



INTRODUCTION

In 2007, the IEO completed an evaluation of *IMF Exchange Rate Policy Advice*. The evaluation addressed issues at the heart of the IMF’s work, as laid out by the Articles of Agreement. In particular, the Articles call on the institution to oversee the effective operation of the international monetary system and to collaborate with member countries in promoting growth, stability, and a stable system of exchange rates.¹ This function is carried out through surveillance, a process that provides for periodic dialogue between the Fund and its members, with the IMF providing advice on exchange rate and other policies.²

The 2007 IEO evaluation considered how the IMF fulfilled its core responsibility of exercising surveillance over the international monetary system and members’ exchange rate policies from 1999 to 2005. It examined the mandate to conduct surveillance, as laid out in the IMF’s Articles of Agreement and the 1977 Decision on Surveillance over Exchange Rate Policies, along with guidance provided to IMF staff on how to carry out this role. It assessed the quality and value-added of exchange rate policy advice in the evaluation period, focusing on both the substance of policy advice and procedures for executing it.

It is important to recognize that IMF engagement on exchange rates in the period covered by the 2007 evaluation was—and has continued to be—complicated by divergent views on how to assess whether an exchange rate regime or level is appropriate for a given country’s circumstances. Further, the IMF’s Articles of Agreement allow member countries considerable freedom in selecting the exchange rate arrangements of their choice. At the same time, the Articles specifically require “firm surveillance over the exchange rate policies of members.” Member countries have differed about the right balance for the IMF to strike in assessing member countries’ policies in this area, including on exchange rate levels, capital account liberalization, and reserve accumulation.

This report revisits the findings of the 2007 evaluation following a decade of IMF efforts to grapple with the challenges of fulfilling its role in this area—including two major revisions to the legal framework for surveillance, in 2007 and 2012, and extensive work to refine the scope and modalities of surveillance to reflect lessons from the global financial crisis. The update describes changes in the framework for and the conduct of IMF exchange rate policy advice in the period since the evaluation; and assesses the continuing relevance of the evaluation’s main conclusions.³ The update does not undertake detailed assessment of the quality and effectiveness of the IMF’s engagement on exchange rate policy—or the quality and traction of its methodological tools, analysis, or policy advice. Such an assessment would require a

¹ Key portions of Article IV describing the IMF’s responsibilities and member obligations are excerpted in Annex 1.

² The 2007 evaluation also considered advice to member countries on exchange rate policies in the context of program support and technical assistance, which for many member countries are central to their engagement with the IMF.

³ Recent IEO updates cover closely related areas, for instance: *Multilateral Surveillance: Revisiting the 2006 IEO Evaluation* (IEO, 2017); and *The IMF’s Approach to Capital Account Liberalization: Revisiting the 2005 IEO Evaluation* (IEO, 2015).

full-fledged evaluation.⁴ The update is based on a review of IMF documents, including a desk study of a sample of 20 Article IV staff reports and interviews with most Executive Directors (all of their offices) and a number of IMF staff, as well as consultations with academic experts.⁵

The balance of this report is organized as follows. Chapter 2 summarizes the key findings and recommendations of the 2007 IEO evaluation. Chapters 3 through 5 describe

developments since the 2007 evaluation and discuss the current status of key issues raised by the evaluation in three broad areas: the clarity of the IMF’s mandate and “rules of the game” on exchange rate policy advice; the evolution of key elements of IMF analysis and advice on exchange rate and related policy issues; and the management of and accountability for the IMF’s work in this area.⁶ Chapter 6 concludes with observations about ongoing issues and challenges.

⁴ A full-fledged evaluation would require interviews with country authorities, more in-depth analysis of IMF tools and analytical work, and more extensive engagement with staff.

⁵ The desk study examined a sample of twenty 2015 and 2016 Article IV staff reports selected to illustrate a broad range of country circumstances (18 countries and 2 country groupings): Botswana, Brazil, Chile, China, the euro area, Germany, Hungary, India, Indonesia, Japan, Korea, Mexico, Nigeria, Russia, Saudi Arabia, Switzerland, United Kingdom, United States, Vietnam and WAEMU. Interviews were conducted in October–November 2016 and April–July 2017.

⁶ The IEO evaluation helped catalyze some of these developments, while others would have occurred in any case.