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**Statement by Ms. Mahasandana, Mr. Nghiem, Mr. Bautista, and Ms. Yoe on  
Comprehensive Surveillance Review  
(Preliminary)  
Executive Board Meeting  
May 10, 2021**

We thank staff for the comprehensive papers and the intensive engagements with the Board to develop the proposals. Overall, we are pleased with the review and the proposals are broadly in line with the Board's guidance over the past two years of engagement.

We support the overall direction and ambition of the CSR proposals to make Fund surveillance more flexible and timely so as to better support the membership in adapting to shifting policy priorities and in navigating the risks and challenges of a highly uncertain global landscape for the next decade. We would like to offer the following comments.

**Surveillance landscape 2021-2030**

We broadly agree with the assessment of the current state of the global economy and the major trends including growing adoption of digital technology, climate change and natural disasters, rising inequality, demographics changes in member countries, and shifting global economic power, that will likely shape the global economic and financial landscape in the next decade. The complex interactions of these trends, which need more theoretical and empirical analysis by staff, present a wide range of risks and uncertainties that policymakers will have to navigate and balance the trade-offs in the years ahead.

In particular, we encourage the Fund to pay greater attention to the macro-financial landscape that is rapidly evolving in light of the impact of the COVID-19 crisis, the increasing geopolitical and trade tensions and US-China technological de-coupling, as well as the impact of inward-looking policies such as reshoring and shift away from global to national supply chains. Such trends could reverse the progress of multilateralism and international cooperation that was made over the years. global supply chain will remain resilient to future shocks. The Fund has a key role to play in highlighting the systemic and macroeconomic

implications of these developments including trade policies of major economies both at the bilateral and multilateral level so as to promote open global trade and to support resilient and even recoveries for the membership.

We also suggest taking a closer look at cybersecurity issues and the safeguards to potential threats that could undermine the digitalization trends. Digital technology will have even greater influence in the coming years, which includes but is not limited to the reshaping of macroeconomic policies and institutional arrangements, employment, economies of scale, industries, information systems, measurements of productivity and output or GDP, and even the international monetary system and governments.

### **Surveillance priorities**

**The proposed surveillance priorities are broad and ambitious enough to capture the range of outcomes and challenges that the membership could face in the years ahead.** The COVID-19 pandemic has provided a real-world test which ascertained that the surveillance priorities remained relevant and have become more urgent. As such, we expect Fund surveillance to remain primarily focused on the challenges and policy priorities arising from COVID-19. Where surveillance priorities move into the emerging areas such as climate change, digitalization, demographic and inequality, it will be important to ensure that staff have sufficient guidance on the application of the macro criticality criteria.

**In this highly uncertain environment, we agree that Fund surveillance needs to be risk-centric, paying more attention to tail events in scenario analysis and contingency planning.** With regard to the challenge of striking a delicate balance between providing clear and candid discussions of risks and uncertainty while avoiding unintended consequences in real world outcomes, *can staff elaborate on how the mission team will be guided on how to strike the balance in the staff reports and external communications?*

**We also agree on the need to strengthen Fund surveillance on spillovers and economic sustainability,** especially as countries are designing their policy responses to exit from the crisis and to secure resilient and sustainable recovery in the longer term. To support countries in better shape to exit from crisis policies, the Fund will need to strengthen policy advice on how to exit policy support in a way that can meet domestic objectives while minimizing outward spillover. At the same time, exit from prolonged period of accommodative monetary policy by advanced economies (AEs) can trigger spillover effects on the emerging market and developing economies (EMDEs) in the areas of exchange rate, inflation and financial stability. We thus look forward to the upcoming review of the Institutional View (IV) on capital flows and the implementation of IPF findings as soon as possible to provide policymakers with greater flexibility to deploy the full range of policy tools to deal with capital flow volatility. We also support the Fund adopting a more unified and comprehensive approach to policy advice that sufficiently considers the trade-offs and synergies of various tools to support countries with limited policy space (due to “low for long” interest rates, high

debt, rising financial vulnerabilities particularly in nonbank segments) to deal with multiple priorities.

On the integration of climate change into Article IV, we emphasize that it should be guided by macro-criticality, conducted within the Fund mandates and in close coordination with its partners, leveraging on the expertise of the World Bank and other international financial institutions. With regard to Fund surveillance on climate mitigation, we note that policy recommendations should be in line with well-accepted international agreement such as the Paris Agreement. On managing transition risks, the Fund should provide practical and tailored advice that takes into account country specific circumstances such as the stages of development and policy priorities of the members.

### **Modalities**

**We agree with the direction of the proposed modalities to make Fund surveillance more topical, timely, targeted and better connected.** They are steps in the right direction to enhance the quality and traction of Fund advice to better help the member countries navigate the challenges and trade-offs in a highly uncertain global landscape. We also support better integration of Fund surveillance and CD to further enhance traction of Fund advice.

**We support the proposal for a gradual approach to evolving the modalities of Fund surveillance and are open to experimentation so as to incorporate learning and to adapt the modalities to changing needs and circumstances along the way. However, we would like more details on how the experimentation would work in practice.** When experimenting and implementing the new modalities amid the ongoing pandemic, staff should be mindful of the resource constraints and work pressures of the authorities, particularly in low-income countries.

**We welcome the new initiatives to better surface cross-cutting issues that are of strategic importance for the Board's attention.** We agree that the *Country Matters Meetings (CMMs)*, if well implemented, will allow the Fund to be more forward-leaning on policy issues as emerging risks and cross-cutting issues, including spillovers and unintended consequences of policies from countries/region to others, can be brought up for discussion at the Board in a more timely manner. It is useful to note that the Fund already has the practice of engaging the Board on key policy issues (e.g. correspondent banking relations, housing market challenges) on an ad hoc basis, and the CMMs is helping to regularize such Board engagements. In particular, we welcome that the Board will have a say on the topics and nature of the CMMs in advance in the semi-annual board work programs.

We also welcome the *Granular Policy Initiative (GPI)* to the extent that it serves to distill and disseminate emerging policy lessons for the membership in a timely manner so that cross-cutting issues can be easily identified without having to go through the detailed staff reports of individual countries. *However can staff elaborate on what topics will be covered by the GPI or how will the topics be selected? Where country case studies or experience are*

*featured in the GPI, will the authorities get to review and reflect their views in the publication?* To rebalance Board surveillance towards more cross-cutting and strategic issues, we support a greater use of LOT for individual Article IVs on a risk-based approach.

**We are supportive of a shift towards focused Article IV but stress that the coverage and selection of topics should be decided in close consultation with the authorities.** We are pleased to note that there will be flexibility for mission teams to calibrate the scope of Article IV consultations according to country-specific needs and circumstances. We reiterate that smaller countries without annual Article IV cycles or those with minimal analyst coverage of their macroeconomic frameworks may prefer to continue with more comprehensive Article IVs. In particular, DSA and external sector assessments are important for many smaller countries, as development partners and other IFIs rely on Fund surveillance in these areas to inform their decisions on grants and financing for these countries. We look forward the differentiated approach that staff will be developing to ensure evenhandedness in surveillance of countries in similar circumstances while taking into account country circumstances.

To address the concern that streamlining the coverage of Article IV will require changes in surveillance practices and expectations across the Fund, **we suggest that the Fund should conduct a few pilot Article IV consultations and the experience can inform us on whether and how to implement focused Article IV more widely across the membership.** We think it is useful to start with a few pilot Article IV consultations with the agreement of the authorities, and the experience can provide important learning lessons for the mission team on how to calibrate the scope of the Article IV consultations so as to balance evenhandedness, how to communicate the changes to the authorities to manage their expectations, and how to adjust the reviewing process or get buy-in from the reviewing department. *We welcome staff's comment on how they intend to provide guidance to mission teams and to manage expectations.*

**We see merit in having greater use of virtual modalities for off-cycle meetings to complement in-person visits so as to facilitate more continuous engagements, but emphasize that the exact modality will need to be decided on a country-by-country basis** depending on authorities' preference and adapted to the constraints in the post-pandemic landscape as well as logistical and technological challenges. *Can staff elaborate on whether there will be guidelines for mission teams on how to balance between virtual engagements and in-person visits? Do staff have plans to take advantage of the Fund's Resident Representative Offices by enhancing their role in Article IV consultations?*

**We welcome having the Spillover Forum and Spillover Tools to foster more candid policy discussion of spillovers.** The relatively weak coverage of outward spillover, in particular from the perspective of major source countries, has been a longstanding gap in the Fund's surveillance framework. In this regard, the Spillover Forum offers a good platform for source countries to develop a better understanding of their policy actions on the global system and for recipient countries to better understand the policy direction of source countries so as to anticipate and safeguard against spillovers. While we recognize the

primacy of domestic mandates in policy making, there is room for the Fund to play a stronger role in presenting alternative policies, including the communication strategy, that minimizes external spillovers to spur policy debates. To enhance traction, we also encourage the Fund to point out how outward spillovers can result in spillbacks onto source countries.

**We agree that having better tools and the appropriate expertise are important to the Fund's effort in delivering on the surveillance priorities.** In this regard, we encourage the Fund to continue analysis to deepen our understanding on how emerging trends including technology, inequality, geopolitical developments will impact macro stability and economic sustainability. While it is important to close data gaps in areas with immediate data needs to enhance Fund surveillance, the Fund should be mindful that imposing new data requirements at this time where many member countries are focused on addressing the crisis could place undue burden on the authorities and distract them from crisis priorities. The Fund should also provide stronger justification and a clear roadmap on how the data will be used to enhance Fund surveillance as well as assurance of strong confidentiality safeguards in order to gain traction and cooperation from member countries in data provision. At the same time, we welcome the planned upgrade to the External Balance Assessment. We emphasize that there remains large unexplainable residuals and inconsistency in the results from different assessment models (EBA and REER), and both are likely to have been exacerbated by the COVID-19 trends. These should be addressed to enhance the Fund's credibility and to enhance traction.

**Resource implications for the CSR and FSAP review should be considered holistically in the context of the medium-term budget to allow the Board to take informed decisions on resourcing and appropriate trade-offs.** The Fund should cautiously balance the expanded coverages with the required resources to achieve the ambitious CSR goals. Clear prioritization and objectives of new surveillance areas are needed to ensure that the Fund will continue to deliver the relevant, practical and appropriate policy advices that will lead to high traction.