

IV. INTEGRATED SURVEILLANCE¹

Executive Summary

1. **This study evaluates the progress of the Fund in providing timely and effective integrated surveillance focusing on the institutional aspects.** It looks at whether the Fund is fulfilling the requirements of integrated surveillance while providing sufficient flexibility to bilateral surveillance to focus on key issues of national concern. It also suggests ways to ensure that bilateral and multilateral surveillance become mutually reinforcing exercises, and suggests options to better utilize cross-country lessons and integrate financial sector and macroeconomic analysis.
2. **The study finds that the Fund has generally made good progress in integrated surveillance.** The 2012 Integrated Surveillance Decision extended the scope of Article IV consultations to include multilateral surveillance, allowing the Fund to discuss the full range of spillovers from members' policies into global stability. Accordingly, Article IV consultations have been covering outward and inward spillovers more systematically. New surveillance products, including the Spillover Report, Pilot External Sector Report, Risk Assessment Matrices and cluster reports have also strengthened integration.
3. **However, key challenges remain, and the next phase should focus on consolidating and fine-tuning the new initiatives to increase their effectiveness.**
 - In the quest to expand multilateral surveillance, the sheer volume of materials produced by the Fund has led some to question whether it has gone beyond the absorption capacity of decision makers making message consistency more difficult and reducing their effectiveness. Furthermore, the complex nature of some new multilateral products requires significant time for absorption even for trained economists. Facilitating the absorption of the Fund's messages and multiple reports calls for more sharply differentiating among products, and channeling communications in a more targeted way.
 - Greater use could be made of multilateral surveillance to inform country work. While stakeholders call for more progress in incorporating global and regional issues into bilateral surveillance, individual country teams often find it challenging to integrate the findings from global surveillance products. Bridging the gap between multilateral and bilateral surveillance products could be facilitated by Regional Economic Outlook (REO) and cluster reports, providing clear and actionable policy messages in flagship reports, earlier SPR input into the Article IV consultation process, and mainstreaming of new surveillance products.
 - The Fund's vast knowledge base of cross-country experiences needs to be better exploited to facilitate integrated surveillance, enhance traction, and improve evenhandedness. This requires improvement of data and knowledge management techniques, strengthened collaboration across departments, and incentives.

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- Mainstreaming macro-financial sector surveillance would require that macro-financial issues become an integral part of Article IV consultations. This would need better tools and new practices, as well as a shift in the profile of Fund staff by making macro-financial skills part of the core target competency for all (fungible) Fund economists.
- Deeper policy analysis and advice in Article IV consultations increasingly require specialized expert knowledge, thus support from functional departments, particularly MCM and FAD. This would require greater resources or a reallocation of resources among functional departments' activities, as well as further efforts to mainstream certain expertise that currently resides in functional departments, particularly in the area of financial sector surveillance. The substantial increase in resources for capacity development in the last few years could also be better leveraged to support bilateral surveillance.

A. Introduction

4. Since the 2011 TSR, the Fund has taken considerable steps to integrate and enhance the consistency of its bilateral and multilateral surveillance. The Fund adopted the Integrated Surveillance Decision (ISD) in July 2012 to modernize its legal framework for surveillance and put integrated surveillance on a firmer footing.² New products and processes have been introduced to fill the gaps between, and improve the integration of, bilateral and multilateral surveillance, while further efforts have been made to improve the consistency between the flagship multilateral products. Underlying all these changes, there has been strong recognition of the need to strengthen formal and informal cross-departmental collaboration.

5. This study evaluates the progress of the Fund in providing timely and effective integrated surveillance. Specifically, it looks at whether the Fund is fulfilling the requirements of integrated surveillance on a timely basis, while providing sufficient flexibility to bilateral surveillance to focus on key issues of national concern; it also suggests ways to ensure that bilateral and multilateral surveillance become mutually reinforcing exercises. Integrated surveillance is based on the notion that in an interconnected world multilateral and bilateral surveillance should be viewed in a holistic way as mutually reinforcing exercises instead of distinct and contrasting activities. Moreover, improving the effectiveness of bilateral and multilateral surveillance requires exploring and utilizing cross-country lessons and better integrating financial sector and macroeconomic analysis.

6. The focus is on the institutional aspects of integrated surveillance. The study suggests options based on the diagnosis and analysis of the factors behind the progress and the challenges in integrating bilateral and multilateral surveillance, enhancing cross-country work, improving the communications and absorption of Fund products and messages, as well as further strengthening and mainstreaming financial sector surveillance. The study draws on information from interviews

² According to the ISD, in addition to assessing the contribution of members' policies to their domestic and balance of payments stability, Article IV consultations should cover potential or actual outward spillovers from members' policies that may significantly influence the effective operation of the international monetary system.

with stakeholders (country authorities, Fund staff, and financial market participants), a review of Article IV and multilateral reports, as well as surveys of stakeholders and focus group discussions with Fund staff. The study also benefitted from a report on integrating multilateral and bilateral surveillance by an external consultant. Developments in Fund resources and expertise devoted to bilateral and multilateral surveillance in recent years are also analyzed with a view to evaluate whether these are sufficient to provide high quality advice to member countries on national issues.

7. Effective integration of multilateral and bilateral surveillance at the Fund depends on effective two-way synergies. On the one hand, policy challenges identified by country teams need to inform the global analysis and cross-country issues in multilateral surveillance products. On the other hand, such global analysis of systemic risks and spillovers needs to translate effectively into policy advice for bilateral surveillance. Effective integrated surveillance, thus, depends on: (i) a clear strategy for the messages that each multilateral (or regional) product is supposed to contribute to bilateral surveillance; (ii) effective communication across bilateral and multilateral teams, including early involvement of bilateral teams in the production of multilateral publications; (iii) exchange of data and other information between multilateral and bilateral teams supported by sufficient incentives for staff to share information; and (iv) effective delivery of key policy messages internally and externally.

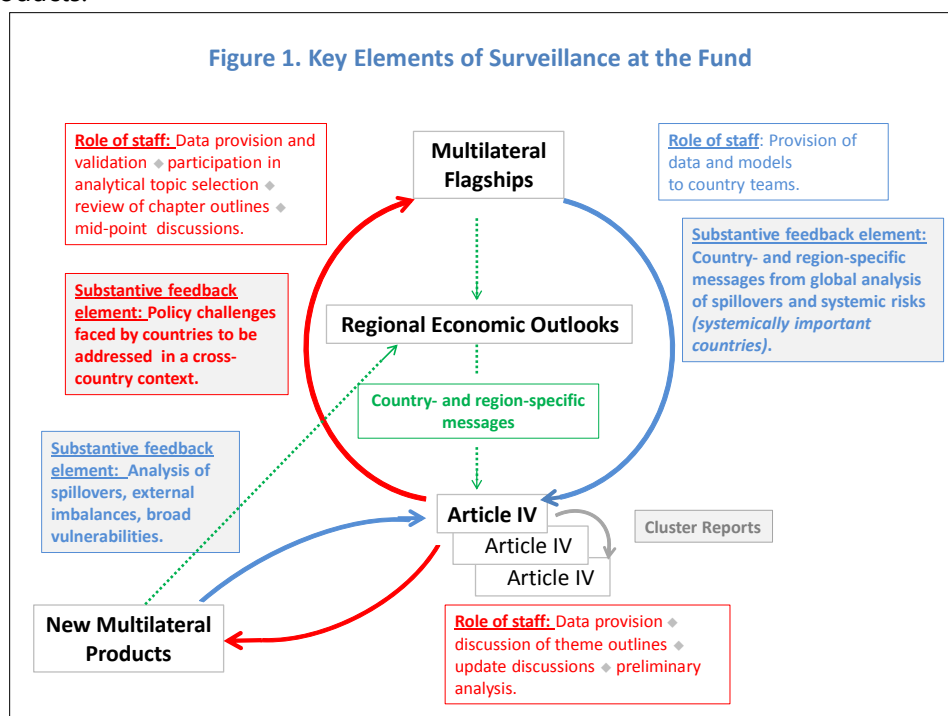
8. The paper is organized around some key remaining challenges for truly integrated surveillance. Section B examines the relationship between multilateral surveillance provided by the Fund’s flagship reports (WEO, GFSR, and Fiscal Monitor) and regional and bilateral surveillance (the REOs³ and Article IV reports). Section C analyzes these challenges in more detail and suggests options for improving the integration of bilateral surveillance and the new multilateral surveillance products. Section D discusses the main challenges to the Fund’s cross-country work and data and knowledge management. Section E discusses scaling up recent innovative approaches and Section F draws on the recommendations of an interdepartmental working group on strengthening and mainstreaming financial sector surveillance, a long-standing challenge for the Fund. Section G provides a brief overview of the Fund’s communications activities in assisting timely and consistent messaging of its bilateral and multilateral products, and suggests ways to improve them. Finally, the last section discusses the findings of the analysis of resource allocation and mission staffing data.

B. Building on the Flagships

9. This section discusses progress in integrating the Fund’s established bilateral and multilateral surveillance products. An integrated approach goes beyond numerical consistency between country level and global analysis. In principle, global linkages, spillovers, and vulnerabilities identified through global surveillance should inform bilateral surveillance in a “top-down” manner (Figure 1). Equally, where bilateral surveillance identifies important vulnerabilities, spillovers and cross-country linkages, this can trigger a “bottom-up” message on the need to examine these issues at a multilateral level. Multilateral surveillance also provides an opportunity to conduct and

³ Although REOs are legally not surveillance products, they inform both bilateral and multilateral surveillance.

disseminate cross-country analysis that can inform bilateral surveillance. The remainder of this section discusses to what extent the Fund’s multilateral and bilateral surveillance results in useful analytical cross-fertilization in the above manner, with conclusions that are consistent across the multiple products.



10. In general, this review finds that the Fund is making good progress in integrating bilateral and multilateral surveillance. The Fund’s bilateral and multilateral surveillance products are seen by stakeholders as comprehensive (no major gaps in coverage), of a high analytical standard, and consistent across products in delivering common messages. An external study conducted to inform this review confirmed that the Fund’s surveillance activities were broadly comprehensive in coverage, of good quality, and with consistent messages across the various bilateral and multilateral products (Box 1).⁴

11. The multilateral flagships (WEO, GFSR and Fiscal Monitor) are generally confirmed as bringing valuable perspectives to bilateral surveillance.⁵ Interviews with country authorities and Fund teams found that the WEO and the GFSR are both used extensively to inform Article IV discussions of global risks and vulnerabilities; this analysis is often captured in risk scenarios in Article IV reports. The practice of including Risk Assessment Matrices (RAMs) in Article IV reports has also been helpful in ensuring a systematic and consistent coverage of risks, including those arising from global and regional spillovers.

⁴ “[Report on Integrating Bilateral and Multilateral Surveillance on a Continuing Basis](#)” by Kenneth Rogoff, Harvard University.

⁵ See Annex 1 for details on the various multilateral and integrated surveillance products.

12. Multilateral and bilateral surveillance appear to provide consistent policy messages.⁶

Where differences in messages between flagships and bilateral surveillance products have arisen, these have typically been resolved through the interdepartmental review process, or where needed, through discussion with Management. In interviews, functional departmental staff argued that differences in view sometimes reflect the differences in countries' circumstances and policies as seen from a bilateral and multilateral surveillance perspective. The external study confirmed differences in messaging across Fund products can mostly be explained by differences in timing, approach and emphasis.

13. Greater use could be made, however, of multilateral surveillance to inform country work.

Beyond the findings in regard to risks and spillovers, the Article IV report review revealed very little evidence of direct input from multilateral products on wider global and regional issues into bilateral surveillance. Consistent with these findings, EDs and country authorities called for more progress on incorporating global and regional issues into bilateral surveillance. Although teams working on flagships share the underlying data and analyses with desks, country teams reported that it is often challenging to integrate the lessons from the WEO/GFSR analytical chapters into their bilateral surveillance—often because the immediate policy lessons are not clearly drawn. A positive step, in this regard, is the current practice of GFSR teams to routinely provide to area departments country-specific messages from analytical chapters (in addition to useful messages from the conjunctural chapter, where relevant).

14. REO reports could help bridge from multilateral to bilateral surveillance. Where individual country teams find it challenging to integrate the findings from global surveillance products, this process can be supported by including in REO reports (and updates if there are material new developments) a discussion of the nature and magnitude of potential global spillovers to a particular region, tracing the transmission channels under possible alternative scenarios. This analysis, tailored to regional circumstances, is then more readily applied in bilateral surveillance. A review of past REOs shows that many have explored spillover and risk issues, though more generally on an ad hoc basis, and not typically as a central feature of the conjunctural discussion.

15. Non-systemic countries receive particularly limited attention in the flagships. The global focus in the flagship reports brings a natural emphasis on economic developments and policy issues in systemically-important countries. The coverage of smaller countries is typically limited,⁷ especially in the GFSR where financial systems in large parts of the world are not seen as systemically critical. Where countries and regions are not featured in the flagship reports, this can send an implicit negative message about the need to bring global perspectives to bilateral surveillance.

16. Early engagement of area departments in the design of multilateral surveillance is helpful in fostering integrated surveillance. This approach is increasingly the norm, with brainstorming sessions in which authoring departments seek inputs from other departments on

⁶ This consistency tends to be mostly implicit, with few direct references to multilateral analysis in Article IV reports.

⁷ Nevertheless, the Fiscal Monitor already includes coverage of LICs and the WEO is looking to include a Low Income Developing Country category.

potential analytical topics; subsequently, inputs are sought on specific proposals and topic outlines, and through joint mid-point meetings on preliminary findings and issues.⁸ Informal consultations complement this formal process. That said, this outreach process is not universally recognized, with many mission chiefs and desk economists are apparently unaware of the opportunities that area departments have to influence the focus of multilateral surveillance. This information gap seems to be largely a question of communication *within* area departments, rather than between functional and area departments.

17. The need for better integration of bilateral and multilateral surveillance and the new priorities arising from the ISD call for strengthening SPR's intermediary role in the Article IV consultation process. Given its policy and review function, SPR can provide significant value-added in identifying global spillovers and risks, as well as cross-country lessons that should feature in bilateral surveillance. Thus, integrating bilateral and multilateral surveillance could be further supported by early SPR input into the Article IV process. Currently, SPR discussions with country teams of important global, regional and institutional issues occur relatively late in the process of preparation for bilateral consultations, shortly before country teams leave for missions. Holding discussions earlier in the process would provide an opportunity for SPR to ensure input of key relevant messages and issues from multilateral surveillance, more effective cross-country perspectives, and identification of areas where early support from other functional departments may be required. This would require a more proactive approach from SPR reviewers to systematically hold early discussions with country teams. Compiling the key multilateral and spillover messages would also facilitate SPR reviewers' discussion of multilateral issues with country teams, along with bilateral issues, at an early stage in the Article IV process.

18. Questions of how to best communicate the findings from the Fund's numerous surveillance products are discussed separately. With multiple new surveillance products joining the traditional flagships, the challenges for communication have increased. These issues are discussed in Section G.

Possible Options

- Aim at providing actionable policy messages in the flagships. Analytical chapters, in particular, should have clear policy messages that can inform bilateral surveillance. Flagship authors could usefully provide area departments with summaries of the policy implications for country teams, following the current practice for the GFSR.
- Feature global/regional spillover and risk analysis more consistently in REOs. The conjunctural analysis in REOs should include a discussion of global spillovers and risks tailored to regional circumstances that country teams can use to inform bilateral surveillance.
- Foster earlier SPR input into bilateral surveillance. This can help country teams identify important global spillovers and risks that should feature in the bilateral surveillance discussions.

⁸ E.g., in recent rounds, channels of communications on the GFSR to include: (i) formal invitations to area departments on GFSR brainstorming sessions (initially shared with heads of departments and reviewers, and most recently with the entire staff of area departments); (ii) informal contacts between MCM and area departments at the early stages of GFSR production; (iii) distribution of GFSR outlines for area department comments; and (iv) formal invitations to mid-point meetings on GFSR preliminary findings (shared with the entire staff of area departments).

Box 1. Coverage of Major Policy Shifts—Main Findings of the External Consultant Study^{1/}

The external consultant study examines how the Fund has fulfilled its bilateral and multilateral surveillance with respect to four key issues that have faced the global economy over the past couple years. These four issues are as follows: (i) the Fed's quantitative easing strategy and especially the taper; (ii) Abenomics in Japan; (iii) the risk of a hard landing in China; and (iv) the spillover effects of Germany's fiscal policy.

The study finds that in all four cases, the Fund has provided its membership a useful and high-quality mixture of short-term conjunctural analysis and policy research. The extent to which the Fund's analysis has weaknesses is largely related to political and market sensitivities, particularly in dealing with large influential members.

- The study raises some concerns about whether the Fund was forceful enough in pointing out possible risks posed by the US Federal Reserve's quantitative easing (QE III) program, initiated in September 2012, and whether it was forceful enough in advocating structural reforms (e.g., tax reform) that might have helped support long-term growth and helped soften spillover effects to other countries.
- The external report finds that Fund has generally done well in the case of giving consistent policy advice to Japan and in its response to Abenomics, stressing all along the importance of structural reforms and giving extensive ideas in this dimension. However, the Fund has arguably downplayed the international spillover risks that will arise should interest rates in Japan begin to rise more quickly, either in response to rising inflation expectations, or if markets come to share the Fund's concerns about the long-run sustainability of fiscal policy. Also, the Fund perhaps should have placed even greater emphasis on "third arrow" structural reforms as an assurance that Abenomics would have a lasting long-term positive global impact, and not just short-term competitive effects.
- On China, the assessment is that Fund has been quite candid about risks to China in the Article IV reports. In its multilateral surveillance, however, it has perhaps not done enough to highlight risks to the many countries that have become very dependent on continuous high growth in China. While good discussion of the risks can be found sprinkled throughout multilateral products and exercises, but often these discussions are mainly in more technical chapters and reports.
- On the Fund's advice about German fiscal policy, the external study finds that the trail of Article IV reports and multilateral surveillance products suggests that the Fund's advice was quite nuanced, far more so than is sometimes portrayed. The Fund did not strongly endorse the view that German fiscal policy expansion would have large spillover effects to the rest of the Eurozone, and at the same time it did emphasize how strong German balance sheets helped perform a stabilizing role in Europe.

^{1/}["Report on Integrating Bilateral and Multilateral Surveillance on a Continuing Basis"](#) by Kenneth Rogoff, Harvard University.

C. Mainstreaming the New Multilateral Surveillance Products

19. The new surveillance products are gaining traction with stakeholders. This section discusses views of the Spillover Report, the Pilot External Sector Report (Pilot ESR) and the Vulnerability Exercises (VE). In each case, considerable progress has been achieved:

- **Spillover Report.** The launch of the Spillover Report and integration of detailed spillover analysis in the WEO has provided an abundance of analytical material to inform bilateral surveillance. In practice, the impact has been strongest in terms of providing analytical depth to

the Article IV reports for systemic economies, particularly as regards outward spillovers. Reflecting this progress, the 2014 TSR finds that country authorities and Executive Directors appreciate the Fund's work on spillovers and give it a higher value than at the time of the 2011 TSR.

- **Pilot External Sector Report.** For the Pilot ESR, stakeholder surveys showed positive recognition of the work on external sector assessments, especially from EMs and LICs, and saw the Pilot ESR as providing useful discipline for individual country assessments and more effective surveillance of external imbalances by broadening the Fund's earlier exchange rate assessment exercises to look more systematically at current accounts, balance sheet positions, reserves adequacy, and capital flows. Stakeholders also appreciate the broader focus in the assessment of external balances (the EBA), compared with the narrower CGER approach where the focus is mainly on exchange rates.
- **Vulnerability exercises.** The internal vulnerability exercises have become progressively better integrated with bilateral surveillance. The transparency of the underlying analytical approaches, inputs, and outputs has increased considerably, allowing staff to engage more effectively with country authorities on the VE country results during Article IV discussions. This process has helped to enrich the Article IV consultation by bringing in new perspectives.

20. The new surveillance products are not yet viewed, however, as in the mainstream.

Although the Fund dedicates substantial resources to produce high-quality analysis in the new surveillance products, they are too often viewed as tangential to the Fund's core analysis in the flagships and bilateral surveillance. These products were introduced on a stand-alone basis to fill perceived gaps in the surveillance process, and the Fund is still building their credibility, both among staff and the membership. The priority is to more effectively mainstream the analysis provided by these products, which will help deliver the maximum return on the Fund's analytical investments in terms of strengthening the overall surveillance process and ensuring that messages are widely received and understood. The following paragraphs discuss the TSR findings in regard of separate products.

Spillover Report

21. A key challenge is to extend spillover analysis beyond the systemic economies. As noted above, more progress has been achieved in addressing "outward" spillovers in the surveillance of systemic economies than the corresponding "inward" spillovers for the broader membership; this was a key finding in the external consultant study. One important constraint is resources—it is much easier to incorporate spillover analysis into multilateral and bilateral surveillance for five systemic economies than for over 180 other countries. In particular, it is not straightforward for country teams to interpret and convert outward spillover analysis into corresponding inward spillovers for their individual country. The narrow country and policy focus of the Spillover Report may limit its relevance for the wider membership. Thus, while work on spillovers is rated more highly than three years ago, it is still viewed as less valuable than Fund work on financial vulnerabilities, fiscal policies, and risks.

22. Further work on modeling transmission channels would help mainstream spillover analysis. Where the Fund has provided detailed scenarios mapping the transmission channels for key downside risks, country teams have been ready to include the country-specific implications in country reports, notably in RAMs. While central risk scenarios will continue to be produced, the analysis of spillovers could be further strengthened by including spillovers analysis as a regular component of REO reports. The analysis of regional transmission channels and the potential magnitude of country-by-country spillovers would provide useful results (or an analytical framework) that could inform subsequent bilateral consultation exercises. Analyzing spillbacks, that is economic feedback loops, is a further challenge for deepening the Fund’s spillover analysis.

Pilot External Sector Report

23. A closer integration of external balance assessments into Article IV surveillance is needed. The Pilot ESR has played an important role in expanding and deepening external sector analysis, but the clarity and integration of assessments into Article IV reports still needs to be improved. There is a well-established process for discussing detailed external balance assessments (EBAs) with the country authorities during the Article IV consultations and throughout the year (via the Pilot ESR country pages). Better integration of countries’ external sector assessments into policy discussions in Article IV staff reports could improve the perceived consistency of treatment.

Vulnerability Exercises

24. The vulnerability exercises could be further leveraged for bilateral surveillance. Notwithstanding the greater transparency of the VE process and progressive integration into some bilateral surveillance exercises, significant further progress could be made. In too many instances, the VE process ends with the submission of a cross-country assessment to Management. (The VE-LIC differs, in that it informs a published final report.) Given the resources invested by both functional and area departments in the VEs, consideration should be given on how to use the findings to inform bilateral surveillance on a more consistent basis. Without a clear operational “use” for the VE, it risks losing staff buy-in.

Possible Options

Spillover Report and spillover analysis

- As recommended in Section B, include a discussion of spillovers in REOs as part of the conjunctural and risk discussions. This could act as an anchor for spillover analysis in bilateral surveillance for countries in the region.
- For systemic economies, consider strengthening RES/SPR input into Article IVs, particularly on coverage of spillovers. A member of the WEO/Spillover team could be assigned to the Article IV team, providing input throughout the process, including participating in missions if the budget allows.

D. Promoting Cross-Country Analysis and Upgrading Data and Knowledge Management

25. The Fund’s vast knowledge base of cross-country experiences needs to be better exploited to facilitate integrated surveillance, enhance traction, and improve evenhandedness. For some time, surveys of country authorities have suggested that they would like to see the Fund drawing more policy lessons from its extensive cross-country experience. They see the Fund as uniquely placed to set out relevant experiences and policy choices and there appears to be significant demand from member countries for cross-country analysis that goes beyond a narrow regional perspective. Research has progressed in a number of cross-cutting issues, in particular on capital flows and financial interconnectedness, and several initiatives were taken to improve information-sharing across and within departments. However, the 2014 TSR review of Article IVs found that cross-country analysis is still limited, often focusing on comparison of peer group indicators such as fiscal deficits or credit growth. Only a few reports make extensive use of cross-country findings and draw on cross-country policy experiences to support their analysis. Surveys of staff still indicate that accessibility of the information is still a major constraint. Where the Fund is unable to cite relevant cross-country examples, this can weaken the traction of the Fund’s policy advice.⁹

26. Identifying cross-country policy lessons is hampered by the lack of readily accessible and well-organized sources of information on cross-country findings and cross-country policy experiences. Considerable information on country policies is disseminated, but a good deal is effectively available only within departments and are difficult for outsiders to tap. Much of the staff knowledge rests with individuals (in both area and functional departments) and often is lost when these individuals move on to different assignments, a problem thought to be aggravated by the increasing mobility requirements within the institution. In addition to that, there appear to be inadequate incentives for Fund staff to build and maintain knowledge bases, beyond basic spreadsheets. Opportunities for cross-country collaboration are frequently identified through serendipitous exchanges of information, often within departments. As a result, cross-country work tends to have a strong regional focus, even though members may be equally, if not more interested in lessons from very different global contexts.

27. Efforts to lower the barriers to collaboration across departments involve a combination of better knowledge management techniques, expectations for collaboration, and incentives. Some success has been achieved by functional departments disseminating Fund-wide templates that help country teams distill policy recommendations based on cross-country lessons and by establishing teams designed to collaborate across departmental lines. This appears to work well where a specific issue is being tackled (e.g., jobs and growth) or where a well-defined product is being produced (e.g., the Spillover Report). The challenge is to foster more horizontal collaboration of this type. Key issue is minimizing the burden of collaboration, while ensuring that efforts are focused on issues that have high value added to participants. An SPR working group is in the process of rolling out work that will facilitate cross country efforts across the Fund. The group is

⁹ See IEO—Evaluation Report on Recurring Issues from a Decade of Evaluation: Lessons for the IMF (Forthcoming).

assessing the current status of knowledge management across the Fund, and working with area departments to identify about 5-10 priority areas where cross-country policy lessons constitute a priority for the coming year. The relevant information will then be gathered, in particular from functional departments, and the results eventually presented on a new intranet page dedicated to cross country work.

28. Shortcomings in the ability to share economic data present further challenges. Country teams continue to flag the lack of a broad-based and user-friendly economic database that could be quickly tapped to explore economic features of countries in different regions. Responding to the Fund's evolving mandate and surveillance priorities, the existing data provision framework has been strengthened in the 2012 Review of Data Provision for Surveillance Purposes and efforts to address data gaps have been enhanced. In May 2012, a new economic data governance structure was created to improve data collection, management, analysis, dissemination and sharing throughout the Fund.

29. There have been many efforts over the years to address knowledge management issues, but more needs to be done. Recently, there have been initiatives to improve the facilities for the storage and retrieval of documents in the institution. For instance, the intranet portal "Knowledge Exchange" provides centralized intranet access to the most important and authoritative resources produced by staff. Even more recently, the Fund launched [PARIS](#) (Policy Analysis Research Information System) to improve staff's access to analytical content produced in the Fund. A Knowledge Management Working Group was established by Management in March 2014 to review knowledge management in the Fund and to make proposals for reform by November 2014. The group is tasked with identifying options for improving knowledge management in the Fund in a pragmatic and cost-effective way.

Possible Options

- Area departments to develop a strategy and agree on 5-10 priority areas where identifying cross-country policy lessons would be particularly valuable in the coming year. In each case, an inter-departmental project to identify shared policy lessons should be conducted, with the findings disseminated externally. This exercise should also be monitored with a view to identifying lessons for how to sustain the momentum of cross-country analysis.
- Include strengthening cross-country analysis in departments' accountability framework, with departments reporting to Management on implementation.
- Strongly encourage that country teams prepare early in the Article IV process for cross-country analysis and policy discussion and include reference to it in the Policy Note.
- Develop a more carefully thought-out Fund-wide approach to Knowledge Management issues, based on the findings of the Knowledge Management working group launched by the Managing Director in March 2014.
- The Knowledge Management working group should examine options for promoting knowledge sharing on country policy experience. One possibility would be to encourage staff returning from Article IV or technical assistance missions to store in a searchable repository references to policy issues substantively analyzed in their reports.

E. Cluster Reports and Other Innovations

30. Cluster and thematic reports show promise as innovative options for enhancing cross-country analysis and integrating bilateral and multilateral surveillance. Cluster reports focus on the inter-linkages between a small group of economies and the spillovers and vulnerabilities that might arise in this context, or on common concerns and policy issues for a cluster of countries. Cluster reports are discussed by the Board as background to the Article IV consultations of some or all of the associated countries, which are conducted on a parallel schedule with Board discussion timed to closely coincide. In this fashion, cluster reports can help bridge the gap between bilateral and multilateral surveillance (Annex II). A similar approach has been taken in other cases, with Article IV consultations for a group of countries with common policy challenges timed to broadly coincide, but without the cluster report, so that their respective staff reports can be read in conjunction. A third approach has been to prepare studies on cross-country linkages that are not strictly linked to the Article IV process, but which are circulated to the Board and can inform subsequent bilateral country work (e.g., annual surveillance report for six GCC countries).

31. While offering analytical advantages, clustering can be administratively challenging. Clustering requires buy-in from country authorities early in the process to ensure that agreement is reached on the cluster theme and the timing of the Article IV consultations. Timing is an especially difficult issue in clustering Article IV consultations, both because of staffing bottlenecks and because authorities often have strong preferences about the timing of their own Article IV consultation. Early engagement with the authorities is key, along with a clear message that cluster reports are a complement to Article IV consultation, not a substitute. On the Fund's part, resource constraints can pose challenges. Completed cluster reports so far were produced largely by country teams within the existing staffing framework. While there were synergies between the cluster reports and Article IV work, workloads increased substantially. Continued flexibility in cluster report design and processes remains essential, as criteria for identifying clusters can vary across regions and over time.

Possible Option

- Continue experimenting with regional and thematic approaches building on existing innovative approaches.

F. Strengthening and Mainstreaming Financial Sector Surveillance¹⁰

32. Progress toward strengthening financial analysis and integrating it into the Article IV process has been mixed. The Review of Article IV reports finds that while most reports include some discussion of financial sector issues, the depth and breadth of analysis varies across countries and institutions. Specifically, 90 percent of reports for AMs include an extensive analysis of financial stability compared to around 50 percent of reports for EMs and LICs. Furthermore, financial sector

¹⁰ This section is based on the findings of an inter-departmental working group led by MCM and SPR, set up to explore practical proposals to enhance the coverage and depth of analysis of financial sector issues in Article IV consultations.

policy advice focused mostly on regulatory and supervisory improvements, and less on macroprudential policies. Even when reports discuss macroprudential measures, less than a quarter discuss the implications for the macroeconomy.

33. Despite some progress, significant challenges remain for strengthening financial stability analysis in-between FSAPs. Article IV consultations are currently tasked to follow up on the implementation of FSAP recommendations, but this financial stability analysis varies widely across countries. In this context, diagnosing financial vulnerabilities and risks between FSAPs remains a challenge for many country teams. While FSAPs provide deep and detailed insights into financial sector issues, they are too infrequent—especially in non-systemic countries—to be useful for continuous surveillance of macro-financial issues. Moreover, an “FSAP-centric” approach to financial surveillance tends to limit the focus of the analysis to the stability of the (domestic and global) financial system, and FSAPs are still heavily skewed toward institutional and microprudential issues, which are too technical and not necessarily macro-relevant. Between the FSAP’s definition of financial stability and the issues typically covered by the World Bank’s developmental assessments, there is a rich set of topics that can be macro-relevant. Questions to be addressed by Article IV teams could include

- What are the key macro and financial sector trends? Are the latter the origin or the result of the former, or are they both reflecting other underlying factors? What are the main drivers behind these trends and the short-term baseline outlook, and how do they interrelate?
- What are the key financial factors affecting macroeconomic stability (e.g., credit cycle)? Does the structure and functioning of financial sector aggravate or mitigate macro (in)stability? How does the financial sector affect the effectiveness of macroeconomic policies (e.g., monetary policy transmission)?
- How do financial sector issues affect the medium-term growth prospects?
- Beyond the baseline outlook, what are the key risks to financial and macroeconomic stability? What is the probability and impact of realization? How can macroeconomic, macroprudential, financial sector, and structural policies mitigate these risks and contribute to a balanced policy mix? What are the tradeoffs or synergies between these different policies?

34. Mainstreaming financial sector surveillance would require that macro-financial analysis become an integral part of Article IV consultations. This would recognize the financial sector as an essential element of the macro landscape, and put new demands on staff. This will require better tools and new practices. And most importantly, it will require a shift in the profile of Fund staff: treating the skills needed to undertake this work as part of a single set of macro-financial skills, essential for all Fund economists, and adjusting personnel policies and practices so as to generate incentives and opportunities for staff to acquire and use these skills. There will always be a need for true financial sector specialists (in MCM), but their main role would be to provide technical backstopping to surveillance teams; advice on implementation; and technical assistance.

35. Enabling and assisting area department teams to strengthen macro-financial surveillance necessitates enhanced tools, skills, and practices. The transition process should be

supported by MCM to ensure the transferring of financial expertise from MCM to area departments. While concrete actions to achieve this objective need to be further elaborated, they could involve the following building blocks:

36. Tools. A basic toolkit for financial sector analysis in Article IV missions should contain three basic blocks: systemic risk indicators; risk assessment tools specific to the financial sector; and tools linking financial sector trends to the macroeconomy. To be generally useful, models for financial analysis should be fairly generic, applicable to a large number of countries, operable with widely—and preferably publicly—available data. Tools should be simple, requiring a minimum of documentation, and available on a widely used platform. They should be easy to find for staff, and accompanied by a brief explanation, a discussion of pros and cons, links to detailed documentation, and examples of application.

37. Skills. Although the notion that financial sector issues are a central part of Fund surveillance has gained acceptance, financial sector skills are persistently viewed as “specialist” skills. Defining the single set of macro-financial skills all Fund economists need in order to integrate financial sector issues into macro surveillance, and making a deliberate effort to establish these skills among staff would be crucial. Building a cadre of macro-financial economists in every department in the Fund would involve changes in hiring policies, a much more targeted effort at training than at present, and a more deliberate approach to inter-departmental mobility.

38. Practices. Incentives are important, and staff should feel that macro-financial skills are valued by the institution. Macro-financial issues should be one of the mainstays of the Article IV process, just like exchange rate or fiscal issues. This will require constant focus and sustained messaging by departmental senior staff to mission chiefs and teams. Designating a few economists with macro-financial skills to work on financial issues within regional units of area departments and assigning them to missions would supplement country teams that lack macro-financial capacity. At the same time, MCM should strive to raise the profile of country work. Furthermore, FSAPs should be adapted to facilitate the integration of their analysis into the Article IV process by shifting their focus more toward macro-financial issues. MCM technical assistance (TA) can also play a role in supporting area departments’ financial surveillance efforts in LICs, e.g., by multi-topic diagnostic TA missions. Finally, SPR has a key role in ensuring implementation of all operational changes through the review process and documentation and dissemination of best practices.

Possible Options

- Area departments should assume lead responsibility for conducting financial sector surveillance as an integral part of the Article IV process.
- The transition process should be supported by MCM including by providing greater continuity and consistency in MCM support of Article IV missions.

Tools. The financial sector toolkit supporting area department staff conducting surveillance should be further expanded by

- (i) further developing simple, portable tools for financial sector risk assessment and stress testing; (ii) developing simple tools facilitating the integration of financial sector variables into standard macro analysis; and (iii) expanding use of tools to assess the links between specific financial sector reforms and macro outcomes in countries where financial deepening is a priority.

Skills. The financial skills of economists in area departments should be strengthened.

Practices. Operational requirements and practices should support the development of tools and skills by

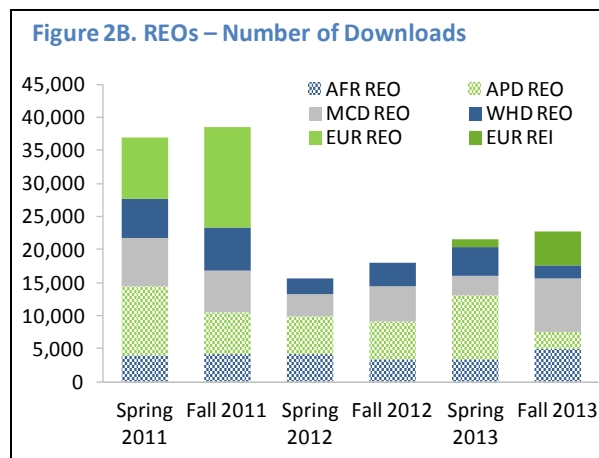
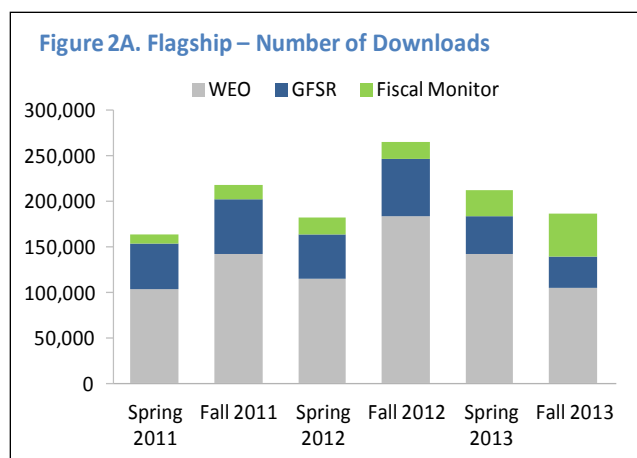
- setting clear expectations about the sophistication of analysis country teams should produce, and potentially experimenting with financial focus groups within regional units;
- adjusting FSAP output to facilitate its integration into the Article IV process and help shape area departments' macro-financial surveillance priorities;
- exploring ways to use TA more creatively as an input to macro-financial surveillance by area departments

G. Communications Issues

39. The external study highlights that the sheer volume of materials produced by the Fund has gone beyond the absorption capacity of senior policy officials and their advisors. This makes maintaining message consistency more difficult, and necessitates more sharply differentiating the products, and tailoring and channeling communications accordingly. The External Advisory Group emphasized that the Fund is a “political actor” and must think about how its advice translates politically. At the same time, the Fund should not shy away from delivering difficult messages. Striking the right balance requires well-developed and integrated communication strategies.

40. Although the established flagship products are familiar, some of the new multilateral products have gained only limited recognition. According to the survey results and interviews, authorities are, in general, familiar with main flagships (WEO, GFSR) and to a lesser extent the Fiscal Monitor. Although demand for full document downloads has declined lately, interest in secondary communications products (blogs, survey stories, and videos) is on the rise. Also, while traditional media coverage is declining, social media coverage is rising. The new surveillance products have

only a fraction of the download counts of the WEO, GFSR and the Fiscal Monitor. COM¹¹ has increased its support for multilateral flagships, including the new products, since 2011 (Annex III).



41. The external study underscores that the complex nature of some new multilateral products requires significant time for absorption and assessment, even for trained economists. Country authorities receive IMF views on an almost continual basis, sometimes filtered through complex modeling exercises. The large and continual supply of products is one of the reasons why maintaining consistency has become more difficult in recent years. As the Fund continues to experiment with new products and modalities, it needs to focus on better differentiating its products and enhancing the communication of the main messages. This may include efforts to communicate results to research analysts in member central banks, finance ministries or even in universities, who are most likely to be called upon to assess whether the most senior policymakers should devote time and attention to the results. Finally, the external study stresses that the Fund’s working paper series plays an important role in underpinning Fund advice, analysis and credibility.

42. Area departments have been active in developing communication strategies based on individual departments’ needs. Some departments have formal communication strategies. These strategies identify department-wide main objectives, messages, and instruments. Other departments rely on less formal mechanisms. Both bottom-up (team plans) and top-down approaches are being utilized in developing the overall strategies. Depending on the countries’ profiles, departments rely on both newer methods—such as social media and blogging—and traditional methods—such as radio broadcasting, conferences, and books. Most departments leverage REO events and MD’s visits to reach out various audiences.

43. Departments highlighted various elements for effective communication, in addition to COM’s support. COM is either embedded in departments’ communication activities or plays an advisory role. COM’s support for individual countries is more sporadic. The departments highlighted

¹¹The upcoming Communication Strategy Board paper articulates COM’s strategy for the coming period.

the following factors for an effective communication: i) resident representatives, and more broadly, “presence on the ground”; ii) delivering messages in local languages; and iii) consistent efforts at the team level.

44. Reduced budget allocation is a binding constraint for effective communication. The cut in budget allocation for languages have made it difficult for departments to produce documents in different languages and to improve staff skills in languages other than English.

Possible Options

- Consider options for better synthesizing the Fund’s key messages. Consider including a summary of the main messages of the Pilot ESR and the Spillover Report in the WEO.
- Revisit the structure of the flagships with a view to differentiating, to the extent possible, between policy recommendations and detailed background analytical studies. One approach would be making the key messages from main flagship products available to policy makers in a single source, with links to extended executive summaries of individual flagship products, reflecting main takeaways from policy and analytical chapters.
- Enhance departmental and team communication strategies. Having departmental strategies across the Fund would help improve departmental and Management coordination on the substance of the Fund’s messages (including from MD’s messages meetings). At the team level, communication strategies could be clearly spelled out at the outreach section of policy notes to strategically plan the communication of the main messages ahead of the mission.

H. Resource Issues

45. The Fund’s efforts to strengthen integrated surveillance and the analysis of global risks and spillovers have required increased resources devoted to both bilateral and multilateral surveillance. Although there are some perceptions, highlighted in the report on interviews with staff, that the resources absorbed by the preparation of multilateral products resulted in an undue reallocation of resources away from bilateral surveillance, the analysis of resource allocation does not support this perception. This section focuses on developments in resources devoted to main Fund activities, particularly bilateral and multilateral surveillance, in recent years, and the expertise provided to bilateral surveillance by analyzing mission staffing patterns by functional departments.

46. While some major trends are discernible, the results have to be treated with caution as the classification of activities and outputs into multilateral and bilateral surveillance is not straightforward. Time Reporting for Analytic Costing and Estimation System (TRACES) is output-based, thus the allocation of resources between bilateral and multilateral surveillance is not in all cases clear-cut as some activities/outputs have both bilateral and multilateral surveillance elements (e.g., the Spillover Report, certain research output or cross-country analysis).¹²

¹² See Annex IV for the classification of the Fund’s outputs for ACES and TRACES.

Evolution of Resources Devoted to Main Fund Activities

47. Staff's reported time has been steadily rising since FY10 following the downsizing of the Fund (Table 1 and Figure 3).¹³ The downsizing, initiated in 2008, implied a nearly 20 percent decline in staff time spent on the Fund's main outputs between FY07 and FY10, and staff time reached the FY07 level only in FY13.¹⁴ The rise in total staff years from FY10 has been mostly driven by capacity development (in particular externally financed activities) and to a lesser extent by multilateral surveillance. Since the onset of the global financial crisis, there was a temporary rise in lending (through FY12), but by FY13 time reported for lending was lower than in FY10 as some programs ended. Resources for the oversight of the global system have been broadly stable.

Table 1. The Share of Main Activities in Total Staff Years without Capacity Development, FY07-FY14^{1/}
(in percent)

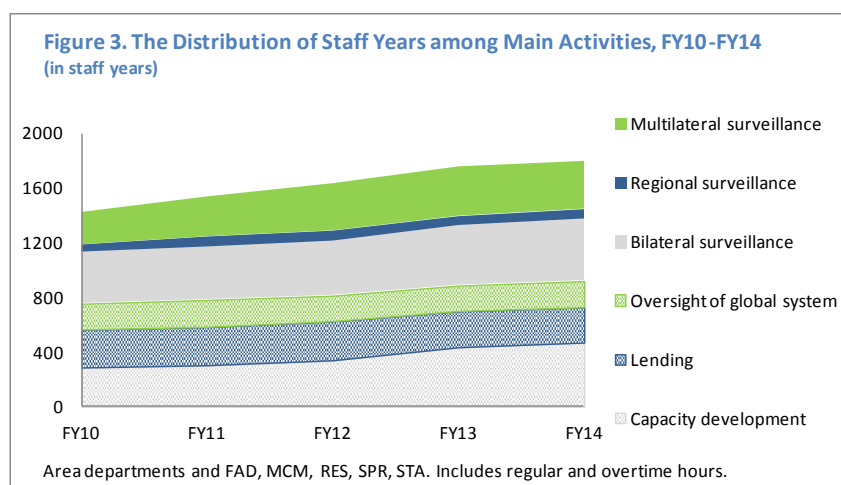
	FY07 ^{2/}	FY10	FY11	FY12	FY13	FY14
Multilateral surveillance	15%	21%	24%	27%	27%	26%
Regional surveillance	...	5%	6%	6%	5%	5%
Bilateral surveillance	30%	33%	32%	31%	34%	35%
Oversight of global system	...	17%	16%	14%	14%	15%
Lending	...	25%	23%	22%	20%	20%
Total without capacity development	100%	100%	100%	100%	100%	100%
Total staff years (without capacity development)	1745	1420	1534	1630	1752	1793

^{1/}The data presented in the table covers only the five area departments and selected functional departments (FAD, MCM, RES, SPR, and STA). It reflects regular plus overtime hours.

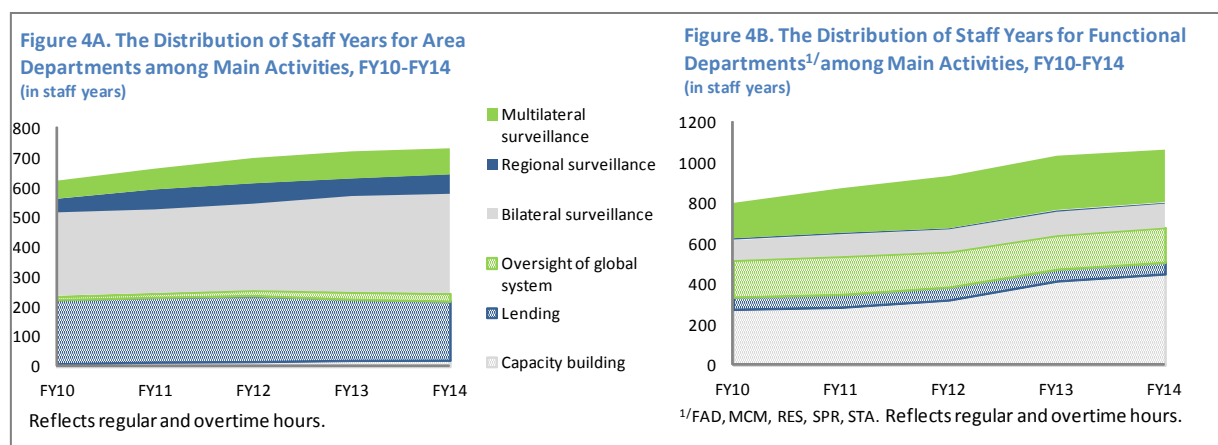
^{2/}TSR team estimate. Value for Multilateral Surveillance in FY07 is estimated by adding 50 percent of staff time for TRS codes that would be best classified as research, analysis, policy development to Multilateral Surveillance as reported in TRS in that year. The other 50 percent is unallocated. Values for bilateral surveillance and lending for FY07 are as reported under the TRS system. Values for all categories for FY10-FY14 are as reported in TRACES.

¹³ The Fund's time reporting system (TRACES, introduced in 2010) captures staff time spent on various Fund outputs. It must be noted that TRACES statistics may have some limitations related to inconsistencies in the way Fund staff report their inputs to various outputs. The time input analyzed in this study includes regular and overtime hours reported by staff in area departments and selected functional departments (FAD, MCM, RES, SPR and STA).

¹⁴ While using a longer time series of time reporting data would be useful, the changes introduced when the Fund switched from the previous time reporting system (TRS) to TRACES (in FY11) make such comparisons challenging. Nevertheless, Table 1 provides estimates for allocating resources between bilateral and multilateral surveillance for FY07, by adjusting multilateral surveillance to include a large share of general research and analysis.



48. There is no evidence of a reallocation of staff time from bilateral to multilateral surveillance, but there is a clear rising trend in multilateral surveillance. Resources devoted to multilateral surveillance increased by 111 staff years between FY10 and FY14 translating into a five percentage point rise in staff years if capacity development is omitted, this rise was even more pronounced between FY07 (staff estimate) and FY14. Between FY10 and FY14, resources devoted to bilateral surveillance also increased steadily, by 77 staff years, translating into a modest rise as a share of total resources (excluding capacity development). Time reported for regional surveillance has been broadly stable. Thus, although the extra resources (excluding capacity development) have predominantly contributed to multilateral surveillance, this has not crowded out resources for bilateral surveillance.



49. The trends in bilateral and multilateral surveillance are similar for area and functional Departments (Figures 4A and 4B). Area departments naturally devote the bulk of their time to bilateral surveillance and to lending in crisis years, whereas the distribution of staff time among the main activities shows greater variation in functional departments. Even so, the patterns in the evolution of bilateral and multilateral surveillance have been similar: between FY10 and FY14, staff

time devoted to multilateral surveillance increased by nearly 50 percent in both types of departments, whereas bilateral surveillance hours rose by 19 and 25 percent in area departments and functional departments, respectively.

50. Resource trends based on the Analytic Costing and Estimation System (ACES) are broadly in line with trends in staff hours, but the share of the main output categories is somewhat different.¹⁵ If other direct cost elements (primarily travel costs) are also taken into account in addition to staff time, the rise in resources devoted to multilateral surveillance is less steep than in the case of staff time for the comparable period (FY11–FY14). Bilateral surveillance and lending have a higher share in the total in ACES-based estimates than in TRACES, whereas multilateral surveillance has a somewhat lower share in ACES.¹⁶ This can be to a large extent explained by higher travel costs for bilateral surveillance and lending than for multilateral surveillance.

Table 2. The Share of Fund-Financed Main Outputs without Capacity Development, FY09-FY14^{1/} (in percent)						
	FY09	FY10	FY11	FY12	FY13	FY14
Multilateral surveillance	18%	19%	20%	22%	22%	20%
Regional surveillance	5%	5%	5%	5%	5%	5%
Bilateral surveillance	39%	34%	35%	34%	37%	38%
Oversight of global system	13%	14%	14%	12%	12%	13%
Lending	26%	28%	27%	27%	25%	23%
Total without capacity development	100%	100%	100%	100%	100%	100%
Total without capacity development (in million US dollars)	329	377	357	381	380	387

^{1/}FY09-10 are pre-ACES estimates by the Office of Budget and Planning. FY11-14 are ACES estimates.

Support by Functional Departments to Area Departments

51. Mission chiefs view multilateral activities crowding out the support formerly received from functional departments. According to the surveys, mission chiefs—particularly those working on EMs and LICs—call for greater support from functional departments either on Article IV missions or a continuous basis. This comes against a backdrop of perceived reductions in both the experience of teams and in functional department support for certain area departments: nearly half of mission chiefs working on EMs and LICs (particularly in MCD and AFR) report a marginal or substantial decline in support from functional departments, whereas AM mission chiefs generally report no change or a marginal improvement. Financial sector expertise, while in great demand, is particularly unevenly distributed. While the majority of EUR mission chiefs report having financial sector experts on their teams, the ratio drops to around 30 percent in AFR and MCD. A significant share of mission teams in AMs (mainly in EUR and WHD) have a permanent MCM economist, whereas EM and LIC teams rely more on staff members from their own departments.

¹⁵ ACES data is only available from FY11. Comparisons of pre- and post-FY11 ACES data have to be interpreted cautiously as reporting behavior changed when the new TRACES system was introduced.

¹⁶ The shares are expressed as a percentage of the total without capacity development in both cases in order to filter out the effect of the significant rise in externally-financed TA activities.

52. Mission reporting data indicates that functional departments ramped up their mission support to area departments in the crisis years, with EUR benefitting the most (Table 3 and Figures 5 and 6).¹⁷ Most of the

increase was allocated to program country missions while bilateral surveillance mission support remained broadly level between FY07 and FY13.¹⁸ The number of functional department staff mission days for bilateral surveillance increased by 3 percent between FY07 and FY13, whereas their participation in program missions increased by 25 percent in the same period, with a particular sharp rise until 2011. FAD and SPR allocate around 60-80 percent of their mission support to program cases. MCM's assistance to program missions increased significantly between FY07 and FY12, while their mission support to bilateral surveillance

remained steady in absolute terms and declined as a share of their total support. In parallel with the increased mission support to EUR for bilateral surveillance purposes, missions to all area departments other than AFR in this period have declined. The increase in functional departments' mission days in EUR-led bilateral surveillance missions can partly be explained by an overall increase in EUR missions days.

Nevertheless, from FY09, the share of functional department staff on EUR-led missions has been markedly higher than on missions led by other departments. (Table 4)

Table 3. Functional Department^{1/} Mission Support to Area Departments - Bilateral and Regional Surveillance and UFR Missions

	(No. of days on missions)					
	AFR	APD	EUR	MCD	WHD	Total
2007	1117	600	1002	743	1053	4515
2008	1081	448	818	797	754	3898
2009	1247	392	1762	644	477	4522
2010	1253	584	2155	759	703	5454
2011	1058	591	2426	814	626	5515
2012	854	366	2371	825	600	5016
2013	1118	498	2517	821	540	5494
Increase	0%	-17%	151%	10%	-49%	22%

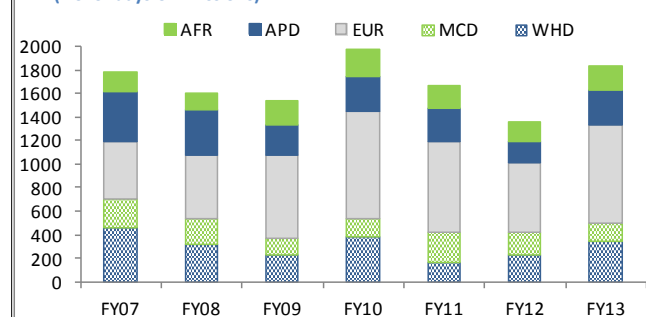
^{1/}FAD, MCM, SPR and RES

Table 4. Functional Department^{1/} Support to Area Department Surveillance Missions - (Share of total area department surveillance mission days, in percent)

	AFR	APD	EUR	MCD	WHD
FY07	16%	22%	20%	16%	24%
FY08	25%	20%	24%	10%	17%
FY09	19%	16%	25%	9%	14%
FY10	22%	18%	30%	9%	22%
FY11	19%	14%	25%	15%	12%
FY12	15%	9%	25%	13%	15%
FY13	13%	16%	23%	14%	18%

^{1/}FAD, MCM, SPR and RES

Figure 5. Functional Department^{1/} Support to Area Department Surveillance Missions
(No. of days on missions)



^{1/}FAD, MCM, SPR and RES

¹⁷ This analysis is based on TIMS data for the FY07–FY13 period. Functional department mission support for area departments include only FAD, MCM, SPR and RES for the purposes of this analysis.

¹⁸ Bilateral surveillance missions include both Article IV missions and staff visits for the purpose of this analysis. Program country missions also include combined Article IV and review missions.

Box 2. Functional Departments' Mission Support to Area Department—Bilateral Surveillance

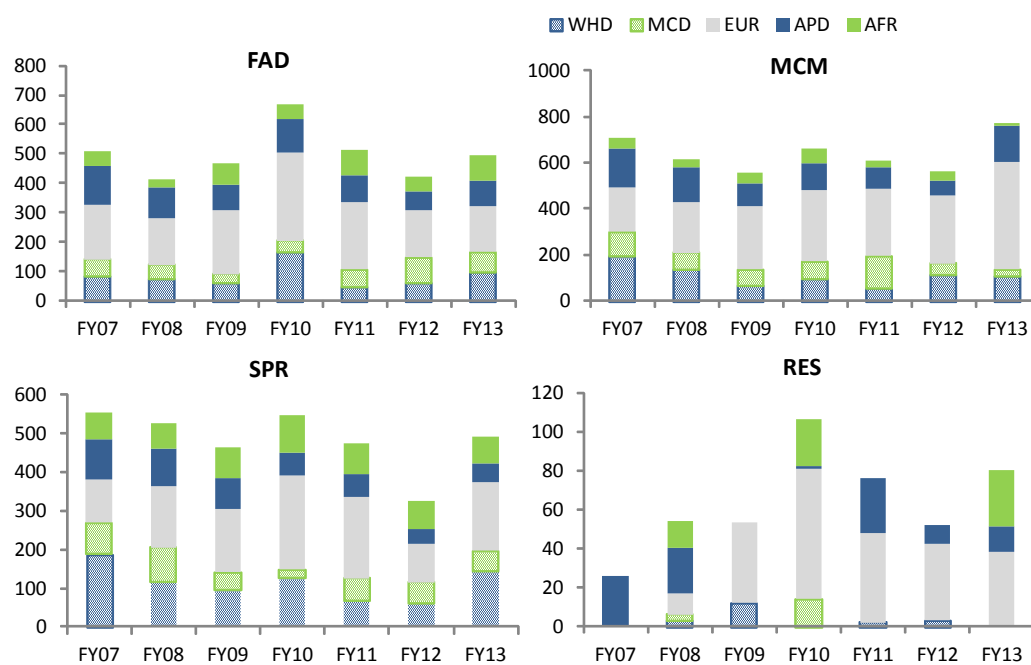
EUR has been the biggest beneficiary of functional departments' mission support not only for program cases but also for bilateral surveillance. (Table 5) Since FY07, EUR's share in total mission days for bilateral surveillance increased steadily, and by FY10 it accounted for over 40 percent of mission days for all functional departments. The increased support to EUR translated into lower mission participation for other area departments: APD has received lower support from FAD, while MCM reduced its mission support for all other area departments, and SPR cut back on missions to APD, MCD and WHD.

**Table 5. Functional Department^{1/} Mission Support to Area Departments
Bilateral Surveillance Missions**
(No. of days on missions)

		AFR	APD	EUR	MCD	WHD	Total
FAD	FY07	50	132	186	58	83	509
	FY13	89	84	158	70	96	497
MCM	FY07	47	164	195	108	193	707
	FY13	16	155	466	31	108	776
SPR	FY07	68	102	113	79	188	550
	FY13	70	48	177	53	142	490
RES	FY07	0	26	0	0	0	26
	FY13	29	13	38	0	0	80

^{1/} FAD, MCM, SPR and RES

Figure 6. Functional Department Mission Support to Area Departments - Bilateral Surveillance
(No. of days on missions)



53. Deeper policy analysis and advice in Article IV consultations would greatly benefit from increased functional department support both in terms of mission participation and review, particularly from MCM and FAD. Mission reporting data supports the perception of a significant share of mission chiefs and some country authorities that specialized knowledge support by functional departments to bilateral surveillance is insufficient. As the Report on Interviews for the 2014 TSR highlights, several country authorities mentioned that they found the IMF staff's analysis too general to be of great value in addressing their concrete policy challenges. Country authorities value the specialized expertise that functional departments' staff can bring to the policy dialogue in Article IV Consultations, and some of them raised the issue of decreased participation of functional department staff, especially from MCM and FAD, in Article IV consultation missions. Interviews with mission chiefs suggest that the number of countries reviewed falls short of area departments' wishes. However, data show that FAD and MCM review of Policy Notes have not declined (Table 6).

Table 6. Number of Countries whose Policy Note was Reviewed by MCM and FAD

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Fiscal Affairs Department	119	107	105	112
Monetary and Capital Markets Department	67	52	57	57	57	75	80	78

54. The substantial increase in capacity building could be better leveraged to support bilateral surveillance. While some country teams have indeed received lower direct support from functional departments for the Article IV consultation process, technical assistance to the Fund's membership has increased greatly. It would be beneficial if technical assistance were better integrated with bilateral surveillance to take advantage of this increased indirect support, e.g., by aligning the timing of TA and Article IV missions, and better integrating the findings and recommendations of TA reports into the surveillance analysis. This is especially relevant for many emerging countries, particularly those without programs, where technical assistance has been somewhat disconnected from the Article IV process unlike in most program cases where technical assistance missions and findings are more integrated into country work.

Annex I. Modalities of Multilateral Surveillance at the Fund

MS Exercise / Product	Description	Launched	Frequency	Length of process	Published	Ownership	Integration with Bilateral Surveillance	Integration with other Multilateral Surveillance
World Economic Outlook	Analyzes global economic developments during the near and medium term - includes conjunctural and more detailed analytical chapters.		Biannual	6 months	Y	RES	<p><u>Database</u> - country desks undertake economic analysis, subject to WEO assumptions, and submit data to the WEO team. The teams then iterate to discuss and resolve data issues. Desks have ultimate responsibility for changes and resubmitting data.</p> <p><u>Analytical Chapters</u> - Area Departments provide early feedback on chapter outlines, including at an informal "brown bag" seminar, in addition to formally reviewing fully drafted chapters.</p> <p><u>Conjunctural chapters</u> - Area Departments draft sections on their regions and submit them to the WEO. Subsequently, RES and ADs iterate on finalizing the sections.</p> <p><u>Statistical Appendix</u>: departments review tables for accuracy.</p>	<p>The WEO and the WEO database provide the baseline forecast for the GFSR and the Fiscal Monitor.</p> <p>Analysis and scenarios in the analytical chapters of the WEO are also often leveraged by the Spillover Report and the Early Warning Exercise.</p>
Global Financial Stability Report	Identifies vulnerabilities in the global financial system - includes conjunctural and analytical chapters	2002	Biannual	6 months	Y	MCM	<p><u>Analytical Chapters</u> - Area Departments are: (i) invited participate in brainstorming sessions on analytical topic selection; (ii) review chapter outlines; (iii) review the fully drafted chapters; (iv) review charts and tables for accuracy; and (v) participate in mid-point meetings with country economists.</p> <p><u>Conjunctural chapter</u> - Area departments: (i) review chapter outlines; (ii) review charts and tables for accuracy; and (iii) review the fully drafted chapters.</p> <p><u>Statistical Appendix</u>: Departments review charts and tables for accuracy.</p>	<p>MCM and RES engage early to ensure themes for the WEO and GFSR are coordinated.</p> <p>An explicit objective of the GFSR is to draw out the financial ramifications of economic imbalances highlighted by the IMF's World Economic Outlook.</p>
Fiscal Monitor	Analyzes latest fiscal developments - updates fiscal implications of the crisis, medium-term projections, and assesses policies to put public finances on a sustainable footing.	2010	Biannual	6 months	Y	FAD	<p><u>Fiscal data</u> - country desks provide comments and inputs to tables and fiscal numbers via the WEO, including updating definitional information for individual countries.</p> <p><u>Conjunctural chapters</u> - Area Departments formally review chapters once they have been fully drafted.</p> <p><u>Analytical chapters</u> (new in Oct 2013) - consultation with Area Departments on themes was limited and later in the process. FAD plan to engage earlier in future, in line with practice for the WEO.</p> <p><u>Other</u> - FM team have lots of contact with country desks in the lead up to missions, often to provide cross-country analysis and advice, as well as conjunctural information. This is meant to ensure consistency in surveillance, particularly for bigger systemic economies.</p>	<p>The Fiscal Monitor's projections are based on the same database used for the April 2010 WEO and GFSR. The fiscal projections for individual countries have been prepared by IMF desk economists, and, in line with the WEO guidelines, assume that announced policies will be implemented.</p>
Early Warning Exercise	Assesses low-probability but high-impact risks to the global economy and identifies policies to mitigate them. Joint IMF and Financial Stability Board (FSB) exercise, integrating macroeconomic and financial perspectives on systemic risks.	2008	Annual	4 months	N	Taskforce - RES, SPR and Area Departments	There is no formal review process. Heads of Department see and discuss the results but in practice there tends to be relatively limited reaction or feedback.	<p>The EWE leverages inputs from other MS exercises - for example the WEO or Spillover Report - rather than undertaking a lot of original analysis. The aim is to present the material in new and interesting ways to stimulate a good policy discussion at the IMFC.</p>

MS Exercise / Product	Description	Launched	Frequency	Length of process	Published	Ownership	Integration with Bilateral Surveillance	Integration with other Multilateral Surveillance
Vulnerability Exercises	Exercises act as a basis for regular, focused discussions on key risks and their implications for IMF policy, prescriptions. Aimed at enhancing the IMF's crisis prevention capabilities.	VEE - 2001 VEA - 2011 VE-LICS - 2011	Biannual	3-4 months	Y/N	SPR	<u>Data and Ratings</u> - country desks provide input initial data and views on final vulnerability ratings. SPR teams and reviewers discuss any disagreements on ratings, but ultimately the country desk has the final say. <u>Shortlist</u> - Area Departments are also asked to coordinate and provide a rank-ordered shortlist of countries requiring heightened attention.	Functional Departments are now asked to provide information to inform country desks' final ratings – e.g. FAD provide a public sector vulnerability index; MCM provide a financial sector rating; RES provide a crisis risks rating and [x] on political risks and program performance. [The IMF Risk group also meets with country teams of the countries deemed most vulnerable countries to see what support can be provided.]
Spillover Report	Assesses how policies in the larger systemic-S economies (Euro Area, China, Japan, UK and US), impact the rest of the world. Aimed at improving understanding of interconnectedness and supporting better policy collaboration at the global level.	2010	Annual	6 months	Yes	RES	Area departments meet with Functional Departments to discuss theme outlines and work allocation. Preliminary analysis is then submitted to the RES spillover team who coordinate and compile inputs. A cross-departmental taskforce, including Area Department representatives, comment on thematic outlines, presentation and finally the draft report. There is then a formal departmental review process where area departments can provide comments. Evidence suggests that analysis and advice from the Spillover Reports is referenced or featured in some Article IV reports, particularly in those of the systemic economies that are the focus of the Spillover Reports.	
External Sector Report	Systematic surveillance of external imbalances, including beyond the exchange rates to current accounts, balance sheet positions, reserves adequacy and capital flows. Provides multilaterally consistent analysis of the external positions of the 28 largest economies (and the Euro Area) simultaneously, and potential policy responses.	2012	Annual	6 months	Yes (ESR country pages not published)	RES	Country desks input on desirable policy values (p* values) and regularly update throughout the year. They also meet with the RES team providing feedback on the EBA results, through meetings with the RES team. Country desks can provide additional auxiliary regressions - almost like sensitivity analysis. Desks have the ultimate decision if there is a disagreement. Desks also engage with country authorities on the EBA results, at the Spring Meetings and during Article IV missions. ESR teams support country desks, particularly on the bigger global picture. Although they are not formally involved in the Article IV process, they do have some input to the ESR-related language, with more reports beginning to now include these references.	SPR/RES front office review for consistency language.
Global Risk Assessment Matrix	Lists key global and regional risks, and associates a broad probability of realization to each (low-medium-high). The G-RAM is an internal staff document, which is discussed among departments and approved by Management, updated at least quarterly or as needed to provide an up-to-date consistent set of risks around the staff's baseline forecasts.	2012	No formal cycle to retain flexibility, though close to quarterly in practice.	1 month	N (but most material finds it way into the public domain via Article IV reports).	SPR	Departments meet at a technical level with the SPR team to set the preliminary agenda and then submit risk updates to the Interdepartmental Risk Group. Country teams draw on the GRAM for risks to include in the Risk Assessment Matrix in the Article IV reports and the FSAPs.	Draws on spillover exercises and organically evolves. Updates feed into VEs, particularly the scenarios. Also draws on discussion of downside risks in the WEO (RES people in risks group). In that way seen as a bridge to the bilateral surveillance. More integration with WEO than GFSR.
Cluster Reports	Intended to assess spillovers across a group of interconnected countries by examining the risks from common shocks, highlighting shared policy challenges and where relevant, potential gains from policy coordination.	2013	Ad-hoc	3 months (support parallel AIV processes)	Y (but requires consent of all countries involved)	Area Departments (thus far)	Cluster reports have tended leverage existing country desk work. Process usually requires early consultation by the country desks/Area Departments with country authorities to achieve buy-in for the report. Risks and policy recommendations are then discussed either during individual Article IV consultation missions, staff visits, or at conferences. Ideally, discussions allow for a joint event attended by all countries involved.	Analytical support from SPR, RES, MCM.

Annex II. Cluster Reports

55. Three pilot cluster reports, the German-Central European Supply Chain (GCESC) cluster report, the Nordic Regional Report (NRR), and the Baltic Cluster Report (BCR) have been produced so far.¹⁹ These three cluster reports took different approaches in terms of modalities, but they all considered common concerns and policy issues of a cluster of countries in an integrated way. Moreover, all three reports had a strong focus on interconnectedness and common challenges. The GCESC report focused on both real and financial linkages supporting the supply chain, the NRR mainly focused on financial linkages, and the BCR focused on links among the Baltics and between the Baltics and Nordics, as well as issues of common concern among the Baltics. Importantly, these cluster reports were coordinated with Article IV consultations of most of the countries involved, thereby facilitating the integration of multilateral perspectives with bilateral surveillance and vice versa.

56. More generally, cluster reports fill the gap between bilateral and multilateral surveillance, by examining groups of countries with strong inter-linkages or common issues and experiences and analyzing the policies of these countries in the regional context. The two pilot cluster reports successfully demonstrated that bilateral Article IV and cluster reports can reinforce each other. Cluster reports are a form of multilateral surveillance that is well-tailored to country needs, helps identify common policy issues and build a broader picture for clustered countries, and this broader picture in turn helps inform what is needed at the national level. In other words, cluster reports provide additional analytical and policy underpinnings to bilateral surveillance.

57. The cluster reports have been very well received by the authorities. The authorities were fully engaged in the process and provided substantial feedback to both cluster reports. This was also reflected in their positive response in the survey conducted by the staff. The ED offices also provided excellent support in coordinating the work and facilitating the dialogue between the authorities.

58. The experience so far offers some valuable lessons.

- **Identification of clusters.** Criteria for identifying clusters can vary across regions and over time. Clusters can be formed beyond geographical proximity, by considering common challenges and experiences (e.g., trade linkages, housing market boom, banking issues). Clusters offer the possibility to look beyond traditional grouping of countries (e.g., Germany is a member of the euro area, while most of the supply chain countries are not). Institutional factors could also play an important role in identifying clusters. The NRR and BCR built on a long standing tradition of cooperation among Nordic and Baltic economies while this feature may not always be found in other regions. On the other hand, the model used for the GCESC report could work well even when the tradition of cooperation among the countries is less evident.

¹⁹ More cluster reports are also in pipeline. A few other cluster reports are in the planning stage, including a housing market cluster report (EUR) and an ASEAN cluster report (APD).

- **Traction.** Common policy challenges need to be significant for all members involved, as there will be traction only if the policy analysis is relevant.
- **Resource management and planning.** Cluster reports require good resource management and planning. While other departments contributed, the three cluster reports were produced largely by the existing teams within the existing staffing framework in EUR. In the case of the NRR, while there were synergies between the cluster report and Article IV work, workloads increased substantially for the Nordic country teams. This was true to an even greater extent with the BCR which was prepared and discussed simultaneously with the Article IV reports for the Baltic countries. Similarly, the GCESC resulted in a greater workload for those involved. On the other hand, limiting the size of the team helps to minimize coordination costs. That was particularly the case for the NRR team because the most of the team members were from the same unit.
- **The Fund-level institutional factors.** Support from the Board, Management, and the Front Office was a necessary condition for the cluster reports. In the case of the NRR, it was helpful that most economies worked in the same Unit of the Department, and that economists in all country teams regularly exchanged information and worked on joint projects. In addition, there was substantial overlap in staffing among country teams. In the case of the GCESC report, new teams and infrastructure had to be set up.

59. Interviews with area departments suggest that cluster reports need to continue to be formulated in a flexible manner to be applicable to a wide range of countries. Some area departments noted the importance of a thematic approach as narrow concepts of regional clusters may not always fit. For example, sometimes countries within an area department's portfolio have limited direct linkages within the region but rather have more direct linkages with outside countries. It was also pointed out that it is not easy to coordinate the timing of Article IVs (e.g., authorities' preferences or staffing constraints at the Fund), and in some cases, the authorities may prefer not to cluster Article IVs at all. In practice, cross-regional work can add further complications in terms of coordinating the timing of Article IVs and staffing.

60. These considerations suggest that continued flexibility in cluster design will be a useful approach going forward. Flexible combinations of thematic and regional approaches beyond the models of the NRR, BCR and the GCESC will allow cluster reports to adjust to different need and circumstances while filling the gap between multilateral and bilateral surveillance. At the same time, it is important to involve authorities early and emphasize that cluster reports are a complement to bilateral surveillance, adding to and not taking away from the existing Article IVs.

Annex III. Surveillance and Communications: An Update²⁰

Since 2011, new communication tools have helped to reach a broader audience and build understanding and traction for surveillance messages.

- **Shorter documents in “plain English.”** Increased use of *IMF Survey* stories to accompany the release of systemic Article IV reports and flagship surveillance reports—WEO, GFSR, Fiscal Monitor, as well as the Spillover and External Sector Reports—helps to draw out top line policy messages in language that is tailored to the general public (see 2013 WEO Survey Story). Messages across surveillance reports are also better coordinated, which contributes to the coherence of policy advice and builds credibility.
- **Social media.** The expansion of the IMF’s use of social media, including in a range of languages, is broadening the exposure of the key surveillance reports. The IMF’s Twitter account @IMFNews has grown to over 200,000 followers, and through Weibo reaches over 3.8 million Chinese followers, while the global economy blog iMFdirect has received more than one million views since its launch in August 2009. The Spanish and Arabic blogs, introduced shortly thereafter, allow the IMF to strengthen its dialogue with readers in Latin America and the Middle East in their own language.
- **Targeted outreach.** Outreach for flagship reports is more strategic—and crosses regions—in recognition of increasing global interconnectedness. For example, the 2013 WEO and GFSR inter alia were presented in South Africa, where the surveillance messages of global financial turmoil were critically important. Outreach around Article IV missions is also more tailored to country circumstances. Fund missions now regularly meet with civil society organizations, labor groups, parliamentarians, youth, and other stakeholders. Resident representatives continue to play a vital role in such outreach.
- **Digital publications.** While the Fund still uses print strategically for the range of surveillance products, it is also publishing more widely in multiple electronic and digital formats to reach a wider audience. Since 2010, the IMF’s eLibrary and Bookstore has provided global access to Fund publications to over 600 institutional subscribers (free-of-charge in developing and low-income countries).

²⁰ Prepared by the Communications Department.

Annex IV. The Fund's Outputs

The Fund's Outputs		
Major Output Areas	Output Areas	TRACES Outputs
Multilateral Surveillance	1.1 Global economic analysis	1.1.1 WEO 1.1.2 GFSR 1.1.3 General research 1.1.4 General outreach
	1.2 Cooperative economic policy solutions	1.2.1 Multilateral consultations 1.2.2 Support and inputs to multilateral forums
	1.3 Tools to prevent and resolve systemic crises	1.3.1 Analysis of Vulnerabilities and Imbalances 1.3.2 Other Cross-Cutting Analysis excluding Fiscal Monitor 1.3.3 Fiscal Monitor
	1.4 Regional approaches to economic stability	1.4.1 REOs 1.4.2 Surveillance of regional bodies 1.4.3 Other regional projects
Oversight of Global Systems	2.1 Development of international financial architecture	2.1.1 Work with FSB and other international bodies 2.1.2 Other work on monetary, financial and capital markets issues
	2.2 Data transparency	2.2.1 Statistical information/data 2.2.2 Statistical manuals 2.2.3 Statistical methodologies
	2.3 The role of the Fund	2.3.1 Development and review of Fund policies and facilities excluding PRGT and GRA 2.3.2 Development and review of Fund policies and facilities - PRGT 2.3.3 Development and review of Fund policies and facilities - GRA 2.3.4 Quota and voice 2.3.5 SDR Issues
Bilateral Surveillance	3.1 Assessment of economic policies and risks	3.1.1 Article IV Consultations 3.1.2 Other bilateral surveillance
	3.2 Financial soundness evaluations	3.2.1 FSAPs/OFCs
	3.3 Standards and Codes evaluations	3.3.1 ROSCs 3.3.2 AML/CFT (incles ROSC) 3.3.3 GDDS/SDDS
Lending	4.1 Arrangements supported by Fund resources	4.1.1 Programs and facilities supported by general resources 4.1.2 Programs and facilities supported by PRGT resources
	4.2 Arrangements not supported by Fund resources	4.2.1 Non-financial instruments and debt relief
Capacity Building	5.1 Technical assistance	5.1.1 Technical assistance reports, notes, manuals
	5.2 Training	5.2.1 Training courses, workshops
Governance and Support	6.1 Direction and accountability	6.1.1 Board of Governors, IMFC, and Executive Board 6.1.2 Reform of IMF processes and audit-related activities
	6.2 General support	6.2.1 Management and control of financial resources 6.2.2 Other general services 6.2.3 My career development 6.2.4 Management and career development of staff 6.2.5 Other HR activities