

INTERNATIONAL MONETARY FUND

**Statement of Surveillance Priorities: Revisions of Economic Priorities and
Progress on Operational Priorities**

Prepared by the Strategy, Policy, and Review Department

In Collaboration with the Monetary and Capital Markets, Research, and Other Departments

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September 24, 2009

This paper recommends changes to the economic priorities of the Statement of Surveillance Priorities (SSP) and provides an update on actions taken towards implementing the operational priorities.

I. BACKGROUND

- 1. In October 2008, the Executive Board approved a set of economic and operational priorities to guide Fund surveillance through 2011.** These priorities were meant to guide the Fund's work within the framework for surveillance provided by the Articles of Agreement and relevant Board decisions.
- 2. The Executive Board is responsible for conducting, guiding and evaluating surveillance to ensure the achievement of these priorities.** Management and staff are responsible for delivering on the operational priorities, subject to members' cooperation in line with commitments under the Articles of Agreement. To foster progress toward economic priorities, management and staff are responsible for providing candid high-quality analysis and effective communication.
- 3. The SSP provides that the priorities may be revised if circumstances warrant.** Given the changes in global economic circumstances since October last year, staff considers that the *economic priorities* should be revised—indeed, in the present unsettled state of the world economy, revisions may well be needed in another year. However, the *operational priorities*, which were drawn from the main recommendations of the 2008 Triennial Surveillance Review (TSR) for improvement in the Fund's surveillance activities, can remain unchanged at this stage, and could be revisited at the time of the next TSR in 2011. At that time, the Managing Director will also report on progress in attaining these priorities.

II. REVISING THE ECONOMIC PRIORITIES

4. **The changes to the global environment since October 2008 warrant an update of the economic priorities.** The SSP, adopted in the midst of the financial crisis, focused on resolving financial market stress, strengthening the global financial system, adjusting to sharp changes in commodity prices, and promoting orderly reduction of global imbalances. Clearly, these issues remain relevant, but the focus of policy considerations is already shifting to the design of exit strategies and policy requirements for sustaining world growth, with less emphasis on adjusting to commodity prices.

5. **In light of the above, staff recommends that the Fund’s economic priorities be formulated as follows** (Attachment I presents the proposed revised SSP).

After the most severe slowdown since the 1930s, the global economy has begun to show tentative signs of a recovery. The objective should be well-timed and coordinated policies to restore global growth in a sustainable manner. Priorities are to:

- **Allow for an orderly unwinding of crisis-related policy interventions to ensure a sustained recovery.** In particular, design exit strategies that:
 - **Support the economy and the financial system as needed.** Resolve financial market distress, and maintain measures to support demand and financial intermediation until recovery takes firm root; and
 - **Safeguard the room for future policy maneuver.** In particular, pay due regard to medium- and long-term implications of crisis-related measures, including on public sector balance sheets.
- **Strengthen the global financial system.** Upgrade domestic and cross-border regulation and supervision, especially in major financial centers. Avoid the exposure of capital-importing countries, including low-income countries, to excessive risks.
- **Promote a rebalancing of sources of global demand, through both macroeconomic and structural policies, so as to achieve sustained world growth while keeping global imbalances in check.** In this context, encourage open trade and competition. Be ready to adjust to changes in commodity prices.

III. ACTIONS TAKEN TOWARD THE OPERATIONAL PRIORITIES

6. **Table 1 reports on actions taken to foster progress on the SSP’s four operational priorities** (risk assessment, financial sector surveillance and real-financial sector linkages, multilateral perspective, and analysis of exchange rates and external stability risks).

IV. ISSUE FOR DISCUSSION

- Do Directors agree with the proposed changes to the Fund's economic priorities given recent developments in the global economy and approve the attached draft decision (Attachment II)?

Table 1: Actions Toward Operational Priorities for Surveillance

Priorities/ Objectives	Specific Initiatives/Actions/Board papers	Date
I. Actions supporting specific priorities		
Risk assessments		
	Fund-FSB Early Warning Exercise (EWE)	
	Proposed procedure on Fund-FSB EWE	Feb. 4, 2009
	Informal briefing on Fund-FSB EWE	Apr. 17, 2009
	Dry run exercise	Apr. 24, 2009
	Discussion of dry run and next steps	Sep. 2, 2009
	Update and discussion of 6-monthly results	Sep. 22, 2009
	Joint WEO/GFSR outlook statement	First statement issued in April 2009
	Vulnerability exercise for advanced economies to supplement the exercise for emerging markets	Launched in May 2009
Financial sector surveillance (FSS) and real-financial linkages		
	Board Papers on Integrating FSS into Surveillance	Feb. 5, 2009 and Sep. 21, 2009
	Review of FSAP	Sep. 21, 2009
	Proposal to allow risk-based ROSCs updates	Sep. 21, 2009
	Financial sector surveillance guidance note	Apr. 24, 2009
	Launching of an external Financial Soundness Indicators website	July 31, 2009
	Setting up of a macro-financial unit	Mar. 2009
Multilateral perspective (cross country studies and spillover analysis)		
	Board Paper on Cross-cutting Themes in Major Article IV Consultations	Aug. 26, 2009
	New review process to provide country teams with relevant cross-country studies and comparable country experience.	Ongoing
	Setting up a website as a knowledge repository on staff's cross-country studies and databases	Mar. 5, 2009
Analysis of exchange rates and external stability risks		
	Revised operational guidance for implementation of the 2007 Decision	Jun. 23, 2009
	Board paper on Toward a Stable System of Exchange Rates	Jul. 29, 2009
II. Actions supporting all priorities		
Setting expectations, providing guidance		
	In-reach to disseminate TSR findings	Fall 2008
	Revised surveillance guidance note	Forthcoming
	Websites to provide guidance on the operational priorities (to clarify expectations and provide tools, background information and datasets, and examples of good practice.)	Websites on exchange rates and FSS operational
	Reform of the review process	Mar. 1, 2009
Improving knowledge management		
	Creation of internal country specific SharePoint webpages	Aug. 3, 2009
	Improving "findability" of existing knowledge and visibility of work underway (e.g., SIPs)	Knowledge Exchange launched
	Improving knowledge creation, e.g., thematic notes or websites similar to the crisis group website	Ongoing
	Creation of a SharePoint site of data for systemic countries (STA Data Link)	Feb. 2009
Building capacity, improving resource allocation		
	Focus staff training programs on operational priorities, particularly on FSS, real-financial linkages, and on use of available financial data	Ongoing
	Omnibus Board Paper on Easing Work Pressures	Aug. 28, 2009
	More flexible HR policies to facilitate temporary external assignments	In place
	Hiring financial specialists and macroeconomists with strong financial sector background	Ongoing
Improving communication		
	Set up landing pages to showcase key surveillance activities on Fund's external webpage (e.g., crisis response page , global governance page , etc.)	Ongoing

SURVEILLANCE PRIORITIES FOR THE INTERNATIONAL MONETARY FUND, 2008-2011

Updated in September 2009

In pursuit of its mandate to promote international monetary and financial stability, IMF surveillance will be guided through 2011 by the following priorities:

Economic Priorities

After the most severe slowdown since the 1930s, the global economy has begun to show tentative signs of a recovery. The objective should be well-timed and coordinated policies to restore global growth in a sustainable manner. Priorities are to:

- **Allow for an orderly unwinding of crisis-related policy interventions to ensure a sustained recovery.** In particular, design exit strategies that:
 - **Support the economy and the financial system as needed.** Resolve financial market distress, and maintain measures to support demand and financial intermediation until recovery takes firm root; and
 - **Safeguard the room for future policy maneuver.** In particular, pay due regard to medium- and long-term implications of crisis-related measures, including on public sector balance sheets.
- **Strengthen the global financial system.** Upgrade domestic and cross-border regulation and supervision, especially in major financial centers. Avoid the exposure of capital-importing countries, including low-income countries, to excessive risks.
- **Promote a rebalancing of sources of global demand, through both macroeconomic and structural policies, so as to achieve sustained world growth while keeping global imbalances in check.** In this context, encourage open trade and competition. Be ready to adjust to changes in commodity prices.

*In coordination with other International Financial Institutions, the IMF should **promote a common understanding** of the forces and linkages underlying these challenges; **draw key lessons** from different experiences to share across the membership; **provide clear advance warnings of risks** to global economic and financial stability; and **advise on how best to use policy**-in particular monetary, fiscal, exchange rate, and financial sector policies-in support of these objectives.*

Operational Priorities

- **Risk assessment.** Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic;

- **Financial sector surveillance and real-financial linkages.** Improve analysis of financial stability, including diagnostic tools; deepen understandings of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports;
- **Multilateral perspective.** Bilateral surveillance to be informed systematically by analysis of inward spillovers; outward spillovers (where relevant); and cross-country knowledge (as useful); and,
- **Analysis of exchange rates and external stability risks.** In the context of strengthening external stability analysis, integrate clearer and more robust exchange rate analysis, underpinned by strengthened methodologies, into the assessment of the overall policy mix.

The Executive Board has set the above priorities to foster multilateral collaboration and guide IMF management and staff in the conduct of surveillance. These priorities look ahead three years, but may be revised if circumstances warrant. They will guide the Fund's work within the framework for surveillance provided by the Articles of Agreement and the relevant Board decisions, including the 2007 Decision on Bilateral Surveillance. Moreover, traditional areas of strength (such as fiscal policy and debt sustainability analysis) and relevant country-specific issues should not be overlooked.

The Executive Board is responsible for conducting, guiding and evaluating surveillance in order to ensure the achievement of these priorities. Management and staff are responsible for delivering on the operational priorities, subject to members' cooperation in line with commitments under the Articles of Agreement. To foster progress toward economic priorities, management and staff are responsible for providing candid high-quality analysis and effective communication. The Managing Director will report: (i) regularly on actions toward priorities and readily visible results; and (ii) at the time of the next Triennial Surveillance Review on progress in attaining these priorities; management's and staff's contributions; and factors that impeded progress.

The following draft decision is proposed for adoption by a majority of the votes cast:

The Fund approves the attached revised Statement on Surveillance Priorities for the International Monetary Fund, 2008-2011.