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**Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, and Mr. Nagase on Comprehensive Surveillance Review (Preliminary) Executive Board Meeting May 10, 2021**

We thank staff for the set of informative reports on the 2021 Comprehensive Surveillance Review (CSR), including extensive Background Papers. We commend staff for their hard effort to make detailed reports, which reflected broad inputs such as the discussions made by the Board and external experts, amidst the continuing exceptional and uncertain circumstances.

In order to enable the Fund to continue to serve as a trusted advisor of the member countries and help them achieve sustainable, inclusive and resilient growth, continuous efforts to review and improve the priorities and modalities of the surveillance are critical, especially in the current crisis which the member countries are facing huge difficulties to both address the pandemic and ensure economic recovery, while steadily addressing their medium- to long-term challenges. As pointed out in the reports, the current crisis may have potentially long-lasting scarring effects, thus the member countries will need tailored and well-calibrated policy advices from the Fund more than ever. From this point of view, **we broadly concur with the thrust of the staff's assessment and proposals in the reports** and would like to offer following comments for emphasis.

***Major Trends and Surveillance Priorities***

**We welcome the paper depicts Surveillance Landscape 2021-2030 which covers major trends and uncertainties.** Staff's assessment of the major trends and proposed four surveillance priorities would be sufficiently broad and appropriate enough to strengthen the quality and traction of the Fund's surveillance work. As we have expressed in the past board meetings, we believe the Fund should continue to focus on its traditional core areas and we

understand major trends and key priorities are corresponding to the mandates of the Fund and have macro-criticality. We note staff delineate the difference of nuance between macroeconomic-criticality and macro-economically relevant criticality, latter of which would widen the scope of the surveillance.

**Risk identification and mitigation is as relevant as ever, as a key objective of Fund surveillance.** The nature of macro-financial risks is evolving due to the uncertain interactions between existing vulnerabilities and major global trends. Elevated uncertainty suggests the need for Fund surveillance to be nimble and adaptable to new environment. In this sense, the Fund should continue its effort to confront risks and uncertainties by leveraging peer learning and cross-cutting lessons.

**The sources and channels of spillovers have increased and expanded, as global interconnectedness continues to deepen and evolve.** We duly take note there is a need for agility and flexibility in terms of what spillovers are covered, when and how, depending on the changing macro-financial landscape. Preempting and mitigating spillovers through the multilateral surveillance such as the Flagship Reports as well as the Early Warning Exercise (EWE) would be increasingly important.

**Steadily tackling slow-moving trends which could have significant consequences as well as emerging issues is critical for the member countries to foster economic sustainability.** To this end, it is important for us to try to grasp possible impacts of both economic and non-economic developments on the economic sustainability and take preemptive policy actions. For example, we agree with staff's view that closer attention needs to be paid to demographics due to ageing, which was focused in Japan's 2019 Article IV consultation, in the other member countries as a difficult medium- to long-term challenge. Digitalization, especially the issues related to digital money, including the CBDC, can also fundamentally alter the global macro-financial landscape. Therefore, we welcome that staff's proposal to put more focus on these issues.

**Especially, we support the integration of climate change into Article IV consultations.** In addition, we can support staff's pragmatic approach and proposal to focus especially on the mitigation efforts of the 20 largest emitters of greenhouse gases as well as view on adaptation. In this regard, we strongly encourage staff to make close collaboration with relevant international organizations, such as the World Bank, to tackle this area because the Fund does not necessarily have broad knowledge of this issue, nor there is need to cover everything by in-house skills of the Fund. Furthermore, given the fact that circumstances surrounding member countries are different, the Fund should try to provide well-tailored policy advices to the countries based on close dialogues with the authorities and deep analysis without falling into the one-size-fits-all approach.

**Adopting a more unified approach to policy advice will help the member countries implement better policy mix and manage external shocks.** More unified policy advice that discusses the appropriate policy mix and associated trade-offs, including across fiscal and monetary policies, fiscal and structural policies, monetary policy and macroprudential measures, and policies for managing external shocks. In this context, we support the staff's effort on the Integrated Policy Framework (IPF) workstream and encourage them to deepen their analysis on this front, including the integration of the impact of fiscal policy and structural reforms into the framework.

### *Surveillance Modalities*

**We broadly agree with the direction of the proposed modifications of Fund surveillance modalities to make them more timely, topical, targeted, better connected, and better informed.** We are supportive of staff's proposal to introduce novel ways of Board engagement. Especially, we welcome the shift towards focused Article IV consultations which will enable the Board to have more intensive and efficient discussions. Moreover, we prefer to have an opportunity for the Board to discuss each item in principle while we understand the usefulness of utilization of LOT and choosing this format may be warranted in some cases. We also welcome staff's initiatives like Country Matters Meetings (CMMs) and Granular Policy Initiative (GPI), and we would like staff to continue their efforts to make them informative and less resource intensive by setting clear objectives and brushing up their framework.

**Among three pillars of the Fund's function, surveillance and lending have been regarded as both sides of the coin. In addition, closer integration of surveillance with Capacity Development (CD) has become even more critical for the Fund to enhance its traction and effectively support the member countries.** Well-tailored bilateral surveillance for the member countries from the ordinary times will enable the Fund to swiftly provide appropriate support, including lending programs when needed. We reiterate that providing well-calibrated and effective policy recommendations and CD to the member countries by the Fund based on high-quality analysis will help them minimize risks and realize economic stability.

**Clear and careful communication is paramount for the Fund to contribute to the ongoing national or international debate and to be a trusted adviser of the member countries.** We note that the surveys revealed that the Fund surveillance reports have rooms for improvement and encourage staff to continue their effort on this front. In addition, we would like to reemphasize the importance of communication based on the good balance of bilateral and multilateral surveillance. Given the current huge uncertainty, the international society is closely watching the information and messages provided by the Fund. In this

regard, while the COVID-19 is a common challenge to the member countries, we need to well take into account the fact that situations of pandemic infection, economy and public finance are different, and divergent among countries. Based on this understanding, we believe the Fund should conduct analysis and provide policy recommendations in accordance with divergent situations among countries not only through bilateral surveillance, but also multilateral surveillance.

**Given elevated uncertainty about the medium-term outlook, we support to take a gradual approach to evolving the modalities of Fund surveillance.** *We took note that staff will prepare an updated Guidance Note for the surveillance in Article IV consultations reflecting the discussion of the CSR. We would like staff to elaborate the possible timeline on this matter, including the timing to use it in consultations.*