

IEO

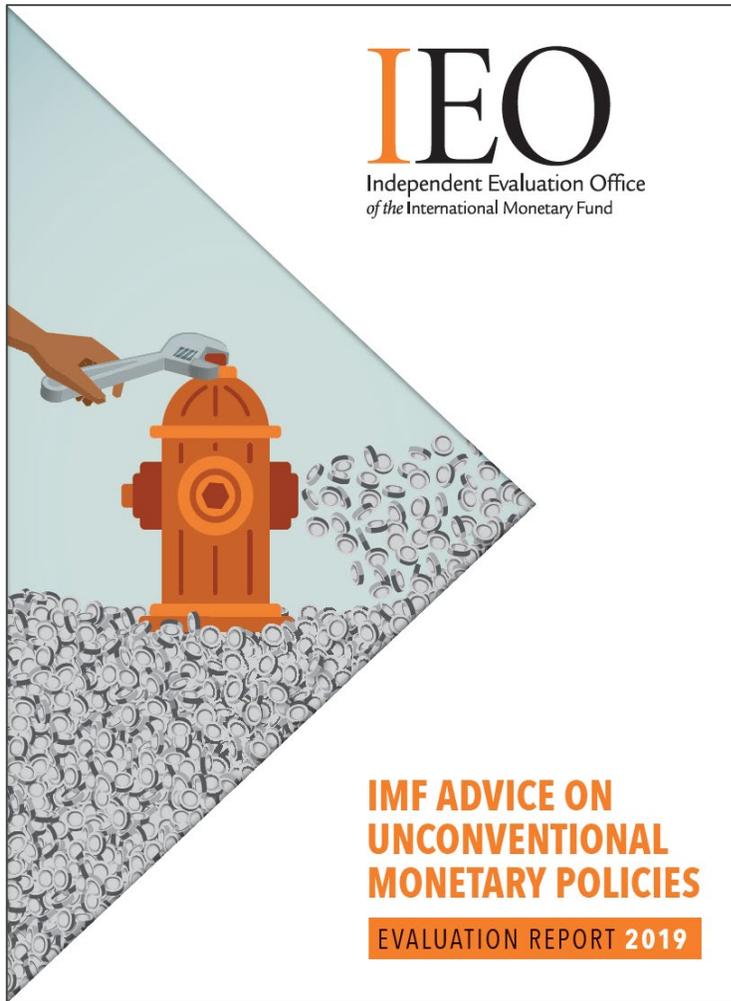
Independent Evaluation Office
of the International Monetary Fund

IMF ADVICE ON UNCONVENTIONAL MONETARY POLICIES

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UMP Advice: Why this evaluation?



- ▶ Did IMF provide value added advice in a core area at a time of unprecedented challenge?
- ▶ Did IMF help countries affected by spillovers and promote cooperative approaches?
- ▶ Can Fund be better prepared next time that UMP are needed?

Scope of the evaluation

- ▶ Assessment of IMF's value added & influence, not assessment of whether UMP worked
- ▶ Country cases cover IMF advice to:
 - Major central banks implementing UMP
 - Other advanced economy central banks affected by spillovers: Canada, Czech Republic, Denmark, Sweden, Switzerland
 - Major EMs affected by spillovers
- ▶ Thematic papers cover Fund's work on:
 - Risks and side-effects of UMP
 - Promoting international monetary cooperation
 - Frontier central banking issues
- ▶ Institutional and HR issues that influence quality of Fund surveillance, including on monetary policy issues

IMF's 'corporate view' on UMP

The IMF:

- ▶ Provided early and steadfast support for UMP in advanced economies
 - Supported quick pivot to fiscal consolidation in 2010
- ▶ Proposed macroprudential policies to manage financial stability risks
- ▶ Assessed UMP to be beneficial overall for the global economy
 - But recognized challenges to EMs

Assessment of corporate view

- ▶ IMF deserves credit for rapid deployment of support for UMP. But Fund should have:
 - been at forefront of cross-country assessment of how well these policies were working
 - paid greater attention to the mix between monetary and fiscal policies
 - done more to recognize EM challenges in managing volatile capital flows

- ▶ Fund's view on financial stability risks from UMP was sound for the exceptional circumstances
 - and complemented with active monitoring of risks (including in the housing sector) and work on macroprudential policies



Advice to major advanced economies

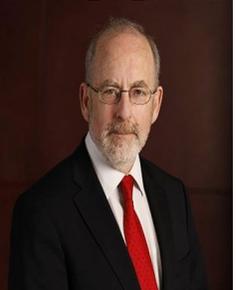
- ▶ Useful validation of actions by Fed and Bank of England
- ▶ Pressed ECB and Bank of Japan toward stronger actions
 - Interactions between ECB and IMF staff were influential in run-up to ECB decision to launch QE in 2012
- ▶ Limited value added of Fund analysis relative to central banks' own work
- ▶ Major central banks valued Fund's multilateral research



Advice to smaller advanced economies

▶ The Fund:

- generally went along with novel actions
 - Denmark moved to negative policy interest rates (NIR) in 2012. Fund assessment of NIR came in 2016-17
 - Exchange rate floors by Switzerland and Czech Republic
- did not bring new ideas on toolkit these economies would need
- was not much used as source of external advice



Advice to emerging markets

- ▶ Article IV a well informed check on macro framework. But countries would appreciate:
 - deeper expertise and market awareness for value-added on monetary policy issues
 - greater discussion of global developments and cross-country experience
- ▶ ‘Institutional View’ (IV) on capital flows welcomed as sign of Fund’s flexibility. But concerns remained that it was still too restrictive in implementation and design



Fostering international monetary cooperation

- ▶ Extensive collaboration with G-20 to encourage cooperative policies (e.g. MAP) but limited impact
- ▶ “Spillover Reports” launched to assess channels of transmission, especially to EMs
 - Few analytic breakthroughs on financial spillovers; little influence on policy advice
 - Reports eventually discontinued
- ▶ ‘Institutional View’ appreciated, but hardly satisfies anyone
 - Some regard it as “open blessing” for capital controls
 - Others find IV too rigid and not supportive enough of capital flow management measures
- ▶ Flexible Credit Line launched but limited take up (Mexico, Poland, Colombia)
 - All three countries found FCL useful
 - Stigma still a concern



Frontier central banking issues

- ▶ Many difficult issues being actively debated
 - Monetary policy toolkit: should UMP be part of conventional toolkit?
 - Monetary policy framework: still IT? should inflation target be raised?
 - Governance of central banks: rein in “unelected power”?
 - Central bank digital currency: will it help get around ZLB issues?

- ▶ Fund not considered at forefront on new thinking on these issues
 - Exception: early discussion of case for higher inflation target

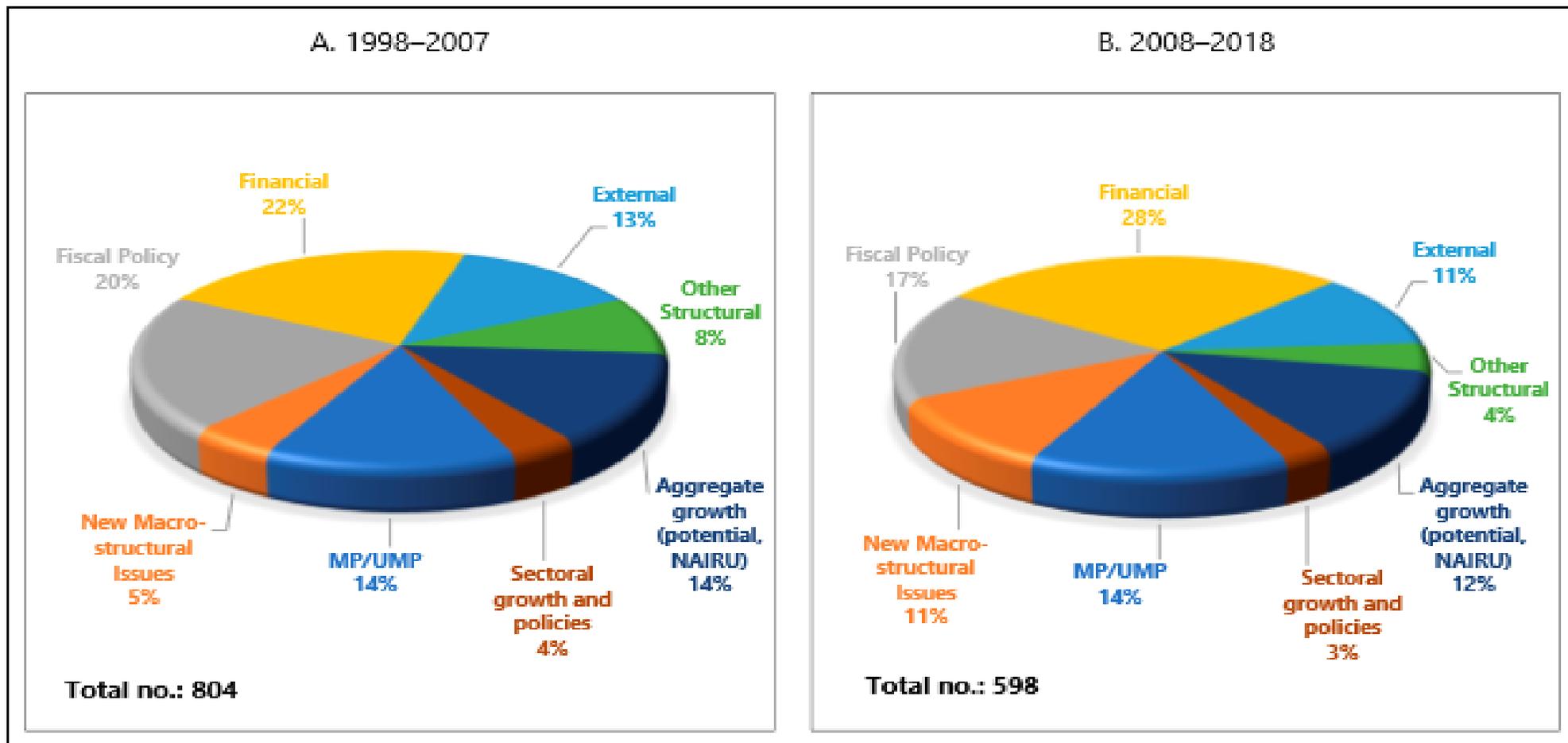


Institutional and HR Issues

- ▶ Robust internal debate on some UMP but no structured process for formulating advice or evaluating experience
- ▶ Resources on monetary policy competed with newer priorities
- ▶ Fund lacked thought leaders in monetary economics
- ▶ Frequent turnover of mission chiefs and staff on country teams inhibits building of deep expertise and relationships

Monetary policy competes with newer priorities

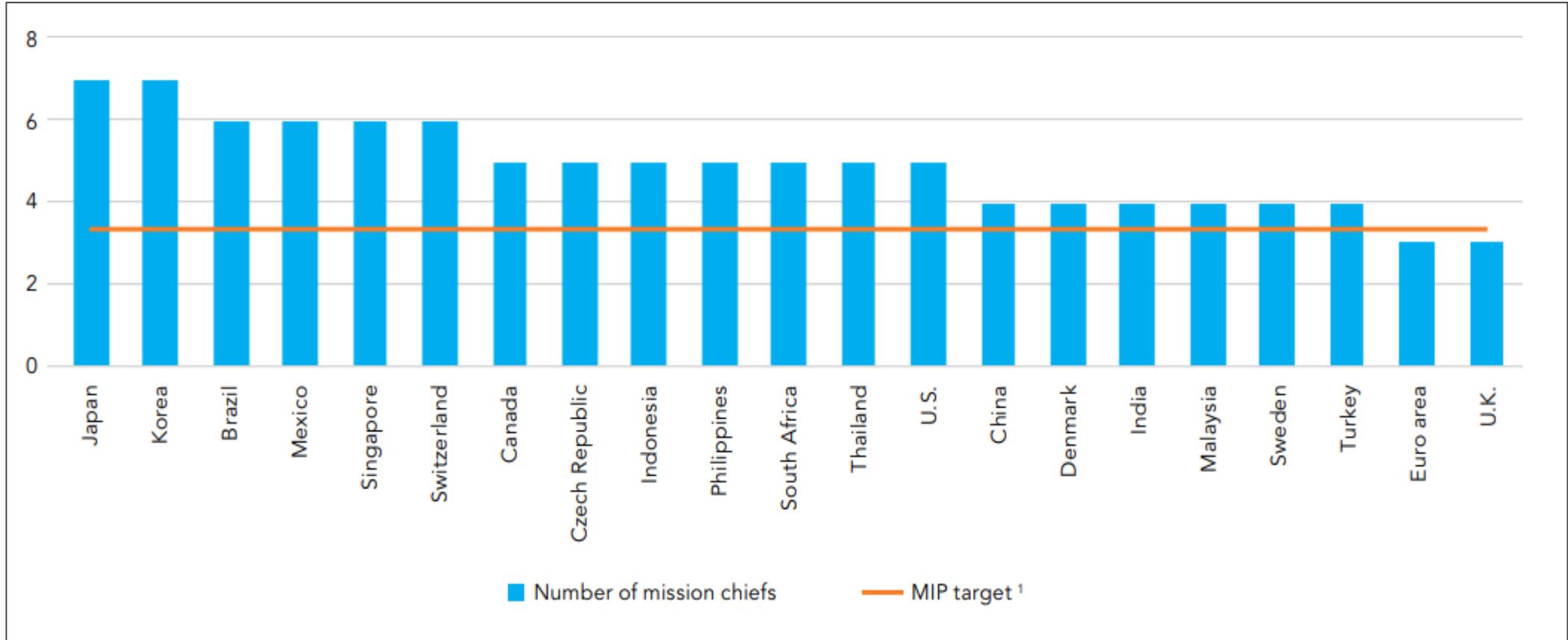
Share of selected issues chapters on various topics (in percent)



Source: ITD IMF's Publications Archive Repository

Challenges of country engagement: Turnover of mission chiefs

Number of IMF Mission Chiefs (2008-17)

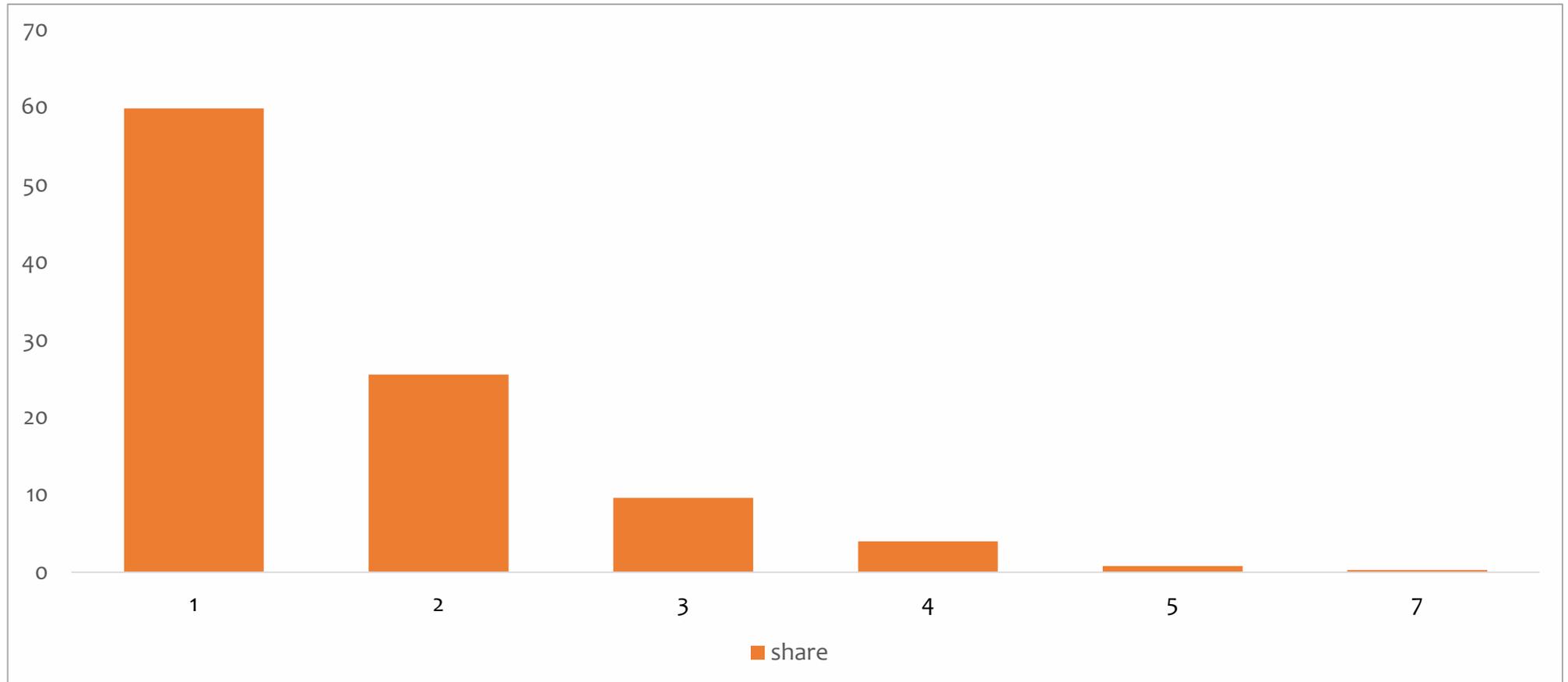


Source: IEO staff calculations based on Article IV Reports 2008-2017

Note: 1/ Based on MIP target – Role of the IMF as Trusted Advisor

Challenges of country engagement: turnover on country teams

Participation of Staff in Article IV Missions, by Number of Missions



Source: IEO staff calculations based on Article IV Reports 2008-2017

Recommendations

- ▶ Fund should raise its game in a core area of its mandate, focusing on its comparative advantage and not trying to substitute for central banks or BIS
- ▶ Four broad recommendations aimed at building greater depth of monetary expertise and engaging more effectively with countries in providing advice
- ▶ Recommendations are mutually reinforcing and intended to be affordable in a resource constrained environment

Recommendation 1: Building monetary expertise

- ▶ 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
 - Provide in-depth advice to country teams as and when needed

Recommendation 2: Preparing for future downturns

- ▶ Develop a playbook on policy responses for use in future downturns by:
 - Drawing on cross-country experience to assess the macroeconomic impact of alternative UMP instruments
 - Exploring policy mixes, synergies and trade-offs, updating existing Fund policy papers on these subjects
 - Greater attention to possible distributional impact of UMP

Recommendation 3: Revive spillovers' work

- ▶ Reenergize financial spillover analysis and advice on dealing with capital flows:
 - Reassessing IMF advice on capital flows
 - new IEO evaluation underway
 - Greater attention to workstream on financial spillovers
 - Support out-of-the-box thinking on international monetary cooperation (e.g. code of conduct to minimize spillovers?)

Recommendation 4: Strengthening country engagement

- ▶ Enrich country engagement in bilateral surveillance by:
 - Extending length of country assignments
 - Ensuring effective handover between teams
 - Seeking engagement opportunities with central bank authorities outside of Article IV

Management and Board Response

- ▶ **MD** welcomed overall finding that the Fund's engagement on UMP has been wide-ranging and in many respects impressive
- ▶ Agreed that there is room to improve timeliness and value added of IMF work on monetary policy issues
- ▶ **Executive Directors** broadly supported recommendations.
 - Agreement on need to deepen IMF monetary policy expertise and country engagement, within resource constraints
 - Emphasis that the Fund should focus on comparative advantages not compete with or substitute for central bank strengths
 - Skepticism about options for strengthening international monetary cooperation

Next Steps

- ▶ Management Implementation Plan due within 6 months
- ▶ Key findings and recommendations to feed into the Comprehensive Review of Surveillance, due in 2020, as well as budget discussions and the new HR strategy

Work in Progress

- ▶ IMF Advice on Capital Flows
- ▶ Adjustment and Growth in IMF-Supported Programs
- ▶ IMF Collaboration with the World Bank on Macro-Structural Issues (shorter evaluation pilot)
- ▶ IMF Involvement in International Trade Policy Issues (update of 2009 evaluation)

THANK YOU!

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