



IMF POLICY PAPER

2018 INTERIM SURVEILLANCE REVIEW

APRIL 2018

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 5, 2018 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on March 7, 2018 for the Executive Board's consideration on April 5, 2018.
- A **Background Paper**.

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IMF Executive Board Concludes Interim Review of the Fund's Surveillance Activities

On April 5, 2018, the Executive Board of the International Monetary Fund (IMF) concluded its interim review of the IMF's surveillance activities. This interim review provides a basis for the next comprehensive review of surveillance expected in late 2019.

Background

The IMF periodically examines the way it conducts its economic and financial analysis and formulates policy advice—a process known as surveillance. At the time of the last comprehensive review—the [Triennial Surveillance Review \(TSR\)](#) in 2014—it was decided to move to a five-year review cycle, which has allowed time to embed reforms and reflect on their implementation, and to introduce this interim progress report.

A key priority identified in the TSR was to fine-tune surveillance through better tailoring of advice on the fiscal, monetary, external and structural policy mix, drawing on cross-country experience. A more member-focused approach and increased attention to evenhandedness were identified as factors to help achieve greater impact. The Board thus endorsed several broad areas of operational focus for 2014–19: risks and spillovers; macrofinancial surveillance; structural policy advice; and cohesive and expert policy advice. The broad-based push to advance bilateral and multilateral surveillance in recent years has reflected efforts in these areas as well as the macroeconomic challenges that have evolved since the 2014 TSR.

The Interim Surveillance Review (ISR) takes a broad view of surveillance activities and focuses on progress in implementation. It considers actions expected to be taken before the Comprehensive Surveillance Review (CSR) on the surveillance objectives set out in the Board's Work Program. Inputs to surveillance are assessed across three dimensions: resources, analytical approaches, and engagement. Its assessment of outputs gauges the extent and quality of surveillance, drawing on views of Board members and staff views and analysis.

Executive Board Assessment¹

Executive Directors welcomed the Interim Surveillance Review (ISR) and broadly supported its main conclusions and recommendations. They noted that significant progress had been made in advancing the priorities laid out in the 2014 Triennial Surveillance Review (TSR). This has enabled the Fund's surveillance to be more integrated and risk based and better adapt to evolving developments and challenges facing the membership. Directors welcomed the progress in the Fund's risk work and inward spillovers, fiscal and external sector assessments, and in the quality and integration of macrofinancial analysis into Fund surveillance. They considered the ISR's detailed stocktaking a valuable input to the Comprehensive Surveillance Review (CSR) scheduled for 2019.

Directors noted that better integration of bilateral and multilateral surveillance has resulted in a deeper understanding of global risks and spillovers in the flagship reports and an increased focus on inward spillovers in Article IV consultations. They noted that, while outward spillover work is being developed via a range of surveillance outputs, this work should feature more prominently in Article IV consultations. They thus encouraged staff to make further efforts to understand and ensure deeper and more consistent coverage of outward spillovers in surveillance, including through outreach with member countries.

Directors recognized the efforts being made to strengthen external sector assessments. These efforts include the External Balance Assessment (EBA) methodology and the External Sector Report (ESR), which have helped promote greater multilateral consistency for major economies and adoption of the EBA lite methodology for other countries. Directors looked forward to the upcoming discussion on the refinements of the EBA and EBA lite methodologies to further improve them and their application. In this context, they highlighted the need to further enhance consistency and transparency, ensure careful and clear public communication about the nature of the exercise and role of judgment, and better integrate external assessments into the broader policy discussion. Directors noted that the Fund's Institutional View (IV) on capital flows is now being embedded in surveillance, with greater attention to country circumstances, and encouraged more consistency in applying the framework across the membership as experience accumulates. A few Directors saw merit in fine tuning implementation of the IV, drawing on experience thus far, including further nuancing the distinction between macroprudential and capital flow measures.

Directors noted that fiscal policy advice continues to adapt to the evolving challenges of the membership, reflecting greater attention to anchors and the use of debt sustainability analyses, especially in low income countries. They emphasized that with the recovery strengthening and financing conditions expected to tighten, rebuilding buffers, reversing the

¹ An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

build-up in debt levels and vulnerabilities, and limiting procyclicality in the upturn will become more pressing. Directors welcomed ongoing work to investigate the impact of technology and digitalization on fiscal policy, as on other areas. In this context, a few Directors called for further work on fiscal space, while a few others asked for additional analysis on fiscal rules.

Directors welcomed the progress in integrating macrofinancial analysis into bilateral surveillance and called for continued efforts to mainstream macrofinancial surveillance and extend its coverage, including the use of the balance sheet approach and assessment of risks from outside the banking sector and technological innovation. They recognized that the macrostructural pilot initiative has facilitated better integration of structural issues into macroeconomic analysis, and improved the depth and granularity of coverage in country papers, noting that there remains scope to increase the country specificity of policy advice. Directors generally viewed pilot initiatives as an effective approach to build knowledge and experience in addressing emerging issues, with analysis to be incorporated into surveillance where macrocritical, and considered for mainstreaming where the issue is relevant for a large part of the membership, within the Fund's resource constraints. A few Directors supported more systematic tackling of climate change. Directors underscored the importance of better leveraging external expertise in areas where Fund expertise is limited. They also looked forward to a conceptual framework for macrostructural analysis in low income and developing countries.

Directors acknowledged the efforts in support of evenhandedness by developing a shared understanding of the issues, establishment of an evenhandedness mechanism, and progress in risk adjusted surveillance. While internal resource allocation is increasingly informed by country vulnerabilities, Directors emphasized the need for continuing progress in aligning surveillance inputs with risks.

Directors saw a need to better leverage the Fund's expert analysis in its core areas of expertise and lessons from cross country experience. They agreed that both technology and people based solutions are needed to identify and disseminate these lessons effectively, building on the Fund's knowledge management strategy. Directors also called for better integration of capacity development with surveillance. They looked forward to further efforts to address data gaps, particularly in the areas of public debt and financial sector work, and anticipated that the Fund's budget framework, capacity development, human resources, and information technology strategies should help attain surveillance goals.

Directors underscored that the forthcoming CSR should evaluate the traction of Fund surveillance and emphasized the importance of the planned engagement with members and other stakeholders to identify priorities for the CSR. They saw merit in the CSR adopting a forward-looking focus to enable the Fund to continue supporting member countries and

effectively address the impact arising from evolving global challenges. Director emphasized the importance of tailoring policy advice to reflect members' specific circumstances.



2018 INTERIM SURVEILLANCE REVIEW

March 7, 2017

EXECUTIVE SUMMARY

Fund surveillance has become better adapted to the global conjuncture, and more integrated and risk-based. The recommendations of the 2014 Triennial Surveillance Review (TSR) focused on helping members navigate the post crisis challenges. Bilateral and multilateral surveillance discussions are underpinned by a shared and deeper understanding of global interconnectedness and linkages across sectors. There has also been progress in core areas such as risk work, fiscal and external sector analysis, and in integration of macrofinancial analysis and of macrostructural policy work that aims to reinvigorate productivity and growth, and promote inclusiveness. The ongoing efforts to align surveillance inputs with risks is also enhancing the Fund's ability to support members more effectively.

Continuing efforts along several dimensions will be needed to further advance surveillance ahead of the 2019 Comprehensive Surveillance Review (CSR). These include planned refinements to external sector assessments, sustaining progress on macrofinancial surveillance, addressing data gaps, and incorporating lessons from pilot efforts including on macrofinancial, macrostructural and emerging issues. Efforts to meet surveillance challenges in low income countries also will continue. Outward spillover work, particularly from the largest economies, should receive greater prominence in Article IV reports. Further work is also needed to make policy advice more persuasive by better leveraging cross-country policy experiences and integrating technical assistance.

Lessons from implementing the TSR recommendations should help ensure further progress. A major investment has been made to deepen the analysis that supports surveillance. With a dramatic increase in the range of analytical approaches and tools available, selectivity and tailoring are ever more crucial. The Fund's internal processes have proven flexible enough to deliver on key areas, but will require continual adaptation to keep pace with evolving challenges. Strategies for human resources, capacity development, knowledge management, and data and statistics should further reinforce surveillance priorities.

Looking ahead, the 2019 CSR will further anchor the Fund's surveillance in a world of rapid technological change. The increased pace of technological progress could have far-reaching implications for the global economy, finance, and policy making, possibly fundamentally altering the surveillance landscape. Coupled with rising inequality and possible adoption of inward-looking policies, the impact on the membership could be profound. Engagement with members, stakeholders, and experts will be central in determining how the 2019 CSR will address these challenges.

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Glossary

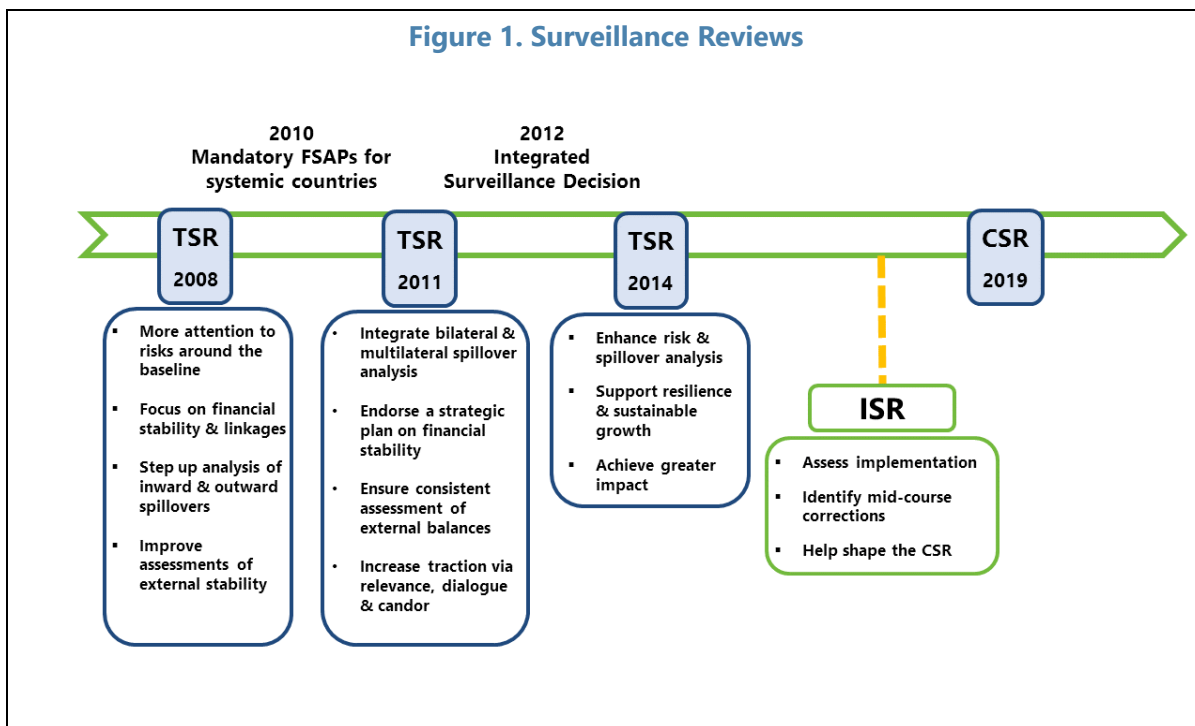
| | |
|----------|---|
| AE | Advanced Economy |
| CSR | Comprehensive Surveillance Review |
| EBA | External Balance Assessment |
| EBA-lite | External Balance Assessment-lite |
| EM | Emerging Market |
| ESR | External Sector Report |
| CD | Capacity Development |
| CFMs | Capital Flow Management Measures |
| CGER | Consultative Group on Exchange Rate Issues |
| DSA | Debt Sustainability Analysis |
| FSAP | Financial Sector Assessment Program |
| FSSA | Financial System Stability Assessment |
| GFC | Global Financial Crisis |
| GFSR | Global Financial Stability Report |
| GN | Guidance Note |
| GPA | The Managing Director's Global Policy Agenda |
| GRAM | Global Risk Assessment Matrix |
| HR | Human Resources |
| IEO | Independent Evaluation Office |
| IIP | International Investment Position |
| ISD | Integrated Surveillance Decision |
| ISR | Interim Surveillance Review |
| IV | Institutional View |
| KM | Knowledge Management |
| KMU | Knowledge Management Unit |
| LIC | Low Income Country |
| LIDC | Low Income and Developing Country |
| MAC | Market Access Country |
| MCM | Monetary and Capital Markets Department |
| MPMs | Macroprudential Measures |
| OECD | Organisation for Economic Cooperation and Development |
| RBM | Results Based Management |
| S&C | Standards and Codes |
| SDN | Staff Discussion Note |
| SSBG | G-20 Framework for Strong, Sustainable, and Balanced Growth |
| TPI | Third-Party Indicators |
| TSR | Triennial Surveillance Review |
| VE | Vulnerability Exercise |
| WEO | World Economic Outlook |

CONTEXT

1. At the time of the last surveillance review—the [2014 Triennial Surveillance Review \(TSR\)](#)—a fragile global recovery was underway and policymakers were faced with the legacies of the global financial crisis (GFC). Risk and spillovers remained “first-order issues” for the world economy and, therefore, central to Fund surveillance. Policymakers were grappling with building resilience against shocks and ensuring more durable and job-rich growth amidst limited policy space and the legacies of the crisis. As the global recovery took hold, the challenges facing policymakers evolved. While the baseline outlook is now substantially more favorable, members are tackling the need to support recovery, as well as reinvigorate growth prospects and productivity, support inclusiveness, build resilience to capital flow reversals, guard against financial risks and negative repercussions from inward-looking policies, and assess balance sheet vulnerabilities.

2. The 2014 TSR reinforced advances in Fund surveillance, which began in the aftermath of the GFC (Figure 1). One of the key areas of focus for the previous review in 2011 had been on multilateral surveillance, reflecting a heightened awareness of the implications of financial interconnectedness across countries. This laid the foundation for the [2012 Integrated Surveillance Decision](#) (ISD), with focus on members’ domestic and balance-of-payments stability as well as systemic stability. The ISD clarified the legal basis for the discussion in Article IV consultations of spillovers from policies impacting the operation of the international monetary system. Together these reforms led to an overhaul of the surveillance toolkit and update of the legal framework. The 2014 TSR supported these reforms, recognized that surveillance should remain adaptable, and emphasized selectivity. In addition, it highlighted scope to achieve greater consistency in how outward spillovers are covered in Article IV reports for large systemic economies in light of variations in the depth of analysis and integration into policy discussions. It also pointed to difficulty achieving traction due to policymakers’ tendency to focus on domestic goals.

3. The recommendations following from the 2014 TSR focused on helping countries navigate the post-GFC challenges. A key priority was to fine-tune surveillance through better tailoring of advice on the fiscal, monetary, external and structural policy mix, based on cross-country experiences. A more client-focused approach with better dialogue, clear and candid communication, and increased attention to evenhandedness could help achieve greater impact. The Board thus endorsed several broad areas of operational focus for 2014–19: risks and spillovers; macrofinancial surveillance; structural policy advice; cohesive and expert policy advice; and a client-focused approach. The [Managing Director’s Action Plan](#) operationalized these recommendations.



4. Since the 2014 TSR, engagement with the Board has supported advances in surveillance.¹ Board discussions on external sector work have supported advice on policies to address risks from global imbalances. Discussions on fiscal space have underpinned fiscal policy advice. The integration of macrofinancial analysis and advice in Article IV consultations is being extended across the full membership following discussion of staff's approaches to this work. Updates have been provided on advances in strengthening Fund advice on macrostructural policies and in incorporating emerging issues such as inequality, gender, and climate into surveillance. The recent review of the approach to addressing governance issues in surveillance will be followed by an updated policy and guidance.

5. Macroeconomic challenges have also continued to evolve. Progress on global imbalances, which had narrowed markedly in the aftermath of the GFC, has stalled more recently. The environment of continuing monetary accommodation, necessary to lift activity and achieve inflation objectives, has been accompanied by increasing asset valuations and a build-up of leverage in the nonfinancial sector that could signal higher risks to financial stability. Many members face increased public debt levels which, along with greater use of less transparent debt instruments, increases vulnerability to tighter financial conditions. Finally, longer term prospects are being held back by weak productivity growth and demographic factors, especially in advanced economies.

6. The Interim Surveillance Review (ISR) takes stock of where we stand currently on the surveillance agenda. The move to a five-year review cycle between comprehensive reviews

¹ See ISR Background Paper Annex I, which provides a listing of Board engagements on surveillance priorities from 2014–17.

has allowed time to embed reforms and reflect also on their implementation. While this interim review is forward-looking and takes a broad view of surveillance activities, the objective of the ISR is narrower than a comprehensive review: the review focuses on progress in implementation, reconfirming the trajectory of surveillance, and identifying mid-course corrections.² The next section describes the assessment framework and the main findings. The discussion then turns to next steps needed to continue implementing existing priorities. Lessons from implementing the TSR agenda provide insights on how the Fund can continue to adapt to new policy challenges. The final section begins the pivot to the 2019 CSR and discusses forces shaping the future surveillance landscape.

ASSESSMENT AND KEY LESSONS

A. Framework for Assessment

7. The assessment focuses on progress made in surveillance since 2014, as well as the trajectory of current work. The review is anchored in the 2014 agenda for surveillance priorities and the Managing Director’s Action Plan.³ It considers progress made in each area and actions expected to be taken before the 2019 CSR on the surveillance objectives set in the Board’s Work Program. The assessment considers the inputs to surveillance and evaluates the quality of outputs.⁴

Figure 2. TSR 2014: From Global Challenges to Surveillance Priorities

| Global Challenges | Priorities | 2014 TSR Recommendations |
|----------------------------|---|--|
| Interconnectedness | Enhancing analysis of risk and spillovers | <ul style="list-style-type: none"> ▪ Continue integration of bilateral and multilateral surveillance ▪ Integrated analysis of risks and spillovers ▪ Strengthen external sector assessment ▪ Mainstream macro-financial analysis |
| Financial system stability | | |
| Deleveraging | Supporting resilience and growth | <ul style="list-style-type: none"> ▪ Address data gaps ▪ Strengthen surveillance of macro-prudential policies ▪ Continue accounting for growth and sustainability implications in fiscal advice ▪ Selectively advise on structural policies ▪ Provide more cohesive policy advice ▪ Better leverage expert analysis and advice ▪ Strengthen the policy dialogue ▪ Ensure clear and candid surveillance messages ▪ Establish a clear understanding of evenhandedness ▪ Create a mechanism to report evenhandedness concerns |
| Inclusive growth | Achieving a greater impact | |
| | | |

Source: October 2013 Global Policy Agenda and 2014 TSR Overview Paper.

8. Inputs to surveillance are considered across three dimensions: resources, analytical approaches, and engagement. They follow the principles for risk-adjusted surveillance as

² This review does not include an assessment of the legal framework, which will be considered in the 2019 CSR.

³ See Background Paper for details on the MD’s Action Plan.

⁴ The ISR assessment also considered the findings from the 2017 Risk Report.

outlined in the [Evenhandedness Framework](#), which calls for (i) available resources to be adjusted to reflect countries' individual or systemic risks; (ii) policy advice to reflect sound, objective analysis tailored to country circumstances, including the choice of issues analyzed, depth of analysis, and analytical approaches and tools; and (iii) engagement with authorities and other stakeholders, and the presentation of analysis and advice to reflect the Fund's role in supporting the membership, its responsiveness to authorities' needs, and a fair and balanced representation of their views.

9. The assessment of outputs gauges the extent and quality of surveillance, drawing on views of Board members and staff. These outputs include multilateral surveillance and Article IV reports produced from 2014 through mid-2017. Staff explored whether there were improvements in the value of staff's analysis; the cohesiveness and tailoring of staff advice to the member's circumstances; and the quality of dialogue with members. The assessment drew on surveys of Executive Directors' Offices⁵ and staff,⁶ the views of internal experts, and staff's structured review of a sample of Article IV reports. The 2014 TSR recognized that the traction of Fund surveillance is linked to these inputs, and progress in each of these areas is assessed within the ISR framework. While a comprehensive evaluation of traction is beyond the scope of this interim review, the CSR will thoroughly assess the traction of Fund policy advice, including through surveys and consultation with the membership and other stakeholders.

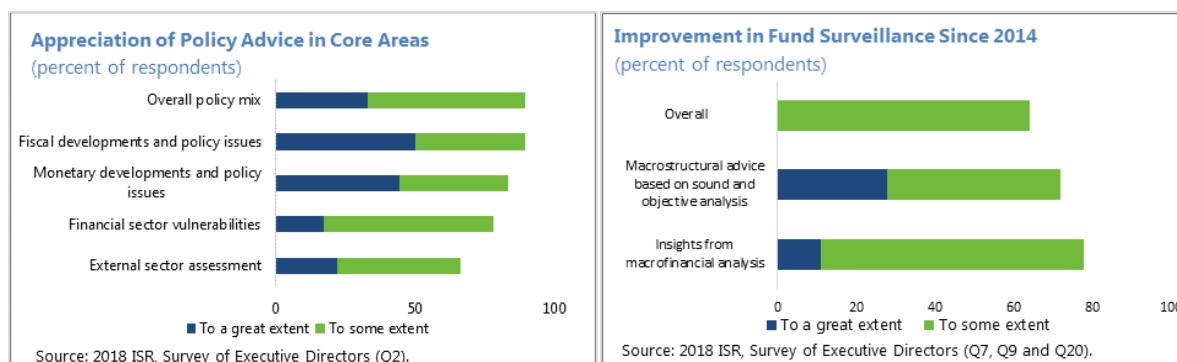
10. Good progress has been made in following up on the TSR and in advancing work on surveillance priorities. The next section assesses progress before turning to a discussion of steps needed to complete the 2014 agenda in the following section.

B. Assessment of Progress

11. Overall, the main finding is that Fund surveillance has become better adapted to the global conjuncture, and more integrated and risk-based. The review highlights a flexible response to evolving challenges. The broad-based push to advance bilateral and multilateral surveillance in recent years reflects substantial efforts across departments. This investment has built on core strengths of Fund surveillance. The Fund has also promoted collaboration to raise global growth; diagnostic work on economic developments, policy settings, and their interlinkages is contributing to discussion about the impact on the global economy of individual and joint action by large economies.

⁵ The survey of Board members sought consolidated responses from each Executive Director's Office.

⁶ The survey of staff solicited views of mission chiefs.

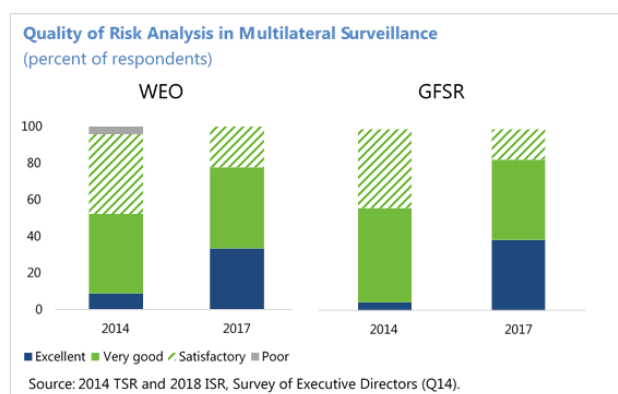


12. Considerable progress has been made in work on risks and spillovers, external imbalances, and fiscal policy, as well as in newer work on macrofinancial and macrostructural issues, and emerging areas. Board members responding to the ISR survey appreciated the Fund’s policy analysis and advice in core areas; staff analysis confirms this result. There also has been meaningful progress in other, newer areas, including, both macrofinancial and macrostructural issues. However, the evolving surveillance toolkit still needs to be tested through complete business and financial cycles. These findings emerge from assessing progress in each TSR recommendation area, summarized below.

Integration of Bilateral and Multilateral Surveillance; Analysis of Risks and Spillovers

13. Advances in risks and spillover analysis have deepened understanding of interconnections in the global economy. A sustained investment has been made in internal organization for identification and analysis of risks and spillovers. Staff have made significant progress in coverage of inward spillovers and analytical tools, and multilateral surveillance has informed Fund policy advice. Consistent with the ISD’s incorporation of the international dimensions of surveillance and cross-country spillovers, integration of bilateral and multilateral surveillance has resulted in deeper discussion of global risks and spillovers in the flagship reports and more focus on inward spillovers in Article IV consultations.

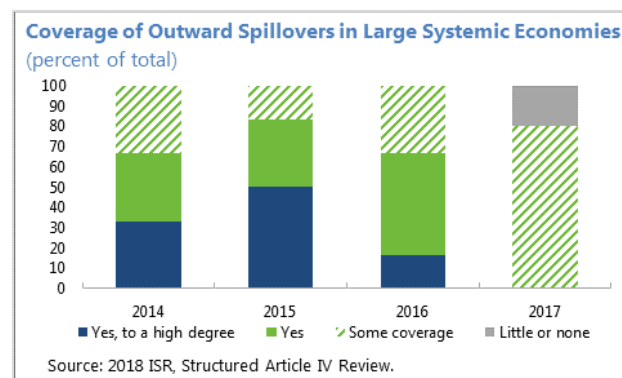
- Extensive interdepartmental work on the Early Warning Exercise, Vulnerability Exercises, and on tail risks has promoted timely identification of risks. Staff has increasingly used these internal tools to help align surveillance priorities with risks, to guide work by the country and review teams, and to inform resource allocation as discussed below.
- The Global Risk Assessment Matrix (GRAM) has supported consistency between identification and discussions of risks in multilateral and bilateral surveillance. Near-universal incorporation of the Risk Assessment



Matrix in Article IV reports has helped to provide structure and consistency around how risks and their possible impacts are analyzed.

- Reflecting this, three-quarters of Board members found the Fund’s risk assessments for their constituency to be about right and 67 percent considered analysis of inward spillovers to be useful. Surveys also indicate that they consider the quality of risk assessments in the [World Economic Outlook](#) (WEO) and [Global Financial Stability Report](#) (GFSR) to have improved considerably since 2014.

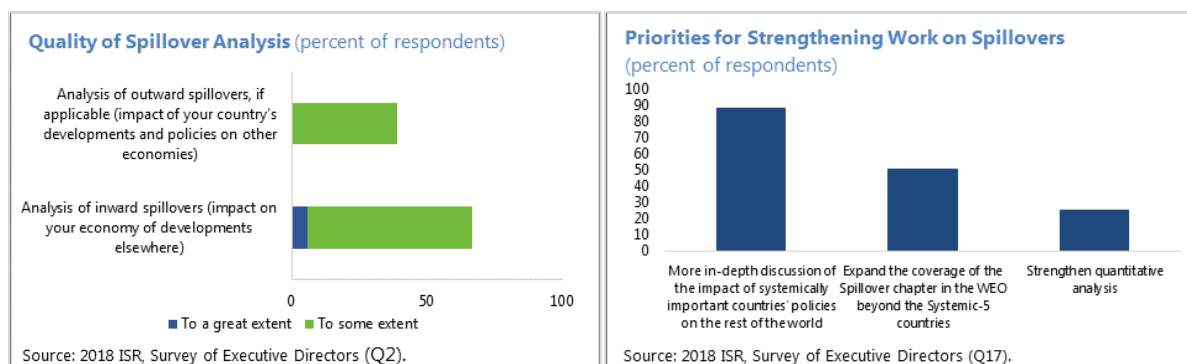
14. Work on outward spillovers is developed and communicated using a range of surveillance outputs, but is not consistently finding its way into Article IV reports.⁷ This suggests that the spillover work that is being done may not be providing sufficient practical support for individual Article IV teams. Analysis of outward spillovers is featured in the spillover chapter of the fall WEO and in some of the mandatory S-29 [Financial System Stability Assessment](#) (FSSA) reports. The Fund’s [Spillover Notes website](#) also presents detailed work on spillover issues, including technical analysis that serves as the basis for the WEO chapters. Beyond coverage of spillovers with significant impact as required under the ISD, the 2014 TSR broadly encouraged more systematic analysis of outward spillovers in bilateral surveillance, both in terms of depth and integration into policy discussions. Against this benchmark, this assessment finds that depth of coverage across countries and across time varied, with just 9 of 23 recent Article IV reports for large systemic economies featuring well-developed analysis of outward spillovers, and roughly 70 percent of the reports including the authorities’ views. The 2014 TSR had also recognized a problem of traction given policymakers’ focus on domestic goals. The anticipated examination of “spillbacks” to help overcome this issue proved less relevant in a period characterized by low financial market volatility. Surveys of Board members confirmed a gap in the perceived value of the Fund’s analysis of outward spillovers compared to that of inward spillovers, and called for more in-depth discussion of outward spillovers.



15. Spillover considerations do inform other analytical frameworks that guide evaluation and formulation of policy advice. For example, the ESR process provides a

⁷ The ISD provides that “Members shall consult with the Fund regularly under Article IV to enable the Fund to ...discuss with members the impact of their policies on the operation of the international monetary system,” and that such consultations “shall include a discussion of the spillover effects of a member’s exchange rate and domestic economic and financial policies that may significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability” (para. 26). More broadly, as noted in the Guidance Note for Surveillance Under Article IV Consultations, “in other cases, the staff can discuss outward spillovers unless the authorities object” (Footnote 11). Coverage of all types of outward spillovers was assessed in this review.

multilaterally-consistent approach to considering the external sector spillovers of domestic policies and identifying the aggregate impact of members' policies on individual member countries' external positions. The Fund's work on risks and spillovers also feeds into the G-20 Framework for Strong, Sustainable, and Balanced Growth (SSBG). Here staff provides technical analysis evaluating key imbalances and whether members' policies collectively can achieve their objectives, and recommends further action where needed.



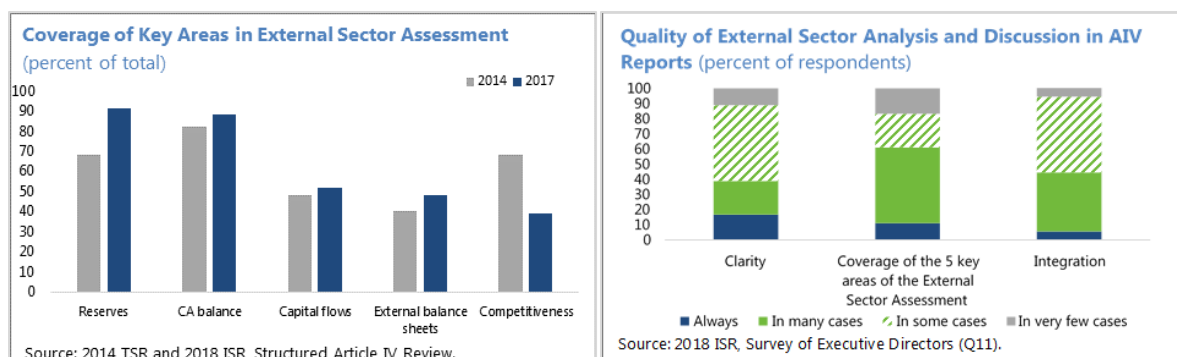
External Sector Assessment

16. Important advances have been made in strengthening external sector assessments in line with the actions envisaged in the TSR. TSR recommendations called for gradually replacing the Consultative Group on Exchange Rate Issues (CGER) methodology with [External Balance Assessment](#) (EBA) methodology for a broader set of countries; discussing the contribution of domestic policies to external imbalances where the EBA methodology is applied; and for a more comprehensive assessment of the external position through the use of a broader set of indicators in external sector assessments. All of these actions have been taken.

- 2017 marked the first formal Board meeting on the sixth annual [External Sector Report](#) (ESR), which has helped ensure consistency of external assessments for major economies using the EBA to estimate desired current account balances and real exchange rates. The EBA methodology improved on the CGER methodology by explicitly including policy gaps, which has supported discussions with the authorities on the contribution of macro policies to external imbalances. Concerns remain around the EBA methodology and its application, and planned refinements are discussed in paragraphs 34 and 35.
- For countries outside of EBA, a new EBA-lite methodology was introduced, replacing CGER-like methodologies. The EBA-lite methodology retains the conceptual framework of EBA, while emphasizing drivers of external balance in emerging market economies and low-income countries. Drawing on initial experiences, a review of the EBA-lite is currently underway.

- The 2014 TSR emphasized an overall assessment of countries' external position with coverage of five key areas,⁸ and the structured review of Article IV reports along with results from a survey of staff confirmed that assessments are informed by a broader set of indicators. Analysis, guidance, and tools on [reserve adequacy](#) have also helped, with increased discussion of reserves in reports relative to 2014.

Although two-thirds of Board members surveyed indicated that the Fund's external sector assessments have contributed to their understanding or provided new insights, this is lower than for other core areas. Work continues to further refine methodologies for external sector assessments.



17. The policy framework for responding to the effects of large and volatile capital flows is being embedded in Fund surveillance, with greater attention to specific measures and country circumstances. The [2016 review](#) of experience with the [Institutional View](#) (IV) on the liberalization and management of capital flows since its adoption in 2012 showed that this framework has usefully guided surveillance work: members' policy responses have generally been consistent with the IV insofar as countries have primarily used macroeconomic policies, including exchange rate flexibility, to respond to capital flows. Further [staff work](#) has clarified the circumstances and principles for dealing with systemic risk caused by volatile capital flows and the use of macroprudential measures (MPMs) and capital flow management measures (CFMs). As we continue to build experience in applying the framework, ambiguities may arise that require continued attention. Providing consistent and evenhanded advice on the use of all relevant policy levers that takes into account both domestic and external factors remain an ongoing priority, along with additional work to assess the effectiveness of specific measures.

Macrofinancial Analysis

18. Macrofinancial analysis is better integrated into bilateral surveillance, deepening understanding of key challenges and informing policy advice. Efforts have focused on integrating a forward-looking view on the financial sector into the macroeconomic baseline, risk assessment, and policy advice. Over 70 percent of Board members characterize the quality of staff's advice and analysis of macrofinancial issues as having improved to some or a great extent.

⁸ The five key areas encompass the current account, real exchange rate, capital flows and policy measures, foreign exchange intervention and reserve levels, and external balance sheets.

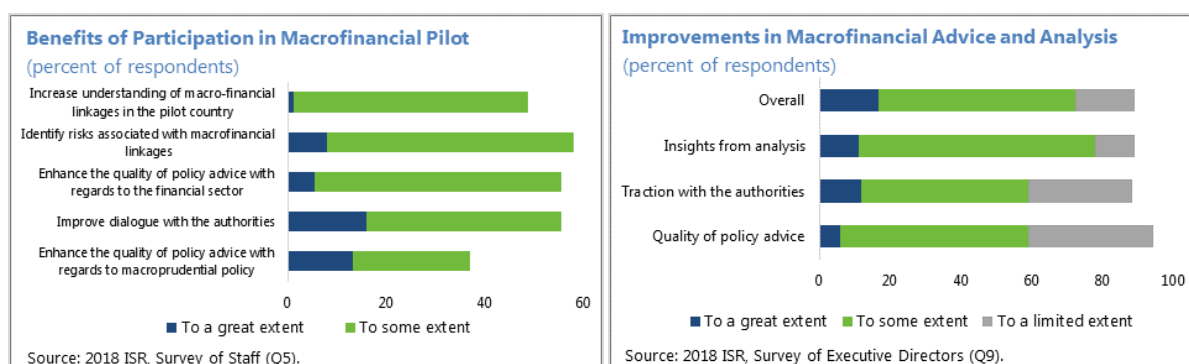
Even in the absence of a generally agreed framework in the literature for integrating financial sector and macroeconomic developments, analytical work has strengthened understanding of macrofinancial interrelationships, including for low income and developing countries (LIDCs) (Box 1). Incorporating financial sector developments into views on macro outcomes, including integrating credit growth into the baseline, is an area for continuing focus. Looking ahead, better understanding of the interaction between financial sector developments and the real economy can help policymakers navigate the normalization of monetary policy. Drawing on internal expertise and building experience over time, the macrofinancial initiative entailed a significant ramp-up in training and knowledge-sharing, including delivery of a specialized curriculum, and dissemination of knowledge across and within departments through dedicated macrofinancial teams. Following the March 2017 Board discussion of “[Approaches to Macrofinancial Surveillance in Article IV Reports](#),” it was decided to extend this work across the full membership by end-2018. Functional departments will continue to support this effort.

Data Gaps

19. As discussed in the next section, continuing efforts would be needed to more fully realize the objective of addressing data gaps. The TSR viewed gaps in financial sector data as important for making progress in macrofinancial analysis. The G-20 Data Gaps Initiative is yielding results, but challenges remain on compilation of sectoral accounts and government finance statistics, as well as on sharing of granular data.

Macroprudential Policies

20. Macroprudential policy advice now features regularly in bilateral surveillance. Analytical work, a Board paper, and guidance notes have upgraded the Fund’s macroprudential policy advice. The framework for policy advice in the context of global capital flows was clarified in “[Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies](#).” Staff are compiling a database of macroprudential measures, updated annually based on reports from members, that will support lessons from experience and deepen analytical work.



Fiscal Advice

21. Fiscal policy surveillance and advice has emphasized the implications for growth and sustainability. The TSR affirmed fiscal policy as the “bread and butter” of Fund surveillance, recommending institutional analysis to strengthen the basis for structural fiscal balances and to present fiscal advice in terms of a clear and well-justified fiscal anchor. The assessment indicates substantial progress, underpinned by greater attention to fiscal anchors in the review process and the use of mandatory debt sustainability analyses to better justify the fiscal advice. Work on structural balances has also taken place, including research to improve the basis for estimates and the methodology for assessing potential output. Challenges remain, however, especially in LIDCs due to data and capacity constraints and large structural changes that contribute to volatile estimates of potential output. The latter also presents issues for some commodity exporters.

22. Overall, fiscal policy advice continues to adapt to the evolving fiscal challenges of the membership. Recent efforts are increasingly focusing on fiscal risks and their implications for policy advice,⁹ the recent buildup of debt vulnerabilities in developing economies,¹⁰ second generation fiscal rules,¹¹ and enhancing the credibility of fiscal anchors. On the latter, a framework and analytical tools have been developed in two forthcoming how-to-notes that explicitly identify debt anchors consistent with fiscal sustainability and stabilization objectives. The update of the October 2016 Fiscal Monitor dataset—which will be launched as the Global Debt Database in May 2018—will improve the ability to monitor public and private debt developments across the membership. These efforts have been complemented by the work on fiscal space elaborated in the recent Board paper “[Assessing Fiscal Space—An Initial Consistent Set of Considerations](#).” Staff’s fiscal space template provides a tool to enhance the policy dialogue on the scope for fiscal support to growth while ensuring fiscal sustainability. The linkage has also increased between surveillance and TA associated with the Fund’s [Fiscal Transparency Code](#) as a result of the new [Fiscal Transparency Evaluation](#) (FTE),¹² which features prioritized, easily accessible findings and recommendations that have fed into Article IV consultation and other surveillance work.¹³

⁹ A fiscal stress test, combined with a fiscal risk management toolkit for policymakers were developed in the May 2016 Board paper “[Analyzing and Managing Fiscal Risks—Best Practices](#).”

¹⁰ See Chapter 2 of the LIDC report, to be discussed by the Board in March.

¹¹ See Staff Discussion Note “Second-Generation Fiscal Rules: Balancing Credibility, Simplicity and Flexibility.”

¹² In the context of the [2017 Review of the Standards and Codes \(S&C\) Initiative](#), Directors generally concurred that the Fiscal Transparency Code provides a good way forward, including its outcome-focused, modular, and graduated approach, to increase the relevance of Fund-set transparency S&C.

¹³ For examples of FTE inputs to country specific Policy Notes/staff reports, see Table II. 1 in the “2017 Review of the Standards and Codes Initiative- Policy Area Background Paper.”

(continued)

Structural Policies

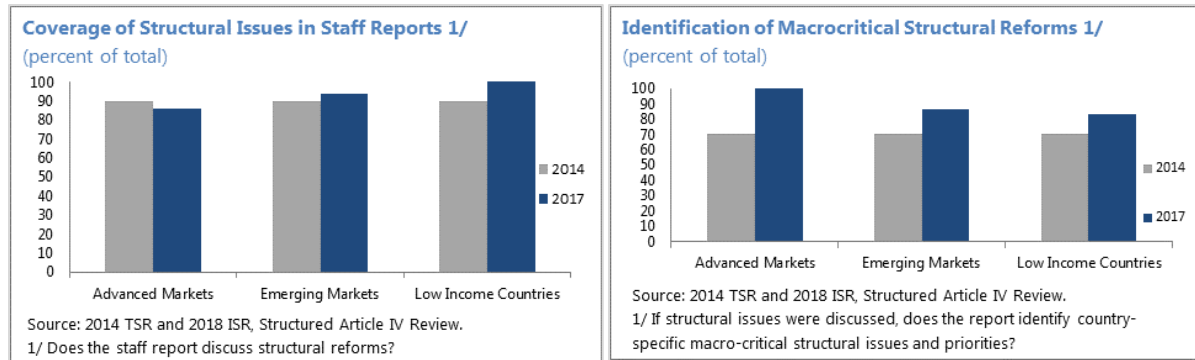
23. Staff’s analytical work has strengthened the Fund’s ability to examine productivity challenges and provide policy advice. The persistent slowdown in productivity growth has been the main cause of output losses relative to pre-crisis trends in AE and EM economies. Staff examined this in depth in multilateral surveillance products, including in the WEO and Fiscal Monitor, and in Regional Economic Outlooks.¹⁴ The 2015 Board paper “[Structural Reforms and Macroeconomic Performance—Initial Considerations for the Fund](#)” assessed which reforms are likely to have the largest productivity payoff, depending on the economy’s level of development. It also looked at how bundling of structural reforms may impact their effectiveness. Staff-prepared notes for the G20 set out an analytical framework for identifying and prioritizing structural reforms, and summarized the Fund’s structural reform recommendations for G20 countries. Staff has advanced analytical work on structural reforms, in particular in the areas of tax policy and labor and product markets.¹⁵ Recent staff discussion notes (SDNs) assessed the sources of the global productivity slowdown, the interaction between structural reforms and fiscal space, and the macroeconomic and distributional impacts of reforms in LIDCs. Other SDNs and working papers have examined the role of financial frictions and trade. Databases on productivity and reforms, currently under development, will advance work in this area. A new framework guides best practice for the use of third-party indicators (TPIs) in Fund reports, supporting work in on macrostructural issues and on governance and on emerging issues, where TPIs are increasingly used.¹⁶

24. The macrostructural pilot initiative has facilitated better integration of structural issues into macroeconomic analysis and policy advice. Following the priorities set out in the 2015 Board paper, a range of processes and analytical resources have supported accumulation of valuable experience and helped overcome challenges such as the breadth of potential macro-critical topics and gaps in knowledge across departments. This included establishing a center for in-house expertise and analytical work in the areas of product and labor markets and increased focus on structural issues in internal training. The depth and granularity of coverage of macrostructural issues have improved in pilot country papers, reflecting more sophisticated approaches and better use of peer country experiences. The choice of topics has reflected country-specific circumstances, and there has been a promising start to leveraging the Fund’s TA work for analysis of structural issues in surveillance.

¹⁴ Recent WEOs have covered potential output and labor and product market reforms’ impact on growth and employment in advanced economies, while the Fiscal Monitor has considered how the tax system may affect resource misallocation and productivity. REOs have focused on prospects for closing the productivity gap in Asia and reform implementation in emerging Europe to raise productivity and promote faster income convergence.

¹⁵ For example, [Fiscal Monitor, Chapter 2: Upgrading the Tax System to Boost Productivity, April 2017](#) and [WEO Chapter 3: Time for a Supply-side Boost? Macroeconomic Effects of Labor and Product Market Reforms in Advanced Economies, April 2016](#).

¹⁶ A companion “Indicators Digest” compiles characteristics of selected indicators to inform staff judgment about their use.



25. Work on other emerging issues also relied on the pilot approach to build knowledge and experience. The topics—inequality, gender, and climate issues—were chosen as having gained importance for the global economy and the membership but where the Fund did not previously have sufficient operational experience. Coverage of these issues has been selective and linked to macroeconomic significance. A strategy of leveraging collaboration with other agencies has aligned staff’s focus on areas where Fund analysis and policy advice will likely have the most value added and has helped keep resource costs manageable.¹⁷ It is envisioned that these pilots will be concluded and the analysis incorporated into surveillance, where relevant, once internal expertise is built and collaboration with other institutions is established. The inequality and gender initiatives have reached this point, and the accumulated knowledge base is expected to be tapped more broadly by other country teams in cases where the issues are determined to be macro-critical. Building on the knowledge from the pilots, staff are well positioned to use the tools developed and insights gained across the membership where relevant.

Cohesive Policy Advice

26. Surveillance has become better tailored to country circumstances, underpinned by the expansion and deepening of the analytical basis for policy advice. [The 2015 Guidance Note on Surveillance Under Article IV Consultations](#) emphasizes the importance of selectivity and focus on issues and themes relevant for stability with clear advice on an appropriate mix of policies. Nearly all Board members responding to the ISR survey found policy advice on country-specific issues to be useful to their constituency. Board members had a generally positive view of the discussion of the policy mix in Article IV reports, although staff’s analysis has identified some inconsistencies in aligning advice with underlying developments or across different policy instruments. In choosing how to organize their Article IV reports, teams have made relatively little use of the thematic approach which had been proposed to help prioritize and tailor the depth of coverage in key operational areas and promote discussion of the policy mix.

¹⁷ See Background paper, which includes assessment of resource costs.

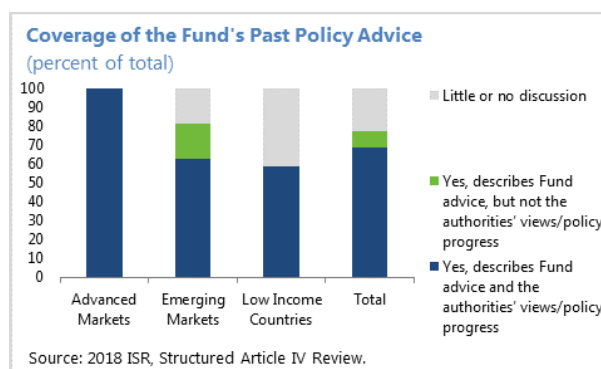
Expert Analysis and Advice

27. Policy advice could be further enhanced through greater availability of cross-country databases, analytical work, and lessons from policy experiences, but meaningful progress beyond use of cross-country data has yet to be achieved (Box 2). As discussed in the next section, little progress has been made in leveraging knowledge from cross-country experiences in Article IV policy advice and in integrating technical assistance with bilateral surveillance, and this area would benefit from a course-correction to make stronger advances on this 2014 TSR recommendation.

Policy Dialogue; Clear and Candid Surveillance

28. The TSR recognized that the traction of Fund surveillance is linked to the quality of its advice, bolstered by a more client-focused approach and evenhandedness.

Staff have increasingly engaged with the authorities outside of the Article IV cycle, including through seminars and other less formal opportunities to strengthen dialogue. Area departments are monitoring the quality of engagement and policy dialogue through targeted surveys and informal feedback mechanisms.¹⁸ Country teams have



strategically leveraged communications to coordinate key policy messages in bilateral surveillance and in Annual Meetings outreach. Staff also have made efforts to improve the clarity and candor of surveillance messages and expand discussions on the Fund's past policy advice. Consistency across multilateral products has been improved by incorporating the Spillover Report and key ESR messages into the WEO, and bringing together the main policy messages and views on the global outlook and risks in the [Global Policy Agenda](#) (GPA). The 2017 IEO report "[Multilateral Surveillance: Revisiting the 2006 IEO Evaluation](#)" welcomed recent measures to consolidate and streamline multilateral surveillance products while noting the challenge of ensuring value-added and consistency across them. It will remain important to ensure the candor of surveillance for larger economies, particularly on spillovers and their systemic implications.

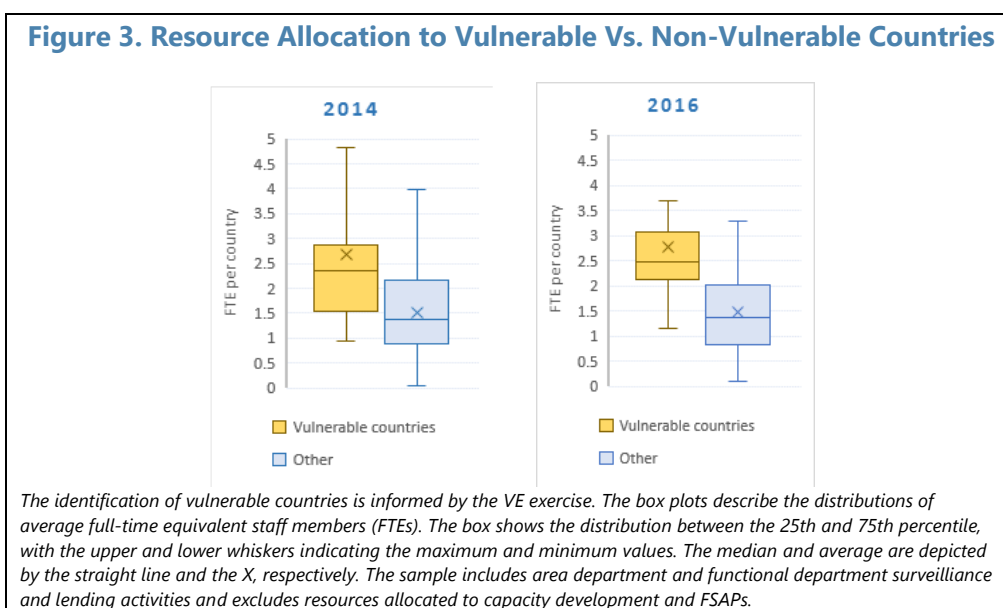
Evenhandedness

29. Inroads have been made in support of evenhandedness and embedding its focus on risk-adjusted surveillance into Fund operations. The Managing Director's Action Plan called for establishing a clearer understanding of evenhandedness and for creating a mechanism for reporting concerns. A 2016 [Board paper](#) set out the principles and framework for evenhanded surveillance based on uniformity of treatment, clarifying that the risk-adjusted inputs to

¹⁸ The CSR will include a comprehensive assessment of the impact and traction of Fund policy advice.

surveillance (resources, underlying analysis, and engagement) should be calibrated to country circumstances, and a mechanism was established to address members' evenhandedness concerns. The mechanism is operational, and progress improving understanding of evenhandedness was reported to the Board as foreseen in the earlier Board paper.

30. Progress on calibration to country circumstances includes that resource allocation for Article IV surveillance is increasingly informed by country vulnerabilities, with the Vulnerability Exercise (VE) supporting operational decisions.¹⁹ The Budget process is informed by the VE exercise, including annual adjustments to area department staffing. Empirical evidence indicates that FTEs are positively correlated with countries' risk levels and that risk-based resource allocation has become more prominent since 2014 (Figure 3).



C. Completing the 2014 Agenda

31. More remains to be done before the 2019 CSR to complete the 2014 agenda and deliver on the Fund's surveillance priorities. Work already planned in several areas needs to be carried through. In a few other areas, some midcourse correction is needed to ensure that surveillance priorities are met. The discussion below elaborates on staff's plans to deliver on the TSR recommendations and continue to meet evolving challenges.

32. Outward spillover work should feature more prominently in Article IV consultations, to fulfill the objective of the ISD and TSR recommendations. Moving the

¹⁹ The twice-yearly VE identifies emerging country-level risks, reflecting both staff's judgment and indicators. In December 2014, the Board was briefed on the ongoing updates to the VE's underlying methodology, country coverage, and integration with other risk-based work at the Fund. The 2017 reference note on "[Assessing Country Risk—Selected Approaches](#)" describes some of the approaches used by staff to examine systemic risks, provides a high-level view of the theory and methodologies employed, and is accompanied by an on-line technical guide.

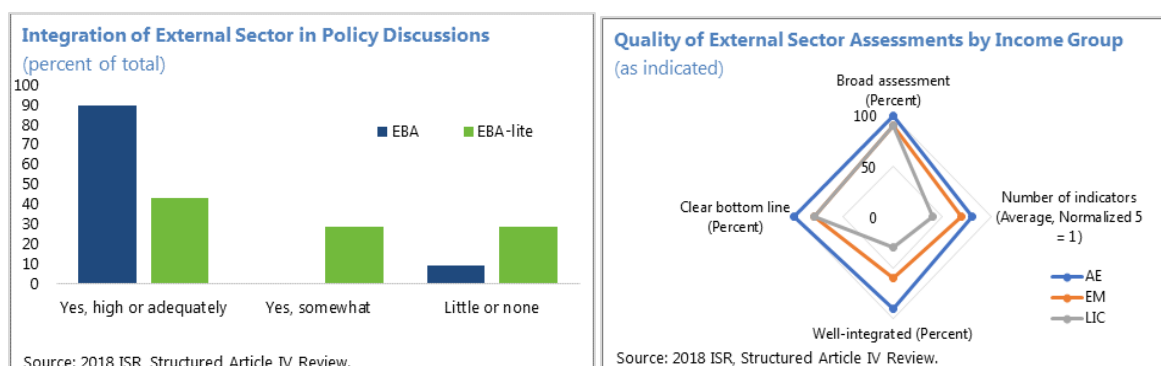
spillover chapter from the October WEO to the April WEO will improve the timeliness of analytical spillover work for Article IV consultations for the large systemic economies, which tend to occur in the summer. The internal Spillover Taskforce will be enhanced to more effectively identify near-term policy issues, commission and flexibly organize analytical projects, and make suggestions on which spillovers may be most relevant for Article IV consultations. Other internal processes, including increased emphasis in the review process, should facilitate deeper coverage in Article IV reports. The ISD recognized the benefits of an early exchange of views with authorities on topics for Article IV consultations—oriented around the most significant issues relating to a member’s stability and global stability—which can also help support engagement with authorities on more consistently well-developed analysis of spillovers. Outreach with the membership on spillover work, including through seminars or informal discussions during the Spring and Annual Meetings, can also advance more meaningful dialogue, which could be further supported, if appropriate, by participation of Spillover Taskforce members in technical discussions or missions. Looking forward, surveys and consultation with the membership and other stakeholders in the context of the CSR will provide valuable insight into the extent to which coverage of spillovers has been aligned with expectations.

33. Significant work has enhanced the ability to map risks and identify vulnerabilities, but further progress in some areas will hinge on data availability. Macrofinancial coverage in country reports to-date has been primarily focused on banks and households. To adequately assess vulnerabilities and shock transmission channels, continuing efforts will be needed to understand capital market developments and the evolution of risks in other sectors, including the corporate sector, as appropriate to a country’s context. These efforts can be supported by increasing country team expertise on non-bank financial sector issues. The balance sheet approach can support related analysis, and a template to facilitate construction of country balance sheets for a broader set of members was deployed in late 2017. In assessing take-up by country teams, staff will pay attention to the extent to which data gaps prove an obstacle. A network of eight central banks has been exchanging information to advance efforts to develop a Global Flow of Funds.

34. Further refinements to the underlying methodologies for external sector assessments should help improve insights and coverage across the membership. The IEO’s [2017 Evaluation Update on Fund Exchange Rate Policy Advice](#) noted that the IMF has substantially overhauled its approach to external sector assessment over the past decade. Nevertheless, some concerns persist about the EBA methodology and its application, and additional work is ongoing to enhance the methodology. Continuing the process started in the 2017 ESR, improvements to the presentation of external sector assessments for ESR countries should increase transparency, including around adjustments. The first review of the EBA-lite methodology aims to upgrade the tools for external assessments in the non-EBA countries. In addition, periodic analysis on cross-country issues across non-ESR countries will help identify common challenges where further refinements may be needed. All these efforts will further enhance consistency and transparency in external sector assessments and better integration into

the broader policy discussions. Additional attention in the review process should promote further progress.

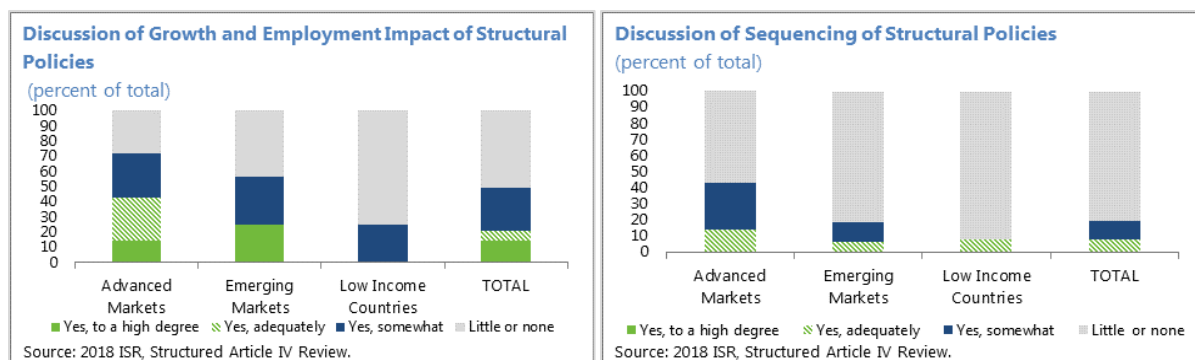
35. Planned Board engagement will provide an opportunity to reflect on the progress in external sector work and next steps. The IEO evaluation update also acknowledged concerns among Executive Directors that there may be too much focus on the current account and greater attention should be paid to capital account developments. More generally, efforts to further improve the external sector assessment methodology would benefit from closing data gaps, including with respect to foreign exchange intervention and reconciliation of changes in international investment positions (IIP) and balance of payments flows. A one-time data collection effort for EBA countries focused on the latter is currently being undertaken in conjunction with methodological improvements. Further analytical work can help advance improvements to reserve adequacy assessment for LIDCs.



36. Maintaining focus and quality will help consolidate the gains from integrating macrofinancial analysis into surveillance. A systematic integration of financial sector developments and risks in staff's baseline, risk assessments, and policy advice is necessary for effective surveillance, including as global monetary policy begins to normalize. Similarly, staff needs to continue to underpin its policy advice on both the scope and settings of macro- and micro-prudential policies on a solid risk assessment informed by a view on systemic risk. Area departments are now in a good position to sustain the progress achieved in macrofinancial mainstreaming, with continued support from functional departments. However, a dedicated effort is needed to avoid a stall as macrofinancial surveillance is mainstreamed across the membership, particularly for country teams new to this work. In responding to the ISR survey, staff generally cited more dissemination of good practices and analytical toolkits, including for LIDCs where pilots have built up institutional knowledge, more training, and engagement with subject-matter experts as ways to strengthen macrofinancial analysis. This will be supported by continued dissemination of expertise to country teams and focus in the review process.

37. Work on fiscal policy advice should keep pace with the evolving challenges facing the membership. With the recovery strengthening and financing conditions expected to tighten, re-building buffers, reversing the recent build-up in debt levels, and limiting procyclicality in the up-turn are expected to become more pressing issues. The Fund's work on fiscal space and fiscal

rules, as well as frameworks to assess fiscal risks and fiscal transparency will continue to be useful in this context. The recently concluded review of the [Debt Sustainability Framework for Low-Income Countries](#) (LIC DSA) and the ongoing review of [Debt Sustainability Analysis for Market-Access Countries](#) (MAC DSA), will enhance the Fund’s ability to monitor debt vulnerabilities in LICs and MACs, respectively. Other work has shown how fiscal policy can promote inclusive growth or can be used as a tool to address inequality.²⁰ Dissemination of fiscal work has increased including through “[how to notes](#),” drawing on technical assistance advice and cross-country policy work as well as greater accessibility of relevant TA reports in general. Going forward, attention will focus on confirming that fiscal rules are well-calibrated and focus on assessing compliance. It will also be important to identify and address any gaps in the creditor coordination architecture for dealing with over-indebted countries. Finally, like many other areas, fiscal policy is expected to be significantly impacted by technology and digitalization and these issues are already being investigated through outputs such as the recently published book “[Digital Revolutions in Public Finance](#),” forthcoming Board engagement on Digitization and International Taxation, and in the forthcoming April 2018 Fiscal Monitor.



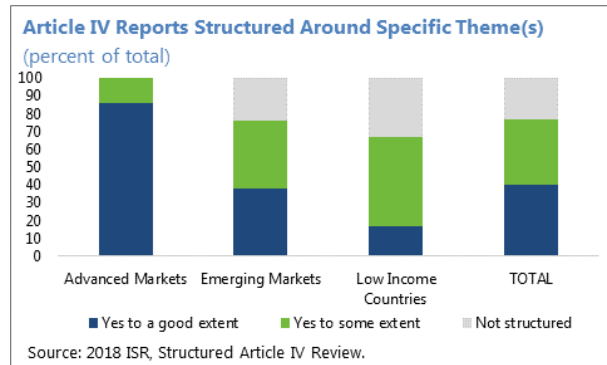
38. Recent experiences provide lessons to guide improvements in the quality and relevance of Fund policy advice on structural reforms. The macrostructural initiative envisages a second round of pilots during 2018 to broaden experience, before fully embedding macrostructural issues in bilateral surveillance across the membership in 2019. Staff has updated the Board on progress and presented the operational path going forward. Internal surveys indicate that the analytical basis for assessing key structural gaps, reform pay-offs and costs, as well sequencing and packaging need to be further developed. This is particularly important yet more challenging for LIDCs and smaller EMs for which there is less availability of relevant databases and research on the macroeconomic effects of reforms and the interplay between reforms and macroeconomic policies. In addition, better integration of structural issues into the overall macroeconomic analysis and policy advice for all members should be given priority. Going forward, structural policy advice can be sharpened through enhancements to the review process; planned specialized training; increased access to standardized databases and related diagnostic tools; better leveraging of external expertise, particularly in those macro-critical

²⁰ October 2017, Fiscal Monitor.

structural areas where Fund expertise is limited; the preparation of a conceptual framework for LIDCs; and further research.

39. Surveillance should continue to focus on delivering a cohesive package of policy

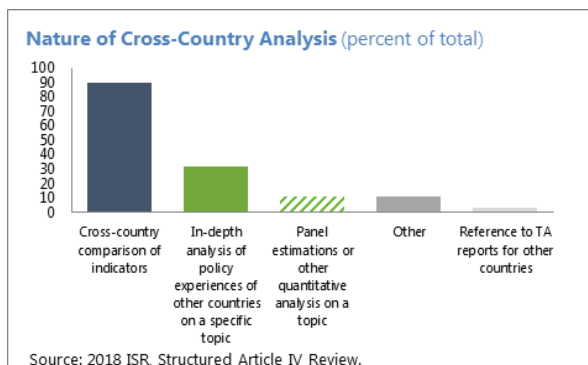
advice. More integrated policy recommendations are increasingly necessary in a complex and volatile policymaking environment. Staff reports need to incorporate a more explicit discussion of the policy mix of fiscal, financial and macroprudential, monetary, external, and structural policies. Efforts to develop frameworks to support the formulation and consistency of advice along these lines, from



both a domestic and external stability perspective, can help strengthen the policy mix of members. Ongoing work to improve forecast accuracy should support these efforts.

40. Continuing efforts are needed to encourage and facilitate more widespread use of insights from cross-country policy experiences in bilateral surveillance.

While the Fund’s cross-country policy knowledge is a comparative advantage, the structured Article IV review suggests that its use in bilateral surveillance only infrequently goes beyond a comparison of indicators. Steps have been taken to promote better sharing of knowledge, including the 2016 launch of the Knowledge Management Unit (KMU) and the establishment of an institutional knowledge management (KM) strategy. The initiative to compile a Fund-wide searchable repository for TA advice should help make TA knowledge more accessible. Additional steps include identifying priority areas for systematic collection of information supported by a cross-functional knowledge sharing program to better leverage internal expertise. Looking ahead, cognitive computing services have the potential to boost country teams’ ability to access insights from TA and cross-country policy experiences. Technology-based solutions will need to be complemented by ‘people-based’ initiatives to better align incentives with these goals.



41. Better integration and leveraging of technical assistance can also help make bilateral policy advice more persuasive. Efforts to maximize alignment between TA needs as

identified by the authorities and area departments and TA delivery should be helped by the common evaluation framework for Results Based Management (RBM), which increases ex-ante communication of the objective of TA between stakeholders and ex-post monitoring of outcomes.²¹ The 2018 Quinquennial Review of the Fund's Capacity Development (CD) Strategy will focus on further integrating CD with surveillance and policy advice and strengthening the CD framework by sharing CD knowledge with the membership, seeking innovative delivery approaches, better targeting, and entrenching the RBM approach.

42. Aligning surveillance inputs with risks remains an ongoing process and will enhance the Fund's agility. While allocation of the Fund's internal resources to country teams is increasingly informed by country vulnerabilities, identified through the VE, there is scope for improvement. It will be important to continue to refine how the risk-adjusted approach is incorporated into internal planning and other processes (budget, staffing decisions) that bear on surveillance outcomes.

TACKLING FUTURE CHALLENGES

A. A Sound Footing

43. Fund surveillance remains deeply rooted in exchange rate, monetary, fiscal, and financial sector policies to promote domestic and global financial and economic stability. At the same time, surveillance has adapted to address the weaknesses revealed by the GFC and the period that followed it. To respond to risks around interconnectedness and spillovers, the Fund strengthened its external sector assessments, developed the Institutional View, and expanded its work on financial interlinkages; these tools remain relevant to build resilience to capital flow reversals. Macrostructural policy work provided a mechanism to deliver policy advice to help secure the recovery, reinvigorate growth prospects and productivity, and to promote inclusive growth. Analysis of fiscal risks has been sharpened. An expanded understanding of macroprudential policies has strengthened policy advice to support a more resilient financial sector.

44. Challenges persist, even as the global recovery continues, and established operational priorities can continue to support the membership. A long period of monetary accommodation, necessary to support the recovery, has contributed to increased financial vulnerabilities in some countries and sectors, and its unwinding elevates the risk of capital flow reversals. For LIDCs, total public debt and debt service have risen sharply, with about one-third at "high" risk of external debt distress or already in debt distress, and about 40 percent at "moderate" risk. Medium-term risks include financial tensions, uncertainty over the direction for financial regulation, rising geopolitical tensions, and concerns over restrictive trade practices.

²¹ The RBM framework is described in the [2018 Quinquennial Review of the Fund's Capacity Development Strategy—Concept Note](#).

Over the longer term, the outlook for potential growth is limited by low productivity growth, and efforts are needed to broaden the benefits from technological progress and integration.

45. Surveillance can continue to flexibly adapt through an emphasis on sharpening analysis and tailoring policy advice to country circumstances. The three-pronged approach of mutually reinforcing policy levers, bolstered by a well-functioning financial system and global cooperation, can help members strengthen domestic growth and stability. For many countries, this implies taking advantage of the more favorable conjuncture to implement reforms that stave off downside risks, rebuild buffers, and raise potential output. Smoothly navigating the withdrawal of monetary accommodation will be a priority. Improved growth momentum means that fiscal policy should increasingly focus on medium-term goals of ensuring fiscal sustainability. Shared priorities include implementing structural reforms to boost potential output and making growth more inclusive; ongoing work will sharpen the Fund's structural reform advice. The global financial system is now stronger and more resilient, nevertheless interlinkages are growing and remain complex. Hence, continuing to improve understanding of macrofinancial linkages, including cross-border exposures and balance sheet risks, remains a high priority for multilateral and bilateral surveillance. Appropriate calibration of the policy mix at the national level should also support a reduction in excess external imbalances.

46. Selectivity will remain crucial, given the dramatic increase in the range of tools available to staff. The scope for tailoring to country circumstances has expanded alongside efforts to improve analytical approaches in key areas, incorporate emerging issues into surveillance, and better accommodate the role of financial sector and structural issues in the macro-toolkit. The review process should support teams' efforts to appropriately tailor topics to country circumstances. In this context, the selection and prioritization of topics in areas where the Fund has a comparative advantage remains crucial—building on a dialogue with the authorities and other stakeholders—to facilitate delivery of deep, sophisticated, and high-quality analysis and policy advice. Macro-criticality should continue to determine coverage of emerging areas. Consistent with the principles for engagement outlined in 2014, coverage should be extended to include detailed policy advice in areas where the Fund has the expertise or has access to credible and readily available advice from other organizations.

47. Other ongoing strategic work at the Fund should help position the Fund to continue to adapt to new challenges. Several internal processes, including on the budget framework, knowledge management, capacity development, human resources, data and statistics, and information technology will help to achieve surveillance goals:

- The budget framework continues to refine its approach to risk-based resource allocations drawing on the VE, furthering risk-adjusted surveillance in line with the evenhandedness framework.
- The Knowledge Management strategy will seek to leverage technological developments, including cognitive computing services, to better support knowledge sharing, while also recognizing the importance of incentives for 'people-based' approaches to deliver expert analysis.

- The Quinquennial Capacity Development Strategy, due in September, will propose ways to strengthen the link between CD efforts and surveillance, thus supporting well-tailored policy advice.
- The Fund’s ongoing HR strategy can play a role in supporting implementation of surveillance priorities, including improving the balance of staff skills, experience, and country assignments—key inputs into surveillance. Moving toward closer alignment of performance management and reward systems with operational priorities, along with development of a talent inventory, may also prove helpful.
- The data and statistics strategy aims to close data gaps and meet surveillance needs by deploying new technologies across the ecosystem of data and statistics (including cloud-based data dissemination), facilitating the use of “big data”, and leveraging artificial intelligence.²²
- Ongoing work to articulate a digital strategy will help meet the evolving business needs of the Fund, including in surveillance. While employing machine-learning and other artificial intelligence applications could support surveillance activities by enhancing forecasting accuracy, prediction of policy impacts, and risk analysis, technological advances and the digital economy may also present new challenges for the Fund and its members (as discussed below).

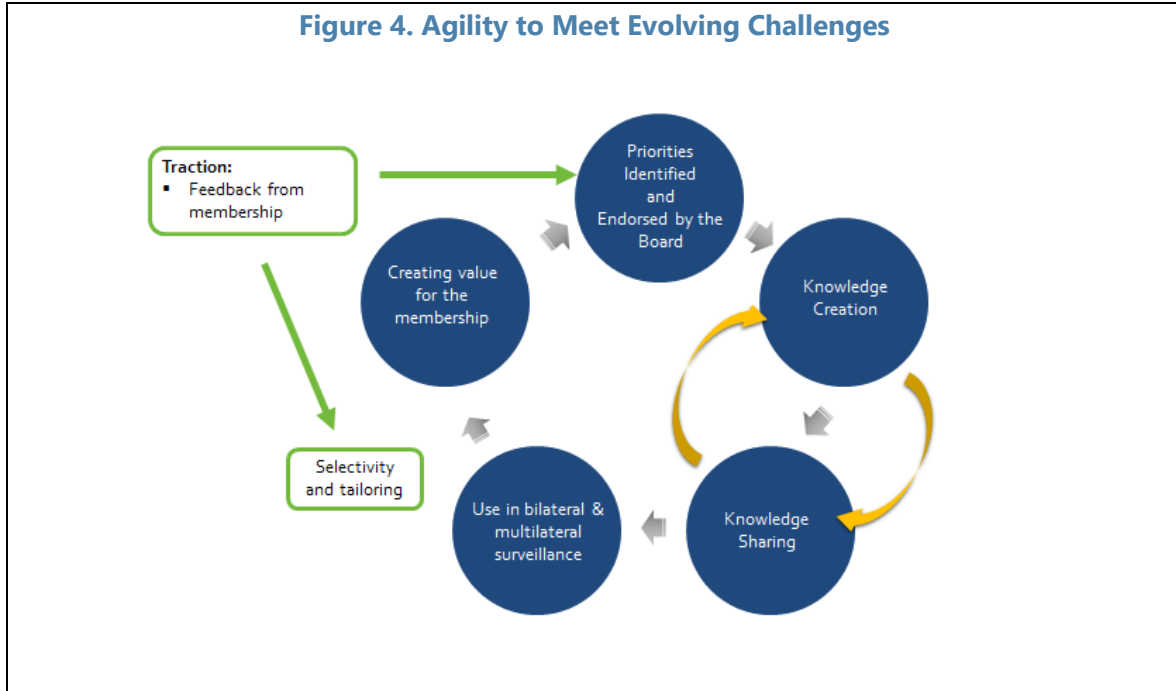
48. In sum, these strategies will position the Fund to continue to adapt to new challenges, by helping to appropriately allocate resources, and better leverage the Fund’s institutional knowledge.

B. Building on Lessons Learned

49. Drawing lessons from the crisis, the Fund has taken a flexible approach to deepen analysis and sharpening policy advice to meet the needs of members. Significant attention was paid to developing a fuller understanding of the contribution of the financial sector to the macroeconomic baseline and risks, and to providing financial sector policy advice that was more integrated into the overall policy mix. Macrostructural analysis covering a broad array of policy issues provides another illustration of a dynamic process of knowledge building in response to the evolving needs of the membership.

²² The 2016 IEO report advocated formulation of a long-term overarching data strategy that recognizes data as a strategic institutional asset.

Figure 4. Agility to Meet Evolving Challenges



50. This experience highlights how the approaches to incorporating surveillance priorities can be calibrated to the nature of the challenge to deliver quality results as experience is being built up. Providing timely expertise on areas where frameworks for policy advice are less well established (macrofinancial and macrostructural, as well as some other emerging issues) has recently been achieved through a pilot-based approach.

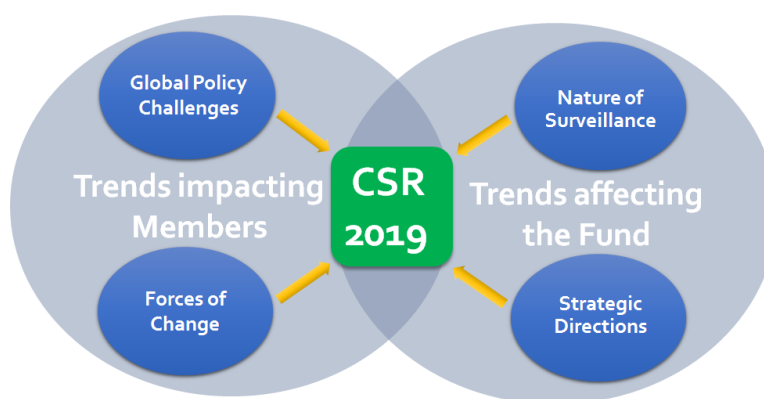
51. The pilot-based approach represents an alternative to more traditional ways of strengthening surveillance. Pilots have helped to catalyze strong internal collaboration to identify, aggregate, and further develop expertise and analysis to underpin more effective surveillance (see Background paper for a discussion on the role of pilots in advancing surveillance and details on the pilot initiatives since the 2014 TSR). Initiatives such as early brainstorming, enhancements to the review process, specialized training, and facilitation of access to databases and related analytical and diagnostic tools have been useful vehicles to help accelerate knowledge-sharing and promote mutually reinforcing dynamics between knowledge-creation and the conduct of surveillance. Care is required to effectively balance the mix of approaches to implementing surveillance priorities. As the Fund responds to evolving challenges in the future, this flexibility—reflecting the option to draw on the traditional or pilot approaches through careful calibration based on the nature of the targeted area of surveillance—should continue to serve the membership well.

TOWARDS THE 2019 CSR

52. The surveillance landscape will continue to evolve at an increasingly rapid pace.

Although Fund surveillance will remain focused on the core areas, global trends—including the macroeconomic impacts of new technologies, possible adoption of inward-looking policies, rising inequality, and others yet to be recognized—will impact the membership and require attention. A key objective will be to ensure that the Fund delivers policy analysis and advice that is most relevant to the members' evolving challenges, and to do so in a way that keeps pace with technological change.

Figure 5. Looking Towards the 2019 CSR



53. **Advances in technology can be expected to continue to have far-reaching implications, impacting many dimensions of Fund surveillance, and creating new risks as well as new opportunities.** Surveillance will need to keep up with the fast-paced innovation affecting economic activity in many sectors, such as manufacturing, financial services, healthcare, and education. Within the Fund, new technologies have the potential to change the conduct of surveillance, for example by tapping into high frequency granular data to support more timely identification of trends, risks, and interconnections, as well as deeper analysis and greater forecast accuracy. There is scope for the Fund to exert a leadership role, including through the development of new surveillance databases. Tools such as machine learning should also facilitate productivity gains, including the ability to draw more effectively on the Fund's vast cross-country knowledge. In this way, technology may both catalyze and support a more continuous, engaged surveillance relationship with members.

54. The digital economy will also present new challenges for member countries.

Ongoing rapid advances in technology and automation will have significant macroeconomic implications, including, for example, on productivity and the future of work, and aspects of fiscal policy. There is growing demand from the membership for policy advice and technical assistance in these areas and on fintech, where market conditions and technology are evolving rapidly and

best practices on policy and regulation are yet to be developed. An additional priority is building capacity to support the membership in managing cyber-risks.

55. Some of these challenges may also inform other planned policy reviews. Planned consideration of both the Comprehensive Surveillance Review and the Financial Sector Assessment Program—Review in 2019 will enable a holistic and consistent approach in these major policy reviews to define the scope of Fund surveillance going into the next decade.

56. Engagement with members, outside stakeholders, and other experts will be central in determining how the 2019 CSR will address these challenges. These interactions will help in understanding and anticipating the impact of global trends, including new technologies, on the policy-making environment and the implications for Fund surveillance. Engagement with the membership will help identify the surveillance priorities for the CSR and will underpin a deeper assessment of the traction of Fund advice. Broader engagement with other stakeholders, policy makers, and academics will ensure a full range of perspectives is considered as the priorities for the 2019 CSR are developed.

Questions for Directors

- Do Directors agree that the Fund has made significant progress and the trajectory of current work, including planned actions, should lead to successful implementation of the 2014 TSR recommendations?
- Do Directors agree that the Fund has been responsive to deliver on core surveillance priorities in a period of evolving challenges, and that continuing steps to embed surveillance priorities into other strategic work—such as the budget framework, knowledge management, human resources, data and statistics, capacity development and information technology—will help the Fund remain agile in responding to needs of the membership?
- Do Directors agree that engagement with the membership, stakeholders, and external experts is a priority to identify global trends and surveillance priorities in the period ahead of the CSR?

Box 1. Surveillance Challenges in Low-Income Countries

Priority areas for surveillance for Low Income Countries (LICs) include growth promotion, poverty reduction and economic inclusion, effective management of natural resource wealth, financial deepening, and economic diversification and structural transformation.^{1/} These surveillance priorities reflect characteristics commonly observed in LICs, including a larger share of primary sector production and gaps in infrastructure provision, human capital and institutional capacity. Since the 2014 TSR, emerging challenges for LICs have included managing the economic fallout from the sharp decline in commodity prices as well as rising debt vulnerabilities, related to higher debt levels and increasing complexity of their debt. The conduct of surveillance is affected by stronger Fund engagement through programs and technical assistance but subject to LICs' institutional capacity constraints and the quality and availability of data.

Analytical tools have been adapted to LIC circumstances to support a more member-focused approach. The debt sustainability analysis framework for low income countries has been revised to more accurately flag potential debt distress with the aim of avoiding unnecessarily constraining LICs' ability to finance their development. Staff's work on macrostructural and macrofinancial policies has also addressed common challenges facing LICs. [The Staff Guidance Note on Macroprudential Policies—Considerations for LICs](#) discusses how characteristics of financial systems that are more frequently observed in LICs should inform staff's advice on macroprudential policy. The Public Investment Management Assessment tool has been applied broadly across LICs to help address the gaps in infrastructure provision.

There has been good progress in assessing macrofinancial and macrostructural issues in LICs. The EDs and staff surveys indicate improvements in the quality and integration of staff's advice and analysis of macrofinancial surveillance issues in LICs. Among LICs pilots included in the Macrofinancial Mainstreaming initiative, the quality and integration of macrofinancial analysis was relatively strong. Staff's analysis of Article IV reports showed that surveillance has been tailored, with more discussion on financial deepening, for example, reflecting differences in macrofinancial issues across income levels. Staff reports for LICs have good coverage of macrostructural issues, reflecting continued engagement of the Fund with LICs on those issues. Additional efforts to increase tailoring and increasing the granularity of advice, as well as its integration, would support further improvements. Work in both these areas has been supported by use of internal and external databases to facilitate cross-country analysis that could otherwise be difficult.

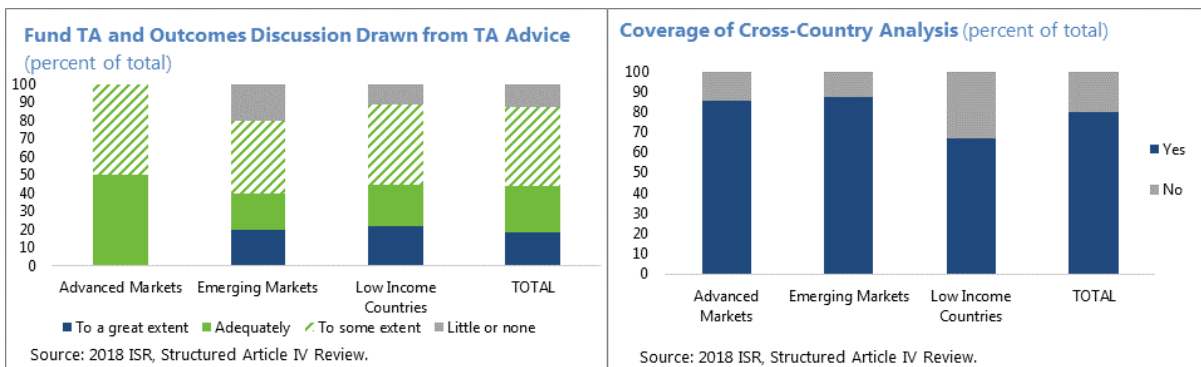
The ISR assessment identified areas where work on LICs remains challenging. External sector assessments for LICs have tended to be less comprehensive and more indicative than for advanced and emerging markets. Planned improvements in the [EBA-lite](#) methodology will help enhance external sector assessments. There are also relative gaps in the coverage of risks in LIC Article IV reports, including on intersectoral spillovers. These challenges may partly reflect data constraints. Beyond tailoring policy advice to member circumstances, consistent attention to effective dialogue and presenting the authorities' views should also support evenhandedness in surveillance of LICs.

^{1/} See Section III, [2014 Triennial Surveillance Review—Staff Background Paper](#).

Box 2. Leveraging Cross-Country Knowledge and Experiences

Better integrating cross-country knowledge can help add value to country specific advice and improve consistency of the Fund’s policy advice. The 2014 TSR found that while most Article IV reports include cross-country analysis, benchmarking a country’s performance against its peers was by far the most common approach. In contrast, empirical studies as well as drawing on policy lessons—what has and has not worked in in developing and implementing similar policies in other countries—were seen as areas where most could be gained.

However, use of cross-country knowledge in surveillance remains largely unchanged from the 2014 TSR. Cross-country comparison indicators are still the main vehicle for such information, and continue to be used in about 80 percent of Article IV reports. In contrast, use of policy experiences remains at about 30 percent, while empirical cross-country analysis may have fallen below 20 percent from about 30 percent in 2014.



Survey results indicate a continued strong demand for better use of cross-country knowledge. About half of Executive Directors indicate that lessons from other countries have to “a great extent” or “some extent” contributed to understanding of the policy issues. About 80 percent of country teams suggest development of a cross-country database of policy experiences and greater availability of cross-country analytical studies would help increase the use of cross-country analysis in surveillance.



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2018 INTERIM SURVEILLANCE REVIEW—BACKGROUND PAPER

Approved By
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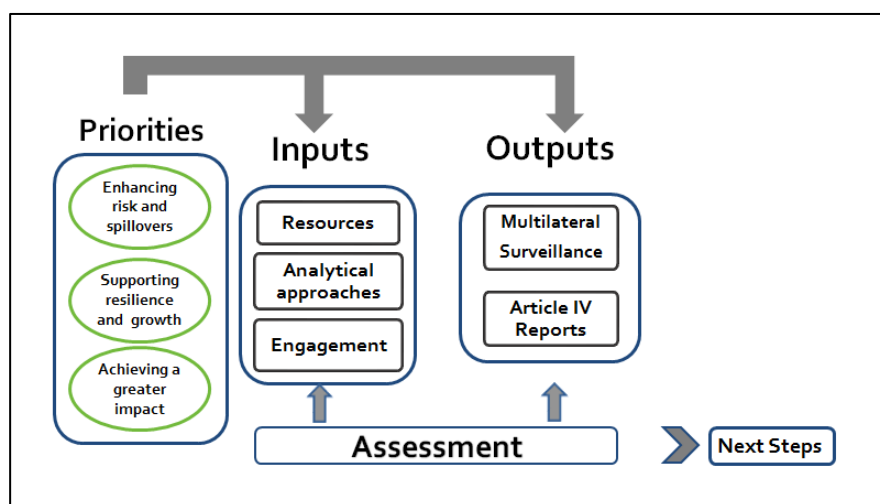
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OVERVIEW

1. This background paper provides additional information on the approach and methodology of the assessment undertaken for the Interim Surveillance Review (ISR). The assessment is anchored on the recommendations of the 2014 TSR and actions expected to be taken on the surveillance objectives set in the Board’s Work Program. The overall approach was designed to evaluate advances in key surveillance inputs and in the quality of multilateral and bilateral surveillance outputs. Staff also sought to gauge the trajectory of ongoing work to help identify areas where midcourse corrections may be needed.

2. The ISR assessment involved taking stock of implementation of the TSR recommendations as well as the Fund’s response to evolving policy challenges facing the membership. The 2014 TSR established three surveillance priorities: enhancing risk and spillover analysis; supporting resilience and sustainable growth; and achieving greater impact. To advance implementation of these surveillance priorities, the TSR formulated fourteen key recommendations, which were further refined and operationalized in the MD’s Action Plan (Box 1). Since then, there has been a continuous engagement with the Board on work in these areas and on other surveillance topics (Annex I).

3. The assessment considered surveillance inputs and outputs within a structured framework. The assessment of surveillance inputs included resources, analytical approaches, and engagement, reflecting the principles for risk-adjusted surveillance under the evenhandedness framework approved by the Executive Board in 2016 (Annex II). In this context, progress on risk-based resource allocation within surveillance and lending activities was also evaluated. The assessment of advances in outputs—



multilateral surveillance products and Article IV reports—was supported by a range of diagnostics, including surveys of Executive Directors¹ and staff,² structured review of Article IV reports, and broad consultations across Fund departments. These diagnostics assessed the quality of surveillance outputs as well as progress for each operational action. The ISR assessment also took stock of

¹ The survey of Board members sought consolidated responses from each Executive Director’s Office.

² The survey of staff solicited views of mission chiefs.

experience in using pilots to advance surveillance priorities, including on emerging issues, as well as a cost analysis of recent pilot initiatives (Annex IV).

4. The results of the diagnostic approaches inform the overall ISR assessment.

Consultations across departments along with a stocktaking of Board engagements on surveillance focused on key areas of activity, complementing other elements of the review, notably surveys of Executive Directors and staff and the structured review of Article IV reports. Annex III provides more detail on each of these elements, including the main results from both surveys and additional detail on the sample selection and themes for the structured review of Article IV reports. The main findings based on these diagnostics were discussed across departments, which helped inform development of recommendations on the way forward.

Box 1. 2014 TSR Recommendations and Action Items^{1/}

- Continue integration of bilateral and multilateral surveillance:
 - The topics for the analytical chapters of the flagships will reflect other departments' views.
 - The flagship authors will give tailored presentations to area departments, summarizing the key flagship messages (including the analytical chapters) and highlighting the implications of global risks for different country groupings (depending on their level of development).
 - REOs will discuss the implications of global risks and spillovers for their regions/countries.
 - The World Economic Outlook (WEO) will summarize the key global risks highlighted in the Global Risk Assessment Matrix (G-RAM).
 - Staff will issue the G-RAM to the Board for information on a quarterly basis.
 - Article IV consultations for economies whose policies are likely to have systemic spillovers will include greater quantification of the impact of outward spillovers and spillbacks.
 - Country teams will discuss this analysis with authorities during Article IV consultations.
- Integrate analysis of risks and spillovers:
 - Country teams will use an eclectic approach, applying a range of specialized analytical techniques where needed.
 - ICD will support deepening risk and spillover analysis through focused training.
 - Include an alternative quantified risk scenario in Article IV reports on countries where one or a combination of risks could materially affect the outlook. Prepare alternative scenarios for a first wave of 20 countries.
 - To support alternative quantified risk scenarios for global risks, the WEO team will prepare alternative global assumptions for risks identified in the G-RAM.
 - Develop a dataset to support the balance sheet approach, along with a template and guidance for use by country teams and support this by setting up a task force.
 - Where possible and relevant, Article IV reports will include matrices showing assets and liabilities, their maturity and currency composition, for each sector.
 - Identify and implement 5 pilot cases for balance sheet analysis in Article IV reports, one for each area department.
 - SPR to expand external DSA to assess shocks to external flows.
 - Work with G20 to develop plans for phase 2 of the G-20 Data Gaps Initiative starting in 2016.
 - Intensify efforts to develop a global flow of funds at least for the largest global economies.

Box 1. 2014 TSR Recommendations and Action Items (continued)

- Strengthen external sector assessment:
 - Gradually replace CGER with EBA for a broader set of countries, subject to data availability to help inform staff's overall external assessments.
 - Develop an EBA-lite type external sector assessment methodology for low-income countries.
 - Prepare a paper describing the EBA-lite methodology and make the dataset and programs underpinning the EBA-lite results publicly available by end-2015.
 - Undertake a comprehensive assessment of the external position using a broader set of indicators than just the exchange rate.
 - In countries where the EBA methodology is applied, discuss the contribution of domestic policies to external imbalances, and use these results in relevant policy discussions.
- Mainstream macrofinancial surveillance:
 - Undertake efforts to identify themes for countries from different regions and income groups.
 - Provide inter-departmental support to develop and reflect this analysis in Article IV consultations.
 - Develop leading practices in integrating macrofinancial issues into analysis and advice.
 - Develop analytical frameworks for macrofinancial analysis and a macrofinancial training program.
 - Share good practice examples through effective knowledge management.
 - Focused review to help strengthen macrofinancial analysis and advice in Article IV staff reports.
- Address data gaps, Implement the G-20 Data Gap Initiative:
 - Address data weaknesses (sectoral accounts, GFS, external exposures).
 - Maintain momentum behind the implementation of international data agreements.
 - Intensify efforts to develop a global flow of funds at least for the largest global economies
- Strengthen surveillance of macroprudential policies:
 - Anchor staff advice on microprudential and macroprudential policies.
 - Focused review to help strengthen analysis of macroprudential policies.
- Continue accounting for growth and sustainability implications in fiscal advice:
 - Undertake institutional analysis to strengthen the basis for structural fiscal balances.
 - Present fiscal advice in terms of a clear and well-justified anchor.
- Be selective in advising on structural policies:
 - Recognize all macro-critical structural issues and their implications on an economy. Follow principles to determine where to provide advice: macro-criticality, and Fund expertise or interest from 'critical mass' of the membership (e.g., financial deepening and labor market issues).
 - In other areas, leverage advice from other international organizations.
 - Strategically invest in strengthening capacity in certain aspects of labor market policies.
 - Leverage internal expertise to help design and deliver training for relevant country desks.
 - Establish an interdepartmental task force to help identify priority areas, and develop working links with relevant international agencies and institutions.

Box 1. 2014 TSR Recommendations and Action Items (concluded)

- Provide more cohesive policy advice in Article IVs
 - Update the Article IV guidance note to clarify that Article IV reports should explicitly discuss the policy mix.
 - Strengthen knowledge management (KM) activities by better documenting, sharing, and utilizing the Fund’s knowledge of country policy experience and the lessons for the broader membership.
 - Establish a small KM Unit, reporting to Management, to help design, coordinate, and communicate the Fund’s knowledge sharing activities.
 - The KM Working Group to finalize a draft KM strategy and work program.
- Better leverage expert analysis and advice:
 - Concerted efforts to draw on cross-country policy experiences.
 - Strengthen TA integration in surveillance.
 - Enhance collaboration with other organizations in specific areas.
- Strengthen the policy dialogue:
 - Strengthen accountability by expanding the discussion on past advice in Article IV reports to include changes in staff advice, and, where relevant, the implementation of different policies by the authorities.
 - Country teams will engage with member countries on a more continuous basis, and seek opportunities for informal discussions, including through staff visits and private workshops.
 - Area departments will monitor the quality of engagement and policy dialogue through targeted surveys and informal feedback mechanisms.
- Ensure clear and candid surveillance messages:
 - Ensure clear and candid surveillance messages, particularly on spillovers from systemic economies.
 - Strengthen the clarity and coherence of multilateral surveillance messages.
 - Integrate key messages from the Spillover Report and the Pilot ESR into the WEO and GFSR.
 - Synthesize key Fund policy messages in the GPA.
 - Undertake more targeted communications with relevant stakeholders.
- Establish a clearer understanding on how to gauge evenhandedness in surveillance:
 - Building on efforts of an interdepartmental working group, set clear principles/benchmarks for an evenhanded approach to surveillance.
 - Use these principles/benchmarks to help in assessing evenhandedness when concerns are raised.
 - Adjust the resources allocated for surveillance (staffing, engagement and coverage) to reflect countries’ individual and/or systemic risk factors.
 - Reflect—using policy advice—sound, objective analysis tailored to country circumstances, including the choice of issues analyzed, depth of analysis, and analytical approaches and tools.
- Create a mechanism for authorities to report concerns:
 - Establish a mechanism for authorities to report concerns and provide Executive Directors with a dedicated e-mailbox to submit written concerns.

^{1/} Source: MD’s Action Plan, December 2014.

Annex I. Executive Board Engagement on Surveillance Priorities (2014–17)

Close to 90 Board meetings (both formal and informal) were held on topics related to the 2014 TSR priorities during September 2014–December 2017, excluding WEO and GFSR presentations and area-specific briefings. These Board engagements have supported continued advances in implementation of surveillance priorities.

| TSR recommendation | Board Sessions on Surveillance Related Topics 1/ | Board Date | Formal | Informal | |
|---|--|--------------|--------|----------|-------|
| | | | | Engage | Brief |
| Integrating bilateral and multilateral surveillance | Housing Recoveries - Cluster Report on Denmark, Ireland, Kingdom of the Netherlands- Netherlands, and Spain | Dec 03, 2014 | | | X |
| | Central and Eastern Europe: New Member States Policy Forum, 2014 - Staff Report on Cluster Consultations - Common Policy Frameworks and Challenges | Mar 13, 2015 | | X | |
| | Financial Integration in Central America, Panama, the Dominican Republic, and Colombia - Cluster Report | Aug 26, 2015 | | | X |
| | Financial Integration Latin America | Mar 18, 2016 | | X | |
| | Evolving Monetary Policy Frameworks in ASEAN-5 countries | June, 2016 | | | X |
| | China's Changing Trade and the Implications for the CLMV | Dec 31, 2016 | | | X |
| | Trade Integration in Latin America and the Caribbean - Cluster Report | Mar 03, 2017 | | | X |
| Strengthen external sector assessment | Assessing Reserve Adequacy - Specific Proposals | Jan 21, 2015 | X | | |
| | Foreign Exchange Intervention - Issues and Experiences | Feb 13, 2015 | | | X |
| | Review of the Role of Trade in the Work of the Fund | Feb 27, 2015 | X | | |
| | 2015 External Sector Report | Jul 13, 2015 | | X | |
| | Capital Flows - Review of Experience with the Institutional View | Jul 11, 2016 | | X | |
| | 2016 External Sector Report | Jul 18, 2016 | | X | |
| | Capital Flows - Review of Experience with the Institutional View | Dec 05, 2016 | X | | |
| | Getting Global Economic Integration Right | Mar 07, 2017 | | | X |
| | Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies | Mar 29, 2017 | | | X |
| | Increasing Resilience to Large and Volatile Capital Flows - The Role of Macroprudential Policies | Jun 28, 2017 | X | | |
| | IMF Assessment of External Positions: Methodology and Summary of 2017 Results | Jul 12, 2017 | | | X |
| 2017 External Sector Report | Jul 24, 2017 | X | | | |
| Integrated analysis of risks and spillovers | Vulnerability Exercise - High-Level Summary of Presentation | Dec 08, 2014 | | X | |
| | From Banking to Sovereign Stress - Implications for Public Debt | Jan 21, 2015 | | | X |
| | Early Warning Exercise | Apr 08, 2015 | | X | |
| | Balance Sheet Analysis in Fund Surveillance | Jun 19, 2015 | | | X |
| | 2015 Spillover Report | Jun 22, 2015 | | X | |
| | Early Warning Exercise | Sep 30, 2015 | | | X |
| | Public Debt Vulnerabilities in Low-Income Countries - The Evolving Landscape | Nov 11, 2015 | | | X |

| TSR recommendation | Board Sessions on Surveillance Related Topics 1/ | Board Date | Formal | Informal | |
|--|---|--------------|--------|----------|-------|
| | | | | Engage | Brief |
| | Early Warning Exercise | Apr 08, 2016 | | | X |
| | Withdrawal of Correspondent Banking Relationships | Jun 14, 2016 | | | X |
| | Virtual Currencies and Beyond | Jan 14, 2016 | | | X |
| | Review of the LIC DSF: Initial Considerations | Sep 21, 2016 | | X | |
| | Early Warning Exercise | Sep 27, 2016 | | X | |
| | Early Warning Exercise | Apr 12, 2017 | | X | |
| | Recent Trends in Correspondent Banking Relationships - Further Considerations | Apr 12, 2017 | X | | |
| | The Medium-Term Debt Management Strategy - An Assessment of Recent Capacity Building | Jul 10, 2017 | X | | |
| | Review of the DSF for LICs - Proposed Reforms | Sep 27, 2017 | X | | |
| | Early Warning Exercise | Oct 03, 2017 | | X | |
| Mainstream macrofinancial surveillance | Rethinking Financial Deepening: Stability and Growth in Emerging Markets | Feb 18, 2015 | | | X |
| | Ongoing IMF Work on Islamic Finance | Apr 02, 2015 | | | X |
| | Financial Inclusion - Can it Meet Multiple Goals? | Sep 11, 2015 | | | X |
| | Monetary Policy and Financial Stability | Sep 14, 2015 | | X | |
| | Mainstreaming Macrofinancial Surveillance | Oct 26, 2015 | | | X |
| | Ensuring Financial Stability in Countries with Islamic Banking | Feb 03, 2017 | X | | |
| | Approaches to Macrofinancial Surveillance in Article IV Reports | Mar 06, 2017 | X | | |
| | Negative Interest Rate Policies - Initial Experiences and Assessments | Mar 22, 2017 | | | X |
| | Fintech and Financial Services: Initial Considerations | Jun 12, 2017 | | | X |
| Address data gaps | Ninth Review of the International Monetary Fund's Data Standards Initiatives | May 01, 2015 | X | | |
| | Measurement in a Digital Economy | Jun 02, 2017 | | | X |
| | Big Data: Potential, Challenges and Statistical Implications | Aug 30, 2017 | | | X |
| Strengthen surveillance of macroprudential policies | Increasing Resilience to Large and Volatile Capital Flows - The Role of Macroprudential Policies | Jun 28, 2017 | X | | |
| | Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies (Mid-Point Meeting) | Mar 29, 2017 | | X | |
| Accounting for growth and sustainability implications in fiscal advice | Current Challenges in Revenue Mobilization - Improving Tax Compliance | Feb 06, 2015 | | | X |
| | Options for Low Income Countries' Effective and Efficient Use of Tax Incentives of Investment | Oct 22, 2015 | | | X |
| | Managing Government Compensation and Employment - Institutions, Policies, and Reform Challenges | May 06, 2016 | | | X |
| | Analyzing and Managing Fiscal Risks - Best Practices | May 20, 2016 | | | X |
| | Assessing Fiscal Space - An Initial Set of Considerations | Jun 30, 2016 | | | X |
| | Tax Policy, Leverage and Macroeconomic Stability | Oct 24, 2016 | | | X |
| | Building Fiscal Capacity in Fragile States | May 12, 2017 | X | | |
| Selective advice on structural policies | IMF Work on Climate Change | Sep 30, 2015 | | X | |
| | Structural Reforms and Macroeconomic Performance - Initial Considerations for the Fund | Oct 28, 2015 | | X | |

| TSR recommendation | Board Sessions on Surveillance Related Topics 1/ | Board Date | Formal | Informal | |
|--|--|--------------|--------|----------|-------|
| | | | | Engage | Brief |
| | The Managing Director's Statement on the Role of the Fund in Addressing Climate Change | Nov 25, 2015 | | X | |
| | Corruption: Costs and Mitigation Strategies | May 04, 2016 | | | X |
| | Small States' Resilience to Natural Disasters and Climate Change - Role for the IMF | Dec 01, 2016 | X | | |
| | Labor and Product Market Reforms in Advanced Economies: Fiscal Costs, Gains, and Support | Dec 08, 2016 | | | X |
| | Macrostructural Policies and Income Inequality in LIDCs | Jan 09, 2017 | | | X |
| | Enhancing the Focus of Macrostructural Issues in Surveillance | Feb 08, 2017 | | | X |
| | Methodologies and Other Technical Issues Regarding the Review of the Role of the Fund in Governance Issues | Jun 29, 2017 | | | X |
| | The Role of the Fund in Governance Issues - Review of the Guidance Note - Preliminary Considerations | Jul 21, 2017 | X | | |
| Cohesive policy advice | Macroeconomic Management When Policy Space is Constrained: The 3-C Approach to Economic Policy | Sep 19, 2016 | | | X |
| Leverage expert analysis and advice | Platform for Collaboration on Tax | Sep 25, 2017 | | | X |
| | Evolving Monetary Policy Frameworks in Low-Income and Other Developing Countries | Nov 09, 2015 | | X | |
| Ensure clear and candid surveillance messages | The Managing Director's Global Policy Agenda | Sep 29, 2014 | | X | |
| | Outline for the Managing Director's Spring Global Policy Agenda | Mar 10, 2015 | | X | |
| | The Managing Director's Global Policy Agenda | Apr 06, 2015 | | X | |
| | Outline for the Managing Director's Fall Global Policy Agenda | Sep 14, 2015 | | X | |
| | The Managing Director's Global Policy Agenda | Sep 28, 2015 | | X | |
| | Implementation of the IMF Communication Strategy | Dec 03, 2015 | | | X |
| | Outline for the Managing Director's Global Policy Agenda, April 2016 | Mar 07, 2016 | | X | |
| | The Managing Director's Global Policy Agenda | Mar 29, 2016 | | X | |
| | Outline for the Managing Director's Global Policy Agenda, October 2016 | Aug 31, 2016 | | X | |
| | The Managing Director's Global Policy Agenda | Sep 30, 2016 | | X | |
| | IMF Communications Strategy: Update | Dec 06, 2016 | | | X |
| | Outline for the Managing Director's Global Policy Agenda, March 2017 | Mar 09, 2017 | | X | |
| | The Managing Director's Global Policy Agenda | Apr 05, 2017 | | X | |
| Outline for the Managing Director's Global Policy Agenda, October 2017 | Sep 14, 2017 | | X | | |
| MD's Statement on the Global Policy Agenda | Oct 02, 2017 | | X | | |
| Evenhandedness | Evenhandedness of Fund Surveillance - Principles and Mechanism for Addressing Concerns | Feb 22, 2016 | X | | |

1/Topics are classified based on relevance to a surveillance priority; Items for information only are not included.

Annex II. Risk-Based Resource Allocation

Risk-based resource allocation was assessed on the basis of full time equivalents (FTE) allocated to countries with varying levels of vulnerabilities. The source of FTE data is the Fund’s Time reporting of Analytic Costing and Estimation System (TRACES) database. The data cover area department and functional department Surveillance and Lending activities, while resource allocations related to Capacity Development and FSAPs were excluded from the exercise.¹ Country vulnerability levels were informed by the Fund’s Vulnerability Exercise.²

| Determinants of Resource Allocation | | | | | | |
|-------------------------------------|-------|-----------|-------|------|--------------------|-------|
| Dependent var: FTE | Coef. | Std. Err. | t | P>t | 95% Conf Interval] | |
| Vulnerable country | 0.67 | 0.15 | 4.58 | 0.00 | 0.38 | 0.95 |
| G20 country | 3.77 | 0.59 | 6.37 | 0.00 | 2.61 | 4.93 |
| Program country | 0.88 | 0.15 | 5.88 | 0.00 | 0.59 | 1.17 |
| AM | -2.55 | 0.59 | -4.35 | 0.00 | -3.70 | -1.40 |
| EM | -1.20 | 0.59 | -2.04 | 0.04 | -2.35 | -0.05 |
| LIC | -0.71 | 0.60 | -1.18 | 0.24 | -1.89 | 0.47 |
| Constant | 4.70 | 0.43 | 10.92 | 0.00 | 3.86 | 5.55 |

Least Squares Dummy Variables estimates (includes country and time dummies). Data cover 189 countries for the 2014q1 – 2017q1. FTEs are calculated from the Fund’s time recording system; the selection of vulnerable countries was informed by the Vulnerability Exercise (VE).

The Fund is gradually moving towards a more risk-based allocation of resources. Empirical evidence indicates that vulnerable countries are allocated significantly more resources than non-vulnerable countries, even when controlling for other country characteristics and Fund-supported programs. On average vulnerable countries have 0.67 more FTEs than non-vulnerable countries. In terms of other country characteristics, being a G20 or program country also corresponds with more FTEs. At the same time, resource allocation seems to have a negative correlation with country income levels (i.e., surveillance and lending activities in advanced and emerging economies are undertaken with relatively less resources than in LICs).

¹ The choice to include surveillance and lending activities in the analysis reflects the difficulty in extracting data only on surveillance-related activity from available TRACES data for countries with active or prospective lending arrangements.

² Ahuja et. al. (2017) Assessing Country Risk—Selected Approaches—Reference Note, IMF Technical Notes and Manuals No. 17/08.

Annex III. Surveys and Structured Review of Article IV Reports

A. Surveys

The ISR assessment is guided by two surveys, soliciting stakeholders' views on various aspects of surveillance. The response rates of the two surveys of IMF Executive Directors, and IMF country mission chiefs were relatively high, 75 percent (18 responses from the 24 Executives Directors) and 51 percent (91 responses from 178 solicited views). Tables 1 and 2 report the overall results of the two surveys.

| Response Rates and Regional Distribution | | | | | | |
|--|-----------------------|---------------------|---------------------|----------------------------|---------------------|------------------------------|
| Membership Structure | Mission chiefs Survey | | | Executive Directors Survey | | Structured Article IV Review |
| | In percent of total | Number of responses | In percent of total | Number of responses | In percent of total | Percent of total reviewed |
| Overall | 100 | 91 | 100 | 18 | ... | 100 |
| AFR | 25 | 19 | 21 | ... | ... | 24 |
| APD | 20 | 10 | 11 | ... | ... | 19 |
| EUR | 21 | 15 | 16 | ... | ... | 23 |
| MCD | 17 | 14 | 15 | ... | ... | 16 |
| WHD | 17 | 15 | 16 | ... | ... | 18 |
| Unspecified 1/ | | 18 | 20 | ... | ... | |

Source: Survey of Executive Directors, Staff Survey, Structured Article IV Review.
1/ The geographic information is not specified.

B. Structured Review of Article IV Consultation Staff Reports

The ISR assessment was also guided by structured review of Article IV consultation reports. A representative sample of 34 Article IV consultation reports discussed by the IMF Executive Board between June 2016 and July 2017 was identified using stratified random sampling approach, based on income level, geographical location, pilot participation, program participation, ESR coverage, and G20 membership. Based on the findings of the initial assessment, a further review of 23 reports was undertaken to assess coverage of outward spillovers. This supplemental review covered Article IV reports of the US, UK, China, Germany, Japan, and the Euro Area published between 2014 and 2017.

| Advanced Market Economies | Emerging Market Economies | Low-Income Countries |
|---------------------------|---------------------------|--------------------------|
| France | Romania | Sudan |
| Greece | Macedonia | Somalia |
| Latvia | Georgia | Dominica |
| Iceland | Jordan | Bangladesh |
| Spain | Pakistan | Cambodia |
| United States | Peru | Central African Republic |
| Japan | Qatar | Comoros |
| | El Salvador | Ethiopia |
| | Brazil | Namibia |
| | Uruguay | Seychelles |
| | Philippines | Sierra Leone |
| | Sri Lanka | South Sudan |
| | Tuvalu | Tanzania |
| | Vietnam | |

**Annex Table 1. Survey of Executive Directors
(in percent of respondents)**

| | | To a great extent | To some extent | To a limited extent | Not at all | N/A |
|--|---|-------------------|----------------|---------------------|------------|-----|
| Q1. Do you find Fund policy advice in the following areas to be useful to your country/constituency? | Advice on country-specific policy issues | 22 | 72 | 6 | 0 | 0 |
| | Impact of international developments on your constituency (actual spillovers) | 28 | 56 | 17 | 0 | 0 |
| | Assessment of risks (potential spillovers) | 17 | 39 | 33 | 6 | 6 |
| | Best practice/policy lessons from other countries' experiences | 28 | 56 | 17 | 0 | 0 |
| | Depth of expertise on core institutional areas | 44 | 33 | 22 | 0 | 0 |
| Q2. To what extent has Fund surveillance contributed to your understanding (and that of government agencies with which you liaise) of issues, or provided new insights, in the following areas? | Capacity to provide relevant advice in other areas | 6 | 39 | 50 | 6 | 0 |
| | Overall policy mix | 33 | 56 | 6 | 6 | 0 |
| | Monetary developments and policy issues | 44 | 39 | 11 | 6 | 0 |
| | Fiscal developments and policy issues | 50 | 39 | 11 | 0 | 0 |
| | External sector assessment, including exchange rate regime and policy, and external competitiveness | 22 | 44 | 22 | 11 | 0 |
| | Management of capital flows | 11 | 22 | 44 | 11 | 11 |
| | Financial sector vulnerabilities | 17 | 61 | 17 | 6 | 0 |
| | Regulatory and supervisory issues, including macroprudential policies | 17 | 56 | 22 | 6 | 0 |
| | Macrofinancial linkages | 28 | 33 | 33 | 6 | 0 |
| | Risk assessment | 11 | 50 | 33 | 6 | 0 |
| | Analysis of inward spillovers (impact on your economy of developments elsewhere) | 6 | 61 | 28 | 6 | 0 |
| | Analysis of outward spillovers, if applicable | 0 | 39 | 39 | 6 | 17 |
| | Macrostructural issues | 11 | 33 | 50 | 6 | 0 |
| Country-specific needs | 11 | 39 | 44 | 6 | 0 | |
| Lessons from experience in other countries | 11 | 44 | 44 | 0 | 0 | |
| Q3. Has IMF-provided TA helped make the IMF's policy advice in a surveillance context more persuasive for countries in your constituency? | | 33 | 67 | 0 | 0 | 0 |
| Q4. Have surveillance discussions with Fund teams adequately reflected, and been consistent with, findings of Fund-provided TA? | | 33 | 47 | 7 | 0 | 13 |
| Q5. Where the Fund has provided advice on macro-prudential policies, has this been adequately tailored to country circumstances? | | 11 | 61 | 28 | 0 | 0 |
| Q6. To what extent did participation as a pilot country for macrofinancial integration achieve the following? | Increase understanding of macrofinancial linkages and associated risks | 22 | 56 | 11 | 11 | 0 |
| | Enhance the quality of policy advice, including the mix of policies | 11 | 44 | 44 | 0 | 0 |
| Q7. How do you assess IMF advice on structural issues for countries in your constituency since the 2014 TSR in these priority areas? | Advice was effective | 17 | 50 | 28 | 6 | 0 |
| | The advice was adequately tailored to country circumstances | 17 | 44 | 39 | 0 | 0 |
| | Advice was drawn from sound and objective analysis | 28 | 44 | 22 | 6 | 0 |
| | Advice considered political economy considerations | 6 | 33 | 56 | 6 | 0 |
| | The advice was well integrated into the IMF's advice on macroeconomic policies | 11 | 78 | 11 | 0 | 0 |
| | The authorities were appreciative of Fund advice | 11 | 56 | 28 | 6 | 0 |
| Q8. Is the Fund giving effective advice on structural policies? | Other (please specify below) | 0 | 20 | 20 | 0 | 60 |
| | For advanced economies | 6 | 56 | 33 | 6 | 0 |
| | For emerging markets | 6 | 67 | 28 | 0 | 0 |
| | For low-income countries | 11 | 83 | 6 | 0 | 0 |
| Q9. Considering all countries in your constituency, has the quality of staff's advice and analysis of macrofinancial issues improved? | Overall | 17 | 56 | 17 | 6 | 6 |
| | Insights from analysis | 11 | 67 | 11 | 6 | 6 |
| | Quality of policy advice | 6 | 53 | 35 | 0 | 6 |
| | Traction with the authorities | 12 | 47 | 29 | 6 | 6 |
| Q10. Considering other countries outside your constituency, has the quality of staff's advice and analysis of macrofinancial issues improved? | G-20 economies | 33 | 50 | 17 | 0 | 0 |
| | Advanced economies | 22 | 61 | 17 | 0 | 0 |
| | Emerging markets | 6 | 67 | 22 | 6 | 0 |
| | Low-income countries | 0 | 50 | 39 | 6 | 6 |

Annex Table 1. Survey of Executive Directors (concluded)
(in percent of respondents)

| | | Always | In many cases | In some cases | In very few cases | |
|---|--|-----------------------------|-----------------|---------------------------------|------------------------------------|-----|
| Q11. Please indicate whether the quality of analysis and discussion of external sector issues in staff reports discussed in the past year has met your expectations in the following areas. | Clear overall assessment of the external position | 17 | 22 | 50 | 11 | |
| | Coverage of the five key areas for external sector assessment (i.e. external balance sheets, real exchange rate, current account, capital flows and policy measures, reserves and foreign exchange intervention) | 11 | 50 | 22 | 17 | |
| | The assessment of the external sector is integrated with a discussion of the overall policy stance and mix (i.e., macroeconomic policies and structural reforms) | 6 | 39 | 50 | 6 | |
| Q12. To what extent did the Fund's external sector assessments, as presented to the Executive Board, of countries in your constituency exhibit the following characteristics? | Clear overall assessment and policy recommendations | 6 | 50 | 39 | 6 | |
| | Sufficiently comprehensive (covering the five key areas) | 0 | 61 | 33 | 6 | |
| | Clarity on how overall assessment reached (including methods and key assumptions used, adjustments to quantitative results) | 0 | 33 | 56 | 11 | |
| Q13. What is your view of the Fund's external sector assessments, as presented to the Executive Board, of other countries outside your constituency? | Clear overall assessment and policy recommendations | 11 | 28 | 50 | 11 | |
| | Sufficiently comprehensive (covering the five key areas) | 6 | 44 | 39 | 11 | |
| | Clarity on how overall assessment reached (including methods and key assumptions used, adjustments to quantitative results) | 6 | 17 | 61 | 17 | |
| Q14. Indicate the Fund's analysis of risks—including identifying particular risks, and their likely impact—in the following | Excellent | Very good | Satisfactory | Poor | N/A | |
| Overall | 18 | 47 | 29 | 6 | 0 | |
| Multilateral surveillance products: World Economic Outlook | 33 | 44 | 22 | 0 | 0 | |
| Global Financial Stability Report | 39 | 44 | 17 | 0 | 0 | |
| Fiscal Monitor | 11 | 50 | 33 | 0 | 6 | |
| External Sector Report | 6 | 33 | 61 | 0 | 0 | |
| G-RAM | 11 | 33 | 39 | 6 | 11 | |
| Article IV Staff Reports | 6 | 56 | 33 | 6 | 0 | |
| FSSAs | 22 | 44 | 28 | 6 | 0 | |
| Q15. What is your view of the Fund's risk assessments? | Too timid | About right | Overly alarmist | Does not cover the right risks | | |
| Your constituency | 0 | 77 | 24 | 0 | | |
| G-20 economies | 18 | 77 | 6 | 0 | | |
| Advanced economies | 35 | 59 | 0 | 6 | | |
| Emerging markets | 0 | 71 | 29 | 0 | | |
| Low-income countries | 6 | 82 | 6 | 6 | | |
| Q16. What steps could the Fund take to improve its risk assessments? (select all that apply) | The present approach is appropriate | | | | 12 | |
| | More efforts to quantify assessments of risks and impacts | | | | 41 | |
| | More analysis of the transmission channels of shocks | | | | 82 | |
| | More focus on analyzing domestic political issues | | | | 24 | |
| | Other (please specify) | | | | 24 | |
| Q17. To strengthen further the Fund's work on spillovers, what would you see as the priority? | Strengthen quantitative analysis | | | | 25 | |
| | Expand the coverage of the Spillover chapter in the WEO beyond the Systemic-5 countries | | | | 50 | |
| | More in-depth discussion of the impact of systemically important countries' policies on the rest of the world | | | | 88 | |
| | More timely analysis | | | | 13 | |
| | More reliable and timely data | | | | 13 | |
| Q18. Please rate the Fund's analysis of spillovers overall. | Excellent | Very good | Satisfactory | Poor | N/A | |
| | 6 | 44 | 44 | 6 | 0 | |
| Q19. What do you consider to be the priorities for structural reforms in countries in your constituency | | | Total for 1 | Total for 2 | Total for 3 | |
| Taxation | | | 25 | 58 | 17 | |
| Public expenditure management | | | 45 | 27 | 27 | |
| Safety nets and other social policies | | | 29 | 29 | 43 | |
| Labor market policies | | | 30 | 30 | 40 | |
| Product market policies | | | 0 | 0 | 100 | |
| Financial sector policies (e.g., to enhance access to finance) | | | 25 | 25 | 50 | |
| Other (please specify below) | | | 75 | 25 | 0 | |
| Q20. Overall, how do you feel that the Fund's surveillance has evolved since 2014? | has improved to a great extent | has improved to some extent | Unchanged | has deteriorated to some extent | has deteriorated to a great extent | N/A |
| | 0 | 65 | 24 | 6 | 0 | 6 |

**Annex Table 2. Survey of Mission Chiefs
(in percent of respondents)**

| | | To a great extent | To some extent | To a limited extent | Not at all | N/A |
|--|---|-------------------|--------------------------|--------------------------------|-----------------------------|--------------|
| Q1. To what extent did participation in the Macrofinancial pilot/initiative achieve the following: | Strengthen policy advice in the pilot area | 16 | 47 | 24 | 11 | 3 |
| | Provide more integrated advice on the overall policy mix | 16 | 45 | 24 | 13 | 3 |
| Q2. To what extent did participation in the Macrostructural pilot/initiative achieve the following: | Strengthen policy advice in the pilot area | 13 | 31 | 31 | 25 | 0 |
| | Provide more integrated advice on the overall policy mix | 6 | 31 | 25 | 38 | 0 |
| To what extent did participation in the Inequality pilot/initiative achieve the following: | Strengthen policy advice in the pilot area | 6 | 41 | 24 | 6 | 24 |
| | Provide more integrated advice on the overall policy mix | 12 | 29 | 24 | 12 | 24 |
| Q3. To what extent did participation in the Gender pilot/initiative achieve the following: | Strengthen policy advice in the pilot area | 7 | 36 | 43 | 14 | 0 |
| | Provide more integrated advice on the overall policy mix | 7 | 29 | 50 | 14 | 0 |
| Q4. To what extent did participation in the Fiscal space assessment pilot/initiative achieve the following: | Strengthen policy advice in the pilot area | 0 | 14 | 38 | 48 | 0 |
| | Provide more integrated advice on the overall policy mix | 0 | 10 | 33 | 57 | 0 |
| Q5. To what extent did participation as a pilot country for macrofinancial integration achieve the following? | Increase understanding of macrofinancial linkages in the pilot country | 11 | 47 | 34 | 5 | 3 |
| | Identify risks associated with macrofinancial linkages | 8 | 50 | 26 | 13 | 3 |
| | Enhance the quality of policy advice with regards to the financial sector | 5 | 50 | 32 | 11 | 3 |
| | Enhance the quality of policy advice with regards to monetary policy | 3 | 18 | 29 | 32 | 18 |
| | Enhance the quality of policy advice with regards to macroprudential policy | 13 | 24 | 40 | 21 | 3 |
| | Enhance the quality of policy advice with regards to fiscal policies | 5 | 13 | 32 | 42 | 8 |
| | Enhance the quality of policy advice in other areas | 3 | 11 | 26 | 50 | 11 |
| | Enhance the advice on the mix of policies | 5 | 24 | 34 | 32 | 5 |
| Q6. To what extent would the following help increase the use of cross-country analysis in surveillance? | Improve dialogue with the authorities | 16 | 40 | 18 | 21 | 5 |
| | Greater availability of cross-country analytical studies | 29 | 56 | 12 | 1 | 2 |
| | Greater availability of comparable cross-country economic and financial data | 42 | 47 | 10 | 0 | 1 |
| | Broadening of the sample of countries in multilateral surveillance products | 16 | 33 | 34 | 16 | 2 |
| | A database of cross-country policy experience on policy issues | 51 | 34 | 14 | 1 | 0 |
| | Guidance/assistance from your front office reviewers on areas/sources of cross-country work | 18 | 39 | 31 | 10 | 2 |
| Q7. What is your view of the IMF's risk assessments of the global economy and individual countries since the 2014 TSR? | Other (please specify below) | 33 | 0 | 17 | 11 | 39 |
| | | About right | Not enough | Does not cover the right risks | Overly alarmist | Too sanguine |
| | | 77 | 4 | 7 | 11 | 1 |
| Q8. In your estimate, what were the additional resources (in person weeks) required compared to the Article IV completed before your participation in: | | No change | Less than 2 person weeks | 2 to 4 person weeks | Greater than 4 person weeks | N/A |
| Q8.1. Macrofinancial pilot? | | 11 | 18 | 39 | 26 | 5 |
| Q8.2. Macrostructural pilot? | | 13 | 19 | 19 | 50 | 0 |
| Q8.3. Inequality pilot? | | 12 | 24 | 29 | 12 | 24 |
| Q8.4. Gender pilot? | | 7 | 21 | 57 | 14 | 0 |
| Q8.5. Fiscal space | | 5 | 57 | 29 | 5 | 5 |
| Q9. What steps could the IMF take to improve its risk assessments? (select all that apply) | More efforts to quantify assessments of risks and impacts | | | | | 24 |
| | More analysis of the transmission channels of shocks | | | | | 52 |
| | More focus on accounting for countries domestic political issues | | | | | 43 |
| | Other (please specify) | | | | | 38 |
| Q10. To strengthen the Fund's work on spillovers, how would you rank the priority? Please rank from 1 to 3 (1 being most valuable and 3 being the least valuable). | Strengthen quantitative analysis | | | | | 33 |
| | More in-depth discussion of the impact of systemically important countries' policies on the rest of the world | | | | | 33 |
| | More timely analysis | | | | | 33 |

Annex Table 2. Survey of Mission Chiefs (concluded)
(in percent of respondents)

| | | Significantly more | Marginally more | No change | Marginally less | Significantly less | |
|--|---|---|---|---|---|---|-------|
| Q11. Were the five key areas for external sector assessment (see below) covered in the latest Article IV consultation compared to the time of the 2014 TSR? | External balance sheets | 19 | 34 | 45 | 2 | 0 | |
| | Current account | 28 | 38 | 33 | 0 | 1 | |
| | Real exchange rate | 24 | 43 | 33 | 0 | 1 | |
| | Capital flows and policy measures | 15 | 32 | 50 | 2 | 1 | |
| | Reserves and foreign exchange intervention | 23 | 27 | 48 | 1 | 1 | |
| Q12. In the context of fiscal policy advice in bilateral surveillance, to what extent have your teams done the following since the 2014 TSR? | Discussed a specific fiscal anchor as appropriate for your country in Article IV reports? | 30 | 42 | 29 | 0 | 0 | |
| | Undertaken analytical work to underpin structural fiscal balance estimates? | 18 | 28 | 55 | 0 | 0 | |
| | Made improvements to the methodology of estimating potential output? | 26 | 20 | 53 | 1 | 0 | |
| Q13. In the context of TSR efforts to strengthen the policy dialogue, to what extent did you do the following more frequently over the last two years relative to the prior period? | Schedule informal discussions with the authorities through: Staff visits | 19 | 32 | 48 | 1 | 0 | |
| | Schedule informal discussions with the authorities through: Workshops | 18 | 22 | 59 | 1 | 0 | |
| | Schedule informal discussions with the authorities through: Meetings on the margin of Annual or Spring Meetings | 15 | 40 | 45 | 0 | 0 | |
| | Schedule informal discussions with the authorities through: Conference calls | 22 | 25 | 50 | 3 | 0 | |
| | Other (please specify below) | 23 | 9 | 69 | 0 | 0 | |
| Q14. Were EBA or EBA-lite models used for external sector assessments in the latest Article IV consultation? | | Used | | Not used | | Not applicable | |
| | CA model | 90 | | 2 | | 8 | |
| | REER model | 78 | | 10 | | 12 | |
| | External sustainability approach | 65 | | 25 | | 10 | |
| Q15. To what extent did you discuss policy contributions to external imbalances and use EBA or EBA-lite results in relevant policy discussions with the authorities since the 2014 TSR? | To a very large extent | To a large extent | To some extent | To a little extent | Not at all | | |
| | 12 | 21 | 34 | 26 | 7 | | |
| Q16. Please indicate how Fund staff could strengthen their understanding of macrofinancial linkages? (select all that apply) | More training on finance and financial sector issues | Hire more staff economists with financial expertise | Greater dissemination of best practices | Greater dissemination of analytical toolkits | More training in use of analytical toolkits | Greater involvement of MCM economists in area department missions | Other |
| | 52 | 31 | 60 | 62 | 51 | 51 | 4 |
| Q17. Please indicate the main challenge(s) to mainstreaming macrofinancial integration? (select all that apply) | Lack of financial expertise on country teams | Data gaps | Other priorities | Lack of support from the authorities | Other (please specify) | | |
| | 52 | 67 | 54 | 9 | 19 | | |
| Q18a. Since the 2014 TSR, has FAD and/or MCM participated in any review process and/or missions? | Yes | No | Q18b. Since the 2014 TSR, have your country desks participated in policy-related TA missions led by FAD and/or MCM? | Yes | No | | |
| | 71 | 29 | | 31 | 69 | | |
| Q19. How do you think the integration of TA findings in Article IV policy advice could be enhanced? (select all that apply) | Better coordination among departments when selecting TA topics | Better communication of TA findings | Stronger engagement by departments providing TA in follow-up | Stronger focus on TA issues in the review process | Participation of country desks on TA missions | | |
| | 51 | 52 | 63 | 29 | 64 | | |
| Q20. Overall, how do you feel that the Fund's surveillance has changed since the 2014 TSR? | It has improved to a great extent | It has improved to some extent | It has not changed | It has deteriorated to some extent | It has deteriorated to a great extent | N/A | |
| | 5 | 73 | 16 | 4 | 0 | 1 | |
| Q21. To what extent has the Fund's analysis and understanding of macrofinancial linkages improved since the 2014 TSR. Please provide an overall assessment and an assessment of individual items on the degree of macro-financial integration. | | To a great extent | To some extent | To a limited extent | Not at all | | |
| | Overall Assessment | 17 | 68 | 13 | 2 | | |
| | Real economy and financial sector linkages | 20 | 62 | 17 | 1 | | |
| | External sector and financial sector linkages | 10 | 54 | 32 | 5 | | |
| | Fiscal sector and financial sector linkages | 13 | 48 | 30 | 9 | | |
| | Monetary and financial sector linkages | 20 | 53 | 20 | 7 | | |
| | Structural policies and financial sector linkages | 9 | 34 | 38 | 19 | | |

Annex Table 3. Structured Review of Article IV Consultation Staff Reports

1. Overarching Questions

- Is the report selective and focused on the issues/themes that are relevant for the country case with clear advice on an appropriate policy mix?
- Does the report explicitly discuss the policy mix—the relationship between fiscal, financial, monetary, external and/or structural policies appropriate to a member's circumstances?
- Is the report structured around specific economic themes?

2. Risks and Spillovers

- Does the report include a discussion of realized inward spillovers from policies, realized inward spillovers from exogenous shocks, potential inward spillovers or risks from policies, potential inward spillovers/risks from exogenous shocks?
- Does the report include a discussion of domestic risks and/or inter sectoral spillovers?
- Does the report discuss transmission channels of risks/inward spillovers?
- In discussing risks/inward spillovers, does the report cover risk only (baseline and tail risks; short-term and medium-term risks; external risks) and both risks and spillovers (likelihood, impact transmission channels, policy responses)?
- Is the discussion of inward spillovers and risks integrated in policy discussions/policy advice?
- Through which channels are inward spillovers transmitted?
- In discussing inward spillovers, does the report cover the (causes, likelihood, impact, transmission channels, alternative policy responses to reduce adverse spillovers)?
- Is there good coherence between the discussion of risks in the RAM and the discussion in the main text?
- Does the RAM cover the risk and spillovers?
- How deep is the analysis of inward spillovers and risks?
- Are any analytical tools used to assess inward spillovers and risks? If yes, what tools are used?
- Does the report discuss outward spillovers?
- Are the outward spillovers covered in the report of systemic, regional, or bilateral nature?
- Through which channels are outward spillovers transmitted? (trade in goods and services (volume and/or price changes), transfers (incl. remittances and aid), capital flows, bank deleveraging, asset (stocks, real estate) prices, interest rates, exchange rates, other, not specified)
- In discussing outward spillovers, does the report cover the (causes, likelihood, impact, transmission channels, alternative policy responses to reduce adverse spillovers)?
- How deep is the analysis of outward spillovers?
- Are any analytical tools used to assess outward spillovers?
- Is the discussion of outward spillovers integrated into the broader of discussion policy issues and staff appraisal?
- Does the report discuss the authorities' views regarding outward spillovers?
- Does the report present alternative policies that would result in lower outward spillovers?

3. External Sector Assessment

- Is the external sector assessment broad in that it looks beyond an assessment of exchange rates?
- Is the external sector assessment well integrated in the policy discussion?
- Is there a clear bottom line in the external sector assessment?

Annex Table 3. Structured Review of Article IV Consultation Staff Reports (continued)

- Does the staff report EBA estimates or EBA-lite estimates? What other quantitative estimates does the report use?
- Does the report explain adjustments to the EBA or EBA-lite estimate to reach staff's assessment?
- Does the report explain clearly why a particular method was judged most appropriate?
- Is the quantitative assessment of the exchange rate consistent with the bottom line assessment?
- If the bottom line is different from the quantitative assessment (or of the result of one of the methodologies) is it justified?

4. Macroeconomic Analysis

- What is the depth of the discussion on the financial sector? (financial stability issues, financial deepening, market access, regulatory/supervisory, other, please specify)
- Does the RAM contain any financial risks?
- Does the report discuss any financial risks?
- Is the financial stability discussion backed up by quantitative analysis?
- If the report discusses inter-sectoral spillovers (e.g. financial real, real financial, financial-fiscal), how extensive is the analysis?
- If the report discusses macrofinancial linkages, what tools are used to assess these?
- Does the report include discussion of the credit cycle?
- If yes, where is this discussion included in the report?
 - In the discussion of context (recent developments, etc.) in the opening section of the report
 - In the financial sector section only
- To what extent are the discussions from the financial sector assessment integrated into the discussion on policy advice?
 - There is a clear connection between conclusions of the financial sector assessment and analysis into the policy discussion.
 - Some connection is made between the conclusions of the financial sector assessment and analysis of the policy discussion.
 - No explicit linkage between financial sector analysis and macroeconomic policy advice
- Does the report discuss macroprudential policies?
- If yes, does it analyze the macro-implications of macroprudential policies?
- What was the coverage of the financial sector discussion? (banks, nonbanks, financial markets, other, please specify)
- In countries where an FSSA was conducted during the last five years, does the report refer to the findings and recommendations of the FSSA?
- Is the financial sector policy advice consistent with the FSSA?
- Does the country have a shallow or undiversified financial system?
- Is there mention of inadequate financial sector data for assessing key financial sector risks/vulnerabilities?
- Are any balance-sheet mismatch issues (e.g., on maturity, currency, or liquidity) discussed in the report?
- Is there evidence of granular analysis of the financial sector?

Annex Table 3. Structured Review of Article IV Consultation Staff Reports (concluded)**5. Structural Policy Advice**

- Does the staff report discuss structural reforms?
- If structural issues were discussed, does the report clearly identify country-specific macro-critical structural issues and priorities?
- Does the report use any of the following in identifying structural gaps and policy priorities?
- Which structural issues were identified as macro-critical?
- Does the report discuss structural reforms and policies needed to address the country-specific structural challenges?
 - If yes, please list the areas of reforms covered in the report (fiscal, financial, labor market, product market, other)
- If the report recommends structural reforms and policies, to what extent does the recommendation take into account the country's macroeconomic condition (macro policy space and cyclical position), implementation capacity, and the political economy context?
- If your answer to the previous question is yes, which aspects are considered?
- Is advice on structural policies country-specific and granular?
- Does the report discuss bundling of recommended structural policies?
- Does the report discuss sequencing a of recommended structural policies?
- What is the basis for the cross-country analysis?
- If the cross-country analysis references policy experiences in other countries to back up policy advice, please specify in which policy area:
- Does the report discuss Fund TA and outcomes?
- In case the report discusses Fund TA and outcomes, to what extent does the report draw from TA advice?
- Does the report draw from the expertise of other international organizations?
- If 'Yes', for which policy area? (fiscal, monetary, financial sector, external, structural, other)
- Does the report discuss the Fund's past policy advice?
- Where there is a discussion of past policy advice, are differences of views between country authorities and staff mentioned?

Annex IV. Lessons from the Pilot Approach

Pilot initiatives have played a critical role in enabling agile responses to challenges facing the membership, supported by high-quality analysis and advice. The evolving global environment has required that the Fund deepen its analysis in some areas and cover new, emerging issues that lie within its overall surveillance mandate.¹ Unlike in traditional areas (e.g. external sector assessment) where there are well-established conceptual frameworks and operational experience, challenges can be more complex in other areas, particularly in the initial stages of learning. To address challenges, staff has deployed a more flexible learning approach using pilots to build knowledge and institutional experience in some areas where the Fund needs to diffuse in-house expertise or has not had sufficient operational experience in the past.²

Once staff has built internal expertise and gained sufficient experience, the pilots are concluded and the body of knowledge is available across the institution. Some more mature pilots have already succeeded in disseminating tools, building cross-country policy experience, establishing collaboration with external experts where appropriate, and these areas of work are being integrated effectively into bilateral surveillance.

Pilots are built on strong internal collaboration. Staff have pursued a collaborative approach that promotes learning by doing, knowledge exchange, and leveraging external expertise.

- **Identification of countries and issues.** Area departments identify pilot countries based on the degree of macroeconomic significance of the issues. They also determine how work on these topics will be organized in their own departments and provide feedback on where functional department support can be most useful.
- **Customized support.** Early brainstorming with functional departments, and in some cases also external experts, is often integral to the process. The support also includes developing and providing better access to tools and cross-country data; identifying relevant cross-country experience and lessons from Fund TA; and feedback on analytical approaches. In some cases, staff Advisory Groups also facilitated knowledge exchange.
- **Review.** Where dedicated review supports pilot initiatives, it focuses on integration of targeted issues into the broader macroeconomic and policy context.

¹ In selecting issues for in-depth coverage in staff-reports, country teams should exercise judgment, take a risk-based approach and be guided their macro-criticality. An issue is judged to be macro-critical if it affects, or has the potential to affect, domestic or external stability, or global stability. See [Guidance Note for Surveillance under Article IV Consultations](#).

² This Annex distills lessons from pilot efforts in the following areas: macrofinancial, macrostructural, fiscal space assessment, domestic revenue mobilization, international taxation, inequality, gender, energy/climate, and the Infrastructure Policy Support Initiative. Pilots initiatives prior to the 2014 TSR offered valuable lessons for recent efforts (for example, from the seven pilots on Enhancing Financial Sector Surveillance in LICs in 2012–14).

- **Training.** Purpose-specific training courses help familiarize teams and reviewers with more technical aspects of the work.

Sharing of good practices within and across pilots has been essential in promoting institutional learning, and an improved dialogue with a broader set of authorities. Key lessons include:

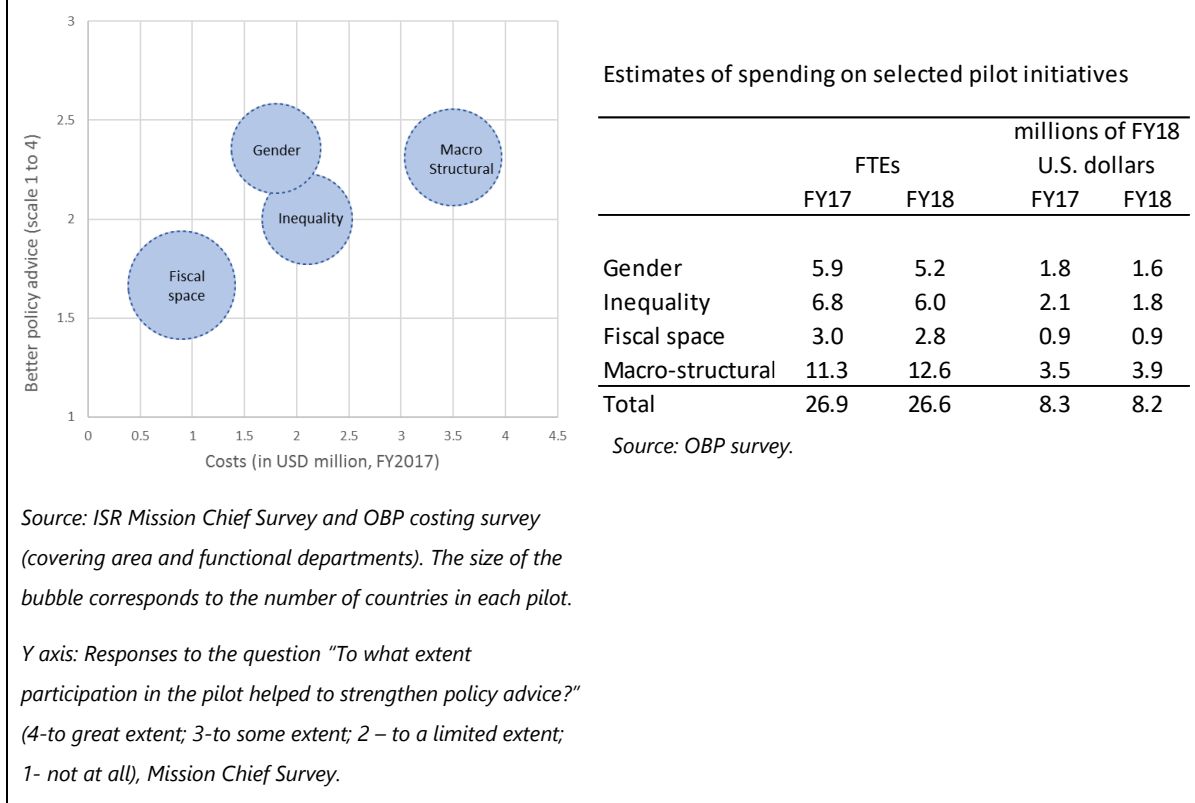
- **Learning is more effective when pilots are rolled out in waves.** Operational experience gained from the first wave helps staff (i) *refine and extend existing frameworks* (e.g., to clarify expectations on how to deepen surveillance of macrostructural issues in emerging markets and developing countries more broadly; or to share approaches to macrofinancial analysis that effectively complement traditional modeling frameworks); and (ii) build *lessons for good practices* for the second wave.
- **Selectivity is essential.** The intensity of these processes has at times taxed area and functional departments. Selectivity in prioritizing coverage of issues and streamlined review would in some cases result in more in-depth analysis and granular, tailored policy advice. Further development of the infrastructure for knowledge sharing across teams could help maintain focus after the pilot is concluded.
- **Brainstorming sessions enhance dialogue outside the formal review process.** They ensure sufficient attention to prioritization, relevant peer country experience, and how to integrate specific analytical approaches into staff's broader analysis. There is scope for more systematic dissemination of conclusions from these meetings across teams, including through Knowledge Exchange websites. Staff have also strengthened the mechanisms for more exchanges of knowledge with other agencies in areas where perceived benefits are high.
- **Learning also takes place across initiatives.** Lessons from macrofinancial training, for instance, have helped inform the inter-departmental macrostructural training clinics currently underway.
- **The Fund has developed different ways to leverage outside expertise.** While there have been some positive experiences of *collaboration with other agencies* in particular instances or specific topics, challenges to effective collaboration are rooted in institutional differences in objectives, approaches, and incentives. On the other hand, there could be more scope for externally financed consultants, which have been used extensively in the gender, inequality and climate pilots to keep resource costs manageable.³

³ The IMF and the Department for International Development (DFID) of the UK Government have an 8-year strategic partnership in research, which started in 2012. At the moment, the DFID covers salaries for one full time gender economist, two inequality economists, and two inequality RAs.

Pilots have improved the quality of Fund advice at relatively modest cost, with greater resources directed to those with higher perceived payoffs.

- **Payoffs are positive.** A survey of mission chiefs indicates that staff believe participation in pilots has improved the quality of policy advice. Payoffs are perceived to be relatively high for the macrostructural and gender pilots, for example (Annex Figure).
- **Cost was relatively modest.** The estimated cost of four pilot initiatives currently underway was US\$8-9 million per year in total.⁴ The cost per initiative varies with its potential scope and country coverage but direct comparisons of costs across initiatives is somewhat problematic. For example, the fiscal space initiative was the least costly (US\$0.9 million per year), reflecting the specific and more limited scope of the analysis, and the costs of the gender and inequality pilots were only somewhat higher. In contrast, the macrostructural initiative has been costlier (US\$3-4 million per year), as the potential range of issues within this area is much broader and staff’s familiarity with these issues varies, sometimes requiring significant start-up costs. At the same time, some of the work costed for the macrostructural initiative would likely have been done irrespective of whether there was a macrostructural pilot or not, which may be less of an issue for some of the other pilots.
- **Cost has declined in more mature pilots.** As country teams have built up knowledge and capacity has been developed, the annual cost of incorporating this work into surveillance should decline (although some ongoing efforts may be required for new teams just beginning to undertake this work). For instance, the cost decline is already reflected in the income inequality and gender initiatives, as intensive work in some country cases need not be repeated.
- **The cost-benefit relationship should improve over time.** Experience shows that the knowledge creation phase could take longer under an initiative that tackles more complicated topic areas, making that pilot costlier to operate initially while perceived benefits would only be fully derived at a later, more mature stage. (For example, in the macrofinancial work, persistent positive benefits are observed in the depth and integration of analysis by country teams that were originally part of the pilot effort.)

⁴ Cost calculations do not include the macrofinancial initiative, in line with the Board’s March 2017 decision to mainstream this work across the full membership in 2018.

Annex Figure. Selected Pilots: Estimated Payoffs and Costs

Background Information

This section provides background information on nine pilot initiatives since the 2014 TSR.

Macrofinancial

The goal of the pilot phase was to strengthen staff's capacity to provide advice on macrofinancial questions by developing a consistent, integrated, and forward-looking view on how financial sector developments affect each member's economic outlook, risks, and policies. The macrofinancial initiative was launched in 2014 and staff identified 24 pilot cases in 2015, increasing the number to 66 in 2016. Area departments had the primary responsibility for formulating financial sector analysis in Article IVs, and selected the countries involved as well as the themes and analytical approaches, drawing on support (including tools and review) from functional departments. There has also been a heavy emphasis on internal training to strengthen staff's macrofinancial skills, including via a dedicated curriculum. The March 2017 Board paper [Approaches to Macrofinancial Surveillance in Article IV Reports](#) presented a stocktaking on the experience, setting good practice approaches taken by staff in macrofinancial analysis to tackle challenges in countries across a range of levels of development and highlighting areas requiring further work. The Board agreed that this approach had strengthened Fund advice, and supported the intention to further expand the number of teams involved in 2017 and to fully mainstream the integration of macrofinancial analysis and policy

advice across the membership in 2018. Departments plan ongoing efforts to support this process.

Fiscal Space Assessment

The fiscal space framework was developed to facilitate a consistent framework that brings together various approaches developed by Fund staff to assess fiscal space. At this point, the framework is geared towards countries with market access. It has been applied in 24 pilot countries. The pilot has resulted in deeper and more structured assessments of fiscal space, and in some cases led country teams to adjust their views and policy advice. Pilots are concluding now, and a stock taking of the experience and way forward will be discussed at the Board in spring of 2018. Key issues include: (i) refinement of indicators; (ii) additional indicators tailored to commodity exporters; and (iii) extension of the framework for low-income countries.

Macrostructural

The macrostructural pilot initiative was launched in response to the membership’s call to step up analysis and policy advice on macro-critical structural reforms in surveillance. Staff has developed an analytical framework for identifying and prioritizing structural reforms that places the discussion of macro-critical structural reforms in the macroeconomic context. The approach also supports a more integrated discussion of demand and supply policies. The enhanced approach is being applied to a first wave of 32 pilot countries, with Area Departments in the lead. The initiative consists of several components: A “how to” note was developed to explore how country teams could diagnose structural issues in a member country, and identify and prioritize structural reforms. An online toolkit has brought together good practice examples, and useful analytical tools and research. A core element of the initiative is to bring an enhanced review process to structural issues in pilot countries. A full stocktaking of the first wave of this initiative and a way forward will be reflected in the update to the Board in March 2018.

Domestic Revenue Mobilization (DRM)

This initiative is one of two tracks to strengthen the integration of revenue issues into bilateral surveillance (international taxation being the other—see below). The initiative was launched in December 2015 and focuses on making taxation a more prominent component of staff reports for developing countries by underpinning important points for macroeconomic surveillance with a revenue mobilization assessment based on technical assistance provided by FAD. Since inception, 25 pilots have been completed under DRM.

International Taxation (IT)

This initiative involves expanded technical work on international corporate tax issues. The IT track covered a broad spectrum of issues, reflecting varying situations of the very diverse group of 10 pilot countries covered so far; synergies have already been derived for regional-level analysis, for example for ASEAN.

Inequality

The goal of this initiative is to explicitly consider the interaction between economic policies and income inequality, growth, and poverty outcomes. By end 2017, 28 pilots had been completed. Country consultations covered a broad range of topics, including comparative analysis of inequality and poverty outcomes, impact of proposed policy measures (such as fiscal consolidation and fiscal redistribution) on inequality, regional inequality, strengths and weaknesses of social safety nets, and impact of commodity price cycles on inequality. The initiative helped build considerable internal expertise in inequality and enhance collaboration with external institutions. The Board was briefed on this initiative in October 2018.

Gender

The operationalizing gender initiative emphasizes macro-criticality of women’s economic empowerment and the role of policies in addressing gender issues in bilateral surveillance. By end-2017, 27 pilots had been completed. Country consultations covered a diverse set of issues, including impact of female labor force participation on productivity and growth, financial inclusion of women, labor market reforms, and impact of policy measures on gender inequality. The initiative expanded policy dialogue with the authorities and strengthened policy advice on gender issues by examining the link between gender equity and income inequality and growth, pushing forward the work on gender budgeting, and addressing gender data gaps in financial inclusion. In several countries, gender objectives have been included in national employment and planning strategies, fiscal policies, and labor market reforms. The Board was briefed on this initiative in October 2018.

Energy/Climate

This initiative has developed tools to strengthen dialogue on climate resilience and energy price reform and help guide practical implementation of countries’ mitigation pledges for the Paris Agreement. This pilot covers the traditional areas of energy pricing and subsidy reforms, where Fund expertise is strong, and the relatively new areas of climate mitigation and adaptation which are macro-critical for some members. Twenty-six countries have participated in this pilot initiative. Staff developed spreadsheet tools for estimating carbon prices needed to meet mitigation commitments, their broader environmental, fiscal, and economic impacts, and tradeoffs with other (fiscal and regulatory) instruments. The tool has been applied to advanced and some large EM economies. The IMF and WB have also launched a joint Climate Change Policy Assessment (CCPA) to provide country-specific frameworks for assessing preparedness to climate change, climate mitigation and adaptation plans, and risk management strategies. Initial CCPA pilots were island economies and the initiative is expected to continue with 2–3 cases per year in the next two years. Other country consultations examined more traditional energy issues, particularly energy pricing and subsidy reforms, using FAD’s country-level databases on efficient energy prices and the gains from reform. The Board was briefed on this initiative in October 2018

including on the finding that while the staff had extensive in-house expertise in areas such as energy pricing and subsidy reforms, that was less so in the area of climate mitigation.

Infrastructure Policy Support Initiative (IPSI)

This pilot initiative helps member countries increase the efficiency of public investment and explore ways to sustainably scale up such spending. While the tools can be employed independently, IPSI pilots seek to exploit synergies among them where infrastructure issues are particularly salient (e.g., large infrastructure gaps and/or major infrastructure investment plans). In addition, IPSI facilitates peer learning among teams (and, potentially, among countries), including through a new Knowledge Exchange site on infrastructure and a seminar series. IPSI has covered 9 pilot countries. It is expected that periodic coverage of these issues in Article IV consultations would continue, particularly to support the Compact with Africa.