



INTERNATIONAL MONETARY FUND FACTSHEET

Strengthening Surveillance—Lessons from the Financial Crisis

In recent years, the IMF has undertaken major initiatives to strengthen surveillance to respond to a more globalized and interconnected world. These initiatives include revamping the legal framework for surveillance, deepening analysis of risks and spillovers, strengthening financial surveillance of systemic risk, stepping up assessments of members' external positions, and responding more promptly to concerns of the membership. The [2014 Triennial Surveillance Review](#), furthering initiatives launched in the 2011 Review, proposed steps to strengthen implementation of reforms in these areas, and also to ensure that surveillance is well-equipped to address emerging challenges and support sustainable growth in an interconnected post-crisis world. This factsheet outlines recent actions in priority areas.

Interconnections

The global crisis underlined the need for a deeper analysis of linkages among economies and across sectors, which the IMF now provides through a number of vehicles:

- Individual country surveillance, as well as multilateral surveillance reports such as the IMF's [World Economic Outlook](#) (WEO), [Global Financial Stability Report](#) (GFSR), [Spillover Notes](#), and various [Regional Economic Outlooks](#), have deepened their analysis of interconnections and spillovers. Cluster reports are also prepared occasionally on common issues facing groups of countries (e.g., trade, capital flows, macroprudential policies, and unconventional monetary policies).
- The IMF draws on its analysis of cross-border risks and spillovers in international fora, such as the Group of Twenty (G-20) industrialized and emerging market economies and the Financial Stability Board, to [promote](#) policies that support sustainable global growth and financial stability.

Legal framework

In 2012, the IMF's Executive Board adopted an [Integrated Surveillance Decision](#) that strengthens the legal basis for surveillance in a highly integrated world economy. This decision enables more systematic coverage of spillovers from members' economic and financial policies in Article IV consultations and better integrates surveillance at the bilateral and multilateral levels. It helps the IMF to engage members at an earlier stage in the buildup of risks and vulnerabilities, and encourages them to be mindful of the impact of their policies on other countries and on global stability.

Risk assessments

The IMF is sharpening risk assessments so that potential problems can be spotted and appropriate policy responses developed more effectively.

- The IMF conducts a semi-annual [Early Warning Exercise](#) to identify and assess low probability but high impact risks to the global economy. It also conducts Vulnerability Exercises to assess vulnerabilities and emerging risks in individual advanced, emerging market, and low-income countries.

- Most Article IV reports focus on risks. They incorporate risk assessment matrices that identify key domestic and external risks, and draw more systematically on the results of the Early Warning Exercise, the Vulnerability Exercises, the WEO, and the GFSR.

Macrofinancial surveillance

The Fund has increased its emphasis on financial sector issues in its multilateral and bilateral surveillance. This involves systematically exploring macro-financial linkages to understand the contribution of the financial sector to growth, the two-way relationship between financial and economic stability, and the role of the financial sector in the overall mix of policies.

- Since 2014, the Fund has made significant progress in [integrating macrofinancial analysis into Article IV surveillance](#). Building on past work to enhance financial sector analysis, Fund staff has sought to develop a consistent and forward-looking view on how the financial sector affects each member's economic outlook with the aim of strengthening policy advice. The lessons learned from incorporating this perspective in surveillance in 66 economies have laid the basis for progressively mainstreaming macrofinancial surveillance across the whole membership.
- Fund surveillance also actively supports members' efforts to incorporate a [macroprudential perspective](#) into financial policymaking, including through the use of [macroprudential tools](#) to contain systemic vulnerabilities.
- Another major continuing initiative is the [Financial Sector Assessment Program](#) (FSAP). Under this program, comprehensive financial stability assessments are conducted every five years for economies with systemically important financial sectors and less frequently for other economies. The analysis on FSAPs is followed up on in the context of Article IV consultations. The latest [review](#) of this program was completed in September 2014.
- The IMF is a member of the Financial Stability Board, which enhances collaboration on macrofinancial and supervisory issues. The IMF and the FSB work jointly on [closing policy-relevant data gaps](#).

External stability

Assessing external stability and external imbalances remains a core component of the IMF's mandate, as external imbalances can have a significant impact on the operation of the global economy.

- In July 2016, the IMF published the fourth [External Sector Report](#) (ESR) covering the world's largest economies. The Report contains a multilaterally consistent assessment of members' external balances, currencies, and policies. The analysis broadens external sector surveillance by more systematically assessing exchange rates, current accounts, balance sheet positions, reserves adequacy, capital flows, and capital flow measures.
- The ESR relies on the [External Balance Assessment](#) methodology, introduced in 2012, to assess current accounts and exchange rates in a multilaterally consistent manner.

Macrostructural policies

Macrostructural policies play an important complement to macroeconomic policies in promoting more durable job-rich growth and global economic and financial stability.

- The IMF has taken steps to strengthen its analysis of structural and social issues that are critical to the health of an economy (such as unemployment and inequality) and, where appropriate, deliver advice that integrates structural reforms in the broader macroeconomic framework.
- Recognizing there's no "one size fits all" approach, the IMF has deepened its analysis of reform priorities by enhancing the focus on macrostructural issues in surveillance so as to deliver the greatest productivity payoffs. Other initiatives

include a comprehensive report on [jobs and growth](#) and focused analyses in [WEO](#) chapters.

Traction

For its advice to have the most impact, the IMF seeks to provide strong economic analysis, candid and evenhanded advice that is tailored to country circumstances, and clear messages.

- The IMF's major findings and policy messages are published twice a year in the Managing Director's Global Policy Agenda. This report highlights the top-line messages from the IMF's multilateral surveillance products (e.g., the WEO, GFSR, Fiscal Monitor, and ESR) and sets the agenda for the IMF's key priorities.
- Other initiatives to improve IMF surveillance focus on early consultations with country authorities on relevant policy questions prior to Article IV consultations and systematic follow-up on past advice.