

**Statement by the Managing Director
on the Evaluation of the Independent Evaluation Office of
IMF's Exchange Rate Policy Advice, 1999-2005
Executive Board Meeting
May 9, 2007**

1. **Exchange rate policy advice is at the core of the Fund's mandate.** We are aware of the challenges facing the institution in providing high-quality, high-impact exchange rate policy advice to our members. We have recently undertaken many important initiatives to enhance effectiveness in this area, including those identified in the Medium-Term Strategy.
2. **While we are always looking for improvements, it is critical to recognize the progress already made and what is working well.** Most members surveyed by the IEO viewed positively the Fund's work in many aspects of exchange rate policy advice, including the quality of analysis, the honesty and constructiveness of discussions with members, and the impact on key policy decisions. This reality is not appropriately reflected in the report.
3. **The IEO report contains a great deal of valuable information, but the way it analyzes this information limits its usefulness in helping us identify and address the most critical areas of remaining weakness—the main task.** As noted in the staff comments, in many key areas the report presents a narrow interpretation of the evidence, does not recognize progress made over time, and therefore does not offer a balanced perspective in identifying remaining weaknesses and their relative importance.
4. **I look forward to the Board's reflections on how best we can advance this core mandate of the institution.** While it is the IEO's job to identify any possible remaining weaknesses, the Board will need to provide guidance as to just how significant these are and whether they warrant new initiatives. Our priorities include strengthening further the analysis of exchange rate levels backing up our advice to members; improving the treatment of spillover issues; and consolidating progress in a number of other areas. To achieve this, initiatives are already underway, including revalidating the fundamental purpose of surveillance through a revised Surveillance Decision. There may be merit in refinements to some of them, and we will consider this carefully in light of the Board discussion of this report. However, I believe new major initiatives would best be considered after the completion of the review of the 1977 Decision.