IMF ADVICE ON UNCONVENTIONAL MONETARY POLICIES

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UMP Advice: Why This Evaluation?

- Did IMF provide value added advice and influence decisions in a core area at a time of unprecedented challenge?

- Did IMF help countries affected by spillovers and promote cooperative approaches?

- How can the Fund be better prepared next time that UMP are needed?
Scope of the Evaluation

Country Cases
- Major central banks implementing UMP
- Other advanced economy central banks
- Major EMs affected by spillovers

Thematic Papers
- Risks and side-effects of UMP
- Promoting international monetary cooperation
- Frontier central banking issues
- Institutional and HR issues
Evidence for the Evaluation

- Extensive interviews with country officials and IMF staff
- Intense review of public and internal documents
- Analysis of HR, budget and citation data
- Workshops with monetary experts
IMF ‘Corporate View’

- IMF deserves credit for rapid deployment of support for UMP.
- Fund’s view on financial stability risks from UMP was sound for the exceptional circumstances and complemented with active monitoring of risks and work on macroprudential policies.
- 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.
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
- But did not bring new ideas on toolkit these economies would need
- And was not much used as source of external advice
Advice to Emerging Markets

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

► Extensive collaboration with G-20 (e.g. MAP) but limited impact

► Spillover Reports: attracted attention to the issue, but few analytic breakthroughs on financial spillovers and little influence on policy advice

► Institutional View’ appreciated, but:
  • Some think it “open blessing” for capital controls
  • Others find it too rigid and not supportive enough of CFMs

► Flexible Credit Line launched and appreciated by users (Mexico, Colombia, Poland), but limited take up
Frontier Central Banking Issues

Issues Being 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’s work
- Fund not considered at forefront of new thinking on these issues
  - Exception: early discussion of case for higher inflation target
Institutional and HR Issues

- No structured process for evaluation of advice
- Monetary policy competed with newer priorities
- Few thought leaders on monetary policy
- Frequent turnover of mission chiefs and country teams
Frequent 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 - Role of the IMF as Trusted Advisor
High 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
Four Recommendations

- Build core group of experts
- Develop playbook of policy responses
- Revive financial spillover analysis
- Strengthen country engagement
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 and Follow-Up

► Management Implementation Plan due by December 2019 for Board approval

► Key findings and recommendations to feed into the Comprehensive Surveillance Review as well as budget discussions and the new HR strategy

► Annual monitoring by IMF Office of Internal Audit
THANK YOU!

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