

**IMMEDIATE
ATTENTION**

SM/08/316

October 6, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Statement of Surveillance Priorities**

Attached for consideration by the Executive Directors is the draft Statement of Surveillance Priorities. This draft statement reflects comments received from Executive Directors on the version sent to them on Thursday, October 2, 2008. A redlined version of the draft statement is also attached for the convenience of Executive Directors. The staff proposes publication of this paper, following the approval by Executive Board, on the Fund's external website.

Is it not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by the **close of business on Tuesday, October 7, 2008**. In the absence of such a request, the draft decision that appears on page 5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Ms. Mateos y Lago (ext. 37219) and Mr. Dauphin (ext. 39705) in SPR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

SURVEILLANCE PRIORITIES FOR THE INTERNATIONAL MONETARY FUND, 2008-2011

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

Economic priorities

The global economy faces a period of severe financial distress and slower growth alongside the challenges of sharp commodity price changes and global imbalances. The following interrelated policy objectives will be key to return to an international environment more conducive to sustainable noninflationary growth:

- **Resolve financial market distress.** Restore stability and minimize the adverse impact of the current crisis in financial markets on the real economy;
- **Strengthen the global financial system** by upgrading domestic and cross-border regulation and supervision, especially in major financial centers, and by avoiding the exposure of capital-importing countries, including low-income countries, to excessive risks;
- **Adjust to sharp changes in commodity prices.** React to commodity price shifts in domestically appropriate and globally consistent ways, with emphasis on keeping inflationary pressures in check in boom phases and minimizing risks that could arise when prices fall;
- **Promote the orderly reduction of global imbalances** while minimizing adverse real and financial repercussions.

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

Operational priorities

- **Risk assessment.** Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic;
- **Financial sector surveillance and real-financial linkages.** Improve analysis of financial stability, including diagnostic tools; deepen understanding of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports;
- **Multilateral perspective.** Bilateral surveillance to be informed systematically by analysis of inward spillovers; outward spillovers (where relevant); and cross-country knowledge (as useful); and,
- **Analysis of exchange rates and external stability risks.** In the context of strengthening external stability analysis, integrate clearer and more robust exchange rate analysis, underpinned by strengthened methodologies, into the assessment of the overall policy mix.

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

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

SURVEILLANCE PRIORITIES FOR THE INTERNATIONAL MONETARY FUND, 2008-2011

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

Economic priorities

The global economy faces a period of severe financial distress and slower growth alongside the challenges of sharp commodity price changes and global imbalances. The following **intertwined interrelated** policy objectives will be key to return to an international environment more conducive to sustainable noninflationary growth:

- **Resolve financial market distress.** Restore stability and ~~M~~minimize the adverse impact of the current crisis in financial markets on the real economy ~~and restore stability~~;
- ~~Prevent disruptive capital flows from jeopardizing stability and growth.~~ **Strengthen the global financial system** by upgrading domestic and cross-border regulation and supervision, especially in major financial centers, and ensure by avoiding the exposure of that capital-importing countries, including low-income countries, ~~do not expose themselves~~ to excessive risks;
- **Adjust to sharp changes in commodity prices.** React to commodity price shifts in domestically appropriate and globally consistent ways, with emphasis on keeping inflationary pressures in check in boom phases and minimizing risks that could arise when prices fall;
- **Promote the orderly reduction of global imbalances** while minimizing adverse real and financial repercussions.

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

Operational priorities

- **Risk assessment.** Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic;
- **Financial sector surveillance and real-financial linkages.** Improve analysis of financial stability, including diagnostic tools; deepen understanding of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports;
- **Multilateral perspective.** Bilateral surveillance to be informed systematically by analysis of inward spillovers; outward spillovers (where relevant); and cross-country knowledge (as useful); and,

- **Analysis of exchange rates and external stability risks.** In the context of strengthening external stability analysis, Provide-integrate clearer and; more robust exchange rate analysis, underpinned by strengthened methodologies, well-integrated into the overall-assessment of the overall policy mix and external stability risks, and underpinned by strengthened methodologies.

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

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

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

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