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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
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?*