

September 26, 2014

## Managing Director's Statement on the 2014 Triennial Surveillance Review

Since the last surveillance review in 2011, we have worked together—Fund staff, Management, and the Executive Board—to raise the bar on Fund surveillance. The progress we have made is a testament to the Fund's ability to adapt and evolve. Our economic analysis and policy advice, and the operations that support it, have become more in sync with the requirements of a highly interconnected global economy. We see that reflected in the growing emphasis on risks and spillovers in our work.

Strengthening and refining surveillance is inherently a multi-year endeavor. Continuing on this path takes on added importance in the current macroeconomic environment, where policymakers are navigating an uneven recovery that is still marred by risks and the lingering effects of the crisis. Our focus should also be on providing timely and tailored advice that is geared to ensuring economic and financial stability across the *entire* Fund membership. Surveillance should serve our smallest and our largest member countries alike.

Two overarching principles come together in this 2014 Triennial Surveillance Review (TSR).

- We should consolidate the major changes that have taken place since 2011, refining and reinforcing where needed, and above all, working to ensure that recent innovations are effectively embedded in the practice of surveillance.
- At the same time, we must continue to adapt to emerging challenges, and deliver “smarter” surveillance—namely analysis and expert advice that is based on a deeper understanding of country perspectives and experiences.

The TSR papers provide a rich set of evidence and analysis, much of which draws on outside perspectives. The proposals emerging from this work converge around three main pillars. We believe that prioritizing work on all three fronts will position the Fund to deliver even greater value-added surveillance.

- ***Integrate and deepen risk and spillover analysis.*** This work remains a top priority. It is crucial for us to detect risks at an early stage, and understand interlinkages and spillovers across sectors and economies to help prevent crises. There is no doubt that the Fund has come a long way. The risk assessment matrices now included in Article IV reports and the Spillover Reports are two examples of how surveillance has become more risk-based and better captures economic and financial interconnections. The goal now is to take this work to the next level by focusing more on how risks map across countries and how, in turn, spillovers and spillbacks can transmit across sectors. Two important refinements to our surveillance toolkit could help drive this work forward: (i) reviving and modernizing balance sheet analysis; and (ii) taking steps to ensure that surveillance deepens the analysis of macro-financial relationships.

- ***More tailored and cohesive policy advice.*** The crisis gave economists cause to rethink the policy frameworks in use at the time. The Fund has reshaped its policy approaches on several fronts, including by being more cognizant of the growth implications of its fiscal advice or rethinking its institutional view on capital flows. With financial sector fault-lines being central to the crisis, macroprudential policies are a growing area of importance where the Fund will continue to build its understanding and expertise. Moreover, coming out of the crisis, the biggest shared challenge is to ensure more durable, job-rich growth while continuing to build resilience against shocks. The answer is to strive for “smarter” surveillance—better country tailoring and more attention to a mix of policies. There is growing recognition that many structural policies are germane to macroeconomic stability and growth. In this regard, we can do a lot more to capitalize on the wealth of cross-country knowledge in the Fund and better share policy experiences across countries.
- ***More impact through engagement.*** Improving our analytical toolkit is important, but it only takes us so far. How we engage and communicate with member countries can better inform our analysis and policy advice. A deeper understanding of country perspectives and more client-focused, yet candid communication should help ensure evenhandedness and a richer policy dialogue. At the multilateral level, conveying clear and streamlined set of key policy messages will help strengthen the Fund’s influence on the global policy dialogue, underscoring that there is a shared responsibility for taking action between policy makers and the Fund. Getting traction means convincing global policymakers, who are accountable to their own domestic constituencies, to work together to achieve global stability.

Concerted efforts on these three fronts should allow us to move further toward our goal of making surveillance as interconnected and as adaptable as the global economy. Following the Board discussion, I will reflect on the views of Executive Directors and return with a more detailed action plan to take forward the agenda laid out in the 2014 TSR.