorbed by the FM are only a fraction of those absorbed by the WEO and by the GFSR.

D. The Spillover Report

41. The SR was developed in 2011, in the aftermath of the global financial crisis, to assess economic and financial spillovers among four countries (China, Japan, UK and US) and the Euro area, considered of systemic importance for the effective functioning of the international monetary system (the so-called S5), as well as spillovers from the S5 to major emerging markets.⁸ The findings of a SR are discussed with the S5 authorities by the leader of the report team in the context of the respective Article IV consultation, and also by the IMF's Executive Board in connection with the clustered consultations for the S5.

42. **Interviewees' opinions on the effectiveness of the SR were more diverse (and significantly less positive) than for the other MS products.** Some of the authorities from the S5 countries viewed the exercise as useful to promote the desired integration of multilateral with bilateral surveillance. These same authorities pointed, however, to the need to examine spillovers in both directions, and to improve the linkages to financial sector developments in the models utilized for the analysis in the SRs. Authorities from some of the S5 countries took issue with the importance given to immediate market reactions to shocks in assessing the spillovers from those shocks and the impact of policy changes. Among authorities outside the S5, those in the G20 tended to be more familiar with the SR, and more supportive of its continuation, and of further efforts to strengthen its analytical tools. Authorities from non-G20 countries showed, in general, little familiarity with the SR.

⁸ Event studies have included a possible housing crash in China, an increase in Japanese Government bond yields, and continued fiscal imbalances in the U.S.

However, several mentioned that they would like to see more analysis by the Fund of spillovers from policies of other countries (including some non-G20 countries that are regional “heavyweights”) on their economies.⁹ Most of the market participants interviewed showed little familiarity with the SR.

43. Staff views on the SR differed sharply. Those staff leading the effort, and some others, mostly from functional departments, recognized the still experimental nature of the reports, but also emphasized their value in spotlighting externalities (both positive and negative) from systemic countries’ policies. Therefore, they believed that the exercise should continue on a stand-alone basis, with additional effort in both refining the analytical tools utilized in it, and strengthening the involvement of the relevant area and functional departments.

44. Others among the staff were more critical. In particular, there was much criticism of the models used by the two main functional departments involved (SPR and RES), namely the G35¹⁰ and GIMF models, respectively. The G35 model was seen by some as relatively opaque, with results that were not replicable, and not having passed the test of an outside review. The GIMF was considered weak in the modeling of financial shocks and their repercussions on macro-economic variables, and therefore better suited to capture structural changes and long-term policy impacts than the short- to medium-term effects of financial policies and events. A number of staff referred in this context to an ongoing “models war.” The recent decision by Management to give the Research Department (RES) responsibility for managing and coordinating future spillover reports, while maintaining their interdepartmental character, was seen by some as likely to help promote the development of an integrated analytical framework for the exercise, capable of capturing short- as well as longer-term spillover effects. Several area department staff involved complained about the heavy demands the exercise put on their time.

E. The Pilot External Sector Report

45. **The two pilot ESRs conducted to date have aimed to strengthen external sector surveillance** by more systematically assessing, in addition to exchange rates, current accounts, capital flows, and the sustainability of external balance sheets. The 2013 ESR presented a multilaterally consistent¹¹ assessment of the external positions of the 28 largest economies and the Euro Area, and discussed possible corrective policy responses to significant external imbalances. ESRs use a common methodology, the **EBA**,¹² to assess the current account balances and real

⁹ Some authorities would also like to see regional spillovers become a main focus of the regional economic outlook (REO) papers.

¹⁰ See *Policy Analysis and Forecasting in the World Economy: A Panel Unobserved Components Approach* by Francis Vitek, [IMF Working Paper 12/149](#), June 2012.

¹¹ Multilateral consistency is ensured by the fact that individual country variables are measured as deviations from the relevant average for the sample.

¹² The pilot EBA, being developed by RES, builds and improves on previous methods to assess external imbalances (in particular, the IMF’s Consultative Group on Exchange Rates (CGER), discussed in the [IMF Occasional Paper 261](#)). A

(continued)

exchange rates of individual countries that would prevail in a cyclically neutral state and in the absence of policy distortions. The latter are measured against normative benchmarks considered appropriate for each country on the basis of econometric analysis or of the judgment of the relevant staff team. For countries with large net foreign indebtedness the EBA includes an evaluation of external sustainability.

46. Country authorities generally welcomed the broader coverage of external sector assessments in the EBA, compared with the narrower one of the CGER that had focused primarily on exchange rates. At the same time, several emphasized the still experimental nature of the methodology and cautioned against drawing strong policy conclusions from it. Some felt that caution was also required by the fact that the methodology relies significantly on judgment, especially as regards the characterization of policy distortions. A few expressed significant discontent with the results of the exercise.

47. Views from area department staff largely echoed those of country authorities. In general, staff see the assessment of countries' external positions as a core surveillance activity for the IMF, and welcome its broadened focus, and the efforts to ensure multilateral consistency. At the same time, however, they believe that significant further work is needed to test and refine the EBA methodology, before drawing definitive policy conclusions from it. Most market participants interviewed showed little or no familiarity with the ESR.

F. Multilateral Risk Assessment Tools

48. A **G-RAM** is prepared by the staff to highlight systemic risks, capable of producing significant adverse deviations from the WEO baseline scenario. The G-RAM is prepared by an interdepartmental group led by SPR, and provided to staff as an input into the preparation of risk assessments for individual countries and MS products, with a view to ensuring consistency in the assessment of global risks across IMF reports. It lists and briefly discusses different types of short and medium-term systemic risks potentially originating from policies of individual countries or groups of countries, from financial market developments, or from commodity price developments. For each type of risk, a relative probability assessment is included, reflecting the judgment of the staff.¹³

49. While risk assessment matrices (RAMs) for individual countries are expected to be discussed with the authorities during the respective Article IV consultation missions, and are often published in

technical description of the methodology can be found in the [IMF Working Paper WP/13/272](#). For the countries not included in the ESR pilot group, the assessment of external positions is still conducted using the CGER methodology.

¹³ The risk is characterized as low if the probability of the triggering event is assessed at less than 10 percent; medium if it is assessed at between 10 and 30 percent; and high if it is more than 30 percent.

the Staff Reports for the consultations,¹⁴ the G-RAM is, however, an internal exercise, although its content is reflected in a range of surveillance documents, and its main themes are outlined in the above-mentioned presentation by Management to the (restricted) IMFC. Consequently, most of the country authorities interviewed were not familiar with the specifics of G-RAMs, although many expressed appreciation for the discussion of the EWE in the restricted session of the IMFC, which was reported by authorities to be candid and informative. Staff generally viewed the G-RAM as an essential input to risk assessments for individual countries, although most felt that the IMF still needs to develop better analytical tools to assess the probability of systemic risks, and the mechanisms of transmission of their effects.

50. As mentioned above, significant effort has been devoted in recent years to expanding the coverage and refining the methodologies of **assessment of macro-economic and financial vulnerabilities (VEA, VEE, and VE-LIC)**. With the exception of the VE-LIC, vulnerability assessments are internal staff exercises, not shared with the Executive Board and country authorities. Consequently, no views could be obtained from the latter on their usefulness and effectiveness. Staff, although concerned about the amount of time absorbed by the exercises, generally found them useful in stimulating a collective reflection on the risks facing the country of their responsibility, and comparing such risks with those of relevant country peers.

BILATERAL SURVEILLANCE

51. **BS has also been influenced by the priorities set out in the 2011 TSR.** In particular, Article IV consultations are now expected to cover in significantly greater depth than in the past financial sector developments, macro-financial linkages, risk assessments, external stability prospects, macro-critical social issues, especially regarding job creation and inequality, and outward and inward spillovers, when relevant. This broadened focus entails a need to better integrate bilateral with multilateral surveillance, an objective enshrined in the 2012 ISD.

52. Interviews with country authorities, market participants and staff sought their respective views on: issues of coverage, focus, and perceived value added of the evolving BS; the extent to which BS and MS have achieved increased integration and consistency; and knowledge and data requirements to meet the objectives set out by the 2011 TSR. Interviews with staff also touched upon internal issues—such as the role of the review process in surveillance, and staffing constraints—that are important for the effective implementation of the ongoing surveillance reforms

A. Coverage and Value-Added of BS

53. **Country authorities' views on the broadened coverage of BS were more unanimous on some issues than on others.** Specifically, all interviewees welcomed the increased focus in Article IV

¹⁴ Over 90 percent of Article IV consultation reports included a RAM in 2013.

consultations on financial sector developments and their implications for the real economy, the public finances, and the balance of payments. Many noted, however, that both the theoretical modeling and the empirical assessment of macro-financial linkages are still very much work in progress, and called for further efforts by the Fund in this important area, including in gathering the necessary granular data (see sect. V below).

54. Most authorities also welcomed the streamlining and increased focus on risks of the **FSAPs**, although some felt that the IMF should go further in those directions¹⁵. Many authorities from countries that had fairly recently had an FSAP indicated that they had found the exercise very valuable, despite the time and manpower resources involved. However, they noted that follow-ups of FSAP findings and recommendations by subsequent Article IV mission teams had varied significantly in quality and depth, depending on the presence or absence of an experienced MCM staff member in the team. Some authorities, especially from smaller countries, would like to see more frequent FSAP updates, even at the cost of reduced coverage of the exercise.

55. **Most country authorities also welcomed the increased focus of Article IV consultations on risks.** However, several cautioned about potential adverse repercussions of the publication of a staff judgment on the probability of emergence and impact of such risks, in conditions of heightened market sensitivities. Some also emphasized the need for the staff to recognize more explicitly idiosyncratic risks facing their countries, due, for example, to conflict situations in neighboring countries, or to natural disasters, and to take them appropriately into account in recommending policy responses.

56. **Authorities' views were more varied regarding the coverage of social (poverty and income inequality) and other structural issues (such as labor markets, regulatory and sectoral issues) in Article IV consultations.** Some strongly endorsed the increased focus of the IMF on such issues. As one country authority put it: "The IMF's focusing on its narrow mandate is not tenable anymore. The Fund needs to take the broader context into account and should be more holistic in its approach." While these authorities generally recognized that most IMF staff has limited expertise on such issues, they urged both greater cooperation with other institutions (such as the OECD, the MDBs, the ILO, and others)¹⁶ more specialized in those areas, and increased efforts by the staff to deepen their knowledge of the issues. Most, however, agreed that the IMF should focus on structural issues only when they are macro-relevant. In contrast, others felt strongly that the IMF staff should stick to its traditional areas of comparative advantage (macro, external, fiscal, and monetary and financial), leaving to other relevant institutions to advise on structural issues outside the core Fund mandate, unless such issues passed a strict test of macro-criticality in the specific country's circumstances.

¹⁵ The issues and trade-offs involved in this area are expected to be explored in detail in the forthcoming staff review of the FSAP.

¹⁶ Several country authorities saw Bank-Fund collaboration in this area as having improved in recent years.

57. **Country authorities' views were also quite varied regarding the value-added of IMF of their own countries.** There is an increasing sense that, as countries develop the capacity to do their own forecasting and short-term macroeconomic analysis, the edge that IMF staff enjoyed at those tasks in the past is diminishing. This was especially evident in the responses of advanced countries and large emerging or developing countries. Several authorities, including from small developing countries, mentioned that they found the advice provided to them in Article IV consultations too general, and insufficiently grounded in the institutional and socio-political specificities of their country, to be of great value in addressing their concrete policy challenges. Some contrasted this with the advice provided by the Fund through technical assistance, which they saw as more practically relevant and useful.

58. **What country authorities seemed to appreciate most was the broad international perspective the IMF staff can bring to the table, and they would like to see more use made of such perspective in surveillance activities.** Specifically, many indicated that they would appreciate the inclusion, in background papers for Article IV missions, of analyses of relevant experiences of other countries in addressing policy and institutional issues of current importance for their country.¹⁷ Some authorities commented favorably on recent examples of “cluster” reports in the context of Article IV consultations that explored in depth issues common to a number of countries (such as banking issues in Nordic countries, or trade linkages between Germany and Eastern European countries).

59. **Staff views on the expansion of coverage of BS were also mixed.** Most area department staff supported the increased focus on the financial sector, and appreciated the added expertise in this area that they had acquired in recent years. They also generally supported the more systematic focus on risks and the requirement to discuss such risks with country authorities within the framework of the risk assessment matrices (RAMs). However, several complained that the preparation of the RAM was largely a box-ticking exercise, still lacking a strong analytical basis. Staff also indicated that in many cases it had proven difficult to engage authorities in a meaningful discussion of tail risks and of appropriate policy responses to them.

60. **Staff views differed especially on the coverage of structural issues.** Several of the area department staff interviewed said that they lacked the necessary expertise to deal with structural issues in areas not closely related to the Fund's core mandate in an acceptable degree of depth, and that attempts to advise authorities in these areas could undermine the credibility of the IMF advice in its main areas of expertise. However some mission chiefs, especially for developing countries, disagreed, believing that the IMF could not be silent on macro-relevant structural issues, and should invest in building the needed in-house expertise, albeit capitalizing on relevant work of other national and international institutions. Both categories of staff indicated that they would welcome

¹⁷ The organizational and staffing implications of such desiderata are discussed in Sect. V below.

more clarity from Management and the Executive Board on the desired extent of IMF involvement in these issues, and on the related resource requirements.

61. Area department staff agreed with the need to strengthen cross-country analysis in Article IV documents (staff reports and especially Selected Issues Papers), but for the most part felt that the necessary expertise for that resided mainly with functional departments, whose growing involvement in MS and other activities had resulted in some reduction of support to BS activities. They also would like to see greater support by these departments in making the policy advice provided to countries in Article IV consultations more specific and practically oriented.

62. **Views of market participants on the value-added of BS were relatively homogeneous.** They generally emphasized that the (at best) annual frequency of Article IV staff reports means that the latter are inferior to investment banks' newsletters or to more frequent country sources, such as central bank or ministry of finance reports, as sources of information on current developments in individual countries. However, the Article IV reports are seen as providing a more independent and deeper analysis of macroeconomic trends, policies and prospects than most alternative sources of information, and are substantially valued as such. Market analysts find them especially useful as a compact but comprehensive source of macroeconomic information for countries that they do not follow closely on a day-to-day basis.

B. Integration and Consistency of BS and MS

63. Operational guidance provided to the staff on the conduct of Article IV consultations, following the 2011 TSR and the adoption of the ISD, emphasizes the need to include detailed discussions with the authorities of inward spillovers, outward spillovers when relevant, risk assessments, and financial and external stability, all areas that are also the focus of various MS products. This poses the **question of integration and consistency of the two dimensions of IMF surveillance.**

64. As indicated in previous sections, **country authorities generally welcomed the ongoing efforts to better integrate bilateral and multilateral surveillance. As concerns consistency of messages,** several authorities regarded the analysis of other countries in MS documents as more candid than in Article IV reports. When, however, faced with differences in messages regarding their own country, they tended to privilege those in the Article IV report, as being more attuned to the economic, institutional and political "realities on the ground". In particular, several EM countries complained about what they considered an excessive pessimism about their vulnerabilities in the GFSR. Some authorities expressed similar views on messages from the spillover reports and the pilot external reports.

65. **Staff views on consistency were quite varied.** Several area department staff complained about a "cacophony of messages" between MS and BS documents in some instances. Some felt that Management should play a more active role in arbitrating differences of views among staff about policy advice provided to individual countries. Many complained about the large amount of their time absorbed by reviewing MS documents to avoid inconsistent messages. The spillover reports

came under particular criticism by some mission chiefs who found its methodology of analysis opaque (some called it a black-box), difficult to explain to the authorities, and thus potentially detracting from, rather than supporting, the bilateral policy dialogue.

66. Not surprisingly, most staff from functional departments interviewed held different views. They saw MS products as providing a broader perspective on countries' economic developments and policies that is required by the growing global interconnectedness, and represents a useful check on the advice provided by the IMF in BS activities. These staff also emphasized that Article IV consultation missions could and should draw more from MS work in their discussions with the authorities of the issues of spillovers, and of financial and external stability issues.

67. In summary, feedbacks from both authorities and staff suggest that, although progress has clearly been made in integrating bilateral and multilateral perspectives in IMF surveillance, further efforts are needed to strengthen interdepartmental cooperation and synergies to achieve the desirable extent of such integration.

EVENHANDEDNESS AND TRACTION OF SURVEILLANCE

A. Evenhandedness

68. **The perceptions of country authorities interviewed concerning the evenhandedness of IMF surveillance varied widely.** Most **authorities from the advanced countries** expressed the view that surveillance is reasonably evenhanded, although some noted that sometimes it was not as forceful as it should be (particularly as regarded countries other than their own). Some mentioned that the complex politics in the most powerful countries—and particularly the US—made it virtually impossible for the IMF (or anyone else) to have much impact¹⁸. Nevertheless, several of these authorities noted a number of recent developments—notably, the increased focus on spillovers, the adoption of the ISD, the requirement for systemic countries to undergo FSAPs, the calls for global rebalancing, and the more flexible attitude of the IMF to issues such as capital controls and countercyclical fiscal policies—as evidence of increased evenhandedness of the Fund.

69. In contrast, some of the **emerging market countries** complained that the IMF emphasizes their vulnerabilities significantly more than those of advanced countries. Several felt that “the Fund still pulls its punches with its advanced members.” By way of example, some mentioned that Management had seemed reluctant in the past to allow an early discussion in the Executive Board of developing vulnerabilities in Euro area countries. Many EM authorities complained that the IMF's analysis of spillover from unconventional monetary policies of advanced countries had underestimated the risks posed by such policies for their capital account. Some also expressed

¹⁸ This view was also echoed by several of the market participants interviewed.

unhappiness with what they saw as a more accommodating attitude of the IMF towards large Asian countries (especially China). **Smaller and low-income countries** interviewed appeared less concerned with a lack of evenhandedness, or perhaps more resigned to it.

70. Some **members of a monetary union** felt that the IMF should be more sensitive to the constraints that such membership imposes on the country's policies, and appropriately factor them in its recommendations. However, others welcomed the different perspectives that the IMF may bring to the analysis of their policies, and saw them as bringing more balance to the policy debate within the union.

71. Some of the **mission chiefs to non-G20 countries** complained that an excessive portion of staff resources is being devoted to supporting G-20 countries that account for less than 15 percent of the membership (in number, albeit for more than three quarters in economic weight). In their view, this significantly constrains the depth of analysis, and impacts adversely the quality of the advice the IMF provides to the rest of its members. Moreover, most mission chiefs and a number of authorities noted that the present governance of the IMF makes it difficult for the institution to be very critical of its major shareholders. Some, however, noted an improving trend in this area. They pointed to the rather forceful remarks by Management on slow progress in addressing banking weaknesses in Europe, and on the political fight on raising the US debt ceiling as good recent examples in this respect.

B. Traction

72. **Most country authorities emphasized that they attach significant importance to Article IV consultations.** Missions generally have access to top economic policy makers, at least to present their concluding remarks. In most cases, authorities are willing to listen to criticisms in private, but are more sensitive to their public airing (**the long-standing tension between the “trusted advisor” and “ruthless truth-teller” roles of the IMF**). Mission chiefs noted that both the sensitivity to criticisms and the degree of candor in the consultation discussions depend on personalities, but especially on the country's history of relations with the IMF, and on the IMF's image with the public at large. Authorities who have been involved in negotiations for Fund-supported programs find it more difficult to “agree to disagree”, when they move to surveillance mode. Asian and Latin American authorities tend to be more sensitive to criticism than those from Eastern Europe and Africa, partly reflecting the legacy of the IMF's role in past crises in the respective regions.

73. **Some authorities noted that the IMF's transparency policy has made the above-mentioned tension more acute, but there were no calls to “turn back the clock” on that policy.** Some remarked that the staff needs to be more sensitive to the damage that certain statements (e.g. about the degree of exchange rate misalignment) can make in periods of heightened market

concerns.¹⁹ Mission chiefs indicated that considerable time has to be devoted to fending off unjustifiable requests for deletions from Article IV documents. They welcomed the strictness of the rules in this area as it provides a defense against sometimes inappropriate country pressures.

74. The degree of exposure of missions to stakeholders outside the government varies.

Most countries allow the mission to have contacts with banks, business associations and labor representatives. Some countries allow it also to talk to the press on background or for the record, to CSOs, and to opposition members. Others are more restrictive in this respect, citing concerns over possible misuse of IMF staff views by the press or opposition parties for political purposes.

75. Regarding the **traction of IMF advice**, some authorities noted that sound economic analysis is a necessary but not sufficient condition for such traction, as government policies have to reflect socio-political factors that may not be adequately taken into account by the IMF staff in its recommendations. As one delegation put it, the IMF should recognize that it is a voice in the choir, not the sole (or even the main) influence on policy-making. Several interviewees did not like the summary assessment of compliance with past IMF recommendations in the related box in Article IV consultation reports, because they saw it as “backward-looking” and even somewhat demeaning.

76. Several authorities commented that the traction of Fund surveillance had also much to do with the quality and openness of their dialogue with the IMF staff. Prior consultation on the issues of particular interest or concern to the country (which is now a common practice by Fund teams), with a view to preparing in depth and practical analyses of such issues, and a focus in the consultation discussions on such issues, were seen important for the effectiveness of the IMF advice.

77. Authorities also stressed the importance of a receptive attitude to their views by the staff. A few expressed concern that some mission teams appeared to arrive in the country with already firmly held views on the main policy issues, and not to be really engaging in an open dialogue with their counterparts. This attitude was seen as quite detrimental to the effectiveness of surveillance.

78. A number of authorities mentioned the relatively rapid turnover of mission teams as a factor that often weakens the traction of surveillance. In the view of these authorities, traction has to be earned by IMF mission teams through in depth knowledge of the country’s specificities, not only macro-economic, but also institutional and socio-political ones; and by building mutual trust with country counterparts. Both require time, a fact that, in these authorities’ view, is given too little weight in personnel policies in the IMF that encourage relatively rapid mobility.²⁰

¹⁹ Fund staff have been accommodating of requests for deletions in published staff reports of quantifications of the degree of an exchange rate misalignment under the market sensitivity criteria.

²⁰ These authorities did not seem aware of recent initiatives by IMF Management and SPR to limit short term-mobility and to strengthen requirements for more effective handover of desk assignments.

DATA AND ORGANIZATIONAL ISSUES

A. Knowledge and Data Management

79. Many comments from those interviewed—especially from staff, but also from some authorities and from financial market participants—echoed long-standing complaints about the state of data management in the IMF, and more generally, about the state of storage and retrieval of the wealth of economic and policy information gathered by IMF staff in its interactions with member countries. Several country authorities and most market participants indicated that they would like to see the IMF play a greater role as a collector and aggregator of economic and financial data.

80. **There have been many efforts over the years to address knowledge and data management issues, but the interviews reported here suggest that more needs to be done.** The IEO has begun an evaluation of data issues in the IMF.²¹ Moreover, there has been an initiative (the Knowledge Exchange) to improve the facilities for the storage and retrieval of documents in the institution.²² An assessment of the progress to date is beyond the scope of this report. What is reported here are the views of interviewees on main current weaknesses in knowledge and data management and availability.

81. **Five issues were highlighted:**

- 1) There is no readily accessible and well organized source of information on countries' experiences in macroeconomic and financial policy and institutional reforms. Much of the staff knowledge on such experiences rests with individuals (in both area and functional departments) and often is lost when these individuals move on to different assignments, a problem thought to be aggravated by the increasing mobility requirements within the institution. There appear to be inadequate incentives for the staff to build and maintain knowledge bases, beyond basic spreadsheets.
- 2) Many databases compiled and used by the country desks are not well documented, use data that differ from those in IFS,²³ and are generally not retrievable, except by direct request to each desk.

²¹The proposed evaluation will seek to examine whether the IMF's activities regarding data and statistics—including data collection, management, dissemination, and policies—are adequate for fulfilling the IMF's mandates in a rapidly evolving global economy. The aim is to galvanize actions to fill demonstrated significant gaps in this important area.

²² The Knowledge Exchange (KE) is a facility intended to more easily identify and share priority information among IMF staff, beginning with core IMF documents. The premise of the Knowledge Exchange is that information is an institutional asset that should be shared as widely as the sensitivity of the information permits.

²³ This has been a long-standing issue, reflecting the fact that country desks need to employ data that is familiar to and used by country officials. These data often use different definitions than those employed in the IFS, which has a primary aim to provide data that is internationally comparable and consistent across countries.

- 3) Even data stored within IFS are not easily accessible to staff. A number of country desks reportedly use an outside vendor to access other countries' data, including those that are sourced by the vendor in the IFS database itself.
- 4) Proprietary data that is purchased by some departments cannot, under the purchase contracts, be made available to others. This is legally justifiable, but it results in a lack of access that affects country desk work, especially as regards developments in the financial sector. This may well be primarily a budgetary issue.
- 5) There are important gaps in both domestic and international statistics: currency mismatches—including in rapidly growing corporate sectors in emerging economies; currency composition of official reserves; measures of the global exposures of banking groups; and many others. It is recognized that the IMF cannot be the gatherer and keeper of all such statistics. But it needs to be a force to press other relevant agencies to do more.

82. **The combination of these factors is thought to hinder staff in bringing the best analysis and policy advice to member countries.** Many mission chiefs feel unable to respond to the increasing calls from country authorities for staff to bring the experiences—both positive and negative—of other countries to the challenges they face. In some cases, mission chiefs overcome the hurdles posed by weak information systems by seeking out colleagues who have seen similar policy challenges in countries on which they have worked. But they complain that the process can be inefficient and time consuming, and holds no guarantee that the most relevant comparator cases will be brought to the attention of the country seeking such information. Some interviewees suggested that, at minimum, there should be a more powerful and better-designed search engine for staff to find Selected Issues Papers and TA Reports on policy challenges relevant to the country on which they are working. This would require more open access to TA reports. Others suggested that the regional units that prepare the REOs could be tasked with the development of comparable databases for their respective departments, and be required to share them with the rest of the staff.²⁴

B. Organizational and Staffing Issues

83. **Interviews with staff from both area and functional departments pointed to a number of organizational and staffing issues** that, if not addressed in a timely manner, may hinder further progress in the implementation of the IMF's reformed surveillance agenda. A generalized complaint by the staff in the **area departments** (with the exception of EUR that has received substantial additional resources to cope with the Eurozone crisis), is that the increased requirements of both multilateral and bilateral surveillance have had to be addressed with an envelope of resources that

²⁴ It is important to note that countries seeking peer country comparisons and examples are often not looking only for comparators within their own region.

has been slightly reduced from pre-downsizing levels.²⁵ This is thought to have resulted in inadequate staffing of missions, especially to smaller non-program countries, at the same time that the coverage of surveillance has been expanded, as discussed above, and authorities' expectations about quality and specificity of advice provided by the staff have increased. Also, significantly more time of the area department staff is absorbed by provision of information and data to the staff responsible for the new MS products, and by the review of these documents.

84. While resources of the four **functional departments** (FAD, MCM, RES, and SPR) most closely involved in surveillance activities have increased from their pre-downsizing levels, a large share of the increase is related to externally funded TA, the priorities of which are not necessarily always aligned with those of surveillance. The rest has been mostly devoted to MS, and policy development activities. The functional departments' support to BS, through both mission participation and review, has been squeezed, reportedly with some adverse impact on the quality of surveillance. As indicated in previous sections, country authorities value the specialized expertise that functional departments' staff can bring to the policy dialogue in Article IV Consultations, but the latter departments reportedly have been unable to meet many requests of area departments for participation in their missions.

85. **There appears to have also been some erosion of the review function in recent years**, despite efforts by MCM to strengthen its activities in this area.²⁶ Functional departments (except SPR that is required to review all countries) maintain a list of countries that they review. This list is discussed with each area department concerned. However, the number of countries reviewed was said to fall short of area departments' wishes. A number of staff suggested that the fact that document clearance is concentrated in SPR weakens incentives for other functional departments to devote adequate time and resources to the review of surveillance documents, especially in an environment of tightened budget constraints.

86. **Some of the area department staff interviewed faulted SPR for what they considered a "too legalistic" approach to review**, focusing too much on the extent to which various requirements set out in guidance notes have been met, and not enough on the substance of the advice provided in the Article IV and other reports. These staff expressed the view that SPR review officers should focus more on providing specific advice to mission chiefs on policy issues of relevance to their countries, and should solicit the advice of other functional departments when necessary. There was also a call from some area department staff for review officers in SPR to be in a better position to provide advice on countries that could serve as peer country comparators when

²⁵ The total number of professional regular and contractual staff in area departments other than EUR has declined from 530 in FY08 to 521 in FY2014.

²⁶ MCM set up a Surveillance Review division in 2012, to better coordinate its activities in this area, promote a closer alignment of messages between the GFSR and Article IV reports, and support area departments in following up on FSAP recommendations in Article IV consultations. It has also designated five senior staff to act as initial contact points for the respective area departments.

authorities were asking for such studies. It was recognized that this would require considerable experience and time—both of which were thought to have suffered from the downsizing exercise and from the increased focus in SPR on policy development and MS activities, at some cost for the review function. SPR staff recognized that bringing the cross-country perspective into surveillance, including through the review process, remained a work-in-progress. However, they questioned the suggestion that the increased emphasis in the review process on integrating analysis of risks, vulnerabilities, and spillovers into bilateral surveillance arising from the recommendations of the 2011 TSR—has diluted its focus on other important country-specific policy issues. In this context, they noted that feedbacks they had received from area department staff on the new, more interactive, review process had been consistently positive, in part because it was seen as helping to home in on core issues more effectively.

Annex. List of Interviews

Country Authorities and/or Mission Chiefs	
Armenia	Philippines
Brazil	Portugal
Chile	Russia
China	Saudi Arabia
Congo, Republic of	Seychelles
France	South Africa
Germany	St. Lucia
India	Sweden
Japan	Turkey
Lebanon	Uganda
Mexico	United Kingdom
Moldova	United States
New Zealand	
Functional Departments	
Fiscal Affairs Department (FAD)	
Institute for Capacity Development (ICD)	
Monetary and Capital Markets (MCM)	
Research Department (RES)	
Strategy, Policy, and Review (SPR)	