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**Statement by Mr. Mouminah, Mr. Alhomaly, Mr. Keshava, Ms. Al Saud, Ms. Alaqla, and
Mr. Rawah on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting
May 10, 2021**

We thank staff for the excellent set of papers on the 2021 Comprehensive Surveillance Review (CSR) and for their continuous engagement on this important work. We have the following preliminary views on issues for discussion.

I. Macrofinancial Landscape

The COVID-19 pandemic has upended the landscape for Fund surveillance in the near-to medium-term, which underlines the need to remain flexible and adaptable. In the wake of a massive economic shock, economic and financial vulnerabilities have risen across the membership and deserve close attention in Fund surveillance in the period ahead. These include high debt levels and financing needs, resulting in elevated risk of debt distress; financial vulnerabilities, particularly in the corporate sector and non-bank financial institutions; central bank balance sheet growth in both AEs and EMs with EM central banks resorting to unconventional monetary policy for the first time, including asset purchase programs; and high capital flow volatility. Other issues such as digital technology, climate risks, inequality, and demographics could also have implications for growth and stability depending on country-specific circumstances.

II. Surveillance Priorities

Given a highly uncertain outlook and uneven recovery, the key goal of surveillance should be to help members achieve an inclusive and resilient recovery while building adequate buffers. In this context, advice should include how to manage the unwinding of extensive policy measures implemented during the crisis. This would require a sharp focus

on the Fund's core activities and areas of expertise given the magnitude of economic and financial scars. In this regard, we consider that the four key surveillance priorities remain relevant and endorse the recommendation that Fund engagement with members on these priorities continue to be grounded in the 2012 Integrated Surveillance Decision (ISD), which provides sufficient flexibility. This would require continued coverage of fiscal, monetary, financial, and external topics in bilateral surveillance, including the macroeconomically relevant structural aspects of these topics. Furthermore, coverage of any emerging issues should continue to be guided by the principle of macro-criticality depending on country circumstances. The choice of a topic should be fully informed by a dialogue between Fund country teams and country authorities.

We support efforts to improve the Fund's risk analysis, including in collaboration with outside experts. Indeed, understanding the possibilities beyond the baseline, including low-probability high-impact risks; conducting scenario analysis to assess the robustness of baseline policy advice; and taking measures to mitigate and manage risks, including the use of contingency planning, will be steps in the right direction in the current highly uncertain environment. *In this context, we would welcome staff elaboration on what steps will need to be taken to address communication challenges regarding Contingent Policy Advice to avoid unintended consequences.*

On spillovers, we agree that Fund surveillance will need to further strengthen the coverage and consistency of the Fund work while remaining mindful of the primacy of domestic mandates for national authorities. In this context, it is important to provide clear guidance to staff on the coverage of spillovers, so that it falls within the Fund's expertise and mandate. *On the proposed Spillovers Forum, we wonder whether it would only consider the pressing spillover issues identified in the flagship reports? We would also appreciate if staff could provide a few examples of incipient spillovers on the horizon at the current juncture, which could be considered relevant for possible consideration by the Spillovers Forum.*

Greater attention to economic sustainability issues in surveillance would require effective collaboration with relevant IOs. Indeed, the Fund must be selective and focus on those macro-critical areas where it is best placed to support the membership while deferring to other IOs on issues outside its core mandate and areas of expertise. In this respect, we look forward to the MIP on the IEO evaluation on collaboration with the World Bank on Macro-Structural Issues. *Does the point made in ¶22 of the modalities paper that "collaboration will only work when incentives and timetables align sufficiently" reflect difficulty in reaching an agreement with the World Bank? Staff comments would be appreciated on how this issue is being resolved to ensure greater collaboration.* On data provision related to economic

sustainability indicators, we support the proposal to rely on external sources, which would avoid duplication of efforts.

The planned Board meeting on the Fund’s Climate Strategy this summer will be a good opportunity to converge views on the role of the Fund in combating climate change challenge in a holistic, integrated, and inclusive manner. Where macro-critical, we envisage a role for the Fund in advancing the agreed global agenda on climate change, in line with its core mandate and in cooperation with relevant IOs, consistent with the principles of Paris Agreement and the sustainable development goals’ integrated framework. Surveillance must not focus on a specific policy advice, like carbon pricing or carbon border adjustment, as the panacea to achieving Nationally Determined Contributions (NDCs) and solving global warming problem. If there are other instruments and other policies identified by countries to achieve their NDCs, they must be recognized and encouraged, including circular carbon economy approach that may cover technological developments to help countries in carbon management and reaching net carbon neutrality/net-zero energy systems with the use of Carbon Capture, Utilization, and Storage (CCUS) technology. This will also require expanding staff’s expertise on these issues. On the metrics used to determine systemic emitters of greenhouse gases, we continue to have reservations. A more balanced approach would be to take into account past emissions, which brought great economic gains and social welfare in a subset of the membership. We also underline that Fund surveillance needs to pay due attention to the growing energy needs of developing countries especially given the lack of fiscal space in the wake of the COVID-19 pandemic, which could be generated from cleaner and green sources. To address the needs of developing countries, flagship reports should regularly cover how developed countries are meeting their financial commitment of USD 100 billion per year. This will help give prominence to this important topic.

The Fund should accelerate its work in collaboration with other IOs on issues related to technological transformation, including growing digitalization, which is a macro-critical emerging topic. Fund advice in this area will be helpful to the membership especially EMDEs in adapting to the new technological environment. As rightly underlined in the background paper, fiscal and social spending policies can benefit from digitalization to improve efficiency and transparency, as witnessed during the COVID-19 pandemic. In addition, continued work on central bank digital currencies is essential, given its potential to reshape monetary policy.

Adopting a more unified approach to policy advice would help appropriately reflect various aspects of the policy mix in a coherent manner. Certainly, this must not imply a one-size-fits-all approach, as country-specific circumstances would remain critical. To this end, we strongly support efforts, including in relation to a joint consideration of fiscal

and structural policies, deepening integration of macrofinancial analysis, coordinating monetary policy and macroprudential measures, and managing external shocks. In this connection, the Integrated Policy Framework (IPF) workstream is an important undertaking to provide guidance on an appropriate policy mix for achieving macroeconomic and financial stability and we look forward to further progress in this area. We also welcome the emphasis on incorporating fiscal considerations more fully into the analysis and exploring more deeply the multilateral implications of IPF policies.

III. Enhancing Traction

We strongly support efforts to further improve the traction of Fund advice. In this context, we agree on the importance of timely high-quality analysis on country-specific challenges while being cognizant of the constraints facing the member country. This is important as the survey results show that weaker traction in some parts of the membership have remained while traction is less for some policies such as monetary and external sector issues. Better integrating policy advice with CD is another important area to enhance traction, which we discuss later. In addition, longer tenures of mission chiefs, a continuous dialogue with the authorities, and stronger public communication should help strengthen traction.

IV. Modalities for Modernizing Fund Surveillance

We are in principle supportive of a shift towards focused Article IV consultations to allow coverage of important issues where the Fund can add the most value, as well as the new initiatives such as Country Matters Meetings (CMMs) and Granular Policy Initiative (GPI). In this context, we take comfort that even a focused report will cover the core elements, including fiscal, monetary, financial, and exchange rate policies. In addition, external sector and debt sustainability assessments and analysis of macrofinancial linkages should always be part of the report. We note that the proposed CMMs aim to incorporate Board views into forthcoming bilateral surveillance engagements. *It is however not clear how the country authorities' views are going to be included in CMM reports.* The proposed GPI on a limited set of topics will be useful for country teams in bilateral surveillance and we would encourage informal Board engagements on this initiative as the work on it advances.

We see virtual engagements continuing to play an important role as a complement to in-person country visits. They are particularly relevant in facilitating more continuous dialogue with authorities and providing real-time policy advice. In addition, they provide more opportunities for regular dialogue with wider government beyond the Ministry of Finance and Central Bank. In our view, these two-way dialogue with members should start virtually prior to in-person country visits, which can help staff understand issues in more depth. Such

an approach will make in-person staff visits more focused. Striking a right balance between in-person visits and virtual meetings depending on country-specific circumstances would facilitate continuous dialogue and help build strong relationships, thereby strengthen the Fund's role as a trusted advisor.

We reiterate our strong support for deepening financial surveillance, which has become even more critical considering the elevated financial vulnerabilities. Here, we concur with the staff's proposal to better integrate FSAP's findings and recommendations into bilateral surveillance as well as to follow a more forward-looking systemic risk analysis with wider coverage of vulnerabilities beyond the banking sector. To allow for such advancements to take place, there is a significant need for resources towards expanding macrofinancial expertise, as noted by staff. We therefore support concrete steps in this direction, including through additional hiring and training.

Strengthening interconnection between surveillance and CD has become even more important against the backdrop of large macroeconomic shock. Indeed, we agree that this can greatly increase traction and help deliver on the surveillance priorities. To this end, we take positive note of the planned steps as outlined in the paper to facilitate improved integration. We also see the importance of this as part of the CDMAP to help facilitate prioritization.

We strongly support development of Country Portals to serve as a "one-stop shop" for all Fund content on that country. There is also a great scope for improving readability of Article IV reports by following latest trends and best practices, including through greater use of data visualization tools. This will help magnify the impact of staff work through stronger public communication.

Finally, we agree with the proposal to adopt a gradual approach to implementing the new modalities of Fund surveillance in view of the ongoing COVID-19 crisis and high work pressures. In this connection, we look forward to an interim review in about two years' time to take stock of progress and adjust as required. *In this connection, we were wondering how the OIC is going to be involved in implementing the new modalities given the ambitious goal to make Fund surveillance more targeted, topical, and timely? Also, how the changes will be communicated internally beyond an updating of the guidance note for surveillance as well as more importantly with the membership?*