Economic Surveillance

Through "surveillance," the IMF oversees the international monetary system, monitors global economic developments, and engages in a health check of the economic and financial policies of its 189 member countries. In addition, the IMF highlights possible stability risks to its member countries and advises their governments on potential policy adjustments, enabling the international monetary system to achieve its goal of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

INTRODUCTION

IMF surveillance comprises "bilateral surveillance," in which the IMF appraises and advises on the policies of each member country, and "multilateral surveillance," in which the IMF provides analysis of the world economy or a group of countries that share certain characteristics. By integrating bilateral and multilateral surveillance, the IMF can ensure a more comprehensive, consistent analysis of "spillovers"—that is, how one country's policies may affect other countries. In addition, the IMF conducts surveillance of regional financial arrangements and currency unions.

An important element of bilateral surveillance is the Article IV consultation, named after the article of the IMF's Articles of Agreement that requires a review of economic developments and policies in each IMF member country.

Multilateral surveillance involves monitoring global and regional economic trends and analyzing spillovers from members' policies onto the global economy.

The IMF also monitors regional and global economic trends and analyzes the impact that member country policies may have on neighboring countries and the global economy. It issues periodic reports on these trends and analysis. The *World Economic Outlook* provides detailed analysis of the global economy and its growth prospects, addressing issues such as the macroeconomic effects of global financial turmoil and the potential for global spillovers, especially those that may result from the economic, fiscal, and monetary policies of large, globally central economies such as the United States, China, and the euro area. The *Global Financial Stability Report* assesses global capital markets and financial imbalances and vulnerabilities that pose potential risks to financial stability. The *Fiscal Monitor* updates medium-term fiscal projections and assesses developments in public finances. The IMF also publishes *Regional Economic Reports* that provide detailed analysis of major regions of the world.

BILATERAL SURVEILLANCE

The Article IV Consultation Process: An Annual Assessment

Article IV consultations cover a range of important macrocritical issues—fiscal, financial, foreign exchange, monetary, and structural—and focus on risks and vulnerabilities and policy responses. Economists and other staff members across the IMF participate in the Article IV consultation process. The consultations consist of a two-way policy dialogue between the IMF and country authorities. The IMF team meets with an individual country's government and central bank officials, as well as other stakeholders—such as parliamentarians, business representatives, civil society, and labor unions—to help evaluate the country's economic policies and direction. The IMF staff then presents a report to the IMF's Executive Board, normally for discussion. The consultation then concludes, and the IMF sends country authorities a summary of the meeting. In most cases, and after the member country agrees, the Board's assessment is published as a press release, along with the associated staff reports. In FY2019, the IMF conducted 119 Article IV consultations (Web Table 2.1).

Financial Sector Assessment Program

Checking the health of member countries' financial sectors is important to maintaining global financial stability. The IMF conducts mandatory assessments every five years of 29 jurisdictions whose financial sectors are deemed systemically important and assesses other members' financial sectors on a voluntary basis. The Financial Sector Assessment Program features an in-depth analysis of risk and resilience as well as an assessment of the financial sector policy framework and financial sector safety nets, leading to a set of key policy recommendations to prevent financial instability.

In FY2019, the Board was briefed on 12 assessments under the Financial Sector Assessment Program: Armenia, Australia, Brazil, the euro area, Jamaica, Kuwait, Malta, North Macedonia, Peru, Poland, Romania, and Tanzania.

The 2020 Financial Sector Assessment Program review will take place amid a fast-evolving macro-financial landscape. Monetary policy normalization in key advanced economies, financial innovations such as fintech, and emerging risks from digitalization and cyber risks present new challenges for financial stability. To adapt to these realities, the review will focus on examining the scope of financial stability assessments under the Financial Sector Assessment Program; strengthening the program's analytical foundations; improving traction, including integration with other elements of IMF financial surveillance; reviewing participation, including the list of mandatory assessments; and examining costs in a budget-constrained environment.

REGIONAL SURVEILLANCE

Common Policies

IMF policy advice to members of currency unions highlighted the challenge of sustaining growth against a volatile global backdrop. Countries of the West African Economic and Monetary Union (WAEMU) have seen their economies expand at an average of 6 percent for the seventh consecutive year. This is despite higher oil prices and security concerns. Yet, with still large fiscal deficits and public sector operations, public debt and the cost of its service have risen. Sustaining a favorable outlook, therefore, hinges on continued efforts to strengthen public finances and implement reforms to improve the business environment.

These reforms are even more urgent for countries in the Central African Economic and Monetary Community (CEMAC), where the economic situation remains challenging. Growth is still sluggish amid deteriorating conditions of the banking sector, due to large government arrears. Reforms to improve governance and strengthen the financial sector are equally important to sustain a gradual improvement in the medium-term outlook.

Following the catastrophic impact of Hurricanes Irma and Maria in 2017, countries in the Eastern Caribbean Currency Union (ECCU) are seeing a gradual recovery. Tourist inflows are slowly picking up in hurricane-struck countries and have remained strong elsewhere. Conditions remain favorable to growth, but risks are increasing from large fiscal deficits and persistent financial sector weaknesses. In its discussion, the Board agreed that building ex ante resilience to climate change and natural disasters is a key priority. This includes investment in resilient infrastructure that would reduce damages and losses from disasters, promote private investment, and stem outward migration.

MULTILATERAL SURVEILLANCE

Early Warning Exercise

The Early Warning Exercise is an important part of the institution's surveillance work and is conducted twice a year in coordination with preparation of the flagship publications (*World Economic Outlook, Global Financial Stability Report, Fiscal Monitor*).

The findings of the exercise are strictly confidential and presented exclusively to the members of the International Monetary and Financial Committee during the IMF–World Bank Spring and Annual Meetings. Early Warning Exercise follow-up takes place in the context of bilateral and multilateral surveillance activities. The IMF and the Financial Stability Board cooperate closely on the exercise to provide an integrated perspective on tail risks and vulnerabilities. The IMF takes a leading role in macroeconomic, macro-financial, macro-structural, technological, and sovereign risk concerns, and the Financial Stability Board focuses on financial system regulatory and supervisory issues.

External Sector Report

The *External Sector Report* provides multilaterally consistent assessments of member countries' external sectors, including their exchange rates, current accounts, reserves, capital flows, and external balance sheets. This report is one of the flagship reports (along with the *World Economic Outlook, Global Financial Stability Report,* and *Fiscal Monitor*). It has been produced annually since 2012 and covers 29 of the world's largest economies, plus the euro area, representing about 90 percent of global GDP. The *External Sector Report* is part of a continuous effort to provide a rigorous and candid assessment of global excess imbalances and their causes and to address the possible spillover effects of members' policies on global external stability.

The Executive Board discussed the 2018 report, issued along with individual economy assessments, in a formal session in July 2018. Directors broadly supported the findings of the report and its policy recommendations and welcome the efforts to refine the methodology and broaden the reach of the report.

Semiannual Reports

The *World Economic Outlook,* the *Global Financial Stability Report*, and the *Fiscal Monitor* provide analysis on the latest global economic developments. In addition, the IMF staff produces a surveillance note for meetings of the Group of Twenty twice a year.

POLICY ADVICE

The Managing Director's Global Policy Agenda

In April 2019, IMF Managing Director Christine Lagarde presented her Global Policy Agenda, "Joint Responsibility, Shared Rewards," in an informal session of the Executive Board. The agenda stressed that although international cooperation, economic and financial integration, and technological progress have delivered enormous benefits across the globe during the past decades, these benefits have not been sufficiently shared to prevent eroding trust in institutions and weakening support for the global system that has made these gains possible.

This loss of trust comes at a time when the world is facing challenges from rapid technological advances, uncertainty about the future of work, demographic shifts, environmental degradation, and climate change. These challenges can be met only through a new multilateralism that instills confidence that the costs and rewards of lasting solutions will be shared by all. Policymakers are called on to reorient domestic and international policies to better manage the economic and social consequences of international integration and technological advances while being mindful of the global footprint of their actions.

The concept of a new multilateralism hinges on three complementary and reinforcing areas of policy action: domestic policies to build more resilient economies and promote economic opportunities, upgraded global cooperation that will provide a more level playing field across borders, and a commitment to work together on broader global challenges, such as climate change.

Capital Flows in Practice and IMF Taxonomy of Capital Flow Management Measures

In July 2018, the IMF staff published the paper "The IMF's Institutional View on Capital Flows in Practice," which provides an overview of the IMF's framework and its implementation to ensure consistent advice to member countries on policies related to capital flows, taking into account country-specific circumstances. "The IMF 2018 Taxonomy of Capital Flow Management Measures," published in September 2018, serves as a reference for the various types of capital flow measures undertaken by countries to manage capital flows since the adoption of the institutional view in 2012. Both papers are part of the IMF's efforts to build understanding of the institutional view and its application in practice.

FINANCIAL SECTOR

Strategy on Anti–Money Laundering and Combating the Financing of Terrorism

In November 2018, the Executive Board reviewed the IMF's strategy on anti–money laundering. A multipronged approach has enabled the IMF to address issues related to money laundering, terrorism financing, proliferation of weapons of mass destruction financing, and broader financial-integrity-related issues, including developing and emerging issues such as those related to correspondent banking relationships and financial technology (fintech). There have also been efforts to increase synergies between the different work streams in order to strengthen the efficiency and impact of the IMF's anti–money laundering and combating the financing of terrorism work—including in surveillance, IMF-supported programs, Financial Sector Assessment Programs, and capacity development activities.

To expand its reach and maximize the impact of the IMF's overall involvement in anti–money laundering and combating the financing of terrorism assessment work, the Executive Board supported the shift to fewer IMF-led assessments while increasing the staff's participation in the quality and consistency review of other assessments and in more training efforts.

Global Financial Stability Report

The Executive Board reviewed the April 2019 *Global Financial Stability Report*, which found that despite significant variability over the past two quarters, financial conditions remain accommodative. As a result, financial vulnerabilities have continued to build in the sovereign, corporate, and nonbank financial sectors in several systemically important countries, leading to elevated medium-term risks. The report provides an overall assessment of these vulnerabilities while focusing specifically on corporate sector debt in advanced economies, the sovereign–financial sector nexus in the euro area, China's financial imbalances, volatile portfolio flows to emerging markets, and downside risks to the housing market.

The IMF Adopts a Decision on the Core Principles for Islamic Finance Regulation for Banking

The Islamic finance sector continues to grow and evolve in size and complexity. Global Islamic financial assets have reached about $2 trillion, with the banking sector accounting for about 85 percent of the total assets. Islamic banking takes place in more than 60 countries, and the industry is now systemically important in 13 jurisdictions.

The growth of Islamic finance presents important opportunities to strengthen financial inclusion, deepen financial markets, and mobilize funding for development by offering new modes of finance and attracting unbanked populations that have not participated in the financial system. Islamic banks undertake distinct operations with risk profiles and balance sheet structures that differ in important respects from those of conventional banks, with associated financial stability implications.

In May 2018, the Executive Board endorsed a proposal on the use of the Core Principles for Islamic Finance Regulation, which were developed by the Islamic Financial Services Board with the participation of the Secretariat of the Basel Committee on Banking Supervision. The core principles will complement the international architecture for financial stability while motivating improvement in the prudential framework for the Islamic banking industry across jurisdictions. The use of the core principles would help strengthen evenhandedness and consistency in surveillance, program design, and technical assistance.

FISCAL ISSUES

Fiscal Transparency Initiative: Integration of Natural Resource Management Issues

Fiscal transparency and good governance are particularly important to help manage nonrenewable natural resources in an equitable and sustainable manner. The exhaustible nature of natural resources and the scale of economic rents raise fiscal transparency considerations at each stage of resource revenue management. The limited opportunity to extract nonrenewable resources raises the bar for governments to use the resulting revenues for the benefit of both current and future generations. The potential for large rents makes the sector particularly vulnerable to corruption and calls for strong accountability mechanisms.

In December 2018, the Executive Board discussed a proposal that integrates into the Fiscal Transparency Code a new fourth pillar (Pillar IV) on natural resource revenue management. Pillar IV aims to reflect both established transparency practices in the extractive industries as well as emerging norms, such as the publication of resource payments and contracts and the disclosure of beneficial owners of resource rights. It also reflects the lessons learned from pilot fiscal transparency evaluations, such as in Peru and Mexico, and extensive stakeholder feedback. The new structure complements Pillars I–III, which were published in 2014, focusing more generally on fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis and management.

IMF Board Takes Stock of Work on Fiscal Space

In May 2018, staff members updated the Executive Board on their experience with the fiscal space framework piloted in 24 countries during 2017–18. Fiscal space is defined as room to undertake discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability. The framework is multidimensional, with country-specific factors and IMF staff judgment playing a significant role in the final judgment.

The review finds that the framework has generally worked well. It generated fiscal space assessments that were broadly in line with its underlying logic and indicators and supported evidence-based and evenhanded internal review of country documents. It also stressed that the availability of space does not necessarily mean that it should be used or should not be further expanded.

The framework also showed that despite elevated levels of public debt, most countries had at least some space. Advanced economies in general were found to have more space than emerging markets, mainly because their financing is more secure, largely reflecting greater credibility and institutional strength.

Implementation of the framework revealed a few potential areas for modification, such as formal integration of contingent liabilities and adjustments to capture specifics of commodity producers and low-income countries.

Public Investment Management Assessment—Review and Update

Public investment can be an important catalyst for economic growth, but the benefit of ramped-up investment depends crucially on its efficiency. The increase in public investment in emerging market and low-income countries has partially closed the gap between richer and poorer countries in terms of the quality of, and access to, social infrastructure. However, the average country loses about 30 percent of the value of its investment to inefficiencies in its public investment processes. Improvements in infrastructure governance can help countries close up to two-thirds of that "efficiency gap."

The Public Investment Management Assessment is the IMF's key tool for assessing infrastructure governance over the full investment cycle and supporting economic institution building. In May 2018, an IMF paper reviewed the experience with the Public Investment Management Assessment framework conducted in more than 30 countries. Building on the lessons and findings from the first wave of assessment exercises, the original framework was slightly revised. The revised assessment retains the key features of the 2015 framework, including the three-phase structure (planning, allocation, and implementation) and highlights some critical governance aspects more prominently. These include aspects such as maintenance, procurement, and independent review of projects, as well as adequacy of the legal framework and staff capacity. Public Investment Management Assessments are part of the IMF's Infrastructure Policy Support Initiative.

Corporate Taxation in the Global Economy

Public perceptions that some large multinational companies pay little tax have raised concern about the effectiveness and fairness of the overall tax system and focused attention on the need for a new architecture of international corporate taxation. The practice of shifting profits to low-tax locations is estimated to have deprived non–Organisation for Economic Co-operation and Development countries of about $200 billion in revenue a year, or about 1.3 percent of GDP. These much-needed resources, especially in low-income countries, could bring about higher and more inclusive growth and enable these countries to meet the 2030 Sustainable Development Goals. The rise of highly profitable, technology-driven, and digital-heavy business models that rely on intangible assets, such as patents, that are hard to appraise and easy to relocate also warrant a rethink of the current international tax rules.

In February 2019, the Executive Board discussed new IMF research reviewing the current state of international corporate income tax arrangements and analyzing options for reform in the context of three key criteria: better addressing profit shifting and tax competition, overcoming legal and administrative obstacles to reform, and ensuring full recognition of the interests of emerging market and developing economies. Executive Directors welcomed the analysis and the discussion on these tax challenges, which are difficult, technically and politically. They also underscored the importance of continued close collaboration with the Organisation for Economic Co-operation and Development and other international organizations active in this area, to ensure that the IMF's work remains complementary to the work of other organizations.

OTHER ISSUES

Comprehensive Surveillance Review

The 2020 Comprehensive Surveillance Review is the first comprehensive review of surveillance since the 2014 Triennial Surveillance Review. The review is forward-looking. It focuses on preparing for the global economic and financial landscape expected in the next decade by realigning the surveillance priorities and redesigning how we engage with countries to enhance the IMF's trust and traction with the membership.

The Comprehensive Surveillance Review will start with a discussion of the broad contours of the macro-financial backdrop that are likely to define the global economy in 2020–30. These include strains on global trade and financial integration, leading to questioning of traditional economic policy prescriptions, and the technological progress and demographic dividends that can be harnessed for the benefit of all people. Drawing on this backdrop, it will then propose surveillance priorities and discuss the potential benefits to the membership from advancing these priorities. The Comprehensive Surveillance Review will also tackle the issue of how to increase the traction of IMF policy advice, including through upgrades to IMF surveillance modalities and product mix.

In view of the forward-looking nature of the IMF's 2020 Comprehensive Surveillance Review, two external advisory groups have been formed to provide overall guidance and bring in cutting-edge thinking and expertise. The External Advisory Group on Surveillance will guide the priorities and strategic direction of the review and subsequently weigh in on the emerging findings and the staff's preliminary recommendations. The External Advisory Group on Digital Technology will provide guidance on potential macroeconomic consequences and policy implications from important technological trends that are underway and help the IMF develop new policy approaches in surveillance through the lens of technological change.

Use of Third-Party Indicators in IMF Reports

The IMF staff sometimes has to draw on other institutions' expertise and estimates when internal expertise is lacking or limited. The use of third-party indicators has played a role in supporting the IMF's evidence-based approach in priority areas such as risks and spillovers, macro-financial and macro-structural issues, and governance and corruption, as well as in the emerging areas of inequality, gender, and climate change.

The varying quality of third-party indicators, however, presents challenges and risks to the IMF's credibility. Some indicators are based on hard data, while others are based on qualitative assessment by experts, experience, perception, or composites of various underlying data sources. Problems may arise from the opacity of some third-party indicators' sources and methodologies, and regarding the quality and reliability of those based on perception or value judgment.

Acting on guidance from the Executive Board provided during FY2018, the IMF in September 2018 issued a guidance note that operationalizes a third-party-indicator framework consisting of three principles for best practice: transparency, robustness, and reflection of stakeholders' views.

DATA

Update on the Data and Statistics Strategy

In FY2019, the IMF continued to develop its Data and Statistics Strategy, which outlines a move toward an ecosystem of data and statistics that enables the IMF and its members to better meet the evolving data needs of a digital world.

A new data governance framework has been created to support the implementation of the strategy. The framework consists of a Chief Statistician and Data Officer for the IMF, who also serves as the Director of the Statistics Department; the Standing Committee on Data and Statistics, a high-level group in charge of stewardship and implementation of the Data and Statistics Strategy; and a Data Governance Group responsible for developing and monitoring the implementation of good data management policies, practices, and guidelines for IMF data.

As part of this strategy, a new data scientist professional track will further enable statistical innovation (including of big data and machine learning techniques) and facilitate its mainstreaming into the IMF's work. The IMF's publications program has also shifted from print to digital only for statistical publications effective January 2019. Users will continue to have online access to the data underpinning the publications.

Enhanced General Data Dissemination System

Under the enhanced General Data Dissemination System (e-GDDS), endorsed by the IMF Executive Board in May 2015, country authorities commit to publishing the data that support their ongoing policy dialogue with IMF staff. Publication—via the National Summary Data Page, a one-stop online data portal—follows the authorities' agreed on periodicity and timeliness, with data easily accessible, including for machine-to-machine transmission.

The effort is fostering international cooperation, with the African Development Bank and the Inter-American Development Bank providing material support for the installation of an information technology infrastructure (open data platform) that sustains National Summary Data Pages in selected countries in Africa and the Western Hemisphere.

Implementation of the e-GDDS proceeded in a number of countries during the year. These include Angola, Azerbaijan, The Bahamas, Bosnia and Herzegovina, Burkina Faso, Cambodia, the Dominican Republic, Fiji, The Gambia, Ghana, Kenya, Lao People's Democratic Republic, Myanmar, Oman, Pakistan, Panama, Serbia, Timor-Leste, Togo, Uzbekistan, the United Arab Emirates, and Vanuatu.

Special Data Dissemination Standard

Subscription to the Special Data Dissemination Standard enhances the availability of timely statistics, thereby contributing to sound macroeconomic policies and more efficient functioning of financial markets. During FY2019, Mongolia subscribed to the Special Data Dissemination Standard, the first case in Asia in which implementation of e-GDDS has facilitated advancement to the Special Data Dissemination Standard.

Special Data Dissemination Standard Plus

The highest tier of the IMF's Data Dissemination Initiatives, the Special Data Dissemination Standard Plus, is intended primarily for economies that play a leading role in international capital markets and whose financial institutions are globally interconnected. During FY2019, Finland, Latvia, Lithuania, and North Macedonia adhered to the Special Data Dissemination Standard Plus.

The number of countries publishing key economic indicators under the IMF Data Standards Initiatives increased from 83 to 121 between April 2017 and March 2019, representing a 46 percent increase.

Group of Twenty (G20) Data Gaps Initiative

In September 2018, the Financial Stability Board and the IMF published the third progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2). The report updates the work undertaken since September 2017 to advance implementation of recommendations aimed at addressing the data gaps identified after the global financial crisis and promoting the regular flow of timely and reliable statistics for policy use. The 2019 Data Gaps Initiative work program includes three thematic workshops (on real estate prices, sectoral accounts, and securities statistics) and the annual Global Conference. Progress on the overall initiative will be reported to the G20 Finance Ministers and Central Bank Governors in September 2019 in the *Fourth IMF/FSB Progress Report of the Second Phase of the DGI-2*.

Gaps in Financial Inclusion

The IMF's Financial Access Survey (FAS) collects annual data on access to and use of financial services—important pillars of financial inclusion. This year's survey, FAS 2018, expanded in three new dimensions: mainstreaming gender disaggregated data; reporting nonbranch retail agent outlets, a form of branchless banking; and tracking the number of debit and credit cards in circulation.

According to FAS data, retail agent outlets—typically including retail stores, post offices, and small businesses acting on behalf of banks—have made substantial inroads in south Asia and Latin America. Data also suggest that mobile money growth continues across regions, with low-income countries leading the way. On average, the number of mobile money accounts per 1,000 adults in a low-income country is more than twice the number of bank accounts per 1,000 adults. While mobile money growth shows no sign of ebbing in sub-Saharan Africa, other regions of the world are not far behind. Bangladesh, Indonesia, Pakistan, and the Philippines are some examples of countries experiencing high mobile money growth in Asia.

Gender-disaggregated data suggest varied progress on closing the financial inclusion gender gap. These variations across countries could be linked to cross-country differences such as those in women's labor force participation rates—something that merits further attention.

The FAS is based on administrative data collected by central banks or financial regulators from financial institutions and service providers. Currently, the data set covers 189 countries spanning more than 10 years and contains more than 100 time series on financial access and use. The FAS was funded by the Netherlands Ministry of Foreign Affairs until October 2018 and subsequently folded into the IMF's new Data for Decisions Fund, which currently supports the Financial Access Survey.

The Sixth IMF Statistical Forum: Measuring Economic Welfare in the Digital Age: What and How?

The sixth IMF Statistical Forum was held in Washington, DC, in November 2018 with a theme of measuring welfare in the digital age. The papers submitted considered practical steps toward a more people-focused approach to macroeconomic statistics and toward better understanding of the effects of digitalization. Questions addressed included income distribution measures for national accounts, the consumer surplus from free digital platforms such as Facebook and from online shopping, the value of data, and investment in open source software.