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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/46-1

10:30 a.m., June 5, 2019

1. IEO Evaluation—IMF Advice on Unconventional Monetary Policies

Documents: SM/19/104 and Correction 1; and Supplement 1; and Supplement 1, Correction 1; and Supplement 2; and Supplement 2, Correction 1; and Supplement 3; and Supplement 3, Correction 1; and Supplement 4; and Supplement 4, Correction 1; and Supplement 4, Correction 2; and Supplement 5; and Supplement 6; and Supplement 7; and Supplement 7, Correction 1

Staff: Loungani, IEO; Collyns, IEO

Length: 2 hours, 8 minutes

Executive Board Attendance

C. Lagarde, Chair

Executive Directors	**Alternate Executive Directors**
	I. Mannathoko (AE)
	L. Nankunda (AF), Temporary
G. Lopetegui (AG)	
N. Ray (AP)	
A. Tombini (BR)	
	P. Sun (CC)
L. Villar (CE)	
	A. McKiernan (CO)
R. Kaya (EC)	
H. de Villeroché (FF)	
	K. Merk (GR)
S. Gokarn (IN)	
D. Fanizza (IT)	
	Y. Saito (JA)
	C. Sassanpour (MD), Temporary
	S. Geadah (MI)
	R. Doornbosch (NE)
T. Ostros (NO)	
A. Mozhin (RU)	
	F. Rawah (SA), Temporary
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
	D. Ronicle (UK)
M. Rosen (US)	

J. Lin, Secretary
O. Vongthieres, Summing Up Officer
D. Alcantara / E. Mannefred, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: M. de Zamaroczy. Asia and Pacific Department: R. Craig. Communications Department: M. Candia Romano, O. Stankova. European Central Bank: A. Meyler, K. Nikolaou, R. Rueffer. European Department: L. Lin, M. Pradhan. Human Resources Department: R. Guimaraes Filho. Independent Evaluation Office: N. Batini, Y. Chen, R. Darius, L. de Las Casas Perez de Orueta, T. Gutner, M. Kell, J. Kim,

P. Loungani, R. Pedraglio Florez, C. Rustomjee. Legal Department: K. Christopherson Puh, N. Rendak. Middle East and Central Asia Department: E. Mottu. Monetary and Capital Markets Department: T. Adrian, E. Eriksson von Allmen, J. Zhou. Office of Budget and Planning: B. Christensen. Office of Internal Audit and Inspection: B. Fosu. Strategy, Policy, and Review Department: T. Bayoumi, R. Duttagupta, M. Gonzalez Miranda, V. Klyuev, E. Lundback, N. Meads, G. Minasyan, S. Sgherri, H. Ward. Executive Director: L. Levonian (CO), D. Mahlinza (AE). Alternate Executive Director: S. Benk (EC), A. Guerra (CE), L. Palei (RU), M. Psalidopoulos (IT), B. Saraiva (BR), F. Sylla (AF), K.Tan (ST). Senior Advisors to Executive Directors: Z. Abenoja (ST), A. Muslimin (ST), M. Choueiri (MI), H. Etkes (NE), M.Gilliot (FF), G. Heim (SZ), R. Morales (AG), W. Nakunyada (AE), R. N'Sonde (AF), P. Pollard (US), S. Potapov (RU), T. Sitima-wina (AE), F. Spadafora (IT), A. Tivane (AE), G. Vasishtha (CO). Advisors to Executive Directors: A. Abdullahi (AE), P. Al-Riffai (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), S. Bah (AF), X. Cai (CC), L. Cerami (IT), K. Florestal (BR), J. Garang (AE), A. Grohovsky (US), J. Hanson (NE), M. Ismail (AE), T. Manchev (NE), M. Merhi (MI), A. Park (AP), A. Srisongkram (ST), N. Vaikla (NO), C. Wehrle (SZ), A. Zaborovskiy (EC), S. Alavi (MD), K. Hennings (BR), K. Lok (CC), J. Montero (CE), A. Tola (SZ).

1. IEO EVALUATION—IMF ADVICE ON UNCONVENTIONAL MONETARY POLICIES

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We commend the Independent Evaluation Office (IEO) for an excellent evaluation of the IMF Advice on Unconventional Monetary Policies (UMP) and the Managing Director for her constructive statement.

Before commenting on the evaluation's recommendations, we would like to make the following two points:

First, on the lessons from the evaluation and the Integrated Policy Framework (IPF). We consider that the analysis on IMF advice on the monetary-fiscal policy mix in the aftermath of the global financial crisis could be helpful in informing the current work on the IPF. As detailed in the report, the policy response, supported by the Fund, went from large fiscal stimulus to avert a deep downturn for the global economy, to subsequent fiscal consolidation to allay concerns about growing public debt, and later to a recognition of the need for growth-friendly consolidation. When UMP were introduced, they were considered by the Fund as alternative expansionary policies following the withdrawal of the earlier fiscal stimulus and after central banks' conventional monetary policy pushed interest rates to the zero, or near-zero, lower bound. Since UMP are now assimilated as part of central banks' toolkit, a case could be made to consider them as conventional instruments that should be included in staff analytical work on the IPF, which will look at the complementarities and tradeoffs among monetary, exchange rate, macroprudential, and capital flow management policies, particularly in the context of external shocks. Staff comments would be welcome.

Second, on the MD's "Qualified Support". We note that while the MD is broadly supporting the general thrust of IEO's recommendations, a "Qualified Support" is given for three out of the four IEO recommendations, citing budgetary implications and other competing priorities. In addition, indications have been given that the Comprehensive Surveillance Review (CSR) will offer an opportunity to advance some of the IEO recommendations. Against this background, we would like to emphasize some of the evaluation's main conclusions and related concerns. These include the finding that "A number of factors have limited the value added and influence of the IMF's bilateral advice on monetary policy when it was most needed—for the major central banks and for others too." And the indication that "While discussions with Fund staff are appreciated as a useful dialogue with well-informed interlocutors, country officials typically turn elsewhere when looking for expert monetary policy advice." In our view, monetary policy issues are macro-critical and deserve the top priority in the Fund to allow the institution to maintain its relevance on cutting-edge developments and enhance the traction of its policy advice. Noting the IEO's finding that "IMF resources specifically devoted to monetary policy issues over the past decade have been quite limited", we urge management to keep these challenges in mind when expanding the Fund's role in areas outside its core mandate and expertise.

Recommendation 1. Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed. Like the MD, we broadly support this recommendation. We take note of current workstreams on this issue and of the establishment of a new unit on monetary policy modeling. Before going further, we would prefer to wait and see how the forthcoming IPF could be used to advance some of the specific steps suggested by the IEO. We also consider that the HR strategy could also contribute to help attract the needed policy experts.

Recommendation 2. Deepen work on the costs and benefits of UMP and related policies, to develop a playbook on policy responses for use in future downturns. Like the MD, we broadly support this recommendation and welcome the indication that work is being done to develop a playbook on policy responses and advice for members on conditions for leaning against the wind. In addition, we consider that the planned Board paper on Central Bank Governance After the Global Financial Crisis: In Search of Emerging Good Practices will also be helpful in enhancing the governance and accountability of central banks.

Recommendation 3. Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows. Like the MD, we support this recommendation and take note of the ongoing work on spillover analysis, including in the WEO, and on capital flows. We also look forward to the CSR and the IEO's forthcoming evaluation on IMF Policy Advice on Capital Flows.

Recommendation 4. Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance. Like the MD, we support this recommendation, while noting its broad nature that can best be addressed in the context of the ongoing CSR.

Mr. Tombini submitted the following statement:

We commend the IEO for this encompassing and thorough evaluation on the IMF Advice on Unconventional Monetary Policies (UMP). The choice of the subject of evaluation was proven not only highly relevant, but also very opportune, as it enhances the chances of the Fund timely using the lessons learned both in the case of a global cyclical downturn and in the alternative scenario of normalization proceeding. At the same time, the focus on IMF advice and not on the UMP themselves helped dismiss early concerns about the evaluation getting involved on ongoing business of the Fund or its membership. The set of reports resulting from the evaluation provides a rich material that discloses IMF adaptive capacity to deal with the non-orthodox policy measures taken by country authorities facing unprecedented challenges in the post-Global Financial Crisis (GFC) environment. While the evaluation displays a generally positive picture and shows some IMF strengths, it also highlights some shortcomings and lessons learned that can enhance Fund's traction and effectiveness as a trusted advisor to monetary authorities in many of our member countries. We agree with the thrust of the evaluation and support its four recommendations.

Since the outset of the GFC, the IMF was nimble in supporting major countries adopting UMP, but perhaps less so with respect to smaller AEs and EMs. The Fund elaborated a clear narrative demonstrating that the risks of a demand collapse or persistent deflation outweighed financial risks associated with the adoption of UMP, which, nonetheless, should be closely monitored. With the boost in aggregate demand, the resultant of UMP being implemented was globally positive. We highlight the finding that the multilateral surveillance of the Fund was helpful in contributing to the ongoing debate at the time. However, there was no proper and timely analysis of the specific UMP being adopted, their long-lasting consequences and cross-border effects. That said, the possibility of adverse spillovers was recognized, and the institution strived with limited success to monitor such unintended consequences. In the process, the Fund ultimately developed the Institutional View of Capital Flows, a more flexible approach to countries' responses to the pressures stemming from the abnormal global liquidity conditions. While largely appreciative, the perceptions of country authorities point to two shortcomings: (i) the IMF offered a welcome validation, but was generally of little help in providing inputs for developing or choosing the specific measures; (ii) the Fund was often seen as less flexible or slower to adapt with respect to policy responses by EMEs and non-core AEs.

In spite of a historically rich relationship with central banks, the Fund was not an advisor of choice for the monetary authorities dealing with unprecedented challenges. The evaluation highlights several factors that have contributed to that, among them, high rotation of mission chiefs and country teams, not sufficient expertise of country specificities, lack of cutting-edge knowledge on those areas and perception of lack of flexibility to go beyond textbook opinions. Given the enhanced role of central banks since the GFC, the IEO recommendations provide an important agenda that could help reverse this situation. Moreover, the effort to develop the capability to tailor advice on UMP to country circumstances should build on Fund strengths. We particularly agree that the IMF is in a privileged position to build upon a vast array of country experiences and provide a more integrated view on tradeoffs implied by the choice of different policy mixes.

We support the creation of a high-level small unit of monetary policy experts. We take notice of the recent establishment of an MCM unit with focus on monetary policy modelling, but still regard the IEO proposal as valid, given the distinct characteristics of the two bodies. In our view, the group suggested by the report would directly raise the level of conversation with country authorities, as well as help keep country teams on top of the relevant themes. We concur with the IEO that the resources implications are relatively modest, on the face of the criticality of the issues being dealt with and the Fund’s core mandate.

The compilation of a playbook on policy responses, weighing costs and benefits of UMP and alternative policies, can be useful. Given the uncertain outlook, such guidance could become handy sooner than previously anticipated. The effort to produce such a practical material seems feasible, considering that it would mostly result from updating and complementing what the institution has already produced. In particular, we agree that the Fund could give a relevant contribution by sharpening and systematizing the knowledge on the different (intended and unintended) impacts of UMP. Keeping it a live document and encouraging a flexible approach will be of the essence.

Deepening the analysis of financial spillovers and revisiting the experience of Fund advice on capital flows are welcome initiatives. We have the understanding that the most effective way of embedding spillover considerations in policy decisions by major central banks is to demonstrate the importance of spillbacks. By providing robust analyses of such back-on-shore impacts, the Fund can leverage the traction of its surveillance on spillover issues on source countries. Also, the IMF can scrutinize the specifics of the

UMP measures and identify equivalent policy options with less adverse global effects. The IEO evaluation on capital flows management measures will provide a welcoming fresh look on this issue.

Improving the quality of dialogue on monetary policy will be critical. While we agree with the specific proposals set forth by the report (i.e., more stability with country teams to allow for deeper relationships with authorities and more continuous country engagement), as the MD put in her statement, those issues should be taken care of in the context of the Comprehensive Surveillance Review. That said, we underscore that there may be a tension between the surveillance mandate of the Fund and its role as a trusted advisor. Fostering opportunities for more cooperative engagement would help to disencumber the dialogue and make it more productive when it is most needed.

Mr. Saito and Mr. Minoura submitted the following statement:

We thank the Independent Evaluation Office (IEO) for the comprehensive papers on the evaluation on the IMF Advice on Unconventional Monetary Policies (UMP), as well as for the very useful outreach. As 10 years has passed since the Global Financial Crisis (GFC), experiences and lessons on UMP have accumulated. In addition, central banks in major advanced economies recently have worked on reviewing their monetary policies after the GFC and discussing new monetary policy frameworks as well as specific tools. Against this background, we welcome the IEO's timely evaluation on the IMF advice on UMP. We appreciate the IEO's huge efforts to review internal and external documents of the Fund and implement extensive interviews with various stakeholders, which provide useful information and views on the IMF advice from broad perspectives. We broadly support the IEO's assessments and recommendations, and will provide some comments on each recommendation as follows:

Recommendation 1. Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed.

We note of the voices that "AE officials generally felt that the Fund was not at the forefront of analysis of how well these policies were working and how they could be reinforced," which should be taken seriously. In this regard, the IEO's recommendation – it is critical for the IMF to develop a small core of internationally-recognized monetary policy experts headed at a very senior level to be regarded as a source of world-class advice on monetary policy – is reasonable to mitigate the current situation. As a member selection would be critical to ensure their quality and influence, we also concur with the IEO that some changes in HR policy may be needed to attract, develop, and retain top experts.

Having said that, it is also a reality that “this was true not just for the major central banks with their large well-trained staffs, but also for smaller central banks with more limited resources, which tended to look for external advice from central banking networks and BIS staff.” Against this background, given the resource constraint of the IMF, it is important to enhance collaboration with major central banks and BIS to improve research quality.

Recommendation 2. Deepen work on the costs and benefits of UMP and related policies, to develop a playbook on policy responses for use in future downturns.

We welcome the recommendation of deepening work on the costs and benefits of UMP. Coordination of policy mix including fiscal policy and macroprudential measures (MPMs) and greater accumulation of cross-country experiences through broad memberships are areas where the IMF has comparative advantages, and thus inputs from the IMF in those areas provide useful bases for discussion to the member authorities.

In addition, looking back before the GFC, the Bank of Japan (BOJ) adopt a variety of unconventional monetary policy measures from the late 1990s onward, in advance of other major central banks. The BOJ’s experiences as a “front runner” of UMP would provide useful lessons and takeaways to other central banks too, and we encourage staff to deepen analyses on BOJ’s experiences.

Nevertheless, while the Fund’s analyses on UMP would work as useful inputs to the authorities, caution is warranted for policy advices. As situations and contexts that central banks face, such as developments of prices and labor markets or distances to exit from UMP, may vary widely for each country, it is essential to take into account country specific circumstances. Moreover, monetary policy measures evolve over time reflecting their circumstances even in the same country. Therefore, one-size-fits-all approach that excessively relies on past cases is not appropriate.

We also welcome the recommendation that IMF could deepen analyses on the distributional impacts of UMP, which would provide the useful information for policymakers. Having said so, it should not undermine credibility of monetary policy and the central banks' core mandate - price stability, and the distributional impact should be mitigated in a context of broader macro policy mix.

Recommendation 3. Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.

We agree with the importance of strengthening financial spillover analysis and provision of advice on dealing with capital flows, where the IMF can take advantages of global multilateral mandate, universal membership, and the depth of country experience. It would provide useful information for EM policymakers to address their concerns, and we expect the Fund's advices and engagements to improve their resilience through appropriate policy mix, and encourage staff to draw lessons for work on an Integrated Policy Framework.

However, we have concerns on one part of the recommendation; "The IMF's work on financial spillovers could be re-energized, including further research on how finetuning the policy mix in "source" countries could help to alleviate adverse spillovers on "receiving" countries, which would help to foster international policy cooperation." It is true that each central bank needs to monitor carefully its spillover and spillback effects, but those effects should be judged from the perspective of its mandate – domestic price stability, when conducting monetary policy. It needs to be strictly avoided to undermine each central bank's mandate or its legitimacy by put too much emphasis on spillover effects while undermining domestic price stability. Given possible trade-offs between countries, we are skeptical on an approach to develop a Code of Conduct and limit policy autonomy of each central bank.

Recommendation 4. Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

As the IEO report rightly pointed out, frequent turnover of mission chiefs and country teams has been a long-standing concern. We share the IEO's concern that the tenure of a mission chief ranges from under a year to five years, with an average of only about two years. In particular, the situation that Japan had as many as 7 different mission chiefs during 10 Article IV consultations between 2008–17 needs to be addressed.

Against this background, we fully support the recommendation that "longer tenure of mission chiefs, less turnover among country teams, and more engagement outside the Article IV cycle would help develop the deeper relationships and understanding of country circumstances." In addition, this is not only the case for monetary policy, but also important for other policy areas in the context of surveillance. We urge staff to consider these issues properly in the context of the 2020 Comprehensive Surveillance Review.

Mr. de Villeroché, Mr. Castets and Ms. Gilliot submitted the following statement:

We thank the IEO for this very insightful and comprehensive set of documents which demonstrate that substantial progress has been made by the Fund in understanding and analyzing a whole range of measures that have been going far beyond the traditional pre-crisis intervention rules. The role of the Fund as an early supporter of Unconventional Monetary Policies (UMP) and its ability to recalibrate its messages on the relationship between monetary, macroprudential and financial stability policies have been rightly underscored in the report although on some aspects we might have a slightly different perception and the wording on optimal monetary policy deserves careful attention. Still, this assessment brings a real added-value on the nature and the reasons behind Central Banks' actions taken in the aftermath of the great financial crisis in an exceptional context of deflationist risks and lower zero bound. In such a context, the effectiveness and timing of UMP is key. But the assessment also rightly raises broader issues related to their likely spillovers and we agree that, in this respect, the analysis of the Fund should be deepened and extended not only to financial flows but also to the real economy, considering the impacts on distributional effects. Finally, this overall discussion sheds an interesting light on the challenges ahead, not only in terms of balance sheet policies but also on the future monetary policy decisions in a context of persistently below target inflation in many advances economies and the evolving structure of the financial system itself. Going forward, the adoption of a holistic view on UMP to appraise the different forces at stake across the macroeconomic policy framework is essential and we believe that bilateral surveillance through Article IV consultations is the best instrument to improve the Fund's advice and traction.

IMF's "corporate view" and advice to manage risks and side effects from UMP

The Fund deserves indeed credit for having developed an overall view on UMP and having articulated it clearly. We share the balanced view that the Fund has provided useful and timely support in shaping the new UMP and macroprudential landscape. Albeit exceptional, these measures have positively influenced financial market conditions at a time of acute crisis in many advanced economies and when the room for traditional accommodative monetary policy was limited or non-existent.

On the management of financial stability risks arising from UMP, we welcome the evolution in the Fund's views to recalibrate the respective roles of macroprudential and monetary policies. We, nevertheless, would caution against overstating the importance of financial conditions in the determination of an optimal monetary policy. First, monetary policy is not intended to serve several objectives and is proven to be more efficient when focused on achieving its price stability mandate. Second, sequencing matters. Disruptions related to stressed financial markets have required Central Banks' intervention at the beginning of the Global Financial Crisis to restore the monetary policy transmission channel in line with their mandate to deliver the appropriate monetary stance for price stability. Macroprudential policies should take over once the transmission channel is restored and able to ensure a sound and stable financial environment and prevent another meltdown.

Frontier Issues in Central banking

Frontier issues are key to fully understand the developments of monetary policies in the wake of the Global Financial Crisis. We particularly appreciated the analysis of supplement 7 dedicated to these aspects as it raised the critical issue of the use of UMP and the quality of the Fund's guidance but also the effectiveness of these measures and beyond that, the definition and the role of monetary policy measures, be they conventional or unconventional. In a context where using unconventional measures has become widely spread among Fund's members, we feel that the questions raised by the IEO are appropriate as they consider the whole picture. These instruments have proven to be useful to secure a path towards inflation convergence, anchor interest rate expectations to the ultimate inflation objective and accompany the Euro Area economies by facilitating needed adjustments in the policy stance as the outlooks evolves. This said, and as underlined in the report and in several BIS research papers, UMP for an extended period may exacerbate exit strategies' difficulties and political economy problems while the balance between costs and benefits deteriorates. Nominal interest rates reduction and risk spreads compression have limits, including those inferred from banks' concerns over profitability or economic agents' confidence. Questions over the UMP's effectiveness and Central Bank governance should consider the fact that in a context of an unbalanced post-crisis policy mix, pressure has been put on Central Banks to use these still experimental and unpredictable tools and to carry a great part of the burden. The question of the articulation of monetary and fiscal stances is key in this regard and there are lessons to be drawn from what is now widely admitted as been a premature turn to fiscal consolidation in 2010, as recalled in IEO's report.

Accordingly, sound advice over the design of an optimal monetary policy response requires in-depth analysis before taking a clear position. This also includes further analytical work to fully understand the reasons behind the persistent low inflation environment which put growing constraints on the capacity of Central Banks to act, in case of future shock. We hence agree that an update of staff's 2013 policy paper on the experience with UMP would be useful to update IMF's views on the considerations or principles that should govern the future use on UMP.

IEO recommendations

Monetary policy experts at the IMF (Recommendation 1): we agree that the lack of structured process for the formulation of advice on UMP has been detrimental to the Fund's weight in this debate. Inputs from staff on the risks and opportunities of UMP as implementation proceeds and without being prescriptive would be beneficial to the whole membership, as it would have been the case when the Fed started to reduce its balance sheet. We feel in that sense that a core group of experts should be able to provide these analyses. Some changes in HR policy are required to attract, develop and retain top experts and set up a core of internationally-recognized monetary policy experts who will focus on monetary policy analysis and practical advice. In this respect we are wondering what the trade-offs would be between relying on external experts and leveraging and enhancing existing expertise as suggested by the Managing Director' s buff statement. Staff's comments would be welcome.

Costs and benefits of UMP (Recommendation 2): this are both critical and sensitive aspects since the effectiveness of these measures is a pivotal issue. As mentioned earlier, the evaluation of UMP effectiveness and associated risks should be carefully considered avoiding jumping any conclusions while most of these instruments are still being tested and their costs are time-varying (ie in the case of negative interest rates impact on banks' profitability). The financial crisis has also emphasized the controversial impact of Central Banks' policies in increasing inequalities. Even though evidence on the effect of monetary policy on wealth distribution has been limited so far, this issue deserves greater attention. While UMP first order effect lies in promoting growth and employment, both exceptionally low interest rates and asset prices hikes could lead to large second order impact on savers and households respectively. We thus strongly support the "operationalizing inequality" work stream at the IMF to give greater attention to these considerations.

Financial spillovers analysis (Recommendation 3): the analysis of financial spillovers should be enhanced, especially modeling, to better understand their underlying drivers and mitigate their effects, especially in emerging countries as supplement 4 of the report suggests. In this regard, the FCL remains a useful instrument to smooth pressures arising from the exit from UMP. We concur with the IEO that the Fund needs to be at the forefront of financial spillover analysis, a recommendation fully enshrined in forthcoming Comprehensive Surveillance Review which will contribute to reshape IMF's financial surveillance. Increased attention to promoting international monetary cooperation seems perfectly consistent with the deepening of research and analysis on financial spillovers and the fine-tuning of countries' policy approaches to limit adverse spillovers. In this respect, we would appreciate some more details about the IEO's proposal to develop a Code of Conduct while warning against the willingness to preempt Central Banks' monetary policy decisions.

Steps to deepen and enrich country engagement in bilateral surveillance (Recommendation 4): UMP are relevant for IMF bilateral surveillance and in line with the IEO's report, we believe that greater engagement of country teams on these issues is essential. Related to the previous recommendation 2, we fully support the advice on policy mix stressing the importance of a holistic view across the macroeconomic policy framework. As underscored by the Managing Director in her statement, the Fund's near-universal membership provides a rich set of experience to draw from. Leveraging more learning from cross-country experience could certainly contribute to better appreciate the interaction between monetary policy and other policies. It would also provide members with more accurate advice on how to design effective monetary policies without deterring other stakeholders from taking up their responsibilities. Indeed, monetary policy cannot be the only game in town and other policies should also play their part in creating more policy space and mitigate risks of compulsory zero lower bound episodes or financial markets disruption. In this respect, the role of the Fund could be enhanced in providing useful international comparisons to help monetary authorities act on a timely manner through Article IV consultations.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Stradal submitted the following statement:

We thank the Independent Evaluation Office (IEO) for their comprehensive and well-written set of reports and the Managing Director (MD) for her useful buff statement. The monetary policy advice lies firmly at the core of the Fund's mandate, and we welcome the evaluation of the advice in the post-crisis environment when circumstances made the central banks worldwide think outside the box and pursue unorthodox and often unprecedented measures. We welcome the holistic approach of the report. We particularly appreciate that the analysis covers broad aspects of unconventional monetary policies (UMP) including spillovers and interaction with other elements of the economic policy mix, as well as the IMF's contributions to frontier issues in central banking. We also commend the candid language and the level of detail covered in the Background Papers.

We broadly concur with the IEO's assessment and recommendations and offer the following comments:

Recommendation 1. We fully agree that a core group of monetary policy experts would enable the Fund to keep abreast with the state of the art in monetary policy making, while providing an intellectual support and consistency to country teams as needed. We take note of the new unit on monetary policy modelling within the Monetary and Capital Market Department which is currently being established. We would argue that a broader remit is required which includes modelling skills but entails also policy advice and solving operational problems. As such, the group should also include people with hands-on experience of monetary policy decision-making at a central bank rate setting committee level or just below. Finding ways to effectively plug in such a unit into the surveillance processes as opposed to creating an essentially academic and research unit is key in our opinion. Our view is that the costs of creating such a group would not be prohibitively high as approximately five experts of adequate caliber could suffice. IEO staff's comments on the size of the unit are welcome.

Recommendation 2. We are not convinced that a playbook is the right word in this context as the connotation could be that there may be some sort of universally applicable Fund view on UMP. Having said that, we fully concur with the idea of thorough stock taking of the costs and benefits of UMP and the interplay between monetary and related economic policies. The guiding idea should be to map the key decisions made by the monetary policy makers in the past and evaluate them against the background of the relevant contexts. The result would be an overview of "forks on the road" and an assessment of the roads taken as opposed to the others. This would be of enormous importance to the future policy debates in many central banks as we agree that the idea of orthodoxy may be redefined if another downturn arrives before the policy rates manage to climb sufficiently high. We agree with the MD that it is an enormous task with difficult trade-offs to be made in the work agenda and reiterate that the Fund's limited resources must be distributed in a way that appropriately reflects the core mandate of the institution.

Recommendation 3. The Fund is in a unique position to analyze spillovers generated by monetary policy decisions of systemically important central banks. We acknowledge the work and achievements in this area outlined in the Report. At the same time, we note a clear distinction between the major advanced economies which generated the spillovers by their UMP decisions, and emerging market economies and some smaller advanced economies which were their receivers. The latter group of members expressed repeatedly their conviction that the IMF's endorsement and validation was more readily available for the central banks of the former group.

We agree that the work currently under way on the Integrated Policy Framework may bring a new perspective on the Fund's advice aimed at increasing the resilience of the countries on the receiving side of the spillovers. Having said that, we are somewhat skeptical with regards to the idea of a Code of Conduct for the central banks which would effectively constrain their mandates defined by the respective domestic laws.

Recommendation 4. While acknowledging the narrow focus of the Report, we agree with the broader implications for enhancing the engagement with the authorities in bilateral surveillance. These lessons are well aligned with some of the recommendations endorsed by the Executive Board in January when the previous IEO Report on the IMF's Financial Surveillance was discussed. We look forward to discussing this issue in the context of the Comprehensive Surveillance Review and encourage staff to leverage the findings in both of the IEO Reports in their work currently under way. We underscore that the core group of monetary policy experts within the Fund recommended above could go a long way to improving the quality of engagement with the authorities.

Finally, we wonder whether the "raw material" of interviews with central bank representatives, current and former IMF staff, Executive Directors and their staff, and other interviewees could be made available publicly in some form sufficiently protecting anonymity if required. It would provide great material for further research by interested parties which could complement the Fund's work under Recommendation 2.

Mr. Merk and Ms. Kuhles submitted the following statement:

We thank the IEO for this comprehensive and detailed evaluation, which provides deep insights into the Fund's policy advice on Unconventional Monetary Policies (UMP) over the last decade.

We broadly concur with the Statement by the Managing Director in response to the IEO's recommendations. The MD rightly notes that the Fund is well placed to play a useful role in analyzing the costs and benefits of UMP, including international spillovers, and should use its comparative advantage to further improve its analysis on UMP-related issues. While the MD also notes that this might compete with other priorities in the Fund's work program, adequate expertise in the area of monetary policy is important for an effective Fund surveillance. On a more general note, we would stress that UMP need to be portrayed in a balanced manner reflecting also risks and side-effects of UMP. This should include continued efforts to ensure consistency between the WEO and the GFSR.

While we broadly share the IEO's analysis and recommendations, we would like to offer the following remarks:

Recommendation 1: Develop a small core group of top monetary policy experts at the IMF

It is disconcerting to learn that the IMF as a monetary institution lacks adequate expertise on monetary policy and UMP. The IMF's advice was informing important policy decisions where member countries were confronted with an environment of high uncertainty and unprecedented developments. While acknowledging that this was a major challenge for Fund surveillance, it is surprising that expertise in this field is lacking, given that the IMF has the comparative advantage of global cross-country experience and the collective resources of MCM, RES and the area departments dealing with monetary policy issues.

More resources for building up monetary expertise could have been and should be provided. It is important that the Fund has adequate expertise on this macrocritical policy issue, which is at the core of its mandate. Moreover, we note with concern that increasing work on new macro-structural issues has been competing for surveillance resources. As the report notes, no re-allocation to or build-up of resources in this core area has taken place. This is surprising, in particular in view of opportunities for reallocation within the regular reprioritization process of the work program.

We support further consideration of building up an expert group by recruiting senior external experts and developing in-house specialists, which work in close collaboration with the area departments. We expect the Fund to make further efforts to recruit and promote staff with the necessary skills and knowledge, including the institutional background of specific currency areas. In this regard, we note that the IEO assesses the needed resources as relatively modest, if compared to the substantial resource needs for an upgrade of financial surveillance.

Recommendation 2: Deepen the work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns

We take note of the IEO's proposal for initiating work on likely policy challenges in a future crisis. With regard to the respective policy responses it has to be carefully considered that lessons learned from past crises will not automatically give the correct policy response for future crisis situations as their scope and course are non-predictable.

The starting point of discussions about a possible role of UMP as part of the regular toolkit for central banks should be a thorough stock-taking and analysis of the intended – and unintended - effects of the UMP measures. Such an analysis should include an assessment of the implications for market functioning, the incentives for market participants and other policy areas as well as for the clear assignment of policy objectives to the responsible policy areas. Inter alia, concerns that monetary policy could be over-burdened and may interfere with other policy areas should be adequately taken into account. Moreover, a broader range of different UMPs implies monetary policy interventions in multiple parts of the economy. This tends to hamper market functioning and the pricing process, create moral hazard and blur policy responsibilities.

We also concur with the recommendation to dedicate more resources to housing sector issues on a continued basis, as this sector remains a major potential source of financial instability. Also, more work has to be done on the distributional effects and potential implications for the trade-offs between different policies.

Recommendation 3: Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows

We support the Fund's efforts to continue insightful research on cross-country spillover effects with a focus on financial spillovers. According to its mandate and its role in multilateral surveillance, the IMF should continue to assess spillover effects. However, we acknowledge that spillover effects are not always easy to isolate and adverse spillovers need to be weighed against beneficial ones. Continued recruiting and training of staff with expertise on modeling financial spillover channels is important. Also, improving cooperation between specialists and the area departments, should put mission teams in a better position to analyze the most relevant spillovers that individual countries are facing.

However, as other officials mentioned in the report, we have certain doubts that Article IV consultations are the appropriate forum for comprehensive discussions of spillover effects, in particular outbound spillovers. We are concerned that this might overburden the mission team.

Moreover, we see a need for intensifying work on capital flows and appropriate policy instruments to position the Fund as a convincing and trusted advisor. According to the report, there was a number and variety of inconsistencies in the Fund's advice, in particular on capital flow management measures (CFM). Some inconsistencies in advice might be owed to the change of policy effects over time or different advice for countries under similar circumstances accounted for country-specific differences. However, the report indicates that staff has rather validated policy measures of the central banks than assessed the potential resulting policy effects.

We generally support efforts aiming at countries' responsibility to conduct sound and sustainable policies while trying to minimize spillover effects. The IEO's idea to develop a Code of Conduct for major countries could be further discussed. However, there might not be much value added beyond the ongoing efforts at the G20 and the IMF to strengthen the cooperative thinking.

Recommendation 4: Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance

We generally support the IEO's recommendation to enhance the continuity of country teams, including longer tenures of mission chiefs.

Frequent turnovers and changes in mission teams tend to hamper the development of deep relationships and the built-up of country-specific knowledge, which are essential for the Fund to serve and be perceived as a trusted advisor.

IMF Advice on Unconventional Monetary Policies to Smaller Advanced Economies

The chapter on smaller advanced economies offers valuable insights into how the Fund's surveillance responded to quite diverse approaches to broadly similar challenges. We find the chapter particularly useful to gauge the Fund's contributions to the debate about the use of monetary policy to address financial stability risks – a topic that has been prominently discussed in many of the economies covered in the chapter.

The IEO's findings provide a mixed picture of the quality of Fund surveillance in this regard. Firstly, the IEO's finding that staff supported very different approaches by the countries covered in the report could well be warranted given county-specific differences and risks. However, some observations mentioned by the IEO also suggest that deficiencies on the side of the Fund explain that its role "was largely one of validation". Most importantly, the IEO's findings suggest that the Fund was not consistently producing in-depth assessments of the trade-offs involved, the side effects of UMP as well as the likely effectiveness of different policies in supporting financial stability.

Mr. Rosen, Ms. Pollard and Mr. Grohovsky submitted the following statement:

We welcome the opportunity to comment on the Independent Evaluation Office's (IEO) report on the IMF's Advice on Unconventional Monetary Policies (UMPs). The scope of the report extends well beyond UMPs to touch on nearly every aspect of macroeconomic policy making in the post global financial crisis (GFC) period, including the policy mix. While the report has a broad focus, we would have liked to have seen more depth in the discussion of UMPs. The report does not make it clear why or if the effects of UMP were fundamentally different than conventional monetary policy, particularly when thinking about spillovers. We fully agree that the post-crisis period has presented challenges for policy makers and has led to important discussions among policy makers and at the IMF regarding macroeconomic policies and policy linkages. However, we believe the report overemphasizes the importance of UMP in driving these discussion and initiatives at the IMF. In paragraph 8, the report credits concern about spillovers from UMP as a key driver of the FCL, the Integrated Surveillance Decision, and the Institutional View (IV) on Capital Flows. In our view, it was not spillovers from UMP that was the catalyst for these changes but the crisis itself, which highlighted the strong financial interlinkages in the global economy.

We focus our comments on four aspects of the report: policy advice to advanced economy central banks, spillovers, macroprudential policies, and capital flow management measures. Finally, we provide comments on each of the four recommendations.

Policy Advice to Advanced Economy Central Banks

We agree that the IMF's advice to the central banks in the major advanced economies was generally of high quality and helpful in providing support and validation to the innovative policies under taken by central banks amid the crisis. Nevertheless, our monetary policy authorities were concerned by staff's advice during 2009-2011 to quickly unwind the extraordinary measures that were being put into place. They felt that such advice could raise doubts among the public about the policy makers' resolve to take appropriate actions and hence undermine policy credibility.

The report also notes IMF staff's call for the U.S. to "pivot quickly to fiscal consolidation" over this period and staff's more general support for consolidation in advanced economies in 2010. The report notes that such advice was in keeping with "the orthodox view of the paramount importance of ensuring fiscal sustainability." It would have been helpful if the IEO examined the extent to which such advice was based on overly optimistic forecasts of the economic recovery. That is, was the policy advice incorrect as a result of forecast errors or a failure of economic orthodoxy?

We also would have appreciated more analysis on staff's advice regarding the mix of policies in the aftermath of the GFC. The underestimation of fiscal multipliers by the IMF in the first few years of the recovery is well-known. One can now find a wealth of papers by central bank researchers on the effectiveness of fiscal policy when interest rates are at their lower bound. What is less clear is whether the IMF was behind monetary policy experts in recognizing the linkage between fiscal multipliers and UMP. We are, nevertheless, concerned by the indication in the background paper on the Advice to Major Advanced Economies that staff reports "did not explicitly analyze the monetary policy mix."

Spillovers

A key theme of the IEO report is that UMP has had spillover effects on emerging markets, including through surges in capital flows. We agree and would stress that macroeconomic policies of major economies, both advanced and emerging markets, have spillover effects on the rest of the world, and spillback effects as well. We also agree that a key role for the IMF is to provide advice to its membership on how to handle cross-border effects.

As noted in the IEO report, the Federal Reserve conducts extensive work on spillovers and spillbacks of its policies and engages in discussions with Fund staff on this work through multiple channels. We agree that the IMF should advise major economies on the potential spillover effects from their policies and also advise recipients of spillovers on how to increase the resilience of their economies. This should extend to the full range of a country's policies, not just UMPs.

What the IEO report is missing is a discussion of how UMP changed the nature of spillovers. Did quantitative easing result in unanticipated or unconventional cross-border effects or was it simply the prolonged period of low interest rates and accommodative monetary policy that led to increasing concerns across emerging markets? Moreover, surely not all UMPs had the same effects. Should forward guidance be seen as the same as quantitative easing or negative nominal rates in terms of spillovers?

Macroprudential Policies

The traditional tools of monetary policy are not necessarily well suited to address financial sector risks. We also would not support using monetary policy to lean against the wind to address the buildup of financial risks, and believe the evidence of countries that have tried this and reversed course is salient. If there are cases where this approach may seem appropriate, the specific conditions that make it appropriate should be fully fleshed out. Instead, there is some evidence that macroprudential policy measures (MPMs) can be more effective at leaning against the wind, as they may be able to address the buildup of risk in certain sectors, such as in real estate, as well as build buffers in the financial system. At the same time, the use of micropudential tools including sound financial supervision and regulation should not be overlooked and indeed should be the first line of defense to limit systemic risks.

Capital Flow Management and the Institutional View

The report gives the impression that surges and volatility in capital flows were an outcome of the use of UMPs. We are not questioning the response of capital to monetary policy in the aftermath of the GFC, but think it is important to note that this is not new. Emerging markets experienced a surge of capital inflows in the mid-2000s which prompted varying responses by emerging markets. The October 2007 WEO included a chapter on "Managing Large Capital Inflows," discussing the policies adopted by emerging markets including exchange rate intervention and capital controls.

This experience, and the experience during the GFC and its immediate aftermath, led to a greater acceptance of the use capital controls in certain circumstances. The Institutional View on the Liberalization and Management of Capital Flows (IV), endorsed by the Executive Board in 2012, sought both to legitimize the use of capital controls in certain circumstances, including by rebranding them as capital flow management measures (CFMs), and to develop guidelines for determining when their use was appropriate. While we agree with the IEO report that there is dissatisfaction from some member countries with the application of the IV, we disagree with the implication in parts of the report that staff generally disapprove of CFMs. The report's tone reflects the views of those who criticize the IMF's IV as too restrictive, while not giving enough weight to the arguments in support of the IV and the IMF's appropriately cautious policy on CFMs.

For example, paragraph 70 highlights the Fund's support for MPMs but notes in contrast, "the Fund was less supportive of some measures taken recently—such as measures to encourage the on-shore ringgit market in Malaysia and FX hedging requirements in Indonesia—which were labeled as CFMs". The 2018 Indonesia Article IV report, however, indicates that staff were not "less supportive" of the FX hedging requirement. The report states that it is both an MPM and a CFM noting the policy is intended to "mitigate a buildup of systemic risk" (MPM) but only applies to to "FX liabilities of corporates with external debt" (CFM). Further, the Article IV report calls for a periodic review of the policy, which in our view does not indicate a lack of support.

Paragraph 29 notes that in contrast to its general support for MPMs in the housing market staff "have been less welcoming of some measures that discriminate against foreign residents." "Countries using measures classified as CFM, including measures that discriminate against property purchases by foreigners, are advised that these measures be scaled back or maintained only on a temporary basis, consistent with the IV." We do not see this as implying staff are less welcoming and we fully support the IV's recommendation that CFMs be temporary, targeted and transparent. We would argue that it is appropriate for MPMs that are also CFMs to be periodically reviewed to weigh their costs and benefits—the approach that staff appear to be taking.

IEO Recommendations

We support the topline IEO recommendations, but with some important caveats, notably with respect to recommendation 3.

Recommendation 1: We agree with having a small core of monetary policy experts at the IMF. In this regard, we welcome the statement by the Managing Director that the Monetary and Capital Markets (MCM) Department is creating a monetary policy modeling unit to be headed by a Deputy Director with extensive central bank experience. We also see merit in hiring a few seasoned monetary policy practitioners, perhaps under the expert track. Further, in the context of the HR Strategy, we would encourage staff to consider the development of exchange programs with central banks to foster the exchange of knowledge, a practice common among major central banks.

This report and the recent IEO report on financial sector surveillance imply that staffing in MCM is inadequate. What is less clear, however, is whether not enough resources are allocated to MCM or whether resources need to be reallocated within MCM. For example, we would support a shift in staff away from flashy issues such as central bank digital currencies and toward more critical issues like monetary policy.

Recommendation 2: Deepening the work on the costs and benefits of UMP and related policies appears sensical. We agree that a first step should be an update of the 2013 Policy Paper on UMP and encourage staff to draw on work by other researchers. Here too we think it will be important to consider different types of UMP, particularly in examining distributional effects. While we understand that the integrated policy framework will look at advice on monetary policy, MPMs, and CFMs, it is clear from the report that it should also examine the mix of fiscal and monetary policy.

Recommendation 3: We agree that the Fund should be at the forefront of financial spillover analysis and provision of advice on dealing with capital flows. Nevertheless, we disagree that the Fund needs to reassess its policy framework on capital flows. Instead, we encourage staff to study the costs and benefits of CFMs as well as MPMs. We also think more should be done to increase understanding of the IV and de-stigmatize the use of CFMs under appropriate circumstances. We also see no need to re-energize spillover work. We welcomed the integration of spillover issues in the WEO rather than producing a standalone report, and found the topics useful, although agree the focus has been on real sector not financial sector issues. The GFSR does an excellent job covering cross-border financial sector issues, and we would encourage staff to consider specifically addressing topics related to spillovers.

Recommendation 4: We support the call to deepen and enrich country engagement through bilateral surveillance and agree with the Managing Director that this should be addressed through the Comprehensive Surveillance Review. This report and the recent IEO report on fragile states have highlighted the frequent turnover of mission chiefs and country teams. We agree that it is difficult to develop a good understanding of a country's economy and a good working relationship with officials in that country if a team turns over nearly every year. This is particularly important in smaller economies and fragile states. At the same time, we recognize that having fresh eyes looking at issues is also important so getting the balance right is key. However, having 60 percent of staff participate in only one mission seems highly off-balance. We think the issue of turnover should be addressed in the HR Strategy.

Mr. Ostros and Mr. Vaikla submitted the following statement:

We thank the IEO for this comprehensive evaluation of the Fund's role in analysing and providing recommendations to country authorities on unconventional monetary policy (UMP) and related issues. We see merit in many of the recommendations raised by the IEO. Thus, the report will be a useful input for ongoing work streams in the Fund such as the comprehensive surveillance review and the integrated policy framework. Furthermore, many of the issues identified by the report apply to multiple areas of Fund work and engagement with member countries.

One remark on the IEO report is that the delimitation and focus remain somewhat unclear. This leads to some ambiguity about concepts, and advice, discussions and analysis of conventional (CMP) and unconventional monetary policy (UMP) are sometimes mixed up. The wide range of central banking issues discussed is generally interesting and relevant but the report could be clearer on what it aims to achieve.

We agree with the overall assessment that the Fund's engagement in developments related to UMPs has been wide-ranging and in many ways impressive, but that the value added of Fund’s bilateral advice on UMP has to some extent been limited to an ex post seal of approval, while providing limited guidance when measures were being developed. To improve the Fund’s ahead-of-the-curve-thinking, a small core group of top monetary policy experts could be a good way to spearhead IMF analysis and contribution to current discussions in the field of central banking, as suggested in recommendation 1.

We note that action to this effect has already been taken by the IMF with the establishment of a new monetary policy modelling unit. [Question to the IEO: To what extent does this new unit live up to the envisioned building of cutting edge expertise in the field of UMP?] Given the Fund’s already high level of expertise on monetary policy, the finding that countries tend not to turn to the Fund for advice on frontier monetary policy issues may be indicative of problems with how MCM integrates with the Area departments. These issues should be further discussed in the context of the Funds organizational structure and strategy as a whole. We take note of IEO’s view that resource implications of establishing this expert group are deemed to be modest and could be accommodated by rebalancing resources within MCM or the Fund more generally.

We agree that HR policy is key to attract, develop and retain cutting-edge expertise in policy areas of high priority. This was also emphasised in the recent IEO evaluation of macro-financial issues, and merits close attention in the upcoming reviews of both surveillance and HR policies.

To develop a playbook on the costs and benefits of UMP and related policies could be a good way to enhance consistency and quality of IMF engagement with member countries, as suggested in recommendation 2. We note that consistency and cross-country and cross-departmental integration of expertise and experiences is a challenge that is present in most fields of IMF work. Hence, possible reforms should be assessed in a broader sense than just UMP.

We agree that the Fund needs to stay at the forefront of financial spillover analysis as expressed in recommendation 3. This includes both providing recommendations to receiving countries on how to deal with volatile capital flows and to have a continuous discussion with source countries on the cross-border effects of their policies. The integrated policy framework will provide a context for further discussions on these and other issues related to financial stability risks and side effects of UMP, including financial channel modelling, the possible effect of UMP on market based finance and role of investment funds. The work by the IMF on such issues so far has been valuable.

We agree that further analysis of the distributional impacts of UMP is warranted, as part of a broader assessment of the interplay of central bank action and inclusiveness, while being mindful of the primary objective of monetary policy. This would also be a natural component of the ongoing work on inclusiveness, and be in line with IMF's own Guidance Notes that require staff to be alert to the distributional impacts of its recommended policies. Such aspects could also be considered in the context of the integrated policy framework.

On recommendation 4 we agree that longer staff tenure in bilateral surveillance and smooth handover to new staff is key to ensure high-quality bilateral surveillance. Also, ways to ensure more continuous contacts between the IMF and countries in between missions should be explored to provide even more relevant and timely advice. Such relations should be flexible in nature and mainly follow up on significant challenges identified in e.g. Article IV consultations.

As regards Central Bank frontier issues discussed in Supplement 7, we agree that the Fund should have a proactive role to provide analysis and facilitate international debate on issues such as Central Bank Digital Currencies and Central Bank Governance, in close collaboration with international standard setters.

The section on advice to smaller advanced economies gives a very useful account of policy deliberations and the Fund's role in the challenging environment after the Global Financial Crisis.

A relevant question is to what extent the IMF should be spearheading analysis and be a more involved partner for countries when cutting-edge policy decisions are formed and taken. It seems national expertise and analysis, and in some cases consultations with other institutions (mainly BIS) have been more relevant for policy formulation than consultations with the Fund. The desirable role for the Fund will always depend on the country context and division of labour with other international institutions. However, we agree that monetary policy in general, including frontier issues such as UMP, are integral parts of IMF's core work, and that the Fund should be prepared to take a more active part in supporting policy making in these areas when warranted.

The sections on Sweden and Denmark give a fair account of some of the monetary policy deliberations at their respective central bank in the years after the GFC, as well as their interactions with the Fund. However, we note that while the focus of the supplement is UMP, the focus on Sweden is mostly on conventional monetary policy. We note that the Fund provided differing recommendations to Sweden and Canada regarding “leaning against the wind” and that the rationale for that seems to be a combination of country specifics and some heterogeneity in policy conclusions within the Fund.

It is encouraging that the Fund’s advice on crucial policy issues seems to be the result of ambitious inter-departmental debate. This is necessary in order to draw on a broad range of expertise and to give complex policy issues the deliberative treatment they merit to inform the dialogue with member countries. At the same time, the fact that Fund advice mostly was in line with the authorities’ policies, seems to suggest that a bias against “uncomfortable advising” may be a factor to be considered going forward.

Mr. Fanizza and Mr. Spadafora submitted the following statement:

We thank the IEO for another excellent Evaluation, supported by an impressive set of high-quality analytical contributions. We also thank the Managing Director for her insightful statement. The Evaluation covers a topic that is at the center of the Fund’s core activities. We strongly support all the four IEO’s recommendations and ask Management to ensure their full and timely implementation; we look forward to a detailed implementation plan. Moreover, we believe the Evaluation’s findings should constitute relevant inputs into the 2020 Comprehensive Surveillance and FSAP Reviews. The Evaluation also makes it clear that its recommendations have important implications for the HR strategy and the Fund budget.

Develop a small core group of monetary policy experts

We agree that deeper expertise is required for the Fund’s to provide cutting-edge advice on not only Unconventional Monetary Policies (UMP) but also on monetary policy more generally. Setting up a small monetary policy unit, as per Recommendation 1, can help make progress toward helping the Fund stay ahead of the curve and engage constructively with central bank staff and academics in frontier discussions on monetary policy; these discussions should cover not only the stance but also the broader strategy and framework of monetary policy. Staying in the loop is particularly important at a time when the effectiveness of the flexible inflation targeting framework may need to be reassessed.

We also agree that this unit should devise a structured process for building up experience and sharing it across country teams. Nevertheless, we would like to note that experience and expertise, while necessary, may not be sufficient to provide good policy advice. For example, the Fund's advice on fiscal policy throughout the Global Financial Crisis (GFC) relied on fiscal multipliers that turned out to be much larger than estimated (as recognized in Box 1). Therefore, we believe deeper engagement – along the lines of the Fund's role in discussions with the ECB – is just as much important as experience and expertise in gaining traction while developing sound and implementable policy advice.

Deepen work on the costs and benefits of UMP

We welcome the Evaluation's overall positive assessment of the Fund's response to the challenges posed by the GFC. We agree that the Fund deserves full credit for devising an effective corporate view on UMP, which has contributed to have the Fund take on a recognized leading role on macroprudential policy; the additional emphasis on financial stability risks has contributed to deepen the Fund's expertise and helped mainstreaming financial surveillance. All in all, these responses have kept the Fund at the center of international policy discussions.

The Fund's contribution and comparative advantages should not be understated. Building on them, there is now an opportunity to further deepen the understanding of UMP and their interaction with conventional monetary policy and macroprudential measures. Indeed, many critical questions remain unaddressed despite being relevant at the current juncture, when many central banks are confronted with the challenges of monetary policy normalization as well as the possible resumption of UMP in a low interest rate environment. Even though disentangling the costs and benefits of each UMP is by no means an easy endeavor, we concur with the IEO's conclusion that the Fund is best positioned to draw on cross-country experience to assess the relative merits of alterative UMP and the roles of monetary policy and macroprudential measures in ensuring macroeconomic and financial stability. We share the sense of urgency on updating the 2013 policy paper on the experience with UMP in order to better assess their costs and benefits; at the same time, we believe that the discussion should be expanded to cover such issues as monetary policy strategy and framework.

Assessing the Fund's Advice on UMP

In assessing the Fund's advice on UMP, it is important to recognize that, in the face of broad uncertainty on the effectiveness of UMP, some degree of policy experimentation was inevitable, first and foremost for the involved central banks. It is no coincidence that the Fed itself came up with an open-ended program (QE3), without a dollar limit on the amount of asset purchase, only after implementing QE1 and QE2 with lower impact: as noted by the former Federal Reserve Chairman, "the problem with quantitative easing is that it works in practice, but it doesn't work in theory"[1].

Actions by central banks and the Fund's advice had to rely on judgement more than when dealing with standard policies because of the largely unchartered nature of UMP and the absence of solid knowledge and empirical bases. It will remain an open question whether more cutting-hedge expertise at the Fund could have allowed staff to provide more proactive advice, notably to the Fed. In particular, the report does not discuss whether the Fund could have helped avoid the "taper-tantrum" episode in 2013 by more explicitly advising the Fed on how to best design its communication. Staff's comments are welcome.

The Fund's "validation" role

We would like to underscore that the Fund's "validation" of central banks' monetary policy measures has high intrinsic value – as recognized by many country authorities – including by fostering broader acceptance of UMP. However, for validation not to become "rubber-stamping", it is critical that the Fund's advice on monetary policy, meet the following criteria: 1) it is cast as an element of the overall policy mix; 2) places distinctive emphasis on the interactions of monetary policy with other policies, and most notably fiscal and macroprudential ones; 3) underscores the trade-offs that UMP may pose.

The policy mix can have important consequences on monetary policy, financial spillovers and financial stability risks. We share the Evaluation's view that the Fund's call in 2010 on shifting to fiscal consolidation could have been gentler and more attentive to policy trade-offs: the Evaluation notes that the "easy money/tight fiscal" policy resulted in an overburdening of monetary policy and larger adverse cross-border spillovers; the timing also turned out to

[1] Bernanke, B (2014), "A Conversation: The Fed Yesterday, Today and Tomorrow", The Brookings Institution, 16 January.

be unlucky, as the call coincided with the start of the euro area sovereign debt crisis.

Interactions between price stability and financial stability remain central in the policy debate, along with the use of monetary versus macroprudential instruments. A novel issue that may deserve a more elaborated Fund's view relates to the use of macroprudential policy in a downturn: while so far the advice has focused on using macroprudential policy to build up buffers as a counterweight to potential risks from an accommodative monetary stance, it is important to adopt a symmetric approach that allows an easing of macroprudential policy as appropriate, including in the presence of a downturn or a less expansionary monetary stance.

Policy trade-offs can pose distinctive challenges to the consistency of the Fund's advice, as in the examples of Canada and Sweden on whether to use monetary policy to "lean against the wind".

Finally, we fully share the Evaluation's analysis of the role of institutional issues in shaping the quality of the Fund's advice and welcome the recommendation to draw lessons from this evaluation for our bilateral surveillance efforts. HR policies and the budget should be fundamental complements to implement the Evaluation's recommendations and achieve the intended goals. In particular, we wonder whether the balance between fungibility and specialization of Fund staff has been excessively – and wilfully – tilted toward the former and needs to be reassessed. Staff's comments are welcome.

Mr. Geadah, Ms. Choueiri and Ms. Merhi submitted the following statement:

We thank the IEO for a well thought-out and timely report. We appreciate the attention to the timeliness, traction and evenhandedness of this advice, and the balanced focus on central banks that used UMP and those, mostly in emerging markets, that felt their effects. We welcome the report's finding that the IMF's response to UMP has been extensive and often remarkable despite the considerable uncertainty and limited previous experience on which to draw in formulating advice. Moreover, the Fund's policy assessment and advice was supported well by its multilateral surveillance, particularly the GFSR. The evaluation, however, identified some shortcomings in the Fund's engagement, often reflecting long-standing challenges that have limited the value-added and influence of Fund advice. The IEO report draws lessons that could be useful for the Fund's future work.

This includes, in particular, the Integrated Policy Framework, which plans to develop a more systematic assessment of policies by jointly considering monetary, exchange rate, macroprudential, and capital flow management policies. We welcome the Managing Director's statement and her broad support for the thrust of the IEO recommendations. We will address in what follows the evaluation's key findings and recommendations.

We support the first recommendation for the Fund to develop a small core group of top monetary experts at the IMF. It is important for the Fund to remain closely engaged in current central banking issues, such as how best to manage monetary policy normalization, the future use of UMP, whether UMP should be part of the regular monetary toolkit in the new post-GFC global environment, and whether the governance structure of central banks is adequate. The IEO indicates that the attention paid to monetary policy issues over the past decade does not seem to have been commensurate with its importance to the Fund's mandate. What, in the IEO's opinion, were the reasons that prevented the Fund from further hiring to bolster its monetary policy expertise? We agree that the Fund should consider how best to use its resources. We welcome the MD's indication that the Monetary and Capital Market Department is already establishing a new unit on monetary policy modelling, overseen by a Deputy Director with deep monetary policy expertise. We fully support her intention to better leverage and enhance existing expertise and look forward to specific proposals in the context of the Comprehensive Surveillance Review, HR Strategy, and budget discussions. We note, however, the Fund cannot have the best expertise in an expanding list of mandates without an increase in resources. We are open to an increase in resources to support building expertise in monetary policy, which is at the center of the Fund's core mandate.

We support the second recommendation to deepen work on the costs and benefits of UMP and related polices, to develop a playbook on policy response for use in future downturns. We welcome in this regard the specifics steps that were suggested by the IEO and look forward to opportunities to discuss their prioritization relative to other mandates and inclusion in the work program. However, we would suggest that the Fund look into the possible use of UMP more generally, and not just in downturns, especially in light of the report's observation that UMP may have become part of central bank toolkits. We agree with the IEO that the Fund deserves credit for the extensive effort on compiling a database on the use of macroprudential policies to manage housing sector risks, on the detailed operational guidance provided to country teams on appropriate policies, and on the analytic work on the effectiveness of these policies. We would look forward to analyses on the distributional impact of UMPs given the importance of political and public support for public policies. Does the IEO consider that the costs associated with the UMP may have been downplayed?

We agree with the IEO's third recommendation that the Fund should remain at the forefront of financial spillover analysis and provision of advice on dealing with capital flows. Spillovers from UMP have raised challenges for international policy cooperation. Large and volatile capital flows into and out of many EMs created difficult policy choices, prompting heavy foreign exchange interventions and the use of macroprudential policies (MPPs) and capital flow management measures. The development of the Institutional View (IV) on Capital Flows was a welcome step although broad concerns remain that the IV was applied too rigidly by the Fund, with insufficient flexibility to respond to country circumstances. In this connection, we look forward to further analysis in the IEO review on the IMF advice on capital flows. We also look forward to input from the Comprehensive Surveillance Review on approaches to better identify and mitigate spillovers, as well as ways to strengthen Fund surveillance.

We concur with recommendation 4 to draw on lessons from this evaluation and deepen and enrich country engagement in bilateral surveillance. We see merit in longer tenure of mission chiefs and less turnover among country teams to build deeper relationships and increase the potential for the Fund to serve as a trusted advisor. This will help address the concern that officials did not first turn to IMF advice when looking or external advice on monetary policy issues, but rather to counterparts at other central banks and to experts at the BIS with whom they had regular contact in committee and working group meetings. These issues should be addressed in a comprehensive manner, including in the context of the Comprehensive Surveillance Review (CSR), HR Strategy, and Comprehensive Compensation and Benefits Review. The CSR could usefully also consider evenhandedness of Fund advice. The evaluation finds that the Fund was in general deferential to the central bank's majority view, sometimes leading to inconsistencies in advice across countries, as we can see in the experience with advanced economies (supplements 1 and 2). Moreover, interviews pointed to a perception of a lack of evenhandedness in Fund policy advice to EMEs, as it was ready to support central banks in AEs to do whatever was needed to heal their own economies, while being hesitant to recognize political constraints and to support unorthodox measures by EMs to deal with the spillovers of UMP in AEs.

Mr. Villar, Mr. Guerra, Ms. Arevalo Arroyo and Mr. Montero submitted the following statement:

We commend the IEO for a very thorough and enlightening evaluation of one of IMF's core surveillance functions; namely, monetary policy analysis. In our opinion, it provides a comprehensive overview of the strengths and shortcomings that characterized the IMF's response to the deployment of unconventional monetary policies (UMP) by many central banks across the world, as well as the policy reaction of emerging markets to swings in global liquidity and capital flows generated by those policies. The report offers a useful basis to further strengthen the timeliness and value added of Fund's advice on monetary policy. We share its view that the Fund has come a long way since the global financial crisis in enhancing monetary policy surveillance which, in the case of UMP, has been extensive and often remarkable. However, we also note the shortcomings mentioned by the report and we highlight that "while discussions with Fund staff are appreciated as a useful dialogue with well-informed interlocutors, country officials typically turn elsewhere when looking for expert monetary policy advice (p. vi)." This makes it extremely important to work towards strengthening Fund's engagement with country authorities.

We welcome the Managing Director's statement on the IEO's report and we concur with the MD that changes in the Fund's monetary policy framework would need to be coordinated with other workstreams, such as the CSR and the new HR strategy. Likewise, it will be crucial to embed the proposed changes within the work of the Integrated Policy Framework. All these items will contribute to shaping Fund's surveillance over the medium term.

Recommendation 1. Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed.

This recommendation is particularly important, because monetary policy issues are bound to remain salient going forward. In the short term, many countries—several systemic—could benefit from Fund's advice on how to exit from UMP in an orderly fashion, while EMs would profit from advice on how to deal with spillovers from that exit. Moreover, central banks need to prepare for the future by looking afresh at their targets and their tools, as they strive to preserve their independence. Relatedly, in the medium term, when the next downturn comes about, there are doubts about monetary policy space when and if interest rates remain at low levels. And in the longer run, the use of UMP raises several questions about governance and accountability in central banking, as rightly emphasized by IEO.

We take note of the fact that MCM is already setting up a new unit on monetary policy modelling overseen by a Deputy Director with deep monetary policy expertise. However, we believe that this new unit should build up expertise way beyond monetary modelling. We attach a great importance to this issue to prevent falling behind the curve on frontier central bank issues, avoid inconsistencies in advice across countries and gain a role of powerhouse in monetary policy intelligence. Beyond the specific role of this new unit, we consider that collaboration with major central banks and with other institutions, like the BIS, will be critical to build consensus and consolidate knowledge around these issues.

Recommendation 2. Deepen work on the costs and benefits of UMP and related policies, to develop a playbook on policy responses for use in future downturns.

In the current landscape, where central banks continue to be at the center of policy action, we concur on the need to keep abreast on the analysis of the pros and cons of UMP. A specific area where we see merit in strengthening Fund's work is on the ongoing debate about the risks and side effects of UMP, particularly on financial stability. Arguably, the major effect of UMP is to ease financing conditions and encourage risk-taking. Although we share the view that MPPs are the first line of defense against financial risks, including those arising from UMP, we believe it is worthwhile to dig deeper into the design of optimal monetary policy when financial stability matters are considered. Thus, we support updating the 2015 Policy Paper on "Monetary Policy and Financial Stability" and further work to shed light on the effectiveness of macroprudential policies.

For the playbook to be an effective policy guidance in the short and medium-term, it should have enough flexibility and be continuously revamped to keep it relevant. We welcome the development of a playbook of policy responses as it could be of the essence for future downturns. Nevertheless, it should be flexible enough and be continuously updated to keep it effective and relevant for the different circumstances of the membership.

Additionally, more attention should be given to distributional effects from UMP that could exacerbate inequality, particularly of wealth. These asymmetrical distributional effects are not only important per se, but also for their political economy implications—possibly affecting negatively future public support for these policies and central banks' independence—that must be accounted for in IMF's advice.

Recommendation 3. Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.

The Fund has responded rapidly and forcefully to the challenge of assessing spillovers from UMP and of providing advice on how to deal with them over the last decade—as attested by the deployment of Spillover Reports, the IV on Capital Flows, the 2012 ISD, and the FCL. We welcome the analysis presented by the IEO on reinforcing the global financial safety net. The successful introduction of the precautionary arrangements, both PLL and FCL, was a milestone in the role of the IMF for supporting emerging market economies with a new toolkit after the GFC. Looking forward, we agree that the challenges facing many emerging market economies in dealing with capital flows are of a persistent nature, so the Fund must ensure to remain at the forefront of financial spillover work, an issue which will feature prominently in the 2020 CSR as well as in the Integrated Policy Framework currently in progress.

Regarding capital flows, the IV on Capital Flows has provided a framework to assess the adequacy of CFMs but its effectiveness should continue to be analyzed. In particular, CFMs should not replace the required macroeconomic adjustment when needed, as stated in the framework. We look forward to the forthcoming IEO evaluation of IMF's advice on CFMs, which could offer useful lessons to improve this area of analysis. In this regard, the analysis of CFMs should also consider the unintended consequences for third parties and ensure a fair burden-sharing among recipient countries. The analysis should include the effect that CFMs have on other emerging market economies that are indirectly affected by increased volatility in capital flows because of the widespread introduction of CFMs. This will also be key to underpin a broad-based support for multilateralism.

The analysis presented shows that there is still substantial work to be done to support countries affected by capital flows volatility because of UMP, particularly in emerging and developing economies. In this regard, we support the IEO's view that the ISD opened a channel to allow for a discussion of spillover concerns in Art. IV consultations. We take note from the report that there is the view of the Fund's willingness to help, but the question on how to turn technical analysis into effective guidance for policy implementation remains.

The Fund should take advantage as the best-placed international institution to provide policy advice and to foster cooperation to limit negative spillovers. The IMF, due to its broad membership and the continuous cross-country analysis is suited to provide valuable and constructive advice on dealing with capital flows to its member countries. While enhancing international cooperation and coordination is not an easy task, the Fund is uniquely placed to contribute in this regard.

Recommendation 4. Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

We share IEO's view that frequent turnover of mission chiefs and country teams is a cause for concern. High turnover, along with limited direct interaction outside the annual Art. IV cycle, hamper the development of deep understanding of country circumstances and building relationships relevant to providing value added and traction on Fund advice, in this case, on monetary policy issues. However, as acknowledged by IEO, this is not an exclusive problem of monetary policy surveillance, but of overall surveillance. Thus, we take positive note of IEO's suggestions on country teams' tenure and options for continuous engagement, which will usefully inform our position in the context of the 2020 CSR.

We acknowledge that the IMF has also contributed positively with specialized technical assistance on monetary policy advice. In this regard, we take positive note of the success stories related to highly specialized technical assistance. This modality could work as an intermediate step while broader expertise is developed to provide added value to central banks, in particular, during surveillance where IEO assesses that, currently, the Fund lacks a core of top, well-connected monetary policy experts to provide support to country teams. For instance, enhancing expertise to make advice more practical and operational, for example regarding market dynamics, could be a priority.

Mr. Inderbinen and Mr. Tola submitted the following statement:

We thank the Independent Evaluation Office for a timely evaluation and the comprehensive set of reports. Unconventional monetary policies (UMPs) played a central role in the policy response to the global financial crisis. UMPs helped to strengthen macroeconomic stability by restoring proper financial market functioning and providing further monetary accommodation when policy interest rates were getting close to their effective lower bounds.

The Fund has adapted its policy advice commendably. We appreciate the Fund's contribution to the debate on the role of macroprudential policies in mitigating financial vulnerabilities. The prolonged period of low interest rates has induced, at times, excessive financial risk-taking, and new forms of financial vulnerabilities have emerged. We support the view that macroprudential policies are the first line of defense to address these vulnerabilities, since monetary policy is too blunt a tool for this purpose. More generally, we look forward to gaining a deeper understanding of the ongoing work on an integrated policy framework.

We broadly support the thrust of the recommendations, some nuances notwithstanding. We agree with the Managing Director that the upcoming implementation plan should be well coordinated with other workstreams, in particular the Comprehensive Surveillance Review.

Recommendation 1

We support targeted efforts to improve the Fund's expertise on monetary policy issues, while being mindful of competing priorities. Monetary policy is a key element of the macroeconomic policy mix and as such, it lies at the core of the Fund's mandate. The key strength of the Fund lies in its broad membership and the cross-country focus of its work. The Fund can play a useful role for its members in spreading knowledge, sharing experience, and acting as a sounding board for members to test new ideas and policy options.

Recommendation 2

We would welcome an update of the 2013 Policy Paper on UMPs and the nexus between monetary policy and financial stability, to take stock of experience since then. We call on the staff to remain fully engaged in the monitoring of financial vulnerabilities through bilateral and multilateral surveillance. The Global Financial Stability Report has been a key conduit for the Fund to raise awareness about risks and vulnerabilities.

We have some reservations about the development of a "playbook" on policy responses for future downturns. It is important to have reasonable expectations about how much such a playbook could achieve considering the important role played by country-specific factors in determining which monetary policy options are available and which are ultimately implemented. As such, there is no one-size-fits-all approach to monetary policymaking. In this context, we were wondering if some of the work planned in this area would overlap to a significant extent with the ongoing work on the integrated policy framework. Staff's comments are welcome.

Recommendation 3

We fully support continued work on spillover analysis, including on the benefits and the costs of global capital flows. We do not feel that the Fund's work has lost momentum and impact. At the same time, we see merit in stronger efforts to better showcase spillover work, including through outreach to central banks and greater visibility during the biannual press conference on the World Economic Outlook.

The Integrated Surveillance Decision mandates the Fund to focus its advice on possible policy options for achieving domestic objectives, in line with central bank mandates, while minimizing possible adverse spillovers. Hence, it is not clear whether the proposed Code of Conduct would add much value to the existing practice. We would welcome comments on this.

Recommendation 4

We call on Fund staff to draw on the lessons from this evaluation to inform the work carried out under the Comprehensive Surveillance Review and other pertinent workstreams. We note that some issues identified in this evaluation are relevant beyond the realm of monetary policy, for instance the rapid turnover in country teams and frequent changes of mission chiefs. We agree that greater stability in mission staffing would help to strengthen the Fund's role as trusted advisor and its understanding of relevant country-specific circumstances more generally.

Mr. Ray, Ms. McKiernan, Mr. Ronicle, Ms. Vasishtha, Ms. Andreicut and Ms. Park submitted the joint following statement:

We thank the Independent Evaluation Office (IEO) for their comprehensive and well-balanced assessment of the IMF's Advice on unconventional monetary policies, and the Managing Director for her helpful statement.

Like the IEO, we think that the Fund played a valuable advocacy role in the debate on unconventional monetary policy in the post-crisis decade, with clear, consistent and largely appropriate advice, particularly through its multilateral surveillance. But we also agree that the Fund primarily fostered debate, rather than leading it – and think there is scope to strengthen the Fund's expertise and its capacity to conduct high quality surveillance on monetary policy issues. To that end, we support each of the four recommendations by the IEO. In addition, we are encouraged by the extent to which the IEO recommendations dovetail with ongoing or planned initiatives, most notably the Comprehensive Surveillance Review (CSR), the Integrated Policy Framework and HR Strategy. We would welcome further elaboration from management on why they feel able to offer only qualified support for Recommendations 1, 2 and 4.

Recommendation 1: Develop a small core group of top monetary policy experts at the IMF

We agree that the Fund should have frontier expertise on monetary policy, given that monetary policy is a core part of the IMF's surveillance mandate, and are encouraged that the IEO think this can be achieved with only limited additional resources. We think such a core group of monetary policy experts should focus primarily and initially on areas of Fund comparative advantage, namely: i) drawing lessons from cross-country experience, something we think recommendation 2 delivers, and; ii) analysing and providing advice on mitigating financial spillovers, consistent with recommendation 3.

This core group of experts should also act as a central resource to area departments, particularly to support bilateral surveillance. Frontier monetary policy issues, such as the level of equilibrium real interest rates, negative interest rates, exit from unconventional policy measures and balance sheet impacts, are central to assessing the conjuncture, outlook and appropriate policy stance in affected countries. Fund staff need to be well-versed in these issues to deliver effective surveillance. We think greater collaboration with member central banks and international institutions (such as the Bank for International Settlements) might be an effective way to leverage existing resources. This could include greater use of secondments to build Fund expertise.

Nevertheless, we remain to be convinced regarding how the Fund can develop genuine comparative advantage, with such limited resourcing, on frontier monetary policy issues, particularly in major advanced economies, given the extent of expertise in academia and central bank research departments and central banks' ability to integrate lessons from implementation into future policy design. Therefore, focused use of Fund resources will be key. Beyond the initial focus on the areas of value-added noted earlier, we also suggest assessing distributional consequences of unconventional monetary policy and the role of complementary policies (for instance, fiscal and macroprudential policies).

Does the IEO feel that the creation of a new dedicated unit in MCM addresses this recommendation?

Recommendation 2: Deepen work on the costs and benefits of unconventional monetary policies and related policies to develop a playbook on policy responses for use in future downturns

We support the idea of a playbook on policy responses; to us, this clearly plays to the Fund's comparative advantage in drawing on cross-country experience.

The development of a playbook could be informed by analysis on the costs and benefits of unconventional monetary policy, including an update to the 2013 and 2015 policy papers. This could serve members well, making the unconventional more conventional, particularly if it: covered the interplay and sequencing in the setting of multiple policy levers simultaneously (e.g., monetary, macroprudential and fiscal policies); discussed the relative trade-offs and complementarities between different policy combinations, and; recognised country heterogeneity, and particularly the importance of the transmission mechanism in a particular country for determining the effectiveness of different tools.

For us, such a playbook should not be a set of mechanical rules and prescriptive policy advice, but rather a helpful guide to which tools are likely to be more effective in which circumstances. It will be important to take into account country-, cycle- and shock-specific circumstances as well as the structure and size of the financial system and differences in institutional arrangements (including the central bank mandate and available policy instruments). In that spirit, staff should consider whether consistency of advice to the membership is always appropriate or whether there are circumstances where advice should differ.

Recommendation 3: Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.

To us, this is a clear area of Fund expertise and responsibility. And we note that the Fund’s work on an Integrated Policy Framework and the CSR are well-timed to help take this recommendation forward.

We welcome the focus on both the source and destination of financial spillovers. We also think that the Fund should look at the role played in spillovers by the global financial architecture more broadly, as, for example, in the section in the April 2019 GFSR covering the role of emerging market benchmarks in capital flow volatility. We also think there is further to go in understanding the effectiveness of macroprudential policy measures, particularly in interaction with other policy tools. In addition, it will be important to focus on macroprudential tools to rein in vulnerabilities outside of the banking sector, such as in market-based finance and the non-financial corporate sector, as highlighted in the April 2019 GFSR. Another aspect of spillover analysis that would be fruitful for the Fund to pursue is spillovers from EME policies, including CFMs and macroprudential measures. Such analyses should help underpin the Integrated Policy Framework and the advice to Fund members on mitigating the impact of spillovers.

We are yet to be convinced of the case for IMF work to develop a Code of Conduct under which major countries would agree to minimise spillovers. Given that most central bank mandates are primarily focused on domestic – or regional in case of regional central banks- objectives, we think spillover mitigation is the right place to focus in order to achieve the most traction.

We strongly support the further development of the IMF advice on capital flows. The Institutional View on Capital Flows was an important step forward. Nonetheless, we agree that further assessment of IMF advice on capital flows in the light of experience and changing circumstances is needed, and we look forward to updates on the evolving Integrated Policy Framework work in this regard.

We would be interested to hear more from management on how they intend to re-energise financial spillover analysis and would welcome further engagement on research and analytical plans in these areas.

Recommendation 4: Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance

We think the IEO's assessment is a valuable illustration of the important role that consistency and expertise in country teams can play in building traction.

We agree that these insights should be considered as part of the CSR's work on how to deepen country engagement and how country teams can most effectively serve the membership and deliver Fund policies. The finding that rapid turnover of country assignments impedes the development of deep relationships and hence traction was striking. We think this is particularly pertinent in the case of small states – an issue we think should be considered as part of the CSR.

The Fund must be able to continue to attract and incentivize high-quality, dedicated staff with the right skills and support a variety of career paths, both specialist and generalist. The Fund's monetary policy work is not the only area which is impacted by these staffing challenges – there are common elements with other recent board discussions. We think tackling these issues is of the utmost importance, and we look forward to good discussions around the forthcoming Management Implementation Plan on the IEO Report on Financial Surveillance. Nevertheless, given these issues cut across so many aspects of the Fund's work, we think deeper and more formal Board engagement with the HR Strategy would be the most effective way to tackle these issues comprehensively; management thoughts would be welcome.

Ms. Mannathoko and Mr. Tivane submitted the following statement:

We commend IEO for this essential and timely evaluation, as well as for the helpful meeting with our office. This evaluation provides an important assessment of how advanced economies' policy responses in the wake of the global financial crisis have played out in the global economy, and the role of the Fund's advice in this process. Considering the limited past experience with unconventional monetary policies (UMP), we commend the IMF's policy engagement on the issue, which the evaluation describes as wide-ranging and, in many respects, impressive. Nevertheless, IEO also found that various shortcomings limited the value added and influence of Fund advice; and these need to be addressed. We therefore support the IEO's recommendations which we believe will help to fill the identified gaps. We would, however, also like to offer the following remarks:

Evaluating monetary policy is important at this time

The evaluation establishes that the Fund needs to deepen its expertise in monetary policy issues. The post GFC use of UMP and the need for a low risk, low spillover normalization strategy, alongside the possibility of a repeat of UMP in the future, and the growing role of financial technologies in the global financial architecture, all highlight the importance of strengthening IMF's ability to stay ahead of developments in this core policy area. As noted in the evaluation, while the advice provided by the Fund to AEs and EMs was viewed as broadly helpful, more in-depth country and operational knowledge would have improved the Fund's advice on the design and implementation of UMP or on responses to its impacts. Even apart from current UMP challenges, new technological changes that affect financial markets and institutions could also have significant effects on monetary policy implementation and transmission in the future, requiring the right expertise to help keep policy advice ahead of developments. Apart from new channels that may develop for risk transmission, a possible proliferation of channels for cross border flows could have implications for containing the volatility of capital flows and exchange rates.

The relevance of the evaluation for developing countries

It is important to note that LIDCs such as sub-Saharan African (SSA) countries will face negative spillover effects from interest rate normalization in AEs. The April 2017 WEO's Chapter 2 analysis, for example showed that low- and middle-income developing countries, excluding EMEs and others in G20, are in fact significantly impacted by external financial conditions (defined in terms of capital flows). In fact, the WEO analysis suggested that the impact from external financial conditions is more significant in these smaller developing economies, than impacts from shifts in commodity terms of trade and external demand.2 However, in recent debates on the issue, less attention is being given to the impact of external financial conditions on low income and small middle-income countries. Since the GFC, these smaller developing countries have been very active in debt markets and are equally susceptible to adverse global financial cycles. SSA, while a small player globally, nevertheless has strong financial linkages to AEs due to strong direct trade links, recent progress in financial development, the increase in gross

[2] See World Economic Outlook (April, 2017) page 105, Annex Table 2.3.2, in column (2) where all large emerging market and developing economies (that is, those in the sample that are members of the G20 — Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey) are excluded from the estimation – as explained on page 104. The non-G20 countries in the LIDC sample includes most countries in the Africa Group I constituency alongside other LIDCs (Page 101, table 2.1.2).

national debt over the past decade, and exchange rate pressures seen due to dollar appreciation. The recently initiated IEO evaluation on financial spillovers and capital flows cited in recommendation 3 is therefore important to us and we are encouraged that its coverage includes impacts on LICs and small MICs.

We appreciate the emerging market analysis in the evaluation, and that overall in the case of South Africa, the IMF was seen as a trusted advisor providing ex-post validation of policy decisions as the country faced a challenging external environment. In addition, the authorities saw the GFSR and WEO providing them with valuable multilateral analysis, including very useful cross-country information on policies implemented by other EMs. These multilateral products are also valued by other countries in our constituency.

IEO Recommendations

Recommendation 1 – develop a small core group of top monetary policy experts at the IMF: Given the need to get ahead of issues, we support this recommendation as well as the steps laid out in the report to support its implementation. While we welcome the initiative already underway at the Fund, including the establishment of a new monetary policy modelling unit as noted in the MD’s statement, we also see this proposal facilitating the design of effective solutions. An expert group can help in enhancing the understanding of UMP transmission paths and the provision of adequate advice, in addition to mapping a path out of UMP that will minimize risks for the full membership. Furthermore, we note that as fintech expands and entrenches itself in the global monetary system, it will begin to affect monetary policy and so it will be important to have onboard expertise that is abreast of this and other emerging monetary policy issues. It is important that the core group includes expertise knowledgeable in monetary regimes and frameworks of LDCs and resource rich developing countries; to ensure that future advice to these countries is able to accommodate their development context and the monetary policy issues peculiar to low income and developing countries as they too respond to changes in external financial conditions and the global monetary system.

Recommendation 2 –Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns: We see merit in this recommendation given the lack of a unified body of approaches to assess the macroeconomic impact of UMPs and the importance of consistent advice across the membership. Our main concern is that the specific steps cited do not accommodate impacts on LIDCs. We hope a way can be found to consider these impacts in the "learning from cross-country experience" proposal. IEO staff views are welcome.

Recommendation 3 –Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows: We support this recommendation. While we appreciate the Fund's agile response in upgrading its analysis of cross-border spillovers with new products and techniques to help improve the relevance and timeliness of its policy advice on UMP spillovers to member countries, proactive steps will still be needed to keep the Fund up to speed on policy challenges arising from financial spillovers. Enhanced spillover analysis will complement the Fund's comparative advantage in multilateral surveillance, as countries strive to manage volatile capital flows. With regards LIDCs, we are hopeful that the recently initiated IEO evaluation on this issue will encourage attention on financial spillover effects pertinent to these smaller economies.

Recommendation 4 –Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance: We agree that the Fund should draw on lessons from this evaluation to improve engagement and the traction of the Fund's advice on monetary policy issues. We note the recurring concern regarding the high turnover of mission chiefs and country teams across different country income levels, and its impact on the quality of policy advice. Is there information on how IMF performed on country and policy expertise in the pre-GFC / pre-downsizing era? IEO staff views on what could be done to enable the development of in-house expertise and the recognition of policy and country expertise, would also be appreciated. We also hope this evaluation will inform the Comprehensive Surveillance Review that is underway, however, like the MD, we believe the analysis needs to consider Fund engagement with the entirety of its membership in order to deepen the Fund's engagement with all country authorities and improve policy analysis for all members.

Conclusion

In closing, we wish to emphasize the value that the advance policy planning implied in this evaluation's recommendations would bring; given the important role that IMF advice plays in helping members to achieve non-disruptive policy transitions and to limit repeated shocks and negative spillovers to smaller economies. We also note from the MD's response that the proposed measures are likely to have significant resource implications. We share concerns that implementation will divert much needed resources away from other core activities. Staff comments are welcome.

Ms. Mahasandana, Mr. Tan, Mr. Anwar and Mr. Srisongkram submitted the following statement:

We thank the IEO for the comprehensive set of reports and outreach to our office. We also thank the Managing Director for her buff statement, and her positive response to IEO recommendations.

We welcome the IEO's critical and candid assessment of the evolution of the Fund's views on UMPs and the associated policy advice to AE and EM economies throughout the years. The report captures well the limitations of the Fund's advice, the challenges faced by emerging markets in dealing with spillovers, and a host of institutional issues that need to be addressed to improve traction of Fund advice going forward. Evidently, the assessment yielded valuable lessons to improve not only the Fund's advice on UMPs but also the Fund's engagement on monetary policy issues in general. We broadly concur with the IEO's recommendations and offer the following comments

Recommendation 1: Build a small core group of top monetary policy experts at the IMF

We agree that the Fund must strive to strengthen its expertise in monetary policy. It is concerning that the Fund is lacking the necessary expertise in this area given that monetary policy is a core part of the surveillance mandate and can have substantial implications on the global economy and financial markets. A core group of monetary policy experts at the Fund that also includes former high-level central bankers with policymaking experiences can be an effective central resource for the area departments. Practical insights are key for country teams to have meaningful discussions with the authorities on the trade-offs between different policy options as envisioned in the CSR and IPF. We also note that the new monetary policy modelling unit within the MCM will augment the Fund's monetary analysis. However, it cannot substitute the hands-on policy decision making experience of central bankers themselves.

This expertise must be developed alongside a deeper understanding of country circumstances. This is critical to provide practical policy advice and avoid falling into the 'one-size-fits-all' approach. The Fund's work on monetary policy should be supported by strong collaboration with local monetary authorities who are more adept with country-specific and regional monetary policy issues. The core group of monetary policy experts will also benefit from diversity in terms of regional representation.

Recommendation 2: Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy response for use in future downturns

We see merit in having a ‘playbook’ of different policy options (i.e. ‘game plans’). It is difficult to pinpoint how or when the next crisis will occur, and thus it is necessary for the Fund to remain flexible and agile while guided by its mandate and principles. This means that the Fund must be mindful of the difficult trade-offs faced by the authorities and be open to consider different policy options including those that may be outside established norms. We encourage the Fund to optimize its unique comparative advantage in drawing upon cross-country experiences across its broad membership to offer meaningful advice to members on possible policy options in the face of uncertainties.

The ‘playbook’ should not amount to off-the-shelf policy prescriptions. The Fund’s institutional view on capital flows (IV) provided important lessons in this regard. While this IV marked an important step for the Fund to open up to the use of less conventional measures such as capital flow management measures, its rigid application did not expand the authorities’ toolkit as intended and may have even limited them in some instance. In this light, the ‘playbook’ could be principle-based, providing a broader guidance rather than a flow-chart decision making process. Alternatively, the playbook could be a collection of country experiences to offer authorities a useful reference of what has worked and what has not under the different circumstances. We invite the IEO to elaborate more on their vision of this playbook and how it could be applied.

Recommendation 3: Make sure the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows

We fully agree that the Fund should be at the forefront when it comes to spillover analysis. This is clearly an area that the Fund should have expertise in given its mandate, universal membership, and breadth of cross-country experiences to draw from. We welcome the renewed focused on spillovers across many workstreams, including the integrated policy framework which we especially look forward to.

We view that the assessment of policy spillovers would be more impactful in the context of bilateral surveillance and should be consistently embedded in the Fund’s policy advice. While we do not foresee a return of the Spillover Report, its shortcomings yielded important lessons to improve the relevance and traction of the Fund’s spillover work in the future. Going forward, we believe such spillover analysis will need to extend to non-monetary policies such as trade as well.

It is still unclear whether a ‘Code of Conduct’ will be an effective means to minimize policy spillovers from systemic countries. In principle, we agree with the IEO that the Fund could consider developing a Code of Conduct given its mandate to preserve stability of the international monetary system. That said, we recognize the authorities’ inherent need to recognize and prioritize domestic objectives when weighing policy trade-offs. In addition, its usefulness in practice will depend largely on the countries’ capability (e.g. political economy, capacity constraints) to adhere to such a framework. Does the IEO think such code would be able to gain enough traction with authorities in practice? What are management’s thought on this suggestion?

Providing advice to countries on how to handle volatile capital flows is vital to international macroeconomic and financial stability. We share the IEO’s view that the Fund needs to reassess its policy framework on capital flows in light of experience and changing circumstances. A key challenge is to ensure that Fund policy advice has helped countries harness the benefits of capital flows while also mitigating the risks. An in-depth evaluation is warranted including that the use of CFMs as preventive policy tools to manage unintended consequences of capital flows. We look forward to the recently initiated IEO evaluation on this topic and how the findings would feed into staff’s work on the integrated policy framework.

Recommendation 4: Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

Close and continuous engagement with country authorities is vital to building policy traction. As highlighted in the report, frequent turnover of country team members hampers the opportunity to deepen country understanding and the building trust as well as close-knit relationship with the authorities, which are particularly important for the Fund’s role as a ‘trusted advisor’ not only to small states but all member countries. In addition to the longer tenures of mission chiefs and team members, we view that an effective handover process would also be critical to transfer country’s knowledge and lessen the authority's burden to explain background information when the team inevitably changes. Could IEO provide some possible insights on how the current handover process could be improved?

As with the recent IEO review of financial surveillance, the Fund need to consider ways to incentivize Fund staff to develop expertise in specialized areas and to gain real-life experience in policy formulation. Programs to facilitate staff to work outside the Fund such as secondment programs could be an effective way for Fund economists to gain better country perspective and practical experience but would require the right incentive structure to balance against short-term opportunities at the Fund. In general, we find that these HR issues are present across many aspects of the Fund's work and addressing them would require revisiting promotion criteria and viability of specialist career paths, which are just some of the many issues that need to be discussed in the context of the HR strategy.

The Fund needs to rethink how it positions itself when engaging with the authorities. We encourage the Fund to learn from other IFIs' experiences such as the BIS in being among the first port of call of the Capitals for monetary policy as well as banking supervisory advice. We also urge the Fund to seek feedback on its current engagement approach from authorities as inputs to strengthen the engagement strategy going forward. It is important for the Fund to maintain an open, flexible, and responsive two-way communication with the authorities, while at the same time preserving its role as a trusted advisor to its members. The Fund must continue to consider ways to de-stigmatize some of the authorities' view that the Fund's surveillance activities are aimed at reviewing countries' policies and publicly communicating the staff view, which may often differ from the authorities' view and have a counter-productive impact on the authorities' credibility. In this regard, developing a more collaborative and constructive engagement with the authorities would be fruitful. We also think that more should be done to increase understanding among departments within the IMF that they must be more sympathetic to 'conditions on the ground' and give due considerations to the local perspectives gained by country teams from their close engagement with authorities during missions and staff visits.

Mr. Lopetegui, Mr. Di Tata, Mr. Morales and Ms. Moreno submitted the following statement:

We thank IEO staff for the comprehensive evaluation on the Fund's advice on Unconventional Monetary Policies and the Managing Director for her helpful statement.

We are in broad agreement with the findings from the evaluation and its recommendations. The Fund's response to Unconventional Monetary Policies (UMP) was wide-ranging and helped advance the policy agenda in many areas. At the same time, however, the Fund's engagement on UMP shows several shortcomings, some of which reflect long-standing weaknesses that have limited the value added of Fund advice. These shortcomings are of particular concern in this case, considering that monetary policy is a core area of the Fund's mandate, as noted in the Managing Director's statement.

Comments on the Evaluation

We concur with the IEO that the Fund provided early support and validation to the major-economy central banks and encouraged a more aggressive policy stance in others that were moving more slowly. In this regard, the advocacy role of the Fund in supporting UMP was important but played a limited role in providing cutting-edge and innovative advice. As a result, most central banks relied primarily on their own expertise or on that of their counterparts at other central banks and the BIS.

The main contribution of the Fund's work, and by no means a minor achievement, was its role in monitoring potential financial stability risks and helping to develop a new macroprudential policy toolkit to address those risks, as well as in designing the new Institutional View on managing capital flows, which was approved in 2012. The Fund's view that macroprudential policies are preferable to monetary policy in managing financial risks, including those arising from UMP, was widely shared by central banks. Moreover, as noted in the evaluation, Fund staff has made considerable efforts to provide advice on the proper use of macroprudential policies, including by developing a database and carrying out cross-country studies on their effectiveness.

Regarding the advice to major advanced economies, for the most part the Fund played a supportive role in the case of the United States and the United Kingdom, generally endorsing central bank decisions. Overall, neither the Fed nor the BoE feel that Fund advice introduced novel ideas. In the case of the Euro Area and Japan, however, the Fund adopted a more active role and pushed for more aggressive monetary easing to support recoveries or counter low inflation, with bilateral advice being regarded as particularly influential at the ECB. Moreover, in retrospect, Fund advice on the appropriate policy mix, especially its support for shifting to fiscal consolidation in 2010, could have given greater weight to the trade-offs involved, as a more rapid fiscal consolidation was expected to place an extra burden on monetary policy to support the recovery and implied larger adverse cross-border spillovers.

The role of the Fund in providing advice to smaller advanced economics varied considerably depending on the country. Overall, Article IV consultations had little influence on policy decisions, but analysis and support of adopted actions provided helpful validation. Based on the IEO report, the Fund's role was particularly limited in the case of Denmark. Fund staff had a more intense engagement with the Swiss authorities on the use of the exchange rate floor and supported the exchange rate floor adopted by the Czech National Bank. Fund advice appears to have been inconsistent in some cases, supporting Sweden's Riksbank when it was "leaning against the wind" and Canada when it decided against leaning. The report also notes that the Fund was not proactive in extending the toolkit for the smaller advanced economies and was quite slow in publishing reviews about experiences with the new instruments.

Regarding the advice provided to emerging market economies, the report notes that country officials felt that Fund staff had been more comfortable with high-level conversations than with operational guidance or in-depth discussions on specific issues. The authorities also felt that they would have benefitted from deeper discussions on global developments and cross-country experiences. The development of the IV on capital flows was welcome, as well as the Fund's work on MPPs. The application of the IV, however, generated varying reactions, although divergent views could be expected given the differences in country circumstances.

Overall, the report conveys a general sense that country teams were too deferential to the views of central bank officials, particularly in advanced economies (with some notable exceptions), possibly because of insufficient expertise or knowledge to challenge their views. Article IV consultations are valued as a check on policies, but it is regretful that in most cases they fail to provide an in-depth discussion of monetary policy issues. In this connection, we tend to agree with the IEO that in general terms the Fund is not regarded as a source of cutting-edge monetary expertise and ideas. This seems to contrast with the well-regarded role of the Fund in providing advice on fiscal issues. Moreover, some authorities in emerging market economies have expressed reservations as to whether Fund staff provided enough guidance on the use of capital flow management measures to respond to challenging circumstances.

Regarding the Fund's role in international policy cooperation, it is difficult to visualize what else could have been done. In general terms, the Fund has made commendable efforts to fulfill its mandate, with mixed success. In the context of the G-20, it contributed significantly to mobilizing an initial coordinated fiscal stimulus alongside UMP in response to the global crisis. It also provided technical support when the Mutual Assessment Process (MAP) was created and called attention to spillovers. However, the MAP has had limited traction and “source” countries have only partially internalized the external stability consequences of their domestic policies in their policy decisions. The influence of spillover work appears to have been limited, with Spillover Reports failing to fully address concerns about financial rather than trade spillover channels.

IEO Recommendations

As noted earlier, we are in broad agreement with the four recommendations of the IEO, including the need to:

Develop a small core group of top monetary experts. We believe that the costs associated with this initiative are small and that such group could make a significant difference by contributing to cutting-edge discussions in the central banking community and providing deeper advice to country teams on monetary matters. On a related matter, essential to ensure that monetary expertise feeds into bilateral surveillance, could staff comment on MCM’s review work on monetary policy issues in policy notes for Article IV consultations (percent of policy notes reviewed, breakdown by country type, among others)?

Deepen work on the costs and benefits of UMP and related policies. We agree that more work is needed on assessing the costs and benefits of UMP. Updating the 2013 Policy Paper on UMP and the 2015 Policy Paper on Monetary Policy and Financial Stability would be useful first steps. Work on the analysis of developments in the housing sector, which is valued by country authorities, should be maintained.

Make sure that the Fund is at the forefront of financial spillover analysis and the provision of advice on dealing with capital flows. We fully agree with the Managing Director’s view that the Fund should continue its efforts to remain at the forefront of financial spillover analysis and related policy responses. The WEO and GFSR should continue to be the main vehicles for discussion of these issues. We look forward to the IEO evaluation on capital flow management measures and IMF advice. We are a bit skeptical of the effectiveness of a possible Code of Conduct for policymaking by major countries.

Drawing on lessons from the evaluation to deepen and enrich country engagement in bilateral surveillance. We have supported the goal of ensuring longer tenure of mission chiefs and less turnover of staff in country teams to enhance surveillance and the role of the IMF as a trusted advisor. We should also highlight the absence of progress in this area, a matter which deserves attention in the design and implementation of the HR strategy. More continuous country engagement would also be desirable.

Mr. Jin, Mr. Sun, Ms. Cai and Ms. Lok submitted the following statement:

Since the global financial crisis (GFC), unconventional monetary policies (UMP) have played an important role in supporting the recovery of the global economy, although the effects of UMP have arguably diminished over time. At the same time, the associated spillover effects on emerging markets (EMs) have complicated policy making for EMs and raised challenges more broadly for international policy cooperation. We welcome the thorough assessment by the Independent Evaluation Office (IEO) on the Fund's responses on UMP, which highlighted the Fund's key contributions to the global policy debate while also revealing potential room for improvement. The evaluation has come at a timely juncture and offers useful recommendations for strengthening the Fund's advice on UMP against a background of increased downside risks going forward, stemming from trade tensions, policy uncertainty, and geopolitical risks. We take positive note that the Managing Director is broadly supportive of the general thrust of the IEO's recommendations, and encourage the Fund to take these recommendations into careful consideration as it continues to adapt its operations to new and emerging circumstances.

Advice to advanced economies

The Fund had been quick to develop a "corporate view" and offer its support for UMP in major advanced economies (MAEs). In some cases, the Fund even played a considerable role during the debate on the need for monetary stimulus, and there have been instances where the Fund was even more aggressive than the authorities on monetary policy easing. Is there a risk of systematic bias towards using monetary easing to support economic recovery and are there mechanisms in place to recognize and rectify this bias, if any? Overall, the Fund's support fostered broader public acceptance of the unorthodox policy initiatives and facilitated smooth policy implementation. We encourage the Fund to be as ready to recognize policy constraints faced by EMs and lend its support to EM policy decisions should a similar situation arise in the future.

We associate ourselves with the IEO that the Fund could have focused more on thinking through policy trade-offs between UMP and other polices. In our view, more attention should be paid to the implications of UMP for exchange rate depreciation in MAEs, particularly given that these economies are reserve currency issuers. Policy changes relating to policy rates and term premiums appear to have quite different effects on exchange rates. As UMP continue or begin to normalize in various MAEs, we encourage the Fund to conduct more research on the related implications for exchange rates and financial conditions, both within MAEs and also potential spillover impacts on other economies.

Another potential trade-off of UMP in advanced economies is the heightened risk of asset price bubbles associated with a low neutral rate environment, which in turn could give rise to financial vulnerabilities. We agree that macroprudential tools could be a useful tool to address these risks. Given the development and deployment of macroprudential tools is still relatively untested in some countries, we see an important role of the Fund in drawing from its breadth of knowledge of different country experiences and providing suitable policy advice to members based on their individual circumstances.

Advice to Ems

In response to spillovers from UMP in advanced economies, many EMs have implemented a host of different measures, including capital flow management measures (CFMs), FX intervention, exchange rate adjustments and macroprudential measures.

We agree with the IEO that the most harmful effects of spillovers from UMP may be through financial channels rather the trade account, for which the model is still underdeveloped. Analyses so far have also focused more on inward spillovers, rather than outward spillovers. Overall, we see the need for more analyses on, and consistent monitoring of, outward spillover effects of UMP in MAEs on EMs.

As for CFMs, while we appreciate the development and adoption of the Institutional View on managing capital flows (IV), which suggested a more sympathetic attitude at the Fund to the use of CFMs, broadly speaking, it seems that the Fund has been less open to the measures taken by EMs compared to AEs, even though some of measures proved to be effective in maintaining financial market and economy stability. Based on the experiences so far, we also see room for further improving the application of the IV in

Fund surveillance. In this regard, we welcome the IEO's suggestion of conducting further assessment of IMF advice on capital flows, and look forward to the related IEO evaluation that has been initiated.

Finally, the IEO has rightly pointed out that more in-depth discussions and greater focus on relevant cross-country experience could enhance the Fund's advice and dialogue with EMs. We believe authorities also would have benefitted from more detailed operational guidance from the Fund. For example, after the GFC, as advocated by the Fund, many EMs have launched stimulus plans to support global recovery. It would have been useful if the Fund had also provided detailed advice on the desirable magnitude and nature of stimulus for EMs. We also see merit in further discussion of cross-country experiences of EMs and encourage the Fund to stock-take relevant experiences and policy responses on a periodic basis.

IEO Recommendations

We are broadly supportive of the IEO's recommendations and look forward to the forthcoming implementation plan. That said, we would like to raise the following specific comments and questions in relation to the recommendations for consideration.

Recommendation 1. The IEO has found that authorities often turned to regional central bank networks and the BIS for expertise and advice on monetary policy related issues. At the same time, IEO has suggested the Fund to form a small core group of top monetary policy experts to ensure that the IMF can provide in-depth advice to members as needed. In IEO's view, what is the role of the Fund in relation to the BIS and regional central bank networks in the field, and what are the areas of the IMF's comparative advantage? Also, what mechanisms are needed to prevent potential duplication of efforts and/or conflicting advice that may potentially raise confusion in situations where urgent advice is needed? What are the selection criteria of the core expert group and how could the Fund ensure the group is sufficiently representative, especially for emerging countries?

Recommendation 2. We welcome the IEO's suggestions to update the 2013 policy paper on UMP and 2015 policy paper on "Monetary Policy and Financial Stability" to reflect latest developments. Besides regular internal reviews of monetary policy challenges faced across the membership, we would also welcome periodic briefings on cross-country experiences to the Board. Meanwhile, UMP were introduced under extraordinary circumstances, and members may be subject to different circumstances in the future. Thus, the “playbook” should be flexible enough to adapt to changing circumstances in the international and domestic monetary environment.

Recommendation 3. We support the IEO’s suggestion that the Fund should rebuild its focus and institutional expertise on financial spillover analysis, especially the impact on “receiving” countries. We encourage the central banks of major advanced countries to enhance cooperation to minimize adverse spillovers.

Recommendation 4. Longer tenure of mission chiefs and less turnover within country teams would be helpful to build deeper relationships and enhance the Fund’s country engagement in bilateral surveillance. Achieving this may require a change in the current incentive structure at the Fund. We believe this issue should be considered in the broader context of the Comprehensive Surveillance Review as well as the Comprehensive Compensation and Benefits Review. Equally important is effective communication between staff and authorities as well as staff’s understanding of the needs and national circumstances of member countries.

Finally, resources seem to be a common limiting factor for implementation of IEO recommendations. While we note IEO’s assessment in para.124, of the main report, that the resources needed for the proposed expert group are much less than that needed for upgrading the Fund’s financial surveillance, we encourage management to consider resources from a broader perspective for the Fund as a whole, taking into account IEO recommendations on all areas of the Fund operation.

Mr. Mozhin, Mr. Palei and Mr. Potapov submitted the following statement:

We thank the Independent Evaluation Office (IEO) staff for their report with background papers on the Fund’s advice on unconventional monetary policies (UMP). We welcome and support all the IEO recommendations as a valuable input to the upcoming Comprehensive Surveillance Review (CSR) and the current work on developing the Integrated Policy Framework (IPF).

Lack of Resources

According to the IEO report, the lack of resources devoted by the Fund to the core monetary policy issues has undermined the ability of the Fund to be a trusted advisor on UMP, weakened the quality of the Fund’s advice, and limited its role largely to subsequent support and validation of the authorities’ actions. This observation is very concerning to us, as it is very similar to the one reached in the recent IEO report on financial sector surveillance, also a core area of the Fund's expertise. We encourage management to address this issue in the upcoming Management Implementation Plan for this IEO evaluation, in the Board's working program, and in the budget process. Do the IEO staff have more specific views on the lack of resources devoted to monetary policy issues? Could this gap be addressed by further reallocations and prioritizations within the Monetary and Capital Markets Department (MCM) or additional resources might be needed?

Another important conclusion from reading the IEO report with background papers is that the rudimentary state of knowledge management in the Fund significantly hampered the quality of the analysis of UMP and interdepartmental coordination. One of the stark illustrations of these deficiencies was the Fund's failure to properly reflect on the debate in Sweden on the costs and benefits of "leaning against the wind". On the one hand, the IEO claimed that the Fund quickly came up with a "corporate view", which supposedly addressed the choice between the monetary policy and macroprudential policies in dealing with financial stability (paragraph 15, page 6 of the main report). On the other hand, even in 2014, staff continued to support the majority in the Riksbank, while basically dismissing the arguments of a vocal and influential minority. In this respect, we recall that the Board still had a lively discussion of the authorities' dilemma at the meeting in August 2014. Only in 2015 the Board received a staff paper devoted to comprehensive consideration of these issues and discussed it in an informal meeting. We believe that this episode deserves additional consideration in order to derive lessons for our surveillance and knowledge exchange progress.

Recommendation 1—Develop a small core group of top monetary policy experts at the IMF.

We concur with the IEO's findings that the Fund's response to novel policy measures from the central banks in advanced economies (AEs) has been broadly supportive. The Fund's advice was recognized by the authorities of these countries as a useful validation of and/or an important sounding board for UMP.

At the same time, the IEO staff highlighted that the Fund had not been seen "as a source of cutting-edge monetary expertise and ideas or as a first port of call for outside advice". The depth of the Fund's engagement varied significantly across the countries, and we agree that the Fund could have been more engaged and proactive in addressing specific challenges facing small advanced and emerging markets economies (EMEs). The Fund should have done more in analyzing the effectiveness of UMP, addressing spillovers from these programs, examining alternative approaches to the policy mixes, as well as in challenging the authorities' views in some countries in a more comprehensive way. The obvious examples include the delay of providing the Fund's analysis of potential role and effects from negative interest rates and the pro forma implementation of the Integrated Surveillance Decision's (ISD) requirement to assess the multilateral impacts of the policies in the major AEs.

We support the IEO proposal to create of a small core group or a network of top internal and external monetary policy experts for further strengthening the Fund's advice on monetary policy and addressing the shortcomings revealed in the IEO evaluation. We note the qualified support by the Managing Director for this proposal, pointing to the MCM's plans to establish a new unit on monetary policy modelling. Could the IEO staff elaborate on the key objectives and tasks of this unit and on how they are in line with recommendation 1 of the evaluation?

Recommendation 2—Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns.

The effectiveness of UMP is still subject of policy debates and empirical studies involving a set of complex issues. As the IEO pointed out, "more definitive views about the efficacy of UMP will only be possible some years down the road". Following a decade of UMP, the unwinding of these measures and the broader normalization of monetary policy in AEs has been challenging and, in many cases, postponed on the back of weaker growth, inflation, and persistent financial stability risks. The reliance on these programs narrows central banks' policy room for maneuver and poses risks of a deeper downturn in the next recession.

Supplement 1 and 2 of the report reflect many important insights and useful lessons that should be effectively accumulated and examined in order to further improve the Fund's advice on UMP, as well as on a broader policy mix to support demand management. It is notable that, while expressing public support for QE programs in the U.S., the Fund staff had active and sometimes controversial internal debates about the effectiveness of UMP and their "in essence fiscal" nature. The report also highlights several controversial lessons from the country studies, including the Fund's early support for the BoE's views on the effective lower bound at 0.5 percent without proper justification, the Fund's support for the ECB's decision to raise interest rates in 2011 and the lack of even internal discussions about the cost and merits of these measures, and the Fund's support for the Riksbank's majority in "leaning against the wind" despite important views against it that eventually appeared to be on a right side. Could staff elaborate on the role of Executive Board in these prominent cases? Was the Board appropriately informed about the presence of different internal views both within the Fund and among the countries' authorities?

Against this background, we support the IEO recommendation 2 to develop a playbook on policy responses for the use in future downturns. The Fund's breadth of expertise in global and cross-country work provides important comparative advantage. A comprehensive analysis of cross-country experience and lessons could support the assessment of the UMP impact on output, inflation, and inequality, as well as the exploration of possible different policy mixes. As a first step, we support the update of the 2013 policy paper on UMP and a follow up to the 2015 policy paper on "Monetary Policy and Financial Stability". Supplement 7 raises a set of additional frontier central banking issues on the monetary policy toolkit, monetary policy frameworks, and central bank governance that can be addressed in the playbook. In particular, we share the IEO concerns about political economy considerations associated with the expansion of central banks' balance sheets and their increased footprint in the economy, which may undermine the central banks' legitimacy and independence.

Recommendation 3—Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows

Over the recent years, the capital flow environment has been increasingly challenging for EMEs. One can claim that risks to global financial stability have also grown due to the prolonged use of UMP in AEs. Many authorities in EMEs have expressed concerns about the Fund's role in assessing the impact of these developments and the weak traction of the Fund's advice in large AEs to mitigate spillovers from their domestic policy decisions. With the substantial remaining gaps in the current GFSN and in the absence of any meaningful international coordination of monetary policies, most EMEs continue their search for the right balance between the benefits from capital flows, on the one hand, and financial stability risks tolerance, on the other hand.

At the same time, the IEO staff highlight some important initiatives in this area, including the Institutional View (IV), the ISD, and spillovers reports. Indeed, for the Fund, the IV was a torturous and controversial change of track away from the naive insistence on unconditional liberalization of capital flows largely embraced by the Fund over the previous two decades. In our view, the Fund's policy advice has been gradually evolving toward explicitly recognizing that a combination of policy responses is needed to tackle large capital flows, including exchange rate adjustment, reserve management, macroprudential measures (MPMs), and capital flows measures (CFMs). In this context, we look forward to the presentation on the current work on the IPF, which is intended to examine the complementarities among monetary policy, exchange rate policy, MPMs, and CFMs, particularly in the context of external shocks.

We support the IEO recommendation 3, in particular a renewed focus on analyzing the role of "source" countries in mitigating the destabilizing effects of capital flows' volatility and minimizing adverse spillovers from their domestic policies. It is encouraging that the IEO proposal to develop a Code of Conduct ("blue-sky thinking") for major countries coincides with the recent Eminent Persons Group's recommendation. At the same time, could the IEO staff elaborate on the feasibility of this proposal, taking into account the failure of the past endeavors and in the light of the diminishing effectiveness of the G-20?

Recommendation 4—Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

We support the IEO call to deepen country engagement in monetary policy issues under bilateral surveillance. The report highlighted a number of institutional issues that could hamper deeper relationship and a better understanding of country specifics, including the frequent turnover of mission chiefs and country teams. This issue should be addressed through the CSR, as well as in the HR Strategy. Could the IEO staff comment on how to improve compliance with handover guidelines? Can the ongoing work to improve the Fund's knowledge management help address this issue?

Mr. Doornbosch, Mr. Etkes and Mr. Hanson submitted the following statement:

We welcome this timely IEO evaluation and we thank the IEO for an interesting and comprehensive set of documents. Monetary policy entered unchartered territory during the global financial crisis when policy rates reached the zero lower bound and conventional instruments could not provide further easing. Unconventional measures were needed to support liquidity and preserve financial markets, with the aim to stabilize output and inflation. In such unchartered situations, the Fund is particularly well-placed to provide policy advice as a trusted advisor and rigorous truth-teller, to analyze spillovers and to provide guidance about policy complementarities and trade-offs. We agree with the IEO that the response of the IMF has been wide-ranging and -in many respects- impressive, extending beyond policy advice on the use of UMP to monitoring of financial stability and spillover risks, the build-up of expertise on macroprudential policies and a new Institutional View on managing capital flows.

Scope of the review

The review covers an impressive array of topics. The interviews with a large number of experts and authorities provide an interesting perspective. We note that the positive assessment of the Fund's advice on UMP is partly based on its perceived usefulness by authorities. The assessment of advice to major advanced economies for example mentions that officials saw Fund advice as "useful validation of their actions". We note that alignment with authorities' views may not always coincide with truth-telling. Determining the appropriateness of Fund advice would require an assessment of the effectiveness of UMP and of the Fund's "corporate view". We fully understand that this is beyond the scope of the evaluation. However, in a situation of unconventional policies in unchartered territory, continuous learning and evaluation is critical. In our view, the Funds internal evaluation processes should focus on the balance between necessity, effectiveness and unintended consequences of UMP. Does the IEO consider that the IMF has sufficient processes in place to evaluate its advice on UMP and scrutinize its corporate view?

Recommendations

We broadly support the IEO's analysis and recommendations and welcome the Managing Directors response that in our view provides the right direction going forward. We would like to offer the following remarks about the four recommendations.

Recommendation 1: Develop a small core group of top monetary policy experts at the IMF

We broadly agree with recommendation 1, to develop a small core of monetary experts who will be able to analyse new and far-from-text-book situations and provide policy advice on such situations. We think such a core group of monetary and fintech policy experts should focus on areas of Fund comparative advantage, namely: i) drawing lessons from cross-country experience, something we think recommendation 2 delivers; ii) analysing and providing advice on mitigating financial spill overs, consistent with recommendation 3; iii) assessing frontier monetary and financial policies affecting central banks as discussed in section VII.

This core group of experts should also act as a central resource to area departments and interact directly with members' authorities, when unusual topics such as UMP are discussed. Frontier monetary policy issues, such as negative interest rates, and exit from unconventional policy measures, are central to assessing the conjuncture, outlook and appropriate policy stance in a number of countries. Frontier issues like Fintech, including central bank digital currency, and correspondent banking relations require very specific expertise. We think greater collaboration with member central banks and international institutions (such as the Bank for International Settlements) might be an effective way to leverage existing resources.

Nevertheless, we are sceptical that the Fund can develop genuine comparative advantage on frontier monetary policy issues in major advanced economies, given the extent of expertise in academia and central bank research departments. In addition, we would caution against relying too much on publications in top journals and citations in literature surveys as criteria for this team of experts. The key goal should be to bring in experts that can provide high-quality monetary policy advice to the membership. We think any additional resources should be focused on the areas of value-added noted above.

Recommendation 2: Deepen work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns

We welcome the recommendation to deepen the work on the costs and benefits of UMP. We support the steps suggested by the IEO, including updates of the 2013 and 2015 policy papers. However, it is not fully clear to us what a playbook on policy responses would entail. We note that the optimal policy design of UMP-tools is state-contingent and depends amongst others on financial structures and legal and institutional frameworks, which differ across countries. We are therefore not in favor of a set of mechanical rules and prescriptive policy advice, as there is no one-size-fits-all policy description for the application of UMP.

Follow-up work should carefully balance the necessity, effectiveness and unintended consequences of UMP. We feel that Funds advise focused particularly on necessity of UMP and less so on their effectiveness and risks:

We have reservations about the “corporate view” that risks to financial stability can be managed solely through macroprudential policy. We agree that macroprudential policy should be the first line of defense to financial stability risks. At the same the macroprudential toolkit has for the moment a narrow scope and is relatively untested. Table 1.3 in the most recent GFSR for example shows that few macroprudential tools are available to address risks related to rising corporate debt funded by nonbank lenders, and more generally to contain vulnerabilities in the nonbank financial sector. Here, we see scope to improve consistency between the WEO, which recommends the deployment of macroprudential tools to address financial vulnerabilities, and the GFSR, which questions the ability of the macroprudential toolbox to address such vulnerabilities.

The effects of UMP on financial stability need to be carefully considered. UMP can increase the build-up of financial vulnerabilities through risk-taking in response to looser financial conditions and it can reduce incentives for balance-sheet repair. As macroprudential policies don’t get “in all the cracks”, UMP may have a net positive effect on financial vulnerabilities, affecting central bank targets over the medium term. Effective prudential policy therefore is a necessary but not sufficient condition for monetary policy to be effective. As the IEO notes, the IMF has been open to recalibrating its views on the relative roles of macroprudential and monetary policies in managing financial stability risks. We think the relative role of macroprudential policies and UMP deserves continued attention in further work on costs and benefits of UMP.

The interaction between UMP and productivity deserves further attention. Low rates and UMP may result in evergreening of existing loans to non-productive firms and may result in misallocation of resources towards less productive firms (e.g. Gopinath et al. 2017). If booms resulted in structural misallocation, UMP may hamper a needed supply-side adjustment. We therefore believe that further work on costs and benefits of UMP should consider the interaction between UMP and reallocation and productivity.

Recommendation 3: Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows

The Fund made considerable efforts to better understand risks related to increased and more volatile cross-border capital flows. Recent analytical innovations, such as the Growth at Risk methodology and the Capital Flows at Risk framework help better understand the risk of cross-border spillovers from UMP. The Fund also strengthened its expertise and guidance on macroprudential policies and capital flow measures. We think continued work is needed on the effectiveness and coverage of macroprudential policy, in particular their interaction with other policies and their coverage of the non-bank sector. We look forward to continuing the discussion on the optimal policy response to volatile capital flows as part of the integrated policy framework and to work on early identification and mitigation of spillover risks as part of the Comprehensive Surveillance Review.

We note that application of the “corporate view” may strengthen the source of financial spillovers. While central banks have domestic mandates, the IMF is well-placed to advise countries to conduct sound policies while minimizing spillover effects. The “corporate view” does not seem to place a strong weight on cross-border effects of UMP. A more balanced view on necessity, effectiveness and unintended consequences of UMP, as discussed under Recommendation 2, may help reduce the source of cross-border spillovers. Moreover, traction of IMF advice on spillovers could be strengthened by more explicitly highlighting the risks of negative spillbacks.

Recommendation 4: Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance

We think the IEO’s assessment is a valuable illustration of the important role that expertise and familiarity with local circumstances in country teams can play in building traction. Striking the right balance between policy advice informed by the most advanced knowledge of a specific topic and by deep understanding of local institutions and circumstances is one of the main challenges of the Fund’s surveillance. This challenge is intensified as the Fund widened its area of coverage to new emerging issues and as a result country teams’ expertise in each core topic is likely to be diluted.

We agree that these insights should be considered as part of the CSR’s work on how to deepen country engagement and how country teams can most effectively serve the membership and deliver Fund policies. We agree that the documented rapid turnover of country assignments could impede development of deep understanding of the country and render policy advice to be less adequate. This is particularly true regarding topics in which local institutions and specific circumstances affect the desired policies such as inclusive growth, labor markets, gender gaps, and governance/fighting corruption. We think high turnover is particularly pertinent in the case of small states – an issue we think should be considered as part of the CSR.

At the same time, we note that the high number of one-time missions is not necessarily the right metric for assessing the quality of engagement on a specialized topic like UMP. We believe that advice on UMP requires rather a timely and deep understanding of monetary theory and being able to apply it to unexpected situations. The fungible macro-economists in the country teams may be less equipped to provide policy advice on such unusual circumstances than a monetary expert. Therefore, a one-time mission of a monetary expert could be more valuable for advice on UMP than longer tenures in country teams with standard knowledge of monetary theory. In addition, consultation with HQ outside the surveillance cycle may have provided members with timely advice. Can the IEO provide indications on the share of monetary experts from MCM/RES out of staff from functional departments which appear in Figure 3-c (p.37). Was the participation of the monetary experts in missions timely for advising on changes in monetary policy? Can the IEO comment on informal consultations on UMP beyond the regular surveillance cycle?

Mr. Mojarrad and Mr. Sassanpour submitted the following statement:

We thank the Independent Evaluation Office (IEO) for its concise and frank assessment of the IMF Advice on Unconventional Monetary Policies (UMP) since the Great Financial Crisis (GFC). There is a clear recognition that the IMF engagement with members resorting to unconventional and unprecedented monetary policy tools following the outbreak of the GFC was timely, extensive and, for most parts, highly effective. The IMF's decade long pro-active engagement on UMP led to the establishment of new frameworks and toolkits to better assess and provide advice on financial sector vulnerabilities related to unorthodox policies, and to react to the exigencies of unpredictable global financial conditions. The IEO report also candidly highlights areas where the IMF could have been more persuasive and why its policy advice did not have the same traction across the membership. The resort to UMP was, for most parts, a second-best solution initiated by some central banks after reaching the lower bounds of traditional policy. While the IMF moved quickly to validate UMP, these unorthodox measures were mostly innovative and home-grown.

The IEO evaluation of UMP could not have been more timely, as major central banks are (or will be) unwinding the UMP measures and normalizing interest rates. There is a broad consensus that the monetary policy normalization will be a slow and data-dependent process, and that the policy rates will not be expected to climb much above the current lower boundaries in the medium term, as forecasts point to a slowing global economy, weighted down by the escalating global trade conflicts. In the circumstances, drawing on its experience with UMP over the past decade, the IMF is well equipped to meet the low growth, low inflation challenges of the next decade. The IMF's compendium of UMP is not exhaustive; the Fund should stay in front of the curve and think outside the box more frequently to match best policies with unique circumstances.

Like the MD and most other Directors, and in light of the IEO recommendations, we see the need to coordinate the work on UMP with other ongoing workstreams, particularly the Comprehensive Surveillance Review, Integrated Policy Framework, central bank governance, and HR strategy and budget.

We agree with the thrust of the IEO recommendations, with some nuances.

Recommendation 1. Develop a small core group of top monetary policy experts at the IMF to keep abreast of and contribute to cutting-edge discussions in the central banking community, support institutional learning, and provide in-depth advice to country teams as and when needed.

The MCM staff are probably the most talented across international institutions and there are few institutions, including the BIS, that could match their expertise and wide country experiences of IMF staff in monetary policy issues. We can however see the merit of pushing the IMF further toward the frontier of monetary policy knowledge and expertise, as recommended by the IEO. From the MD's statement, we note that a new unit on monetary policy modeling has been established in the MCM, overseen by a Deputy Director with extensive monetary policy expertise. We could leverage and build on the existing structure and staffing to create a state of art unit on monetary policy analysis and modeling. It would perhaps be difficult to attract experts of highest international caliber as permanent staff without cost implications or without distorting the administrative structure of the MCM. In our view, probably a more plausible approach would be to invite a small group (say, 5-7) of highest caliber international experts—drawn from academia, central banks and think-tanks in different areas of expertise—to join the unit as resident experts for fixed periods of time (say, 2 years). We believe this "revolving door" approach is important to prevent "institutionalization" of knowledge while providing the resident experts full freedom to think outside the box. The MCM could choose a group of talented staff with interest in monetary policy to work and interact on a daily basis with these experts and develop in-house expertise.

Recommendation 2. Deepen work on the costs and benefits of UMP and related policies, to develop a playbook on policy responses in future downturns.

Developing, and keep updating, a compendium of UMP, with pros and cons, costs and benefits, and different circumstances that would warrant their engagement would be useful for institutional memory and for future analytical work, without any large budgetary implications. But, at the same time, it should be recognized that circumstances change globally, across countries and over time and that these changes and refinements may not always be adequately reflected in the "playbook", thus running the risk of becoming a "one-size-fits-all".

Recommendation 3. Make sure that the Fund is at the forefront of financial spillover analysis and provision of advice on dealing with capital flows.

Fund's financial spillover work has somewhat lagged behind other spillover analyses (notably, trade and migration) and needs to be reinforced by identifying and modeling all potential financial spillover channels. We agree with the assessment—also echoed by the MD—that the Fund, given its mandate, expertise and almost universal membership is uniquely placed to analyze and provide advice on financial spillovers in the context of its flagship documents and through by bilateral surveillance. As indicated in the IEO evaluation, Spillover Reports gained little traction with major EMs carrying out UMP as the country officials felt that the IMF needed to press harder in its policy advice to "source" countries if it wanted to be helpful to "receiving" countries. In our view, bilateral surveillance with key source countries pursuing UMP should include assessment of the impact of their alternative policies on receiving countries, going beyond the immediate neighbors.

Recommendation 4. Draw on lessons from this evaluation to consider steps to deepen and enrich country engagement in bilateral surveillance.

Deepening country engagement in bilateral surveillance and securing traction for policy advice clearly extend beyond (conventional or unconventional) monetary policy to all policy areas, and the lessons of this evaluation should clearly feed into the ongoing analysis of the much broader Comprehensive Surveillance Review. The IEO report's specific recommendations (tenure of mission chiefs, staffing of country desks and missions, effective handover of assignments, broader engagement with country officials) are all important in enhancing the effectiveness of surveillance and policy advice traction, and should be perused in conjunction with HR policies.

Mr. Gokarn submitted the following statement:

We thank the IEO for an excellent report on the Fund's advice on UMPs. We also thank the MD for her broadly positive response to the report.

The evaluation has looked at the Fund's advice in the aftermath of the financial crisis of 2008 and the monetary policy responses to it in the AES to various groups of countries, including the implementers of UMPs themselves. This allows for meaningful distinctions in terms of the kind of advice given and its likely influence on policy responses across different countries. We see this as a very useful way to have segmented the analysis, providing a firm foundation for the four recommendations made in the report. We have some comments to offer on each recommendation, following some general impressions.

Speaking generally, the narrative reminds us of the famous saying of the Late Deng Xiao Ping – "crossing the river while feeling the stones". Clearly, the crisis took the global economy into an environment in which the standard policy paradigms simply weren't applicable – or so it seemed. In any case, policymakers confronted with a crisis of that magnitude could not afford to wait until a new framework was developed; they just had to act and hope for the best. That the Fund was able to act with some alacrity to provide a succession of assessments and inputs – the "stones" – is to its credit and this appears to be broadly acknowledged in type report. Several products and papers are referred to in the report as having contributed to this process. In our view, a very, if not the most, significant component of this was the emergence of the institutional view on capital flow measures. Even as it continues to be debated within and outside the Fund, this was essentially a recognition that the orthodoxy may no longer be relevant.

Taking this and other initiatives together, we believe that the basic elements of an integrated policy framework, which is referred to in the MD's statement, are in place. The framework, successfully developed, will provide a substitute for the stones – a bridge, that will make the transition from normal situations to crisis management that much smoother and more predictable.

An important point that the report makes is the role that the Fund played as a convener, which may have overshadowed its analytical contribution. In fact, drawing upon the frontline experiences of policymakers and extracting lessons from them is a key element in the development of the new framework. We look forward to this process continuing – indeed, strengthening – as the work on the framework gains momentum.

As regards the recommendations, we are broadly supportive of them but also recognize the organizational and financial challenges that will have to be dealt with in their full implementation. On Recommendation 1, we see merit in forming an in-house core group on monetary policy. However, it is essential that this group operates in a state of constant contact with central banks and, in effect, looks at the monetary policy process across countries in real time. Understanding why countries do things that might deviate from. An established paradigm is important in shaping a toolkit for use in unusual circumstances.

On Recommendation 2, we see this as an explicit endorsement of the work to develop an integrated policy framework. Even though this may remain a work-in-progress in perpetuity, every significant step forward will add to the Fund's confidence in the advice that it gives and members' comfort in accepting that advice.

Recommendation 3 gets to the heart of an ongoing debate within the Fund – the distinction between MPMs and CFMs. We hold the view that a sharp distinction between the two is not very practical for countries with limited prudential and regulatory instruments at their disposal. This is also an issue for the integrated framework to consider, but in the meanwhile, we believe that some accommodation of the use of CFMs for purposes of financial stability needs to be made in the IV.

Recommendation 4 resonates in the Indian case study, which describes the tensions and dilemmas in the bilateral relationship in an environment in which the old paradigms are under increasing threat. Interactions between missions and authorities are often based on historical patterns and priorities and there is a lag between changing views at the Fund level and their transmissions through the missions. The recommendation essentially calls for strengthening the missions' effectiveness by, on the one hand, being more sensitive to country circumstances and, on the other, more effectively reflect intellectual evolutions taking place in the Fund in their engagement with authorities. We support this objective.

To conclude, we broadly agree with the analysis presented in the report, support the recommendations. We also agree with the MD's caution regarding resource implications. However, while the going may be slow, we believe this is the right river to cross.

Mr. Raghani, Mr. N'Sonde and Mr. Sidi Bouna submitted the following statement:

We thank the IEO for a set of well-written and thorough papers on IMF experience with unconventional monetary policies (UMP) since the global financial crisis (GFC) and recommendations to improve such engagement. We also thank the Managing Director for her response and appreciate her broad agreement with the IEO recommendations.

The IEO's stock-taking papers indicate that central banks in advanced economies have used innovative ways to counter the impact of the GFC for the past decade, ranging from quantitative easing, new forms of forward-looking guidance, and the use of negative policy interest rates and exchange rate ceilings. Emerging market economies alike have had recourse to new tools to cope with the effects of UMP including, notably, macroprudential policies, capital flow management and precautionary financing arrangements.

We agree that the Fund has helped advance the debate on UMP and supported member countries in this regard. This was achieved notably through advice to central banks on the pace and size of UMP and validation of their actions; development of a new macroprudential policy toolkit to manage financial stability risks from UMP; innovative analysis of, and outreach on cross-border spillovers; assistance to member countries under the Institutional View to manage capital flows; introduction of new precautionary instruments; and support to international policy coordination on these issues.

The IEO report nevertheless underscores a number of limitations in the Fund's recent experience with UMP that could have somewhat hindered the effectiveness of its action. These relate to the depth of expertise on monetary policy issues, internal organizational constraints which hamper a continuous follow-up and engagement with country authorities, and a perceived insufficient understanding by the Fund of the spillovers and country efforts in capital flow management.

Against this backdrop, IEO recommendations to incite actions to finetune the Fund's engagement on UMP and, more broadly, on monetary policies in situations of major crisis are generally adequate, and we broadly support them.

We have specific remarks on each one of these recommendations:

Recommendation 1

We concur with the need to keep the Fund abreast of, and a participant to, cutting-edge central banking issues. We welcome the actions already underway in this direction within the MCM department and under the oversight of a Deputy Managing Director, as indicated in the Managing Director' Statement. We appreciate that this undertaking will be part of the planned Integrated Policy Framework (IPF). We look forward to the ensuing prioritization in the context of the zero real budget growth constraint.

Recommendation 2

Deepening work on the costs and benefits of UMP and related policies to develop a playbook on policy responses for use in future downturns is sensible, especially given the need to ensure that policymakers in member countries are current on the issues and do not act behind the curve. There is however the caveat that each major crisis is unique in nature, scope and intensity and that it could prove difficult to establish a manual that would anticipate policy responses for effective use in any circumstance. In addition, as for Recommendation 1 above, this set of actions will require prioritization in the Fund's agenda.

Recommendation 3

We fully agree with the proposal to ensure that the Fund, as a unique institution with near universal membership and extensive country experience, remains at the forefront of financial spillover analysis and provision of advice on dealing with capital flows. In this regard, work in the context of the IPF, the Comprehensive Surveillance Review (CSR) and the flagships—highlighted by the Managing Director—go in the right direction.

Recommendation 4

We agree with the internal adjustments recommended to intensify country engagement in bilateral surveillance, notably with regard to mission chief tenure, country team turnover, handover procedures and engagement outside Article IV consultations. These actions can also be extended to other Fund policy activities (outside monetary policy) thus the need to consider them under the broader CSR.

The Chairman made the following statement:

I would like to express my gratitude to the Independent Evaluation Office (IEO) and to the entire team that you have put together, 14 of them, to work on this important topic of Unconventional Monetary Policies. I have to say that when I started reading the paper, I was reminded of my days as Finance Minister—and Mr. Ostros was part of that group at that moment, although he was not as directly concerned as I was—when short of being able to push some real fiscal measures through, we turned back to European Central Bank (ECB) Governor Draghi and said thank goodness you are here and you are inventing things as a substitute to what we should have done and were maybe not capable of putting through at the time. I thank the staff for looking at all that in great detail.

The work that has been produced is based on extensive research, consultation within the Fund, outside the Fund, and it has resulted in a set of thoughtful recommendations, four key ones, the general direction and principles of which are very well taken, and we will come back to that in further detail obviously in the Management Implementation Plan (MIP). As described in this paper, the effects of the global financial crisis and the slow recovery that followed led central banks across the globe—not just the large central banks but many central banks, including in small countries—to explore what room they had, what creativity they could deploy within the mandate—and for many of them, not all of them—the advantage of having a degree of independence and efficiency that not all of us had in their fiscal space. That included pushing the boundaries of monetary policy. Some of you in this room were part of that group of central bank governors who were inventing, creating, and pushing the boundaries—I am thinking of Mr. Tombini, for instance—who clearly were committed to doing everything they could to avoid allowing the Great Recession to turn into a Great Depression.

These new boundaries that were explored at levels and negative rates, for instance, that were not even considered, were a challenge for our institution. I have to say that it was gratifying to read that based on the extensive research, the report finds that the Fund actually rose to the occasion and responded with wide-ranging and often impressive response in an uncertain environment. Perhaps that rising to the occasion was not as sustained as it could have been in the longer-term, which is also something that the IEO touches on, but from my perspective and from my consideration, looking ahead at what will develop from those unconventional monetary policies and where it will take us and how it will unwind eventually is also an area where we will be doing more work.

We can always learn. We can always receive guidance and recommendations, adapt to new circumstances, and do a better job, and the recommendations that the IEO makes are very helpful in that regard as we go forward in a world where UMPs will not have the same degree of creativity, but it is also going to have to continue inventing, as it has moved out in further territories and will probably have to retreat from those to come back to a different situation, which might not be normalcy but which might be different from what we have seen.

I will not say much more. I am pleased to just remind the group, and we have had that discussion during the Work Program discussion, that clearly the Integrated Policy Framework (IPF) will be a space and a flow of introspection and propositions where clearly monetary policy will to come into play in a significant way, and it is not just going to be about capital flows. It will also be significantly about monetary policy going forward.

Another work that is underway, the scope of which has been discussed in March, is the Comprehensive Surveillance Review (CSR), which will also embed some of the proposals that are clearly stated in there and which have a broader scope. I am thinking in particular of the fourth one that considers the length of and the tenure of both the mission chiefs and the resident representatives where clearly the principle does not only apply in the context of monetary policy, it applies just in general terms for all our surveillance, and I know the frustration in some corners, and I have got a few numbers as to how well we are doing in various corners of the world and the intricacies and delicacies of combining that with other objectives that we have for human resources and mobility in particular.

The Director of the Independent Evaluation Office (Mr. Collyns) made the following statement:

Thanks to all of you for a careful reading of our report and very thoughtful comments in your grays and broad support for the recommendations that we have made. We have also received some specific comments and suggestions on our country case studies, and we will be looking at some of the language and suggesting some corrections for factual inaccuracies and ambiguities that will be made before the report is published. I thought it would be useful for me to start by addressing some of the broader strategic questions raised in the gray statements, and also my colleague, Mr. Loungani, will address some specific issues related to the evaluation that have been raised.

To start, I wanted to take on the fundamental question that a number of you posed and, indeed, the Managing Director also posed in her statement, about what should be the attention paid in the Fund to monetary policy issues at a time of multiple competing demands on Fund resources; and recognizing the realities that there are alternative sources of expertise, deep expertise in major central banks, as well as in the Bank for International Settlements (BIS), I think that is a good question to consider. However, as the Managing Director points out, monetary policy is surely at the core of the Fund's mandate, particularly in how it relates to the broader macro framework, interaction between monetary policy, fiscal policy, between monetary policy and financial stability, and surely the Fund must be able to play a key role. But having said that, we are not suggesting that the Fund should compete with or substitute for the very real and deep expertise in many central banks, but rather should seek to complement the work that is done in the central banks. We think that there are ways to increase the value added and impact of the Fund's work by focusing on the Fund's own comparative advantages, and this can be done at a relatively minor resource cost to the institution, which is in contrast to our conclusion after the financial surveillance evaluation where we called for a significant increase in resources on financial surveillance, so I wanted to emphasize that contrast.

In terms of what are the Fund's areas of comparative advantage—and many Directors noted these in their gray statements—the fact that the Fund has universal membership and has very broad country experience with monetary policy in different circumstances, the Fund's broad bilateral surveillance mandate, which is different from central banks. The Fund takes a holistic approach, looks at monetary policy in the broader macro policy framework, looks at the interaction between monetary policy and fiscal policy, monetary policy and financial stability, and even implications for distributional issues and how best to handle those.

third, the Fund has a multilateral surveillance mandate to look at potential spillovers from domestic policies and to provide advice on how to mitigate those spillovers while still achieving domestic objectives.

There is a broad range of ways in which the Fund has a clear comparative advantage. We have made a number of recommendations on how best to build on those comparative advantages, and our recommendations are mutually reinforcing. I would just emphasize the importance of combining a buildup of a team of core experts on monetary policy with the expertise in country teams on monetary policy. The core team of experts can bring state-of-the-art thinking, the latest views from the global central banking community, and contribute to the development of those views, but it is also key that those insights and experience be communicated to and interact with the knowledge and expertise at the desk level on country issues, country circumstances, and we recommend deepening that expertise at the desk level by looking again at the modes of engagement of the Fund with countries, including greater continuity. I will let my colleague talk a little bit more about what we have in mind in terms of building the Fund's expertise.

The second set of questions I wanted to take on were related to the evolution of the corporate view and our suggestion to develop a playbook to help guide the Fund's advice and how that would relate to the IPF. In the report, we lay out clearly how the corporate view has evolved over time, particularly in key areas like the advice on the mix of fiscal policy and monetary policy, the relationship between monetary policy and macroprudential policies to achieve financial stability. This view has shifted over time, in part as a result of major in-depth reviews of particular policy areas, but more frequently in the context of the semi-annual review of the global economy and financial markets, the WEO and the Global Financial Stability Report (GFSR).

There has not been a major policy review of monetary policy since 2013. Now would be a very appropriate time for a new review. This is a moment when UMPs are already partially unwound, if at all, and where there is a prospect of a new global downturn within a year or two, again challenging central banks to think about how they can best support economies when they have very limited conventional ammunition. In fact, a number of major central banks themselves are embarking on such reviews at this time, and we have heard from them that they would actually appreciate the Fund's insights in areas where the Fund is strong in terms of these cross-border issues, in terms of the cross-sectoral issues, in terms of drawing on the broad range of country experience. Such work could help guard against potential biases. There was a bias raised by Mr. Jin, the potential excessive support for monetary policy easing, as opposed to other measures. There were concerns raised by Mr. Rosen. There needs to be a realistic, balanced, evidence-based assessment of what the spillovers are. There is a need for such work, and that work would then feed into what we call the playbook, which would be a range of potential options that could be used by policymakers when faced by another downturn, but the choice would need to depend on country circumstances and challenges. This would be a flexible, dynamic instrument. There is certainly no intention that there should be one-size-fits-all or excessive rigid advice. That playbook can be very helpful to help guide country teams.

To some extent, there would be a need to make sure that work on a playbook is well integrated with the work on the IPF. They do cover somewhat similar ground. Maybe in the end the two would be integrated into one workstream. What we have in mind is somewhat different from the IPF as I currently understand it in the sense that the playbook would focus more on how to deal with domestic deflationary shocks, whereas the IPF is more looking at how to respond to exogenous shocks to the economy. One of the key focuses of the playbook would be the interaction between monetary policy and fiscal policy, whereas at this point the IPF is more focusing on the interaction between monetary policy, macroprudential policy, foreign exchange intervention, and capital flow measures. It is somewhat different in focus. The two can be reconciled and made into a consistent, coherent approach.

Finally, let me say something about international monetary cooperation and the suggestion we made for a possible code of conduct among major economies. A number of Directors asked for more details on what we had in mind, and many Directors, frankly, were somewhat skeptical that this proposal could work. We start from the observation that promoting international monetary cooperation is clearly part of the Fund's mandate. It is on the first page of the Articles of Agreement. The Fund has certainly worked hard over the past 10 years to try to support monetary cooperation, as we lay out in the report, but the fruit of that effort has been somewhat limited. There is a need for some fresh thinking about whether the Fund could do more in this area. We do not have a magic bullet to suggest, and many great minds, greater than ourselves, have been thinking about the issue. It is very tricky, no doubt about that. But I do think back to my own experience when I was a senior official at the U.S. Treasury, at the same time the Managing Director was Finance Minister in France, and I was involved at that time, 2010 to 2013, in an intensive set of discussions among finance ministries and central banks of the G7. There was a broad agreement on certain principles of action among these policymakers that were actually quite helpful as central banks embarked on multiple initiatives to increase policy support, key principles including the need for monetary policies to be clearly geared toward domestic objectives and to avoid using external instruments, so avoiding intervention in foreign exchange markets, avoiding purchases of foreign currency assets as instruments of monetary policy. There was also a good coordination mechanism in a very simple form of monthly conference calls among the Deputies and if necessary raised to the principals' level, and the Fund would participate in those calls and provide a global perspective. We were actually able to think through some difficult challenges that emerged over that period and achieved quite a high degree of cooperation among the G7, and central banks were quite comfortable that they were able to participate in this mechanism without sacrificing their own independence to pursue their domestic mandates within that framework. The suggestion we have is to look for ways to expand that approach to a somewhat broader range of countries. I would not go as far as the whole G20, but by including a number of additional countries that play a very important role and a growing role in the global economy and financial system, there could be some basis for building a greater spirit of cooperation at a working level. But I recognize that there are difficulties whenever you have a large group and a more heterogenous group, so I am not pretending that this is an easy solution, but I think there is scope for the Fund to do some fresh thinking, to help spearhead initiatives in this area where there is a general recognition that more is needed, but I do not think anyone has a particularly good idea of how to achieve that.

The staff representative of the Independent Evaluation Office (Mr. Loungani) made the following statement:

Let me join Mr. Collyns in thanking Directors on behalf of my evaluation team, which as the Managing Director noted, consists not just of the Fund staff sitting behind me, but several noted consultants, for reading our report so carefully. It is very gratifying to us to have the scrutiny and to receive lots of detailed and interesting comments.

I will address some of the questions about our first and fourth recommendations, which we truly regard as an interlocking and complementary set of steps to build up the Fund's monetary policy expertise.

On the former, we have in mind a small group, four to six people, who are world class experts in the art and science of monetary policymaking, drawn from emerging as well as advanced economies. The establishment of a modeling unit in the Monetary and Capital Markets Department (MCM) is a welcome step, given the importance that large-scale models and other modeling strategies play in the policy deliberations at many central banks. In our view, the expert group would also have some people with strong practitioner skills, say from experience as a deputy governor at a central bank or on a monetary policy committee. The group could be supplemented by staff on secondment from central banks, as has been suggested by some Directors.

We see the task of this expert group as twofold, first, to stay abreast of and ideally even to shape cutting-edge thinking on major monetary policy issues based on their close relationship and expertise and communication with leading experts in central banks and in academia. Their second task would be to leverage this expertise to assist country teams when they are in the situation of having to give advice to central banks that are facing novel or difficult challenges. One could envisage other avenues as well for periodic interactions between this expert group and the country teams on monetary policy issues.

In parallel, as we suggest in our fourth recommendation, it would be useful to build up deeper expertise on monetary policy issues among staff in area departments as well. Longer tenure of staff on country teams, which the Board has long called for, is one way of doing so. Another would be to allow some area department staff to specialize in monetary policy issues over the course of their Fund career. Some of the staff entering the Economist Program (EP), for instance, have done their dissertations on monetary policy issues. Some of our mid-career hires, like myself, come with experience at central banks. Some of these staff might be willing to build on their monetary policy interests and expertise if they were assured a path to promotion commensurate with that offered to fungible economists. The career playbook that the Human Resources Department (HRD) is developing can be useful in showing how more staff can achieve a better balance between the institution’s needs for fungibility and what we think is an equally important need for development of deep expertise in some areas.

To summarize, our recommendations involve building up expertise in both functional and area departments in this core area of the Fund’s mandate, and we believe this can be achieved without a major commitment of additional resources by better leveraging the staff’s skills that already exist in the institution.

Let me conclude by answering specific questions from Directors. There were some questions about the handover procedures in place when there is rotation among staff in country teams. As the ninth Periodic Monitoring Report (PMR) noted, there has been, in their words, persistent non-compliance with the guidelines for handover for several years. While we think that the Knowledge Management Unit (KMU) can certainly help, including by enhancements to the repository of Fund documents so that incoming staff can search more easily for relevant documents, we agree with the Office of Internal Audit's (OIA) judgment that it will be difficult to make sufficient progress without a change in incentives.

Finally, in response to Mr. Kaya, it would be difficult for us to provide the raw material that underlies the confidential interviews we conduct over the course of an evaluation. Our assurance of complete confidentiality is crucial to encouraging the full candor in conversations with our evaluation teams.

Mr. Ronicle made the following statement:

I want to start by thanking Fund staff. In the immediate aftermath of the crisis, we were sailing in uncharted waters. The Fund may not have been the helmsman or navigator that saw us through them, but it was a reassuring voice in our ear, urging us to keep going. Early on, the Fund came out with a clear, coherent, and appropriate policy prescription for the major advanced economies, particularly in its multilateral surveillance. Naturally, there were nuances and points of disagreement, but as Mr. Fanizza states in his gray statement, having that seal of approval for the broad course of action was reassuring in difficult times.

I also want to thank the IEO for an excellent set of papers and recommendations, all of which we support. Our joint gray statement with Ms. McKiernan and Mr. Ray was quite detailed, so this morning I will try to focus on a small number of key messages related to the policy recommendations.

First, frontier topics in monetary policy remain central to the conjuncture and outlook in a number of major advanced economies. Whether that is assessing the degree of policy space, expanding the policy toolkit, understanding the drivers of low equilibrium real interest rates, or how to manage the exit from past unconventional policy action to effectively conduct surveillance in such an environment, the Fund needs to understand these topics. That said, I would not expect the Fund to push the frontier in these areas. I have no objection to that in principle, but feel that the Fund's limited resources should be deployed where it can best make an impact. For me, academia and central bank research departments are better placed to push the boundary on these issues, and the staff could best leverage that expertise through collaboration and regular secondments. Instead, the Fund should focus on its comparative advantage, on cross-country experience and spillovers, issues I will return to under Recommendations 2 and 3.

Wherever the precise focus, it seems right to me that the Fund needs appropriate expertise in-house. On that basis, we support the first recommendation to set up a core group of monetary policy experts with policymaking experience and are reassured that the IEO feels only a small increase in resources is required to significantly enhance expertise.

Turning to the second recommendation, I confess I am obliged to support the playbook idea since it apparently came from the Bank of England's chief economist. That said, I happen to think it is a genuinely good idea. I feel this is a way of synthesizing cross-country experience and providing a tool members can learn from, a key area of Fund comparative advantage. Like many others, I would not want this to be prescriptive and think it needs to fully reflect the circumstances in which specific tools are reflected.

I see the IEO's third recommendation as dovetailing nicely with two existing areas of Fund work, which we fully support, the IPF and the CSR. I would expect any expertise brought in under Recommendation 1 to concentrate on these two initiatives, deepening our understanding of the drivers of capital flows and the most effective ways to mitigate their impact.

Finally, Recommendation 4 struck me as particularly important, and as the Managing Director said earlier, applicable well beyond the scope of this narrow area of Fund work. Staffing issues have come up across a number of policy reviews and evaluations recently, both with respect to tenure and building deep subject matter expertise. The CSR and the HR strategy will be excellent opportunities to address these issues.

On the HR strategy in particular, this chair wonders whether we need a deeper and more formal level of Board engagement.

Ms. Mannathoko made the following statement:

We thank the IEO team for this important evaluation and the Managing Director for her support for the general thrust of the recommendations. We wanted to commend the Fund, as the evaluation shows the significant progress made in understanding managed policy that developed in the wake of the global financial crisis. We note that the Fund's policy engagement on this issue has been wide ranging and, in some areas, impressive. Nevertheless, as we indicated in our gray statement, we agree with the IEO that the Fund would benefit from further building its monetary policy expertise to enable it to provide cutting-edge surveillance advice to members in addition to better guidance on the costs and benefits of UMP, conventional monetary policy, and on minimizing spillover effects. I just wish to highlight several issues here.

First, while I understand the intent of the report, I wish to emphasize our request that the spillover analysis proposed is informed by the work in the April 27 WEO and includes data and information on low-income and developing countries (LIDCs) so that the policy advice that is given in the future does take the impact on LIDCs into consideration.

Second, like Mr. Saito, Mr. de Villeroché, Mr. Villar, Mr. Ray, Mr. Doornbosch, we are concerned that the exit from UMPs may prove disruptive both locally and globally unless it is managed effectively and with appropriate timing, and this will require effective analysis of both costs and benefits and spillover implications for both emerging economies and LIDCs. Issues of policy coordination and complementarity between monetary and fiscal policy are also important.

Third, like Mr. Doornbosch, Mr. Ostros, Mr. Fanizza, Mr. Villar and others, we note the importance of including expertise on frontier issues in central banking beyond UMP in the expert group given the rapid evolution of the global financial system. Like Mr. Ostros, we believe there may be need to revisit how effectively MCM and maybe even the Research Department's (RES) analytical work is integrated into surveillance and program work by area departments.

Finally, just a last word on resources, given the ongoing resource constraints, we would request that resources that are reallocated to new work stemming from this evaluation are not taken from work that needs to be done on current financial sector priorities such as fintech. Fintech is a subsector of financial sector policy, so we view it as important and related to core work, and it is redefining the future global financial sector, and so it is important not just for our constituency but all of the Fund's membership in general.

Mr. Rosen made the following statement:

Monetary policy is a fundamental area for the Fund and is likely to remain so, and in that context, we would like to thank the IEO for this very valuable report.

The problem of persistently low inflation in advanced economies is one of the key economic questions of our time, and we believe the Fund does need to be at the center of developing solutions to this and other key monetary policy questions, and work in this area should not just be done by central banks and academics.

We fully agree with the main recommendations of the report. As the Managing Director noted, there has been some excellent work done at the Fund on UMP and monetary policy generally over many years. However, as the report identifies, there was also not enough senior monetary policy expertise at the Fund during and after the crisis, when it would have been incredibly valuable.

In particular, the report makes some broad points that indicate that in addition to generalists, there should be a rewarding career for specialization at the Fund and for staff to receive promotions without needing to frequently change roles or departments. We fully agree this should also extend to incentivizing mission chiefs to stay longer on countries.

We welcome the report’s conclusion that both mid-career and highly experienced monetary policy experts should be brought into the Fund, and we are also encouraged by the hiring of a new Deputy Director in MCM, but we would echo Mr. Kaya’s and Mr. Villar’s call and the IEO comments to go one step further and also hire policy experts more broadly, including potentially former senior central bank officials that could be brought in by the Fund as advisors as an alternative to them joining think tanks or returning to academia, as they do now.

The two recent IEO evaluations this year both found that MCM needs to step up its financial sector surveillance and monetary policy. We strongly encourage prioritizing these areas over, for example, fintech and digital currency, however important they may be, that may be taking up more of MCM’s resources right now.

We also support the recommendation to review the monetary policy toolkit, including options for monetary policy under different conditions in countries so we are ready for the next downturn. However, we believe it is important to consider monetary policy as a whole rather than focus on unconventional versus more conventional policies.

On the issue of capital flow management measures (CFMs) and the Institutional View, we would like to raise a note of caution. I understand it took a long time to reach a consensus on the Institutional View. Though some gray statements call for a new look at this in the IPF, we believe the Institutional View is working well as it is and that staff are applying it consistently. We also support Mr. Villar's statement the CFMs should not replace the required macroeconomic adjustment where needed, and Mr. Villar's, Mr. Ray's and others' point on the need to look at unintended consequences and spillovers to other countries from using CFMs.

We also echo the concern of Mr. Saito and others that developing a code of conduct may limit the policy autonomy of our central banks and interfere with their mandates, though we fully support more informal international cooperation in this area, as Mr. Collyns referred to this morning. Spillover work is happening, and we would note that, for example, the Federal Reserve does take into account spillovers and spillbacks when crafting its monetary policy.

Ms. Mahasandana made the following statement:

First, the report reflects a very good point about the Fund's advice for countries in dealing with spillovers, that its application and the way it is communicated must be mindful of the risks and the country context. Spillovers can propagate via different channels across countries, hence, the optimum policy mix to address them would need to be tailored to the underlying risks and conditions on the ground.

For emerging Asia, spillovers from UMP have taken the form of capital flow volatilities with significant inflows at the onset of UMP and a sharp reversal when the policy tapers. In response, the difficult but pragmatic decision has been made by our authority to pre-empt possible inflationary pressure and the buildup of financial stability risks. These decisions involve measures that are often classified by the Fund as CFMs, are well guided by potential costs and policy tradeoffs, and they are not taken lightly. That said, by-the-book application of the Institutional view on capital flows—focusing on residency-based prudential measures and calling for a CFM to be gradually phased out—often generate news headlines and market expectations that may potentially undermine the authorities' credibility. Therefore, a healthy dose of caution in its communication to avoid any unintended consequence for the authorities is critical. Moreover, there should be greater appreciation of the rationale behind these measures and the delicate balancing act that the authorities have to do to manage this difficult tradeoff.

This brings me to my second comment, that the Fund should remain adaptable in formulating its policy thinking and applying in its core functions. A few notable lessons come to mind. The application of the Institutional View continues to have to adapt to country circumstances following its adoption.

The interpretation of the External Balance Assessment (EBA) results has to be crosschecked with economic reality, even after the methodology was revised.

Unconventional monetary policies were notable for their time, but there is no guarantee that lessons learned will continue to be relevant when the next crisis comes around. My point is that the IEO idea of a playbook, or more importantly, ongoing work on the IPF, cannot be set in stone when they are developed. The process should be put in place that this remains a living document. To enhance traction with the authorities, Fund policy advice must be able to capture on timely basis the breadth of the cross-country experiences as they evolve over time.

My third and final point is that for the Fund to put in place such a process and be nimble and agile, a host of additional issues need to be addressed. The HR strategy, for instance, needs to be realigned, the structure to attract external talent and promote expertise building among staff, including by encouraging Fund staff to gain hands-on experience outside the Fund.

Moreover, effective knowledge management and handover process are also critical to deepen country knowledge and relationship building with the country authorities.

Mr. Saito made the following statement:

We thank the IEO for the comprehensive report and useful outreach. We welcome the IEO's timely evaluation as 10 years has passed since the global financial crisis, and central banks in major advanced economies recently have worked on reviewing their monetary policies and discussing new monetary policy frameworks, so we broadly agree and support the IEO's recommendations, and we briefly offer some comments on each recommendation.

On Recommendation 1, we see merit in developing a small core group of experts. Member selection could be critical to ensure their quality and influence so we concur with Mr. Rosen that some changes to HR policy may be needed to attract and develop and retain top experts. At the same time, as Mr. Villar mentioned, it is important to enhance collaboration with major central banks and the BIS to improve research quality and leverage existing resources.

On Recommendation 2, we support the recommendation of deepening work on the costs and benefits of UMP. Greater accumulation of cross-country experiences through broader membership are areas where the Fund has comparative advantages. Thus, inputs from the Fund in those areas provide a useful basis for discussions to member countries. However, as Mr. Inderbinen and Mr. Doornbosch pointed out, a playbook should not be set with mechanical rules or prescriptive policy advice. The optimum policy design of UMP is state-contingent and depends on structure of the financial system and the financial market, as well as the institutional and the legal frameworks, which differ among countries. Therefore, a one-size-fits-all approach that excessively relies on past experiences is not appropriate. In that regard, we welcome the comments made by Mr. Collyns at the outset of the meeting.

On Recommendation 3, we agree with the importance of strengthening financial spillover analysis and providing advice on dealing with capital flows. However, when conducting monetary policy, these effects should be taken into account from the perspective of its mandate and domestic price stability. When the Fund makes recommendations, it should avoid undermining central banks' mandate or legitimacy by putting too much emphasis on spillover impacts. In this context, while we understand the importance of international cooperation that Mr. Collyns highlighted, we associated ourselves with Mr. Ray, Ms. McKiernan, and Mr. Ronicle that caution is warranted for an approach to develop the code of conduct and limit policy autonomy of central banks. Rather, as Mr. Doornbosch mentioned, the traction of Fund advice on spillovers could be strengthened by more explicitly highlighting the risk of negative spillbacks.

Finally, on Recommendation 4, the frequent turnover of the mission chief and country teams has been a longstanding issue. It is not only the case for small or fragile states but also for major economies, including Japan, which had seven mission chiefs in past 10 years. Against this background, we fully support the recommendation of a longer tenure of the mission chief and less turnover among country teams, so we urge the staff to consider these issues properly in the context of the CSR or HR review. I stop here.

Mr. Villar made the following statement:

We thank the IEO for a thorough and enlightening evaluation. We share the view that the Fund played a role in the deployment of the UMP that was extensive and often remarkable. However, we also note the shortcomings mentioned by the report that make it extremely important to work toward strengthening the Fund's engagement with monetary policy authorities in member countries.

We also concur with the Managing Director's buff statement that changes in the Fund's monetary policy framework need to be coordinated with other workstreams, such as the CSR and the new HR strategy. Likewise, it will be crucial to embed the proposed changes within the work of the IPF. We issued a detailed gray, so I will just highlight a few comments on the IEO recommendations and on the Managing Director's proposal to address them.

On Recommendation 1, we take note of the fact that MCM is already setting up a new unit of monetary policy modeling. However, we believe that the new unit should build up expertise way beyond monetary modeling. Moreover, beyond the specific role of this new unit, we consider that collaboration with major central banks and with other institutions, like the BIS, will be critical to build consensus and consolidate knowledge around these issues.

On Recommendation 2, to develop a playbook on policy responses for future downturns, it should be flexible enough to keep it relevant for the different circumstances of the membership. We see special merit in strengthening the Fund's work on the debate about the risks and side effects of UMP, particularly on financial stability.

On Recommendation 3, related to financial spillovers analysis and advice on dealing with capital flows, we notice that the Fund responded rapidly and forcefully to the challenge, as suggested by the deployment of spillover reports, the Institutional View on capital flows, the Integrated Surveillance Decision (ISD) in 2012, and the successful introduction of the precautionary arrangements. Both the Precautionary and Liquidity Line (PLL) and the Flexible Credit Line (FCL) were milestones for supporting emerging market economies with a new toolkit after the global financial crisis.

We look forward to the forthcoming IEO evaluation on the Fund's advice on CFMs, which could offer useful lessons to improve this area of analysis. In this regard, it will be important to explore the risks that CFMs may imply for other emerging market economies, for instance, through interest volatility in capital flows.

On Recommendation 4, related to bilateral surveillance, we share the IEO's views that frequent turnover of mission chiefs and country teams is a cause of concern. Thus, we take positive note of IEO's suggestions on country teams' tenure and options for continuous engagement, which will be useful in the context of the discussion of the 2020 CSR.

Finally, we take positive note of the success stories related to highly specialized TA on monetary policy advice. This analytical work is an intermediate step where broader expertise is developed to provide added value to central banks.

Mr. Kaya made the following statement:

Our Chair broadly supports the four recommendations and the first one in particular. We trust that the Chairman's support will help deliver tangible and timely improvements, and we look forward to the MIP in due course.

The report is timely in that it can significantly enrich the staff's work toward the upcoming discussion of the CSR. We encourage the staff to take full use of the findings made in this IEO report, as well as in the previous one on financial surveillance to strengthen the surveillance in core areas of the Fund's mandate. My Turkish and Czech authorities broadly concur with the case studies pertaining to these two countries. They feel that their experience with the Fund's advice on the UMPs is reflected in the report despite requesting some corrections on the details and nuances of the historical account. The Turkish authorities in particular echo the conclusion that the Fund's advice was sometimes of a textbook nature and not sufficiently appreciative of the challenges faced by emerging market central banks.

Against this background, we reiterate our strong support for the recommendation to develop a small core group of top monetary policy experts at the Fund. We agree with Mr. Ray, Ms. McKiernan, and Mr. Ronicle that the Fund can develop genuine comparative advantage in leading the thinking on frontier monetary policy issues. However, we believe that the rationale for creating such a group is not to develop a comparative advantage but rather to enable the Fund to be a respected partner at the frontier of monetary policy discussions at international fora. It is more ambitious in attempting to create a fountain of consistent advice to country teams provided by people who understand the implementation constraints and other practical details in economic models. We believe that the cost implications are modest, and we do not require linking this recommendation with the grand project of the new HR strategy. We also believe that the terms of the monetary policy model instrument currently being established could be modified to be in line with the goals just described. The staff's comments on these points will be welcome.

With regards to the second recommendation to deepen work on the costs and benefits of the UMPs and related policies, we join Mr. Saito, Mr. Inderbinen, and other Directors in cautioning against a one-size-fits-all playbook. However, we believe that a deeper look at the past UMP decisions is fully warranted to inform future such decisions about the context, concerns, risks, and tradeoffs that were considered.

Mr. de Villeroche made the following statement:

We are a strong supporter of this report. It is helpful to have this evaluation now. Why so? Because like many in this room, we believe that UMPs have played a major role across advanced economies and some emerging economies to cushion against the impact of the global financial crisis. With the persistence of low inflation, the highly uncertain outlook, this recent experience may be helpful in the coming years. Who knows.

We support your recommendations. I have two remarks. The first one is that the report clearly sets the question of the articulation of monetary policy and fiscal policy in a crisis and post-crisis context, and we definitely think that this holistic view—which considers monetary policy along with other policies in analyzing the tradeoff, the optimal combination of policy tools, to generate as much policy space as possible—remains key in the context of the current situation, and we do not take UMPs as an isolated tool. We think it is clear in the report, but it is worth having that in mind in the mandate of the group.

The second question on which maybe we have a slight difference with the assessment is on the nexus between monetary policy and financial stability. We clearly acknowledge the importance of the spillovers of UMP for financial stability, and there are appropriate policy tools to control that, especially with macroprudential policies. We need to remain very clear that central banks have a mandate, and the mandate is linked to inflation targets. The mandate should not in itself be too highly influenced by these spillover effects. These spillover effects deserve an appropriate answer, but they are not completely embedded in the mandate, and we would not have designed UMP as such if we would have taken too much importance of this financial stability issue from the beginning. In terms of research, we need to preserve the core mandate of the central banks' work on macroprudential policies where needed and continue to do our best to achieve the inflation goals.

I think I can leave it here, maybe just a slight remark as a complement. The distribution effect of monetary policy is an important issue, and we know very little about that. We encourage the Fund to go deeper to analyze this issue.

Mr. Fanizza made the following statement:

I thank the staff for their outreach to us, for the discussion that we have had, and for the high-quality of the evaluation. In my gray statement, I made it clear that I liked it very much. I was wondering why I liked it. Because it confirmed one impression that I have had for quite a while, that monetary policy has somehow been placed on the back burner in the Fund and actually deserves to get back on the front burner, and the report provides arguments for this idea very clearly. It also makes good efforts to suggest how to do that, and that it is a good idea and we should work on it.

I fully agree with Mr. Rosen. This is not something that concerns only UMP, but monetary policy more generally. This is something that I have seen before in surveillance for advanced economies, in program contexts, in surveillance of low-income countries (LICs). Very often I have found the treatment of monetary policy scarce. That said, one key recommendation is to acquire cutting-edge expertise. Let me be clear on that. Cutting-edge expertise does not mean rocket science. It does not mean to be advancing the frontier of knowledge—that is not our job, I fully agree with the U.K. Chair—but being in the loop of the discussion and particularly on monetary policy differently from other subjects such as macroprudential discussions. The main thrust of the paper is that we are not fully in the loop. For instance, as we talk, there is a major conference in Chicago on monetary policy done by the Chicago Fed. The conference has attracted media attention even earlier than it took place. That does not happen often. Did we provide the input to the conference? Do we have any speakers there? Do we know what is going on?

That is the idea. Also, I could not help thinking that one of the reasons why monetary policy has not been at the focus of our attention is because it has been crowded out by other ideas, emerging issues that we fully support, and our point is that, yes, we can do work here on emerging issues as long as that does not have an adverse impact on our core mandate.

Finally, I want to stress the importance of the human resources side and make sure that this increased attention becomes a concrete improvement in the incentives for the staff to work on monetary policy.

Mr. Mozhin made the following statement:

I would like to begin by reiterating our appreciation of the work done by the IEO, a very high-quality report. We are in broad agreement with all the four recommendations provided in the report, and this is explained in our written statement. Obviously, this whole exercise was a backward-looking exercise by definition because it looked at the past experience of the Fund advising membership on the monetary policy, on the UMP. It also refrained from providing any analysis of the efficiency and consequences of these policies, as is explained immediately in the beginning of the report. I would like to focus my remarks on the way forward from where we are now, and I will follow the suggestion made by the Managing Director in her introductory statement.

I believe that any analysis of the experience of UMP should begin from looking at the experience of Japan, which was a pioneer in introducing this UMP in the early 1980s and has been in this business ever since, and Mr. Saito may want to correct me if I am wrong. I recollect all this literature on the Japanese experience in the 1990s and early this century before the beginning of the global financial crisis, all this literature was extremely critical of the Japanese policy. I remember analysts talking about the policy creating zombie banks and zombie companies. The term I liked most was the living dead. This was the term to describe these zombie companies in Japan. The big question is whether there is any exit from these policies. What we have seen so far is that all the attempts at normalization of monetary policy have been very short-lived, both in America and Europe, not to mention Japan.

I would suggest that one can easily visualize this UMP as a kind of labyrinth, the kind of a structure where there is an entrance but no exit. Or perhaps there is an exit, but the structure is populated by the creatures called the living dead who prevent anybody from exiting this structure. I am sorry to Mr. Psalidopoulos if I am describing the famous labyrinth legend a little frivolously.

That is the biggest question, and another issue which I would expect to be addressed by RES is the question of the fiscal nature of UMPs, the ethics and the independence of central banks resulting from this policy, and then the distributional effects created by this policy.

Mr. Ostros made the following statement:

My broad conclusion when it comes to how to take this forward would be that it should be integrated into the workstreams that we have in our Work Program instead of starting new workstreams. The IPF, the CSR and the HR review are excellent vehicles to take on board some of the recommendations.

It also shows that the Fund's engagement in developments related to the UMPs has been wide ranging and, in many ways, impressive, while there have been some shortcomings.

I also think that the scope of the evaluation was a bit too broad. It looked at UMP but also conventional monetary policy, and that might sometimes give a confusing impression. Overall it was a very insightful set of reports.

On Recommendation 1, we welcome that MCM is already establishing a unit of top monetary policy experts, and this could also be developed further. I do think that that is up to management to organize how to deal with these type of challenges. We could also better leverage existing expertise, and practice shows that we have high-quality expertise within the Fund. The engagement with the euro area authorities during this crisis is an excellent example of that. It is also a matter of how to integrate the expertise within MCM into the area departments' work on financial surveillance a couple of months ago. There is some room to improve that cooperation.

On Recommendation 2, we broadly agree with the idea of developing a playbook on UMP. That could be a good idea to enhance Fund engagement. However, it is important to see to it that it treats countries individually with different circumstances and different situations. It is hard to understand what the playbook could be. What would a playbook look like before the great financial crisis? Would it entail negative interest rates and the extensive asset purchase programs? I doubt it. Maybe it is more about having the expertise to be able to take part in the current debate, contributing with papers on the current debate, more than having fixed reactions to different events going forward.

That is important also to integrate into the institutional framework. We need to be at the forefront of financial spillover analysis, so we agree with Recommendation 3. The IPF is a vehicle to continue to develop our way of working with that. We need to draw lessons from this evaluation on how to deepen country engagement, so we are in favor of Recommendation 4. To ensure high-quality interaction with authorities, the tenure of staff in country teams is a very important issue, and that should be integrated into the HR discussion fully to consider how we could improve on that field.

Finally, when it comes to the central bank frontier issues in Supplement 7, the Fund should be proactive in providing analysis on issues such as central bank digital currencies and central bank governance. That is also important going forward.

Mr. Merk made the following statement:

We broadly share the IEO's analysis and recommendations. On a general note, we would like to highlight that it is essential for the Fund to have sufficient monetary policy expertise, including on UMP. In light of the IEO's findings, we therefore see a need to give higher priority and allocate more resources to this area, which we regard as macrocritical.

Regarding Recommendation 1, we fully support the IEO's recommendation to build up an expert group. At the same time, the Fund needs to make optimal use of existing expertise within MCM and including mobilizing staff in cross-sectional departments, like SPR and RES, as well as exchanging views with the central banking community. In this context, we would also like to emphasize that the Fund should adequately take into account specific institutional and associated restrictions of its members in its monetary policy advice.

On Recommendation 2, we generally welcome efforts to develop a playbook for use in future downturns. The term playbooks sounds, to my ears, a bit ambitious as future crisis situations and environments might differ from past episodes. Like Mr. Ostros, we think that in regard to policy recommendations, a cautious approach seems to be warranted.

With regard to Recommendation 3, in general we agree with the IEO that the Fund should intensify its work on cross-country spillovers and dealing with volatile capital flows. Like Mr. Saito and others, we are skeptical with regard to the code of conduct proposal. Like Mr. Saito and Mr. de Villeroché and others, we would point to central banks' mandate. We wonder whether a code of conduct for major countries can deliver much value added beyond ongoing efforts, for example, at the G20, to strengthen cooperative thinking.

As regards Recommendation 4, we support the IEO's recommendation to increase the continuity of country teams, in particular the tenures of mission chiefs. As Mr. Rosen and others pointed out, this demands setting the right incentives for staff with regard to career advancement.

Mr. Inderbinen made the following statement:

We broadly support the IEO recommendations, and what follows in my remarks is on one or two of the aspects that would benefit from some further clarification in preparation of the MIP. We support the recommendation to build a team of monetary policy experts, building on the efforts but going beyond what is currently envisaged and underway in MCM, and we note from the report and also from Mr. Collyns' remarks that the resource implications of these recommendations would be quite limited.

Like others, we note it will be key to focus primarily on areas where the Fund has a comparative advantage and where it has key strengths, which is the breadth of its membership and the cross-country focus of its work. As mentioned by others, it would be important to tap into central banks' knowledge and expertise and experience by means of more frequent exchanges of staff, and Mr. Loungani elaborated on the benefits of such exchanges in his remarks.

Second, we support the recommendation to deepen work on the costs and benefits of UMP, and we would welcome the update that is proposed on the 2013 policy paper on UMP and the nexus between monetary policy and financial stability. This will be a useful stocktaking exercise. The broader caveat is that we should not seek to standardize Fund advice on policy responses to crises. Countries' response will be dictated by the specific features of its economy, and we should in any case avoid a one-size-fits-all approach when thinking of developing a playbook, and we welcome the clarifications that were offered by Mr. Collyns on this. It will be important to take this into account also in developing the MIP on this. We very much share the remarks by Mr. Ostros and Mr. Merk, and as Mr. Merk was saying, maybe the term playbook might be a bit promising, maybe too much, and could be revised.

Apart from this, we would fully support the continued work on spillovers. We share the concerns mentioned by Mr. Saito and others on the code of conduct for the reasons that have been mentioned and mainly relate to central bank mandates.

This said, we are looking forward to the ongoing work and being engaged in the ongoing work on the IPF. We do share Mr. Rosen's reservations on reassessing policy on capital flow restrictions as currently enshrined in the Institutional View. The staff and the Fund more generally could do more in destigmatizing the advice that is provided here and on overcoming the communication issues that are sometimes involved, as Ms. Mahasandana was elaborating upon earlier.

Finally, we fully support Recommendation 4, in particular regarding the need to secure longer tenure of mission chiefs and less turnover within country teams, and we would invite management to incentivize department directors to ensure that this longstanding recommendation of the IEO is acted upon.

Mr. Doornbosch made the following statement:

I would like to start by thanking the IEO for an excellent report. It was quite a lot of homework, but we enjoyed reading it because the quality was very good. I thank the Chairman for her helpful statement. It laid out the considerations on how to push this work going forward.

That allows me to focus my remarks on one recommendation—it is Recommendation 2—that asks for deeper work on the costs and benefits of UMPs and options to prepare for the next downturn. In your evaluation, you recognize that you do not provide a full assessment of UMP, and I fully understand that is beyond the scope of your evaluation. But I find it is important that the Fund itself constantly evaluates and reviews itself and its so-called corporate view. The further work on costs and benefits of UMP and the positioning in the organization of the expert group should embrace a continuous reflection on the effectiveness, necessity, and unintended consequences of UMP. The evaluation shows that this is something that we could improve upon. Mr. de Villeroché raised an important topic in this context, and that is the relation between UMP and financial stability, and I have a different take on that.

Twice a year we received two documents, one with a blue cover and one with a green cover, and I am going to overdo my point a bit for the sake of argument. I always ask myself the question which one is right; the blue one or the green one? Because in the WEO, I always read that the advice that monetary policy in advanced economies should remain accommodative and that macroprudential policies must be deployed to address vulnerabilities in the financial sector. But when you turn to the GFSR, it tells me that there is a tradeoff because it shows the macroprudential toolkit is pretty empty for the moment. It has a very narrow scope. It is untested. Of course, an important policy implication is that we should strengthen the macroprudential toolkit, and I agree with that. But for now, and maybe for a long time, this does not prevent the accumulation of financial vulnerabilities as an unintended consequence of UMP, or as the IMF’s G20 surveillance note for this week’s meeting states, “Accommodative monetary policies mean that financial vulnerabilities continue to accumulate.”

To be sure, I do not think monetary policy should be tailored to managing the financial cycle, but recent work by MCM shows that expansionary monetary policy may affect the distribution of GDP outcomes and that there may be reason to incorporate such financial stability concerns in deliberations about optimal monetary policy. It is important that further work on UMPs should reflect on the balance between necessity, effectiveness, and unintended consequences and its implications for the corporate view.

I was struck by the contribution of Raghuram Rajan in the special issue of “IMF at 75,” in which he stresses the importance of global cooperation and the role of the Fund in managing cross-border capital flows, but he also suggests that if central bank monetary policies in source countries include a domestic financial stability mandate, it might be the case that what is good for internal domestic stability goes also a very long way in mitigating external spillovers.

Mr. Lopetegui made the following statement:

We are in broad agreement with the findings of the evaluation. The Fund’s response to UMPs was wide ranging and helped advance the policy agenda in many areas. At the same time, the Fund’s engagement on UMP shows several shortcomings of particular concern given that monetary policy is a core area of the Fund’s mandate.

We concur with the report that the Fund provided early support and evaluation to the major economy central banks and encouraged more aggressive policy stance in others. At the same time, we note that country teams were too deferential to the views of central bank officials, possibly because of insufficient expertise. In this regard, we tend to agree with the IEO that the Fund is not generally seen as a top source of monetary expertise, in contrast with its well-regarded role in providing advice on fiscal issues. The main contribution of the Fund’s work was in monitoring potential financial stability risks and helping to develop a new macroprudential policy toolkit, as well as in the design of the new Institutional View on managing capital flows.

Regarding the Fund’s role in international policy cooperation, it is difficult to see what else could have been done. In general, the Fund has made commendable efforts to fulfill its mandate with mixed success. The influence of its spillover work appears to have been constrained perhaps by limited traction.

We broadly support the four recommendations. We believe that the costs associated with having a small core group of top monetary policy experts are modest and that such a group could make a significant difference. If necessary, the expert career track should be considered here.

It is also essential to ensure that monetary expertise in general feeds into bilateral surveillance, including through an appropriate role of MCM in the review process of Article IV consultations. I echo Mr. Fanizza on some of his comments on monetary policy in the Fund in general.

We agree on the need to deepen work on the costs and benefits of UMPs. We are not fully certain whether the playbook is the right vehicle. What is important, as Mr. Mozhin highlighted in his statement, is that we improve knowledge management, and hopefully we are going in that direction. We see value in updating the 2013 policy paper on UMP and the 2015 paper on monetary policy and financial stability. Work on developments in the housing sector, which are valued by the authorities, should be maintained.

The Fund should remain at the forefront of financial spillover analysis and policy responses. The WEO and the GFSR should continue to be the main vehicles for discussion of these issues. We agree with the view expressed by Mr. Rosen and echoed by Mr. Inderbinen recently that more should be done to increase the understanding of the Institutional View and to destigmatize the use of CFMs under appropriate circumstances. We look forward to the IEO evaluation on CFMs and Fund advice.

Lastly, we support the goal of ensuring longer tenure of mission chiefs and less turnover of staff in country teams to enhance surveillance. We would like to highlight the absence of progress in this area, notwithstanding that the MIP in response to the IEO evaluation on the role of the Fund as a trusted advisor completed in 2013, included a specific action targeting three-year tenure for country assignments. The actions appear to conflict with other objectives, such as career development and promotions, and clearly the issue needs to be addressed once and for all in the context of the HR strategy. More continuous engagement with country authorities would also be desirable.

Mr. Tombini made the following statement:

At this stage of the debate I will try to be topical, but first let me commend the IEO and the team for the high-quality of the work, including the country cases, which happens to have one of our countries in the studies.

The takeaway from the whole work is that the performance of the Fund was overall positive. The evaluation, a point raised by Mr. Fanizza, Mr. Ronicle, and others, was important for the advanced economy central banks. The advocacy for those who were going slowly in the UMP was to go bolder, and I think that was positive. On the receiving end, the macroprudential toolkit being studied and improved along the way, and Institutional View was important.

The issue of the funding ahead of the curve, the Chairman alluded to the unprecedented nature of the global financial crisis, so it was very challenging to provide assertive advice during those days. I do not think the Fund should be ahead of the curve in this case. The Fund needs to be nimble to adapt swiftly and play its role of trusted and informed advisor to the members, and to a large extent, this was done.

On the issue of the high-level group of experts, in addition to what Mr. Tobias is doing in MCM, I think it is valid. I have stated that in my gray statement. This has the potential to enhance the quality of our advice in the dialogue with the authorities, but here as the Chairman noted a couple of days ago on the IPF, they have to control expectations. We have to control expectations. Provided it is a high-level group and the dialogue is on long-term issues and structural issues concerning monetary policy framework, that is fine, but to go into the very high-frequency dialogue with central banks, central banks have fiduciary responsibilities, and they would be very resistant to engage in such a daily exchange with anybody, including the Fund, so we have to control that.

The spillover analysis, we were in the forefront of this issue. We have to remain there. I have to agree with what Mr. Rosen said. My experience is that after a threshold, spillovers are taken into consideration in the design of policy in advanced economies, not because of outreason, but self-interest considering spillbacks. But in addition to that, there are spillovers which are not significant, but they are important at a country level and inform our surveillance and lending activities at the Fund so that we cannot escape being at the forefront of this.

Finally, on the playbook, I agree with others. It needs to be flexible. It is more like a *vade mecum* of experience rather than a prescriptive guide to what to do, but it is important that we have this documented with the past experience. The next crisis, nobody knows what it will be, but at least the same issues will be documented here, and I think it is a good addition.

Mr. Ray made the following statement:

As we noted in the joint gray statement with Mr. Ronicle and Ms. McKiernan, we agree that the Fund should strengthen its capacity to conduct high-quality surveillance on monetary policy issues, and we therefore broadly support the IEO's recommendations. Given the nature of the debate, I will just focus on a few themes.

First, this is the third IEO report recently that identifies gaps in the experience and expertise of Fund staff. The Fund needs to be able to attract, retain, and reward staff with the right skills and experience sets, and needs to support a variety of career paths by specialists and generalists. That has to be front and center of the HR strategy. Like Mr. Ronicle, I do wonder whether the Board is sufficiently engaged in it, given how mission critical it is, and so I would look forward to future discussions on that.

On the specific recommendation to develop a core group of top monetary policy experts, it is obviously going to be important to draw on the expertise that exists in central banks and organizations like the BIS. In my experience, central banks are stocked full of people with decades of experience, so there is plenty to draw on. More broadly, though, as Mr. Rosen suggested, it seems a no-brainer that greater use of secondments both in and out of the Fund would be a quick and effective way to build Fund expertise, and that is something that could be considered in the HR strategy.

Secondly, the extensive case study work done by the IEO shows how rapid turnover in country teams can get in the way of developing deep relationships and understanding of circumstances. What that does is it undermines traction. As the Chairman said, this is something that goes way beyond monetary policy, and it is a long-running concern of the membership, and Mr. Saito again put Japan's experience very clearly both in his gray statement and his intervention. While I agree that these insights should be considered in the CSR, it seems to me that it is the HR strategy and where appropriate the CCBR that are actually the places where the incentives for staff need to be addressed. It shows the mission-critical role of the HR strategy.

Third, I agree that it would be useful for the Fund to develop a playbook on UMP, and like Mr. Saito and Ms. Mahasandana said, the point here is that it should be a playbook, not a rule book, and it should take account of country cycle and shock-specific circumstances.

On the Recommendation 3, the work on financial spillovers and advice for managing capital flows, it is a clear area of Fund expertise and responsibility. As this chair has noted in the past, while the Institutional View is an important step forward, and like others we do not wish to see it reopened, there is value in considering the value added and traction of Fund advice on managing capital flows.

Mr. Rawah made the following statement:

We commend the IEO for an excellent evaluation of the IMF advice on unconventional monetary policies and the Managing Director for her constructive statement. In our gray statement, we broadly supported the four recommendations, and we emphasized the following points.

In our view, monetary policy issues are macrocritical and deserve the top priority in the Fund to allow the institution to maintain its relevance on cutting-edge developments and enhance the traction of its policy advice. Noting the IEO's finding that Fund resources specifically devoted to monetary policy issues over the past decade have been quite limited, we urge management to keep these challenges in mind when expanding the Fund's role in areas outside its core mandate and expertise.

Ms. McKiernan made the following statement:

Let me start by thanking the IEO for this excellent set of reports and the Chairman, Mr. Collyns, and Mr. Loungani for that context setting. It was helpful. The IEO has a reputation for high-quality products, and this certainly lived up to, if not surpassed, that.

As we noted in our joint gray statement with Mr. Ray and Mr. Ronicle, we fully support each of the four recommendations by the IEO. Our view is, given the enhanced role of central banks since the global financial crisis, and given the context, which is that there is undoubtedly a financial crisis ahead, and if it hits before we have gone back to so-called conventional monetary policy, then UMP will be even more important, and if it does not, then we will be trying to get back to conventional policy balance sheet management and exit strategies. So one way or the other, the Fund's enhanced expertise o in the monetary policy area is really critical. It is important to be able to challenge any number of stakeholders, including advanced economies on this.

That being said, I will make three specific points. The first one is on the idea of developing a playbook. We fully support that, and as other chairs have mentioned, we would like to see it done in a flexible way as a living document rather than some mechanical or off-the-shelf set of policy prescriptions. We appreciated Mr. Collyns's comments on what he sees the playbook doing versus the IPF. We support both, but because we have not seen a detailed articulation of where both are likely to go, it is important at some stage for the Board to have more opportunity to think through what they both respectively contribute to the landscape.

Second, we fully support the Fund being at the forefront of financial spillover analysis and advice on capital flows. The work that has been done on trade spillovers over the last year or so, which we talked about at the Work Program on Monday, has been hugely effective. It has greatly enhanced the Fund's role in relation to the trade debate and multilateralism. I wonder, has there been a bit of a focus moving away from an even effort on financial spillover analysis that needs to be brought up to also continue to that workload, and certainly we are not seeing as much on spillovers and spillbacks, and it would be great to reenergize that work.

We welcome that the focus of the report was on both source and destination countries, but we note that the discussion mostly focused on the advanced economies as source. But emerging economies increasingly are becoming a source of capital for both advanced economies and other emerging economies. It would be helpful if the cutting-edge analysis on financial spillovers could include both advanced and emerging as source economies.

We have some comments to make on the nexus between monetary policy, both conventional and unconventional, and financial stability, but Mr. Doornbosch has expressed it much better than I could, and so I fully support the remarks that he made. For us, that also means keeping a focus on macroprudential policy, its effectiveness and coverage, and in particular its interaction with other policies—so what does what in the landscape. We appreciated that the last GFSR expanded the coverage to the non-bank financial sector as well as the corporate sector, and we would like to see more on the coverage of risks in those areas.

My last point is regarding the country engagement in bilateral surveillance, and the turnover of the mission chiefs and country teams is an issue. Mr. Rosen, Mr. Fanizza, and Mr. Ray have made the point comprehensively regarding HR issues to be considered in this vein, and I would like to support their remarks with the final point Mr. Ronicle mentioned of perhaps more Board engagement on the HR strategy as a place to bring all of these issues together, and we fully support that.

Mr. Gokarn made the following statement:

We thank the IEO team for an excellent set of reports, very detailed, and also very effectively segmented across country groups. We thank you for your very persuasive response to the report and also your opening remarks today.

As you said, many of us were living the situation, and my interaction with the author of the India section, who was my predecessor here as well as in the central bank, brought back a number of memories, mostly unpleasant ones. Our challenge was to mitigate the impact of UMP as it was being practiced by mostly advanced economies. From that perspective, let me share a few impressions on what we might have liked to have from the Fund at the time but did not necessarily get, and that is really the basis for our expectations on what happens next.

The playbook is a flexible concept. Different people put different interpretations on it. What we would have liked at that point is to have some taxonomy of responses, a hierarchy of responses, a pecking order with a set of policy responses to specific pressures in terms of sequencing. We did not have that, and so as we were trying different things, we realized that if something did not work, the expectation was that you have to do something more severe, and you did not quite know what the consequences of these actions were, whether they were rightly sequenced or not. That was the critical missing element in the policy toolkit, and I hope that the playbook as it emerges, the IPF and so on, will start to take that factor or that requirement into account.

I believe the work being done by the Asia and Pacific Department (APD) for the Regional Economic Outlook (REO), which is to at least catalogue everything that countries have done in Asia, will be a very important part of this. That was another missing element on our radar screen. We had snatches of what other countries were doing but no real assessment, no really systematic putting together of this, and the Fund can also play an important role here.

The second point I want to make is on the CFMs in the Institutional View. It came a time when it to some extent legitimized what we were doing. It brought the Fund a little closer to our view that these are things we need to do regardless of what anybody else is saying because that is the only set of responses we have. But the assumption there and the premise that it is all very well to use CFMs but then your macro fundamentals have to be in shape, it is a well taken point. Nobody disputes that. But many of these responses are happening in a situation where the macro fundamentals are not in shape. Current account imbalances, fiscal imbalances, all of these are adding enormous pressure to the situation. The more realistic policy advice is, look, you have got all these problems; what is the best you can do; what are the best responses you can make in a situation where the fundamentals are not entirely as one might expect. Being realistic needs to take this factor into consideration.

On the issue of risk management, the FSAP lays out limitations, weaknesses in the overall financial risk management framework. That comes every five years. For surveillance to be effective, it has to provide some reporting, some assessment of how much progress is being made every year on the ability to manage risk by private stakeholders. I do not think that is an issue that is emphasized in the Article IV consultations. Maybe it is in some countries, but I do not think it is uniform. That is a very important alignment between the FSAP assessments and the Article IV, the surveillance.

Managing risk is a weakness in many countries. We can see this in the Article IV reports. We can see it in other discussions as well. But what are we creating, what are the institutional mechanisms we are creating to help the private sector managers? This is a very important element of this discussion and also IPF.

Mr. Sylla made the following statement:

I would like to reiterate our acknowledgement of the work that is being done by the Fund on the UMP. We issued a gray statement, and like many Directors, I would like to intervene to recall some evidence for our position in some of the four recommendations.

First, as the International Monetary Fund, this institution should not shy away from building capacity and expertise on monetary issues.

Second, in terms of monetary policy, what is conventional today was certainly not conventional 10 or 15 years ago. In this respect, and in relation with my first point, like Mr. Rosen, the Fund must be at the forefront of all monetary issues.

Thirdly, as noted by many Directors and also stressed in our gray statement regarding Recommendation 2, there is the caveat that each major crisis is unique in nature, scope, and intensity. It would be challenging to come up with a manual for effective responses in any circumstances.

Finally, the spillover effect of UMPs can be very significant in several countries, notably emerging markets and developing countries, mainly those that have their monetary policies linked to one of the big countries, like those with a pegged currency. In this regard, we echo Ms. Mannathoko on the need to analyze also spillover to LICs.

Mr. Sassanpour made the following statement:

I thank the Chairman, Mr. Collyns and Mr. Loungani for another high-quality, well-documented, and frank evaluation of an issue which is still evolving, as was stressed by Mr. Mozhin, and will surely remain relevant.

In our gray statement, we supported all the IEO recommendations, although one or two with some caveats and nuances. There is no question that the Fund assumed a very constructive role validating the unorthodox measures and, in some cases, staying with the curve. But by and large, the unconventional measures were necessitated by the circumstances and were very much homegrown.

Another factor which may have affected the Fund's thinking and reaction to these unusual circumstances—and this is a point which I did not see much reference to—was probably the exit of a large number of senior staff in 2008-2009, right before the crisis hit, and through which in a very short period of time, probably 1,000 or 2,000 years of institutional memory and expertise was lost to the Fund.

As stressed by the Chairman most other Directors, the IEO recommendations have to be viewed within the broader framework of other initiatives, notably the CSR, and equally important, the HR strategy.

We support all the recommendations, but let me just comment on one, and that is the one on building a core team of experts of highest caliber within the Fund. A point that we raised was that it is important for the core team to have the complete freedom to think outside the box and not to be tied down by Institutional Views, norms, and practices; otherwise, it may defeat the purpose. Hence, in our gray statement we advocated a concept of a revolving core drawn from academia, central banks, think tanks, as well as other institutions, including the BIS, and this could be leveraged to build a specialized group of in-house monetary policy experts, and as pointed out by some of the Directors, specialization should be adequately rewarded.

Finally, as we go through various initiatives, a common theme is resource constraint. It is an issue which was also highlighted by Ms. Mannathoko, that given the strong competing demand on Fund resources, we hope that other Fund priorities, especially those targeting developing countries, are not pushed to the background.

Mr. Sun made the following statement:

We thank the IEO for the very comprehensive report and the outreach. We also thank the Managing Director for her insightful statement. We have issued a gray statement where we broadly share the IEO’s recommendations, so I will not repeat the points in our gray statement but would like to say that the IEO’s assessment on this important issue is very much needed and is timely. This is not only because monetary policy is so important domestically, but also for some countries, monetary policy has significant international spillovers, especially the spillovers to emerging market and developing countries. Monetary policy in many countries after the global financial crisis has been dramatic and unconventional, and their implications, especially long-term implications, remain unclear. There have been positive effects of the UMP in dealing with the financial crisis, but more remains to be known with regard to the unintended consequences of UMPs. In this sense, this IEO evaluation is particularly important, and it calls for strengthened analysis by the Fund on monetary policy in more general terms. As Mr. Rosen mentioned, this should be done in a more consistent and integrated manner. With that, we look forward to the implementation of the IEO recommendations.

Mr. Gokarn made the following statement:

I support the view that the HR implications have to be looked at in a broader context of organizational priorities, and so the response cannot be to implement one set of recommendations.

The point made by Mr. Loungani about the perceived weaknesses in the transition processes is very important. More effective transition, more robust transition, could be a substitute for some of the people-oriented suggestions that have been made. That is something that needs to be emphasized, particularly important in this situation where you need continuity of the relationship over time.

The Director of the Independent Evaluation Office (Mr. Collyns), in response to further questions and comments from Executive Directors, made the following additional statement:

> We appreciated the thoughtful comments made around the table this morning and they provide very useful input to us as we now turn to our next evaluation on Fund policy advice on capital flows. We raised a number of issues in the report, and we heard a number of interesting perspectives that we will need to build on and reflect upon as we go ahead with this work. We are now going to be putting forward an issues paper to the Board for discussion in a seminar in July, so that will be an occasion to have further discussion on those particular issues.

The Chairman made the following statement:

> We all look forward to that important work that you have now started. I will proceed to the reading of the summing up, but I would like to reiterate our thanks for the quality of the work, the fantastic cooperation, particularly between your team and MCM, and I know that Mr. Adrian, who was in Chicago actually, and has returned for the purpose of this meeting, was very keen to be here and to be on the receiving end of all your comments and to pay tribute to the work that was done.
>
> Sometimes cooperation can work so well that it happens that a member of the team eventually jumps ship and joins MCM, which has actually happened in that particular case, in order to form and reinforce the team of core experts which is being built within that department.

Mr. Mozhin made the following statement:

> I have one comment on the idea that the Fund should hire retired central bankers or former central bankers when we talk about creating this unit. It is important not to close our eyes to the risk that the former central bankers may be constrained by the need to defend their past record and that at least they should not be the only type of person we hire. I would certainly prefer to see people hired from academia, for example, from those who have recently written about such topics as Japanification of the Western economies, who have written about the fact that preventing the great recession from turning into great depression, that this was done at the cost of not allowing the creative destruction to function, and that is what has led to the appearance of these zombie companies. The link between the presence of zombie companies

and the deflationary pressures in the global economy, that is a very interesting topic. Yes, former central bankers is a good pool of people to look at, but there are others as well, and this should not be limited to former central bankers.

The Chairman made the following statement:

That is a very good point. Incidentally, it has not been a failure to try to attract some of those talented individuals from central banks, either former Governors, Deputy Governors or otherwise, or people from academia at the highest levels. It just happens that they are typically more tempted to keep a very high degree of independence and sometimes defend their previous policies, but seem to be quite happy to join think tanks of all sorts rather than rally to our flag. I would urge you if you hear about some of those available talents, to please let us know and help us identify them. On that particular page, I am particularly attentive to the comments that you have made concerning the mid-career talents, concerning the expert track that is being formulated and will be part of the HR strategy that will come for Board consultation and discussion.

As I was listening to you and having participated in quite a few Board meetings in the last few years, I would love to have some artificial intelligence to help us extract from our Board discussions and aggregate each occasion when we have said we need additional talent here, we need additional talent there, some resources might be needed, but not too much. That would certainly be helpful in identifying exactly the direction that we need to reinforce and focus on. But this one that you have identified is definitely one where work has started and will continue in order to deliver on those recommendations, bearing in mind that the HR strategy, the CSR, the IPF will also be largely and substantially informed by some of the recommendations that are embedded in this report.

The following summing up was issued:

Executive Directors welcomed the timely evaluation of *IMF Advice on Unconventional Monetary Policies* (UMP) by the Independent Evaluation Office (IEO). They recognized that the 2008 global financial crisis and the considerable uncertainty that ensued had presented unprecedented challenges for policymakers, prompting active and innovative responses from central banks. Directors welcomed the overall finding that the Fund's response to these developments has been wide-ranging and, in many respects, impressive. They appreciated the IEO's valuable insights on how the Fund can further improve the value added of its contribution, traction with member countries, and timeliness of its advice on monetary policy issues, leveraging its comparative advantage and extensive country experience.

Directors broadly supported the thrust of the IEO's recommendations, albeit with some caveats and qualifications. They noted that any changes in the Fund's monetary policy work should be coordinated with other workstreams, including the integrated policy framework (IPF), the Comprehensive Surveillance Review (CSR), the HR strategy, and budget discussions.

Directors saw merit in building expertise in monetary policy issues to enhance the Fund's role in this field (Recommendation 1). They noted the finding that a number of factors had limited the value added and influence of Fund advice on monetary policy, including lack of deep expertise in applied monetary policy and inadequate resources devoted to this area. They generally agreed that a core group of top, broadly-diverse monetary experts with experience in policymaking would better provide practical guidance, more effectively engage with senior officials on monetary policy and frontier central banking issues, and at the same time support institutional learning at the Fund. Directors saw the recent establishment of a new unit on monetary policy modelling in the Monetary and Capital Market Department as a welcome first step in this direction. They stressed the importance of collaboration with major central banks and the Bank for International Settlements. Directors also welcomed ongoing efforts to better leverage and enhance existing knowledge in the Fund, particularly work on interactions of monetary policy with other policies. They looked forward to learning more about the work program for the IPF and to discussing specific options for prioritizing monetary policy work in budget and HR strategy discussions.

Directors broadly supported the idea of developing a playbook to guide policy responses in the future, by deepening work on the costs and benefits of UMP and related policies (Recommendation 2). They concurred that, as UMP has become part of the central banking toolkit, there is merit in drawing on the Fund's cross-country experience to assess the macroeconomic and distributional impacts of different UMP instruments, and the role of monetary policy relative to fiscal policy and macroprudential policies. In developing a playbook, Directors emphasized the need to avoid over-prescriptive approaches, allowing sufficient flexibility to adapt to country-specific conditions and evolving circumstances. Directors generally recognized that the IEO's recommendation cuts across a wide range of work. Many Directors supported work to update the 2013 paper on the global impact and challenges of UMP, and the 2015 paper on monetary policy and financial stability. Directors welcomed management's intention to present the specific agenda in future work program discussions.

Directors agreed that the Fund should be at the forefront of financial spillover analysis and provision of advice on dealing with capital flows (Recommendation 3). They noted the many initiatives that the Fund had taken over the past decade to assess spillovers, improve financial risk assessments, develop the macroprudential policy toolkit, and advise countries on how to deal with capital flow volatility. A number of Directors called on the Fund to pay greater attention to the challenges faced by emerging market and developing countries from financial spillovers and capital flow volatility, including additional work on the appropriate mix of policies in "source" countries, be it advanced or emerging market economies. A few Directors stressed that all countries have the responsibility to implement sound macroeconomic policies, mindful of both spillover and spillback effects, and that the Fund has a role to play in providing advice to its membership on how to handle cross-border effects and enhance resilience. While recognizing that stronger international monetary cooperation would be desirable, many Directors felt that developing a code of conduct for central banks may be impractical and unduly constrain policy implementation in pursuit of their domestic objectives. Directors encouraged using the insights from the ongoing work on spillovers and the IPF as input for the CSR, including consideration of approaches to better address spillovers and options to strengthen surveillance modalities.

Directors recognized the relevance of the lessons from the evaluation in considering how to deepen and enrich country engagement in bilateral surveillance (Recommendation 4). Noting with concern the IEO's observation regarding frequent turnover in mission chiefs and country teams, most Directors shared the view that increased staff continuity, including longer tenure of mission chiefs and better transitions, would help deepen understanding of country circumstances and relationships with authorities, thereby improving the Fund's potential as a trusted advisor. They concurred that these issues would be best considered in the context of CSR and HR strategy. Directors also acknowledged that, while lessons from the experience with UMP would help inform the CSR currently underway, formulating general recommendations on bilateral surveillance would need to take a broader perspective and consider Fund engagement with members in its entirety.

In line with established practice, management and staff will carefully consider today's discussion in formulating a follow-up implementation plan, including approaches to monitor progress. Directors also looked forward to further opportunities to consider how best to reflect on the many useful suggestions in the appropriate workstreams.

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JIANHAI LIN
Secretary