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**Statement by Mr. Subramanian and Mr. Dash on Safeguards Assessments - 2022 Review
of Experience
(Preliminary)
Executive Board Meeting
December 7, 2022**

We thank Staff for the well-written reports and the expert panel for their review of the safeguards policy. The current review has taken place in the backdrop of increasing risks to global economy. Most country authorities have tested the limits of their fiscal and monetary policy as multiple shocks threaten their macro-economic and financial stability. Although the review has been delayed due to the pandemic, its findings are quite relevant to fine-tune the strategy for the future. We give our comments in the following paragraphs.

2. While the current safeguards policy is appropriate , being an integral part of the Fund’s mandate to secure its resources, stronger implementation of recommendations is critical to address key vulnerabilities detected during the assessments. The policy is a part of the risk management framework for the Fund’s financing operations. Hence, it is critical that Central Banks take urgent steps to address weaknesses in the ELRIC framework as recommended by the staff. However, it is seen that implementation remains weak at about 70%. It is not clear from the review what steps are proposed to ensure full implementation of these recommendations in a time bound manner. We are quite concerned about the gaps in implementation. The case of misreporting by the Central Bank of Malawi which resulted in non-compliant disbursement of Fund resources is a recent example which highlights the need for closing such gaps and Staff should come up with strategies for ensuring timely implementation of their recommendations to address key vulnerabilities in Central bank governance.

3. We agree with the finding of the Expert Panel that the safeguards policy continues to be an effective instrument for preventing the misuse of Fund resources and misreporting of program monetary data . We agree that the addition of the fiscal safeguards review (FSR) mechanism would further enhance the Fund's ability to safeguard its resources. We also note that good progress was made in implementing the recommendations contained in the 2015 External Expert Panel's Advisory Report, particularly those pertaining to governance, risk management, and the threshold for fiscal safeguards review . We broadly concur with the recommendations of the 2022 Expert panel.

4. Effective risk-based monitoring over the medium term would be critical considering the fact that the risk profile of Central Banks have increased since the 2015 review. It is a fact that the risk of misuse of Fund resources and misreporting of program monetary data increases with weakness in governance, risk management, and autonomy . With the pandemic and the geo-political situation, high and medium-high risk ratings of Central Banks have increased on each of the five ELRIC pillars. The emerging risks scenario has become more complex with addition of business-continuity risks and climate risks due to the pandemic and geo-political tensions. The size and depth of risk management areas have also increased as Central Banks deal with risks from purchase of Central govt. securities and from adoption of digital currencies. The increased focus on risk management in line with the 2015 Expert Panel's recommendations led to evaluation of the internal control pillar of Central Banks covering different risks such as operational, financial, and cyber risks. We support the risk-based monitoring as it is critical to ensure stability of Central bank operations which in turn would be crucial to safeguarding Fund resources.

5. We support the proposal to establish a standalone governance pillar in the safeguards framework, to bring the spotlight on board governance, effectiveness, and leadership . Many Central Banks have informed that key aspects of governance, especially those pertaining to board decision making and culture, were not well understood despite expanded comprehensive coverage of governance arrangements in the safeguards assessments . Currently, the assessment of governance is fragmented in the pillars of the ELRIC framework and an explicit focus on governance is lacking. It is important to convey the message that governance is at the apex of the safeguards assessments framework, and the five existing pillars are key components of good governance. The independent pillar on Governance recommended by the Experts panel and also suggested by Staff **would rightly emphasize the broader coverage of financial risks in central banks' risk management functions** and would allow for a deeper and more consistent analysis of governance structures, processes, and best practices .

6. We think it's appropriate to cover CBDCs in safeguards assessments in the current scenario CBDCs have the potential for significant benefits but there are inherent risks that need to be carefully managed. In this context, we find the approach outlined for safeguards assessments of CBDCs to be comprehensive. We have noted that the assessments will focus on the central bank's governance, risk management, cyber security framework, and project management under the GELRIC framework. We would call for a more advanced analysis backed by adequate technology support during these assessments to ensure that CBDC design vulnerabilities are properly addressed to ensure the integrity of the monetary system in the country.

7. While the LETIFA framework for fiscal safeguards review (FSR) remains appropriate, we welcome the proposed enhancements to improve its effectiveness. The FSR policy adopted in 2015 expanded safeguards assessment beyond member central banks and entailed a high-level review of state treasury operations in exceptional access cases that involve at least 25 percent of Fund resources directed to budget financing. With the rise in increasing number of arrangements involving the use of Fund resources for budget financing, the staff recommendations for strengthening the framework are appropriate through interdepartmental co-ordination, stand-alone reviews, and a better monitoring mechanism. We agree that the FSR reports should be treated on a similar footing as safeguards assessment reports with regard to management approval. We also support staff proposal for a FSR for any HCCE case with at least 25 percent of the resources directed to budget financing. We also agree to the staff proposal for mandatory safeguards assessment for countries that seek access to RST resources through a concurrent program under a non-financing instrument such as the PCI and PSI,

8. Relaxing deadlines for completion of safeguards assessments may run counter to the mandate to safeguard fund resources flowing from the Articles of Association. While the staff proposals in this regard in the context of a pandemic-like crisis are well appreciated, it would be important to prioritize resources for this purpose in the first place and keep the option of shifting deadlines as a measure of last resort to be allowed under very exceptional circumstances.

9. We strongly support staff outreach programmes to shore up Central Bank governance which is central to its independence and autonomy . We encourage Staff to pursue their proposal for regional outreach events to allow for deeper engagement with central banks and also their proposal to develop and disseminate operational guidelines to Central Banks. This would certainly help strengthen safeguards-related capacity in central banks.