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May 5, 2021

**Statement by Ms. Shortino and Mr. Westphal on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting
May 10, 2021**

Surveillance is a key pillar of the Fund's mandate and cornerstone of the institution. Fund surveillance also provides a global public good, helping to promote sound global and domestic macroeconomic and financial sector policies supported by tangible policy recommendations. The comprehensive surveillance review (CSR) is critical to ensuring that surveillance remains effective and responsive to the Fund's membership needs. We thank staff for these helpful reports and bilateral engagement over the past two years. We broadly agree with the four priority areas for Fund surveillance, and we welcome that the proposals for modernizing surveillance modalities are aimed at making the Fund a more nimble and responsive institution.

It will be critical that the proposed changes do not detract from the ability of the Fund to deliver on its core mandate, which includes surveillance of fiscal, monetary, external, and financial sectors. We take note that the operationalization of the CSR will occur gradually, and we would appreciate greater clarity on the timing for phasing in each of these changes. We look forward to reviewing in two years how the proposed changes are working in practice, and we call for regular updates to the Board in the meantime on the timeline and implementation status for each recommendation.

Surveillance Priorities

We support the proposed priorities but stress that full implementation will take time and may require significant adjustments in the way the Fund currently does business. We agree with the proposals to strengthen analysis of risks in surveillance and make greater use of contingency scenarios, while keeping the core of the Fund's policy advice directed to the baseline. We are open to exploring new ways to incorporate spillover analysis into bilateral surveillance, including through a new Spillover Task Force. However, to be effective, spillover analysis must extend beyond the effects of the monetary policies of major central banks and should incorporate policies that have both positive and negative spillovers.

Further, Fund advice should include policies that countries can implement to mitigate the impacts of negative spillovers on their domestic economies. We are skeptical of the need for a standalone Spillover Forum during the Annual and Spring Meetings and would suggest instead holding them on an as-needed basis, limiting their occurrence to once per year, or incorporating this discussion into the Early Warning Exercise (EWE).

We strongly support staff proposals to integrate climate-related adaptation and mitigation into Fund surveillance. We welcome bilateral surveillance coverage of adaptation efforts for countries most vulnerable to climate change and mitigation efforts for the 20 largest emitters. We agree that this surveillance should include policy advice to help countries meet mitigation targets based on nationally determined contributions under the Paris Agreement. The advice should focus on the potential economic implications of a range of policies and strategies to reach climate targets. As staff note, assessing the adequacy of mitigation objectives goes beyond the Fund’s expertise and mandate; any benchmarking of mitigation objectives should be presented for informational context and in a neutral and balanced manner, consistent with the Fund’s role. With regard to other emerging issues such as digital technology, inequality, and demographics, we are open to further coverage of these issues in surveillance so long as they meet the bar of macro-criticality and help to inform staff’s policy advice on core macroeconomic topics. We also continue to encourage robust collaboration with other institutions on all of these emerging topics.

Modalities for Surveillance

Focused Article IVs and Granular Policy Initiative (GPI): We agree that more focused Article IVs and cross-cutting policy advice could help to strengthen Fund surveillance. While we appreciate the desire to pare back coverage of topics that are already well understood, we would welcome more specificity on the process for selecting topics for more intensive surveillance and identifying areas that can be deprioritized in a given year. We also stress the value in Article IV coverage of persistent macroeconomic weaknesses, even if they are well understood and persist from year to year, to underscore the need for policies to address these issues. *Could staff provide more information about the GPI, particularly regarding resource requirements and how the Board should consider tradeoffs with other surveillance priorities?* As we move forward with the implementation of these two proposals, we ask that the Board be engaged and regularly informed on the identification of which countries will undergo focused Article IVs and the application of the GPI.

Country Matters Meetings (CMMs): We are open to greater use of CMMs, particularly if they include tangible, country-specific policy recommendations. We would also like to see a more formal mechanism for Board members to request topics for review. For example, we would be interested in cross-country surveillance on topics such as Brexit, foreign exchange intervention, and tourism-dependent countries in the wake of the pandemic. We recognize that, to provide space for CMMs, staff expect to use the Lapse of Time (LOT) procedure for more individual countries’ Article IV surveillance. We caution that there is a risk of LOT reviews being allocated to smaller economies, low-income countries, and fragile states, which could create disincentives for staff to work on these countries. We would see merit in a system whereby Management shares on a quarterly basis a proposed list of upcoming LOT

reviews, allowing Board members additional time to call for full Board meetings as necessary and to demonstrate that LOT reviews occur for countries of various circumstances.

Financial Sector Surveillance: We welcome that the Fund has made significant strides to deepen its financial sector expertise since the global financial crisis. We strongly support the proposals to continue to deepen the Monetary and Capital Markets department's (MCM's) expertise and to incorporate recommendations from the Fund's financial sector surveillance into its broader engagement with countries, including Article IV surveillance and capacity development. We will consider the proposal for MCM to hire additional full-time employees as part of broader discussion on a structural augmentation to the budget. We reiterate that for financial sector surveillance the Fund should follow the standards and guidance from the financial sector standard-setting bodies and avoid offering conflicting recommendations.

Data and Tools: We appreciate the context for how the additional data portals and the integrated digital workforce initiative fit into the broader CSR. We would appreciate more information about the proposals to launch new training programs for staff—particularly regarding what these trainings will entail, when they will be completed, and how much they will cost. While we support providing staff with tools to do their jobs well, we note that pursuing so many major data and training initiatives will need to be considered in the broader context of Fund resources.

Implementation of the CSR

Once fully implemented, the proposals in this CSR could significantly alter the tools, delivery, and final outcomes of Fund surveillance. These changes will also necessitate a culture shift for staff, management, and the Board in terms of the way we do business. The process for implementation needs to be carefully designed and calibrated as we move forward, and Management should be careful to leverage key tenets of change management when putting these changes into effect. *We would welcome more information about how Management will use the Innovation and Change division to facilitate the transition while maintaining staff morale.*