

IMF Publication

2011 Triennial Surveillance Review
- External Report on Interviews with
Country Authorities

INTERNATIONAL MONETARY FUND

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TSR External Report on Interviews with Country Authorities¹

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May 15, 2011

¹ This paper represents the views of the authors and does not necessarily represent IMF views or IMF policy. The views expressed herein should be attributed to the authors and not to the IMF, its Executive Board, or its management.

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Summary of Conclusions

This report summarizes the views of a representative sample of country authorities on IMF surveillance. While the views expressed were diverse, the following points summarize the central conclusions:

- Views on Fund bilateral surveillance were generally positive (albeit with some exceptions), but with differences on what country authorities want from it. Most authorities would like to see more attention given to the implications of regional and international developments for their country, and to be provided with more cross-country experiences relevant to their own situation. Some also called for greater flexibility on the part of mission chiefs who, at times, seemed too wedded to briefs prepared in Washington. That said, in many cases, staff received good marks for their interactions with country officials before consultation missions. In particular, authorities welcomed the efforts of staff to respond to requests to help develop background material and analysis on issues within the Fund's competence that were of immediate interest and concern to the authorities.

¹ Former Director of the Policy Development and Review Department and former Director of the Fiscal Affairs Department at the IMF, respectively.

- FSAPs were commented on favorably by most authorities. Nevertheless, many wanted to see a better integration of FSAPs - and of technical assistance - with the surveillance work of the area departments. In one case, however, the authorities were critical of the FSAP done for their country, finding it to be too diffuse, lacking analytical depth, and excessively resource intensive and time consuming.
- Most authorities expressed unhappiness with the 2007 Surveillance decision and felt that it had narrowed the focus of surveillance too much towards the exchange rate at the cost of greater attention to other important macro-economic issues. Many emphasized the need to embed exchange rate analysis in the broader macroeconomic and structural context and situation of the country. Within that broader context, some called for a sharper focus and greater candor in the Fund's assessment of exchange rate policies, especially for surplus countries.
- Many of those interviewed called for greater awareness on the part of staff of the history, culture, politics and institutions of their country, and a greater appreciation of economic thought outside the Anglo-Saxon tradition. Some expressed the view that greater national diversity among the staff would be helpful in this respect.
- Virtually all those interviewed welcomed the greater transparency of the Fund and the efforts by mission chiefs and others to reach out to the public. Most authorities appreciated candor in private settings. However, there were still, in the view of most, tensions between the roles of the Fund as confidential advisor and as ruthless truth teller. A few thought that the balance should be shifted further toward the latter role.
- Much unhappiness remains about the perceived lack of traction - and of evenhandedness - in Fund surveillance over the more advanced economies. Several authorities supported recent efforts -- most prominently within the G20 -- to incorporate quantitative norms or indicators into the surveillance process as one means of achieving greater traction. The assistance being provided by staff in these efforts was appreciated.
- There were echoes of the criticisms made by the recent IEO report on the weaknesses of the WEO and GFSR in the lead up to the crisis. However, both products remain much appreciated - albeit for different reasons, depending mostly on the degree of development of the country. There is also a positive view of the efforts made since the crisis to improve these products, but some concerns remain that the macro and financial analyses should be better integrated for more effective

surveillance. A few called for better coordination in the preparation of the reports, and integration in a single chapter of the key points coming out of that work.

- The newer tools of multilateral surveillance - the Early Warning Exercises (EWE), the Vulnerability Exercise for Advanced Economies (VEA), and the spillover exercises currently under way - were broadly welcomed. However, a few wondered whether the need for spillover exercises was indicative of deficiencies in the WEO and GFSR. There is frustration, on the part of those excluded from the restricted sessions of the IMFC, with the lack of information about the conclusions of the EWE. A few suggested that there needed to be a greater role for executive directors in propagating the messages from all those exercises - not least so that they could better impact the effectiveness of both multilateral and bilateral surveillance.
- Organizational and coordination issues, both internal to the Fund and between the Fund and other organizations, were raised in many of the interviews. There seems to be a sense that better work in both areas is somewhat stymied by the "silo" mentality that is thought to still exist within the Fund. This was seen by many as an issue requiring stronger leadership by Management.
- There were widely different views expressed regarding the legitimacy and potential effectiveness of the G20 as a forum for surveillance and policy cooperation, and the proper role for the Fund vis a vis the G20. At one extreme, there was a suggestion that the Fund "...could make its reputation..." on surveillance through its work with the G20. At the other extreme, some wondered whether the Fund's work with the G20 risked effectively taking surveillance of the largest member countries out of the Fund. Similarly, there were differences of view on the possibility of reconciling the governance issues raised by the increased role of the G20 through a merger or integration of the G20 Ministers and Governors group with the IMFC - and on the possible activation of the Council in that context.

Main Report

This report provides an overview of the range of views expressed by country authorities in interviews conducted to ascertain member countries' attitudes toward the conduct and substance of IMF surveillance.² The report is organized under three broad headings: (1)

² The interviews took place mostly during the 2011 Spring Meetings and had as their purpose to ascertain the views of senior country officials on a range of issues on which the TSR is intended to focus. The countries were selected with a view to constituting a stratified and representative (albeit necessarily limited) sample of the
(continued)

bilateral surveillance; (2) multilateral surveillance; and (3) broad governance issues relating to surveillance.

I. Bilateral surveillance

a. Overall assessment of value-added

Authorities' views varied significantly on the over-arching question of the main value-added of Fund bilateral surveillance to their country. Many thought it was the provision of an overall integrated view (the word "holistic" was used by some) of the main economic and financial challenges currently facing the country. Discussions with the Fund staff provided an opportunity for senior policy makers to step back from a focus on day to day issues, and to reflect on policy inter-connections. The authorities in those countries also frequently used Fund advice to reinforce their main policy messages with other relevant stakeholders and with public opinion in general. However, a few authorities from the larger Fund shareholders felt that rarely, if ever, did the Article IV discussions provide significant new insights into their country's policy challenges and the options available to address such challenges.

A number of those interviewed (especially from some of the smaller, emerging and low income countries) felt that the Fund staff also provided them with valuable specific technical inputs that helped domestic policy-making. Many of these latter authorities noted that Fund surveillance missions also served to bring different government agencies and institutions into a collective process of assessing the economic and financial policy challenges facing the country.

Many of those interviewed would like to see greater efforts by the staff to present and discuss relevant international comparisons and experiences. In this respect, some authorities complained that the Article IV teams sometimes showed limited knowledge of regional or global economic issues important to the country. In particular, authorities would like to see more detailed discussion (based, inter alia, on quantified scenarios) of the risks posed by international economic developments for their economies, and of the appropriate policy responses to them.

membership, including advanced, emerging, and low-income countries, large and small ones, and representing different geographical areas (Appendix 1). The authors thank the authorities for their time and thoughtful responses to the questions.

b. Focus and analytical content

Views differed on the quality and relevance of the analyses brought by staff to the Article IV discussions. A few authorities (mostly from advanced countries) felt that the analytical papers prepared by the staff, although technically elegant, were sometimes of limited usefulness, as they focused on issues of interest to the staff that prepared them, rather than seeking to respond to the policy issues currently confronting the country's policy-makers. Most interviewees, however, indicated that the staff kept a fluid dialogue with the authorities between consultations, and consulted them well before Art. IV missions on the analytical agenda for discussion during the consultation, with a view to channeling the limited resources available for research to the most pressing policy issues of current relevance to the authorities.

Authorities were generally positive about the increased emphasis on financial sector issues and risks in Fund surveillance, but thought further progress was needed in this respect. In particular, they thought that greater efforts should be devoted to analyzing the linkages between financial and macro variables, and to advising country policy-makers on macro-prudential policies well tailored to their specific circumstances. FSAPs were appreciated by the large majority of authorities interviewed. A few authorities however considered the FSAP for their country too diffuse and lacking analytical depth. Most would like to see more follow-up of FSAP recommendations in subsequent Article IV discussions, especially in view of the relatively long interval between FSAP updates. A few saw a disconnect between the area departments and staff working on FSAPs - and some lack of familiarity with the issues covered by the FSAP on the part of area department staff.

There was some unhappiness expressed by a number of authorities on the Fund's increased focus on exchange rate issues, following the 2007 surveillance decision. This critique was made across most country categories, but was especially emphasized by the representatives of countries with pegged or heavily managed exchange rates. Virtually all those interviewed emphasized the need for the Fund to maintain a broad view of a country's domestic and international developments and policies. At the same time, however, a few thought that - within that broad context - the Fund needed

to increase the focus and candor of its assessment on the exchange rate and reserve accumulation policies of surplus countries, and to emphasize the obstacles that those, and other, policies posed for the correction of global imbalances.

Some countries would like greater emphasis placed on structural and social issues (unemployment, poverty, healthcare, education, the environment) that are increasingly prominent in their policy agenda - and at the heart of the budgetary challenges facing so many countries. They thought that Fund staff should utilize more inputs from the World Bank, OECD, regional MDBs, or other institutions active in those areas.

Some of the authorities thought that many Fund staff (especially in the area departments) lacked hands-on experience with policy implementation, and therefore provided advice that was too generic (e.g. recommending greater exchange rate flexibility but not how to go about achieving it). In this respect, a number of country representatives noted that often more specific, and therefore useful, advice was being provided through TA, or (on financial sector issues) in FSAPs. However, they found only a limited echo of this advice in surveillance discussions. Some also noted that, occasionally, TA advice appeared too divorced from surveillance, and, consequently, not adequately reflecting macroeconomic concerns³. Some felt that the Fund's organizational structure and continuing "silo mentality" contributed to the perceived lack of coordination and integration of work in these areas. They suggested that the TSR include some reflections on this oft-mentioned criticism and, if possible, make some proposals to address this issue. A few said that they would like to see management follow up on this matter.

It has at times been suggested that outside experts with specialized knowledge in relevant areas be used in Article IV discussions. Views differed on the desirability of such a practice. Some authorities expressed concern about confidentiality being potentially jeopardized by the use of such experts. Others doubted that experts parachuted into a country for a short period of time could be sufficiently aware of its economic, institutional and socio-

³ A number of the authorities from LICs also complained about the problem posed by the Fund's proposed policy of charging for such assistance. However, in following up on these complaints, the authors were told that that policy had been suspended, and currently no charges were being levied on TA.

political circumstances to provide useful, well-tailored advice. There was also limited enthusiasm for the recent IEO recommendation to have outside experts make presentations to the Board during Article IV discussions. On the other hand, several representatives commended the growing use by the Fund of outside experts in (country-specific or thematic) seminars organized for country authorities, as this often facilitated a fruitful exchange of views and experiences, and could provide useful background and input to the Article IV discussions with staff.

c. Communication and traction

Authorities generally viewed improved communication of Fund advice as key to increasing the effectiveness and traction of surveillance. A number of points were made in this respect.

- Fund advice was still seen by a number of the authorities interviewed as too reflective of the traditional “Washington consensus” approach, based on intellectual and institutional models prevailing in the US and UK. There were references to the "capture" of Fund staff by the ideas propagated in the "efficient markets theory" and the push to de-regulation that had been prevalent in the U.S. and some other countries⁴
- In the view of a number of authorities, mostly those from the emerging and low income countries, the staff needed to be more aware of, and sensitive to, the institutional, social and cultural conditions in their countries, and the differences among member countries. Some representatives also thought that, to promote such sensitivity, diversity in staff nationality, albeit improved, should increase further, including at senior levels. A few also thought that the addition of sociologists and political scientists to the staff should be considered.
- Most authorities praised the effort Fund staff had made to increase outreach in bilateral surveillance. They generally found useful the press conferences held by the staff at the end of Article IV missions

⁴ These comments were sometimes couched in the language of the recent IEO Report on "IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004 – 2007".

(sometime jointly with senior national authorities). They also felt that Resident Representatives had a role to play in reaching out and being active --with parliamentarians, with other institutions working in the country, and with other stakeholders -- to help disseminate and explain Fund advice. Some Resident Representatives were said to do that very well; others not. That said, staff were seen as sometime lacking the political savvy needed to gain traction for Fund advice among policy makers, other relevant stakeholders (e.g. parliamentarians, unions, civil society) and public opinion more generally. Some authorities felt that the effectiveness of Fund advice would be enhanced by a clearer articulation of its rationale, assumptions, and the value judgments underlying it. Many suggested that the staff could be most effective in the domestic policy debate by presenting a broad analysis of the economic and financial challenges facing the country, and the experience of other similarly-situated countries in confronting such challenges.

- Some interviewees, especially from smaller countries, noted that some mission chiefs appeared to deliver overly prescriptive messages. A few also complained that some mission chiefs arrived in the country with strong pre-formed views and were resistant to changing them, even in the face of conflicting evidence. These mission chiefs at times seemed fearful of deviating from an approved brief. There were also a few complaints that the authorities' views were not always carefully portrayed in staff reports.
- On the issue of candor, authorities generally indicated that they welcomed candid advice in restricted policy discussions, when such advice was based on both sound theory and a good understanding of the realities on the ground. Regarding public dissemination of the advice, many expressed concern about market sensitivity and possible political fallout from open criticism of current policies. A few, especially from large countries, did not share this concern. Some interviewees stressed the importance of an appropriate timing of Fund missions. They thought it to be particularly unhelpful for the Fund staff to voice public criticism of recently announced policy decisions. Staff could gain more traction from policy advice offered in advance of the government's decisions. Not all authorities shared this view, however. Some saw as excessive interference staff missions prior to the preparation of the budget.

- Several authorities noted that acceptance of candid advice would be enhanced by a perception of greater evenhandedness in Fund surveillance. In their view, the Fund remained too uncritical of the policies of its major shareholders. This view, together with unhappiness over the lack of traction in Fund surveillance on the policies of those countries, is pervasive among the emerging and low income country authorities who were interviewed. There was a sense in some interviews that this negatively impacts the reaction of some of these countries themselves to the Fund's advice.
- Many of the authorities interviewed raised the issue of the Fund's cooperation with other relevant institutions (such as the IBRD, OECD, EC, ECB, BIS and FSB). Perceptions persist that, although the Fund has established good lines of communication with these institutions, Article IV mission teams are sometimes not well acquainted with the analytical work and advice provided to the country by the institutions. This can lead to duplication of efforts and, occasionally, to conflicting advice. The authorities believed that improved efforts at communication, exchange of relevant information, and, to the extent possible, analytical cooperation - leveraging comparative advantages in expertise, is needed in this area.

II. Multilateral surveillance issues

Authorities generally supported the increased focus by the Fund on multilateral surveillance, and the strengthening of analytical tools for it in recent years. Perspectives on the value of multilateral surveillance varied, however, across countries and were significantly correlated with country size. Specifically, representatives of smaller countries looked at the main products of multilateral surveillance (WEO, GFSR, Fiscal Monitor and REOs) primarily as valuable sources of information on global and regional economic trends and risks that served as inputs into their national macro-economic projections and scenarios. Representatives of larger, more systemic countries were more interested in the Fund's analysis of cross-border spillover effects of national policies, related policy recommendations, and the effectiveness of such recommendations.

a. Focus and quality

Most authorities complimented the quality and relevance of the traditional products (WEO and GFSR - the latter thought to have substantially improved in recent years) and the more recent introduction of the Fiscal Monitor. They generally found the consistency of messages across these outputs to also have improved in recent years. A few would like to see further progress in this respect, in particular through joint preparation of the first chapters of the WEO and GFSR. A few thought that the WEO and GFSR should be discussed in a single board meeting.

Most also emphasized the need for further progress in integrating financial sector with macro-analysis, including through better integration of the WEO and GFSR, and by modeling the channels of transmission of financial disturbances not only on the domestic economy but also across borders, and, symmetrically, tracing the impact of real sector disturbances through the financial sector. Many interviewees also called for greater focus, in particular, on the role and impact of large complex financial institutions (LCFI). They also stressed the need for the Fund to continue to cooperate closely with other institutions active in these areas (in particular the FSB, BIS and regional supervisory networks).

Interviewees welcomed the increased focus on the analysis of systemic risks, especially those stemming from the financial sector, but felt that further progress needed to be made not only in identifying risks, especially tail risks, but also in tracing the effects of their realization (“connecting the dots”). At the same time, some worried that risk scenarios could become self-fulfilling prophecies if economic agents, especially in financial markets, viewed them as predictions of likely developments.

Most of the interviewees had only limited familiarity with the newer tools of multilateral surveillance, developed in recent years to model systemic risks, in particular, the Vulnerability Exercise for Advanced Countries (VEA) and the Early Warning Exercise (EWE). This reflected the restricted access to such documents. Some authorities felt that the trade-off between confidentiality and traction of these analyses was perhaps too skewed in favor of the former. They suggested that the Fund could experiment with publishing a somewhat “sanitized” version of the EWE presented to Ministers at the IMFC breakfast

(e. g. not referring to individual country risks), with a view to providing a stronger analytical basis for its public policy recommendations. They noted that the breakfast presentations had aroused significant interest and attention of the senior policy makers attending them and had increased interest in the IMFC. At the same time, however, there was said to be little feedback from the participants in those discussions to others in the government - let alone to other member governments.

Most representatives welcomed the reduced focus in the more recent past on exchange rate issues in multilateral, as well as bilateral, surveillance, as they saw exchange rates as only one of the sources of global imbalances and one of the policy tools available to reduce those imbalances - and other distortions. They felt that the strong focus on exchange rate misalignments and on global imbalances prior to the 2008 crisis may have deflected attention from the risks building-up in the financial system. Some authorities, however, remained strongly concerned with the spillover effects of some other countries' exchange rate policies, and thought the Fund should keep up, or increase, pressure and public comment on those policies.

b. Effectiveness

Most authorities welcomed, in principle, the preparation currently underway of spillover reports for five systemic countries and the Euro Area, although some noted that a (in their view desirable) sharper focus on, and more comprehensive analysis of, spillovers in the WEO and GFSR would make such reports redundant. They noted that, of course, they could not comment on the quality, even less the prospective traction, of such reports at the present time. Some thought that the Fund staff would need to gain significant experience with this type of report, before they could become an effective tool of surveillance. They also stressed that it would be important to integrate fully such reports into the bilateral Article IV discussions, ensuring full consistency of the policy recommendations in both products. Some interviewees thought that, to be more effective, this work would require greater internal coordination, i.e., more feedback between bilateral and multilateral surveillance and increased cooperation among Fund departments, and a stronger hand of management in making this happen. Closer coordination with other relevant institutions, especially the FSB, was also seen by some to be needed.

Many authorities (especially from EMEs and LICs) underscored the importance of perceptions of evenhandedness (or lack thereof) of Fund surveillance in determining the effectiveness and traction of that surveillance. Despite some improvement in recent years, such perceptions remain rather negative, especially among both large and small EMEs. As an example, some country representatives thought it inappropriate for the Fund to try to stipulate “rules of good conduct” for capital controls that would constrain recipients of capital inflows (currently mainly EMEs) , without setting --let alone implementing-- appropriate rules for the originators of such flows (especially the advanced countries). Even among some advanced countries, perceptions persist that in its multilateral, as well as bilateral, surveillance the Fund tends to favor economic management models heavily influenced by US policies, institutions, and traditions (e.g. in the financial sector), as well as by a dominance of U.S. academic thought. In the view of those authorities that were critical of the Fund’s current lack of evenhandedness, significant increases in the traction of surveillance would hinge on changes in governance that would foster greater involvement and commitment of all members.

III. Governance issues related to surveillance

a. Relation of IMF surveillance with the G20 MAP process, the EWE and the forthcoming Spillover Exercise

A broad range of views was expressed on this issue – and on governance issues more generally. Typically, those interviewees representing members of the G20 stressed the factors that, in their view, explained the greater effectiveness of the mutual surveillance process within that group: personal involvement of the highest level of leadership of the countries; the fact that political and economic leaders were speaking on behalf of their own country, not of a constituency; the voluntary nature of participation in the mutual assessment process, which fostered greater ownership of it; and the related absence of a weighted voting mechanism, with reliance on consensus building and a feeling of "collective responsibility". These authorities noted that the progress being made within the G20 towards quantitative indicators of imbalances, and the mandate agreed by the G20 at the Spring Meetings for the Fund to analyze a number of systemic economies in the light of such

indicators, provided an opportunity to increase the traction of Fund surveillance by focusing on the effects of the policies of such countries on others. They also praised the quality and usefulness of the Fund staff's inputs into the G20 process (the surveillance notes, contributions to the MAP, and the work on indicators and norms).

Non-members of the Group generally underscored the legitimacy deficit of the G20, reflecting its limited - -and somewhat arbitrary -- country coverage, compared with the near-universal coverage of the Fund and the IMFC. However, among these countries, attitudes differed with respect to the role of the G20 and the desirable degree of Fund involvement with it. Some of the smaller countries' authorities felt that, if the G20 currently represented the most effective forum for international policy cooperation, so be it! As long as that was the case, the Fund should support the G20 to the fullest extent of available resources, given the contribution that the staff could make with its technical expertise, policy savvy and broad global perspective. However, they saw a role for the Executive Board to voice its views more effectively on the issues on the G20 agenda and on the analyses prepared by Fund staff as inputs to their deliberations, and also looked to other regional and global (e.g., the G24) forums as vehicles for influencing that agenda.

Some of the larger non-G20 members' representatives were more critical of the role of the group, which they saw as undermining Fund's efforts to gain increased traction in surveillance. Some of these authorities also felt that a surveillance process built on peer pressure alone, and lacking an international legal standing, was likely to be effective only under crisis conditions. They thought that, in a gradually normalizing environment like the present one, the G20 was likely to lose its focus. These authorities generally favored the transformation of the IMFC into a Council - as foreseen in the Articles of Agreement. That Council could be formed through a merger of the functions of the G20 Ministers and Governors group - insofar as they relate to economic and financial issues - and those of the IMFC, as recently advocated in the Palais Royal Report⁵.

⁵ "Reform of the International Monetary System: A Cooperative Approach for the Twenty First Century", Palais Royal Initiative, February 8, 2011.

b. Strengthening the Fund's internal governance systems to increase the effectiveness of surveillance

Most of those interviewed believed that the recent changes in the governance of the IMF - a doubling of quotas, combined with a shift towards dynamic EMEs and under-represented countries, an all-elected Executive Board, greater representation in the board of EMEs, and other elements - held the promise of increasing the effectiveness of the institution. At the same time, however, some of those interviewed stressed that little might change without an increased commitment on the part of members to involve themselves more actively in the work of the institution - and especially in surveillance. Some believe that surveillance is seen to be primarily a function of staff and management and too little as a "collective responsibility" of the membership - the latter seen as one of the strengths of the G20.

Some of those interviewed questioned the degree of involvement and the accountability of members of the IMFC. There was some concern, as well, that the active decision-making in the G20 on IMF matters had weakened the IMFC, which had recently been confronted with decisions effectively already taken elsewhere.

The recent move toward a greater use of restricted sessions was seen to have strengthened the IMFC. But, in the view of some, that raised questions about the exclusion of non-IMFC members from the most important - and interesting - part of the meetings. Some saw an increased role for the Board in involving the rest of the membership in these issues through, in particular, detailed Board discussion of the EWE and, prospectively, the spillover reports, as well as of the staff's contributions to the MAP. Others, however, thought that little would change without a merging of the functions of the IMFC and the Ministers and Governors of the G20.

Appendix 1

Countries Interviewed:

Australia

Brazil

France

Germany

India

Israel

Jamaica

Japan

Lithuania

Mexico

Morocco

Peru

PNG

Netherlands

Russia

Slovenia

Tanzania

UAE

UK

US