



# KEY FINDINGS AND RECOMMENDATIONS OF THE 2007 IEO EVALUATION

The IEO evaluation of IMF Exchange Rate Policy Advice found that the IMF was “not as effective as it need[ed] to be” in fulfilling its responsibilities for exchange rate surveillance in the period reviewed (1999–2005).<sup>7</sup> The evaluation acknowledged the efforts of staff, as well as the complexity of the task, not least given the lack of professional consensus on many of the key issues in this area. Nonetheless, the evaluation observed serious weaknesses in the IMF’s focus on key analytical issues and in its engagement with members—which reduced the traction of IMF advice on countries’ policy choices, contributed to perceptions that member countries were not treated consistently, and limited the IMF’s effectiveness. The evaluation attributed these shortcomings to gaps in three main areas:

- ▶ **Mandate and rules of the game.** Country authorities did not fully appreciate, nor hold a shared understanding of, the formal role of the IMF, as well as the rights and obligations of membership that underlie its exchange rate policy advice. Operational guidance for staff about how to assess exchange rate regimes and levels was also unclear.
- ▶ **Quality and focus of analysis and advice.** Clear descriptions of exchange rate regimes remained elusive, and policy advice was insufficiently justified. Although analysis had improved over time, assessments of exchange rate levels remained unclear in too many cases. Analysis of intervention received inconsistent and incomplete attention. Problems with data provision hampered the conduct of surveillance. Discussion of policy spillovers, including the regional or systemic impact of large countries’ policies, was infrequent. Further, the scope for countries to act in concert to deal with “global imbalances” was not fully explored, including because the IMF did not lay out potential adjustment scenarios.<sup>8</sup>
- ▶ **Management and oversight.** Work on exchange rates was not adequately organized and managed, including because responsibility and accountability for exchange rate issues was not clearly assigned among the area and functional departments. In addition, policies were not in place to guide staff in balancing the tension between, on the one hand, keeping the Board fully informed of the engagement of staff and management on exchange rate policy issues and, on the other, building trust with country authorities to enable a candid discussion of issues.

Executive Directors welcomed the IEO report and broadly endorsed its overall conclusion that the IMF was not sufficiently effective in some important aspects of its exchange rate policy advice in the review period. They highlighted that the IMF “should aim at enhancing

<sup>7</sup> The 2007 evaluation report and accompanying documents, including the Statement by the Managing Director, Response from Staff, and the Summing Up of the Executive Board Discussion, can be found at [http://www.imo-imo.org/ieo/files/completedevaluations/05172007exrate\\_full.pdf](http://www.imo-imo.org/ieo/files/completedevaluations/05172007exrate_full.pdf).

<sup>8</sup> The 2007 evaluation did not consider the multilateral consultation conducted by the Fund in 2006–07.

## BOX 2.1. IEO RECOMMENDATIONS IN THE 2007 EVALUATION AND INITIAL PROPOSED IMF ACTIONS

The following lists the main recommendations that emerged from the 2007 IEO evaluation and were endorsed by the Executive Board; the arrows following each convey the steps initially proposed to address them in the August 2007 IMF Management Implementation Plan.

Clarify the rules of the game for the IMF and its member countries.

- ▶ Adoption of the 2007 Decision on Surveillance. Revision of the Surveillance Guidance Note (SGN) to support implementation of the new Decision.

Resolve inconsistencies and ambiguity over the issue of regime classification.

- ▶ The revised SGN would provide clear guidelines on description and analysis of regimes. The September 2007 Review of Exchange Arrangements, Restrictions, and Markets would review recent trends in foreign exchange regimes, and propose measures to improve the existing classification of de facto regimes. There would also be enhanced focus on this issue in the internal review process.

IMF advice on exchange rate regimes should be backed up more explicitly by analytic work.

- ▶ Strengthen analysis of exchange regimes. The revised SGN would point to the key dimensions for analysis and stress that analysis of regime choice should be candid, balanced, and comprehensive; should take into account country circumstances; should pay attention to implementation issues when relevant; and should be informed by cross-country experience. Tentatively, review of the stability of the system of exchange rates in 2009 was envisioned as a potential way to distill practical guidance and collect cross-country experience in this area.

To improve assessments of the exchange rate level, the IMF should be at the forefront of developing the needed analytical framework, while more successfully translating existing methodologies into advice that is relevant to discussion of individual country cases.

- ▶ Expand and improve work of the Consultative Group on Exchange Rates (CGER) (including refine methodologies and expand it to key low-income countries and producers of exhaustible resources). Enhance knowledge dissemination. Focus on issues in the internal review process and increase the emphasis on assessments of exchange rate levels.

Management and the Executive Board should consider further what lies behind the apparently serious problems of data provision for surveillance, and how incentive structures can be improved.

- ▶ Review of data provision to the Fund in late 2007. Improving data provision to the Fund remained a challenge. The planned review of data provision to the Fund in late 2007 was targeted as an opportunity to consider further the scope of the problem and possible remedies in this area.

Incentives should be given to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance.

- ▶ Continued implementation of existing initiatives, including through regional outlooks, better assessment of external economic and financial market spillovers affecting individual countries, and discussion of outward spillovers in Article IV staff reports for systemic countries.

Management should address how to bring better focus to the analytical work on exchange rates.

- ▶ Strengthened role of the Surveillance Committee and the CGER.

Opportunities for potential multilateral concerted action deserve to be a key strategic management focus.

- ▶ Multilateral consultations would continue to be a key vehicle to promote debate on issues of systemic or regional importance.

the effectiveness of its analysis, advice, and dialogue with member countries, as well as address any perception of asymmetry in its exchange rate surveillance” (IMF, 2007a). Directors supported a number of the IEO’s suggestions to enhance analysis, including more comprehensive analytical discussions of exchange rate regime choice and better integration of spillover analysis in regional and bilateral surveillance. They also agreed that management should act to ensure that exchange rate work across the IMF is organized and managed effectively and to provide the Executive Board with all the information it needs to conduct surveillance, balancing this duty with the need for the staff and management to serve as a trusted advisor to members. At the same time, Directors expressed diverse views on the need for practical policy guidance on key analytical issues, such as reserve levels, and on the feasibility of developing it.

The IMF set out a Management Implementation Plan (MIP) for taking action on the IEO recommendations that were

endorsed by the Executive Board (IMF, 2007d), in accordance with the procedures for following up on IEO evaluations. Box 2.1 briefly describes the steps identified in this plan. The IMF documented progress made in implementing these steps in its “Second Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations” (IMF, 2008c); subsequent monitoring reports tracked actions still outstanding. Annex 2 summarizes the status of follow-up actions as documented in these monitoring reports, to provide background and context for this update.

This update does not specifically aim to assess IMF actions under the MIP to follow up on the IEO recommendations. Instead, it takes a broader approach to exploring the full range of issues raised by the 2007 evaluation and where they stand now. The following chapters examine in turn each of the three broad areas of weaknesses identified.