

IEO Releases Report on IMF Exchange Rate Policy Advice, 1999-2005

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Independent Evaluation Office

of the International Monetary Fund

Washington, D.C. 20431 USA

May 17, 2007 - In releasing the latest report of the Independent Evaluation Office (IEO), Tom Bernes, Director of the IEO, called for "a major refocus of efforts to remedy an effectiveness gap in the IMF's advice on exchange rate policy."

In its report that analyzed the IMF's work on exchange rate policy during 1999-2005, the IEO acknowledged that the quality of the IMF's advice to its member countries had improved in some ways over those seven years, citing "many examples of good analysis and dedicated staff teams." But the report went on to say that "there was a lack of effective engagement on exchange rate issues in too many cases.

To gather evidence for its analysis, the IEO reviewed the last two country reports for each of the IMF's members through 2005 as well as related background material. IEO staff also examined in detail the IMF's exchange rate advice to a group of 30 economies. To complement its desk reviews, the IEO conducted interviews with country authorities and IMF officials, and carried out two surveys, seeking views from central banks or finance ministries in all member countries and from senior IMF staff involved in country work. The IEO's findings were based on the totality of this evidence, much of which was provided in confidence.

The IEO set out to answer three main questions: Is the role of the IMF clearly defined and understood? How good is the quality of the IMF's advice and its underlying analysis? And how effective is the IMF in its policy dialogue with country authorities? It concluded that "the IMF was simply not as effective as it needs to be in both its analysis and advice, and in its dialogue with member countries." It attributed the shortcomings to a number of reasons.

On the basis of the experience reviewed, the IEO report identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance and thus clarify the expected roles of the IMF and member countries. Mr. Bernes added that "Since the key lies in ensuring the trust and willingness of countries to cooperate, the IEO report offers detailed recommendations for improving the management and conduct of the IMF's exchange rate policy advice and interactions with member countries. We hope these will contribute to discussions on how the IMF's exchange rate surveillance can be strengthened.

The report, together with IMF management and staff responses, IEO comments, and the Summing Up of the Executive Board meeting, is available at http://www.imo-imf.org/eval/complete/eval_05172007.html.

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