

INTERNATIONAL MONETARY FUND

The G-20 Mutual Assessment Process and the Role of the Fund

Prepared by the Strategy, Policy, and Review Department and the Legal Department

(In consultation with Research and Other Departments)

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“Building on the IMF’s central role in bilateral and multilateral surveillance, we call on the Fund to assist the G-20 mutual assessment...”

IMFC Communiqué (October 2009)

This paper summarizes the Fund staff’s understanding of the modalities that the G-20 members intend to follow in their mutual assessment process and what they have requested for this purpose from the Fund. It also discusses the legal and policy implications of the Fund’s involvement in this exercise, but without prejudging the broader discussion of the Fund’s mandate the Board will have in the coming months. As the G-20 process is still evolving, the precise nature of the Fund’s involvement, in particular its inputs, will become clearer over time. The Executive Board will be kept informed as the process develops.

I. THE G-20 FRAMEWORK: BACKGROUND

1. In Pittsburgh in September 2009, G-20 Leaders, building on the success of their efforts to respond to the recent crisis, pledged to adopt policies needed for a durable recovery that would achieve strong, sustainable, and balanced global growth. They pledged to pursue these objectives while maintaining their commitment to fiscal responsibility and sustainability, with reforms to increase growth potential and capacity to generate jobs, and policies designed to avoid asset price bubbles and re-emergence of unsustainable global financial flows.
2. To this end, they launched a “framework for strong, sustainable, and balanced growth.” They committed to develop a process to set out objectives, develop policies to achieve these objectives, and together assess progress (mutual assessment). The Fund—with input from other international institutions—was asked to assist this process. Specifically, the Fund was asked to provide *“analysis of how the G-20’s respective national and regional policy frameworks fit together”* and *“...develop a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy.”*¹

II. THE NATURE AND SCOPE OF THE MUTUAL ASSESSMENT PROCESS

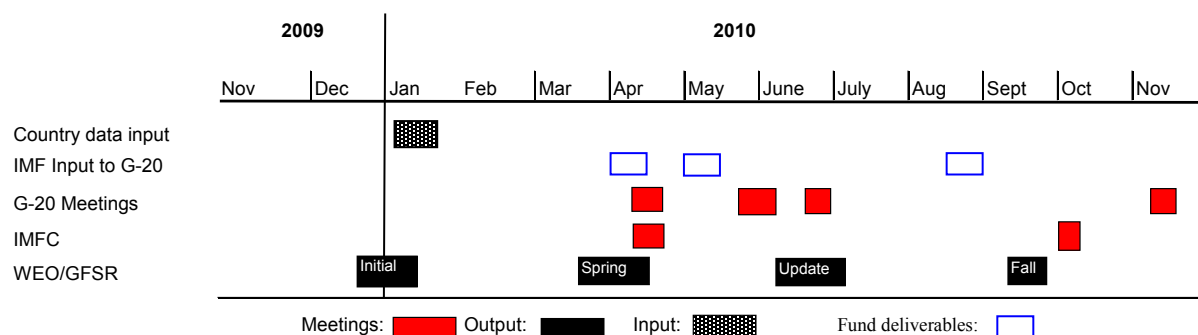
3. In St. Andrews, G-20 Finance Ministers and Central Bank Governors agreed on how this mutual assessment process will work, and adopted a timetable for the first year of implementation (Figure 1).² In particular, they agreed to: (i) set out their medium-term (next 3–5 years if possible) national and regional policy frameworks, plans, and projections; (ii) conduct the initial phase of the mutual assessment process; (iii) develop

¹ G-20 Leaders’ Statement: The Pittsburgh Summit, September 2009.

² G-20 Communiqué: Meeting of Finance Ministers and Central Bank Governors, United Kingdom, November 7, 2009.

a basket of policy options to deliver those objectives; and (iv) refine the mutual assessment and develop more specific policy recommendations for the G-20 Leaders.

Figure 1. G-20 Mutual Assessment: Key Dates



4. G-20 members also agreed on the template for setting out policy frameworks and plans. They have agreed to share their medium-term policy frameworks, plans, and projections in the agreed template (in as much detail as they can) with each other and the Fund. The template, which would be the main input into the Fund's analysis and assessment, includes all salient policy commitments as well as projections for key economic variables. Where appropriate, regional inputs would also be provided, for example, the European institutions would provide inputs on regional policy frameworks in line with their areas of competence.

What will be the nature of the Fund's analytical input?

5. The Fund staff's analysis would involve: (i) identifying the inconsistencies and incoherence of national assumptions in G-20 submissions;³ (ii) analyzing the multilateral compatibility of country submissions; (iii) analyzing the aggregate impact of national policies on global economic prospects; and (iv) identifying what additional policy commitments might be needed to reach the G-20 members' objectives. Box 1 provides more details on the indicative timetable and the Fund's analysis. Of course, while the overall framework for Fund involvement in the G-20 process is relatively clear, the specific modalities regarding its implementation may need to be modified to take into account ongoing developments.

6. The staff's contribution would be both quantitative and qualitative, covering short-term as well as medium-term aspects. Some of the policy plans would need to be assessed more qualitatively, for example, macro-financial reforms (e.g., regulatory capital and liquidity cushion requirements, frameworks for handling systemically-important institutions,

³ If the Fund staff perceives internal inconsistencies, these will be flagged to the country authorities, allowing them to revise policies or projections if they wish to do so.

markets and instruments, etc.). In addition, while the objectives of the mutual assessment exercise are broad and medium-term, many short-term policy issues (e.g., the size and timing of exit from fiscal stimulus, bank recapitalization) have longer-term implications and will need to be taken into consideration.

7. The insight and timeliness of the Fund's contribution will depend on the inputs received from the G-20 members. Late and incomplete submissions would present a challenge, as would large variations in global assumptions.

What does Fund staff plan to deliver to the G-20?

8. With respect to the specific modalities that would be implemented under the overall framework for Fund involvement, the current expectation is that Fund staff would deliver its analysis in the coming year in three rounds:

- First, Fund staff—led by the Research Department in collaboration with area and functional departments—would prepare a report to be discussed by Deputy Ministers, and afterward by Finance Ministers and Central Bank Governors in April 2010 (Figure 1). This report would contain the Fund staff's forward-looking assessment (next 3–5 years) of global economic prospects conditional upon G-20 national policy frameworks and plans, and indicate any policy issues or gaps, and possibly proposals for alternative policy scenarios that the G-20 members could explore.
- Second, based on the outcome of the meeting in April, the staff would provide more concrete analysis of how medium-term global prospects could be enhanced through collective policy actions. On the basis of this analysis, the G-20 Deputies would develop a menu of policy options for consideration by G-20 Finance Ministers and Central Bank Governors and subsequently by Leaders at their June 2010 summit.
- Finally, after this initial phase, the G-20 members would refine the mutual assessment and policy recommendations. Fund staff would provide a refined and updated analysis to the G-20 members by end-August, possibly based on G-20 country updates of their policy frameworks, plans, and projections. G-20 Deputies would prepare a revised mutual assessment and policy recommendations for final consideration by the Leaders at their summit in November 2010.

What is the role of other institutions?

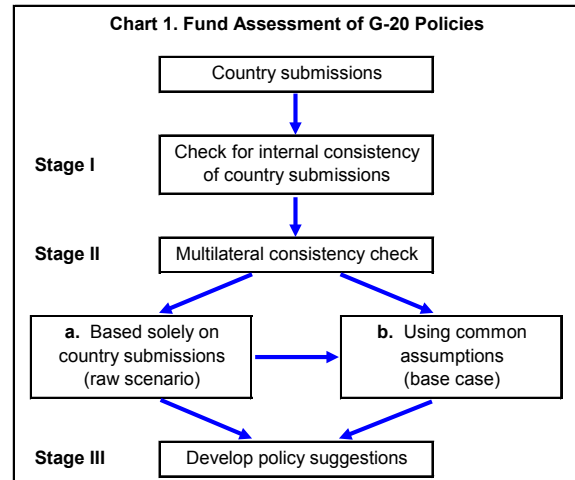
9. In carrying out its analysis, the Fund has been asked to draw on the expertise of other international organizations, as appropriate, for both assessing G-20 policies and in analyzing the impact of policy options. In particular, inputs will be sought from the FSB on financial policies; the ILO on labor market policies; the WTO on trade policies; and OECD and UNCTAD, where appropriate. The World Bank has been asked to advise on progress in promoting development and poverty reduction as part of the rebalancing of global growth.

Box 1. G-20 Mutual Assessment Process: What Does the Fund Do?

Fund staff will assess the coherence, consistency, and mutual compatibility of policy frameworks, and their effectiveness in securing strong, sustainable, and balanced global economic growth. This assessment will include the following stages:

Stage I—Assessing individual G-20 submissions

- G-20 country desks will receive input from country authorities (by end-January), including policy plans and medium-term macroeconomic projections. The Fund staff's global assumptions will have been circulated in advance to country authorities for their information.
- The desks will assess the input received for coverage and internal consistency, including through a comparison with the January WEO update. There will be a 2-week window in early February for clarifying any open questions with G-20 country authorities.



Stage II—Assessing multilateral consistency

- To assess multilateral consistency, Fund staff will construct two global scenarios. First, provided sufficient data from G-20 countries are received, staff will aggregate these directly into a “raw” global scenario that is not adjusted for inconsistencies in countries’ macroeconomic assumptions. Second, starting from the “raw” scenario, staff will then produce a globally consistent “base case” scenario, which takes the policy plans provided by G-20 countries as given but adjusts countries’ projections, remedying any inconsistencies in macroeconomic assumptions (e.g., different oil prices, interest rates, external demand) and imposing an adding up constraint on countries’ current account projections.
- Staff will assess whether additional policy adjustments may be necessary to reach the stated growth objectives and ensure financial stability.

Stage III—Policy recommendations

- Staff will draft an initial assessment using the “base case” scenario, focusing on the multilateral ramifications of inconsistencies between national policies and objectives, the compatibility of policy frameworks, and initial suggestions for additional policy measures (April).
- Following the Spring Meetings, staff will extend its analysis with the exploration of alternative scenarios that could help achieve the G-20’s growth objectives.

How will the mutual assessment process be conducted after the initial year?

10. G-20 members envisage the mutual assessment process to become an annual exercise with continued assistance from the Fund, likely broadly in line with the framework for the initial year. The Pittsburg Leaders' Statement requested the Fund to report regularly to both the G-20 and the IMFC on global economic developments, key risks, and concerns with respect to patterns of growth.

III. IMPLICATIONS OF THE MUTUAL ASSESSMENT PROCESS FOR THE FUND

11. The staff's assistance to the G-20 members is separate and distinct from Fund surveillance although the two activities will benefit from each other. Staff's analytical input to the G-20 members will complement surveillance, by offering scope for additional insights into members' policy plans, and by providing a channel to increase traction.

Legal Basis for the Fund's Involvement in the G-20 Process

12. In determining the appropriate legal basis for the Fund's engagement with the G-20, it is necessary to take into account the nature of the exercise itself, and not just its subject matter. In the present case: (a) the mutual assessment process has been initiated and designed by the G-20 members and will be largely controlled by them; (b) the Fund's involvement will be based on a request for assistance from the G-20 members, which the Fund may choose to accept or decline; and (c) the information necessary for the Fund to conduct the assessments (beyond what is already provided for the purposes of surveillance) will be provided voluntarily by the G-20 members. Given these features, the Fund's envisaged engagement would be most appropriately regarded as technical advice provided under Article V, Section 2 (b), which authorizes the Fund to provide technical or financial services "upon request". The essential quality of such services is that they are voluntary for both the Fund and the member: the Fund does not have to perform such services and the member does not have to receive them.

13. In contrast, for the G-20 initiative to be classified as multilateral surveillance, a determination would need to be made that it was an exercise by the Fund of a responsibility under Article IV, Section 3 that "the Fund *shall* oversee the international monetary system". This determination would have important implications. First, since the Fund may not delegate its responsibilities under the Articles to others, the Fund would have to initiate, design and control the process. Second, the Fund could require members to engage in the process and provide the information necessary to enable the Fund to bring the process to a conclusion.

14. Even though the envisaged G-20 assessment process constitutes technical advice, it could be used to inform surveillance, in that the information obtained and the analysis undertaken could be used as inputs for bilateral and multilateral surveillance. A similar

approach is taken by the Fund with FSAPs, which because of their voluntary nature are also a form of technical advice provided under Article V, Section 2(b).

15. Going forward, it may be appropriate for the Fund to consider initiating, as part of its multilateral surveillance responsibilities, its own process of consultation with G-20 members. Such a process could take into account the Fund's experience under the mutual assessment process. General issues regarding the Fund's greater reliance on multilateral surveillance will be taken up in the forthcoming papers on the Fund's mandate.

How does the mutual assessment process relate to the WEO and GFSR?

16. The WEO and the GFSR are the Fund's own multilateral products. They are entirely based on the independent projections, analysis, and assessments of the Fund staff and management as discussed and concluded by the Board. For the mutual assessment process, Fund staff will provide analysis but this is based on inputs and projections provided by the G-20 members; and the assessment is undertaken and conclusions drawn by the G-20 members. Of course, the inputs Fund staff will provide to the mutual assessment process will draw upon and benefit from the WEO and GFSR, and it will rely on the existing WEO infrastructure, particularly during the aggregation phases and multilateral consistency checks.

How does the mutual assessment process relate to the Article IV process?

17. The G-20 process is also separate and distinct from the Article IV process, although these exercises should complement and benefit from each other. The policy frameworks developed by G-20 members and the policy commitments ultimately agreed among G-20 members as part of the mutual assessment should help enrich the policy discussions in the context of Article IVs. And the in-depth analysis and policy discussion from the Article IV would provide critical input to the assessment for the G-20.

18. Over the longer term, as the process evolves, consideration could be given to explore the room to increase the synergies with the Article IV consultations. However, during the first round of the mutual assessment process, Article IV schedules will largely have to be taken as a given. On current schedules, there is

Article IV and Budget Cycles for G-20 Members			
	Mission planned	Due date: Next AIV 1/	Budget to Parl.
India	Dec-09	Feb-10	Feb-10
Mexico	Jan-10	Feb-10	Sep-09
Argentina 2/	Oct-09
Germany 3/	Jan-10	Jan-10	Aug-10
Turkey 4/	Jan-10	Mar-10	Sep-09
Italy 5/	Mar-10	Feb-10	Jun-10
Brazil	May-10	Jul-10	- 8/
China	May-10	Jul-10	Mar-10
Indonesia	May-10	Jul-10	Aug-10
Japan	May-10	Jul-10	Jan-10
Russia	May-10	Jul-10	Oct-09
Saudi Arabia	May-10	Jul-10	Dec-09
UK 6/	May-10	Jul-10	Dec-09
US	May-10	Jul-10	Feb-10
Euro Area	May-10	Jul-10	
Australia	Jun-10	Aug-10	May-10
France	Jun-10	Jul-10	Oct-10
South Africa	Jun-10	Aug-10	Feb-10
South Korea	Jun-10	Aug-10	Sep-09
Canada 7/	Nov-10	May-10	Feb-10

1/ 12 months after the last Article IV consultation.

2/ The Article IV was due in July 2007.

3/ Next Article IV was delayed due to political cycle.

4/ Next article IV is subject to the result of program negotiations.

5/ Next Article IV was delayed due to staffing constraints in the IMF.

6/ Timing of the next Article IV mission could be delayed because of the election cycle. The December 2009 date in the last column refers to the "Pre-Budget Report" with the actual budget for 2010/11 being presented to Parliament only after the elections.

7/ The next Article IV mission was delayed due to political circumstances in late 2008 and staffing constraints, and in recognition of the staff visit that took place in November 2009.

8/ The budget is approved by the end of the calendar year.

already considerable clustering and many G-20 Article IVs will be concluded shortly after the G-20 Summit in June next year (text table). For the longer term, some further clustering could be considered to the extent it is practical. Also, for most members, the interaction between the authorities and Fund staff is ongoing and not limited to Article IV missions.

What are the resource implications?

19. The Fund's involvement in the G-20 process will have resource implications for the Fund, but these are hard to estimate until some experience has been gained. In so far as existing processes can be built upon, costs will be minimized. Still, the Fund's assistance would involve new work, including the need for staff to make additional submissions to the Research Department based on G-20 members' inputs, greater coordination between the Research Department and area and functional departments, new systems to assess cross-country consistency of financial sector policies, and additional interaction with the authorities.

20. At this stage, staff's highly tentative estimate is that resource costs for the mutual assessment process in the first year could require additional full-time equivalents in the single digits, with a lesser burden once the annual process has become more defined and established. At this point, the staff's sense is that these additional needs can be met by reallocating staff and filling vacancies.

IV. WHAT ROLE IS ENVISAGED FOR THE EXECUTIVE BOARD AND THE IMFC?

21. In 1991, the Executive Board determined that technical advice provided in response to specific requests of members would no longer require approval by the Executive Board. Since that time, however, the Executive Board has adopted policies establishing general frameworks that control how management responds to specific requests for technical advice in specified areas. The FSAP is one example of such a general framework.

22. Consistent with the above approach, it would be open for the Executive Board to adopt a decision establishing a framework governing the manner in which the Fund's advice is to be provided to the G-20 members under the G-20 mutual assessment process.

23. At the same time, it will be important for the Executive Board to be given sufficient and timely information regarding the content of the advice being delivered and progress under the G-20 process more generally. Among other things, this will enable the Board to take this information into account when it conducts the Article IV consultations for all Fund members, including those in the G-20, and performs multilateral surveillance in the context of the WEO and GFSR.

24. Accordingly, staff would propose the following framework for Board involvement (Table 1):

- a. The Executive Board would endorse the overall framework for the delivery of technical advice to the G-20 members under the mutual assessment process, as specified in this paper.
- b. When staff's assessments are sent to the G-20 members (for the April, June, and November meetings), these assessments would be sent to the Board at the same time.
- c. Subsequently, staff would present these assessments to the Executive Directors in an informal briefing, ahead of the Ministerial meetings.
- d. The Executive Board would be briefed on the outcome of the G-20 Ministerial meetings as well as the Leaders' June and November Summits. The exact form of such briefings would be determined as the process unfolds.
- e. The Executive Board will review the experience with the implementation of the framework after one year.

Fund staff's assessments would also be shared with the IMFC once these have been sent to the G-20 to keep the IMFC informed about the G-20 process.

25. Board involvement along these lines would help preserve the G-20 members' ownership of the mutual assessment process—a key to its success. In contrast, a structure under which the Board would discuss the staff's analyses before they are sent to the G-20 would imply closer Board involvement than under Article IV consultations, and could also reduce the G-20's ownership of the process.

Table 1. Indicative Fund Timetable for the Mutual Assessment Process

Action	Timing	Proposed Board Involvement
Completion and submission of template – countries to submit national policy frameworks and plans to Fund staff, and share with others.	End-January, if possible	
Fund staff interaction with G-20 countries – a two-week period to clarify submissions to the Fund staff.	Mid-February	
Fund staff completes analysis of country frameworks and submits an initial report to Deputies, Finance Ministers and Central Bank Governors prior to the meeting in April.	Mid-February-April	Informal briefing to the Board after the Fund staff's report is submitted to the G-20 members but prior to the Ministers' and Governors' meeting in April.
Fund staff produces policy scenarios based on Finance Ministers' decisions taken in April and provides more concrete analysis of how medium-term objectives could be reached.	April-June	Informal briefing to the Board after Fund staff's analysis is submitted to the G-20 members but prior to the Ministers' and Governors' meeting in June.
	June Summit	Briefing on the outcome of the June Summit to the Board.
Fund staff refines and updates its analysis and policy scenarios. Fund staff submits revised report to Finance Ministers and Central Bank Governors by end-August.	June-November	Informal briefing to the Board after the Fund staff's report is submitted to the G-20 members but prior to the Ministers' and Governors' meeting in November.
	November Summit	Briefing on the outcome of the November Summit to the Board.

V. CONCLUDING REMARKS

26. The mutual assessment process initiated by the G-20 in Pittsburgh provides a framework to further enhance international policy dialogue and cooperation among the G-20 members. This process involves assessing and monitoring whether or not individual countries' policies and plans are collectively consistent with the G-20's main objective of restoring high, sustainable and balanced global growth. This objective is fully consistent with the Fund's own economic priorities for surveillance recently approved by the Board.⁴

27. The mutual assessment process is separate and distinct from Fund surveillance. But the mutual assessment process and Fund surveillance will benefit from each other. For the Fund, involvement in the G-20 mutual assessment process offers an opportunity to deepen its policy discussion with, and reinforce the traction of its bilateral and multilateral surveillance of G-20 members. For the G-20, the Fund's input offers an opportunity to draw on the independent, technical advice and expertise necessary to inform an effective mutual assessment process. The Executive Board, which of course will continue to conduct Article IV consultations for all Fund members and perform multilateral surveillance in the context of the WEO and GFSR, will be kept fully informed of progress under the G-20 process, and the staff's inputs into it. Staff's involvement in the G-20 process would in no way limit the topics the Fund would cover in bilateral and multilateral surveillance.

28. Activities in support of this process would have modest resource implications, and can be met by reallocating staff and filling vacancies.

29. Against this background, the staff recommends endorsement of the Fund's involvement in the G-20 mutual assessment process as described in this paper.

VI. PROPOSED DECISION

30. Set out below is a proposed decision, that may be adopted by a majority of votes cast, under which the Executive Board would endorse the overall framework that will guide Fund participation in the G-20 mutual assessment process.

The Executive Board adopts the general framework for the Fund's involvement in the G-20 mutual assessment process described in the paper, "The G-20 Mutual Assessment Process and the Role of the Fund."

⁴ "Statement of Surveillance Priorities—Revisions of Economic Priorities and Progress on Operational Priorities" (September 30, 2009).