



2014 TRIENNIAL SURVEILLANCE REVIEW— MANAGING DIRECTOR'S ACTION PLAN FOR STRENGTHENING SURVEILLANCE

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IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Staff Report on 2014 Triennial Surveillance Review—Managing Director's Strengthening Surveillance, prepared by IMF staff and completed on November 21, 2014, has been released.

The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

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International Monetary Fund
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2014 Triennial Surveillance Review Managing Director's Action Plan for Strengthening Surveillance

The 2014 review of surveillance comes at a critical juncture for the Fund and its member countries. Policymakers are navigating a brittle, uneven recovery that is still marred by the lingering effects of the crisis. They are also continuing to adapt to the challenges of a highly interconnected world, shielding their economies from potential negative spillovers while also striving to harness the benefits of globalization. It is imperative that Fund surveillance is positioned to help our members best chart this course.

In recent years, we have introduced wide-ranging reforms to overhaul surveillance and make it as interconnected as the global economy. In many respects, we have made important progress. Continuing on this path takes on added importance in the current macroeconomic environment. At the same time, we need to remain alert to new challenges that will test policymakers and shape surveillance in the future. Following our productive discussion in September and drawing on Executive Directors' thoughtful comments, I want to put forward specific proposals in the priority areas agreed in the 2014 Triennial Surveillance Review (TSR). These actions will help ensure that surveillance meets the current and future needs of the membership, and the wider global economic community.

As I noted in September, strengthening Fund surveillance and keeping it aligned with the needs of our member countries is a dynamic and collaborative process. While some of these proposals could be implemented immediately, others would require concerted efforts by all staff over the medium-term, and would need to be weighed carefully against existing resource constraints and other priorities. This will be a shared responsibility for all of us—Fund staff, Management, and the Executive Board. The actions outlined below will involve staff across all departments and, in support of this, the Strategy, Policy, and Review Department (SPR) will be tasked to follow up on implementation, incorporating the relevant steps in our annual work program and enhancing implementation through the review process. We are also committed to engaging with the Board throughout this process, periodically reporting on implementation progress.

Risks and Spillovers: Second Generation Reforms

Issue: The Fund has overhauled its surveillance to make it more risk-based and better reflect global interconnections. A key element of the plan involved taking steps to better integrate bilateral and multilateral surveillance, including by adopting the Integrated Surveillance Decision (ISD). The goal now is to take this work to the next level, by focusing more on how risks spread across countries and how, in turn, spillovers can transmit across sectors.

TSR Recommendations:

- **Continue integration of bilateral and multilateral surveillance.** Bridge remaining gaps through REOs and cluster reports. Strengthen ISD implementation, with more systematic analysis of outward spillovers and spillbacks in systemic countries; greater quantification of the impact of spillovers on recipient countries, drawing on global risk scenarios; and discussion of policy implications.
- **Integrate analysis of risks and spillovers** to understand how vulnerable a country is to shocks and how they will be transmitted. Revive and modernize the balance sheet analyses; develop a GFF; and extend external debt sustainability analyses to cover external flows.
- **Address data gaps.** Implement the G-20 Data Gaps Initiative.
- **Strengthen external sector assessment.** Gradually replace CGER with EBA for a broader set of countries, subject to data availability. Undertake a comprehensive assessment of the external position using a broader set of indicators than just the exchange rate. In countries where the EBA methodology is applied, discuss the contribution of domestic policies to external imbalances, and use these results in relevant policy discussions.

Actions

- To facilitate further integration of multilateral surveillance into bilateral surveillance, and ensure that flagship products are as relevant and complementary as possible: (i) the topics for the analytical chapters will reflect views of other departments; and (ii) the authors will give tailored presentations to area departments summarizing the key messages of the flagships (including the analytical chapters). In this context, the authoring departments will also highlight the implications of global risks for different country groupings (depending on their level of development), while area departments will determine the implications of global risks for their countries.
- Regional analysis and cluster reports will be used more systematically as a bridge between multilateral surveillance products and Article IV consultations. For instance, conjunctural analysis in Regional Economic Outlooks would discuss the implications of global spillovers and risks for specific regions, facilitating the inclusion of this analysis in bilateral surveillance.
- The World Economic Outlook (WEO) will summarize the key global risks highlighted in the Global Risk Assessment Matrix (G-RAM). This will help the Fund to set out a baseline and comprehensive assessment of global risks in a single document. In parallel, staff will issue the G-RAM to the Board for information on a quarterly basis. These steps will improve transparency and cement the G-RAM, as the key anchor for ensuring the systematic and consistent coverage of global risks in bilateral surveillance.
- To further strengthen ISD implementation, Article IV consultations for economies whose policies are likely to have systemic spillovers will include greater quantification of the impact of outward spillovers and spillbacks. This analysis will become an integral part of the consultation, becoming more deeply embedded within the country team's broader analysis and also ensuring that bilateral and multilateral surveillance are mutually reinforcing. Country teams will discuss this analysis with authorities during Article IV consultations.

- As part of our continued efforts to deepen risk analysis, country teams will use an eclectic approach, applying a range of specialized analytical techniques where needed. They will draw on structural models that already provide a rigorous scenario-based analysis, and other techniques and informed judgment, since models do not always capture the full range of spillover channels (for instance through asset price correlations) and policy issues. Through focused training, the Institute for Capacity Development (ICD) will support this goal.
 - For countries where one or a combination of risks (external or domestic) could have a material impact on the economic outlook, Article IV staff reports will include an alternative quantified risk scenario, and staff will integrate the results into policy advice. This will support richer policy discussions. For global risks, the G-RAM will provide the basis for such scenarios to help ensure consistency, with the WEO team preparing an alternative set of global assumptions that country teams can integrate into their frameworks. A first wave of this analysis will be applied to a sample of twenty Article IV consultations.
 - The Fund will revive and adapt the balance-sheet approach to facilitate a more in-depth analysis of the impact of shocks and their transmission across sectors. This will also strengthen our advice on building resilience. To support the process, an interdepartmental task force will be set up to develop a basic dataset to support the balance sheet approach, along with a template and guidance for use by country teams. In parallel, country teams will deepen this analysis for their countries in consultation with the authorities, or identify relevant data gaps. Where possible and relevant, Article IV reports will include matrices showing assets and liabilities, their maturity and currency composition, for each sector. Staff will identify a sample of five countries—one from each area department—to kick off this process. The pilots will help test the practicality of the basic balance sheet, and the scope for staff to integrate a broad range of balance sheet analysis into Article IVs.
 - SPR will expand the external debt sustainability analysis (DSA), which currently focuses on solvency, to also assess shocks to external flows. This will help assess external sector vulnerabilities in greater detail.
- Access to adequate data is already being addressed by the G-20 Data Gaps and other initiatives. However intensified efforts will be important to fully achieve the benefits of these initiatives, and Fund staff will work with G20 members to develop plans for a second phase of the G-20 Data Gaps Initiative starting in 2016, including strengthening implementation of data on sectoral accounts, government finance statistics, and external exposures in foreign currency. We will maintain momentum behind the implementation of international data agreements, particularly those for global systemically important banks and BIS banking statistics, which will improve coverage of cross-border banking exposures and linkages between systemic global banks. Over the medium term, the staff will also intensify efforts to develop a global flow of funds at least for the largest global economies.
- SPR and Research Department (RES) will work with area departments to continue strengthening external sector assessments. This will include extending the use of the External Balance Assessment (EBA) methodology in non-EBA countries, to help inform staff's overall

external assessments, within the guidance to use all pertinent information. In the context where the Consultative Group on Exchange Rate Issues (CGER) has been discontinued, the development of EBA-lite—to replace CGER-like methodologies—aims to extend the EBA methodology to a broader group of countries where adequate data is available.

- In line with the practice for External Sector Report (ESR)/EBA countries, Article IVs of all countries where the EBA or EBA-lite methodology is applied should discuss the contribution of domestic policies to external imbalances and use these results in relevant policy discussions.
- Similar to EBA, a paper describing the methodology plus the dataset and programs underpinning EBA-lite results will be made publicly available by end 2015. In the context of ongoing work to further refine EBA, EBA-lite will be updated as improvements to EBA are rolled out. Efforts are also underway to further develop an EBA-lite type external sector assessment methodology for LICs.

Macrofinancial Surveillance

Issue: While the Fund has strengthened its financial surveillance since the crisis, it can do more to incorporate it into the core macroeconomic analysis. Financial and macroeconomic analyses are still not consistently well integrated in Article IV consultations, inhibiting a full understanding of the macro-financial linkages. Similarly, while the Fund's thinking on macroprudential policy has evolved, it needs to be better embedded in bilateral surveillance and its interactions with other policies need to be better understood.

TSR Recommendations:

- **Mainstream macro-financial surveillance.** This could be achieved through better tools and new practices, as well as a shift in the profile of Fund economists.
- **Strengthen surveillance of macroprudential policies** as a complement to other macroeconomic policies in advanced countries and integrated emerging markets.

Actions

- To give an impetus to the incorporation of macrofinancial perspectives in Article IVs, we will undertake a focused effort to identify themes for countries from a diverse range of regions and income groups, and provide inter-departmental support to develop and reflect this analysis in forthcoming Article IV consultations. The aim will be to develop leading practices in integrating macro relevant financial stability and development issues into our analysis and advice around these themes. This effort will build on lessons from earlier initiatives and pilots.
- This initiative will be supported by increased efforts to disseminate user-friendly toolkits. The Fund already has a rich armory of analytical tools that can inform macrofinancial surveillance, including tools for risk assessment and stress testing and analytical approaches developed, *inter alia*, in connection with background work for FSAPs, the WEO and the Global Financial Stability Report (GFSR). Departments will work to make these tools more user friendly, so they can be mainstreamed in Article IV surveillance. We will also take steps to develop our analytical frameworks for macrofinancial analysis, drawing on a wide range of perspectives.

- In parallel, we will take a number of steps to build up the capacity of area department staff, and identify networks of internal macrofinancial experts to support the diffusion of leading practices across staff. Staff will develop a macrofinancial training program, and eventually adapt and incorporate the existing financial programming course. We will also take steps to share good practice examples through effective knowledge management. This will be complemented by measures to encourage internal mobility and take macro-financial skills into account in recruitment policies.
- To strengthen the surveillance of macroprudential policies, a guidance note has been prepared for staff based on the 2013 Board paper on Key Aspects of Macroprudential Policy and on country experiences. It details the use of a wide range of macroprudential tools, and discusses the implementation of macroprudential policies, including in LICs. Stepped-up and focused review will help strengthen macrofinancial analysis and advice in Article IVs, including on macroprudential policies.

More Tailored Policy Advice

Issue: The Fund needs to adapt its advice to the complexities of policymaking, taking into account evolving views on policy frameworks, and better tailoring it to country circumstances. With many countries facing a nexus of weak growth and high debts, it is vital that fiscal policy advice continues to balance growth and sustainability objectives. And structural policies have come more into focus as policymakers seek to generate more durable, job-rich and inclusive growth.

TSR Recommendations

- **Continue accounting for growth and sustainability implications in fiscal advice.** Undertake institutional analysis to strengthen the basis for structural fiscal balances; present fiscal advice in terms of a clear and well-justified anchor.
- **Be selective in advising on structural policies.** Recognize all macro-critical structural issues and their implications on an economy; follow principles to determine where to provide advice: macro-criticality, and Fund expertise or interest from 'critical mass' of the membership (e.g., financial deepening and labor market issues); in other areas, leverage advice from other international organizations.

Actions

- To provide more meaningful fiscal policy advice that articulates more clearly the balance of growth and sustainability considerations:
 - Article IV consultations will specify a fiscal anchor as appropriate for each country, either in level terms (i.e., a recommended fiscal balance or debt stock) or change terms (i.e., recommended fiscal adjustment). The review process will monitor implementation.
 - In parallel, to help strengthen the analytical basis for calculating and communicating structural fiscal balance estimates, staff will continue its analytic work on the basis for calculating and using structural fiscal balance estimates, and to help improve the

measurement of potential output with due regard to the operational and technical constraints in this area.

- Reflecting the growing recognition that many structural issues are essential to how members address the major macroeconomic challenges they face, the TSR established principles to guide when and to what degree the Fund should engage. These principles will also be articulated in the updated Article IV guidance note.
 - In this regard, Article IV reports should identify those structural issues that are critical to a country's macroeconomic developments and risks, and analyze their implications for the economy. Where these structural issues fall within the Fund's core expertise, Article IV reports should also offer policy advice. Where the Fund does not have in-house expertise, the Fund will need a two-pronged approach: (i) collaborating with other expert agencies in some areas, and (ii) selectively expanding staff's ability to offer policy advice in areas where there is demand from a critical mass of the membership.
 - More specifically, labor market issues are at the top of the policy agenda for a critical mass of the membership, reflecting the shared challenge of achieving more durable, job-rich and inclusive growth. In all macro-critical aspects of labor markets, we will continue to collaborate with, and leverage the expertise of, other institutions. However, the Fund will also strategically invest in strengthening institutional capacity in certain aspects of labor market policies where the needs of the membership are greatest. As a first step, the Fund will identify these specific needs (around three to four). Subject to these needs, the Fund will leverage internal expertise to help design and deliver training for relevant country desks.
 - In other macro-critical areas where the Fund lacks in-house expertise, we will need to collaborate more systematically, seeking expertise from other agencies. To this end, we will establish an interdepartmental task force to help identify priority areas, and develop working links with relevant international agencies and institutions.

More Cohesive and Expert Policy Advice

Issue: Considerable progress has been made in strengthening the analytical underpinnings of surveillance. The next step needs to be more systematic in pulling it all together to provide a 'whole economy view', with policy advice delivered as part of a cohesive package. At the same time, the membership is increasingly looking to the Fund for more expert advice. Here, we can do more to enrich surveillance by bringing a 'whole of the Fund' perspective that better leverages our institutional knowledge of cross-country experiences and technical assistance (TA).

Recommendations:

- **Provide more cohesive policy advice in Article IVs** either by discussing the policy mix explicitly or structuring Article IVs reports around economic goals or themes to better capture policy interactions.
- **Better leverage expert analysis and advice.** Concerted efforts to draw on cross-country policy experiences; strengthen TA integration in surveillance; enhance collaboration with other organizations in specific areas.

Actions

- To ensure that due attention is paid to the interaction of policies in our advice, the Article IV guidance note will be updated to clarify that all Article IV reports should explicitly discuss the policy mix. It will also encourage staff to structure reports around economic goals and themes (rather than by sector), which would facilitate better discussion of policy interactions.
- To exploit cross-country policy experiences more effectively in our policy advice and respond to members' call for expert advice, we have launched an initiative to strengthen our knowledge management (KM) activities. A key focus will be on better documenting, sharing, and utilizing the Fund's knowledge of country policy experience and the lessons for the broader membership. In particular:
 - In line with recommendations from the KM working group (KMWG) established earlier this year, we will establish a small KM Unit, reporting to Management, to help design, coordinate, and communicate the Fund's knowledge sharing activities. The KM Unit will work closely with an advisory committee of senior staff, and with managerial and support staff in departments charged with making the KM program operational. Key program goals will be included in departmental accountability frameworks, monitored by Management.
 - The KMWG is currently finalizing a draft KM strategy and work program. This work program will have several dimensions, including better sharing of internal knowledge to strengthen policy analysis and expanded external knowledge sharing to better meet country needs. KM reforms will include more consistent tagging of documents with relevant thematic and other metadata to ensure searchability, and consolidating topical materials in a central location to improve accessibility. The success of the project will require training, incentives for documenting materials, and governance to ensure that new business practices are being followed.
 - Better documentation of country case studies will help leverage our cross-country experience more effectively in the analysis and advice we provide to members. We will form an interdepartmental working group to identify 5-10 priority policy areas where additional steps to document country experience would have high value. Options for achieving this goal in a cost-effective manner will be explored. Article IV teams will be strongly encouraged to include cross-country policy lessons in policy notes. We expect this work to be implemented fully once the searchable repository is in place, in line with the KM work program. The repository of cross-country materials will accumulate over time, with a good start planned for FY16.
 - We also intend to make the Fund's expertise more directly available to members through IMF.org, such as through a "topics" page with a thematic collection of key policy guidelines, documented country experience, training videos, and other materials. The Fund is implementing a new web content management system in FY16, and leveraging this system to better disseminate Fund expertise will be a priority.
- Staff will take steps to fully leverage our expert analysis and advice. Where requested by area departments, FAD and MCM will ensure participation in the review process and missions to highly vulnerable countries flagged in the vulnerability exercises. Country desks

will also participate more systematically in critical policy-related TA missions. This will also help improve the integration between TA and surveillance, and ensure that TA is guided more by the needs of the surveillance.

Achieving Greater Impact

Issue: It is not enough for the Fund to strive for higher quality economic analysis. For bilateral surveillance to have an impact, we also need to engage in a more meaningful dialogue with members. This entails delivering more candid and practical advice, particularly to systemic economies, and streamlining key multilateral surveillance messages.

TSR Recommendations:

- **Strengthen the policy dialogue.** Expand “follow-up” on past policy advice beyond implementation to include a reporting on changes in Fund advice; monitor the quality of engagement and policy dialogue through targeted periodic surveys.
- **Ensure clear and candid surveillance messages,** particularly on spillovers from systemic economies; integrate key messages from the Spillover Report and the Pilot ESR into the WEO and GFSR; synthesize key Fund policy messages in the GPA; undertake more targeted communications with relevant stakeholders on the underlying analysis.

Actions

- Country teams will engage with member countries on a more continuous basis, and seek opportunities for informal discussions, including through staff visits and private workshops. Area departments will monitor the quality of engagement and policy dialogue through targeted surveys and informal feedback mechanisms.
- To strengthen accountability, discussion of the implementation of past policy advice in Article IV reports will be expanded to also highlight changes in staff advice, and, where relevant, the implementation of different policies by the authorities.
- We will take several steps to strengthen the clarity and coherence of multilateral surveillance messages. Key messages from the Spillover Report and ESR will be incorporated in the WEO and GFSR to strengthen integration. At the same time, the main views on the global outlook, risks and vulnerabilities, and policy messages from all the multilateral products will be summarized in the GPA.
- We will revisit departments and country communication strategies to ensure that the substance of key Fund policy messages is appropriately coordinated, and that outreach is better targeted to relevant audiences. Policy notes will include the key communication messages for outreach, with a view to strengthen our strategic communication planning.

Evenhandedness

Issue: For surveillance to be effective, our analysis and policy advice must be of the highest quality, and there should also be no doubts about our evenhandedness. A significant minority of our stakeholders has concerns in this area, and we need to transparently address their concerns while safeguarding the independence and candor of staff advice.

TSR Recommendations:

- Establish a clearer understanding of how to gauge “evenhandedness of surveillance” by using equal risk-adjusted ‘inputs’ to bilateral surveillance (in keeping with the Fund’s principle of uniformity of treatment), where ‘inputs’ are calibrated to country circumstances based on domestic and cross-country risks.
- Establish a mechanism for country authorities to report concerns, and deal with identified issues transparently.

Actions

- The Article IV guidance note will clarify the Fund’s approach to evenhandedness based on inputs. An interdepartmental working group set clear principles/benchmarks for an evenhanded approach to surveillance. These principles/benchmarks will help in assessing evenhandedness when concerns are raised.
- Executive Directors will be responsible for raising evenhandedness concerns. We will have a dedicated mailbox for concerns to be sent in writing and include specific details to allow a thorough assessment. Management will report to the Board on the concerns raised, and, where necessary, plans to address specific concerns.

Resource Implications

Many of the proposed actions entail a shift in the emphasis and focus of surveillance, rather than additional activities that will have additional costs. A few major initiatives—reviving national balance sheet analysis, leveraging cross-country policy experiences, and deepening advice on labor market issues—will entail an additional cost, some of which will be temporary. We estimate that these would require *gross* resources of \$2.5-3 million per year over the next five years. Given that these initiatives are imperative to more effective surveillance and in light of efforts to identify savings outside the TSR context, it will be critical to discuss and make judgments about relative priorities in the broader strategic context of the FY2016 budget.

Conclusion

The steps outlined here build on our strengths to improve our surveillance. But to see the job through, a robust mechanism of accountability will also be needed—we cannot wait for the next review in 2019 to see how we are faring. Staff will therefore prepare an interim implementation assessment in early 2017 to update the Board on where things stand on the above agenda.