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

We thank staff for the rich set of papers which outline bold proposals to reform Fund surveillance over the next five-to-ten years. We strongly agree that the Fund's surveillance needs to adapt to the changing landscape, be more flexible and agile and evolve to better support our membership in a highly uncertain global landscape.

*Surveillance priorities*

**The proposed surveillance priorities are broad enough to be robust to a range of outcomes.** We agree that the Fund's surveillance should better serve the membership in addressing risks and uncertainty arising from main secular trends such as climate change, digitalization, demographics, and inequality. At the same time, it is critical that the Fund does not lose sight of its core responsibilities, in particular at this current juncture when surveillance efforts should be primarily focused on the challenges arising as a result of COVID-19. Where surveillance priorities do move into newer areas, it will be important to ensure that staff have sufficient guidance on the application of the macrocriticality criteria and coverage should be selected on this basis, as well as country-specific circumstances, including political economy considerations.

**On risks and uncertainties, we agree that Fund surveillance should place a greater focus on scenario analysis and contingency planning and provide tailored policy advice.** The Fund should be more candid in presenting different scenarios and recommending policy options to mitigate different risks and scenarios through pre-emptive policies. *How would staff balance global and country-specific risks?*

**On spillovers, we emphasize the need for the Fund to strengthen the focus and continually monitor emerging areas for potential spillovers.** We agree that the Fund

should closely monitor development of digitalization, including digital money, given its potential for large spillovers. Given the rapid pace of developments in this space, we view this as a key area for future surveillance and encourage the prioritisation of further work. We continue to encourage further work on operationalizing the Integrated Policy Framework and look forward to more unified and comprehensive policy advice that considers the trade-offs across a number of policy tools.

**On economic sustainability, we agree that surveillance should be paying attention to longer term trends that may impact upon stability.** For instance, trend in demographics is moving slowly but can have significant implications for current account balances, which warrants careful consideration in the External Sector Assessment. However, we stress that these issues must be considered in the context of, rather than at the expense of, core objectives on stability. On climate change, we reiterate that surveillance coverage should be agreed by members and the Fund should focus on macroeconomic and financial policies, where the Fund has expertise, to support members to achieve their policy goals and remain open to all different policy approaches.

**Coordination and collaboration with other international institutions will remain critical on emerging issues where the Fund does not have a clear mandate or expertise.** We recognize that additional scaling up may be needed but this should not be a substitute for collaboration. The Fund should concentrate its work on those areas within its mandate and expertise and where we can add value and continue to partner with other international institutions to ensure we can deliver for our members in a collaborative way.

#### Modalities & implementation

**Ambitious reforms to surveillance are welcome, but more details on practical implementation and a communication strategy is required to ensure staff understand how to adapt surveillance and to manage authorities' expectations.** We remain strong advocates of staff proposals to modernize surveillance, so it is more focused and dynamic, and Board engagement is more strategic. While we are supportive of a gradual 'sandbox' approach to implementation as proposed, the successful delivery of such proposals will be reliant on a number of factors. We take note of staff's plans to reassess and take stock of progress through an interim review in two years, but it is not clear what framework staff would use to assess effectiveness. *Staff comments welcome.*

**There is no one size fits all to surveillance: striking the right balance between coverage of the Fund's core surveillance areas and extending into emerging areas will be important.** We are supportive of a shift towards focused Article IV's and agree that having an evenhanded approach to bilateral surveillance does not mean having uniform and comprehensive coverage for all members. For members with limited data availability, low capacity or for members without annual Article IV cycles, the Fund may be the sole provider of detailed macroeconomic frameworks and members may prefer having more comprehensive coverage. We note the importance of data for surveillance and reiterate that, as part of the Review of Data Provision for Surveillance, we need to be mindful that

significantly increased data requirements may place undue additional demands on authorities. Any request for new data provision must be coupled with pertinent capacity development. We also urge staff to take a more cautious approach to FXI data provision and not to prejudge forthcoming discussion on data provision.

**Staff will need a clear understanding of when and how to implement the surveillance priorities – with bottom up support through the proposed guidance note, but also top down expectations from management to embed change within the organization.** Noting the Integrated Surveillance Decision provides sufficient flexibility to facilitate coverage of issues on a case-by-case basis determined by the macrocriticality test, it will be important to provide clarity for both staff and authorities on when it is envisaged to undertake a focused Article IV or how coverage of topics will be selected in bilateral surveillance. It will also be critical to ensure that authorities are thoroughly consulted and that the Article IV is sufficiently tailored to country specifics. *Who will ultimately take responsibility for ensuring that important – but perhaps not prominent – vulnerabilities are identified and adequately covered? What would happen if staff and authorities do not agree on coverage topics? How do management plan to communicate the changes and overcome the ingrained ‘checklist’ approach to surveillance, both with staff and the authorities?*

**Proposals to strengthen financial and macrofinancial analysis in Article IV surveillance are welcome.** Article IV teams should have access to sufficient financial expertise to allow them to meaningfully pursue financial stability issues and tools to support better integration with FSAPs. Expanding macrofinancial analysis should also look to enhance financial surveillance beyond FSAPs, including financial sector development for those members with less developed financial systems.

**Better integration of surveillance with capacity development (CD) is critical for small developing states, LICs and fragile states to ensure traction and delivery upon policy advice.** For members with capacity limitations, policy advice needs to be practical, tailored and accompanied by well-sequenced and well-coordinated technical assistance (TA) where needed. The implementation of the Capacity Development Strategy should be fast-tracked and supported by mainstreaming best practice in the integration of capacity development in surveillance. Article IV reports should include a CD plan/annex, which prioritizes TA needs, is linked to policy recommendations, and can be updated in subsequent reports with the aim to achieve lasting capacity building – this would inform and improve authorities’ planning, and would also increase ownership of policy priorities, which has been identified as a factor that improves traction of policy advice. *Where Fund lending is not viable, what role can non-financial instruments like SMP, PCI and PSI assist in strengthening the CD and surveillance integration?*

**Making space for discussions of cross-cutting issues will be important for ensuring the Fund’s surveillance remains timely and topical and should serve to lift the Board’s strategic engagement.** But we are not convinced that Country Matters Meetings in the past few months, which mostly covered regional issues or country updates, have achieved these

intentions. In order to make this work over the longer term, there will need to be clearer guidance on intended frequency, how topics for discussion will be chosen and prioritized and who will make those decisions. It would also be useful to better understand how such briefings will inform bilateral surveillance, noting that such briefings provide an excellent opportunity to engage with authorities on a more frequent and continuous basis outside regular surveillance cycles.

**Institutional changes for staff and the Board will be required to give effect to the recommendations.** Ensuring that country teams have access to the right mix of knowledge and expertise, especially financial expertise, as well as access to necessary tools and data will be essential. In order to deliver on ‘more timely, topical and targeted’ surveillance, staff reports should be succinct; broadening surveillance coverage should not mean longer and more dense reports. This is consistent with the finding that there is room to improve the readability of surveillance reports, which is especially relevant for small developing states and LICs. To ensure timeliness, we also remain supportive of streamlining internal review processes to reduce the lag between mission, Board discussion and publication of Article IV reports. We agree with staff that proposals will need to strike an appropriate balance so as not to overburden authorities, staff, or the Board. In this regard, our Chair remains a supporter of greater use of the Lapse of Time process as a way to free up staff resources, reduce bunching at the Board and provide more time for strategic discussions at the Board.

### Traction

**Traction with authorities is central to the Fund’s surveillance strategy.** We believe it is crucial that staff understand the goals of authorities when recommending policy priorities and in suggesting viable alternatives, going beyond simple categorization of policy measures. Policy recommendations that do not align with authorities’ goals are unlikely to be taken up. Country-specific circumstances should be taken into account when making policy recommendations to maximize traction. We agree with the emphasis placed on understanding, and reflecting in advice, social-political and institutional constraints.

**We support the emphasis on continuous dialogue with country authorities.** While we acknowledge the logistical and efficiency gains provided by virtual visits, we note that maintaining some in-person visits (perhaps for Article IV missions only) will ensure staff better understand the context and conditions on the ground, helping to build and sustain traction of policy advice with authorities. This is particularly true for members with limited telecommunication infrastructure. *What options have staff considered (as part of the New Ways of Working) about how a hybrid model for bilateral surveillance will be adopted?*

**Continuity of mission chief and country team plays an important role in building relationships and credibility with authorities, particularly in small developing states.** We welcome the review acknowledging the importance of mission chief and staff assignment tenure and field presence as factors that can influence traction. While we support reforms noted in footnote 28, we encourage staff to continually review processes to ensure that HR practices are not too rigid and come at the expense of traction with our members. We look

forward to the forthcoming review of the Fund's field presence. The pandemic may require an expanded field presence, and in this vein, we encourage staff to consider broad determinants, including where CD is in high demand, as factors in determining the appropriate field presence rather than merely program requirements.

Resources

**Resource implications for the CSR and FSAP review will need to be considered in the broader medium-term budget context to allow the Board to take informed decisions on resourcing and appropriate trade-offs.** We thank staff for the tentative costs for the CSR where there are significant budget consequences (climate change, digital currencies and macrofinancial surveillance). We note that some proposals will be able to be absorbed within the existing envelope and we encourage the Fund to press on with implementation through appropriate reprioritization and reallocations to drive efficiencies and ensure cost-effective delivery. Streamlining of surveillance practices in some ways should lead to broader efficiencies. *Could staff elaborate on how much of the additional cost of new proposals will need to be incorporated in the structural budget augmentation?*