

**FOR  
INFORMATION**

SM/22/121  
Correction 1

June 21, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Guidance Note for Surveillance Under Article IV Consultations**

Board Action: The attached corrections to SM/22/121 (6/2/22) have been provided by the staff:

**Typographical Errors** **Pages 3, 11 (subsequent paras renumbered), 54**

Questions: Mr. Bornhorst, SPR (ext. 36120)



Approved By  
Ceyla Pazarbasioglu

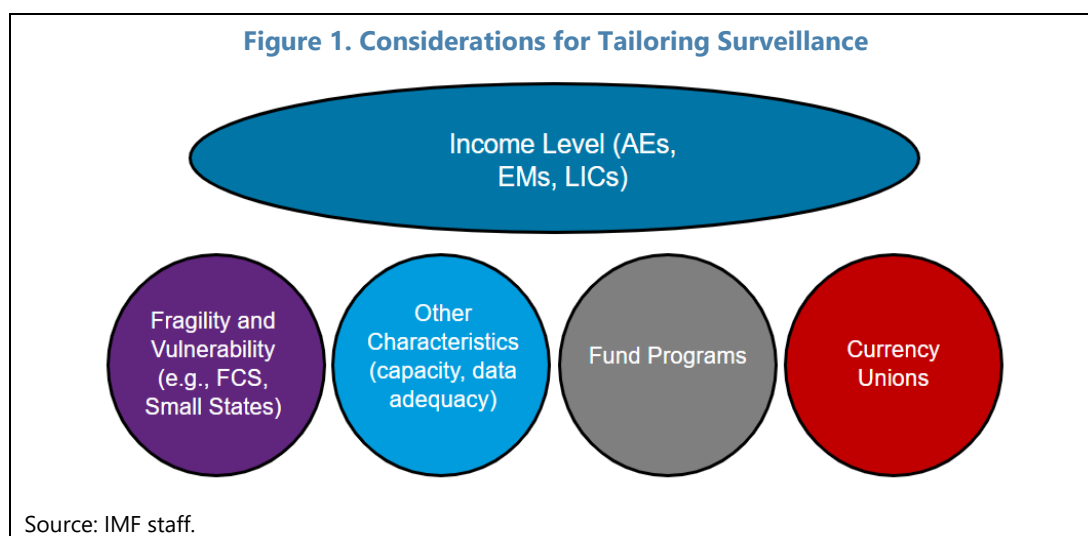
Prepared by the Strategy, Policy, and Review Department in collaboration with other Departments, coordinated by Javier Arze del Granado and Masashi Saito (SPR) and with contributions from Mahir Binici, Peter Dohlman, Stefania Fabrizio, Julia Faltermeier, Valentina Flamini, Kevin Fletcher, Gavin Gray, Russell Green, Dalia Hakura, Tristan Henning, Elizabeth Van Heuvelen, Sandile Hlatshwayo, Parisa Kamali, Roland Kpodar, Lisa Kolovich, Brad McDonald, Murna Morgan, Pablo Morra, Manrique Saenz, Silvia Sgherri, Baoping Shang, Niamh Sheridan, Alexander Skinner, Martin Sommer, Geremia Palomba, Fabian Valencia, Johannes Wiegand, Juan Yepez, Yunhui Zhao (all SPR), Anna Bordon, Niall Feerick (ICD), Julianne Ams (LEG), Naomi Griffin, Heedon Kang, Piyabha Kongsamut, Jiri Podpiera (MCM), Ratna Sahay (OMD), Justin Matz, Daniela Marchettini, Patrizia Tumbarello (STA), and under the overall guidance of Fabian Bornhorst, Stephan Danninger (all SPR), and Sanjaya Panth (now APD).

## CONTENTS

|   |           |
|---|-----------|
| List of Acronyms                                  | 5         |
| <b>SECTION I. INTRODUCTION</b>                    | <b>7</b>  |
| <b>SECTION II. SCOPE AND REQUIREMENT</b>          | <b>9</b>  |
| A. Scope  | 9         |
| B. Requirements                                   | 13        |
| C. Traction, Evenhandedness, and Best Practices   | 16        |
| <b>SECTION III. PRIORITIES AND FOCUS</b>          | <b>19</b> |
| A. CSR Surveillance Priorities                    | 19        |
| B. Focused Article IV Consultations and Reports   | 27        |
| <b>SECTION IV. POLICIES</b>                       | <b>29</b> |
| A. Fiscal Policy                                  | 29        |
| B. Macrofinancial Analysis and Financial Policies | 33        |
| C. Monetary Policy                                | 40        |
| D. External Sector Policies                       | 41        |
| E. Macro-Structural Policies                      | 48        |
| <b>SECTION V. APPLICATIONS</b>                    | <b>52</b> |
| A. Integrated Policy Framework                    | 52        |

**10. While the surveillance obligations and requirements apply uniformly across the membership, Article IV consultations are expected to be tailored to country circumstances.**

Such a tailored coverage is understood to be evenhanded as long as members in similar circumstances are treated similarly (Section II.C). Here, relevant country circumstances can include, but are not limited to, the income level, fragility and vulnerability of the members, institutional capacity, data adequacy, and whether the country member is engaged in Fund-supported programs or is a member of a currency or other economic union (Figure 1). These dimensions are not mutually exclusive. Staff may tailor surveillance to reflect circumstances and members' needs, which may include:



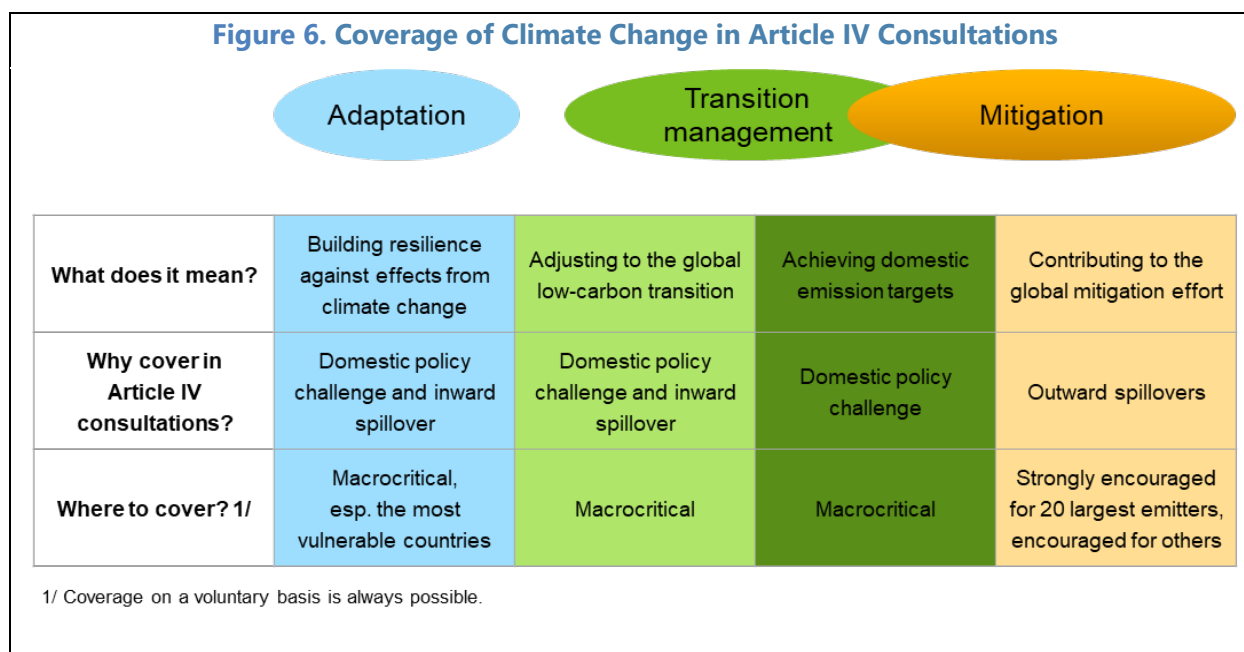
- *Income level.* The focus of surveillance may vary depending on the extent of financial market development, trade and financial integration with the rest of the world, the systemic importance and thus the relevance of outward spillovers, structural economic and social conditions, as well as capacity and institutional strength, among others. These factors may be correlated with the income level. For example:

*Low-income countries (LICs)* (Annex II). Countries in this group may, in general, be characterized by shallow financial markets, lower financial integration and restricted access to global financial markets, lack of fiscal space and limited access to financing, higher risk of debt distress, and/or weaker institutions, and thus have greater capacity development needs. In addition, LICs place more emphasis on economic development and poverty reduction as policy objectives, striving to achieve the Sustainable Development Goals (SDGs).<sup>1</sup> Article IV surveillance in these members thus may warrant greater attention to fiscal policies, the quality of public spending, debt management and other structural policies, including institutional and governance issues, and be supported by an integrated approach to capacity development. Data availability may also be

<sup>1</sup> See for example the IMF's annual LICs report "Macroeconomic Developments and Prospects in Low-Income Countries."

- *Managing implications from the global transition to a low-carbon economy.* This is a challenge in particular for countries heavily dependent on the production and export of fossil fuels. Tourism-reliant economies or economies that rely on remittances and other inflows from fuel-exporting countries are also affected. Other countries may be affected through the exposure of financial institutions to (potentially) stranded assets. For some countries there may also be upside risks (e.g., exporters of lithium and cobalt, which are essential for the green transition).
- *Adaptation and resilience building.* This is a challenge for almost all countries, but especially for lower-income countries and small states located in regions that are already hot or suffer from natural disasters (IMF, 2019). Adaptation often requires generating fiscal space through re-prioritizing expenditures, raising revenues, and attracting (concessional) financing.

Among these policy challenges, only the first (achieving a domestic mitigation target) is a purely domestic challenge. The other two are related to *inward spillovers*: managing implications from the global transition is related to spillovers from the policy response of other countries to climate change, while adaptation and resilience building are related to the effects of climate change itself. All these policy challenges fall under the IMF’s bilateral surveillance mandate to the extent they are macrocritical for a given country (Section II.A and Annex I).



**112. Global climate change mitigation goes beyond the realm of an individual country.** No country can mitigate climate change by itself—countries can only make an adequate contribution to the global mitigation efforts. The contribution is more important when a country’s contribution to GHG emissions is larger. Insufficient mitigation policies, especially by large emitters of GHGs, can trigger destabilizing *outward spillovers* to other countries. Outward spillovers are covered by the multilateral surveillance mandate of the IMF (Annex I).