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The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate

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Staff: Tourpe, ITD; Liu, LEG; He, Adrian, Mancini Griffoli, MCM; Martinez Peria, RES; Cihak, Kang, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

Executive Directors welcomed the opportunity to discuss the strategy to continue delivering on the IMF's mandate given the rise of digital money. They noted that an increased adoption of digital money can foster greater efficiency and financial inclusion but also poses important challenges, and that the Fund has a critical role to play to help its members harness the benefits and manage the risks of digital money. Against this background, Directors broadly welcomed the staff's proposals for closer engagement with other organizations and country authorities involved in this area, tailored support to member countries, and broader efforts in capacity development. Noting the fast-moving developments with digitalization and the need for the Fund to act swiftly and be at the forefront in this area, and be able to assist its members, many Directors found the strategy to be appropriately ambitious. Many other Directors, however, called for further prioritization and a more phased implementation of the strategy, given the complexity of the issue and the evolving regulatory environment.

Directors agreed that digital money has implications that lie at the core of the Fund's mandate and that the Fund must be part of the discussions on these issues. In particular, digital money has wide-ranging implications for the international monetary system, spillover and cross-border effects, and the structure and stability of domestic economies. Directors, therefore, emphasized that digital money must be designed, regulated, and provided so that countries maintain control over monetary policy, financial conditions, capital account openness, and foreign exchange regimes. They also underscored that domestic economic and financial stability must be protected by carefully designed public-private partnerships, a smooth transition of the role of banks, and fair competition. Ensuring financial integration and inclusion will also be important.

Directors broadly agreed that given its mandate, near-universal membership, focus on macro-financial policies and spillovers, diversity of expertise, and unique ties to member countries, the Fund could serve as a thought leader in analytical work and policy development, particularly on issues related to the international monetary and financial system, in close collaboration with other organizations and provide timely advice in surveillance and capacity development to its members when requested. They also saw a role for the Fund in serving as a bridge between the experience of its membership and the international policy-making process. Directors underscored the importance of tailored advice, given the different stages of development of this issue and different capacities among member countries. In particular, low-income countries and EMDCs with less developed digital capabilities will need timely advice and capacity development assistance in macro-critical areas pertinent to these countries. A number of Directors saw scope for the Fund to focus more at this stage on the development of analytical frameworks and on multilateral surveillance and capacity development, and piloting or limiting the coverage of this issue in bilateral surveillance.

Directors underscored the need to focus on the Fund's comparative advantage and to partner and collaborate with other international financial institutions, country authorities, standard setters, as well as the private sector, to maximize synergies and minimize duplication of work and foster knowledge sharing. Effective delineation of responsibilities will be important. To ensure efficiency gains and avoid putting an excessive burden on hiring external experts, Directors also emphasized the importance of internal training of fungible economists to mainstream this important workstream, as well as staff exchanges with other organizations and country authorities. They also underscored the importance of promoting knowledge sharing and cooperation between country teams and functional departments.

Directors noted the proposal on resource allocation and broadly agreed that this would need to be considered holistically in the context of the broader budget augmentation request. They called for consideration of policy options and trade-offs in deciding the resource allocations in the new areas of work. As such, Directors looked forward to the Board engagement on the proposed budget augmentation request. In their preliminary assessment, many Directors were supportive of, or open to considering, the resource request, while many other Directors suggested a more modest, phased increase in resources calibrated to actual developments and finer details on work priorities. A number of Directors emphasized the importance of prioritizing and ensuring adequate resources to assist members, particularly LICs, with low capacity for mitigating the risks from the spread of digital money and from spillovers.

Going forward, regular engagement with the Board will be important to reevaluate the appropriateness of the strategy and any agreed resource allocation.

EXECUTIVE BOARD ATTENDANCE¹

K. Georgieva, Chairman

Executive Directors

I. Mannathoko (AE)

C. Huh (AP)

A. Bevilaqua (BR)

Z. Jin (CC)

D. Palotai (EC)

A. Buisse (FF)

S. Bhalla (IN)

T. Tanaka (JA)

H. Hosseini (MD)

M. Poso (NO)

A. Mozhin (RU)

M. Mouminah (SA)

R. Lim (ST)

E. Shortino (US)

Alternate Executive Directors

F. Sylla (AF)

L. Herrera (AG)

A. Guerra (CE)

F. O'Brolchain (CO)

K. Merk (GR)

M. Massourakis (IT)

A. Alhosani (MI)

T. Manchev (NE), Temporary

M. Peter (SZ)

D. Ronicle (UK)

C. Ogada, Acting Secretary
 J. Morco, Summing Up Officer
 B. Zhao, Board Operations Officer
 M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: M. Kamel Farid Mohamed Farid, F. Parulian. Asia and Pacific Department: W. Bauer Stampfli, O. Brekk, A. Gulde, T. Helbling, J. Kang, L. Leigh, T. Saadi Sedik, Y. Zhou. Communications Department: N. Farhan, E. Nicoletti,

¹ For countries in each constituency, please see the Constituency Codes in the annex.

C. Rosenberg. Corporate Services and Facilities: B. Christensen, J. Lester. European Central Bank: D. Rakitzis, S. Tordoir. European Department: X. Liu. Fiscal Affairs Department: R. De Mooij, A. Senhadji. Finance Department: T. Krueger, Z. Tan. Institute for Capacity Development: S. Coorey, M. Davies, V. Mensah, R. Nord. Independent Evaluation Office: C. Collyns. Information Technology Department: C. Andersen, H. Tourpe. Legal Department: W. Bossu, Y. Liu, G. Otokwala, N. Rendak, N. Schwarz, R. Weeks-Brown. Middle East and Central Asia Department: A. Al-Eyd, N. Blancher, T. Callen, S. Lall, T. Mirzoev, A. Sadikov. Monetary and Capital Markets Department: T. Adrian, U. Das, D. He, T. Mancini Griffoli, F. Xavier Dezouzart Drummond Melo. Office of Budget and Planning: A. Schimmelpfennig, M. Shannon. Office of Innovation and Change: T. Walker. Office of Risk Management: V. Bakhtina, B. Boultonwood, Q. Chen, I. Ivaschenko, J. Manning, J. McCoy. Research Department: Z. Aligishiev, G. Dell'Ariceia, M. Martinez Peria. Secretary's Department: C. Ogada. Strategy, Policy, and Review Department: H. Chociay, M. Cihak, A. Corbacho, A. Gamba, K. Kang, N. Meads, C. Pazarbasioglu Dutz, N. Suryakumar, M. Takebe, A. Tuladhar, F. Valencia Palau, Y. Wu. Statistics Department: G. Quiros Romero. World Bank Group: H. Natarajan, J. Pesme. Western Hemisphere Department: M. Appendino, A. Carare. Executive Director: A. Andrianarivelo (AF), M. Mahmoud (MI), P. Moreno (CE), S. Riach (UK), P. Trabinski (SZ). Alternate Executive Director: B. Alhomaly (SA), H. Azal (EC), L. Dresse (NE), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), Y. Indraratna (IN), C. Just (EC), M. Kashima (JA), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), O. Odonye (AE), L. Palei (RU), J. Romero (CE), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), Patterson C. Ekeocha (AE), J. Garang (AE), M. Gilliot (FF), R. Goyal (IN), O. Hendrick (AG), M. Ismail (AE), S. Keshava (SA), B. Lischinsky (AG), R. Mahabir (BR), S. Naka (JA), Son T. Nghiem (ST), J. Rojas (CE), H. Saeed (SA), C. Sassanpour (MD), A. Sattler (GR), M. Scholer (NE), L. Smith (CO), F. Spadafora (IT), N. Thiruvankadam (IN), R. Velloso (BR), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: A. Abdullahi (AE), F. Al-Kohlany (MI), P. Al-Riffai (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), Gonaya Basutli (AE), Dennis Bautista (ST), C. Becker (AP), M. Bernatavicius (NO), B. Boostani (MD), K. Carvalho da Silveira (AF), L. Cerami (IT), S. Chea (ST), J. Corvalan (AG), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), J. Gallardo Zavala (BR), V. Lankester Campos (CE), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), A. Nainda (AE), A. Olhaye (AF), B. Piasecki (SZ), A. Ribeiro Mateus (IT), D. Shestakov (RU), M. Shimada (JA), B. Singh (IN), A. Tola (SZ), I. Valdes Fernandez (NO), C. Westphal (US), J. Yoo (AP), A. Zaborovskiy (EC), J. Barroso (BR), M. Law (CC), F. Lopez (CE).

DISCUSSION RECORD²

The Chair:

This is an important strategic discussion on the role the IMF is to play on delivering on our mandate in the context of rising public and private digital money. As I just noted, this is our first hybrid Board meeting. We have some of our colleagues and staff in HQ1 in the room, which we can all see is spacious and allows for social distancing, and we have a number of us joining virtually, me included. I am in Europe for a series of meetings. Tomorrow is the three Cs initiative meeting, and then I will go to the G-20 Ministers of Finance meeting. I will have, of course, a chance to report afterwards.

There have been 23 gray statements issued, and I have no doubt that Executive Directors will participate actively and constructively in this meeting.

Let me recognize also the presence of the European Central Bank (ECB) representative and place this meeting in a context. It is a very important discussion that we started in April when we first came to the Board to present a vision that outlined the macro-critical policy questions arising with the fast-moving field of digital money and how they intersect with our mandate. At that point—and rightly so—Board members requested details on operationalizing this vision. This is the purpose of today's meeting. This is the purpose of this second paper we have received.

I want to make three points at the outset of the meeting. Since April, we had a member state adopting Bitcoin as legal tender. We had a massive increase of the issuance of stable coins. And a growing number of countries are asking the Fund for capacity development (CD) and policy engagement in this area.

We know that the pandemic has accelerated digitalization, and we see it very clearly in the area of digital money.

A few Directors, in the past and now, have expressed impatience. The Fund is not moving as fast as the world has advanced. Some are cautioning that we are moving too fast. But I do not think anybody disagrees with the notion that it is important for the Fund to be ahead of the curve on a topic that is squarely related to the international monetary system (IMS), which we have such an important role to play in.

² Edited for clarity.

In my own interactions, I hear from central bankers and from finance authorities concerns that especially central banks may be called to respond to issues of financial instability arising from the adoption of digital money. They need to move with a robust framework, and they want to have a transmission of line of knowledge as to what are the best practices emerging in the world. And it is not out of reality to expect that financial stability issues related to digital money will be more and not less present in the future for us.

My second point is to state it as clearly as I can. I completely and fully agree with a point many have made, that we cannot, and we should not work alone, that we need to recognize the role of others, standard setters, national authorities that have responsibility for monetary policy. And, of course, there are two institutions that are particularly important, the Financial Stability Board (FSB), and the Bank for International Settlements (BIS). We cannot imagine working in isolation, and not in collaboration with them.

We know that when we reach out to these institutions, the response is, we need IMF, especially for the parts of the membership that rely on IMF, that are not as well included in other bodies.

My third point is on the recognition that we are at a point in discussing a number of very important strategic challenges for the Fund. We talked yesterday about fragility, conflict, and violence (FCVs). We will talk today about digital money. We have a discussion on the strategy on inclusion. We have a discussion on climate change. All of this is not because we want to have these discussions but because our membership is moving forward on these issues and expects the Fund to be there with them.

Obviously, we have to clearly and carefully assess the interdependence and complementarity of the issues we discuss, across those and with the broader body of work of the Fund, and prioritize clearly how we are going to go about actions related to discussions on these strategies. In other words, how do they translate into budgetary implications? We will have a designated meeting on the budget. What we have to discuss today will be relevant for this meeting, but I have no intention whatsoever to pressure us to make, in that separate way, commitments because, of course, we need to see the holistic whole.

With those three points, let me thank the staff. I can tell you, the amount of work that has been done to conceptualize what is presented to Directors in very intense consultation with their authorities, with them, with

their offices is just so impressive. I am extremely grateful to Mr. Adrian and his team and to other departments, including area departments, for their work.

There is a cry for the Fund to step up. And I want to finish with a reminder. There was a time before the Asian crisis when the Fund missed building financial sector surveillance capabilities and then had to play catch-up for a decade, to the detriment of service to the membership.

On digital money, I am very confident, having read the gray statements, that we are not going to make this mistake. It is not a matter of “whether;” the matter is “how” we go about this so critically important work.

The Financial Counsellor Director of the Monetary and Capital Markets Department
(Mr. Adrian):

We have met with many of Directors but also with many in capitals to discuss the issues surrounding digital money.

I would say that, on a daily basis, the financial system is changing. My staff and I are engaging with Directors, with the countries, on the one hand, but also with the financial industry and the technology sector on the other, to understand what is happening. And change is very rapid. We are still in the midst of a revolution, and that revolution is going to go on for many years. And, of course, the degree to which these changes to the financial systems are going to be beneficial for our membership or are going to threaten financial stability is going to depend on choices going forward, on policy choices, in particular.

Many countries are reaching out to us, in particular, countries from the broader membership, those that are not members of the FSB or the BIS, to ask for help because they see such tremendous pressures on their monetary systems, on their payment systems. There is a very clear role for us to provide technical assistance (TA) and to help countries think about the trade-offs, the policy trade-offs that they are facing.

Secondly, of course, in surveillance, financial technology and payments issues are becoming more and more prevalent, and we expect them to be dominant in the next 5 to 10 years in terms of topics for financial stability.

Finally, in terms of policy development, of course, we are working very closely with the FSB, the Cross-border Payments Coordination Group

(CPC), but also with the BIS and the Committee on Payments and Market Infrastructures (CPMI) within those settings. These are our partners, and we have very clearly defined complementary roles.

The staff representative from the Monetary and Capital Markets Department (Mr. Mancini Griffoli):

We had a chance to meet with many of Directors. These encounters are always inspiring, always interesting, always useful, and make us and our strategy stronger, more applicable at the end of the day for the benefit of the countries that they represent.

I put together a few slides that I am happy to share here.

This is a paper that I am very honored to present to Directors, but, of course, is a paper that has been written by a fantastic team, which is listed here on the first page, ranging from multiple departments. And I will speak a little bit about three things—one is positioning, how we position ourselves; secondly, the timing and speed of deployment; and third, resources—since these are issues that came up in the discussions that we have been having over the past weeks.

First, on positioning, it is pretty simple. Digital money has all sorts of implications, and we sit at the intersection of those implications and the IMF's mandate. Very clearly, we focus on policy issues related to economic and financial stability and the international monetary system's stability and efficiency. That is our niche. That is our mandate. And, of course, in discussions with Directors, a few questions came up. And I wanted to clarify that we are not plumbers. We are not technology developers. We are not standard setters in this space. The Fund is standard setters in other spaces but not in this space. And we would not issue blanket recommendations on central bank digital currency (CBDC) design. We understand that those are delicate issues, those are sovereign issues. But what is it that we do? Well, again, we stick to our mandate. We stick to our mandate of policy focus, macroprudential and macro-financial focus; and with the standard setters, we collaborate.

Allow me to say just a few words about how it is that we collaborate with these standard setters. It is very stylized. Standard setters on the left, in purple. The IMF on the right, in blue. Standard setters are, of course, by nature, by their own mandate, more focused on technology, on regulation. They are generally more focused on central banks and have a rather limited membership, which is not a criticism; it is just the way it is.

The IMF, on the other hand, is focused more on macro-financial policies, connected to central banks and ministries of finance. This is important because, of course, all the issues that have to do with innovation, privacy, capital flows, all are usually of the remit of ministries of finance. And, of course, the universal membership, which is key, as needs are global in this space, and there is a risk, of course, of a digital divide.

What I would like to emphasize here, despite the stylized circles, is that there is very little overlap. There is very little opportunity to outsource part of the work, to carve-out part of the work from the IMF and give it to the standard setters, and vice versa. These are two bodies that work very closely with each other, very lean, and that complement each other. Nevertheless, it is important to emphasize that the Fund must speak with an independent voice in surveillance, in its capacity development. That is where our credibility comes from.

Let me say a few things about timing and speed. Why today? Why are we bringing this to your attention today? I would like to illustrate this with the usual S-curve, taken out of “Business School 101.”

Adoption is on the vertical axis. Time is on the horizontal axis. As we know, the adoption of new technologies usually follows this S-curve. And this is fine, if we look at it from the standpoint of entrepreneurs, but it is also interesting if we look at it from the standpoint of policymakers.

This is, I would argue, the impact phase. This is the early phase when policymakers can still have a notable impact on the way that technology evolves and on the implications of new technologies. And, of course, there has to be a preparatory phase that comes beforehand, before the impact phase. This is where we are now. We are trying to prepare for the future so that we can have impact.

Of course, what makes this even more complicated is that these S-curves in the field of digital money come every day. There are new technologies with new S-curves. And, of course, this is the name of the game when we move into the digital world. We live in a new state of flux.

Let’s take photography, for instance. Photography film cameras, you could buy the best film camera there were, and it would be the best 10 years later because the technology did not evolve very quickly. In the field of digitalization, every day, every month brings new innovations in the field of

photography. And not just that but it also brings big transformations in the sectors that are involved, from cameras to cell phones, which are arguably now one of the best cameras that we can hold in your pocket.

I would not like to make too much out of this metaphor, but I would like to emphasize that we are now entering, with digital money, a new state of flux, which makes decision making difficult. This is one approach to decision making under uncertainty.

Let's look ahead. Let's imagine the world of tomorrow. And let's think about whether the adoption of digital money could be high or low. And let's think about whether we enter that world being prepared—very prepared, high, or not very prepared, low. Of course, these two squares make a lot of sense. If adoption becomes low, small, and we are not prepared, that is fine. And if adoption is high and we are very prepared, that is fine, too. What we are really trying to avoid here, in this decision-making process under uncertainty, is ending up in this red square. We do not want to not be prepared and adoption to be high. And we believe that, in terms of adoption, that is most likely where we will end up.

And, of course, the concern is, What about this bottom right square? What if adoption is low and we spend a lot of money preparing? That is what we need to handle well, so we can put into place systems to monitor adoption and our preparedness and the ability to adjust along the way. And I would like to illustrate that very simply.

We are asking for a one-time increase in the budget, but it does not mean that there will be a one-time increase in the full-time equivalent (FTE) count or in our work. It is simply not possible to ramp up resources overnight. It will be a gradual process. But what we think is very important—and I will illustrate this again here on the right—is that we do not go about this with a budget process in this stair-like fashion, where we renegotiate every year or every so often. Why? We have tried to suggest this in the replies to Directors' technical questions; but, very briefly, budget uncertainty, in our view, makes the process more expensive because we have fixed costs every time, of starting new waves of hiring. We cannot benefit from the synergies between products that are no longer happening at the same time. And we do not benefit from efficiencies by allocating staff across multi-year projects. So more expensive and probably lower impact.

In terms of resources, let me just say a few words and then conclude. This is where we are now, kind of a backroom startup. And this is where we

would like to be. We would like to move from the backroom startup to a professional and mature firm. Again, I am stylizing to make the point.

Let me illustrate where we are today. We are at a point where we are starting to risk our reputation and our ability to serve member countries. I run maybe the largest division that is working on digital money. And still, I have relatively few people, two of which are secondees, two of which are on loan from another department. We are trying to scotch things together to keep it hanging together, but we are at risk. We are also hitting limits in terms of the substance of the work, how much we can do by simply thinking hard about issues. We are starting to exit the phase of low-hanging fruit, and we are starting to have difficulty answering countries' requests when it comes to technical assistance and area departments, when it comes to Article IV surveillance. We are starting to be reactive. And Directors told us in the meetings that we had with them—it hurt to hear it, but they told us, and I think they are right—that we are starting to be behind the curve.

What this strategy is about, it is about moving from the backroom startup environment of enthusiasts to the professional environment, where we become a trusted partner and an advisor to countries, where we stand on solid footing, analytical footing, where we can provide forward-looking and concrete advice to all our members.

Let me just say a few words about the 55 FTEs that many Directors had questions about. Where does that number come from? Isn't it rather large? In fact, when we saw it for the first time, we also thought it was rather large. But then I think we have found comfort in the fact that it comes from three important dimensions. The first one is countries. Many countries will be affected. We have split countries into two groups, those that will be affected by digital money because there will be domestic adoption, and those that will be affected through spillover effects, even if domestic adoption lags. And these will cover a large number of countries. So that is the first dimension, countries.

The second dimension is functions and questions. We tried to show in the paper that the new questions that are being raised by country authorities will affect the way in which we do surveillance, capacity development, and will require new analytical foundations. Very broad. But, of course, our budget estimates have been as conservative as possible. On surveillance, for instance, we assume that our level of engagement will be about one-third of the level of when we do macro-financial surveillance, when we dedicate an economist to a country team, about one-third. In capacity development, our

assumption is about one-tenth of the headquarter-based missions, on a topic that is likely to become one of the top topics in capacity development. Our assumption is about one-tenth. We have tried to be as conservative as possible.

The last dimension, which I showed here going into the screen, the third dimension, is that this work will affect multiple departments. On the top here, I list the departments that have been included, involved in writing the paper and that will be involved in doing surveillance and that will be involved in doing technical assistance, capacity development, but other departments as well are concerned. The Fiscal Affairs Department (FAD), for instance, because the effects on the efficiency of taxation and government transfers is very important. The Statistics Department (STA), because we cannot do policy without data, and there is no data in this field. The Communications Department (COM), because it is essential, we have to engage publications on these new types of developments; and, of course, area departments. We feel very strongly that area departments need to be well staffed in order to be the first line of defense in providing surveillance in this field. When we bring these three dimensions together, here it is. This is the cube. Fifty-five FTEs come from these three important dimensions and these three considerations.

At the end of the day, what we have tried to demonstrate is that what is good for digital money is good for economic and financial stability, is good for the efficiency and stability of the international monetary system, and, at the end of the day, is good for the IMF.

Before closing, I just wanted to come back to this slide. I feel strongly about this. This is the team, the team that has been working on this day and night, the team that is very solid, very tightly bound, passionate about this topic, very capable, and is waiting for the green light to make a difference.

Mr. Hosseini:

We did not issue a gray statement, so I would like to take this opportunity to emphasize four points.

First, I agree that the Fund's role needs to evolve in line with the fast-changing developments in digitalization. Digital money, one of the features of digitalization, has potentially significant macro-critical implications on domestic and international economic and financial stability. As such, the Fund should develop internal capacity around digitalization,

including analytical framework, tools, and expertise to provide high-quality and timely advice to the membership.

Second, I generally agree with the proposed operational strategy on digital money, and I would like to emphasize that the core element of the proposed strategy is to build internal capacity. At the end of the day, the level of the Fund's internal capacity determines the quality of services it can provide to the membership.

Third, the operational strategy should put more weight on capacity development in the early stages of development on digital money. Uncertainties are high, and members are likely to seek and benefit from the Fund's advice. Capacity development should also be associated with a tailored communications strategy, which keeps the membership in close contact with the latest policies and regulations. I welcome the staff views on effective means of communication with the membership on issues related to digital money.

Fourth, I agree with the proposed strategy for allocating resources to the issues related to digital money. The Fund must build internal capacity by hiring dedicated experts and allocating adequate resources to fulfill its mandate effectively.

Finally, I would like to underscore the importance of close collaboration and coordination with other international institutions and stakeholders.

Mr. Ronicle:

We issued a detailed gray statement with Mr. Buissé, Mr. Rashkovan, and Ms. Shortino. I want to use my intervention now to underline this chair's core messages.

Technological change and innovations in payment systems are forcing us to revisit profound questions about the nature of money, as well as narrow technical ones, such as regulatory perimeters and the operations of deposit guarantee schemes. There is an international effort underway to understand these issues. National authorities are conducting trials and consultation exercises, and discussions are happening at the BIS, the CPMI, the FSB, and the G-20.

I want to thank Managing Director and the staff for their active participation in the G-7 discussions on this topic, in addition to their wider contributions to that global effort.

The question before this Board today is: What is the IMF's particular role in this international effort? The IMF cannot do everything, nor should it aspire to. National authorities and standard setters need to be in the lead in a broad range of areas, so this needs to be a collaborative effort. We see two critical areas where the IMF has the mandate, expertise, and comparative advantage to take the lead.

First, the stability of the international monetary and financial system. Only the IMF can build the analytical foundations here, looking at the risks from currency substitution, spillovers, and capital flows, amongst others, as well as the potential benefits of easier cross-border payments.

Second, with its near universal membership, the Fund will have a vital role in supporting its members, especially those where capacity is weakest. But in fulfilling that role, we need to be humble. We need to recognize that many of the questions from the membership do not yet have answers, such is the novelty of the topic. The Fund's role will be to ask probing questions, rather than trying to offer all the answers.

Given the nascent state of developments and of our policy understanding, we should concentrate on where the risks are the greatest. Our policy advice should not get ahead of the policy frontier. We should not be offering normative advice when there are no norms, and we should not go beyond IMF expertise, for example, into technological issues.

Finally, let me comment on the issue of resources. Overall, we are skeptical that digital money will require this level of resources and certainly not at the pace proposed by the staff. Most countries are, rightly, taking a measured and deliberative approach to digital money. Any increase in resources should be phased and proportional to actual developments. As many chairs noted yesterday, there are now many competing demands for new resources, and we will need to consider trade-offs in the round. That will mean thinking hard about priorities when we come to discuss a potential budget augmentation later in the month.

To summarize, the IMF has a vital role to play in the global effort to understand the implications of the emergence of digital money. That poses profound questions for all of us. With constrained resources, the IMF needs to

focus where it has the greatest comparative advantage and where the risks are the most material, the implications for the international monetary system, and technical assistance to its most vulnerable members.

Mr. Buissé:

As we have said in the past, we really believe there is a strong role to be played by the Fund to be able to respond to the fast-changing developments involving new forms of money, including CBDCs and global stablecoins (GSCs), which are becoming macro-critical for the international and domestic financial and monetary systems and, of course, the real economy. Accordingly, their systematic integration in multilateral and bilateral surveillance, as well as in technical assistance, goes without saying for this chair. We issued a clear gray statement with Ms. Shortino, Mr. Ronicle, and Mr. Rashkovan, and I will concentrate my remarks on the following points.

First, let me emphasize once again that “digital money” is a word intended to capture a wide set of potential forms of instruments and is, therefore, not fully appropriate to allow a clear distinction between money and other forms of payments, such as cryptoassets, which do not carry out the three functions of money. I think it is important to keep that in mind when delineating the Fund’s actions.

Second, if heightened surveillance by the Fund of so-called digital money is fully justified, the Fund’s attention should be primarily placed on risks, monitoring, and appropriate policy advice, focusing on their implications for the banking system, banking sector, for financial stability, and the macro economy at the global, regional, and individual levels. Greater consideration should be given to the analysis of the interlinked implications of private and public projects of forms of money and of any proposal involving a high degree of the loss of monetary sovereignty, such as a risk of currency substitution for central banks and the economy at large.

Third, however, and linked to the above, the coverage of digital money in bilateral surveillance should be selective and tailored to each country’s fundamentals and stage of economic development. Consequently, Article IV coverage should vary from a full-fledged analysis to a narrow review, depending on the country’s fundamentals, institutional capacity, spillovers, and the pace of digital money adoption. As a matter of fact, for advanced economies, a relatively light coverage should be most appropriate.

Fourth, as mentioned in our gray statement, we strongly encourage the staff to keep building on its cooperation with international bodies. And I very much welcome what was said in the introductory remarks. And, of course, with the standard setters, such as the CPMI and the FSB, given the need to avoid overlaps and foster synergies.

Finally, on resources, we do favor a much more gradual approach, while encouraging strong cooperation between departments. I heard the explanation again this morning, but note that, if I am correct, there are about 160 people in the whole FAD. The ask is actually one-third of a whole department. I mean, I heard the explanation; but still, that strikes me as quite a lot.

Let me underline the importance of internal training also of the existing staff. In any case, we look forward for the budget discussion, as I said already yesterday. We also believe synergies could be created in the context of the IPF and would be interested in the staff's opinion in this regard.

The Chair:

Just perhaps a useful clarification on where we see the progression in in staffing. And, of course, we will discuss what is the right pace and the right speed and the right target when we comprehensively look at the needs that are pressing upon us.

We need people in area departments with recognizable strong expertise, not just people who can connect to the digital world and all our partners and the authorities, as we envisage that only one-third of any increase would be, in a sense, in a central position. I feel very strongly that we need to get these skills in our area departments, of course, connected with the Monetary and Capital Markets Department (MCM) and FAD and others, because of what happened recently in one country. I believe it is in Mr. Moreno's constituency that adopted Bitcoin.

The important point is that we were not approached to engage in the discussion. And I, for one, feel that in our interaction with countries, we have to be more ahead of this curve, not behind.

So, Mr. Buissé, this is not to say that I am going to defend today any conclusion around the speed and size but to be clear that we are not thinking only of building more skills in MCM, but we are thinking very seriously about building more skills where the interface with the membership is.

Mr. Bevilaqua:

As we have issued a comprehensive gray statement, I will briefly highlight a few points for emphasis.

Let me first stress that we fully agree that the evolving issue of digital money is at the heart of the Fund's mandate. Therefore, it makes a lot of sense to prepare a strategy for our engagement in this novel area. The Fund should not be behind the curve when it comes to digital money and its potential implications for macroeconomic and financial policies. That said, we see scope for a better focused and more gradual approach to resource commitments, one that is more in line with the expected limited footprint of digital money during the planning horizon. We, therefore, urge management and the staff to consider a more extended investment period and intermediate goals to facilitate interim assessments by the Board on the need for additional resources to this area.

We take note of the staff's view that network effects and the sticky policy mistakes are key factors for the proposed significant and rapid scale-up of the Fund's resources in this area. However, policymakers have shown a well-balanced mix of ambitions and caution when venturing into unauthorized digital money initiatives. Also, technological upgrades and competition are expected in a fast-paced environment, balancing out medium-term network effects. Of course, the Fund's unique position, due to its broad membership, macro-financial expertise, and close engagement with country authorities and other international financial institutions (IFIs), makes us a potentially valuable player in this field. Indeed, the Fund is well-positioned to step up its engagement with central banks and other IFIs to participate in the discussions and help design future standards and regulations in this area.

The Fund also has a comparative advantage in coordinating capacity development and peer-to-peer learning opportunities in close collaboration with other stakeholders. However, stepping up our surveillance efforts should be much more gradual and commensurate to the macro-criticality of digital money developments in member countries. Given the initial stages of digital money initiatives and the cautious approach taken by country authorities, it seems advisable to scale up Fund surveillance more gradually, focusing in the next few years on a few surveillance pilots and products.

A more paced strategy will put less pressure on Fund resources and give additional time for conceptual frameworks to mature. It will also make

room for a more organic approach to capacity building, including internal seminars and training to leverage on the expertise of existing staff.

Like Mr. Huh and his colleagues noted in their gray statement, we are not convinced of the case for the publication of this report and strongly favor, instead, the publication of the April 2 report with the proper updates, focused on the groundwork for the Fund's strategy in this area.

In sum, there is no doubt that international cooperation, capacity development, and focused surveillance should be part of our medium-term strategy in this important area at the center of the Fund's mandate. We believe we need to adjust the proposal along these lines. To this chair, it currently looks overly ambitious and too costly.

Mr. Tanaka:

Together with the previous Board paper in March, we welcome that the staff presents an ambitious and concrete operational plan for the Fund to help the membership deal with the rise of digital money.

As for what Mr. Moreno mentioned in his gray statement, the Fund has a narrow window of opportunity to engage with countries before the policy challenges of digital money materialize.

As digital money is deeply related with the stability of the international monetary system, it is the right timing and opportunity for the Fund to show its *raison d'être*, existential reason, as the center of the international monetary system. Given the speed and impact of its development, the Fund now needs to act swiftly and decisively; therefore, we fully support the proposed strategy. I will make the following comments.

First, developing the Fund's policy views and analytical tools should be given the top priority because they are the foundation of effective policy advice, as well as capacity development. We expect the staff to timely update and consult with the Executive Board in order to incorporate Board discussions.

Second, on surveillance, Article IVs, Financial Sector Assessment Programs (FSAPs), and multilateral surveillance should complement each other. The authorities and the Fund should start constructive discussions on Article IVs, which would play an important role, especially in low-income countries (LICs). As Ms. Mannathoko pointed out in her gray statement, some

member countries, especially low-income countries, are short of the capacity to deal with digital money, while being vulnerable to the spillovers. Therefore, in case that digital money is deemed macro-critical for such countries, it is important for the Fund to provide proactive policy advice.

Third, regarding capacity development, while we basically support the idea that CD should be demand-driven generally, we are of the view that, given that many countries may not be aware of the magnitude and rapid movement of digital money in terms of spillover or even domestic payment and banking system, the proactive engagement of the Fund is critical, like in the case of surveillance. The Fund could or should consider a proactive supply-driven provision of CD, like holding seminars or inclusive dialogues, as well as through effective communication by the mission team, with the integration of CD with surveillance. Japan, as one of the longest and largest contributors of the Fund's CD stands ready to support CD on this front.

Fourth, like many others, effective coordination with standard-setting bodies, international fora, such as the G-7 and G-20, and national authorities, is essential. We appreciate MCM's efforts, led by Mr. Adrian on this front.

Fifth, as there are other emerging priority areas, we ask the staff to present further analyses of both the budget and human resources implications from a holistic perspective in order to avoid fallacy of composition.

Lastly, we echo Mr. Mouminah's reference to the leaders' declaration for the G-20 Riyadh summit and look forward to the Fund's work on macro-financial implications of digital currencies and so-called global stablecoins.

The Chair:

I have said that on previous occasions, and I want to repeat it. We are extremely grateful for Mr. Tanaka's engagement and support of capacity development. And I could not agree with him more than in this area. We will have a different problem to solve, and it is countries not being aware of what is the capacity request they should press upon us.

This being said, it is important to recognize that many countries are aware, and they are formulating demands, so we should move very quickly and then build that experience.

I recognize Mr. Tanaka's willingness for Japan to help us in that regard. And I also completely recognize that we are in a very fast-moving world, where the Fund has played an intellectual leadership role in the past, and our expectation is that it will continue in the future.

Ms. Mannathoko:

We issued a detailed gray statement, which was broadly supportive of the proposed strategy, and we highlighted the urgency of assistance to countries that are not yet ready, along the lines of what Chair has just been discussing, but also countries that are not ready yet to deal with the spread of stablecoins and other digital money, including foreign CBDCs. Though for us, this is not just about those countries that are already issuing CBDC. I will focus on maybe just two points around capacity and resources.

First, we just want to reiterate that urgent support is needed, especially in low-income-dominated regions, where there is little regulatory readiness, given their susceptibility to spillovers. While we agree that the depth of the coverage of digital money in surveillance can be informed by macro-criticality, we want to stress the importance of using a more preemptive approach to identify macro-criticality, given the limited awareness, even within the Fund across departments, which is why we really see a need for improved resources.

As Managing Director noted, many authorities, including ours, are concerned about not being ready. The risks for most LICs and middle-income countries (MICs) that might not be adequately informed through the BIS and other fora will come from the spread of stablecoins and foreign CBDCs. Our concern is that there are currently inadequate resources in the Fund to ensure our countries' digital readiness, including for the staff to conduct the monetary, financial sector, and external sector, and even fiscal policy readiness assessments that are needed to guide their advice to LICs and MICs in program and surveillance missions.

I seem to remember maybe about two years ago when these discussions on digital currency started, we did ask about digital readiness assessments to guide Fund engagement and advice. We were told that, at the time, the staff were still growing the internal knowledge base and capacity. But we see that now is the time—in our view, now is the time to engage on that and to shift the focus—the focus has just been on issuers but to shift the focus to impacts.

We are now at the point where we really want to appeal to fellow Directors to ensure that adequate resources will be made available, especially for low-income regions and low-capacity middle-income countries. For these assessments, covering readiness but also to inform advice in surveillance and programs. We need assurance that these countries will be prioritized in this regard. We cannot really overemphasize the importance, from our view, of having adequate resources and boosting resources, as required.

As Mr. Tanaka also noted, scaling up capacity development for regulatory money, fiscal policy, digital readiness, and information and awareness should also be prioritized.

The Chair:

I have heard from many of the countries in Ms. Mannathoko's constituency, appeal to the Fund to be there on these issues. And for some, it is becoming quite pressing because they are being bombarded with technology providers offering them this, that, and the other, and they cannot quite figure out a pathway forward. And they do trust the Fund to be objective and neutral. I hear her plea. Let's see how we can best respond to it.

Mr. O'Brolchain:

We issued a gray statement in which we expressed support for this timely and important initiative, so I will highlight a few points relating to the Fund's mandate, the importance of partnership resources and considerations for small states.

On the Fund's mandate, this chair considers that the rise of digital money creates an added dimension to the Fund's mandate and will, accordingly, need to adapt in the context of fast-changing developments and emerging risks, as has already been outlined. Moreover, as noted by Mr. Buissé, Ms. Shortino, Mr. Rashkovan, Mr. Ronicle, and others in their gray statements, there is a role for the Fund to serve as a bridge between the membership and the international policy making process. This is especially critical in the areas of surveillance and capacity building. We believe the Fund's efforts should continue to focus on the implications of digital money for cross-border capital flows, monetary and financial stability, the evolution of the international monetary system, and the global financial safety net.

The benefits of digitalization include improving the ease of conducting business, building financial system resistance and financial inclusion, areas

which are particularly important for low-income countries and small developing states. CD will be critical in this respect, as noted by Ms. Mannathoko and Mr. Mohieldin in their gray statements, and also by Ms. Mannathoko just now and also Mr. Tanaka earlier. However, there are challenges and risks, including spillover cyber and financial risks. Countries will need support in identifying and monitoring these risks and also in developing tools and strategies to address them. Further, we note the staff's response on differences in private and public digital money but wonder how these differences will impact the staff's strategy.

On partnership, we welcome the staff's prioritization of partnerships within the strategy. Like Mr. Mohieldin, Mr. Trabinski, and others, we believe that collaboration based on the guidelines for engagement and core competencies is key to enhance complementarity, build on comparative advantages, and minimize duplicated efforts. The experience of countries that have already embarked on this journey should also be leveraged.

On budget and resources, like other speakers before us, we take note of staff's estimates of the additional resource requirements, and we will consider these in the broader context of the budget discussion, which we will have later this month.

In conclusion, I would ask the staff to remain mindful of small developing states, particularly with reference to tailored capacity development and surveillance. We would also welcome further work on the extent to which digital money presents opportunities for small island states to address the loss of correspondent banking relationships (CBRs). Work on competitive implications of new forms of money and new entrants would also be welcomed.

Ms. Shortino:

I want to make a few additional points, as we did issue a pretty comprehensive joint gray statement.

First, we agree that the rise of digital money poses many questions and, likewise, many opportunities for the Fund's members and for the international monetary system more broadly. The Fund does, indeed, have a key role to play in this space. In particular, we agree with Mr. Ronicle that there are real benefits to providing capacity development, especially for smaller states, and assessing implications for the international monetary

system, including with regard to global financial stability and potential spillovers.

At the same time, the issues highlighted in this report are still quite nascent, as we have all observed. The world is, indeed, moving very fast; but as has been noted, the emergence of digital currencies is still at an early stage. Just to throw out one metric, a recent Atlantic Council report found that of the 75 countries that have started work on CBDCs, one has been formally launched and 19 are in a pilot stage. Norms in this space, therefore, will continue to evolve over the coming years, and along with the technology and usage of these currencies. Therefore, in our view, the Fund needs to keep pace with the progress but also be cautious about getting ahead of the progress. If the Fund moves too quickly, the policy frameworks that are developed might simply be obsolete by next year.

In this regard, partnership with other institutions, both private and public, will be critical to enable the IMF to keep pace with emerging trends and leverage the work of others in developing frameworks and policy advice. As we have stated in other Board meetings, setting procedures for engaging other institutions could help to lend some structure in this sense.

Finally, with regard to resources, like others, our initial impression is that the 55 additional staff seems high. A few points on this.

First, we would stress that, in line with the recommendations from the 2019 Independent Evaluation Office report, there are still gaps to be filled in support of macro-financial surveillance needs. These are fairly urgent.

Second, we agree with Mr. Pösö, in his gray statement, that the availability of talent is likely to be a key constraint; thus, creative approaches to training internal staff or leveraging rotations and temporary employment may be a better approach.

Finally, as Chair noted, we will need to prioritize this request against quite a few other areas of increased Fund staffing and the Fund's own absorptive capacity. It is simply unrealistic to expect Fund staff to ramp up work on all of these issues all at the same time, so we will need to consider that moving forward.

The Chair:

I agree that we have to calibrate how we move forward and be mindful of the tall mountain we will have to climb to recruit staff against competition from both private and public entities. But I think the Fund is attractive. And I have confidence that we will find a good practical way to bring skills and deploy skills and, of course, enhance skills. We have done it in the past. We will have to do it again.

Mr. Mouminah:

We fully support the proposed strategy, aimed at deepening the Fund's work on digital money and its implications for the IMS, which is the core of the Fund's mandate. Like Mr. Jin, Mr. Mozhin, and many others, we consider that the Fund must step up its work to keep pace with the new developments. The world is moving fast, as Chair mentioned, and we need to catch up.

Indeed, a successful implementation of the strategy in a timely manner will be a key for the Fund to be a thought leader in the policy development, in collaboration with other organizations. I genuinely believe, in two to three years, this topic will dominate the Board's discussions. Against this background, we would like to make a few points.

On the Fund's approach to the prioritization of CD requests, we take note of the staff's answers to our questions, that "CD projects will continue to be demand-driven." In this regard, we consider that a clear prioritization will be essential, as countries' demand will rapidly increase with many central banks actively investigating CBDCs, as many others have mentioned already. Indeed, as Mr. Mohieldin and Ms. Mannathoko have just now noted, some TA requests had to be either postponed or turned down due to resource constraints. Broader efforts in capacity development, as envisaged under the proposed strategy, should address these constraints, to some extent. The greater use of forums of peer learnings and regional workshops is also worth exploring, especially given the rapidly evolving policy challenges, which Ms. Shortino just mentioned now.

On collaboration, the paper has outlined the clear guidelines that provide a clear path for collaboration with other institutions, while minimizing overlaps and the duplication of work. Like Mr. Buissé, Ms. Shortino, Mr. Rashkovan, and Mr. Ronicle, we encourage the staff to focus on the Fund's areas of comparative advantage as they pursue a close collaboration with other bodies.

Still on collaboration, we take positive note of the staff's written responses, that there are no significant obstacles to ensure a successful partnership, provided that the proposed strategy is supported with adequate resources. I think this topic, we can set an example on how international organizations, responsible for the financial responsibility, work together.

This brings me to the final point, on the resource envelope. Like Mr. Tanaka, Mr. Mozhin, Mr. Jin, and a number of other Directors, we support considering the resources request. Indeed, the Fund must invest in new capacity, with the help of additional resources, to fulfill its important role in the area of digital money. We also need to continue to attract the best talent in this field, as Chair has mentioned, just now. In this context, we look forward to the upcoming budget augmentation request, which will provide an opportunity to consider the resource needs for all the new work streams together. However, I would like to see a clear accountability model, given that there are many departments involved in this process.

The Chair:

On Mr. Mouminah's last point, clear accountability, where we place the resources and how that works together: he will not be surprised that it is on the top of my list as well because we will have to make sure that additional skills and capabilities, without being part in one and the same place, do deliver consistency and the highest possible value for money. I take very good note of all his points. I agree that we have to speed up because the world has moved faster than we have moved so far, but do it, of course, with accountability, as he said at the end of his comments.

Mr. Pösö:

We have issued a detailed gray statement, but I would like to raise a few points for emphasis.

Firstly, we welcome this strategic discussion and the ambitious agenda. The developments in this area are advancing rapidly, sometimes at a surprisingly fast pace, as Chair said. However, we do not have the luxury of time to be surprised, as we need to be ready to react to new developments, as the recent announcement by a country to have Bitcoin as a legal tender demonstrated. The Fund should be in a position to provide policy guidance and recommendations, as some downside risks but also opportunities could be

fundamental to the functioning and the stability of the international monetary system.

As mentioned by Mr. Buissé, Ms. Shortino, Mr. Rashkovan, and Mr. Ronicle, in their joint gray statement, we also believe that the Fund should be more focused with the agenda and concentrate on the cross-border macroeconomic implications of digital money, in particular, on how to enable cross-border efficiencies and avoid unintended international spillovers.

Secondly, while we agree with the staff on the urgency, we have concerns about the capacities and costs. The digitalization of the financial system and, in particular, digital money is increasingly becoming an indispensable part of the needed skill set for any economist. In this context, we would encourage enhancing the skills and capacities within the Fund. This approach would help to integrate these topics, where relevant, in a systematic manner, rather than as an add-on theme in surveillance products.

Similarly, we believe that, at this stage, internal capacities need to be built more before we are ready to contribute to capacity development, to the extent the paper proposes.

Related to this, and as was also mentioned by Mr. Bevilaqua, as the decision on the budget will be taken only later this month, we find it premature to publish this paper now.

Finally, cooperation with other stakeholders will be crucial. And I welcome Mr. Adrian's opening remarks in this respect. As Mr. Jin, in his gray statement, we know that the staff is working on an analytical framework for CBDCs which would serve as background for the IMF's contribution to the G-20 paper to be published in this month. In this context, we would prefer discussing the staff's deliverables to international fora, such as the G-20, in the Board before publishing them. Many countries not present in the G-20 discussions may have important insights to share on this topic in this Board.

Mr. Massourakis:

We particularly appreciate the proactive stance that the Fund has long adopted to better tackle innovations in payments, whose potential cannot be fully gauged at this stage.

We agree that digital innovation in the financial industry is progressing quickly and has the potential to bring about structural changes, with

far-reaching consequences on multiple dimensions relevant for macro-financial stability. To continue to serve its membership, the Fund cannot afford falling behind the curve but should stay abreast of ongoing market, analytical, and regulatory developments.

As we emphasized in our gray statement, the ultimate goal of the Fund's three-pillar strategy is to build expertise and the analytical foundations needed for the Fund to provide sound policy advice. In turn, this requires a thorough understanding of the opportunities, challenges, trade-offs, and risks that digital money may pose to global and national economic and financial stability.

We can support the proposed approach to systematically embed the coverage of digital money in the Fund's activities, starting with surveillance and capacity development. The document provides a comprehensive review of the possible domestic and cross-border implications of digital money, but we reiterate our call for giving due attention to the domestic dimension of monetary policy. The Fund has a key role to play in deepening the understanding of the impact of digital money on price stability and monetary policy transmission. Analytical advancements in this area would be helpful, both for central banks considering issuing central bank digital currencies and those facing the prospects of a wide adoption of global stablecoins.

We welcome the staff's additional elaboration on the resource implications to implement the Fund's strategy on digital money. Judging from reading Directors' gray statements, it seems that insufficient internal capacity is perhaps the hardest constraint, as well as one of the most contentious issues. We recognize that resources should be commensurate to the tasks, as well as to the membership's demands and expectations from the Fund. To a relevant extent, given the fast-moving nature of digital money and the surrounding uncertainties, any strategy necessarily implies a sort of targeting a moving object. As a result, some caution is required to better understand the priority areas for investment. In this regard, like many other Directors, we see merit in a more gradual approach to building capacity, which implies a reduced and more phased commitment of resources than what is currently proposed by the staff, along with a flexible timeline to be adjusted when market developments and membership needs make it necessary. We also share the view expressed in this respect by Mr. Bevilaqua and his colleagues, who call for setting intermediate deliverables to assess whether the deployment of additional resources is justified.

Mr. Palotai:

Regarding the way forward, we expressed our views in detail in the gray statements for both today's meeting and the previous one in April. Let me just briefly summarize our bottom line, which is that we agree with Managing Director and also with the staff that the Fund should strengthen its expertise and skills in digital money and, more broadly, in fintech.

As many Directors, we particularly welcome the focus on the international monetary system, financial stability, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), and monetary policy transmission, among others. However, in the implementation strategy, in particular, in the initial stages, we see some things rather differently.

First, we prefer well-budgeted pilot projects with clear milestones and outcomes over a more front-loaded generic approach. As the Fund's expertise shows, a pilot-based strategy proves to be very effective and agile for emerging topics.

Second, the prioritization of the staff's work in the area should be guided by a well-defined macro-criticality path. We call on the staff to lay out the guidelines and apply the tasks on a case-by-case basis, including Article IV and FSAP reports.

Third, we would like to better understand the areas of collaboration and the division of responsibilities between IFIs. While we welcome the initial thoughts outlined in the paper and in the oral remarks today, we expect a more granular assessment and formalization of commitments. Staff exchanges and mid-career track could also add to capacity building efforts within the Fund in a cost-efficient way.

Finally, as the Fund is stepping up its efforts in many emerging areas and additional resources are also needed to deliver on the core ones, we see merit in a holistic assessment of the medium-term budget implications of expanding the mandate. As Mr. Buissé, Ms. Shortino, Mr. Rashkovan, and Mr. Ronicle, we are looking forward to the respective Board discussion.

Mr. Merk:

We broadly support the outlined operational strategy. We consider the Fund's future work on digital money to be fully in line with the Fund's existing role to provide policy advice, support capacity building, and engage

in the international debate in an area of growing macro-critical importance for the membership. We agree with the staff that the development of policy lines, with respect to digital money, should mostly be covered under the Fund's surveillance function and be informed by macro-criticality and risk and stability considerations.

Scarce resources on the side of the Fund also argue for duly prioritizing access to capacity development based on macro-criticality, as well as expected traction and impact. Given the resource constraints, we also underline the need to maintain the demand-driven character of capacity development projects.

Lastly, while we deem digital money an important topic, it should not be inferred that we endorse the earmarking on the named resources in a future budget. Similarly, ambitious proposals are currently made for many other areas, and all these proposals and their substantial budget implications will need to be assessed together in their entirety.

Mr. Guerra:

As we expressed in our gray statement, we support the strategy, as presented in the report, and we agree with the publication of the paper.

Looking at the decade ahead, there are basically two possible equilibria as outcomes, one where we seize the opportunity to foster an orderly monetary system, where no digital divide exists and technological change is a transformational tool used for shared prosperity. Another equilibrium is where we have a suboptimal outcome due to inaction, with immense risks to financial stability and a gap in the digital systems that divide our membership. Our discussion today is about how the IMF can play a role in reaching the best equilibrium, while partnering with other organizations to work in a cost-effective and efficient manner. This takes me to address two points, on timing and on resources.

First, on timing. There is the issue of how fast we must kick-start the agenda. We must recognize that we are already starting from a low point, that we are already late in building capacity. The proposal is to build internal capacity and reach a steady state within a three-year time span, something that we would like to have more ambition but is something that we find adequate. The big risk is moving and adapting too slow, not too quickly. An example is CBDCs, where there are many initiatives in which the IMF already participates, including by the G-20 and the BIS. Moreover, solutions and

policy advice will have to be adequate and specific to each country. Yes, there are 56 central banks that are already working on CBDCs, but what should worry us is the other more than 120 member countries that are not working on the topic because they do not have the institutional capacity. For them, the IMF will be the most reliable source of policy advice. As Ms. Mannathoko very eloquently expressed in her gray statement, the IMF does not currently have the capacity to respond.

Also, furthermore, we support Mr. Tanaka's remarks on the issue of having a strategy of proactive development of CD. Having said this, and after reading the gray statements of many of our colleagues, there are similarities in what many chairs request for a prudent and priority-based use of resources in the staff proposal. As the staff explains, the implementation will be an iterative approach to how the strategy is rolled out, as it would be impossible to include digital money in all surveillance and capacity development engagements all at once. There will be time to carefully review and draw out lessons for further work as the budget is used. So be it CBDCs and related GovTech issues, stablecoins, or cryptoassets, providing adequate resources will potentiate this work.

Our chair supports the staff proposal and looks forward to the discussion under the structural budget allocation. We expect that, in the context of this discussion, we consider that a lack of investment for the digital agenda in a timely manner will have very different implications and will stress risk for different groups of our membership.

Finally, in a nutshell, we believe that we must potentiate this work and help the international community to reach the good equilibria of shared prosperity without a digital divide under the new digital IMS. This is our remit and our mandate.

Mr. Sylla:

The simple fact that today we are having a Board meeting in hybrid should make us think about the need to take the necessary steps to not be caught short in terms of digital currency. Two years ago, no one could have imagined such a Board meeting. And for the days ahead, things are going to move fast. We have the choice to be a front-runner or a follower on this matter, which is at the center of our core mandate.

We issued a gray statement; hence, we will limit our comments to the following points.

The Fund should stand ready to support the membership during the rise of digital money, in line with its mandate. In our constituency, there has been an increasing interest for digital money, particularly for the potential benefits associated with them, including for domestic revenue mobilization, transparency in public financial management, and financial inclusion. I will not mention here the cost of the printing of bank notes and cleaning up of the fiduciary system for our central banks, which can go very high.

Notwithstanding, we acknowledge that these innovations have clear implications for domestic and international economic and financial stability, as well as the international monetary system. Therefore, it is paramount for the Fund to build expertise, develop policy views and analytical tools, and adapt its key functions to continue to best serve the membership.

Second, we emphasize the important role of effective collaboration, surveillance, and capacity development. It will be essential to maximize the synergies and avoid the duplication of work.

Finally, we concur that additional resources are needed to fully equip the Fund to address policy challenges and advance the digital agenda. In this field, the cost of failing to support the membership could be fairly high. Considering the need to build expertise and provide capacity development, we favor a more gradual increase of additional resources.

*Ms. Mannathoko*³:

Like Mr. Guerra, we also support publication of the report.

Mr. Herrera:

We issued a gray statement, so I will limit my comments to four points.

First, we agree that the Fund has an important role to play in the face of the increasing use of digital money in the world economy, considering its potential implications for the domestic economic, financial stability, and the international monetary system, as well as the great interest of our members.

³ These comments were made in the videoconference chat window.

Second, we support fast-forwarding the Fund's capabilities on the most pressing issues; particularly, we welcome suggestions to strengthen the Fund's analytical and policy views on digital money, increasing our capacity to deliver technical assistance with an emphasis on middle- and low-income countries, and bolstering the Fund's role in international forums and working groups, as well as enhancing our engagement and cooperation with other institutions, central banks, and standard setters.

Third, we are a bit more skeptical about the broad consequences of digital money on monetary policy, the international monetary system, global imbalances, and capital flows. While we see merit in exploring these issues from an analytical perspective, at this stage, there is great uncertainty about the scale and scope of these consequences, if they will be macro-critical, and on what horizon. In the same vein, the integration of digital money issues into bilateral surveillance for most advanced and emerging economies should go along with the actual developments and risks on the ground.

Fourth, we see merit in proactive but selective surveillance, where digital currencies represent an imminent macro-critical issue due to currency substitution or bank disintermediation. These issues are more likely in those jurisdictions with less developed financial systems and weak regulatory frameworks, rather than those with systemically important financial systems.

In summary, we strongly support moving forward with this work stream; but, as stressed by many other EDs, we would prefer a more gradual, focused, and prioritized strategy, as well as a phased increase in resources.

Mr. Alhosani:

We cannot help but concur with Chair, on the macro-criticality and importance of this issue before us today and the prominent role that the Fund can play in developing policies and assisting the membership with capacity development.

It would be a natural and expected course of action for our central banks and ministers of finance to look toward the Fund as a trusted advisor to address concerns relating to the stability of the international monetary system, as well as the stability and integrity of the domestic financial system.

We tend to cluster this issue today of digital money with other emerging issues, like climate and Fragile and Conflict-Affected States (FCS) strategy. However, this is not an emerging issue per se. This is an issue that

the Fund has experimented with sporadically in the past. Unfortunately, it has not garnered enough support, and we hope it does so in the future, as we tend to address other emerging issues, like climate, sustainability, and FCS strategy. As many Directors mentioned, capacity development and technical assistance will be crucial in supporting countries, more importantly, for EMDCs. We want to be proactive and ready when the requests start flowing in. This will require assistance with building infrastructure, developing policies, and strengthening human capital and the knowledge base.

As we stand right now, speaking about capacity development is placing the cart before the horse. We need to strengthen our internal capabilities, first and foremost, to be able to assist our membership. With the way Mr. Mancini Griffoli explained current structure of the team, we have a long way to go.

Finally, this brings us to the issue of resources and budgetary considerations. Our chair supported a budget augmentation in previous discussions and highlighted the issue of digitalization and the criticality of it and the important role that the Fund can play. We look forward to continuing this discussion in the upcoming meetings on the budget.

Mr. Peter:

We have issued a gray statement, and I would just like to emphasize four brief points to ensure that our position is clear.

First, we fully support the Fund's engagement in helping members ensure that the adoption of digital money fosters economic and financial stability. For this purpose, it is important for the Fund to develop policy views and proper policy tools that will ensure effective and innovative advice to the membership in the context of surveillance and capacity building.

Second, we are of the view that digital money is a developing and a complex field, and we understand that it is not easy to define a clear path for the Fund's involvement at the current juncture. While we welcome the proposed tools aimed at operationalizing the digital strategy, we would be grateful if the staff could provide more detailed information on the timeline envisaged for the implementation of the strategy, as well as on the proposed modalities, such as the framework for capacity building.

Third, the decision on the breadth and depth of the Fund's engagement in digital money should be taken after a careful consideration of the

complementarities with other key institutions working in this area to avoid duplications and to maximize the effectiveness of the use of Fund resources, as many other colleagues have also stressed. We clearly see that the Fund's work should strive to benefit the broad needs of its membership, especially the emerging market economies and low-income countries that are not represented in those other institutions mentioned several times. In this context, the Fund can play an important coordination role, including by channeling the feedback of its membership and ensuring the outreach with the other institutions, which often have initiatives of their own.

Fourth, and finally, on resources, I would like to associate myself with the comments made by Mr. Merk. The scale and speed of the proposed resource increase should be a function of the actual demand from the membership and the synergies from collaboration with other institutions. That said, let me reemphasize that we are supportive of expanding the Fund's work on digitalization. We call on Chair, as she has already ensured several times, to allow the Board to discuss budgetary issues in a holistic way.

Ms. Lim:

We find the report very useful and are encouraged by the Fund's focus on digital money, given the implications the development of digital money would have on the international monetary system.

The Fund's ability to provide policy advice on digital money to the membership is crucial, given the rising challenges around digital money and divergent policy approaches. We issued a joint gray statement with Mr. Huh and would like to just add a few additional points.

First, we welcome the Fund's work and strategic road map on digital money to ensure international economic and financial stability. However, the prioritization of work will be key in this area. Given the interest of the private sector to offer cryptocurrencies and stablecoins, such as the Facebook diem, the Fund should work on their implications to the international monetary system by identifying prioritized areas, such as responding to the impact on capital flows and enhancing the efficiency of the payment systems.

Second, we appreciate the staff's initiative to broaden capacity development on digital money and to strengthen the common guidance and best practices on AML/CFT and immediate risk areas arising from the broader use of digital money. To avoid duplication of work on the subject, promote peer-to-peer learning and greater collaboration with IFIs, such as the World

Bank and BIS, to leverage our knowledge and expertise will also be important.

The Fund could also provide advice and even guide members to develop policy frameworks on digital money that will harness the benefits of digital money, while guarding against potential risks, taking into account countries' circumstances and the prioritization to countries that may have lower capacity to deal with such risks, as Ms. Mannathoko, Mr. Tanaka, Mr. O'Brolchain, and many other Directors have highlighted.

Lastly, on building internal capacity. While we welcome the new recruitments and work coordination across departments proposed by staff, we also share the view expressed by Mr. Buissé, Ms. Shortino, Mr. Rashkovan, and Mr. Ronicle in their joint gray statement, that the increase in staffing should be gradually implemented.

Mr. Bhalla:

We thank the staff for the strategy paper. Given the increased digitalization of payment systems and rising global interest in CBDCs, the Fund's role would need to evolve proportionately. While we largely agree with the proposed strategy, we are concerned that discussion on the activities of privately issued digital currencies should not send a signal about their legitimacy or endorsement. It will be necessary to recognize the discomfort that certain jurisdictions have toward privately issued cryptocurrencies.

On regulatory aspects, there is an urgent need for the evolution of baseline global CBDC standards to ensure future interoperability and ease of border payments to enable innovation within the regulated financial parameters. A legal framework needs to be devised with a global consensus that details the regulatory compliances and clear-cut accountabilities that must be followed to balance the objectives of novelty in the payment space and its associated risks. The risk monitoring and management systems in the central banks and jurisdictional banking systems also need to be strengthened and potential changes which may be outlined.

With data being the new resource, its protection and the associated privacy of the end-users must not be jeopardized under the garb of efficiency and/or innovation. A tough data protection law needs to be put in place that can provide redressal on issues of data misuse and data-based crimes. Global coordination on laws governing data storage, access, and use is necessary. Otherwise, there is a high probability of differing and complex laws across

jurisdictions which can either be exploited by global tech or lead to dwindling innovation and data being confined to silos.

If digital money enables free transactions between residents and nonresidents, there is a high possibility of bypassing the traditional payment system. Thus, the Fund could also provide further guidance on the capital flow measures (CFMs) arising from the increased adoption of digital money.

On monetary policy, the important issues that need further attention are, first, the implications of digital money for monetary policy transmission and the inflation process in EMEs, and second, how central banks can pursue the objective of meeting the inflation targets and the anchoring of inflation expectations.

Finally, as technological developments are evolving rapidly and regulators must catch up with the fast-changing digitalized financial sector, adequate resources are needed for research and development building skills. The current scope of the bilateral engagement of the Fund could remain limited, as a majority of the countries are still in conceptual stages. Direct country engagement can be strengthened when there are further significant developments across the globe. Until then, a greater chunk of resources may be utilized toward developing policy views and tools that can serve as forward guidance for the countries to take an informed poll, as per the respective use cases.

The Chair:

Mr. Bhalla brought up some of the core-for-the-Fund issues, like capital flow management and how we think about it in the world of digital money. It is just an illustration of how comprehensive these developments are and how much they demand from the Fund. And I agree with Mr. Bhalla's caution on how we should go about it.

Mr. Huh:

As we issued a joint gray statement with Ms. Lim, I would like to make some additional points for emphasis.

We agree that the Fund has an important mandate to help ensure domestic and international economic and financial stability with respect to the rise of digital money. However, like Mr. Bevilaqua and many other Directors, we would prefer a more gradual, focused, and prioritized operational strategy,

given the early stage of the digital money adoption and the need for collaboration.

On substance, the Fund needs to step up its work on the implications of digital money, including global stablecoins, for the international monetary and financial system and monetary autonomy, such as currency substitution, capital flows, and the interoperability of payment systems.

On the Fund's work at the current juncture, the staff needs to focus on building internal capacity, deepening analytical foundations, forging policy views, strengthening multilateral surveillance, and promoting peer-to-peer learning rather than focusing on bilateral surveillance.

Second, we support Mr. O'Brolchain and his colleagues' remarks on small island states, also on the need for the CD support, as Mr. Tanaka and many other colleagues have already mentioned. We agree that further research is needed in association with the loss of correspondent banking relationships to maximize its benefits.

Finally, like many other Directors, the resource implications of the Fund's work on digital money should be holistically assessed over time. We look forward to further discussions in the context of the overall budget augmentation discussion.

Mr. Jin:

Digital money can contribute to an open, efficient, and competitive monetary system that supports innovation and serves the public's interest. On the basis of our gray statement, I have three additional comments.

First, the Fund needs to step up to become a thought leader and global coordinator. We should not exclude a possible role of standard-setter for the Fund. A set of consensus-based key principles of the global digital currency system could eliminate potential bottlenecks and the risks, and it could address the concerns of some members over other members and prevent fragmentation and discrimination in the international monetary system. Given that the Fund has a near universal membership, and money and currency are at the core of its mandate, the Fund needs to play a central role in building an international consensus on the key principles and become a valuable participant in the standard-setting process.

Second, the Fund's surveillance should focus not only on the potential risks of digital money but also on their potential benefits. We also think that the discussion on international effects should not be a primary focus of bilateral instruments like Article IV, as that would be covered by the multilateral products already.

Third, on resources, digital money is a complex area of work. Given that the Fund is already lagging behind, we broadly support the proposed increase in resources. It is also important to focus on the quality, rather than on the quantity of people. Exchanges or secondment arrangements with other organizations and the country authorities should be positively considered. We would also have appreciated the staff to provide more details on the deliverables in the next 12 months under different resource scenarios. This may help the Board to make a more informed decision.

The Chair:

Mr. Jin has put a marker on an issue that does deserve further discussion. When we are in a brand new world of digital money, how would the voice of countries that do not participate in the traditional configurations that are likely to be defining standards, how is their voice going to be heard? Who is going to represent it? And we certainly will reflect on that, as well as on the other points he made. For the benefit of all Board members, we are thinking of more broadly using ways of seconding staff and exchanging staff to be more agile and strong in delivering institutional work. It is not easy, but it being hard is not a reason not to pursue it. That was one of the first things I talked to Agustín Carstens about. How can we build the global strength of expertise by working more collaboratively together?

Mr. Mozhin:

These rapid and widespread developments in the area of digital money create a challenge to the Fund. The Fund should continue to deliver on its mandate and foster macroeconomic and financial stability, both at the individual country level and the international level. However, digital money presents both opportunities and risks for the financial system, as we all know. Some of the risks are thoroughly explored by the international financial institutions, for example, the AML/CFT risks. And we would encourage collaboration with other institutions, particularly with the BIS, due to strong complementarities in competencies between the Fund and the BIS. But many risks remain unknown and are only speculated about.

And I cannot resist quoting from the recently deceased Donald Rumsfeld, the former U.S. minister of defense: There are known unknowns that we know about and need to address them, but there may be also many unknown unknowns, which will only transpire as we move forward or as the developments continue.

For example, the currency substitution by privately issued digital money might undermine monetary policy autonomy, increase the volatility of capital flows, and pose risks for price stability. Many of the Fund's members do not possess adequate capacity to understand and mitigate these new risks, and they will come to the Fund to ask for the Fund's advice.

The degree of confusion is very well illustrated by the decision by the authorities of El Salvador to introduce Bitcoin as legal tender, supposedly for the purpose of reducing costs for migrant remittances to El Salvador.

So for that reason, we are inclined to support the Fund's request for additional resources. The reasons for this are very well justified in the paper, given the expected workload. However, we also agree with those who underscore the need for a holistic evaluation of the budget implications of the initiatives along many of the Fund's work streams.

The Fund is requesting 55 full-time employment positions for digital money work, about 100 positions for climate work, and about 100 positions for the Fund's work on fragile and conflict-affected states. In all these macro-critical areas, the Fund has important comparative advantages and is well-positioned to add value to its members. However, there are constraints on the resource envelope, and we take the risk of subpar performance, which would create reputational risks for the Fund. In other words, we look forward to a more comprehensive discussion on the budget augmentation needs.

The Chair:

I do take to heart the point Mr. Mohzin makes, that we need to look at risks and opportunities. Mr. Jin made a point from the other side, do not forget about the opportunities; be mindful of the risks. And what is the opportunity cost of the Fund falling behind in an area that is moving forward so rapidly? And how we will stitch all this when we have our budget discussion. We will do it responsibly. We will do it, of course, with great care for retaining the strong reputation of the Fund being a prudent institution.

Mr. Manchev:

We issued a comprehensive joint gray statement with a number of other chairs and welcome the proposed strategy, which is the result of long-term intensive consultations with the Board. We also highly value and support the focused work at the Fund to help ensure that a widespread adoption of digital money fosters the stability of the international monetary system and the economic and financial stability of its members.

I will be very brief. I will just make two important clarifications, since we fully subscribe to the view that the Fund's role needs to evolve swiftly to not fall behind the curve.

First, the principles-based partnership within the individual institutional mandate is critical. The paper would have benefited from a clearer guideline on how to avoid overlaps and the duplication of work going forward. Undoubtedly, the Fund must step up and rapidly widen and deepen its work on digital money, while coordinating and collaborating closely with other stakeholders, especially with the other international financial institutions and central banks within their individual institutional mandate. The active and insightful contribution of IMF staff in the BIS working group on the future of payments is a good example in this regard.

Second, the understanding that the Fund serves as a bridge between the experience of the membership and the international policymaking process is key. We especially see a role for the Fund in analyzing the implications of digital money on the stability of the international monetary system and to assist and advise its members from the viewpoint of global stability.

In terms of multilateral surveillance, we see high value, the Fund to conduct a scenario analysis on possible future configurations of the international monetary system and its implications for global stability, given that the central banks only have domestic mandates that do not include global stability objectives.

In bilateral surveillance, the focus should stay on the implementation of the international regulatory standards for good governance and sound financial policies.

*The Financial Counsellor Director of the Monetary and Capital Markets Department
(Mr. Adrian):*

We clearly hear that any resources should be scaled up slowly. Capacity should be built up slowly, commensurate with the policy envelope as it is growing. We understand that the overall resource envelope will be the topic of the next paper.

At the same time, I think there is a broad endorsement of the overall strategy, which is focused firstly, on the international monetary system; secondly, on capacity development for countries, particularly that are not members of the BIS; thirdly, policy development together with the FSB and the BIS.

Let me here just mention briefly that there is, indeed, a G-20 paper that is already drafted on the cross-border aspects of CBDCs that was written together with the CPMI, which is the standard-setter, the BIS Innovation Hub, the FSB, the World Bank, and the IMF. That paper is drafted. We did not come to Board because of the very tight schedule.

And the paper has been circulated to the Board. But we did not come with a presentation due to the time schedule of the Board; but, yes, the paper is being circulated.

On surveillance, Directors mentioned Article IVs. I think the FSAPs are going to be more important further into the future when the standards can be assessed. The CPMI will eventually have standards around CBDCs and digital money more broadly, and those would be assessed within the FSAPs, similar to all of the other standards.

In terms of the role of representing the broad membership, this is, indeed, a very important role of the IMF. Last year, there was the very important G-20 paper by the FSB Cross-border Payments Coordination Group. And that has been importantly shaped by our input that has the broad membership in mind. In bilateral conversations, I would be happy to explain what exactly shaped those 19 working groups due to our input and really with the broad membership in mind.

Of course, in the CPMI, we do not have representation. The CPMI has 24 countries only, and there are no international institutions, other than the ECB that is represented in the CPMI right now.

In terms of digital money, so what we have in mind is CBDC plus well-regulated stablecoins. We do think that in some countries, private stablecoins might play a role. In other countries, it is going to be primarily CBDCs; but, of course, we do not have cryptoassets like Bitcoin in mind when we talk about digital money. That is very well understood. In our view, Bitcoin is not money. It is well-regulated stablecoins that we think is a form of money, similar to the vast majority of money that is privately issued. It is in one, it is like deposits, while high-powered money is relatively small, relative to the privately issued money. This is where the private-public partnership is coming in.

Finally, on the CFMs, as we know, the vast majority of countries do have CFMs. And how to enforce CFMs in a new era of cross-border payments is certainly something that we are also pushing for very strongly in the international fora.

The staff representative from the Monetary and Capital Markets Department (Mr. Mancini Griffoli):

Thanks to all Directors here for their very pertinent, very useful and thoughtful feedback that we take to heart, and we will work on this to mold our next steps.

I would like to take their questions very briefly, starting with some technical points, and speak a little bit to illustrate the demand coming from countries, speak a little bit about hiring, and then briefly about next steps. I will be extremely brief in my response.

First, technical points. Are cryptos money? Mr. Adrian already responded. We did stretch the definition a little bit in this paper. We needed an umbrella term to capture all of the innovations that were being put to the market. And even if we believe that countries should not be endorsing cryptoassets as legal tender and as money, we need to make the case, we need to make the case proactively and convincingly to countries. And this is why we wanted to include this in this umbrella and, thus, mention that in the paper.

We are also looking at both publicly issued and privately issued forms of digital money. Both are important in the questions that we receive from member countries. Privately issued money especially is growing and moving very fast. Again, we need to stay ahead of the curve in order to be able to offer convincing analyses to countries so that even those who at the beginning might not listen will lend an ear.

In terms of the demands coming from countries, I can offer some color. We get an increasing number of requests for capacity development in multiple areas. Even this morning, I got a request from the governor of a very large Asian country, asking for technical assistance. And this is now becoming a weekly habit. Requests are on the effects on the banking sector, on comparing fast payments to CBDCs, on privately issued digital money a lot, on fiscal policy, on data policies, on financial inclusion, and on spillover effects, including the use of CFMs. We can see the breadth of the questions that are being asked. And the complexity is growing. This is very interesting to see. It is not just that the frequency of these questions is increasing, but the complexity is increasing because countries are coming up to speed, and they are asking us for more, as they should be.

The problem is, we are having difficulty answering these requests. We are having to postpone requests and say no to countries. And, of course, we should be mindful of buy-in and the effects of our CD efforts. But these are all very legitimate requests that are coming that we are having trouble today already responding to.

When I said in my presentation that we wanted to prepare today for the hockey stick that will come later in the adoption curve, it seems like, for many countries, we are starting to be pretty close to that hockey stick. And this is why we have been raising this issue with the Board today.

That said, there is a certain gradualism built into all of this. In terms of the hiring of resources, in terms of organizing the work, of course, this will take some time, as I suggested in my presentation. In terms of hiring, I was very comforted by some of Directors' suggestions that they are open to this temporary sort of deployment. The idea is to create a certain number of positions. Of those 55 resources that we think are necessary, we would earmark a chunk of those, ideally this is something that we are still working through to have people come on a rotating basis from central banks around the world and from ministries of finance around the world that have gotten their hands dirty. The idea is to bring in knowledge quickly into the Fund and to expose these people to global issues so that they can be more productive when they go back.

This type of partnership would work well, would allow us to remain agile as the questions evolve, and, importantly, I think would allow us to hire people from central banks and ministries of finance that do not typically send people to the Fund because, in the area of digital money, some countries have

leapfrogged. And it will be good for the diversity of Fund staff to be able to hire and benefit from experience in those countries as well. So, thanks for being open to that suggestion.

We, of course, are very serious about mainstreaming and building internal capacity. In fact, part of our resource request is to be able to engage in internal training rather aggressively, but, of course, we need to devote resources to that at the beginning. This this will take time.

Finally, there were some questions about prioritization and work plan. These are questions about next steps. I just wanted to emphasize that what we have presented until now is a strategy. It is where we want to be in three years. How we get there in terms of tactics, in terms of work plan is a different discussion. It is not a strategic discussion. It is a discussion about the work plan that we are very happy to have with Directors, and we look forward to having that discussion in the context of the usual work plan discussions.

I would like to suggest also that, in our view, what we are presenting here is a package. It is very difficult to dismember. All the parts are very closely integrated, whether it is surveillance, CD, analytical work; thus, difficult to separate out.

Third, I learned a lot from this meeting, including from Mr. Guerra, who brought up the idea of multiple equilibria. Very interesting. And I think it resonates with the discussions we have been having with the team. If we do not ramp up, if we do not have anything to say, we will have very few countries coming to us to ask for help. And that will justify a very low investment in this field. That is one equilibrium.

The other equilibrium is for us to have important things to say, to have useful things to say, to have concrete things to say and to, thus, encourage countries to come to us, as I think they are looking to the Fund for a neutral independent voice for help in this area.

The staff representative from the Research Department (Ms. Martinez Peria):

I just want to address very briefly a comment by Mr. Bhalla and Mr. Massourakis about the impact of digital money on the transmission of monetary policy.

Let me say that we agree with them that this is a very important topic. In fact, we had some initial work on this issue in the staff discussion note that

we did in 2018, casting light on CBDCs, which focused primarily on the domestic implications of CBDCs. There, we noted that there is the potential for CBDCs to, in fact, improve the transmission of monetary policy, to the degree that it helps to increase inclusion, but we also noted that there might be changes in the operating framework, in particular, if we observe disintermediation, bank disintermediation.

We also have done work on issues pertaining to currency substitution and, therefore, transmission, the effectiveness of monetary policy when there is cross-border use of CBDCs. And we did so in the paper we presented in 2020 on “Digital Money Across Borders.” There, we highlighted the risk of currency substitution and the potential effects on sort of limiting monetary policy effectiveness, as well as the lender-of-last-resort function of the central bank. We believe these issues are very important. As I have said, we have done some initial work, but we will continue to explore both the domestic and international dimensions of CBDCs and their impact on monetary policy transmission and price formation, as was suggested.

The staff representative from the Legal Department (Ms. Liu):

I also want to join the team in thanking Directors for the very insightful comments. I will address the question on the opportunities for digital money to counter CBR withdrawals.

Indeed, the pressures on CBRs are increasing during the pandemic. We are deepening our work in this area on two parallel tracks. The first is to really explore the practical ways to address CBR pressures, for instance, by identifying safe payment corridors and leveraging digital identity. Second is to examine how digital money can help tackle this challenge by bypassing the existing framework involving global banks. In doing so, we pay particular attention to ensure that money laundering and terrorism financing and other risks are properly addressed, as emphasized by many Directors today. For instance, due to the rapidly changing nature of digital money and the potential that some forms of digital money may present greater opacity in payments, it becomes even more important and pressing that countries implement adequate AML/CFT measures to mitigate the risks to financial integrity.

To conclude, digital money could provide opportunities to address CBR pressures but only if the financial integrity and other risks are properly mitigated.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Kang):

Let me conclude by responding to the procedural questions. First, on how we will communicate progress on the strategy with the Board and ensure accountability. I would just note that we already have various fora for communicating with the Board, ranging from formal reviews to informal briefings and bilateral meetings.

On evaluating the progress on the strategy, one possibility is to use the interim review under the 2021 Comprehensive Surveillance Review to take stock of the surveillance aspects of the digital money strategy. Similarly, other relevant aspects can be covered under next review of the Capacity Development Strategy, as well as the next FSAP Review.

During the interim, it will be important to have regular engagement with the Board through informal briefings to provide updates and re-evaluate the appropriateness of the strategy, as well as its resource allocation.

On the second question of how we would collaborate with other IFIs, we fully agree on the need for close collaboration with other stakeholders. It is one of the three pillars of our digital money strategy. As noted in the report, Fund staff are already active members or participants in several groups, such as the FSB, Global Financial Innovation Network, and the Cross-border Payments Coordination Group, as Mr. Adrian mentioned. Fund staff have also participated in G-7 working groups on CBDCs and on stablecoins.

Looking ahead, the staff will build on these ongoing engagements and the strategy endorsed by the Board, which includes principles of engagement for building successful partnerships, such as remaining within our mandate, building on core competencies, and others, as noted by Mr. Mancini Griffoli in his presentation.

Collaboration will likely vary and evolve, depending on the project and outcomes, and could include joint research, organizing workshops, FSAPs with the World Bank. They could also range from informal relations to something more formal, such as the signing of memorandum of understandings, as was done in the ongoing work with the Financial Action Task Force (FATF).

The Chair:

There is one point that perhaps Mr. Mancini Griffoli touched upon it, but, let me take it one step further. It is how we are going to not only translate strategy into time-bound actions and adjust because we know the world will continue to evolve, will continue to change, but how we make it so that we can show Directors, what are the trade-offs, and whether we should choose a different pathway in terms of resources. That was a point that was made by a couple of Directors.

We will work on that. We have been on a really fast journey to develop a strategy with the operationalization of the strategy in the paper the Board got today. And we know there is more to be done. And for that, we are engaging very intensively with area departments because this is where the reality check on what should take priority actually is.

As we engage on the broader context of a comprehensive review of where the Fund needs to beef up its capabilities to serve the membership, we will work on coming with more details on this question as well.

Let me embrace the spirit of this meeting, which is we recognize this is a very important area for the Fund, where we have to step up, but do so working clearly with other organizations and with your authorities so that we make the Fund's contribution as effective and impactful as possible.

With this final comment, may I thank you, the Board, and the staff for what has been, I am sure, a path-breaking discussion on a topic that is so much expanding in terms of influence on monetary policy, on financial stability, on financial inclusion, on many matters that we discuss routinely and frequently in this Board.

*Mr. Jin*⁴:

We support publication.

The Chair adjourned the discussion.

⁴ These comments were made in the videoconference chat window.

ANNEX

- Staff Presentation
- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

The Rise of Digital Money

- IMF Strategy -

Tommaso Mancini Griffoli (MCM)

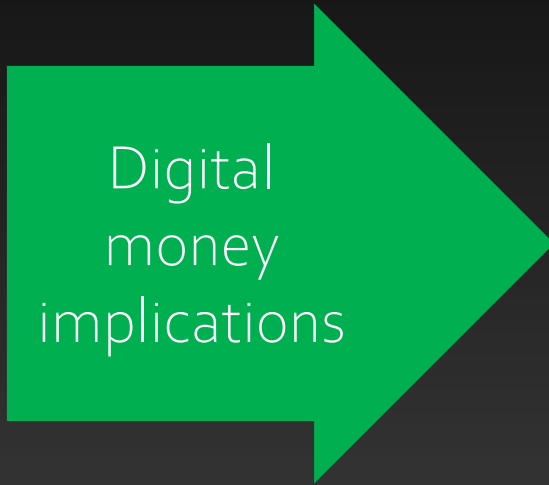
Herve Tourpe (ITD); Yan Liu (LEG); Dong He, Erica Sandoval (MCM); Koshy Mathai, Piotr Nowak, Samir Suleymanov (OMD); Giovanni Dell'Ariccia, Sole Martinez Peria (RES); Erika Tsounta (SEC); Kenneth Kang, Martin Čihák (SPR)

IMF Board Meeting, July 7, 2021



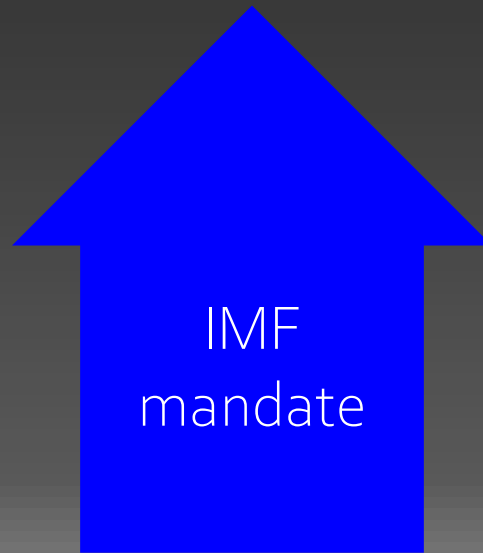
Positioning





Domestic economic and financial stability

International monetary system stability

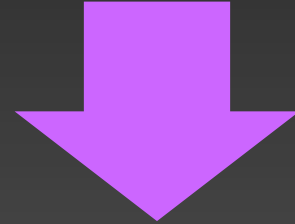


Not plumbers

Not technology developers

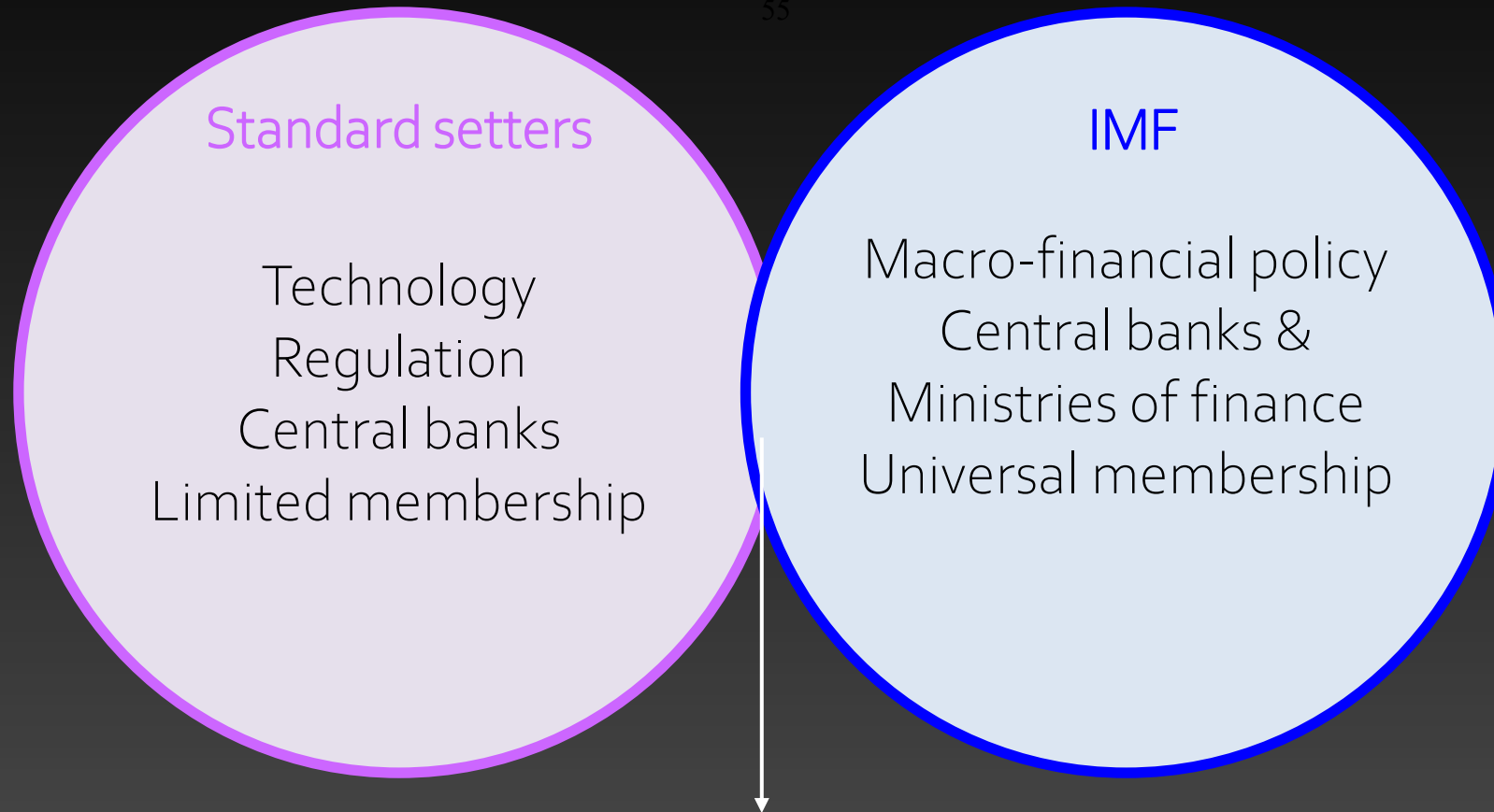
Not standard setters

No blanket recommendations on CBDC design



We stick to our mandate

We collaborate



Little overlap; little opportunity to “outsource”

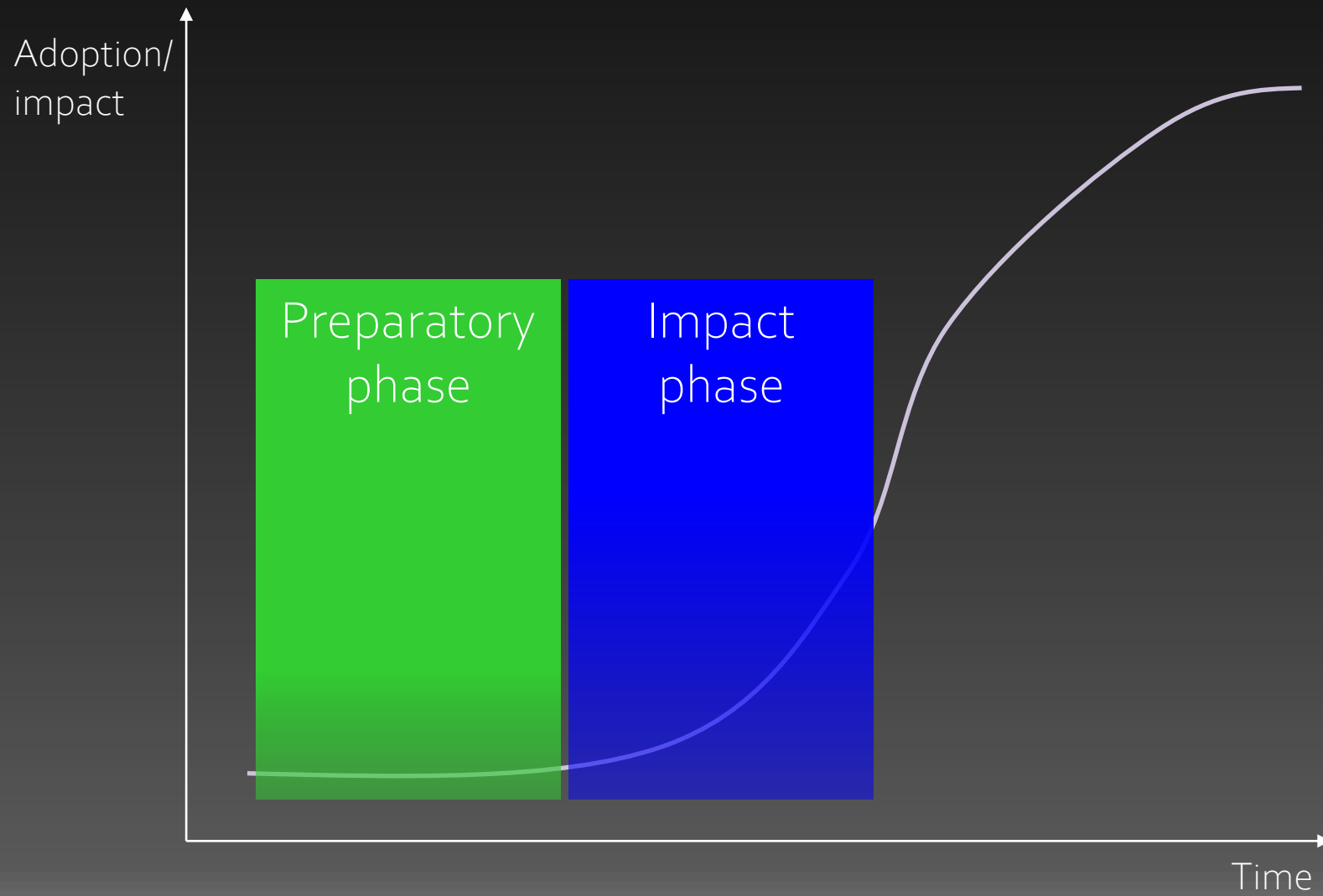
We complement each other

The Fund must speak with an independent voice

Timing and speed



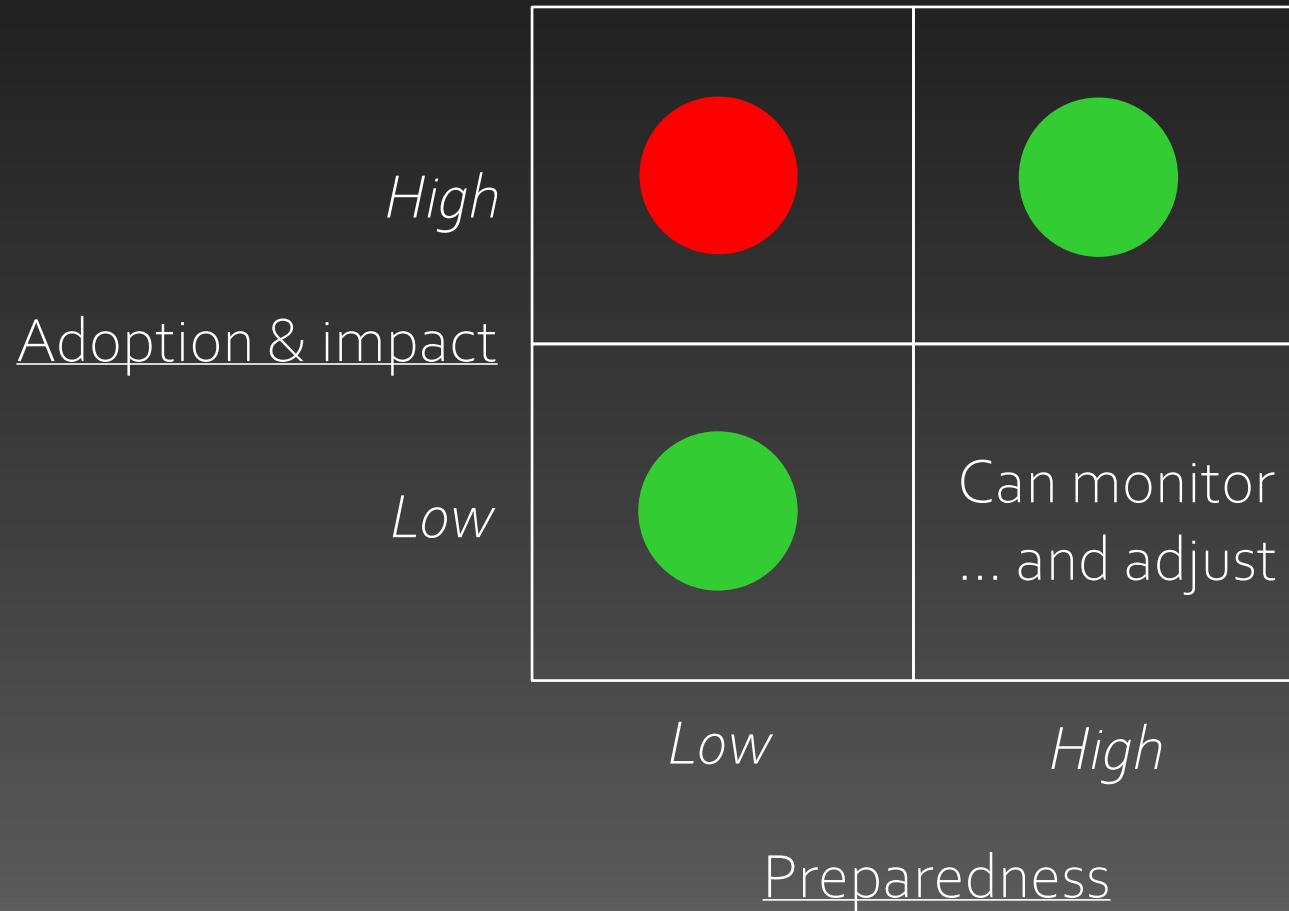
Why today?



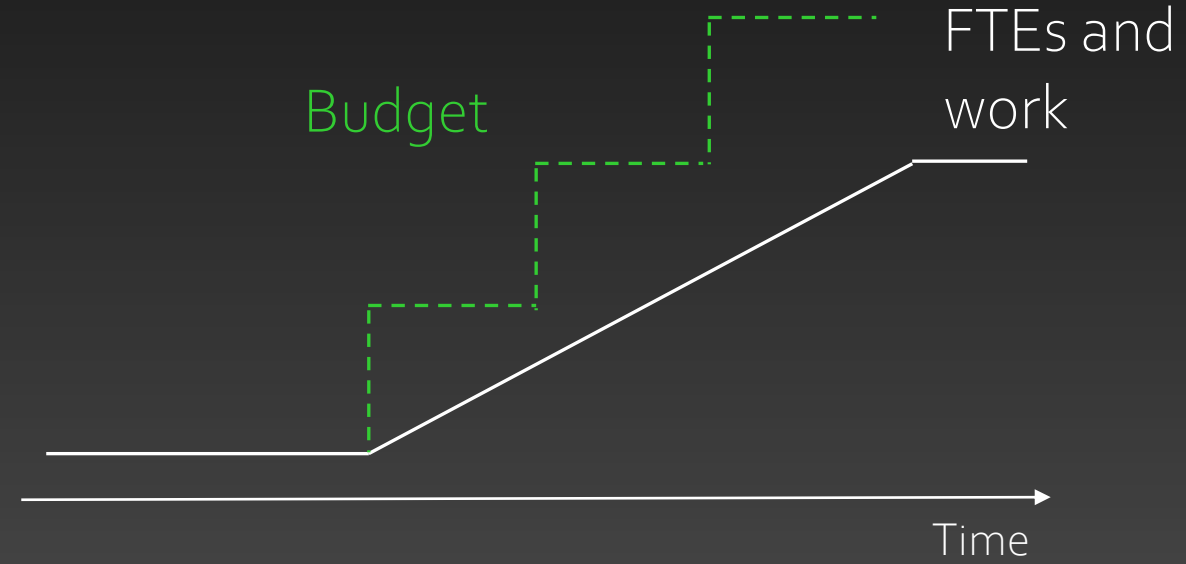
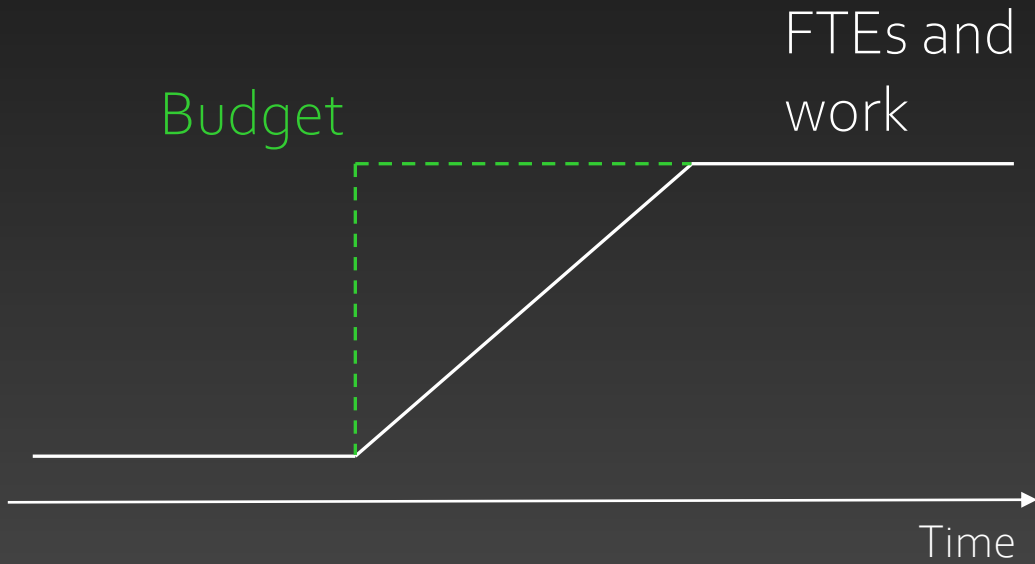
A new state of flux



Decision making under uncertainty



A gradual ramping up of FTEs and work

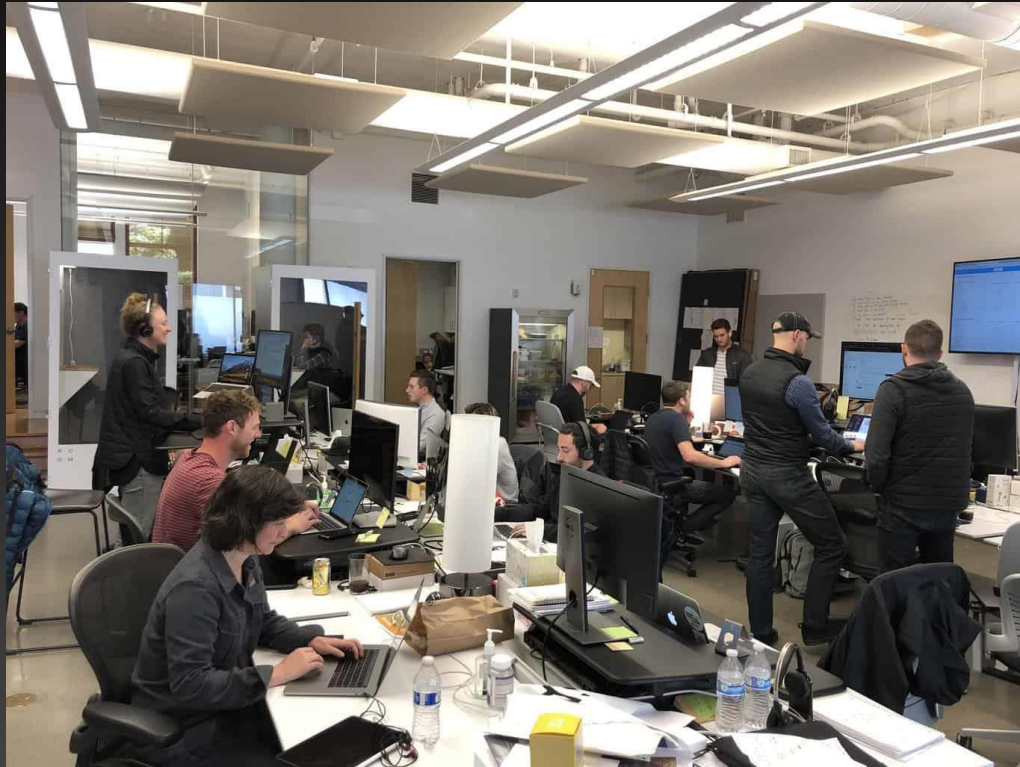


Budget uncertainty
More expensive
Lower impact

Resources



Back-room startup



Risky

Limits (substance & projects)

Reactive

Behind the curve

62

Professional, mature firm



Trusted partner and advisor

Solid analytical footing

Forward-looking, concrete advice...

... for all members

55 FTEs — from multiple dimensions

Countries



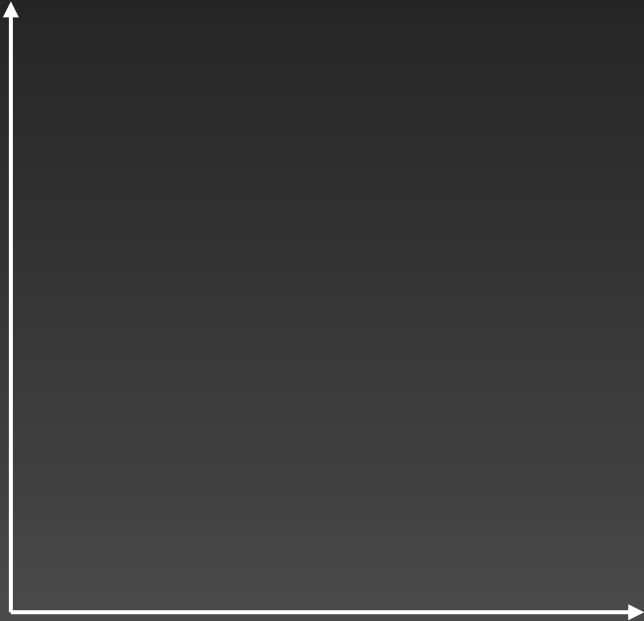
Domestic
adoption

Spillovers



55 FTEs — from multiple dimensions

Countries



Surveillance

1/3

Capacity
development

1/10

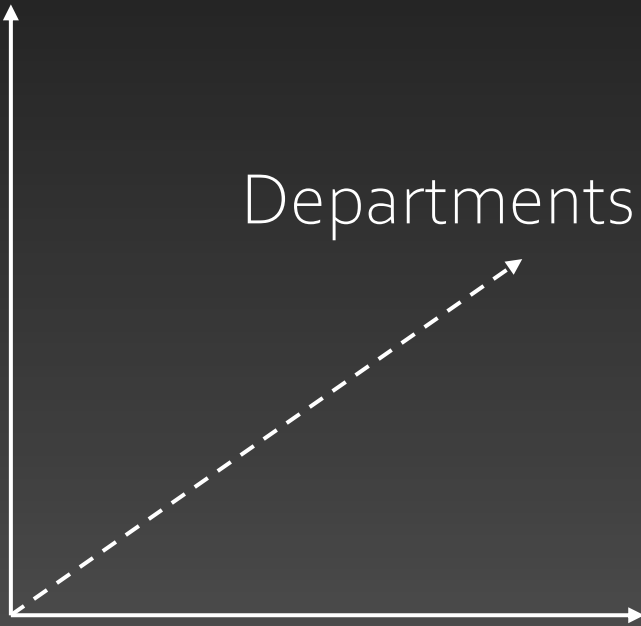
Analytical
foundations



55 FTEs — from multiple dimensions

Countries

Departments

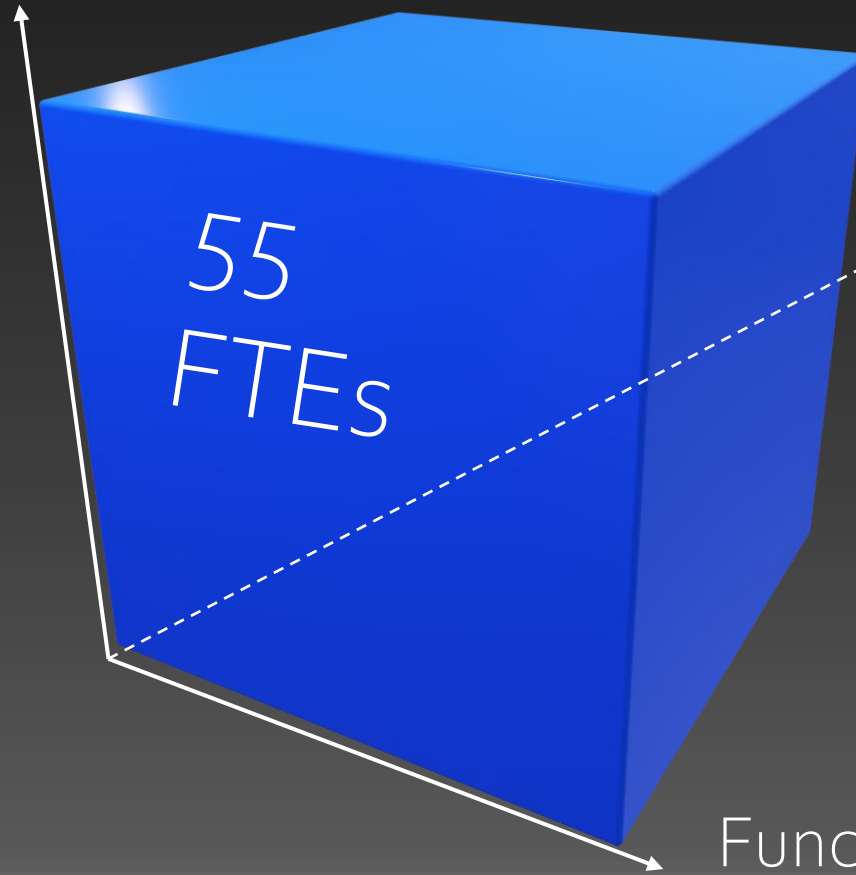


Functions
& questions



55 FTEs — from multiple dimensions

Countries



Departments

Functions
& questions



Economic & financial stability

Stability & efficiency of IMS

Herve Tourpe (ITD); Yan Liu (LEG); Dong He,
Tommaso Mancini-Griffoli, Erica Sandoval
(MCM); Koshy Mathai, Piotr Nowak, Samir
Suleymanov (OMD); Giovanni Dell'Ariccia, Sole
Martinez Peria (RES); Erika Tsounta (SEC);
Kenneth Kang, Martin Čihák (SPR)



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GRAY/21/1892

June 30, 2021

**Statement by Mr. Bevilacqua, Mr. Saraiva, Mr. Velloso, and Mr. Barroso on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the comprehensive strategy on digital money—broadly understood to encompass both central bank digital currencies (CBDCs) and privately-issued digital assets with money-like features. We are broadly supportive of staff's general proposals, especially for a closer engagement with other organizations involved in this area and broader efforts in capacity development. That said, the wide range of possible developments and significant uncertainties related to this novel issue should warrant better prioritization of the strategy and perhaps a reduced and more phased commitment of resources than currently proposed, with intermediate deliverables to assess whether the deployment of additional resources is justified.

We fully agree that digital money goes to the core of the Fund's mandate but caution against moving into this area too quickly given the highly fluid market and regulatory environment. Digital money has wide-ranging implications for the international monetary system, along with the structure and stability of domestic economies. Network effects give clear incentives for governments and the private sector to venture into digital money, even if technology, regulatory, or legal standards are not fully developed. Given the uncertain and complex implications of future wide-spread adoption of digital money, it is not surprising that our member countries are posing complex questions to the Fund. While the Fund needs to be responsive to such demands, it also needs to be nimble and leverage on our comparative advantages.

In the international arena, currency substitution is a major concern although country authorities are well placed to minimize the related risks. As suggested by staff, digitalization could in principle facilitate currency substitution, for example, by bundling services in comprehensive platforms or facilitating leapfrogging to superior technologies. On top of monetary policy independence concerns, substitution by foreign digital monies could expose countries to runs or cyberattacks. Cross-border trade adds another dimension of

complexity, with potential long-term impact on reserve currency status and global capital flows. That said, country authorities have been extremely cautious with digital money developments and have the right incentives to secure monetary independence, which tends to minimize risks of severe adverse scenarios.

On the domestic front, consumer protection and financial intermediation could face risks but here again country authorities have the proper incentives and means to minimize them. Among possible scenarios, bank deposits may give way to digital wallets, and financial service provision could shift to non-bank institutions. Again, network externalities could lead to large shifts in market structure and overall competition. That said, financial regulators have shown renewed impetus to regulate the new players, whenever they intersect in obvious ways with the market served by the financial system. Thus, it seems unlikely that large regulatory arbitrages would be persistent enough to compromise the stability and safety of financial service provision.

Against this background, we believe that the Fund should step up its engagement, starting with closer cooperation with other international organizations and central banks. This is perhaps the most relevant aspect of the Fund's proposed digital money strategy. Not only this would allow the Fund to stay abreast with a new and quickly shifting field, but it would also allow others to benefit from the experiences and viewpoints represented by the Fund's diverse membership. In this regard, we take positive note of staff's cooperation efforts in the last few years and welcome the plan to increase the participation in international fora and working groups.

Capacity development should also be a high priority in the Fund's digital money strategy. Although the conceptual work is important to anchor capacity development, the most pressing needs in the next few years will require training and peer-to-peer learning, which point to a heavy reliance on external expertise at least initially. Capacity development should therefore focus on facilitating the proper matching of experts to country specific needs. Over time, this will provide an excellent opportunity to develop internally, leveraging further rounds of capacity development.

While surveillance is an important part of the overall strategy, deliverables should clearly reflect the actual footprint of digital money in the global economy. Given the incipient state of digital money adoption by sovereigns and monetary unions, it is probably too early to commit at this stage significant resources to surveillance, especially bilateral surveillance. Taking the experience from the recent efforts to mainstream macro-financial surveillance, it seems sensible to focus on pilots over the next couple of years. This would give more time for the consolidation of conceptual frameworks and accumulation of crucial operational experience. At the same time, it would be helpful to rely on multilateral surveillance to further develop conceptual tools. *Staff comments are welcome.*

In sum, we favor a more gradual increase of additional resources, focused initially on closer collaboration with other institutions, capacity development and surveillance pilots. Also, it would be important to have periodic informal briefings to the Board and a

formal evaluation by the Board—with ample time for consultation with stakeholders—before deciding at a later stage on whether additional resources are needed. To compensate for an initially lower allotment of new hiring, consideration should be given to training existing Fund staff on digital money issues. This would have the additional advantage of leveraging on and seamlessly integrating with Fund staff’s already rich expertise, which will likely remain relevant even with the rise of digital currencies.

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GRAY/21/1895

July 1, 2021

**Joint Statement by Mr. Huh, Ms. Lim, Mr. Nghiem, Mr. Yoo, Mr. Bautista, Mr. Becker,
and Mr. Chea on The Rise of Public and Private Digital Money—A Strategy to Continue
Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the comprehensive paper. As a product of technological evolution, digital money poses both opportunities and challenges for member countries as well as the international monetary and financial system (IMFS). We agree on the basic principles set out in the paper: new forms of money must remain trustworthy; domestic economic and financial stability must be protected; and the international monetary system should remain stable and efficient. We also concur with staff that the Fund has a mandate to help ensure domestic and international economic and financial stability with respect to the rise of public and private digital money. As shown in Box 1 in the paper, there is a wide range of potentially interesting policy questions that can be raised. While these questions reflect the speed of technological innovations relating to digital money, more importantly, they also reveal the fact that many things are unknown or undetermined in this developing realm. Against this background, we offer the following comments.

We encourage staff to set specific intermediate targets/goals on digital money at this juncture. Although the development of private-and public digital money implies little or manageable impact on the existing monetary and financial system, this is predicated on the assumption that their continued development would be well anchored in public money with appropriate regulatory and legal framework in place. For private digital money, it is well known that they have the potential to achieve scale very quickly should there be traction. Take for example, Facebook's announcement of issuing Libra as global stablecoins in 2019, which has provoked active discussions in the international monetary community. On the other hand, many central banks are currently researching or pilot-testing with CBDCs, but most of them are at an early stage with a few exceptions. In this regard, we see a strong case

for the Fund to prioritize its work on implications of digital money – both CBDCs and stablecoins such as upcoming Facebook’s Diem - for the IMFS as well as monetary autonomy, including currency substitution, capital flows, and interoperability of cross-border payment systems. It is also necessary to investigate the deficiencies that public digital money are trying to address, beyond as a response to the emergence of stablecoins, so as to guide subsequent policy advice and to assess where the most value can be added to the current payment system. Moreover, it is helpful to elaborate in greater detail the plausible structural changes of monetary and financial variables related to digital money, particular on transmission mechanism as it is relevant to the Fund mandate and would be very useful for authorities in setting policies.

While we are encouraged by staff’s ambitious proposal on operational strategy, we see the need for prioritization. It is crucial to strengthen the Fund’s analytical foundations, such as the development of policy views and tools and active participation in international working groups. We also see merit in further strengthening multilateral surveillance through flagships. We welcome staff’s view that capacity development in the digital money space should be facilitated further to avoid a digital divide, to promote peer-to-peer learning, to facilitate more convergent polices, to ensure that new solutions will work for most if not all countries, and to mitigate spill-over risks and other issues such as AML/CFT and tax evasion. At the current juncture, we do not see the urgency of dealing with digital money in the context of bilateral surveillance unless there is strong demand from the authorities. Regarding partnering, it is imperative to have greater coordination and collaboration with other IFIs such as the World Bank and BIS (CPMI and Innovation Hub) to tap into their domain of expertise and avoid overlapping work on the subject. We appreciate staff setting up guidelines of engagements and providing detailed plans in this regard.

On building internal capacity, we encourage staff to reassess the proposed additional resources to fulfill the Fund’s mandate. We take positive note of staff’s plan to foster work coordination across departments, internal debates about policy views, and seamless transfer of information and ideas within and from outside the institution. Hiring technology or payment system experts is necessary, but staff’s proposal to increase 55 FTE additional staff and experts needs further holistic assessment in association with the CSR proposal on expanding macro-financial talent. Though digital revolution is new, the economics of money and finance remain grounded in the basic principles above mentioned. And if digital technology becomes a defining feature in the monetary and financial system, issues relating to digital money would be central to macroprudential policy advice. In addition, the CD implications and data generation and analysis on the part of authorities will be very important.

Lastly, we note staff's intention to publish this report, but it is hard to see a strong case for its publication. Staff may publish the earlier paper, with appropriate updates, which was presented at the Board on April 2 and is more focused on setting out the groundwork for the Fund's strategy. *Could staff provide the reasons for the publication of this report?*

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GRAY/21/1896

July 1, 2021

**Statement by Ms. Mannathoko, Mr. Ekeocha, Mr. Ismail, Ms. Basutli, and Ms. Nainda
on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on
the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

1. We thank staff for the comprehensive and well written report. The rapid evolution of digital money is set to have significant and far-reaching implications for domestic economic and financial stability as well as the stability of the international monetary system (IMS). As per its mandate, the Fund has a central role to play in safeguarding financial and macroeconomic stability, even as it supports its members' efforts to face the rapid emergence of digital money which brings the benefits of increased efficiency and financial inclusion. However, risks are sizable and regulators in regions such ours, dominated by low income countries (LICs), are far from ready to prevent possible macroeconomic crises or deal with the fall out. This workstream is therefore long overdue. Urgent support is needed especially in LIC-dominated regions with little regulatory readiness, given their susceptibility. Among other things, policy makers' monitoring, regulatory and policy capabilities must be strengthened, equipping them to manage the transition and associated risks. At the same time, the Fund has to effectively oversee the stability of the IMS. Given the rapid pace of change and its emerging impact on the global financial system, it is clear that the Fund has no choice but to evolve in order to adequately support regulation of the global financial system and safeguard financial stability and macroeconomic policy effectiveness going forward. To this effect, we broadly agree with the proposed operational strategy to enhance the Fund's role on digital money.

2. **The interconnectedness of payment systems and the significant risks associated with potential disruptions to the IMS, necessitate an enhanced role for the Fund that mirrors fast-changing developments in digitalization.** This is particularly vital for cross-border payment systems, where strong interlinkages have huge repercussions should a sudden stop occur. At the same time, ensuring integration of payments systems remains essential to avoid a global digital divide that could be triggered by rapid digital transformation. We therefore see a central role for the Fund, to delineate policy, tools, methodologies, and expertise, to enable effective oversight, capacity development, analytical foundations, and lending, in support of its membership.

3. **While the paper recognizes that the adoption of different forms of digital money may vary from country to country, we highlight the importance of attention to potential spillover effects given that many countries, especially in LIC-dominated regions, have lower capacities to respond effectively.** As globally interconnected financial systems develop from global digital transformation, it is important to ensure that markets making use of these platforms and financial solutions are sufficiently able to protect both their consumers and their economies from unforeseen spillovers. To this end, we see a key departure point in operationalizing the digital money strategy as that of ensuring appropriate safeguards through enhanced risk management frameworks for member countries, specifically those who are at greater risk. In this context, while we welcome the plans to cover the main areas of policy implications stemming from digital money adoption under Fund surveillance, we also emphasize that more timely assistance than the two year intervals implied in Table 2 for some developing (program) countries, will likely be required.

4. **While we agree that the depth of coverage of digital money issues in Fund surveillance should depend on their macro-criticality, how this is determined matters.** The tricky thing about digital money is that program and Article IV mission teams and authorities alike, need to be cognizant of emerging risks in order to be able to measure and label them as macro-critical. Given current lags in awareness, we are proposing a pre-emptive approach in identifying macro-criticality, that allows regions dominated by low income countries with low capacity, to be equipped in time to prevent new financial sector and macroeconomic crises as digital money takes hold; rather than waiting until the crises are already underway. This gray statement will therefore outline below, numerous likely macro-critical areas for consideration in regions dominated by LICs, and where a regional approach to establishing a baseline, to help address these many risks at the country level, may bear the most fruit.

Likely macro-critical considerations for predominantly low-income regions with large populations that are underserved by conventional finance

5. **We agree with staff that digital money must be designed, regulated, and provided such that countries maintain control over monetary policy, financial conditions, capital account openness, and foreign exchange regimes.** Once foreign central bank digital currencies (CBDCs) and global stable coins (GSCs) based on established, stable currencies are available via varied digital platforms to citizens in regions dominated by LICs, the central banks in these regions will have limited ability to control their adoption as substitute currencies. From the perspective of predominantly low income regions such as ours, with limited capacity and large underserved populations, the challenge for central banks and governments will be to advance innovative approaches to the governance of finance that can handle an influx of substitute currency without losing tax revenues or losing currency sovereignty. IMF support and guidance will be needed in this regard. Regions dominated by LICs such as SSA, are not yet at the leading edge of CBDC issuance, and with large unbanked populations, will be more vulnerable than others to potentially losing currency sovereignty to dominant foreign currencies via digital dollarization. They therefore also risk loss of control of monetary policy and the ability to capture adequate fiscal revenues. Our authorities will need IMF staffs' support as they seek to put in place measures to limit these effects. *Could staff elaborate on the implications of digital dollarization, including for stability and capital flows in weaker economies?*

6. **Monetary policy and financial supervision need to be revised in our countries with IMF support and international collaboration, to acknowledge changes brought by CBDCs and to mitigate potential negative impacts.** CBDCs as settlement instruments will impact money supply and monetary policy, prompting new regulatory considerations and alternative approaches to implementing monetary policy, including directly through the design and programming of CBDCs for those countries that have their own successful CBDCs.
7. **The broad access provided by Big FinTech platforms and tools, in regions dominated by LICs that are underserved by traditional finance, could also eventually restrict central banks' ability to control monetary policy,** thus Fund support and advice will be critical in helping countries plan in time to prevent these developments from subverting sovereign control and economic agency in regions with predominantly poor countries that are less prepared.
8. **Big FinTechs' 'data-network-activities' system give them a competitive edge when they enter financial services.** While this brings benefits to consumers it also concentrates market power, with risks that may be similar to what would hold if they were regular banks that were unregulated, including issues of operational resilience and data privacy. A former IMF DMD, Agustin Carstens, now Head of the BIS, has noted that “policies regarding big techs in finance need to build on a more comprehensive approach that combines financial regulation, competition policy and data privacy.” IMF’s support to financial sector regulators in LIC heavy regions has to help these countries develop such appropriate regulatory frameworks – perhaps by also collaborating with regional bodies to gain region-wide consensus on the regulatory model that works best for the region and can then be adapted and implemented at the country level.
9. **A risk-based approach to digital finance regulation will be needed.** It will be important to focus on developments that threaten global and local financial stability, broader sustainable development outcomes, and the government’s macroeconomic authority. At the country level, financial sector regulators will need support in preparing for the impact on banks as CBDCs and GSCs provide alternative stores of value, affecting commercial banks’ role in intermediation and storing value; and in transmitting monetary policy. For those LICs issuing their own CBDCs, these will only be effective if they can ensure their CBDCs are less costly and have higher utility than foreign CBDCs or GSCs based on already established, stable currencies. Central banks that have issued effective CBDCs successfully would have the option of implementing monetary and fiscal policy directly, given the programmable nature of CBDCs. They could adjust interest on CBDCs directly to influence savings, investment and spending – taking over the policy transmission role. Authorities could also provide transfers directly to beneficiaries and levy direct taxation on certain types of payments in a manner similar to commercial bank charges and interest or pay as you earn taxation. All this reduces the role of commercial banks. On the other hand, for those that don’t have CBDCs and face heightened use of foreign CBDCs and GSCs, monetary policy autonomy will be lost. *On the fiscal front, capturing more tax revenue will be beneficial, however we also see the potential for tax evasion and ask staff to comment on whether this aspect can be monitored or assessed.*

Other considerations for the Fund

10. **We welcome the proposed expansion of digital money coverage in Fund multilateral surveillance.** The GFSR is most appropriate to comprehensively cover systemic financial and monetary risks posed by increased adoption of digital money. At the same time, the WEO chapter could focus more on the implications of digital money developments for the IMS without losing track of big-picture economic developments. The Fiscal Monitor can consider the implications for fiscal efficiency (transfers, taxation, etc.), while the External Sector Report could look at capital flow effects and exchange rate implications. New analytical tools and frameworks will need to be developed or existing ones such as the Growth-at-Risk models, external balance assessment methodology, and forecasting models, modified to enable the proper integration of digital money implications in multilateral surveillance. *We welcome staff views on convertibility issues relating to the use of different digital currencies, particularly by LICs, and on the chances and implications of an overly dominant CBDC. Would it imply a largely dollarized global economy, for example?*

11. **Ramping-up capacity development activity in LICs and developing and emerging market economies in line with rapid developments in digital money, will be essential.** Given that most developing countries are behind the curve, employment of short- to long-term experts in capacity development (CD) is a superior option in terms of gaining traction, and we welcome the intention to do so in the steady state. We urge staff to prioritize CD on the areas we identified above, including adapting monetary policy frameworks to respond effectively to new policy opportunities and challenges accompanying digital money. We however see an in-built bias that disadvantages weaker, low capacity countries, if traction is used as a precondition for CD provision. It is well established that different design and modes of CD delivery often matter for traction in developing countries, given systems, and institutional inadequacies that can themselves undermine CD traction if engagement design does not factor them in. Impactful models exist outside the Fund, but the lack of an adequate CD and TA operations envelope in the Fund's budget often limits available CD modalities. Experience in LICs and countries in fragile and conflict-affected situations (FCS) indicates inadequate institutions and missing economic management systems alongside stretched resources tend to require a different approach to economic governance CD than would be used in more advanced settings. Limiting provision of digital finance CD for FCS and LICs on these grounds would be unfair and would further amplify risks stemming from wide-spread adoption of digital money and the likelihood of crises.

12. **The development of analytical tools and policy views is important, to influence policy debates on digital money and ensure the Fund's ability to provide independent, effective, and up-to-date policy advice to members and the global community.** In this context, the active participation of the Fund in international working groups responsible for setting standards and providing regulatory guidance on digital money remains essential to ensure broader representation of the interests of all member countries, including non-OECD members. It is important that the Fund represent the voice of LIDCs whose representation is often limited in global standard setting bodies.

13. **On partnerships, we encourage the Fund to leverage on existing complementarities with other stakeholders; however, the Fund should also be careful not to shy away from areas where it has a responsibility.** Collaboration with other partners will not only minimize duplication but will provide staff with a holistic view and ensure that the Fund uses its strengths and core competencies effectively. We encourage staff to continue pursuing engagement or

interaction with various agencies to advance the work on digital currencies, including those that are undertaking analysis that reflects the perspective of LICs and other developing countries. *Relatedly, we note staff's intention to invite private sector firms to propose solutions to policy questions related to digital money and would appreciate staff views on the experience so far with such outreach efforts.*

14. **A wide range of skills and ongoing adaptation of existing structures and processes will be needed to build internal capacity for the Fund to operationalize the digital money strategy.** We welcome the proposed measures to address the internal skills gap and support the suggested internal structures and processes to facilitate these efforts. Given the cross-cutting nature of digitalization, we believe the effectiveness of the proposed internal coordination group to facilitate sharing of departmental work plans, prioritization, and collaboration, while reporting to management and the Board on progress, will be important. While we appreciate the efficiency gains associated with centralization of resources, including achievement of critical mass, and evenhandedness, we also note that consideration may need to be given to the adaptation of analytical tools to country types and specifics. *Could staff clarify how and when the progress on implementing this strategy will be evaluated and who would be responsible for such an evaluation.*

15. **It is critical that adequate budgetary resources be assigned to operationalizing the Fund's strategy on digital money.** Already, staff are unable to meet all requests for assistance and demand will clearly rise as digital money becomes entrenched. We also believe the plan to peg assistance to two-year article IV cycles for program countries will be counterproductive, as foreign digital money may be well established in the countries, far ahead of that, and would further destabilize economies that are already struggling to achieve macroeconomic stability. Given the need to step up Fund engagement on digital money and the associated development and enhancement of policy tools, we support the full budgetary request. We note that staff estimates take into account all mitigating factors within the existing Fund internal frameworks and workstreams.

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GRAY/21/1897

July 1, 2021

**Statement by Mr. Tanaka, Ms. Kashima, Mr. Naka, and Mr. Shimada on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the well-written paper as well as the bilateral outreach. We concur with staff that the issue of digital money is closely linked to the core mandates of the Fund. Partly due to the pandemic, digital money is paid much more attention globally. Many authorities are examining the possibility of issuing (or adopting) digital forms of money, and even without such intention, some countries could inevitably experience significant spillover effects from digital money issued outside the country. To support the member countries in this fast-developing area, the Fund needs to act swiftly and decisively as well to broaden and deepen its work on digital money. In this regard, **we welcome that the paper presents an ambitious but concrete operational plan, and we fully support the Fund's digital money strategy.** Today, we will provide the following comments.

We agree with staff that policymakers should consider digital money from three perspectives, namely (i) warranting the trustworthiness of new forms of money, (ii) preserving domestic economic and financial stability, and (iii) maintaining the stable and efficient international monetary system(IMS). Given the Fund's core competencies, well explained in the previous board paper, the Fund can and should help the member countries in all of these areas, mainly through analytical works, surveillance and capacity development.

Developing the Fund's policy views and analytical tools should be given top priorities. In order to provide effective policy advice as well as capacity development to the membership, the Fund needs to have well-developed policy views as well as effective analytical tools. In developing such policy views and tools, we expect staff to timely update

and consult with the executive board in order to incorporate the board discussions. It is also important to clearly recognize commonalities and differences between private-issued digital money and public-issued digital money.

Effective coordination with standard-setting bodies, international fora such as G7 and national central banks is essential. In order to maximize limited resources, overlap of works should be avoided, and the Fund should seek appropriate coordination and division of labor among other stakeholders. In this regard, we commend staff for their engagement with the BIS, CPMI and FSB to date. In addition to the areas of the Fund's own expertise in macro financial analysis as well as IMS, we expect the Fund to function as a bridge between the international policy-making process and the experiences of the membership, especially those of the LICs, by leveraging its universal membership.

Article IV, FSAP and multilateral surveillance should complement one another and cover necessary areas. Especially, for the LICs and smaller countries, Article IV would be an important opportunity to have constructive discussion, given that FSAP is voluntary and less frequent for such countries. While we understand the light coverage in Article IVs, given the heterogeneity among membership and limited resources, we emphasize the importance of covering digital money in countries where they are *becoming* macro-critical, especially due to spillovers.

Capacity development should play an important role to help the membership deal with the rise of digital money. While we strongly support the idea that CDs should be demand-driven, we need to keep in mind that many countries may not be aware of the magnitude of the impact of digital money. In this regard, we are of the view that proactive engagement of the Fund is critical, particularly through effective communication by the mission team through surveillance, and then integrating effectively surveillance outcomes with the provision of CD. Regional workshops and training, mentioned in Table 6, will be a useful first step to flag the importance of thorough preparation and get countries up to speed on evolving policy opportunities and challenges. Against this backdrop, **Japan, as one of the longest and largest contributors for the Fund's capacity development, stands ready to support CDs on CBDCs.** We would like to actively discuss with the Fund on formation of specific CD projects.

Finally, we support that the Fund will scale up the necessary resources to steadily implement the ambitious strategy. We are looking forward to more detailed as well as comprehensive discussion in the context of the Fund's budget. Considering that talent in this newly developing area is limited globally, Japan is willing to contribute to the Fund's work to meet such supply needs.

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GRAY/21/1898

July 1, 2021

**Statement by Mr. Moreno, Mr. Guerra, Mr. Romero Tarazona, and Ms. Arevalo Arroyo
on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on
the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the comprehensive document on the Digital Money Strategy. Digitization is advancing at an increasing rate as countries are taking policy measures to increase productivity and to further increase financial inclusion. This, however, is a strategic discussion for the International Monetary System (IMS) and thus warrants the Fund's engagement with a larger number of country members about the Fund's capacity to fulfill its mandate. Moreover, even if the regulatory framework is still evolving, our membership is already facing policy challenges and trade-offs. This calls for a decisive and timely response by the Fund in order to garner the potential benefits, understand its consequences, and manage the risks this issue entails. **We support the strategy as presented in the report, while noting that the challenges of the digital money agenda are increasing and might require swifter and further action in the near-term.**

Digitization is a reality, and the Fund cannot afford to be behind the curve given the fast pace of events and the high costs of failing to support the membership in the transition and adaptation phase. We must recognize that we are already late in building the capacity to respond and analyze the evolving digital landscape. We underscore the urgency for the Fund to play a role given the relevance this agenda has to its core mandate. A reactive strategy is not an option; the IMF cannot be a bystander while the regulatory framework is developed. The Fund must contribute to the process by providing a broader vision of the challenges and solutions for the whole membership. The need to adapt and confront the blooming challenges of the digital payments' agenda will be a constant issue in the next decade as new technologies surface, probably with disruptive consequences for financial intermediation. In this regard, we support staff regarding the fact that the strong network effects of digital payments can lead to sudden changes in products, services and related policy challenges. The COVID-19 pandemic has exacerbated these trends – for example, the exponential growth of mobile means of payments in developing countries. *We would appreciate staff*

comments on the next steps of the overall digitization agenda and how the topics are planned to be prioritized.

The IMF has a narrow window of opportunity to engage with countries in an effective manner before the policy challenges of the digital money agenda materialize. As the report states, more than 80 percent of the central banks in our membership are already analyzing the possible introduction of CBDCs, with many developing countries looking for solutions to make transformational changes to boost the economic recovery. While countries are already working on this, we underscore that it is the role of the Fund to oversee and advise member countries in the transition to a world in which digital money, both public and private, is adopted and thus ensure that the IMS remains stable and efficient. We acknowledge that international standards have not been fully developed and, given the continuous evolution of digital money, this endeavor has become more complex. While the Fund's business is not to set standards, it is mandated to support countries to identify, evaluate and respond to policy tradeoffs. Thus, the IMF cannot wait until the standards are fully developed to assist countries, since they are facing many challenges now. At least two thirds of our membership will look to the IMF as their main trusted source of policy advice. The Fund has the responsibility of building the human, analytical and technical capacity to respond to the growing demand for knowledge, best practices and the implementation of the regulatory framework.

The Fund should harness its extensive analytical expertise and keep it up to date to be prepared to help countries foster domestic economic and financial stability as digital money will have implications for wide-ranging relevant aspects of the IMS. The demand for this expertise and guidance is already here and requires that the Fund's country teams be prepared to swiftly engage in the policy discussions adverting risks and help to strengthen the policy measures in the digital developments to further increase productivity and financial inclusion. This will require new areas of expertise to be incorporated through surveillance and capacity development at regional centers and headquarters. An early engagement with the authorities is of the essence, given that the digital regulatory agenda will continue to evolve and adapt during the next few years. The ongoing and fluid development of the regulatory agenda cannot be used as an argument for inaction by the IMF. *Can staff comment if there is agreed international guidance on the main characteristics of CBDCs? What other guidance and regulatory frameworks have been agreed upon or are expected to be finished before the end of 2022? Can staff comment on how and if digital money considerations are being included in the analysis related to CFMs and the upcoming review of the Institutional View?*

We fully endorse the strategy to partner with other organizations in order to address the digital money agenda in a more cost effective and efficient manner. A close coordinating strategy with the World Bank and the BIS, among others, will be instrumental, looking for complementarities and minimizing overlaps. Additionally, we believe that the IMF will benefit from close engagement with major central banks from advanced economies that have already invested a considerable amount of resources in the digital money agenda and with authorities in LMICs that are developing policies to adopt digital currencies. Furthermore, regional organizations of central banks, like CEMLA in Latin-America and similar bodies in other regions, can be effective partners in promoting and disseminating

best practices and general policy advice. Learning from the experience in different regions could also add to the shared knowledge allowing the membership to better be served. *Can staff provide information about the human resources that major central banks and other IFIs are devoting to the digital money agenda? This can be useful to quantify the relevance of this topic to other institutions.*

We need to ensure that adequate resources are available for the strategy's timely and effective implementation. We welcome the detailed analysis of the resource implications for the implementation of the digital money agenda. We note that the execution of budgetary resources will be phased, and, for example, in order to implement bilateral and multilateral surveillance, the tools and analytical framework must be developed beforehand. From these activities, capacity development demand will surely follow. Thus, we consider that capacity should be built on all fronts accordingly if we want the strategy to succeed and have a timely and meaningful impact in supporting our membership. In this regard, we fully support the proposal to strengthen the role of the regional technical assistance centers with the use of permanent experts as a budget-saving model. In this vein, we look forward to the discussion of the required financing in the context of the structural budget augmentation.

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GRAY/21/1899

July 1, 2021

**Statement by Mr. Fanizza and Mr. Spadafora on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for a very informative report on how to make operational the Fund's strategy in response to the diffusion of both private and public instruments of digital money. Assessing both the opportunities arising from the rise of digital money in the area of economic and financial stability and financial inclusion – as well as the challenges, tradeoffs and risks it may pose – is essential to buildup expertise and the analytical foundations needed for the Fund to provide sound policy advice.

- We agree with staff that the Fund has a mandate to monitor, advise on, and in some cases guide the adoption of digital money; we thus support the 3-pillar strategy proposed by staff to operationalize the Fund's response to these challenges: 1) adapting and extending key functions (surveillance, CD, and analytical foundations); 2) partnering with other stakeholders; 3) building internal capacity. However, we would welcome further work to better understand how monetary and financial innovations can affect the link between money and prices and the implications for the conduct of monetary policy. *Staff's comments are welcome.*
- Central Bank Digital Currencies (CBDC) may have fundamental implications for financial stability and monetary policy; therefore, these implications should feature prominently in the staff's analytical agenda. There is a general concern that Global Stable Coins (GSCs) could become widespread new units of account and pose risks to monetary sovereignty, financial stability and consumer protection. *Are there ways to address this concern, as a precondition for allowing the diffusion of GSCs, whose benefits for the public cannot be ignored, particularly in terms of reduction of exchange rate risks?*
- Making the Fund's strategy on digital money operational constitutes a major undertaking because the sheer pace of innovation and changes in business models can make financial and prudential policies quickly obsolete: this puts a premium on both international financial institutions and country authorities to be proactive in dealing with digital money and, more generally, financial innovation.

- We welcome the staff's additional elaboration on the resource implications to implement the Fund's strategy on digital money. Lack of internal capacity is perhaps the hardest constraint for the Fund to be proactive. If the goal is that of mainstreaming the analysis of digital money, we agree with staff that it is critical to draw lessons from the long-standing difficulties in mainstreaming macrofinancial surveillance, as well recognized in paragraph 46.
- A well-informed and open-minded discussion on resource implications is clearly needed given the ambitious objectives and the complexities of the issues at stake. We take note of the staff's estimate of a total of 55 FTEs needed to implement the Fund's digital money strategy over a 3-year horizon. However, we believe that this significant increase in resources requires further in-depth analysis to make the case sufficiently strong. *Staff's comments are welcome.*

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GRAY/21/1900

July 1, 2021

**Statement by Mr. Pösö and Mr. Bernatavicius on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We agree that potentially fundamental, rapid, and widespread transformations related to digital forms of money require swift and coordinated actions. The implications for domestic and international economic and financial stability are diverse and affect the Fund's role and work. We welcome the strategy's emphasis on the need for a holistic approach. It is important to build more expertise and better understanding of the changing digital environment. The Fund should form a clear view on what are the key changes in its operational environment and how they impact the IMF and its work, and what the optimal path forward would be for the Fund.

In the paper the term *digital money* is used to refer to a very broad variety of different aspects of digitalization whereas in general the term is used to refer to a certain product. This approach somewhat blurs the focus on the exact needs of the membership. To clarify the terminology, we would suggest referring to *digitalization of the financial system* when looking at the whole field.

To keep pace with the rapid developments, **the Fund needs to step up its efforts to build knowledge on the effects of digitalization.** The focus of the work should be closely guided by the IMF's mandate and functions, and it should take advantage of the Fund's unique role in the international setting. The Fund has a key role to develop policies, tools, and analytical capacities related to various aspects of digitalization, as well as to disseminate its knowledge broadly to its members that are at different stages of the digitalization process. **It is especially important to highlight the Fund's crucial role in ensuring financial inclusion, mitigating risks associated with the digital divide, and identifying macrofinancial implications of digital money on the international monetary system.** At the same time, we should be

conscious that the significance and impact of digitalization on the functioning of the global monetary and financial system remain uncertain as of now.

Adapting and Extending functions:

Overall, we support the Fund to rely on its main functions in operationalizing the digital money strategy. **We underline that surveillance needs to take into account the developments in the operational environment, and therefore, account for economic and financial stability risks and opportunities from digitalization of the financial system.** We find it important to integrate digitalization of the financial system in bilateral and multilateral surveillance products in a systematic manner where relevant rather than as an add-on theme. We broadly agree with developing the proposed products and tools where necessary.

We see merit in increasing capacity development (CD) in the area of digitalization of the financial system. This is especially important as digital financing solutions can turn out to be particularly important for lower income and emerging market economies with more fragile financial institutions and weaker financial inclusion. Yet, we want to emphasize the importance of keeping CD demand driven and tailored to country needs and absorptive capacity. We also find it very important for the Fund to collaborate and coordinate with other institutions (including on the national level), providing technical assistance to ensure that the combination of assistance is beneficial and effective. The paper lacks a discussion on how the increased CD is planned to be financed.

We agree with the proposals on analytical foundations for the Fund to improve its understanding on the impact of digitalization on the global financial system. It is important for the Fund to develop policy views and tools to provide independent, effective, innovative, and constructive policy advice. We find the support activities important especially regarding internal trainings to deepen the understanding on digitalization of the financial system. Fund leadership is needed in producing and analyzing scenarios regarding the possible changes in the current financial system on the back of the developments in digital money and decentralized finance.

We welcome the G20 roadmap to improve cross-border payments. One area where the IMF is well placed to contribute is the risks regarding dollarization, or “stable-coinization” which are bigger in small open economies.

Partnering:

Closed or not inter-linking groups of stakeholders working on digital money may result in digital fragmentation, digital divide, and cross-border

inefficiencies. The Fund is well-placed to provide a global platform for all the relevant stakeholders to deliver global public goods available across borders that ensure a stable evolution of the international monetary system.

We agree that in order to help members tackle policy challenges arising from digitalization of the financial system, it is essential to closely partner with other stakeholders. Given the nature and structure of the digital environment, as well as the rapid pace of its development, continuous cooperation and knowledge sharing should be emphasized even more, with collaboration on multiple levels with key stakeholders following the proposed guidelines. It should also be noted that different institutions have different strengths, and therefore, it is essential to benefit from analysis and advice of other institutions. Not only would it help to minimize overlaps and duplication of work, but in many cases the expertise needed might be difficult to obtain otherwise. **Collaboration would be especially beneficial from the analytical perspective, considering that stakeholders such as the BIS and BIS Innovation Hub are already leading the discussion in some areas.**

While we note that in practice the cooperation could be challenging, **we find the lack of concrete proposals on partnerships discouraging, especially given the recruitment risks identified in the report.** We should bear in mind that this is not a competition, so focusing on the Fund's unique position and strengthening the partnering networks would foster innovation and be mutually beneficial to all. Moreover, we note that the important aspect of collaborating with the private sector was not broadly covered in the report despite many public and private stakeholders viewing such collaboration as integral to successful evolution in this area. Possible synergies of partnering and collaboration with the private sector merit more analysis, keeping in mind the focus and mandate of the IMF. *Therefore, could staff comment on how they plan to operationalize the partnerships with the identified key stakeholders and also, whether and how they plan to assist with further developing platforms for public-private collaboration?*

Building internal capacity:

As stated above, we agree that the IMF has an important role to play in the area of financial sector digitalization, and in particular, digital money. Therefore, deepening the understanding and enhancing internal capacity within the Fund is required. However, the suggested more than fourfold increase in FTEs (from 15 FTEs to 70 FTEs) seems very large and we do not see a need for such an extensive upfront increase in resources. We agree that some expertise may need to be recruited to build up capacities. However, the availability of talent is likely to be

constrained for large-scale recruitments in the short and medium term. Instead, we encourage strategic hires and training existing staff on the subject to the extent possible and gradually complement the skill profile of staff via regular recruitment. This would facilitate a systemic approach to digitalization of the financial system, as a number of Fund economists would build the necessary expertise on digital money, diminishing the need to consult a designated digital money expert except in more complex instances.

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GRAY/21/1901

July 1, 2021

Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Smith on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate (Preliminary)
Executive Board Meeting 21/69
July 7, 2021

We thank staff for their paper outlining the important and ambitious operational strategy to increase resources and deepen the Fund's work on digital money. A growing number of countries are investigating the adoption of digital currencies or have already launched them, and would benefit from advice on how to reap the benefits, such as improved efficiency, ease of doing business and financial inclusion, while mitigating the associated risks. Accordingly, as a trusted advisor, the Fund has an important role to play particularly in the areas of surveillance and capacity building. In this context, staff's proposal rightly emphasizes adapting and extending functions, partnering with key stakeholders, and building internal capacity.

We agree with staff that new forms of money must have built in protection for consumers, be anchored in sound legal frameworks, and support financial integrity. Moreover, economic and financial stability must be preserved and buttressed through efficient public-private partnerships and fair competition, with the international monetary system (IMS) remaining stable and efficient. Meanwhile the adoption of digital money should not compromise monetary policy transmission, capital account openness, or foreign exchange regimes and the Fund has a role to play in this regard. Therefore, we believe that efforts should continue to focus on the implications of digital money for cross-border capital flows, monetary and financial stability, the evolution of the international monetary system, and the Global Financial Safety Net (GFSN).

The focus on Fund's surveillance and capacity development functions are well placed. Further, incorporating digital money into bilateral and multilateral surveillance is appropriate. Nevertheless, as noted by staff, given differences across countries on the timing and nature of digital money adoption, the susceptibility to spillovers, policy implementation as well as countries' digital capacity, this may be challenging. Accordingly, we encourage staff to be flexible and tailored in their approach to bilateral engagement, and to be diverse and comprehensive in their multilateral engagement.

Effective communication of the Fund’s delineated roles, and areas of expertise will be important to manage expectations and stay on track. We note staff’s foundational plan, which includes the development of policy views and tools, such as models, methods, frameworks, data, indicators, and standards, as well as internal training, and guidance notes. These are all important areas, but we caution staff to minimize overlap and duplicated efforts relative to other international stakeholders.

That said, we strongly agree that the Fund cannot do this work alone and welcome staff’s plans for forming partnerships. We also find value in the outlined guidelines of engagement, particularly those of remaining within the Fund’s mandate, building on core competencies, and minimizing overlap. Moreover, the groups of potential partners identified—including, the World Bank, the BIS, the G7 & G20, Central Banks and finance ministries, regulatory bodies—are appropriate. We strongly encourage staff to leverage the experience of its membership which can be considered as pioneers in the digital money domain. Consistent monitoring and dialog will be critical as well drawing out lessons and benchmarking. Staff should also keep close contact with key private sector actors to keep pace with emerging trends.

We would welcome more detail on staff’s vision for collaboration, and how it ties into their plan for developing technical capacity.

We acknowledge the criticality of building capacity in digital money and appreciate staff’s discussion of plans in this regard. We agree that macro and fiscal economists, financial sector experts, technology experts, lawyers and data specialists, are the key areas which can benefit from more support. Moreover, we take note of the estimated staffing needs to be built up over the next three years and the inherent challenge given the limited pool of high-caliber and experienced talent. Here, we believe that there would be mutual benefit in temporary employment, rotations or secondment from other organizations or central banks. This would allow the Fund to glean from their expertise, while giving them the exposure and knowledge associated with work at the Fund. It would also allow source countries to maintain or even build capacity in the medium to long term.

We look forward to further discussion on the issue of resources in the context of overall fund resources at the upcoming budget discussion.

Finally, but importantly, we encourage staff to remain mindful of small developing states as they flesh out the operational plan. Here we reiterate the importance of country specificity in capacity development and, as surveillance is scaled up, staff should be mindful of increasing demands on countries with limited capacity. To this end, we welcome the intention to tailor capacity development, including estimating the potential banking sector disintermediation from CBDC adoption as well as assessments of countries’ readiness to adopt digital money solutions, along with guidance on continuously evolving topics. Small island states would also benefit from support with leveraging digital money to potentially mitigate the loss of correspondent banking relationships and this is an area where further research is welcomed.

Looking ahead, cross-country analytical work on the competitive implications of new forms of money and new entrants, would add to the body of knowledge in one of the most complicated economic issues to domestic authorities. *Staff's comments on next steps and other key research plans are welcomed.*

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GRAY/21/1902

July 1, 2021

Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Keshava on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate (Preliminary)
Executive Board Meeting 21/69
July 7, 2021

We thank staff for a comprehensive paper, which provides an operational strategy for the Fund's work on digital money. The paper is well-structured, building on the April informal Board paper. We also highly appreciate staff's bilateral outreach.

We strongly support deepening the Fund's work on digital money and its implications for the international monetary system (IMS). Policy questions identified in Box 1 related to the IMS and domestic effects clearly show that the adoption of central bank digital currencies, stablecoins, crypto-currencies or any other private digital money would have far-reaching implications, including for capital flows, monetary policy, banking sector, AML/CFT framework, cyber risks, tax evasion, and tax fraud. Here, it is evident that the Fund has a clear mandate to provide timely advice to member countries to help ensure that widespread adoption of digital money (both public and private) fosters domestic economic and financial stability, as well as to ensure safeguarding the stability of the IMS. In this connection, we note that the Leaders' Declaration for the G20 Riyadh Summit recognized "the IMF's further work on macro-financial implications of digital currencies and so-called global stablecoins" and looked forward to this work.

The basic framework presented in the paper to capture the Fund's functions related to digital money is intuitive, but we would caution against spreading resources too thin given the time that would be needed to ramp up hiring. We consider that, in the near term, flagships should give more prominence to the Fund's work on macro-financial implications of digital money. We recall from the Work Program discussion that the Fall 2021 GFSR will have a chapter on climate change to assess risks, but we did not find any reference to coverage of digital money. *We would welcome staff elaboration if there are*

plans to cover in the Fall flagships systemic risks arising from digital money adoption as well potential risk of spillovers to “bystander” countries. On CD, we need to step up in view of the rapid increase in demand that is likely to remain sustained. While we agree that CD projects should be guided by macro-criticality with a focus on lower income and emerging market economies, could staff comment on their approach to prioritization? Will it be guided by the level of financial inclusion or elevated risks or technology penetration rate or maturity of supervision or other factors? Given the digital divide and the plan to leave development of digital infrastructure to partner organizations such as the World Bank, close coordination will be essential to help CD receiving countries derive full benefits. Regarding bilateral surveillance and FSAP, country coverage will need to be selective to those cases where implications of digital money adoption are macro-critical or becoming macro-critical. On FSAP, we agree that assessment tools would need to be upgraded as and when guidance and recommendations are issued by international standard-setting bodies.

We appreciate the well-focused section on “guidelines of engagement” with other stakeholders. This provides a clear path for collaboration and coordination with other institutions while minimizing overlap and duplication of work. We especially appreciate close engagement with the standard setting bodies such as the FSB, CPMI, and the FATF where the Fund brings to the table its extensive macro-financial expertise and deep insights from country engagements. We very much look forward to continued coordination and cooperation with relevant entities, with a view to ensure complementarity of efforts. *On other stakeholders (¶ 35), could staff elaborate on the outcome of recent engagements?*

Finally, we are supportive of the request for additional resources as the Fund must ramp up resources devoted to the work on digital money. Deepening skills to include not only economists and financial sector experts, but also technology and digital risk experts, legal professionals, and data specialists will be critical to ensure Fund’s effective engagement in this critical area of work. Attracting high-caliber and diverse talent and swiftly integrating them into the organization will be a challenge, which would need to be properly managed. We also agree that a mix of contractual and staff appointments would provide the necessary flexibility, given fast-paced innovation and rapidly evolving policy challenges. On internal structures, we note that a number of departments will support the ambitious agenda with MCM acting as the secretariat. In this context, we consider that setting a clear accountability framework will be indispensable to ensure effective implementation of the strategy. We are also pleased to note that MCM will work with the Office of Innovation and Change (OIC) on details of operationalization.

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GRAY/21/1903

July 1, 2021

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Carvalho da Silveira on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the comprehensive report on the IMF's strategy to continue delivering its mandate and assist members during the rise of digital money, in an evolving environment full of technological innovation.

It is undeniable that digital money and the underlying technology are here to stay and could bring numerous benefits. The Covid-19 crisis has accelerated the digitalization across the board. The rise of, and need for, new technological solutions, together with demand for more efficient forms of money from both users and policymakers are contributing to and accelerating the adoption of digital money. In fact, there is an increasing demand for digital money in countries of our constituency with the spread of mobile banking and transactions. While there are several opportunities associated with them, including for domestic revenue mobilization and financial inclusion in developing countries, given their nature we acknowledge that these innovations have clear implications for domestic and international economic and financial stability as well as the international monetary system. They also pose serious challenges and trade-offs to policymakers. Moreover, the search for regulatory guidance from players entering the space also add to the pressure. Therefore, we agree that the Fund's role also needs to evolve as it is directly related to its mandate through surveillance, lending and capacity development. It is paramount for the Fund to build expertise, develop policy and institutional views, and adapt its advice and key functions as well as analytical tools to continue to best serve the membership.

The proposed three-fold strategy is adequate to enhance the Fund's role in this area. Although recent efforts have been made on an ad-hoc basis, the current coverage of digital issues in bilateral and multilateral surveillance has been very limited, and not beyond digital money. Thus, it is encouraging to note that IMF surveillance will cover the main areas of policy issues emerging from digital money, including fiscal, monetary, exchange rate. In this same vein, we agree with staff that capacity development needs to be enhanced to include new emerging areas such as data collection, regulatory framework, CBDC design and implication, digital risk management, amongst others.

Unsurprisingly, there is demand from the membership for these topics. We emphasize that adapting both surveillance and capacity development functions will require a solid analytical foundation. In this connection, the availability of data will be essential to deepen the work in this area, and, the Fund should also stand ready to provide TA, with a particular attention given to developing countries. That said, *could staff elaborate on the challenges of balancing people's privacy and ensuring financial integrity in line with FATF standards?* This is an important matter as studies indicate with the use of CBDCs, governments will likely be able to track every unit of currency spent by its citizens. *In addition, could staff share any lessons from the membership in dealing with these challenges, if any?*

The Fund should collaborate with other organizations with comparative advantages to avoid duplication of work. We note that, based on its core competencies and near universal membership, the Fund is uniquely positioned to play a key role in the policy debate and work on digital money. Notwithstanding, to enrich the work in this area, we agree that the Fund should seek to collaborate with other institutions that can complement its work. The World Bank (WB), the Bank for International Settlements (BIS), the BIS Innovation Hub (BISIH), Financial Stability Board (FSB) as well as the Financial Action Task Force (FATF) should be amongst the first groups, as recommended by staff, given their active work on the subject and ability to create consensus. In this respect, we emphasize the importance of also giving prominence to engagements with key long standing players in the space, some better at collecting data, as well as industry experts, such as the Global Digital Finance (GDF), who have been promoting the development of best practices and standards for the digital asset industry and advocacy with policy makers. These efforts will be helpful in ensuring an effective policy coordination, while striking a balance between managing the risks of digital money and halting innovation.

We support the request for additional resources to help equip the Fund to operationalize its digital agenda. We take note of the skills needed to ramp up activities and how the internal structures will support these efforts. We find the hiring of 55 FTE additional staff over the next 3 years as broadly appropriate and appreciate the emphasis given to bilateral surveillance and capacity development.

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GRAY/21/1904

July 1, 2021

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Zaborovskiy on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the interesting paper, outlining some practical and budgetary implications of the Fund's rapid move into a new area of digital money. We welcome that staff took on board some of the ideas and suggestions discussed at the informal board meeting in April. **However, many practical questions of prioritization, collaboration with other IFIs, planning and implementation, as well as the broader budget implications of the Fund's expansion in the emerging areas – including digital money – should be further addressed before we are able to endorse the proposed strategy.**

We refer to our Gray/21/964 from March 31, 2021 to highlight the areas where we would have preferred more clarity and information. We would also like to provide the following additional comments to staff's formal proposal.

At the current juncture, we put more value on the Fund's role as a thoughtful aggregator of the membership's experience in digital money, rather than an agenda-setter in the area. The Fund is well-positioned to synthesize its members' experience with thinking from other institutions, including the Bank for International Settlements (BIS), Financial Stability Board (FSB), and World Bank (WB), amongst others, to develop a consistent framework for policy advice. We remain to be convinced that the Fund should play a leading role in research on digital money and significantly boost the respective staffing for this purpose. We also caution against the premature rollout of staff's publications and external communications on digital money without the Board's proper discussion and endorsement. A proliferation of Staff Discussion Notes under the IMF logo may cause confusion and reputational risks, especially if new unforeseen trends and risks emerge. As many member countries' central banks continue to study this new phenomenon and its possible spillovers, the Fund should also exercise caution in communications on digital money, as well as carefully managing the membership's expectations.

The integration of digital money issues in surveillance reports should be guided by a well-defined macro-criticality test. While based on the internal surveys of mission chiefs, staff expects a picking coverage of digital money issues in future Article IVs, a more structured and robust assessment should be conducted to better understand the membership's current and future needs, and how they can be met by different IFIs, including the Fund. Though we agree that the Fund should engage with its members on digital money issues before they become macro-critical, developing and applying a formal framework to identify such cases at the early stage would be warranted. Also, we consider a three-year period, assumed by staff to achieve a so-called "steady state" when the new capacity should be deployed at the Fund, as too ambitious. The role of the Fund's fungible economists in meeting the membership's demands in this emerging area should be more prominently emphasized in the strategy.

A well-structured approach to collaboration with the WB and other IFIs is warranted to avoid work duplication. We note the developed guidelines for engagement and core competencies, outlined in the paper. However, more clarity is needed on the actual "distribution of responsibilities" between the leading institutions in this field. We see merit in analyzing and coordinating of the respective strategies between the BIS, FSB, and WB by developing a common agenda which should be presented to the respective Boards, and, probably, jointly discussed before the Fund starts implementing its strategy. *Could staff further elaborate on how to better formalize and draw "boundaries" between these institutions in the digital money agenda?*

An agile and flexible implementation strategy should be rolled out based on pilot projects with well-specified timelines and outcomes. At the current juncture, we prefer a pilot-based approach, which better reflects the emerging nature of challenges, and brings better structure and accountability. The Fund has good experience of starting with such an approach when scaling up its climate- and governance-related agenda, and we favor it over the implementation strategy outlined in the paper. *Staff's comments are welcome.*

A holistic assessment of the budget implications of the Fund's expansion in the emerging areas would be critical to manage expectations, external communications, and mitigate reputational risks. The Fund is stepping up its efforts in many new areas, including digital money, climate change, inequality, gender, financial inclusion, social spending, and governance. While all these issues are undoubtedly important, their rollout should be consistent with the available medium-term budget envelope and aligned with the Fund's mandate. We welcome the series of informal and formal engagements with the Board on these topics. However, the holistic assessment of budget implications is still lacking. We encourage staff to put together additional resource requests from all emerging topics, as well as from the Fund's core areas, to better assess the prospective financing needs to fully deliver on them. *When staff could provide such information?*

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GRAY/21/1905

July 1, 2021

**Joint Statement by Mr. Buissé, Ms. Shortino, Mr. Rashkovan, Mr. Ronicle, Mr. Rozan,
Ms. Andreicut, Mr. Manchev, and Mr. Westphal on The Rise of Public and Private
Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the comprehensive paper setting out plans to operationalize a digital money strategy for the IMF, including details on resource requirements and collaboration with partners.

We see a clear and important role for the Fund in the evolving digital currency landscape, particularly in relation to its impact on the international monetary system (IMS). Given its near universal membership, we also see a role for the Fund to act as a bridge between the membership and the international policymaking process, through its surveillance and capacity development work. Given this is an increasingly crowded field, the Fund should find the appropriate division of labor with domestic policymakers and international standard-setters, particularly where such bodies hold the relevant comparative advantage. We also note that Management's proposed pace of change for IMF work on this topic appears to be faster than the pace of policy development. Taken together, this potentially ambitious scope and rapid pace of action lead to a very fast scale up of resources. Against this background, we would like to offer the following reflections.

I. The Fund's Role in Digital Money

We see a clear and important role for the Fund in policy questions related to the IMS. As such, we agree with staff that the implications of public and private digital money intersect with the Fund's mandate and accordingly warrant the Fund's surveillance of the associated risks. The Fund should be at the heart of discussions about the optimal policy choices that enable cross-border efficiencies, while avoiding unintended international spillovers. This includes topics such as global macro-financial integration,

macroeconomic spillovers, global imbalances, capital flows and the stability of the IMS. We note the important contributions the Fund has already made, such as 2020's "Digital Money Across Borders". Work in this area should remain the priority for the Fund's digital money strategy. We would welcome further detail on the work program to build out the Fund's policy advice in this area, including specific plans for Board briefings, staff discussion notes and coverage in the flagships. *Staff comments are welcome. We would also be interested in staff comments on any differentiation in approach between private and public digital monies, where the expertise required is likely to differ.*

We see a role for the Fund in serving as a bridge between the experience of the membership and the international policy-making process, channeling feedback in both directions. The IMF's surveillance and capacity development functions will be key in relaying messages to the membership. The coverage of digital money issues in bilateral surveillance (Article IV reports and FSAPs) should accordingly be selective, depending on macro-criticality. In steady state the Fund should be in a position to provide advice as requested by the wider membership on digital money, particularly to low income and emerging market economies, given their heightened vulnerability to currency substitution and capital flow volatility. But the IMF should not be seeking to get ahead of the policy frontier in an area where understanding, practical experience and standards are limited. Good quality advice must depend on an appropriate analytical framework and relevant standards. In this context, international work, at the level of the BIS, CPMI and FSB is pivotal – and we commend staff for their engagement with these groups to date. The Fund should continue to work with international bodies and national authorities to identify the appropriate division of labor. We encourage staff to focus on the Fund's areas of comparative advantage as they pursue a close collaboration with other bodies.

There is a strong rationale for ensuring work on design choices related to CBDCs remains with national authorities and standard-setting bodies. This is because different jurisdictions will make very different choices that are right for them and because one-size-fits-all guidance in terms of technical operation is unlikely to be appropriate where countries have very different starting points and are considering delivery and / or regulation of digital money with a wide array of technical sophistication. Some of the key decisions around this topic are being worked through by national authorities and standard setters. That work does not play to the Fund's comparative advantage, given it needs to be located within the specifics of national systems and needs to build on practical experience. This is particularly true of technology issues.

II. Practical Considerations

Given all the numerous pressures on Fund resources, it is important that efforts in this area are directed to where they will have the most impact and that the Fund proceeds in stages, in line with the evolution of the international context. As it stands, we recommend a more moderate approach to recruitment and actions to build up the capacity of existing staff. The proposed 55 FTE headcount is quite significant and, in any case, would need to be very gradually implemented as work on digital currency development across the membership ramps up. The paper implicitly suggests that a large number of countries are moving towards significant policy action, yet this seems to be overstated given the very tentative plans across most countries exploring digital money. We favor a somewhat narrower focus of the Fund's efforts at the beginning of the strategy, accompanied by a proportionate and gradual resource uplift, and a stronger focus on internal skills, by training existing staff. We also have some concerns that a big recruitment effort may end up drawing on a limited pool of skills to the detriment of national authorities at a critical time for the membership on digital currency development, which would also suggest a more extended use of short-term experts with hands-on experience. In addition, we have some concerns about the speed of hiring. As proposed, the Fund would be hiring the next wave of staff before demonstrating the value of the first wave. A more explicitly phased approach, calibrated to actual developments, may be warranted. Furthermore, given the recommendation from the 2019 IEO report on IMF Financial Surveillance to build financial skills and expertise, we would prefer to prioritize efforts to fill immediate staff needs to support macro-financial surveillance over preemptive hiring of staff to address digital money issues, which in large part reflects a need that has not yet fully materialized.

Finally, we note that a number of requests for staff increases across a range of policy areas have recently come to the Board. We will need to consider these requests in the round holistically as part of the budget augmentation discussion in late July.

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GRAY/21/1907

July 1, 2021

**Statement by Mr. Mozhin and Mr. Shestakov on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for the informative paper and for engagement with our office. We broadly support staff's proposals for ramping up the Fund's work on digital money. We also support the publication of the report, which would signal the Fund's efforts in this area and might provoke other development partners to build their own capacity to address complementary issues.

The Fund has to address the challenge of delivering on its mandate amidst the rapid and widespread transformation in the area of digital money. We agree with staff, that for the Fund to implement its mandate and better serve its membership it is critical to widen and deepen its work on digital money. Digital money holds promise of fast and cheap cross-border payments, fostering economic efficiency and financial inclusion. However, they might pose new risks to economic and financial stability both at the national level and for the international monetary system. Currency substitution by privately issued stablecoins might undermine monetary policy autonomy, increase volatility of capital flows, and pose risks for price stability. The impact of CBDC on monetary policy transmission also merits additional research.

As an institution, the Fund is uniquely positioned to make a positive impact in the area of digital money. The Fund's comparative advantages are its near-universal membership, close ties to the economic policy-making institutions in the member countries, and accumulated expertise in analytical work. The Fund analytical work might be particularly useful for many low-income countries, where digital money would spread rapidly due to lack of other accessible financial instruments. However, in the same countries capacity constraints might prevent domestic institutions from fully accounting for the impact of digital money.

We agree with the proposed operational strategy to enhance the Fund's role on issues related to digital money. To integrate digital money into the Fund's bilateral and multilateral products, as well as provide capacity development to its members, there is a need

to build internal capacity and leverage the experience of other development partners. We support the proposal to collaborate with other institutions, including the World Bank and BIS Innovation Hub. We encourage staff to take stock of the lessons from the IEO report on IMF Collaboration with the World Bank on Macro-Structural Issues, to foster productive collaboration framework early on. We particularly like Box 2 in the paper, which takes stock from the Fund's experience with ramping-up macroprudential advice. Five years after the macroprudential initiative had started, the CSR discussion revealed that that significant share of Article IV and FSAP reports still do not include a well-articulated view about systemic risk. With digital money the Fund has some advantage of the early start, since many central banks are only exploring their options regarding CBDCs, and privately issued digital money are not too widespread, so in the context of bilateral surveillance the demand for digital money related issues may not be high for years to come. However, for selected countries pilots of digital money surveillance analysis might start to be rolled out as soon as the Fund's capacity permits.

We support the request for additional resources that would be necessary to ensure the Fund's effectiveness in the area of digital money. Building internal capacity is the most important part of the proposed strategy, and a phased increase in staffing by recruiting the needed experts by up to 55 FTE seems a justified request, given the scale of the expected workload. We note that the estimate takes into account the possibility of dual usage of the many planned analytical tools (for AIV and FSAP) and projected synergies with existing macro-financial expertise. We look forward towards more comprehensive consideration of the budget augmentation needs.

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GRAY/21/1909

July 1, 2021

**Statement by Mr. Bhalla and Mr. Singh on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We broadly concur with the thrust of the Fund's strategy on public and private digital money outlined in the staff paper and highlight a few points in the context of issues raised for discussion.

1. Do Directors agree that the Fund's role would need to evolve given the fast-changing developments with digitization?

We welcome the timely work and strategic roadmap on digital money which will have a major impact on future economic outcomes and shape the international monetary system – a key part of the Fund's role. The pandemic has upped the momentum on new payment methods like Central Bank Digital Currencies (CBDCs). Nevertheless, apprehensions remain including the possibility that a digital currency may pose a challenge to fiat currency and partially substitute for bank deposits, leading to disintermediation of banks. The acceptance of a foreign CBDC as a reserve currency has a long way to go and will be contingent upon the credibility and stability of the monetary system of the issuing country. **There is an urgent need for the evolution of baseline global CBDC standards, to ensure future interoperability and ease of cross-border payments to enable innovation within the regulated financial perimeter.**

Adoption of the blockchain to cut down on the cost of intermediation cannot be complete without a mechanism to transfer value in the crypto world. Digital currencies have become relevant in this context. Yet, the adoption of CBDC to enable such technological leaps can have problems in **times of crisis as people substitute private money with CBDC. It may be pertinent to understand how such trade-offs are managed.**

We also agree that there is a need for evolving a framework for **digital money to be regulated, designed, and asset-backed** to help countries continue to maintain control over monetary policy, financial conditions, and foreign exchange regimes. We also agree that reserve currency configurations and backstops must evolve smoothly. Going forward, an unequivocal legal framework needs to be devised with a global consensus that details the

regulatory compliances and clear-cut accountabilities that must be followed to balance objectives of novelty in the payment space and its associated risks. **The risk monitoring and management systems in the central banks and jurisdictional banking systems need to be strengthened, potential changes to which may be delineated.**

2. Do Directors agree with the proposed operational strategy to enhance the Fund's role on issues relating to digital money?

We broadly agree with the proposed operational strategy for the work on digital currencies. In particular, the implications of digital money adoption would become of systemic importance to financial stability and hence assume macro-criticality. We would like to underscore the following additional points. Consideration could also be given to a system of **data gathering on the volume and liquidity** of key digital coins, which will help in understanding their linkages with the macro-economic parameters. The IMF could also play a key role in **capacity building in the central banks of developing countries** in respect of digital architecture which will necessarily involve stakeholders other than banks like Asset Management Companies, Information Technology Industry participants, and real sector users. Further, as mentioned under 'Concrete Action Points', we look forward to the systematic comparison of cross-country experiences by the Fund to help **spread design and policy lessons of early adopters** and its increased focus on capacity building of member countries.

3. Do Directors see any further areas that could be considered to better serve the membership?

The report emphasizes the possible adoption of Digital money for international transfers, implying the inefficiencies that are currently endemic in the SWIFT-dominated global payment systems. While some of the key jurisdictions have made significant progress in bringing down the cost and convenience of carrying out domestic payment transfers, the international transfer system appears to have largely been ignored at this stage. Hence **cost and convenience of existing channels and their evolution to compete with Distributed Ledger Technology-based payment systems may require oversight and coordination.**

As technological innovations increase, so do the **challenges posed by cyber frauds**. The huge volume of information amassed by private Big Tech firms distorts the market structure, thereby giving them an unconditional advantage over usage of data due to regulatory blind spots. Thus, with **data being the new resource, its protection and the associated privacy of the end-users** must not be jeopardized under the garb of efficiency and innovation. A tough data protection law needs to be in place that can provide redressal on issues of data misuse and data-based crimes. **Global coordination on laws governing data storage, access, and use is necessary. Otherwise, there is a high probability of differing and complex laws across jurisdictions which may either be exploited by global tech or lead to dwindling innovation and data being confined to silos.**

Regarding the spillovers, the impact of digital money on capital flows would largely depend on the external demand for digital money and the possibility of currency substitution. If digital money enables free transactions between residents and non-residents,

there is a high possibility of bypassing the traditional payment system. Therefore, the design of capital flow measures being presently used in EMEs may also not suffice to meet the capital flow volatility challenges related to digital money. **The Fund could also provide further inputs/guidance on the capital flow measures in the era of digital money**, cross country experiences to enable countries to evaluate regulatory and policy actions that may be implemented in response to challenges arising from increased adoption of digital money.

On monetary policy, the important issues that need further attention are: (i) the **implications of CBDC/digital money for monetary policy transmission and the inflation process in EMEs**; and (ii) how central banks can pursue the objective of meeting the inflation targets and anchoring inflation expectations?

A transition to a 'less cash' society *via* new means of digital money, would need to be weighed against the preparedness of the country's payment infrastructure, financial literacy of the concerned users, and resilience of the data security ecosystem in place. Smartphone penetration is increasing, but digital exclusion remains a reality in many parts of the world. **Financial inclusion and financial literacy need to be achieved together to reap the benefits of new digital money** across all the rungs of society.

4. Do Directors agree with the request for additional resources that would be necessary to ensure Fund's effectiveness in this area?

As the issue of digital currencies has important implications for the stability of the international monetary system, we believe this occupies a key role in the priorities of the Fund. As the technological developments are evolving rapidly and regulators must catch with the fast-changing tech-powered markets, adequate resources are needed for research and development and building internal skills/capacity on these issues to help members' capacity development needs. At the same time, we also emphasize the need for partnering with other stakeholders and IOs/standard-setting bodies with a view to minimizing overlap and duplication of work as well as the cost.

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GRAY/21/1910

July 2, 2021

Statement by Mr. Trabinski, Mr. Peter, and Mr. Tola on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate (Preliminary)
Executive Board Meeting 21/69
July 7, 2021

We support the Fund's involvement in the area of digital money in line with its mandate. The world is rapidly transitioning towards a digital economy with digital money. Digital money has potentially wide-ranging implications for the IMF's activities and its members. Therefore, we clearly see a role for the Fund in helping members ensure that the adoption of digital money fosters domestic economic and financial stability as well as the stability of the international monetary system. We also agree that it is important for the Fund to develop policy views and proper tools to provide independent, effective, innovative and constructive advice. This said, we note that the main trends in this area are still uncertain.

More details are needed on how the IMF intends to operationalize its strategy in the area of digital money. Staff's proposal to focus on establishing a clear analytical foundation for country work is sensible. Developing policy views and tools together with support activities is a prerequisite to provide good advice to Fund members. We look forward to further work on how to develop a framework for effective surveillance and capacity building in this area.

Collaboration with other institutions based on the Guidelines for Engagement and Core Competencies is crucial. The IMF will need to collaborate closely with other key institutions such as the BIS, the CPMI and the FSB in developing and delivering on its digitalization strategy. It is crucial that the Fund leverages the work of these institutions and avoids duplications. Complementarity is key, particularly when collaborating with international standard setters. In this context, we agree that the Fund can channel feedback on the needs of its broad membership to the agenda of other institutions such as those mentioned in paragraphs 32 and 33. Also, the Fund should coordinate its outreach with these institutions, which often already have outreach initiatives of their own. *Could staff elaborate on obstacles to effective collaboration with other stakeholders?*

While we acknowledge the need for internal capacity building, we would like to see more detail on possible workstreams before significantly increasing resources, also taking into account the potential for synergies from the collaboration with other institutions. We recognize the scarcity of talent and the need for scaling up the Fund's analytical foundations on digital currencies. At the same time, we are unsure whether the scale and speed of the proposed resource increase is justified and would appreciate more information on these two parameters. *Could staff elaborate on the specific timeframe of the proposed phasing? Relatedly, we would appreciate more information on the resources that are needed to respond to the current demand for advice and capacity development from the membership.* Finally, given the flat real budget, we would encourage staff to prioritize the work and actions related to the set-up of internal structures and processes mentioned in paragraph 38. *Staff's comments would be welcome.*

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GRAY/21/1911

July 2, 2021

**Statement by Mr. Jin and Mr. Law on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for their work in outlining the operational strategy for the Fund to address the rise of digital money. As we mentioned in the April meeting, this is an important policy area that cuts across many aspects of the Fund's core mandates, and the Fund must rapidly widen and deepen its work in this area to keep pace with new developments. We broadly agree with the recommendations in the paper, but we would like to offer a few comments for emphasis.

Digital money—central bank digital currencies (CBDCs) in particular—can contribute to an open, safe, and competitive monetary system that supports innovation and serves the public interest. Given the strong network effects in payment system, international cooperation is vital to avoid fragmentation and a digital divide. The Fund plays a unique role in promoting international monetary cooperation and fostering consensus on the role of digital money in the international monetary system (IMS). It must help the membership to reap the benefits of digital money while addressing the risks to international and domestic economic and financial stability.

The Fund needs to focus on “probable” risks and not just “possible” risks. Take currency substitution for example. Many authorities are concerned about the risks of currency substitution—for good reasons—but as noted in the recent BIS Annual Economic Report, such risks can be largely eliminated through effective design of the system.¹ Given the very different attributes between cash and CBDCs (even though both are direct claims on the central bank), the BIS noted that the potential for a foreign CBDC to take off as a dominant global currency is likely to be “limited.” Given its near universal membership, the Fund needs to play a central role in ensuring that the international community can build consensus to adopt an architecture that minimizes the risks of CBDCs (and other types of

¹ See Chapter III “CBDCs: an opportunity for the monetary system”, BIS Annual Economic Report 2021, June 23, 2021.

digital money more broadly) for the IMS, such as one based on digital ID and implemented as an account-based system as suggested by the BIS.

A deeper understanding of the technology and design choices behind digital money is therefore important. While the Fund is a policy institution, discussing a technical subject like digital money inevitably requires some knowledge about the technical details to understand what digital money can and cannot do. It would be important to build internal capacity among staff, but it would be equally important to build internal capacity for the Executive Board. Going forward, the Executive Board will benefit from more informal briefings and Q&A sessions from staff on key policy areas related to digital money. The Fund is uniquely well-positioned to facilitate peer-to-peer learning and the sharing of policy lessons. The annual seminars on fintech experiences in China organized by the Fund in the past few years have received very positive feedback, and staff should consider disseminating the key messages to other members.

Fund surveillance should focus not only on the potential risks of digital money, but also on their potential benefits. We generally agree with Table 2 of the paper on how the three effects should be covered across the Fund's bilateral and multilateral products. However, we think that the discussion on international effects should not be a primary focus of bilateral products, including Article IVs, and it should be covered only by the multilateral products.

We strongly support the Fund to step up its engagement with other stakeholders, including with country authorities and other international financial institutions. In this regard, the Fund must step up to become a thought leader to make itself useful as a partner. We welcome the Fund's plan to establish memoranda of understanding (MoUs) to clearly delineate the work with some organizations, but given the fast-moving nature in this policy area, the MoUs need to be sufficiently flexible in scope. We would have expected the MoU(s) be established with the BIS and/or BIS Innovation Hub as a priority, given their active role in the area of digital money. *Would staff plan to establish MoUs with country authorities too?* We also support the Fund to consider direct collaboration with country authorities where appropriate.

We generally support the proposed increase in resources given the complexity of the new work. *Could staff provide a break-down on how the new resources would be allocated across different departments?* Given the significant new headcounts involved, we concur with staff that a recruitment and absorption strategy should be developed. It is more important for the Fund to find the right people instead of building a large team quickly. As the Fund needs to become a thought leader in the field of digital money, we agree that the initial investment should focus on building the analytical foundations. Exchanges or secondment arrangements with other organizations and country authorities should also be positively considered.

We would have appreciated more details by staff on the deliverables in the next 12 months. The Managing Director’s Work Program of the Executive Board last month has outlined a few papers/projects related to digital money that the Fund will be working on, but those information are missing in this strategy plan. We think that the work agenda should have been discussed holistically in the context of this strategy plan. In particular, the Work Program mentioned that staff will work on an “analytical framework” for CBDCs, which would “serve as background for the IMF’s contribution to a G20 paper to be published in July 2021.” *Could staff elaborate on what the paper will entail?* We would also suggest an earlier opportunity for the Board to discuss the paper on IMS, given the importance of this subject, instead of waiting until March/April 2022.

We look forward to continuing to engage with staff on this important topic going forward.

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GRAY/21/1912

July 2, 2021

Statement by Mr. Herrera and Mr. Corvalan Mendoza on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate (Preliminary)
Executive Board Meeting 21/69
July 7, 2021

We thank staff for the comprehensive paper on the Fund strategy to address issues related to digital money.

The topic and the diagnostic of the situation is highly relevant and timely for the membership. In just a few years, the reach of digital money has grown and expanded rapidly, opening important micro prudential issues to ensure the integrity, security, and privacy of new means of payment, as well as raising very important and broad questions about the future of the domestic and international monetary and financial systems.

We agree that the Fund has an important role to play in the rapid global developments around digital money. Technology and policy will set the tone on how financial services will evolve in the new digital environment, which was accelerated during the COVID-19 pandemic. The Fund has an important role to ensure that the international monetary system (IMS) remains stable and efficient in the new digital landscape. Although this is a crowded field, we acknowledge that the Fund can bring some unique characteristics to the discussion table, including its near-universal membership, core focus on macro-financial policies, broad expertise, and unique links with member countries through surveillance and capacity development.

However, we would prefer a more gradual, focused, and prioritized operational strategy around digital money. At this stage, it is very difficult to forecast the scale and scope of the broad consequences of digital money on the domestic economy and the international monetary system, whether these consequences will have macro-critical

implications and over what horizon these changes will occur. Therefore, we would prefer a more gradual and prioritized strategy focused on the most pressing narrow issues around policy definitions and capacity development, with a focus on the needs of emerging and developing countries. Apart from some exceptions, for most countries the integration of general digital money issues into bilateral surveillance could be done at a later stage, when there is greater clarity on the macro-criticality of the emerging policy issues.

We agree that adapting and extending key functions within the Fund, partnering with other stakeholders, and building internal capacity seems a viable strategy as presented in the report, but it might be too ambitious on how fast it can reach a steady state. The analytical foundation, surveillance, and capacity development might require longer time periods to become helpful for the membership.

Also, the operational strategy would require further calibration according to member countries needs. The consequences of digital money countries will vary according to the level of financial development and monetary stability of their domestic systems and shall be monitored accordingly. In the short term, digital money surveillance should focus on those economies with less sophisticated financial systems, where digital money can represent a macro-critical problem due to bank disintermediation or currency substitution. In the same vein, the surveillance of macroprudential and micro prudential issues require different skills. In the short term, the micro-prudential or narrow policy issues seem more urgent and critical, which will require a mix of skills biased towards financial, legal, and digital experts. Another consequence is that resources should be centralized mainly in functional rather than in area departments. *Could staff elaborate on how they envisage the allocation of additional experts across departments?* The lessons from ramping-up macroprudential policy advice and mainstreaming macrofinancial surveillance, as described in Box 2, are an interesting case to consider, and we observed that almost took a decade to reach a steady state in this front. *Could staff elaborate how much time would be needed to cope with digital money?*

We see an important role for our institution in strengthening the cooperation with other international organizations, ministries of finance, central banks, private sector, and academia. The tools to mitigate or avoid digital divide within our universal membership is warranted. The Fund through its capacity development strategy, buttress by its long-lasting cooperation with other organizations and countries, should stay up to date with the new digital environment.

Continued cooperation would benefit not only internal capacity in the Fund and the staff, but it will help the membership, promote peer-to-peer learning, enrich new experiences and viewpoints. Therefore, we are inclined to a more gradual increase of additional resources, considering a well calibrated prioritization of the strategy.

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GRAY/21/1913

July 3, 2021

Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Fadhel on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate (Preliminary)
Executive Board Meeting 21/69
July 7, 2021

We thank staff for a well-written paper and for their outreach to our office. We broadly support the proposed operational plan laid out in the paper and would like to emphasize the following points.

We agree with staff that the Fund should step up its work on digital money to keep up with rapidly changing financial ecosystem, deliver on its mandate and serve its membership. The policy challenges arising from digital money are ever rising and so are their benefits such as cheaper cross-border payment systems and vehicles to promote financial inclusion. The Fund has an important role to play, as a trusted advisor, in helping countries reduce the existing digital divide and benefit from opportunities arising from public and private digital money while maintaining the stability and integrity of their macro-financial systems. In this regard, we believe that the Fund should have a flexible strategy that allows it to expand the scope of its work as developments in this area continue to unfold. We are generally in favor of building sufficient internal capacity that allows the Fund to form independent policy views on digital money issues, which could also form the basis for its surveillance and capacity development work in this area.

It is important to integrate digital money, and more broadly FinTech issues, into the Fund's bilateral and multilateral surveillance products in a more systematic manner. Countries differ in their level of digital adaptation and readiness to use digital money to their benefit while mitigating their risks. To this end, we see value in expanding the currently limited coverage of digital money issues in the Fund's bilateral surveillance, including Article IV and FSAP, in a more systematic manner rather than the current ad-hoc basis. We also see merit in adding a dedicated chapter on digital money to flagship reports, including the GFSR, WEO and the External Sector Report, whereby developments in this area, and their policy implications, are adequately highlighted and relevant advice is provided to the

membership. We also welcome staff's plan to expand the publication pipeline on digital money, including through Staff Discussion Notes (SDNs), Fintech Notes, and How-To Notes, as well as the engagements during the Spring/Annual meetings.

Demand for Fund's capacity development on issues related to digital money is on the rise. The provision of technical assistance and training in this area should also increase while remaining demand driven. Countries' demand for capacity development in areas of CBDC implications and design, risk management and cyber security, and legal and regulatory frameworks are rapidly increasing. We agree with staff that the priority for capacity development should continue to depend on macro-criticality of digital issues as well as expected traction and impact. While we welcome the focus on lower income and emerging market economies in capacity development, we believe that technical support should also be accessible to countries who are still building their internal capacity in this area due to the novelty of these emerging issues. *We understand that due to resource constraints, some TA requests had to be either postponed or turned down. Could staff share more details on how the proposed additional capacity development is expected to be funded?*

The Fund should continue to work with international bodies and national authorities to identify complementarities and build on comparative advantages. Collaborating with other international bodies including the World Bank, BIS, BIS Innovation Hub, Committee on Payments and Market Infrastructure (CPMI), and the Financial Action Task Force (FATF) on a complementary basis would be particularly beneficial to avoid duplication of work while benefiting from each other's areas of expertise. We also support the proposal to increase partnership with national authorities including through secondment programs to draw from experiences on the ground and share best practices. We also note staff's intention to invite private sector firms to propose solutions to policy questions related to digital money. *Further details from staff on how they intend to operationalize the proposed partnerships would be appreciated.*

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GRAY/21/1917

July 6, 2021

**Statement by Mr. Merk and Mr. Sattler on The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate
(Preliminary)
Executive Board Meeting 21/69
July 7, 2021**

We thank staff for a well-written report and broadly share the assessment on the need for the Fund to widen and deepen its work on digital money. We also appreciate and support the firm link drawn in the report to the Fund's mandate and the emphasis placed on the need to coordinate and collaborate closely with other institutions.

Operational strategy:

We broadly support the outlined operational strategy, albeit with some caveats regarding the envisaged additional resource needs (see below). At the same time, we do not fully go along with characterizing the Fund's future work on digital money as an "evolution of the IMF's role", as implied in the Issues for Discussion. Instead, we consider it to be fully in line with the Fund's existing role to provide policy advice, support capacity building, and engage in the international debate in such a fast-changing area of growing macro-critical importance for the membership. By contrast, and in line with our comments on the 2018 Bali Fintech Agenda, we would caution against attempts to expand Fund engagement into areas outside its existing role and mandate, for instance standard setting, financial regulation, and supervision. These latter areas fall into the remit of other international institutions and bodies as well as national authorities.

We agree with staff that development of policy lines with respect to digital money should mostly be covered under the Fund's surveillance function. The width and depth of the expanded coverage of digital money in surveillance should be informed by macro-criticality as well as risk and stability considerations from both a domestic and an international perspective. The formulated policy questions and their classification into three categories (international effects, broad domestic effects, and narrow domestic effects) appear useful and relevant to guide coverage across the Fund's surveillance products, including the flagships. We also agree that coverage, for instance in Article-IV reports, will vary depending on the degrees of exposure and limited capacity both on the side of the authorities and IMF staff. As rightly noted by staff, scarce resources on the side of the Fund also argue for duly prioritizing access to capacity development based on macro-criticality, as

well as expected traction and impact. Given resource constraints, we also underline the need to maintain the demand-driven character of capacity development projects.

With regard to the policy questions on the stability of the international monetary system (IMS) in Box 1 of the staff report, we consider that the question on redesigning the global financial stability net (GFSN) should be phrased more openly, i.e. it should not be assumed by default that the case for redesigning the GFSN, including Fund (lending) operations, is already made. While we agree that the evolution of digital forms of money can have significant effects, including on the configuration of reserve currencies, and that these effects can have important implications for the design of the GFSN, a thorough analysis is needed before considering which elements need redesigning. *A staff comment would be welcome.* With regard to the thematic focus of the analyses, a key area of attention from our perspective are the potential structural changes in the financial system and their implications for financial stability. This concerns not only the banking system, but, importantly, also other entities in the financial markets.

Staff resource needs and budgetary implications:

We take note of staff’s intention to “rapidly ramp up its resources“ for its work on digital money. However, the outlined total of 55 FTE additional staff and experts appears to be on the high side, with sizeable budgetary implications which would still need to be assessed. *Could staff also indicate the budgetary estimates in USD?* Furthermore, we need to take into account that similarly ambitious proposals are currently made for many other areas, e.g. on climate or on engagement with fragile and conflict-affected states.

We are thus of the view that all these proposals and their substantial budget implications will need to be discussed together in their entirety. Based on the topics’ relevance for a critical number of members, their budgetary implications and – above all – the strategic priorities of the Fund and its mandate, there should be a candid debate on the resources that the Fund can employ for building up substantial in-house expertise for specific topics. While we deem digital money an important topic, it should thus not be inferred that we endorse the earmarking on the named resources in the future budget, as any discussion of a budget increase will also have to take into account possible trade-offs.

This notwithstanding, we thank staff for indicating the timeframe in which the envisioned resources would be phased in and for describing the planned additional work. We deem a recruitment strategy that would place emphasis on “rotations of staff coming from other organizations or central banks” as interesting and worthwhile to consider in order to fasten the catch-up process for the Fund’s analytical foundations. At the same time, we have to acknowledge that at these institutions, such experts are scarce and urgently needed. Beyond that, given the heightened capabilities at other institutions on this topic, we believe that there is indeed room for higher efficiency and less budgetary needs through increased cooperation. *We would welcome if staff could indicate more specifically how it intends to coordinate and collaborate closely with other institutions.*

The Rise of Public and Private Digital Money—A Strategy to Continue Delivering on the IMF's Mandate

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/21/69—July 7, 2021

Staff's responses to technical questions are below. Broader policy questions in the areas of pace of implementation of the strategy and links to the budget augmentation process will be addressed in staff's intervention at the Board meeting.

Implications

1. Could staff elaborate on the implications of digital dollarization, including for stability and capital flows in weaker economies?

- The rise of digital money could affect the ability of countries with weak monetary frameworks to conduct their monetary policy. In such countries, digitalization could make it easier for individuals to gain access to, and use, a foreign CBDC or a global stablecoin. The resulting currency substitution could also have implications for financial stability and the volatility of capital flows, as digital dollarization could facilitate the transmission of global financial conditions and contagion. Staff has discussed these issues in the in the [2020 Policy Paper “Digital Money Across Borders: Macro-Financial Implications”](#) (presented to the Board in October 2020) and in the April 2021 presentation to the Board in connection to the proposed Fund's strategy on digital money.

2. On the fiscal front, capturing more tax revenue will be beneficial, however we also see the potential for tax evasion and ask staff to comment on whether this aspect can be monitored or assessed.

- In general, tax evasion may be facilitated if the local authorities cannot appropriately monitor transactions. CBDC can be designed to permit sufficient control, and central banks are studying ways to balance user experience, security, transparency and transactions monitoring. However, international cooperation is needed to ensure data on transactions is made available to local authorities in case a foreign CBDC is used. Global stablecoins and cryptoassets, on the other hand, often raise more concerns, as the technology is borderless, and can be designed to hide the identity of the asset holder. Legal, regulatory and compliance frameworks, however, largely operate within the confines of national jurisdictions, creating opportunities for mismatches while also complicating transparency and transaction monitoring. It is, therefore, particularly important that all countries implement effectively the FATF standard, which aims at preventing and combating the misuse of crypto assets and the laundering of the proceeds of tax crimes. International cooperation and collaboration is also required, with efforts underway by most Revenue Administrations to regulate and monitor exchange platforms and wallet providers, to mitigate opportunities for

tax evasion and avoidance. More work is needed across institutions, including the IMF, and with the private sector to improve the monitoring and countering of tax evasion and avoidance and compliance with capital flow measures.

3. We welcome staff views on convertibility issues relating to the use of different digital currencies, particularly by LICs, and on the chances and implications of an overly dominant CBDC. Would it imply a largely dollarized global economy, for example?

- The rise of digital money could in principle increase currency substitution which is likely to affect countries with weak monetary frameworks (including potentially LICs) most. The network effects associated with the use of money could increase the role of the dollar, if the FED decided to issue a CBDC available to foreigners, since the dollar is already the dominant currency across the world. However, other currencies could also gain prominence over time provided they are issued by central banks which operate under strong macroeconomic policy frameworks, robust institutions, as well as developed and open financial systems. Whether there will be convertibility issues related to the use of different currencies will depend on the functioning of FX markets which in turn could be impacted by the extent to which countries use CFMs to preserve monetary policy independence with the rise of digital money.

4. We would welcome further work to better understand how monetary and financial innovations can affect the link between money and prices and the implications for the conduct of monetary policy. Staff's comments are welcome.

- Staff agrees that the issues raised in this question are extremely important and very central to the Fund's mandate. Staff has already conducted some analysis on these topics. The [2018 SDN "Casting Light on Central Bank Digital Currencies"](#) examined the implications of a domestic CBDC for the conduct of monetary policy, while the [2020 Policy Paper "Digital Money Across Borders: Macro-Financial Implications"](#) analyzed how the use of CBDC and private digital money across borders could affect the transmission and effectiveness monetary policy. But more is needed and staff plan to continue analyzing these issues going forward.

5. There is a general concern that Global Stable Coins (GSCs) could become widespread new units of account and pose risks to monetary sovereignty, financial stability and consumer protection. Are there ways to address this concern, as a precondition for allowing the diffusion of GSCs, whose benefits for the public cannot be ignored, particularly in terms of reduction of exchange rate risks?

- A [2019 paper by the G7 Working Group on Stablecoins](#), to which Fund staff contributed, discussed the macrofinancial implications of stablecoins and concluded *"no global stablecoin project should begin operation until the legal, regulatory and oversight challenges and risks outlined above are adequately addressed, through appropriate designs and by adhering to regulation that is clear and proportionate to the risks."* While general, the report offers initial guidance. One important potential

step to limit currency substitution and the associated loss of monetary independence which warrants further analysis is the extent to which countries should be able to decide the conditions and controls (including CFMs) to have in place which could affect the design and operation of GSC, exchange platforms, and wallets.

6. We would welcome staff elaboration if there are plans to cover in the Fall flagships systemic risks arising from digital money adoption as well potential risk of spillovers to “bystander” countries.

- Yes, the *Global Financial Stability Report* for the fall of 2021 will include an in-depth analysis of the financial stability implications of crypto-assets and central bank digital currencies. Some of these issues were covered in earlier GFSRs, e.g. April 2018, and will be given significant coverage going forward.

7. Could staff elaborate on the challenges of balancing people’s privacy and ensuring financial integrity in line with FATF standards? This is an important matter as studies indicate with the use of CBDCs, governments will likely be able to track every unit of currency spent by its citizens. In addition, could staff share any lessons from the membership in dealing with these challenges, if any?

- The issue of anonymity, privacy and confidentiality is widely debated both by policymakers, who wrestle with the tradeoff between privacy and integrity, and by technologists, who are still trying to adapt a technology originally designed to be anonymous (or “pseudonymous”). Various approaches to privacy are being considered, which generally involve encrypting all transactions, while providing decryption keys to regulated entities for crime investigation. Since financial integrity is a top concern, countries should take a risk-based approach to the implementation of AML/CFT measures. Transactions should generally be monitored for AML/CFT purposes, in line with the FATF standard. For this purpose, information on the users will generally need to be gathered at certain points in time, for example when transacting above the determined threshold or when opening an account of wallet with a bank or a virtual asset service provider.

8. While we agree that the evolution of digital forms of money can have significant effects, including on the configuration of reserve currencies, and that these effects can have important implications for the design of the GFSN, a thorough analysis is needed before considering which elements need redesigning. A staff comment would be welcome.

- We agree that an in-depth, comprehensive analysis of digital money’s effects on the international monetary system, including the GFSN, is highly needed. Reflecting this need, the Managing Director’s Global Policy Agenda and the Board Work Program include high-priority work on the implications of CBDCs and privately issued digital money for the IMS.

9. While we agree that CD projects should be guided by macro-criticality with a focus on lower income and emerging market economies, could staff comment on

their approach to prioritization? Will it be guided by the level of financial inclusion or elevated risks or technology penetration rate or maturity of supervision or other factors?

- CD projects will continue to be demand-driven. In other words, staff will allocate resources for CD based on members' request, based on a judgment also by staff on the relevance of the requests for the country circumstances, and in close collaboration between CD delivering departments and country desks. Given the novelty of the subject matter and fast pace of change, staff will also favor forums of peer learning and regional workshops.

10. We understand that due to resource constraints, some TA requests had to be either postponed or turned down. Could staff share more details on how the proposed additional capacity development is expected to be funded.

- The strategy envisages increased CD provision on digital money issues. The resource implications identified in the strategy would allow to provide about 50 CD activities per year, plus select regional events. In addition, the strategy calls for an increase in donor financed CD on digital money issues which will be determined in the annual CD prioritization process and would be subject to donor interest.

11. We would also be interested in staff comments on any differentiation in approach between private and public digital monies, where the expertise required is likely to differ.

- Private digital money such as stablecoins and e-money/mobile money have implications for legal, regulatory, and licensing regimes, as well as the role of central banks. Implications differ slightly with CBDC which comes with its own challenges to legal frameworks. Data, privacy, anti-trust and other policies are also relevant to privately issued digital money. Implications for capital flows, currency substitution, and spillovers more generally are also key, and may not be dealt with as easily as with CBDC as private issuers may be less likely to collaborate. Broader implications for the structure of the financial sector may also be trickier to deal with in the case of privately issued money. Fiscal policy issues are instead more central to CBDC, as are opportunities for financial inclusion, which may need greater state intervention. Cyber-risks are likely to touch both privately and publicly issued money, while the latter may not fully internalize the externalities on society of operational failure. In both cases, however, close international collaboration is key to avoid regulatory arbitrage, and foster a more stable and inclusive international monetary system.

Collaboration

12. Relatedly, we note staff's intention to invite private sector firms to propose solutions to policy questions related to digital money and would appreciate staff views on the experience so far with such outreach efforts.

- In order to ground our policy advice and capacity development in a solid and unbiased understanding of the technology underlying digital money, we have engaged with multiple private sector firms, through bilateral discussions, seminars, as well as in-depth experimentation in our “IMF/WB Digital Money Learning Lab.” Such close collaboration, while limited by our lack of resources, has provided very valuable insight on the reality of the potential and of the risks of the digitalization of money.
- As staff resources are increased, we will be in a capacity to revamp the high-level fintech advisory group established in 2017. The membership of the group is primarily from the private sector.

13. Could staff comment on how they plan to operationalize the partnerships with the identified key stakeholders and also, whether and how they plan to assist with further developing platforms for public-private collaboration.

- Fund staff are an active member of the FSB Financial Innovation Network and participate in, or co-lead, six of the 19 building blocks of the global effort to enhance cross-border payments, under the leadership of the FSB Cross-Border Payments Coordination (CPC) group. Fund staff have also participated in G7 working groups on developing principles for CBDCs and on stablecoins. Also, as mentioned in the paper, collaboration will vary by project and outcomes, and includes co-writing papers, organizing workshops, joint FSAP (World Bank), signing MoUs, such as the ongoing work with FATF or PFMI (see also question 18). The paper further provides examples of how the Fund would collaborate with other organizations, in particular with the BIS, World Bank Group and country authorities. See also answers to question 11.

14. We would welcome more detail on staff’s vision for collaboration, and how it ties into their plan for developing technical capacity.

- See question 13.

15. Could staff further elaborate on how to better formalize and draw “boundaries” between these institutions (BIS, WB, FSB) in the digital money agenda?

- See question 13.

16. On other stakeholders (¶ 35), could staff elaborate on the outcome of recent engagements.

- Recent engagements have included country authorities, international organizations, standard setters, as well as private sector firms such as R3, Consensys, IBM, and the MIT Digital Currency Initiative. Exchanges have been very useful—for the Fund to gain a strong understanding of technical opportunities, and to participate in the international process to establish regulatory guidance. The Fund’s role is essential to represent the many countries not represented in these groups. Vice a versa, the

Fund has offered insights on macrofinancial policy implications and the international monetary system that have been valued by other stakeholders.

17. Could staff elaborate on obstacles to effective collaboration with other stakeholders?

- The paper does not find significant inherent obstacles—other than the current budgetary constraints—to effective collaboration with other stakeholders. The staff's analysis suggests that the Fund's well-defined mandate and the four core competencies in its near universal membership, policy focus, broad expertise, and unique ties to member countries through surveillance and capacity development should help ensure effective collaboration. Staff believe that the guidelines for engagement in para. 28 should ensure successful partnerships, provided that the proposed strategy is supported with adequate resources.

18. Would staff plan to establish MoUs with country authorities too?

- MoUs have been an effective instrument for Fund staff to engage with certain country authorities in CD. Staff may continue to sign MoUs with country authorities depending on the specific circumstances in order to facilitate CD.

19. Further details from staff on how they intend to operationalize the proposed partnerships (international bodies, national authorities, private sector) would be appreciated.

- See question 13.

20. We would welcome if staff could indicate more specifically how it intends to coordinate and collaborate closely with other institutions.

- See question 13.

Implementation of Strategy and Next Steps

21. While we appreciate the efficiency gains associated with centralization of resources, including achievement of critical mass, and evenhandedness, we also note that consideration may need to be given to the adaptation of analytical tools to country types and specifics. Could staff clarify how and when the progress on implementing this strategy will be evaluated and who would be responsible for such an evaluation.

- We agree that in implementing the strategy, staff will need to adapt its analytical tools to country types and specifics. It is precisely for this reason that Table 6 refers to "tailoring" of models and methodologies in CD.
- Regarding the question about evaluating progress on implementing the strategy, the next interim review following the 2021 Comprehensive Surveillance Review would

provide an opportunity to take stock of the surveillance aspects of the strategy. Other relevant aspects can be captured as part of the next review of the capacity development strategy and the next FSAP Review. During the interim, regular engagement with the Board it will be important to reevaluate the appropriateness of the strategy and its resource allocation. Also, as with other IMF policies and activities, the Fund's digital money work can in principle be subject to an evaluation by the Independent Evaluation Office, should the Board and the IEO choose to do so.

22. Looking ahead, cross-country analytical work on the competitive implications of new forms of money and new entrants, would add to the body of knowledge in one of the most complicated economic issues to domestic authorities. Staff's comments on next steps and other key research plans are welcomed.

- Both in the paper that will be discussed at the Board on July 7, and in the April paper, staff has acknowledged the potential importance of the rise of digital money for competition in payments. This is an issue that staff would like to explore going forward. Specific plans will depend on the resources approved by the Board for the Fund's strategy on digital money.

23. We would appreciate staff comments on the next steps of the overall digitization agenda and how the topics are planned to be prioritized.

- Staff is committed to complementing this strategy with a careful prioritization of policy questions, and a detailed multi-year workplan including an allocation of work among departments.

24. We would have appreciated more details by staff on the deliverables in the next 12 months. In particular, the Work Program mentioned that staff will work on an "analytical framework" for CBDCs, which would "serve as background for the IMF's contribution to a G20 paper to be published in July 2021." Could staff elaborate on what the paper will entail? We would also suggest an earlier opportunity for the Board to discuss the paper on IMS, given the importance of this subject, instead of waiting until March/April 2022.

- In addition to the answer provided above, the G20 paper, jointly prepared by the BIS Innovation Hub, CPMI, the IMF, and the World Bank, will be submitted to the forthcoming G20 Finance Ministers and Central Bank Governors Meeting on July 9-10. The paper, which is being circulated for Board's information, offers a preliminary discussion on how international dimension should be considered in designing CBDCs. The analytical framework for CBDCs is being prepared by staff and will serve as guidance for future CD on CBDCs.
- Regarding the work on digital money and the IMS, we agree that it is an important subject. The Board Work Program indeed envisages a meeting in March/April 2022, but we take note of the suggested earlier discussion if possible. More broadly, we

are committed to keep engaging with the Executive Board on the important issues related to the rise of digital money.

25. Taking the experience from the recent efforts to mainstream macro-financial surveillance, it seems sensible to focus on pilots over the next couple of years. This would give more time for the consolidation of conceptual frameworks and accumulation of crucial operational experience. At the same time, it would be helpful to rely on multilateral surveillance to further develop conceptual tools. Staff comments are welcome.

- In practice there will be an iterative approach to how the strategy is rolled out, as it would be impossible to include digital money in all surveillance and capacity development engagements all at once. The plan is to move gradually as resources are increased. At each step, initial experiences (pilots) would be carefully reviewed to draw out lessons for further work. Please see response to the question below.

26. At the current juncture, we prefer a pilot-based approach, which better reflects the emerging nature of challenges, and brings better structure and accountability. The Fund has good experience of starting with such an approach when scaling up its climate- and governance-related agenda, and we favor it over the implementation strategy outlined in the paper. Staff's comments are welcome.

- Please see response to 25.

27. More details are needed on how the IMF intends to operationalize its strategy in the area of digital money. We look forward to further work on how to develop a framework for effective surveillance and capacity building in this area.

- Staff has provided a detailed description in the paper under consideration but would be happy to elaborate further during our engagement with the Board.

Regulatory frameworks and Institutional View

28. Can staff comment if there is agreed international guidance on the main characteristics of CBDCs? What other guidance and regulatory frameworks have been agreed upon or are expected to be finished before the end of 2022? Can staff comment on how and if digital money considerations are being included in the analysis related to CFMs and the upcoming review of the Institutional View?

- To date no agreed international guidance on the design features of CBDC exists. The G7 and G20 have made progress, but are still a long way from agreeing on guidance.¹ Even an agreement at a G7/G20 level, while helpful, may be high-level,

¹ See the joint report by The Bank of Canada, European Central Bank, Bank of Japan, Sveriges Riksbank, Swiss National Bank, Bank of England, Board of Governors of the Federal Reserve and Bank for International Settlements, "[Central Bank Digital Currencies: Foundational Principles and Core Features](#)." October 2020.

and may not necessarily represent the issues and situation of the Fund membership, especially the needs of low- and middle-income economies, whose goals, constraints, and existing payment infrastructure are quite different from those of major advanced economies.

- On the Review of the Institutional View, the Board will have an opportunity to discuss preliminary considerations on the scope of the review during an informal meeting later this month. The current paper makes clear that the emergence of digital money may pose new challenges for the management of capital flows going forward. At the same time, it is clearly an area that requires more research and analytical support before considering specific policy changes. Staff will need to work on these topics as part of the medium-term agenda. However, these questions are very complex as they involve technical, legal, and economic issues, and have an impact on the international monetary system—resources will be needed to offer concrete and useful advice.

Resources

29. Can staff provide information about the human resources that major central banks and other IFIs are devoting to the digital money agenda? This can be useful to quantify the relevance of this topic to other institutions

- Staff agrees that it is useful to have a comparison of FTEs working on digital money in other organizations. Some organizations are moving very aggressively in this space. The BIS decided to increase its budget by about 10 percent to fund the Innovation Hub, with about 60—70 FTEs located in different centers run jointly with hosting central banks, to be further complemented by secondees from those central banks. Central banks and regulatory authorities have also been investing in new capacities. A recent BIS survey reveals that over 80 percent of central banks are actively investigating CBDC. Many central banks and regulatory authorities have established digital innovation hubs and facilitation offices with the help of both existing and additional resources. Obtaining data, however, is difficult.

30. We believe that this significant increase in resources requires further in-depth analysis to make the case sufficiently strong. Staff's comments are welcome.

- The analysis presented in the current paper elaborates on the proposals presented in April 2021. The results reflect an extensive budgeting exercise and an in-depth analysis of resources required to implement the proposed strategy and have been rigorously vetted. The end-July OBP paper will follow up on these calculations, bringing together other workstreams and taking into account efforts to streamline and reap efficiency gains in all activities.

31. We welcome the series of informal and formal engagements with the Board on these topics. However, the holistic assessment of budget implications is still lacking. We encourage staff to put together additional resource requests from all emerging topics, as well as from the Fund's core areas, to better assess the

prospective financing needs to fully deliver on them. When staff could provide such information?

- The holistic assessment of budget implications will be provided in the OBP paper at the end of July.

32. Could staff elaborate on the specific timeframe of the proposed phasing?

Relatedly, we would appreciate more information on the resources that are needed to respond to the current demand for advice and capacity development from the membership. Finally, given the flat real budget, we would encourage staff to prioritize the work and actions related to the set-up of internal structures and processes mentioned in paragraph 38. Staff's comments would be welcome.

- The paper proposes that recruitment in the area of digital money would ramp up gradually over the next three years. Moving faster would be difficult and not advisable given absorption capacity and the need to remain nimble as the field of digital money evolves. The split of resources between capacity developments and other functions is provided in the paper. Staff is available to answer any detailed questions. Finally, the proposal is not to remain within the flat real budget, but to fund work in the space of digital money with a one-time increase in resources, and return to the very sensible principle of a flat real budget thereafter. The proposal is thus for a one-time reset.

33. Could staff elaborate on how they envisage the allocation of additional experts across departments? We observed that almost took a decade to reach a steady state in mainstreaming macro-financial surveillance. Could staff elaborate how much time would be needed to cope with digital money?

- The assumption in the paper on the operationalization of the strategy is that a steady state could be achieved within 3 years approximately.

34. Could staff provide a break-down on how the new resources would be allocated across different departments?

- The paper emphasizes efficiency as a key criterion in allocating the additional resources across departments. As discussed in para. 39, this requires striking a balance between centralizing resources in relevant functional departments (defined for the purposes of this paper as FAD, ITD, ICD, LEG, MCM, RES, SPR, and STA) and decentralizing resources in area departments. Centralization supports efficiency gains, as well as consistency of views and evenhandedness, but decentralization is essential to adapt analytical foundations to country circumstances, transfer ownership of policy messages, react quickly to incoming questions and requests from the authorities, and in return learn from country responses to update the analytical foundations.

35. Could staff indicate the budgetary estimates in USD?

- Applying standard estimates of costs per FTE, we estimate the total budget estimate in USD to be close to \$20 million but precise information will be provided by OBP in the discussion on budget augmentation in July.

Publication

36. Could staff provide the reasons for the publication of this report?

- There is a general presumption that all Fund policy papers (except for administrative matters) will be published, subject to the Board's approval. In line with this general presumption, the cover memo proposed that the paper be published, subject to the Board's approval. The decision whether to publish rests with the Board itself. The Board is understood to consent to the publication of a policy paper if no Director objects to staff's publication proposal during the Board meeting. If there is an objection, the Board can decide on publication by a majority of votes cast.

Board engagement

37. We would welcome further detail on the work program to build out the Fund's policy advice in this area, including specific plans for Board briefings, staff discussion notes and coverage in the flagships. Staff comments are welcome.

- Specific priorities and plans will be developed based on approved resources and will be considered by the Board as part of the Board Work Program discussions twice a year.
- Staff will be guided by specific deliverables endorsed by the Board as part of the Work Program discussions. The Work Program delivers the priorities outlined in the Managing Director's Global Policy Agenda (GPA) which indicates that the Fund is "ramping up work on the implications of central bank digital currencies (CBDCs) and privately-issued digital money for monetary policy and the IMS, which are at the core of the Fund's mandate". The GPA notes that our surveillance will seek to provide more systematic assessments of risks to financial stability and integrity from digital money, as experience is developed and international standards are established, while our policy development will focus on currency substitution, monetary policy transmission, capital account restrictions, and capital flow volatility, among others. The GPA also notes that CD in this area will focus on helping EMDEs leverage opportunities from digitalization, including CBDCs, while managing cyber and other risks. To foster knowledge sharing and multilateralism, we are working with our partners to implement the G20 Roadmap to enhance cross-border payments. The GPA also notes that we will further explore the macrofinancial implications of the use of personal data in the digital economy and the need for global policy coordination, and that the Fund is also supporting members with the digital transformation of governments, including in public financial management and revenue administration.

- A specific example of the upcoming output will be the fall 2021 *Global Financial Stability Report*, which is expected to include an in-depth analysis of the financial stability implications of cryptoassets and central bank digital currencies.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States