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

**The 2012 Integrated Surveillance Decision (ISD) remains the adequate foundation for IMF surveillance.** We particularly welcome that (i) fiscal, monetary, financial sector and exchange rate policies remain the core areas of policy advice always covered by Fund surveillance, and (ii) the coverage of issues beyond these core areas will continue to be guided by the principle of macro-criticality. The coverage of issues should first and foremost reflect the Fund's areas of expertise.

**Fund policy advice should remain focused on macroeconomic policies.** While we agree that *fiscal policies to address* climate change or pension reform to tackle demographic change should be addressed in Fund surveillance, the Fund's value added in other areas, such as health and education policies, is limited. In our view, such areas should thus not be the main subject of Fund policy advice.

**Strengthening cooperation is essential.** To ensure the effectiveness and efficiency of surveillance, the Fund should collaborate closely with others, including on emerging topics, while focusing on its areas of expertise. A well-defined division of labor should help avoid a duplication of efforts. Notably, we see merit in further improving collaboration with the World Bank.

**The Fund should continue its operations, including in implementing the CSR, largely within the existing resource envelope.** The flat real budget has served the Fund well, since it requires continuous realignment of resources to priorities and needs. We remain to be convinced of the need for a substantial structural budget increase. A consolidated overview of the resource implications of the CSR proposals, including cost estimates for the integration of emerging topics, is urgently needed to allow the Board to better understand all trade-offs before setting priorities.

### Surveillance priorities

**The near-term priority for Fund surveillance will be to facilitate a sustainable recovery, while maintaining macroeconomic and financial stability.** Notwithstanding this, we agree that the four surveillance priorities A-D are relevant:

**Confronting risks and uncertainties is crucial.** Risk mitigation, contingency planning, realism in scenario analyses and forecasts, as well as better accounting for uncertainties in policy advice remain key. Continued efforts are needed to avoid optimism bias, notably in forecasting public debt and the growth effect of debt-financed investment. Elevated uncertainty also puts a premium on building and preserving buffers in the future.

**The Fund should seek to provide advice on policies that allow authorities to fulfil their mandates while minimizing spillovers.** Policy advice should continue to stress the crucial importance of sound domestic policies and frameworks in strengthening resilience.

**Fostering economic sustainability remains important and should be linked more clearly to preserving debt sustainability.** We take positive note that the overview paper highlights the issues of elevated public and private debt levels and points to the challenging task of boosting growth while building buffers. However, we are surprised that the background paper on ensuring economic sustainability almost exclusively covers emerging topics rather than debt issues. *Staff's comments are welcome.*

**A more unified approach to policy advice is needed.** We support efforts to further integrate macro-financial analysis and fiscal-monetary policy actions into surveillance, including new insights from the Integrated Policy Framework (IPF). It is important that policy advice accounts for country-specific circumstances and practical constraints on some policy instruments (e.g. the effective lower bound for the policy rate).

**Relevant climate-related economic impacts and policies need to be covered more systematically in Article IV consultations.** This coverage should be guided by the principle of macro-criticality and focus on the IMF's expertise in the fields of fiscal, monetary, and financial policies. We understand the logic and the merit for Fund purposes of distinguishing between mitigation and managing the transition, but see the risk that this could be confusing, especially in external communication. *Could staff comment on how this distinction would be communicated?*

**We broadly support the proposal to ground Fund surveillance of climate mitigation efforts in the ISD's spillover provision** and to focus on the largest greenhouse gas emitters. We nonetheless see an inconsistency in the proposed method to select the largest 20 emitters, with the inclusion of the EU as a group in the list of emitters, rather than individual countries.

In our view, the selection of top emitters should be established based on individual countries' contributions to greenhouse emissions, in line with the country focus of Article IV consultations. Adequate carbon pricing has a key role to play and must be addressed in country consultations. Furthermore, we agree that a coordinated approach, e.g., aiming for a carbon price floor and avoiding trade distortions, is important. Similarly, the Fund must continue to support members in reducing and eventually eliminating carbon subsidies, where applicable. However, we are of the view that other IFIs are better positioned to oversee a green investment push.

#### How surveillance needs to change in practice

**Efforts to streamline and focus Article IV consultations while maintaining accordance with the 2012 ISD are welcome.** Giving mission teams, in consultation with the authorities, more flexibility to decide about the criticality of issues should lead to more pertinent policy advice.

**We see merit in exploring new ways to engage the Board on cross-cutting issues. At the same time, we question the scope for broader and more frequent Country Matters Meetings (CMMs), given that the “common denominator” across countries is often limited.** It also remains somewhat unclear to us how this proposed new surveillance format differs from and/or complements existing ones. *Staff's comments are welcome.*

**On the frequency of engagement between the Fund and authorities, we suggest a nuanced approach that weighs the potential benefits of a more frequent engagement against the significant costs this may entail. Specifically, we have strong reservations against the Granular Policy Initiative.** Continuous dialogue with members is very costly, both for the IMF and for the authorities. In addition, the value-added of “real time” coverage seems limited, except for the acute phase of a crisis and for countries in dire situations, where coverage is already enhanced.

**We strongly support efforts to better integrate FSAPs with Article IV consultations and to enhance IMF financial surveillance more generally.** We agree with the proposals to increase traction as laid out in the FSAP review. We reiterate that an even stronger risk-focus in FSAPs would be very helpful.

**Making better use of technology to support engagement with the membership is sensible.** A partially virtual engagement can increase efficiency. At the same time, virtual meetings remain imperfect substitutes to trustful in-person working relationships.

#### Other issues

**Data needs should be prioritized based on thorough cost-benefit analyses and in line with the Fund's mandate.** Improvements in the coverage and quality of fiscal and debt data are the main priorities. We caution that additional data requirements are costly and there may be confidentiality constraints. This is especially the case when it comes to foreign exchange intervention (FXI) data, where due consideration should be given to confidentiality and market-sensitivity issues.

**We support an interim assessment of the proposed adaptations to Fund surveillance in about two years' time.** We agree with the proposal to use experimentation and piloting.