

INTERNATIONAL MONETARY FUND

Review of the Fund’s Involvement in the G-20 Mutual Assessment Process

Prepared by the Strategy, Policy, and Review, the Research and the Legal Departments¹

(In consultation with Other Departments)

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I. INTRODUCTION

1. **This paper responds to the Board’s call for a review of the Fund’s role in the G-20 Mutual Assessment Process (MAP) after about a year of implementation.** The review covers the period from December 2009 to the April 2011 meeting of the G-20 Finance Ministers and Central Bank Governors in Washington. It considers the Fund’s inputs against the background of the evolving MAP and discusses expectations for this work going forward. The paper does not review the G-20 MAP itself. The implications of broader G-20 Fund cooperation for the Fund’s own surveillance will be discussed in the forthcoming TSR.
2. **The paper proceeds as follows.** Section II provides background on the MAP and summarizes the role of the Fund in the process as envisaged at its inception and expected synergies with the Fund’s own surveillance activities. Section III reviews the actual experience of the Fund’s involvement in the context of the evolution of the MAP itself. Section IV provides an assessment of this experience and expectations going forward, proposing an amendment to procedures for briefing the Executive Board. Section V suggests issues for discussion.

II. THE FRAMEWORK AT ITS INCEPTION

3. **At their September 2009 Pittsburgh Summit, the G-20 Leaders launched the “Framework for Strong, Sustainable, and Balanced Growth.”** Under a mutual assessment process, G-20 countries would set out their objectives, put forward policies to achieve these objectives, and together assess progress in meeting them. The G-20 asked the Fund to provide supporting technical analysis, with inputs from other international institutions, and defined the initial scope of these contributions (Box 1).
4. **In December 2009, the Executive Board adopted a general framework for the Fund’s involvement in the MAP.²** The Fund would meet the G-20 request to provide supporting technical analysis of how the G-20’s respective national and regional policy frameworks fit together and develop a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy. Consistent with preserving G-20 ownership of the process, staff’s assessments would be provided directly to the G-20, and sent at the same time to Board. Staff was to present its contributions to the Board in informal briefings ahead of each Ministerial Meeting and to brief the Board of the outcome of the G-20 meetings and summits. It was envisaged that the MAP would become an annual exercise and that, within the broad framework described above, the specific modalities for its implementation might evolve over time.

² The [G-20 Mutual Assessment Process and the Role of the Fund](#).

5. **From a legal perspective, the Fund’s involvement in the MAP constitutes technical assistance to G-20 members.** While technical analysis and policy advice are at the core of both surveillance and technical assistance, there are important differences between the two activities. Fund surveillance under Article IV is *mandatory* for the Fund and members and is led by the Fund. In contrast, technical assistance is voluntary both for members and the Fund. In the case of the G-20 MAP, the Fund’s contributions are being provided at the *request* of the G-20 members, and form part of a process that is *voluntary* both for these members and the Fund. Moreover, the process itself has been *designed* and is *controlled* by the *G-20 members*. At the same time, Fund contributions to the MAP may have synergies with other Fund activities, including surveillance, as is explained further below.

Box 1. G-20 MAP: What Was the Fund Initially Expected to Do?

The Fund was asked to assess the coherence, consistency, and mutual compatibility of G-20 members’ policy frameworks against the objective of securing strong, sustainable, and balanced global economic growth. This assessment was to include:

- *Assessment of individual G-20 submissions.* Fund staff would assess the coverage and internal consistency of policy plans and medium-term macroeconomic projections received from the authorities.
- *Aggregation of the contributions and assessment of multilateral consistency.* Staff was to construct two global scenarios: a “raw” scenario, not adjusted for inconsistencies in countries’ macroeconomic assumptions, and a globally consistent “base case” scenario, adjusted for such inconsistencies and imposing an adding-up constraint on countries’ current account projections. Also staff was to assess the need for additional policy adjustments to reach the stated growth objectives.
- *Policy recommendations.* Staff was to draft an initial assessment using the “base case” scenario, focusing on the multilateral ramifications of inconsistencies between national policies and objectives, the compatibility of policy frameworks, and initial suggestions for additional policy measures.

In a second round, staff was to explore alternative scenarios that could help the G-20 achieve its growth objectives.

6. **At the time of its inception, the MAP was seen as an opportunity to increase the traction of the Fund’s advice, and significant synergies with Fund surveillance were anticipated.** As noted, staff’s involvement in the G-20 MAP is legally distinct from surveillance, and it was not in any way to limit the scope of the Fund’s bilateral surveillance of G-20 countries or multilateral surveillance. Rather, the G-20 MAP was expected to offer an opportunity for staff to deepen its policy discussions and reinforce the traction of its advice with G-20 members by opening up new channels of communication and helping generate greater buy-in for needed reforms. Similarly, the in-depth knowledge of members’ economies by Fund staff, including that acquired through

surveillance activities, was seen as an opportunity for the G-20 to draw on independent technical advice and expertise necessary to inform an effective MAP process.

III. THE FUND'S EXPERIENCE WITH THE MUTUAL ASSESSMENT PROCESS

7. **This section summarizes the Fund's main contributions to the G-20 MAP during the period under review.** A timeline for the Fund's input into the MAP process is provided in Box 2.

A. From Pittsburgh to Seoul: Responding to the Initial Request

8. **In the first year of implementation of the MAP, the Fund provided substantive inputs at key stages of the process.** Fund staff produced three main inputs, in April, June and November 2010, in addition to informal notes and presentations shared with the G-20 at the working level (see Appendix I for more detailed discussion of the analysis provided to the G-20 in the first year of the MAP). The three reports were:

- *Analysis and Perspectives* (April 2010), which assessed the G-20 policy frameworks to derive a "base case" scenario based on country individual submissions. The analysis showed that the base scenario was broadly consistent with MAP objectives, but appeared optimistic and subject to downside risks. The report highlighted the need for more forceful actions to secure strong, sustainable and balanced growth.
- *Alternative Scenarios*, (June 2010), which included an upside scenario exploring policies that could help secure the G-20 objective, and a downside scenario assessing the potential implications of risks identified in the "base case". The report drew key policy recommendations tailored to groups of G-20 countries with similar circumstances (e.g., advanced deficit countries, emerging surplus countries).
- *Staff's Assessment of G-20 Policies* (November 2010), which updated the global outlook using the revised G-20 policy frameworks submitted by G-20 members, and including an enhancement of the scenario analysis to derive the G-20 upside potential. The report also took stock of G-20 key policy commitments and actions undertaken since Pittsburgh. It outlined progress in several areas, but noted that important challenges remained especially on fiscal and structural policies.

Box 2. Chronology and Fund's Main Inputs to the MAP, December 2009-April 2011

Washington Meeting, USA, April 23, 2010

- Fund staff reviewed the G-20 policy frameworks and found growth projections optimistic and subject to downside risks.
- [Communiqué](#): Ministers and Governors specified their objectives of strong, sustainable and balanced growth and agreed on principles for alternative policy scenarios.

Busan Meeting, Korea, June 4-5, 2010

- G-20 MAP—Alternative Scenarios—A Preliminary Note, outlined staff's preliminary alternative scenarios based on frameworks submitted by G-20 countries.
- [Communiqué](#): Based on staff's input, Ministers and Governors developed policy options to achieve stronger, more sustainable and more balanced growth.

Toronto Summit, Canada, June 26-27, 2010

- [G-20 MAP—Final Report on Alternative Policy Scenarios](#), provided staff's final analysis of alternative (upside and downside) policy scenarios.
- [Declaration](#): The Leaders reiterated the importance of the Framework, and highlighted the need for the G-20 to choose a more ambitious path of reforms, along staff's upside scenario.

Gyeongju Meeting, Korea, October 22-23, 2010

- [G-20 MAP--Staff's Assessment of G-20 Policies](#), reviewed progress on MAP implementation, identified remaining risks, and recommended further action.
- [Communiqué](#): Ministers and Governors refined the Framework, committed to developing an action plan ahead of Seoul and recommended the continuation of the process beyond Seoul.

Seoul Summit, Korea, November 11-12, 2010

- IMF Report on G-20 MAP (same report as for Gyeongju).
- [Communiqué](#): Leaders agreed on an enhanced MAP to promote external sustainability and committed to reduce excessive imbalances, as assessed against indicative guidelines.

Paris Meeting, France, February 18-19, 2011

- Among other inputs, Fund staff prepared a note on a possible approach to indicators for assessing imbalances in the G-20.
- [Communiqué](#): Ministers and Governors agreed on a set of indicators to help focus on persistently large imbalances that require policy actions.

Washington Meeting, USA, April 15-16, 2011

- Among other inputs, Fund staff prepared draft indicative guidelines for assessing persistently large imbalances.
- [Communiqué](#): Ministers and Governors agreed on a set of indicative guidelines to assess persistently large imbalances, and launched the second step of the process: the assessment of the nature of these imbalances and the root causes of impediments to adjustment.

B. Post-Seoul: Fund's Input to the Enhanced MAP

9. **At the Seoul Summit in November 2010, leaders agreed to “enhance the MAP to promote external sustainability.”** They pledged to “pursue the full range of policies conducive to reducing excessive imbalances and maintaining current account imbalances at sustainable levels.” The MAP would continue to include a mutual assessment of individual policy commitments, which were derived from the basket of policy options discussed at the Toronto Summit.³ The MAP would be enhanced by a mechanism to facilitate the timely identification of large imbalances requiring policy actions, based on indicative guidelines to assess a range of economic indicators. Leaders called on the G-20 Framework Working Group (FWG) to develop, with the assistance of Fund staff, such indicative guidelines.

10. **In advance of the February 2011 Paris meeting, Fund staff provided technical inputs to the FWG for the set of indicators to analyze imbalances.** Staff's technical work supported the FWG's development of:

- A two-step economic framework within which indicators of key imbalances—themselves implied by the framework—would help identify large imbalances in a first step, and subject such imbalances to deeper analysis in a second step; and,
- A proposal to guide the selection of indicator reference values.

11. **In Paris, G-20 Ministers and Governors agreed to move the process forward based on the FWG's recommendations.** They agreed on the two-step process and defined the indicators to help identify persistently large imbalances that require policy actions focusing on “(i) public debt and fiscal deficits; and private savings rate and private debt (ii) and the external imbalance composed of the trade balance and net investment income flows and transfers, taking due consideration of exchange rate, fiscal, monetary and other policies.” To complete the work required for the first step, the G-20 intended to agree on the indicative guidelines by its next meeting in April and again called on the Fund's continuing assistance in developing such guidelines.

12. **Following the Paris Summit, staff provided further technical input to assist the FWG in developing indicative guidelines.** This included a note and a presentation to the FWG on indicative guidelines, laying out statistical and structural approaches to reference values or norms for the agreed indicators, specific thresholds for scoring each indicator, rules-based selection criteria for screening G-20 members for possible deeper second-step analysis, as well as “robustness checks” on the indicative guidelines to provide greater confidence in the analysis. Staff also prepared a statistical guidance note

³ See alternative policy scenarios in Appendix 1.

to assist the G-20 economies in the provision of the data series underpinning the MAP exercise.

13. In Washington, in April 2011, G-20 Ministers and Governors agreed on the indicative guidelines, concluded the first step of the analysis of large imbalances and launched the second step. The G-20 agreed on indicative guidelines to establish reference values for the chosen indicators using four complementary approaches:

- A structural approach based on economic models and grounded in economic theory to benchmarks G-20 economies against each indicator, taking into account specific circumstances including large commodity producers (e.g. its demographic profile, oil balance or trend growth); and,
- The three statistical approaches providing benchmarks for each G-20 economy against (i) national historical trends, (ii) groups of countries at similar stages in their development, and (iii) the full G-20.

14. The Fund staff was asked to prepare three reports ahead of the Cannes Summit. Specifically:

- *A new MAP report*, with an updated assessment of the outlook and the set of policies that could move the G-20 economies closer to a new upside scenario. The report will be based on data and assumptions from countries' submissions;
- *A report assessing progress made toward meeting the Seoul summit commitments.* This report will present in a separate document work that was previously folded into previous MAP reports; and,
- *A new External Sustainability Report.* The report will assess progress toward external sustainability based on the indicative guidelines agreed by the G-20 in Washington in April, analyze the root causes of imbalances, and propose preventive and corrective policies to inform the 2011 action plan to ensure strong, sustainable and balanced growth. The report will be based on Fund staff's forecast and assumptions, and provide independent staff analysis under a new set of studies on the seven countries identified in the first step of the process as requiring a more in-depth policy analysis and assessment.

IV. ASSESSMENT OF FUND INVOLVEMENT IN THE MAP

A. Inputs to the MAP and Synergies with Other Activities

15. **The Fund's involvement in the MAP and its surveillance are distinct activities, but have important synergies.** As envisaged, the MAP has provided opportunities to increase the traction of Fund advice by opening up new channels of communication to top policy makers. The exercise also has had significant synergies with the Fund's surveillance, most notably at the multilateral level. The Fund's multilateral surveillance work, particularly in the WEO, has been critical to help identify global inconsistencies resulting from individual country submissions to the MAP. At the same time, staff's analysis in the MAP's alternative policy scenarios has helped enrich policy scenarios under multilateral surveillance. For instance, the April 2011 WEO built on the staff's G-20 alternative scenarios and on the analysis of imbalances presented in Seoul to draw conclusions at the global level. More recently, staff's input into the development of the indicative guidelines, including through the elaboration of multiple statistical and structural approaches to building indicative guidelines, has benefited from and enriched the research conducted to support bilateral and multilateral surveillance (e.g., CGER). Similarly, Fund staff's policy analysis conducted in the context of bilateral surveillance has provided critical inputs into the MAP process.

16. **Looking ahead, the scope for synergies is expected to increase with the evolution in the analytical inputs requested of the Fund.** The enhanced focus under the MAP on individual country imbalances is expected to increase synergies with bilateral surveillance, while continuing to inform and be informed by ongoing multilateral surveillance activities. To exploit synergies and avoid duplication of work, in addition to drawing upon the tools and analysis of the WEO, GFSR and the Fiscal Monitor, the Sustainability Reports will draw upon the Article IV and spillover reports, and ongoing work to promote a better understanding of global financial interconnectedness. The forthcoming 2011 Triennial Surveillance Review will further look into how to improve the integration of the various surveillance and other activities, including those related to the G-20 MAP.

17. **While the MAP exercise has evolved, the analytical inputs requested of the Fund have remained within the broad framework set in December 2009, and the legal nature of the Fund's involvement has not changed.** The analyses provided by staff have continued to support a process designed by G-20 members themselves to help them elaborate and coordinate their policies. Moreover, they respond to specific requests for assistance from the G-20 members and the work has preserved all the characteristics of technical assistance discussed in paragraph 5, including its voluntary nature for the G-

20 countries and the Fund.⁴ As noted, the growing emphasis on country specific preventive and corrective policy advice is expected to increase synergies with bilateral surveillance, but it does not change the fundamental nature of the inputs.

18. **The Fund's involvement in the MAP has had resource implications, although it is still evolving and the costs in the steady state remain uncertain.** As envisaged in December 2009, there were start-up costs to the involvement in the MAP. Following this investment phase, repeating the exercise for subsequent MAP reports was less resource intensive. However, in recent months, the Fund's assistance in the identification of indicative guidelines for the enhanced MAP has generated additional resource costs. OBP's estimates—developed in consultation with relevant departments—indicate a cost (inclusive of staff and overhead costs) of US\$4 million in FY2011 (Table 1), some of which was met through reprioritization and reallocating existing FTEs. Looking ahead, the steady state costs are difficult to estimate. There will be some saving from having to draft only one MAP report ahead of the Leaders' summit in November 2011, but there could be further costs associated with the production of the Accountability and Sustainability Reports. The benefits of this work for the Fund's membership at large, including in terms of enhancing the traction of the Fund's surveillance activities with respect to G-20 countries, should be taken into account in considering the additional resource implications.

Table 1. Estimated Cost of Work on G-20 MAP, FY 11

	MAP	Increase in G-20 Work	
		Overall increase from FY08	Share of increase due to MAP (percent)
Gross Expenditures (in millions) 1/	4	22	17
Personnel expenditure	3		
Building and Other Expenses	1		
Total Full-time Equivalent (FTEs)	11	43	26
Area Departments	2		
SPR	1		
RES	7		
Other	2		

Source: OBP estimates, based on departmental TRS submissions and other inputs.

1/ Travel is excluded as very little travel is conducted specifically for MAP work.

⁴ See also paragraph 12 of [G-20 Mutual Assessment Process and the Role of the Fund](#).

B. Role of the Executive Board

19. **Executive Board involvement in the process has followed the framework endorsed in 2009.** Specifically, MAP reports sent to the G-20 were sent to the Board at the same time, and staff subsequently presented the assessments to the Directors in informal briefings, ahead of the G-20 meetings/summits. The Board was briefed on the outcome of the ministerial meetings and Leaders' Summits. Fund staff assessments were also shared with the IMFC once they were sent to the G-20, and the IMFC was kept informed about the G-20 process.

20. **Some Directors have suggested there would be benefit to incorporating into the process the opportunity for earlier Board comment on staff's analysis.** Any evolution in the process would need to be considered in terms of consistency with (and perceived consistency with) G-20 ownership of the MAP. To balance these considerations, the Board may wish to consider a change in the timing of the existing informal Board discussion of the MAP reports. Specifically, these meetings could take place ahead of the reports' submission to the G-20, giving staff the opportunity to consider the Board's informal comment on what would remain an independent staff report.

V. ISSUES FOR DISCUSSION

21. **Directors may wish to comment on:**

- The experience under the framework for Fund involvement in the MAP to date.
- The broad framework for Fund involvement in the MAP going forward, including synergies with surveillance activities. In particular, do Directors see a benefit to advancing the informal board discussion of the MAP, as suggested in paragraph 20?

APPENDIX 1
Fund's Input to MAP in the Initial Stage

April 2010: Base case analysis

1. **In the period leading up to the G-20 Meeting in April 2010, Fund staff conducted an initial assessment of the G-20 policy frameworks based on G-20 individual country submissions.** These submissions included both qualitative and quantitative inputs on the future path of their policies, and the projection for key macroeconomic indicators based on their intended policies and the G-20 countries own assumptions for the global environment (e.g., commodity prices, world growth, etc.). Staff analysis focused on identifying inconsistencies in national assumptions; assessing the multilateral consistency of the collective frameworks using WEO projections as a reference point; and, deriving their implications for the global economy, including for growth, employment, demand rebalancing, financial stability and poverty. This work resulted in the production of a “base case” scenario, which showed global economic outcomes as envisaged by the G-20 itself.
2. **The analysis showed that the base scenario was broadly consistent with MAP objectives, but appeared optimistic and subject to downside risks.** Initial individual submissions, when taken at face value, collectively resulted in growth that was strong (above potential), balanced (broad-based across G-20 members) and sustainable (i.e., increasingly led by the private sector), thus broadly achieving MAP objectives. However, staff's analysis highlighted that growth projections were not consistent with recoveries from past crises and bore significant downward risks: fiscal consolidation appeared insufficient to decisively address sustainability issues in a number of advanced economies; the rebalancing of global demand was unlikely to be strong enough to sustain high global growth and low unemployment; and financial sector reform that could help meet growth objectives remained to be fully specified and implemented.
3. **Fund staff recommended moving beyond the G-20 “base case”.** Staff noted that more forceful action than in the baseline was needed to anchor strong, sustainable and balanced growth. In particular, the staff recommended structural reforms in key areas in both advanced and emerging countries, further fiscal adjustment in advanced economies, greater rebalancing of global demand, and stronger measures to rebuild the financial system.

June 2010: Alternative scenarios

4. **Against this background, the G-20 requested the Fund's assistance in exploring alternatives policy scenarios.** The main objective of the analysis requested by the G-20 was to demonstrate how medium-term prospects could be improved through coordinated policy actions. Staff's analysis of alternative policy scenarios was conducted in close collaboration with a G-20 Working Group on the MAP. This work resulted in a

Report on Alternative Policy Scenarios that was discussed first by G-20 Deputies (Berlin, May 2010), then by Ministers and Governors (Busan, June 2010) and finally by Leaders (Toronto, June 2010).

5. **Staff explored upside and downside scenarios and drew policy recommendations accordingly.** To provide a more solid basis for the alternative scenarios, the report on Alternative Policy Scenarios included a refined “base case”, which aimed to ensure greater multilateral consistency and to reflect recent developments. Starting from the refined base case, the report outlined:

- *An upside scenario, which explored policies that could help deliver the G-20 objectives.* The work was based on an analysis of layered policies across members of similar characteristics that would result in an upside scenario raising growth outcomes for all. Under such scenario, global growth would be significantly stronger, more balanced and sustainable, and employment would rise notably in all regions. Surplus economies would experience stronger demand, while deficit economies would rebuild their savings owing to stronger external demand.
- *A downside scenario, which assessed the implications of risks identified in the “base case”, should these risks materialize.* The scenario looked in particular at what would happen if global output were lower than expected (by more than 3 percent in the medium term), with lower productivity.
- *Key recommendations to advance progress toward the G-20 objectives.* Based on the analysis in these scenarios, the report recommended key policy actions tailored to groups of G-20 countries with similar circumstances (e.g., advanced deficit countries, emerging surplus countries).

November 2010: Conclusion of the first round

6. **A MAP report, prepared ahead of the Seoul Summit, concluded the Fund’s inputs to the first round of the MAP exercise.** Against the background of staff’s analysis of alternative scenarios, the G-20 Leaders had asked the Fund in Toronto to identify more concretely policies along the lines suggested in the upside scenario. This request led to the preparation for the Seoul Summit, of a MAP report, whose key components were:

- An updated assessment of the global outlook using revised G-20 policy frameworks, and an enhancement of the scenario analysis to derive the G-20 upside potential; and,

- A stock taking of G-20 key policy commitments and actions undertaken since Pittsburgh. The report outlined progress in several areas, but noted that important challenges remained especially on fiscal and structural policies.
7. **The report highlighted the re-emergence of old problems, such as global imbalances.** The report noted that to secure strong, sustainable and balanced growth over the medium term two rebalancing acts were needed. First the major advanced economies needed internal rebalancing, with a greater role for the private sector and a gradual reduction of public support. Second, there was a need for external rebalancing through a shift to greater reliance on growth led by domestic demand in external surplus countries and by external demand in deficit countries.