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2021 Comprehensive Surveillance Review

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Staff: Bornhorst, Panth, and Duttagupta, SPR

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CEDA OGADA
Secretary

TABLE OF CONTENTS¹

The Acting Chair’s Summing Up	3
Executive Board Attendance	6
Discussion Record	8
Annex	45
○ Gray Statements	
○ Staff Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors broadly agreed with the main conclusions of the Comprehensive Surveillance Review (CSR). They noted that the CSR will serve as a blueprint for Fund surveillance to help the membership navigate the challenges of the next five-to-ten years, informing forthcoming work on capital flows, climate change, and data, among other issues. Directors agreed that Fund surveillance needs to be better interconnected, more timely, topical, and targeted, and welcomed the CSR's ambitions to modernize surveillance modalities.

Directors agreed with the CSR's assessment that a macroeconomic landscape characterized by elevated uncertainties about the recovery from the COVID-19 pandemic will create difficult trade-offs for policymakers as they seek to achieve inclusive and sustainable growth and stability. Important trends—in digital technology, climate change, inequality, demographics, and geopolitics—affecting economic sustainability will also present opportunities and challenges and, where macro-critical, will need to be incorporated in the Fund's surveillance.

Directors agreed with the four proposed surveillance priorities:

- **Confronting risks and uncertainties.** Directors generally welcomed better integrating risks and uncertainties in the Fund's surveillance, including by increasing the emphasis on the range of potential outcomes relative to the baseline and offering more contingent policy advice, although some Directors cautioned against making surveillance excessively risk-centric. Directors welcomed the emphasis on clearer communication on risks, although the communications should be carefully framed to avoid unintended consequences.
- **Pre-empting and mitigating adverse spillovers.** Directors agreed that the Fund should continue to strengthen its work on spillovers, drawing on better data, tools, and information-sharing frameworks, while strengthening the dialogue with the membership. Directors broadly agreed that the Spillovers Tool and the Spillovers Forum would help in this regard.
- **Fostering economic sustainability.** Directors welcomed a broader focus on sustainability, which can be affected by factors such as demographics, digitalization, inequality, socio- and geopolitical developments, and climate change under certain circumstances. They supported incorporating the macro-financial and distributional impacts of policies, where macro-economically relevant, while considering country-specific political economy, and institutional and capacity constraints. At the same time, Directors recognized the need for Article IV consultations to remain selective and focused in their coverage of new topics and cautioned against over-stretching Fund surveillance. They called on the Fund to

coordinate closely with other organizations and better leverage outside expertise whenever possible.

- **Unified policy advice.** Directors agreed that, in an environment of constrained policy space where members may deploy multiple policy tools simultaneously, a more unified approach to the policy mix is needed. They considered that the completion of the Integrated Policy Framework would be helpful in this context.

Directors underscored the importance of strengthening the traction of Fund advice through higher quality analysis, stronger engagement on country-specific issues, more continuous dialogue with all relevant stakeholders, and clear communication. In this context, Directors considered further integration of capacity development (CD) in surveillance as a priority area, including strengthening the use of the CD country strategies. They considered that virtual engagement could be leveraged but stressed that in-person missions were still essential to build relations and trust and ensure a close policy dialogue with the authorities.

Directors welcomed the novel approaches of Board engagement to enhance its strategic role, take up cross-cutting issues in a more comprehensive manner, and be more strategic and forward-leaning. They welcomed the Board Country Matters Meetings (CMMs) as an instrument to focus on conjunctural cross-country policy-relevant issues, with a few requesting opportunities for the Board to provide input and select topics, and looked forward to further detail on the interaction of CMMs and regular surveillance. Directors generally supported the Granular Policy Initiative as a way to provide more specific advice to the membership as they face new challenges.

Directors agreed that focused Article IV Consultations, with topics selected in collaboration with the authorities and while continuing to cover core areas, would help better balance selectivity and comprehensiveness. In this context, Directors emphasized the need to adhere to the principles of evenhandedness and macro-criticality. A number of Directors stressed that more focused reports should not come at the expense of the reports' broad macroeconomic coverage and their use as reference documents.

Directors agreed on the need to deepen macro-financial analysis and further integrate it into bilateral surveillance. They called for additional efforts in the areas of systemic risk analysis to better anchor macroprudential policy advice. Directors agreed that Article IV staff reports should provide a well-articulated view about systemic risk grounded in a rigorous analysis of financial vulnerabilities. In this context, they stressed the need for closer integration of FSAP findings and recommendations with the Article IV Consultations. They also underscored the need to expand macro-financial talent at the Fund, particularly in country teams, while taking into account budget considerations. Directors further noted that, as digital money gains prominence, Fund surveillance should explore its potential benefits, as well as risks and spillovers.

Directors recognized the importance of a more systematic integration into surveillance of macro-critical emerging topics, including climate change. They generally agreed that coverage of climate change mitigation in Article IV consultations would be strongly encouraged for the largest emitters of greenhouse gases. A few Directors underlined the need to account for past emissions and the energy needs of developing countries as they grow. Directors stressed that Fund surveillance should be open to different policy approaches to climate change mitigation, that coverage of climate issues in surveillance needs to be consistent with the Fund's surveillance mandate and in line with the Paris Agreement. They underscored that, wherever macrocritical, climate change adaptation and transition risk in the context of a global shift to a low-carbon economy should be covered in Article IV reports.

Directors emphasized that better data is critical to deliver on surveillance priorities. They looked forward to closing critical data gaps in surveillance in the areas of public sector data, foreign-exchange intervention data, and indicators for macrofinancial analysis through the forthcoming review of Data Provision to the Fund with a few Directors calling for a cautious approach to foreign-exchange intervention data. Some Directors noted that increased data requirements might place undue additional demands on authorities and should be balanced against capacity considerations.

Directors welcomed the proposed flexible and gradual approach to implementing the new modalities, which revolve around the principle of experimentation, adaptation, and flexibility, while working within the confines of existing formal frameworks. They looked forward to a revised surveillance guidance note, and sought Board engagement on implementation of modalities as well as coordination across departments in advance of the guidance note and in the context of the semi-annual work program discussions.

Directors recognized that modernizing surveillance might require additional resources and that the specifics will be taken up in the context of the Fund's overall budget discussions.

Directors concurred that no changes to the Integrated Surveillance Decision are required. They agreed that progress on CSR implementation will be reassessed in about two years in the context of an interim review and that the comprehensive review will remain on a five year-cycle.

EXECUTIVE BOARD ATTENDANCE²

A. Sayeh, Acting Chair

Executive Directors

I. Mannathoko (AE)
 A. Andrianarivelo (AF)
 S. Chodos (AG)
 C. Huh (AP)
 A. Bevilaqua (BR)
 Z. Jin (CC)
 P. Moreno (CE)
 L. Levonian (CO)
 D. Palotai (EC)
 A. Buisse (FF)

Alternate Executive Directors

K. Merk (GR)

S. Bhalla (IN)
 D. Fanizza (IT)
 T. Tanaka (JA)
 H. Hosseini (MD)
 M. Mahmoud (MI)
 P. Hilbers (NE)
 M. Poso (NO)

L. Palei (RU)

M. Mouminah (SA)
 A. Mahasandana (ST)
 P. Trabinski (SZ)

D. Ronicle (UK)

E. Shortino (US)

S. Bhatia, Acting Secretary

V. Sola/K. Hviding, Summing Up Officers

M. Mehmedi/E. Mannefred, Board Operations Officers

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: A. Coronel Andrade, M. Kamel Farid Mohamed Farid. Asia and Pacific
 Department: O. Brekk, A. Gulde, L. Jaramillo Mayor, A. Schipke. Communications
 Department: E. Buckley, K. Chaman Ruiz, N. Ismail, A. Kumar. Corporate Services and

² For countries in each constituency, please see the Constituency Codes in the annex.

Facilities: B. Christensen. European Central Bank: D. Rakitzis, R. Rueffer. Fiscal Affairs Department: A. Senhadji, J. Toro Rivera. Finance Department: T. Krueger, B. Lauwers, Z. Murgasova. Institute for Capacity Development: A. Bordon, P. Cashin, S. Coorey, M. Erbenova, N. Feerick, R. Nord, K. Westin. Independent Evaluation Office: C. Collyns, M. Kell. Information Technology Department: F. Gheriss, C. Parent, H. Tourpe. Knowledge Management Unit: T. Alzona, R. Didenko, C. Sevy. Legal Department: J. Ams, F. Fernando, Y. Liu, D. McDonnell, N. Rendak, B. Steinki. Middle East and Central Asia Department: C. Duenwald, A. Hajdenberg, S. Lall, E. Lundback, L. Norton. Monetary and Capital Markets Department: P. Ananthakrishnan, U. Das, E. Eriksson von Allmen, N. Griffin, V. Haksar, H. Kang, J. Morsink, P. Nowak, S. Ogawa. Office of Budget and Planning: A. Salerno, A. Schimmelpfennig, M. Shannon. Office of Internal Audit and Inspection: B. Fosu. Office of Innovation and Change: T. Walker. Office of Risk Management: B. Boulwood, M. Dal Corso. Strategy, Policy, and Review Department: F. Arze del Granado, T. Atashbar, A. Behar, F. Bornhorst, R. Duttagupta, G. Fayad, P. Garcia Martinez, D. Hart, A. Iancu, K. Kang, M. Kaufman, W. Maliszewski, N. Meads, M. Morgan, S. Panth, C. Pazarbasioglu Dutz, U. Ramakrishnan, S. Rodriguez Medrano, M. Saito, J. Schauer, N. Sheridan, A. Skinner, F. Valencia Palau, J. Wiegand, D. Yang, Y. Yang, J. Yopez Albornoz, D. Zakharova, Y. Zhao, J. Ziegler. Statistics Department: L. Lusinyan, D. Marchettini, A. Richter, J. Rodriguez Delgado, P. Tumbarello. Western Hemisphere Department: R. Cartaxo Mano, K. Christou, C. Lim. Executive Directors: A. Mozhin (RU), S. Riach (UK), R. von Kleist (GR). Alternate Executive Directors: B. Alhomaly (SA), A. Alhosani (MI), H. Azal (EC), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), A. Guerra (CE), L. Herrera (AG), Y. Indraratna (IN), C. Just (EC), M. Massourakis (IT), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), O. Odonye (AE), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), C. White (AP), Z. Zhang (CC). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), K. Badsy (MD), X. Bai (CC), E. Cartagena (CE), M. Choueiri (MI), A. Ekelund (NO), J. Garang (AE), M. Gilliot (FF), R. Goyal (IN), P. Harvan (EC), O. Hendrick (AG), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), M. Maida (AE), L. Marek (EC), S. Naka (JA), Son T. Nghiem (ST), S. Potapov (RU), C. Quagliarini (IT), C. Sassanpour (MD), F. Spadafora (IT), N. Thiruvankadam (IN), G. Vasishtha (CO), R. Velloso (BR), L. Voinea (NE), C. Wehrle (SZ), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Dennis Bautista (ST), C. Becker (AP), S. Belhaj (MD), A. Biriukv (RU), B. Boostani (MD), E. Boukpepsi (AF), I. Bustillo (AG), L. Cerami (IT), T. Chrimes (UK), D. Cools (NE), J. Corvalan (AG), O. Diakite (AF), F. Dogan (EC), R. Edwards (CO), J. Essuvi (AE), D. Fadhel (MI), K. Florestal (BR), T. Krahnke (GR), R. Lopes Varela (AF), M. Merhi (MI), R. Moral Betere (CE), T. Nagase (JA), B. Piasecki (SZ), D. Shestakov (RU), B. Singh (IN), I. Valdes Fernandez (NO), C. Westphal (US), S. Yoe (ST), J. Yoo (AP), J. Barroso (BR), M. Law (CC), F. Lopez (CE), D. de Waziers (FF).

DISCUSSION RECORD³

The Acting Chair (Ms. Sayeh):

Before making some opening remarks, let me say that the Managing Director would very much have liked to chair this meeting herself, but there were urgent intervening official meetings, and she thought it best not to delay this important meeting any further. Consideration was given to changing the date, but we decided against that to avoid an undue bunching of the already very busy Board calendar.

As Directors know, the CSR has been some time in the making. We have had multiple engagements with you throughout the process, including to discuss a Midpoint Note, for several informal presentations and discussions, and, most recently, for the “CSR Day” with external advisors.

I also know that staff have benefited greatly from their bilateral exchanges with your offices, as well as from consultations with the External Advisory Group. Directors have seen the fruits of this labor: a rich collection of papers that sets out the priorities and broad direction for Fund surveillance in the years ahead. It is reassuring to see that the surveillance priorities identified at the midpoint discussions have largely stood the test of the pandemic, which, if anything, has further underscored their relevance.

At the same time, Directors noted in their written statements that we are in a period of elevated uncertainty. For this reason, while the CSR makes a strong case for surveillance to be more nimble, topical, and targeted, we will clearly need to move forward on modernizing surveillance in a measured way and take stock of experience in about two years. We are, therefore, seeking Directors’ support today for taking an incremental, experimental approach within the legal confines determined previously by the Board, with a view to enhancing the quality and relevance of the Fund’s surveillance advice, while preserving the flexibility to adapt to new circumstances as they arise.

On substance, I would like to note that we have heard Directors very clearly on the need to maintain and, indeed, enhance our focus on the so-called “core” aspects of surveillance. We agree. The Fund’s surveillance mandate remains anchored by the Integrated Surveillance Decision (ISD), which we are not proposing to change. At the same time, it is also clear that the Fund’s surveillance must expand its scope, within the confines of the ISD, to better capture macro-critical challenges facing the membership, such as climate, digitalization, and inequality. The intention is to integrate these topics into our policy dialogue through the core policies identified in the ISD, for

³ Edited for clarity.

example, by diagnosing the macroeconomic implications of climate change and attendant policies through fiscal, financial, and external channels.

Lastly, it is worth repeating that surveillance is, at its heart, a peer review exercise conducted by the membership. The spirit of the CSR's proposals is to strengthen the strategic role of the Board and the dialogue with the membership on the issues that matter most and, thereby, enhance the traction of our advice as we seek to ensure macroeconomic stability and support strong, sustainable growth.

Mr. Ronicle:

Let me say how happy I am to be leading off Directors' interventions this afternoon for what feels like an important milestone in the IMF's approach to surveillance. I want to thank staff for the hard work, particularly Mr. Panth and Ms. Duttgupta for their extensive and always constructive engagement with this office. As Chair has said, we have all issued detailed gray statements, but I did want to intervene just to underscore some of the key messages from us, not least in reaction to other Directors' gray statements. Let me make three simple and related points.

First, the landscape of macro-critical challenges is evolving. If IMF surveillance is going to have traction, it, too, needs to evolve. That will not be easy. The pandemic has brought to the fore core challenges around calibrating monetary, fiscal, and financial sector policies; while, at the same time, our design for recovery has strengthened our resolve to emerge into a better world that grapples seriously with the long-term challenges we face, not least climate change. I want to stress here that the CSR is not an exercise in selecting between competing lists of core and emerging issues. Rather, it is about applying the ISD to meaningfully identify what really matters for macroeconomic stability; that is, identifying what is macro-critical. That is the core of IMF surveillance. As Chair set out at the beginning of our discussion just now, the CSR sets out how we might do this in a way that reflects evolving challenges, while raising engagement and traction. So, we thoroughly welcome the proposals.

Second, we could not agree more with Chair and staff, that shifting our focus and raising our traction will require experimentation, adaptation, and flexibility. Where our surveillance has become stale and formulaic, that almost always reflects an overly prescriptive and burdensome set of prerequisites. The world and the challenges our members face are too complicated for us to imagine that we can write down a set of rules for every eventuality that will still deliver relevant advice that reflects country circumstances. Of course, experimentation is risky. It will not always work. Mistakes can and will happen. We, the Board, need to recognize that the

payoff of well-thought-through advice that influences policymaking is worth that risk.

The pandemic has already taken us down this road. When we resumed surveillance last summer, the direction from the Board was clear that staff reports needed to be focused on what really matters. There is further to go on this journey, but I think the positive results to date speak for themselves.

Chair asked us at the outset for a mandate to experiment and Chair certainly has one from us. But I think a mandate for experimentation from this Board also places obligations on management and staff. Specifically, we will want to be reassured by regular engagement as the CSR is rolled out. As a minimum, that means clear sight of guidance notes, a timetable for implementation, and updates on emerging lessons, drawing on what has worked and what has not. We think two years is probably the right time to review progress overall, but that does not preclude having more focused conversations before then. We would encourage the staff to think creatively about how to do this.

Finally, it will be crucial that the early iteration of the CSR's innovations serve as compelling proofs of concept, for example, country matters meetings (CMMs) that involve concrete Board decisions.

Let me stop there and end by saying how much I am looking forward to seeing these proposals put into practice.

The Acting Chair (Ms. Sayeh):

To reassure Mr. Ronicle and other Directors, of course, as the staff has sought to do in the responses to the technical questions, we absolutely intend to continue regular engagement with the Board around this experimental set of issues.

Ms. Levonian:

Like Mr. Ronicle just said—and I agree with everything he said—in particular, the Fund's approach to surveillance needs to adapt to the changing global landscape. We just want to commend staff for the forward thinking on how to enhance surveillance and upgrade the associated institutional assets to strengthen the overall quality and traction of surveillance.

The successful implementation of the proposals will depend on several factors, including a supportive organizational structure. We support the plan to conduct a review of the proposed changes, as Chair mentioned, in two years. But, also, we join Ms. Riach, in her gray statement, and Ms. Shortino in

asking for regular updates to the Board, in the meantime, on the timeliness and the timelines of implementation and the status of recommendations.

Let me now just turn to five specific issues very quickly.

First, we particularly support making surveillance more risk-centric by better integrating the analysis of risk and spillovers and a thorough consideration of country-specific circumstances. That is very important to our constituency. Together with contingency planning, these efforts are particularly relevant in a world of pervasive uncertainty.

Second, again, like Ms. Riach and Mr. Mouminah, while we support a greater focus on economic sustainability issues, we stress that this requires close collaboration with other international organizations and a clear framework for country teams on how and when the Fund should engage on such issues. Close collaboration with the World Bank is particularly crucial here. We look forward to the management implementation plan (MIP) on the Independent Evaluation Office (IEO) evaluation of collaboration with the World Bank on macrostructural issues, a point that was also raised by Mr. Mouminah.

Third, we reiterate our strong support for better integration between capacity development (CD) and surveillance. For countries with capacity constraints, policy advice needs to be well tailored and practical and accompanied by a clear road map for well-sequenced and coordinated technical assistance (TA).

Fourth, we fully agree that additional data and tools will be needed to address CSR priorities and the new surveillance topics. We would particularly stress the need to strengthen debt data disclosure obligations and enhance debt transparency. Tailor-made CD will be critical for members with capacity constraints who face challenges in meeting data requirements.

My final point is about resources. As this chair and others have emphasized in several previous Board engagements, the resource implications for the CSR and the Financial Sector Assessment Program (FSAP) Review should be considered in the context of the overall medium-term budget envelope. A holistic overview of the resource implications across major work streams, including cost estimates for the integration of emerging topics, is urgently needed in order to allow the Board to take informed decisions on resourcing and weigh, kind of, appropriate trade-offs.

Mr. Moreno:

This is an excellent exercise. We are convinced that it leaves the Fund better prepared for the surveillance and also for the institutional culture for the

next decade. We thank the staff. We would particularly like to also highlight the work done by Mr. Panth, Ms. Duttagupta, and Mr. Bornhorst in leading this exercise. They have really done a great job.

We fully support the CSR. We believe that its centerpiece is the normalization of macro-critical, social, and environmental sustainability, which should become regular IMF business, side by side with the traditional macroeconomic analyses.

We enter now in a learning-by-doing process, which will be flexible and, as Chair mentioned, experimental and incremental, also mentioned by Mr. Ronicle. There are a number of elements and modalities that will have to be judged as we develop them. So, we look forward to the guidance note and the interim review two years from now.

At this stage, I will just focus on three main caveats that we have moving forward.

First, on risk analyses. We share the importance of contingency planning and risk scenario analyses; but, as in everything, there is a question of balance. We feel that the CSR focuses too much on risk analyses and would caution against turning surveillance into a risk-centric exercise. The focus of the Fund's surveillance and the policy advice should not be on confronting risks but, more positively, ensuring economic sustainability and building resilience. In our view, baseline scenarios are the best way to engage with the authorities. And they already integrate potential risk and vulnerabilities. Of course, this should be complemented with the discussion on less likely scenarios and contingent policy advice, but this should remain more confidential.

If I may, that there is too much risk aversion on the CSR, so to speak, in the sense of not being able to signal all the risk. It is OK if we do not make public or we do not signal all the risk. It is more important to engage constructively with the authorities.

Second, on traction, we have three main concerns:

First, we would warn against an excessive focus of external communication as the main instrument for traction. Again, there is an issue of balance here. Communication has to be well balanced against the role of the IMF as a trusted advisor. As a general principle, we think that the best predictor of traction is guiding the IMF's policy advice to cover the authorities' concerns. Of course, there are other elements, also highlighted by the staff, that are important: data analyses tailored to country-specific circumstances or more frequent engagement.

We have also concerns. We would highlight the importance of the political economy considerations. For example, just to mention labor, without entering into viable policies, it is not only not useful for the authorities, but it could easily lead to a general dismissal of the Fund's recommendations as just a self-repeating mantra. The mission chief and the team should be very well versed on political economy constraints.

Also, on traction, we think that evenhandedness implies the same type of treatment for similar circumstances. This is something that Mr. Gokarn used to call a cluster approach to surveillance. This means focusing on where there is more value added.

Let me be a little provocative here. I think that the CSR is too much focused on—or concerned about traction in G-20 economies. It is only natural that the IMF has not that much traction in those economies. It is very difficult to compete with the research departments of the central banks and ministries. Here, we think that it is more important to get into spillover analyses, now that the contagion channels are more tightened and we have new ones, such as technology and climate change.

One specific point here. We would favor, for big polluters who support a system similar to what we have with the FSAP, something of a presumed or even mandatory coverage of mitigation policies.

Thirdly, on modalities, we welcome the more topical and focused Article IV reports, but they should retain their core macroeconomic elements in annual cycles. For many countries, middle-income countries (MICs) and low-income countries (LICs), they constitute the go-to report for analysts and policymakers, and we should not undermine this important global public good. At some point, we talked about the rule of thumb. At least half of the report has to cover macroeconomic issues.

Finally, two comments. To echo Ms. Levonian, it is key, the integration between capacity development and surveillance. Here, there is a key role for the mission chief, in close coordination with the authorities. Also, on resources, the effectiveness of the CSR depends on developing expertise and on social environmental expertise, and we look forward to the budget proposal in this respect.

Mr. Mouminah:

We issued a detailed gray statement, supporting the general direction of the surveillance work in the coming years, and have an open mind of being, again, experimental and incrementally improving. We also welcome the plan to conduct an interim review in two years' time, which would facilitate a course correction, if required.

I would like to raise a couple of points.

First, given the magnitude of the economic and financial scars from the COVID-19 crisis, it is important to ensure a sharp focus on the Fund's core mandates and areas of expertise. In this regard, the coverage of fiscal, monetary, financial, and external topics in bilateral surveillance should continue in all cases. Ms. Shortino, Mr. Trabinski, and Mr. Bevilaqua also made a similar point on the need to deliver on the Fund's core mandate.

Second, we strongly support enhancing the depth of macro-financial analyses and the better integration of FSAPs in Article IVs. Here, we want to underline that the Fund's key role is to assess the agreed international standards developed by financial sector standard-setting bodies (SSBs), and not to duplicate the work underway in the SSBs. In this context, we echo the point made by Ms. Shortino, that the financial sector surveillance at the Fund should follow standards and guidance from the standard-setting bodies and avoid offering conflicting recommendations. Again, as we experiment, we should also have an open mind of others, and what are they saying, and embrace that.

Third, where macro-critical, we envisage the role of the Fund in advancing the agreed global agenda on climate change, in line with its core mandate and in cooperation with relevant international organizations, consistent with the principle of the Paris Agreement and the Sustainable Development Goals. Like Mr. Bhalla, we consider that surveillance recommendations are, at best, advisory in nature. And the United Nations Framework Convention on Climate Change (UNFCCC) should continue to be overarching structure to deliberate and negotiate on the climate change commitment of countries.

To gain traction of the Fund's advice on climate risk, building on what Mr. Moreno has just said, we consider the Fund should not focus on specific policy advice, like carbon pricing or carbon border adjustments. If there are other instruments and other policies identified by countries to achieve their nationally determined contributions (NDCs), they must be recognized. One example is the circular carbon economy approach that would help countries in carbon management and reaching net carbon neutrality or net-zero energy systems with the use of carbon capture, utilization, and storage technology. We also reiterate the importance of effective collaboration with the World Bank and other relevant international organizations, as mentioned before.

Fourth, as we indicated in our gray statement, we support the efforts to improve the Fund's risk analysis, including collaboration with outside experts. At the same time, we see significant communication challenges in deviating from the current practices. In response to our question, it was noted that

formulating contingent policy advice may help alleviate communication challenges. I would appreciate if the staff could elaborate on how this will work in practice and practically.

Finally, the role of the Office of Innovation and Change (IOC) is crucial to facilitate the implementation of the new modalities. In this regard, we welcome the staff's answer, that IOC is engaged with the Strategy, Policy, and Review Department (SPR) and their discussions are ongoing. We look forward to more information in the future briefings as the IOC work advances.

Mr. Pösö:

We thank the staff for the comprehensive work on this dossier and broad engagement with stakeholders during the process. We have issued a gray statement together with four other European chairs, Mr. Buissé, Mr. Fanizza, Mr. Hilbers, and Mr. Merk; I will focus my remarks today on a few aspects of special importance for my constituency.

First, the Fund's surveillance is now probably more important than ever, as the membership navigates through unusual uncertainty, following the pandemic. We think that the staff has done a great job at identifying the main challenges and underlying trends for the years ahead. In addition to retaining the proper focus on the core issues in Article IVs, we also continue to strongly support the increased focus on climate issues, as well as further efforts to strengthen macro-financial advice, as suggested by the staff. We also call for a stronger emphasis on multilateralism and support to an open and modernized global trade system, where the Fund has a special responsibility.

Second, the new and modernized surveillance framework should preserve the unique role of the Fund's bilateral surveillance. This is a point I see highlighted also by many of the colleagues in their gray statements. We believe that the CSR proposals have moved in the right direction during the process in this regard. It is important to remember that Article IV reports might be the only products that cover the main economic issues in a comparable and comprehensive way for almost all countries in the world. The peer review conducted by the Board also provides a critical link to country authorities and increases traction, as Chair also mentioned in her opening remarks.

Finally, like Ms. Levonian and Mr. Moreno, we continue to welcome proposals to better align capacity development and surveillance. As it is our understanding that CD is, to a significant extent, demand-driven, I wonder if the staff has any comments, how it can be ensured that CD activities are increasingly steered toward the areas identified by surveillance to conclusions and policy recommendations. I apologize for adding this question to the 56 already asked in the gray statements.

Mr. Hilbers:

I can be brief, as I issued an extensive gray statement with my fellow European chairs and since we strongly support the proposals on the four surveillance priorities. Let me focus, therefore, on a couple of elements for emphasis.

On uncertainty, we support the proposed increased focus on risks around the baseline. More contingent policy advice and advice that is robust with a range of outcomes is, indeed, a good idea, given the uncertain path ahead of us. This will help authorities to seize on upcoming and upside opportunities and to manage downside risks.

On inequality, although already clearly an issue pre-COVID, we note that the COVID crisis has further enhanced the importance of doing more on inequality. Cooperation with other partners is key, but this is also an area where we need to collect more data, if data cannot be found in existing databases. So, let us discuss this point also in our data provisioning discussions at a time to come.

On the climate risk, I have little to add to our joint gray statement. By now, it is very clear that this issue is macro-critical, that we cannot speak about surveillance without speaking about climate and climate risks as well. While we very much welcome the attention to climate issues, both in terms of mitigation and adaptation, we need to go further. Take climate mitigation, for instance; here, we should move to a broader inclusion of emitters to ensure an ambitious and evenhanded treatment of IMF members.

On financial issues, we welcome the proposal on strengthening the FSAP Article IV integration, as well as the increased focus on financial spillovers, and the increased resources for macro-financial surveillance. We also look forward to discussing how we will translate this into our budget next year.

In this context, I would like to reflect briefly on central bank independence. This is an area of heightened concern in many areas around the world and certainly also within my constituency. It might not be an emerging issue. But in many countries, unfortunately, it is a re-emerging issue, and this is always macro-critical. For countries with only a voluntary FSAP every so often, this is something to be covered prominently also in Article IV surveillance.

Finally, on modalities, we want to support the staff in exploring new modalities, including country matters meetings that might be more productive when discussing regional and topical trends. We agree that the CSR sets a

gradual process in motion, and we look forward to taking stock in two years' time and to discuss what has worked and what has not. We certainly will be able to draw lessons from our experience with electronic surveillance.

This brings me to my final observation about the review. Conducting surveillance has to be rules-based and flexible at the same time. That sounds like a paradox, but I do not think it is. Of course, we have to stick to our rules, in particular, the ISD already mentioned, which sets limits to what we can and cannot do under surveillance. At the same time, new issues come up regularly. And when they are macro-critical—and this is the most relevant test—we should include them.

Let me share one concrete example. In the late 1990s, at the onset of the Asia crisis, the Fund knew little about the macro-criticality and risks of financial sectors. However, at that time, the Fund reacted quickly and successfully by developing financial sector surveillance based on a set of newly developed financial soundness indicators. And I am confident that our organization can show that same flexibility and innovative spirit in, for instance, developing analytical and data frameworks on how to deal with climate issues in surveillance, working together with other relevant organizations, a point also clearly made by Ms. Levonian just now. In other words, the scope and content of surveillance is not something we set in stone today. We should always be ready to reinvent ourselves when necessary.

The Acting Chair (Ms. Sayeh):

And I think that we are speaking of significant new efforts and issues that we need to take onboard this time around, without questioning the continued relevance of the ISD, is, indeed, testimony to the fact that rules can, in fact, allow for taking onboard new issues as they arise.

Ms. Mannathoko:

We welcome the focus in the review on the evolving challenges, as well as especially relating to climate change, digitalization and rising inequality in surveillance reports. We also support the proposed experimental approach that Chair referenced.

We issued a detailed gray statement, so I have just a couple of points to add.

First, just to say that, like Messrs. Moreno, Andrianarivelo, I think it was, and Mr. Mohieldin, we wanted to note that COVID-19 impacts have weakened the prospects of reaching the Sustainable Development Goals (SDGs), and many LICs and MICs will struggle to recover the substantial gains that were made prior to the pandemic. So, we do see some potential to

help surveillance promote or find ways to foster public-private cooperation in order to support achieving the SDGs. There have been different discussions on ways to do this elsewhere, so we think that it is a modality that could help.

On climate change mitigation and bilateral surveillance, like Messrs. Buissé, Fanizza, Hilbers, Pösö, Merk, Moreno, and many others, we wanted to just support the pragmatic approach proposed by the staff to include climate change discussions in Article IVs for top emitters, where it is clearly macro-critical for the global economy, with this really including also assessments on spillovers from policies.

On the issue of linking multilateral and bilateral surveillance, I wanted to thank the staff for their response to our question that they provided on the strength of these linkages in areas such as trade, digital currency, climate, among others. Chair indicated that the linkages are adequate. And we agree with this in a few instances. However, we also have really just found that the linkages are stronger in some areas than others, and we wanted to explore this issue a bit more with regard to—for example, in developing regions, where there is inadequate preparation for how to deal with future digital money, digital flows, how to deal with cybersecurity, et cetera, as well as for topics like trade.

Just this morning, we had a discussion where the staff were highlighting the need to strengthen the link between global surveillance analyses and bilateral surveillance on trade issues. We realize that sometimes being proactive might be hampered by resource constraints; but if that is the case, it would be helpful to also just say it.

Ms. Levonian and Ms. Mahasandana also noted the importance of strengthened communication of policy advice and risks, including on spillovers—and Mr. Mouminah as well earlier, just now. We think, like Mr. Mouminah, more effective public communication would enhance traction. We also align with Messrs. Huh, Palotai, Tanaka, and Chodos, in seeking a communications strategy that will ensure that staff understand how to adapt surveillance and manage authorities' expectations.

We also note the CSR's intent to sustain a flat real budget envelope going forward and would emphasize here the need to ensure that resources are not diverted away from the current support levels for developing regions, especially those countries that already risk being left behind as inequality rises at the global level.

Finally, maybe just a quick note on data. We wanted to urge the staff to continue assisting authorities through the various initiatives, including under the G-20 initiatives, to enhance data collection on inequality. Like Messrs. Huh, Jin, and Trabinski, however, we just wanted to urge a more

cautious approach on foreign exchange intervention (FXI) data provision, with consideration, of course, being given to its market sensitivity.

The Acting Chair (Ms. Sayeh):

All are well noted, including the important issue of data and also the point made by Mr. Hilbers as well, in relation to inequality. But the data issues are more significantly needing further attention. We will have an opportunity, of course, to discuss that more fully later on.

Mr. Bevilaqua:

As mentioned in our gray statement, we broadly agree with the analysis and can go along with proposed priorities and modalities. Let me add a few remarks.

The next several years will be marked by high levels of risk and uncertainty. This means that risk scenarios around the baseline will become even more important features in surveillance. Risk analysis must, therefore, be grounded in plausible scenarios, country-specific parameters, and a permanent and engaging dialogue with country authorities.

With increasing economic and financial interconnectedness, we also see potentially higher spillovers than before. We support the development of spillback tools to facilitate bilateral policy dialogue on outward spillovers. However, spillovers are better dealt with at the multilateral level as country authorities pursue their respective best responses at the national level. Hence, multilateral, rather than bilateral surveillance, seems to be the best way to cope with spillovers. Indeed, this is the view endorsed by the ISD. And if staff or the Board see scope for a different approach, the argument should be made in that context.

With respect to sustainability, we support the proposal to focus on specific economic channels and underlying factors related to the major structural trends. As Mr. Mouminah and others, our preferred approach is to stay focused on core economic issues and, hence, leverage Fund expertise. Of course, Fund surveillance, when needed, must tap on areas that lie beyond our core mandate from outside partners' well-established expertise. Surveillance of climate change issues, for example, fits better within a multilateral framework. Fund bilateral surveillance of climate issues should remain strictly voluntary and focused on the areas where the Fund has a mandate and expertise, such as enhancing financial and macroeconomic resilience to climate change.

Moving forward, we also expect to see increasingly constrained policymakers making an integrated use of different policy levers.

Accordingly, surveillance will have to consider flexible conceptual frameworks, relying on country-level policy and technical expertise, and clever solutions to cope, for example, with poor data and limited modeling tools. At the very least, we look forward to implementing the IEO recommendation to further integrate macro-financial analysis into Article IV consultations.

In our view, modernizing Article IV consultations requires close attention to core surveillance areas and deep but infrequent dives into selected surveillance priorities. Of course, some streamlining of Article IV reports could be attempted, without neglecting core issues in our surveillance mandate. Indeed, virtual engagement offers a great opportunity to bring to the table expertise beyond what is typically available to country mission teams and ensure a higher quality and consistent policy advice. In addition, country matter meetings could house deep thematic analyses, supporting more focused surveillance.

The first step towards increasing synergies is to better integrate FSAPs and macrofinancial surveillance into Article IV consultations. In this connection, we expect clear guidance on how to make more integrated assessments of systemic financial risk, among other enhancements. Expanding macrofinancial talent is certainly part of the package, while virtual engagement of existing talent can help leverage in-house expertise. As a second step, we hope to see the implementation of high-level and technical spillover fora.

Finally, to attain efficient surveillance, we need to ensure that information systems are up to the task. And we need to make sure that staff is well equipped to put data to good work, with proper internal training that consolidates core expertise and facilitates the fulfillment of new surveillance priorities. Ultimately, this review yielded many good ideas and guidance for surveillance in the forthcoming period. But some of the changes should be implemented gradually, with frequent assessments of the experience so that we can effectively learn by doing and make improvements that are practical.

Mr. Tanaka:

As we have issued a comprehensive gray statement, I would like to offer the following comments for emphasis.

The member countries will need tailored and well-calibrated policy advice through surveillance more than ever. At this juncture, to enable the Fund to continue to serve as a trusted advisor and help the member countries achieve sustainable, inclusive, and resilient growth, it is timely and absolutely necessary to review and improve the priorities and modalities of the

surveillance. We welcome and broadly support the staff's assessment and proposals in the report.

On the major trends and surveillance priorities, we welcome the report depicts the surveillance landscape from 2021 to 2030, which covers major trends and uncertainties. We recognize the staff's assessment of the major trends and proposed surveillance priorities will be sufficiently broad and appropriate enough to strengthen the quality and traction of the Fund's surveillance work. In this regard, we reiterate the Fund's surveillance should, first and foremost, continue to focus on its traditional core areas.

As to the risk and uncertainty, elevated uncertainties suggest the need for the Fund's surveillance to be nimble and adaptable to a changing environment. In this sense, the Fund should continue its efforts to confront risks and uncertainties by leveraging peer learning and cross-cutting lessons.

Concerning spillovers, as global interconnectedness continues to deepen, preemptive spillovers through the multilateral surveillance, such as the flagship reports, as well as the Early Warning Exercise, could be increasingly important.

As far as economic sustainability is concerned, steadily tackling slow-moving significant trends with an appropriate balance with emerging issues is critical for the member countries to foster economic sustainability. To this end, it is important for us to try to grasp the possible impacts of both economic and noneconomic developments and take preemptive policy actions from an economic sustainability point of view.

We welcome the staff's proposal to put more focus on issues like demographics, digitalization, and climate change. Both demographics and digitalization, especially the issues related to digital money, including central bank digital currency (CBDC), could fundamentally alter the global macro-financial landscape. In addition, we support the integration of climate change into Article IV consultations and could support the staff's pragmatic approach. In this regard, we strongly encourage the staff to make close collaboration with relevant international organizations, such as the World Bank and the Financial Stability Board. Furthermore, the Fund should try to provide well-tailored policy advice, without falling into a one-size-fits-all approach on this matter.

On the surveillance modalities, we broadly agree with the direction of the proposed modification of Fund surveillance modalities to make them more timely, topical, targeted, better connected, and better informed. Especially, we welcome the shift toward focused Article IV consultations, which will enable the Board to have more intensive and efficient discussions. Moreover, we would prefer to have an opportunity for the Board to discuss each item in

principle, while we understand the usefulness of the occasional utilization of lapse of time (LOT).

As to the capacity development, we reiterate the importance of closer integration of surveillance with CD for the Fund to enhance its traction and effectively support the member countries, as other Directors said. Awareness of area department and mission chiefs on the strategic implementation of CD is critically important.

Last, but not least, we would like to reemphasize the importance of clear and careful communication of the Fund, especially related to risk and spillover matters, in its bilateral and multilateral surveillance, as the staff already recognizes.

Mr. Trabinski:

Whenever I think about the CSR and surveillance, I imagine a big lighthouse on the ocean's coast. There are many vessels going in different directions, small and large; but once the night falls, they are all seeking the guiding light of the lighthouse that can help them avoid currents and reefs among the sometimes uncharted waters, but also that can shed light on the ships, so they can see how they stand.

In the IMF context, the lighthouse is our surveillance function, and the vessels are countries seeking our support, especially now when the night has fallen. It is, therefore, key that our light, which is surveillance and policy advice, is being ignited timely, is targeted, holistic, but it is also flexible. We reiterate our view that the Fund should not stretch itself too thin in an effort to cover a significantly larger range of issues. The Fund should also not lose sight of issues that are at the core of its mandate, as mentioned by Mr. Mouminah and others. These issues will gain even more relevance as the membership recovers from the pandemic. Here, we know that many countries will face high debt levels and diminished fiscal space, which will substantially affect their room for maneuver. Our policy advice will need to be carefully tailored to country circumstances and mindful of the constraints faced by the authorities. We also note that ensuring the high quality of policy advice, based on strong Fund expertise, is crucial to enhance traction.

On country matters meetings, we take good note of Ms. Shortino's point on the Board's role in highlighting and selecting topics of interest and would greatly see merit in allowing the Board to shape and discuss specific proposals.

Like other Directors, we agree that the integration of capacity development and surveillance will be important to support members' recovery and reform efforts.

Lastly, we agree with several Directors, including Ms. Levonian, Mr. Huh, Mr. Palotai, that more should be done on ensuring sufficiently long mission chief tenures which, in my view, is important to build relations based on mutual trust and understanding, to ensure a good understanding of country specificities and to enhance traction. This is particularly relevant for fragile and conflict-affected states, as well as smaller and medium-income countries.

Mr. Buissé:

The Fund's surveillance must evolve and adapt to the rising challenges, not only the emerging ones that we have discussed lately but also the most immediate ones, including a subdued and uneven recovery, shrinking policy space, and persistent imbalances. We also fully agree that the pandemic has exacerbated pre-existing trends linked to demographics, technological change, and inequality. We are very supportive of the review, and we cosigned a gray statement with four European colleagues, so I would just wish to highlight a few key issues for us.

First, I am, of course, very happy to see climate challenges being taken up in this review. We do see important scope for progress in integrating climate issues, which are really macro-critical. I am happy to see a coherent approach to integrating mitigation into bilateral surveillance, starting with large emitters. This will need to be gradually expanded. I would like to underscore that the NDCs, which stem from a global political agreement at the highest level, should remain the yardsticks. I fully support Mr. Mouminah's point, that the climate negotiations should remain in the UNFCCC fora. But then we have to take the outcome of these negotiations—namely, the NDCs—as the real political commitment they are. That is why we think there would have been a case for more clearly mentioning mandatory coverage for large emitters.

We are not fully convinced by the legal argument presented by the staff. NDCs' implementation is macro-critical domestically. The policies that we have to put in place to, indeed, fulfill our NDCs objectives are all macro-critical policies. At the same time, the spillovers are also always macro-critical. I mean, we have discussed that many times. So, discussing the coherence and consistency of economic policies with the NDCs would make a lot of sense, in my view, in our surveillance and will be very much in line with the Fund's value added.

In addition, the Fund's advice should also better focus on the use of natural resources, in particular, for fossil fuel producers, to help them make the most of the green transition. Let me also underline that it will be important for the Fund to build climate expertise. We have discussed that also, but I want to underline it again. We will not have efficient cooperation with others

if we do not have the critical mass of internal expertise. We cannot leave the mission chiefs alone in tackling this new subject. It cannot be subjective. There should be an in-house toolbox and efficient external leverage to be able to deliver properly on this. As Mr. Hilbers just said, we should find the right balance between the rules and the flexibility.

Second topic, among other macro-critical and worrying issues, we underline the importance of the work on inequalities. There, again, I can associate myself with what Mr. Hilbers just said. I am wondering if more emphasis could have been put on this. While I am happy with the annex on sustainability, it is unclear to me what will be different with the CSR. What specific tools, knowledge will be brought to mission teams? What requirements will be in place on the treatment of such issues? I would really be happy to have the staff's views on what will be different in treating inequalities in this CSR.

Third, we agree that Fund surveillance needs to be better articulated with capacity development when capacity constraints are an issue, notably, for LICs and FCS. I fully support Mr. Pösö's position on this CD issue.

Fourth, as mentioned several times in the papers, collaboration with external partners is important. I, of course, agree 200 percent with Ms. Levonian on the work with the World Bank, but I want to add that the outreach should extend to non-governmental organizations (NGOs), in particular, for new Fund topics, because sometimes there is a risk that we are speaking different languages. I mean, we are used to dealing with NGOs who follow Treasury issues, not really with NGOs who follow climate issues or inequalities, so it would be good to ensure that, as a simple good practice, there will be systematically a meeting during Article IV missions with all appropriate NGOs and to allow that also to simply publish Article IV missions' calendars for the NGOs to be at least aware that the IMF will be here.

Fifth, there is no robust surveillance without robust quantitative risk assessment tools. We encourage the continuous improvement of the EBA methodology, which plays a critical role to address excess imbalances. And we strongly welcome the use of new vulnerability exercise models.

Finally, I will not comment on financial surveillance, as we will have the Board this Wednesday on FSAPs.

Mr. Palotai:

We thank the staff for the extensive work on the CSR and the answers to our questions. We look forward to the update on the surveillance guidance note, which we expect to elaborate on in the implementation phase. Let me

make a few comments here, in addition to our extensive and detailed gray statement.

First, we welcome the risk-based approach in surveillance; but as Mr. Moreno mentioned, we also caution against turning surveillance into a risk-centered exercise. We strongly support the enhanced spillover analysis and encourage the staff to leverage from cross-country policy lessons.

Second, we welcome the staff's efforts to reinforce traction through clear and continuous communication with the authorities on policy design and risk management. We also reiterate that longer tenures of mission chiefs and country mission teams will contribute to enhancing traction, as many Directors emphasized.

Third, while we support a stocktaking of the implementation of the CSR in about two years, as Mr. Ronicle and Ms. Levonian said, we would see merit in earlier discussions in the Board. Relatedly, we look forward to the outputs from CMMs and the Granular Policy Initiative (GPI).

Fourth, collaboration with other relevant international bodies, complemented by enhancing TA on the ground, would also help to strengthen surveillance and policy advice. In this vein, the comparative advantages of individual institutions should be taken into account.

Fifth, climate change and its integration into surveillance is complex. We encourage the staff to develop and present to the Board clear guidance on the following aspects: on the obvious collaboration areas with specific international bodies, on the range of macro-critical tasks, on interactions between country specificities and political economy realities, on the Fund's methodology or stress testing and scenario analyses, and on spillovers from climate-related risks.

Lastly, like a number of Directors, we call for an increased emphasis in surveillance work on debt sustainability and elevated nonfinancial sector indebtedness. We also have a feeling that the budgetary aspect of surveillance could be strengthened, highlighting budgetary trade-offs.

Mr. Merk:

We thank the staff for the comprehensive set of reports and the outreach to our office. We issued a joint gray statement, where we welcomed the CSR, and we support strongly the overall objective of enhancing the quality and relevance of Fund surveillance. We are in broad agreement with many of the staff's findings.

On the suggested surveillance priorities, let me focus my remarks first on climate change. We concur with staff that there is scope for further integrating issues related to mitigation, adaptation, and transition management in a more systematic fashion into Fund surveillance and largely agree with the staff's proposals. These activities, like other work planned to broaden the concept of sustainability, should be guided by the criteria of macro-criticality, tailored to country-specific circumstances, and achieved by collaborating closely with other organizations and to avoid duplication.

As for climate change mitigation, we fully concur with the staff that, given the significant spillovers from large emitters and their undisputed macroeconomic relevance, these spillovers may significantly influence the effective operation of the international monetary system. We take note that the significant spillover provision of the ISD clearly points to a need to discuss climate change mitigation systematically in such cases. In this context, the staff's proposal on covering mitigation policies, including their sufficiency in the Article IV consultations of the 20 largest emitters at least every three years, strikes us as reasonable.

Other member states could certainly benefit from coverage in bilateral surveillance, too. This notwithstanding, also with a view to resources, we support the staff's proposal to weigh the coverage of other members' mitigation efforts with care, also considering other country-specific economic policy priorities.

We agree on the importance of incorporating more systematically analyses and policies aiming at promoting inclusive growth and reducing inequality in the Fund's surveillance.

On surveillance modalities, we generally welcome the staff's idea on how to make surveillance processes more effective and efficient. At the same time, we continue to have concerns about some envisaged changes to Article IV consultations. A move to focused Article IV reports may have benefits, but we need to ensure that the core elements of surveillance are still analyzed and discussed diligently. Putting more emphasis on cross-cutting and topical issues may be warranted at times, but we also see the risk that the Fund will become too reactive and event-driven and that evenhandedness suffers. While a greater cross-country perspective may add value, it is not clear why this should not be possible under existing formats and processes.

Care should be taken to ensure that new formats and tools support the conduct of more effective bilateral surveillance but do not degrade the Article IV process or fundamentally alter its nature. The LOT policy should be applied in a careful, judicious, and evenhanded manner, according to the existing rules and criteria. Any reforms to surveillance modalities should be implemented very carefully. And at the time of the planned review in two

years' time, a rigorous evaluation, in light of the intended improvements, would be critical.

Lastly, we would reiterate that the Board's endorsement of this paper does not yet earmark specific amounts in the future resource envelope, as the budget has to be discussed and endorsed by the Board in its entirety during the formal budget process.

The Acting Chair (Ms. Sayeh):

All of those points are well noted. And, of course, on the last point that Mr. Merk made, it is very much the case that all of what is potentially coming out of the CSR as a cost to be financed is a budget issue that will be discussed fully in the next several months.

Mr. Fanizza:

We have issued a detailed gray statement with four of our European colleagues, to which I have only a few things to add: first, on priorities, and second, on the modalities.

Let me say at the outset that the gray statement dwelled at length on climate change issues, so I am not going to say much about that, but I will also piggyback on Mr. Buissé and say that I fully agree with what he said.

Let me start with something on priorities. The risk issue seems to be the most talked about so far. I think that we like the strong emphasis placed on the risk approach, but we need to be careful there. The staff needs to consider all the possible risks, but it needs to take a clear stance on which ones are the most relevant ones and shape the policy advice accordingly, spelling out how policy could mitigate the risks, on the one side, and, on the other side, how policies should react if the risks materialize. If we do not do that, the list of risks is completely useless. In fact, too much of the staff report's risk discussion reminded me of the leaflets that one read on medications. My European colleagues are particularly familiar with that. A longer list of the bad things that can happen, but we do not do anything with them. And very often, risk discussions at the Fund are like that. Just picking up the fact that we signaled the risk. If we signal the risk, we need to spell out the policy implications; otherwise, there is no point of it. And saying, well, the balance of risks is tilted one way or the other does not help.

Let me say also, move to the integrated approach to surveillance.

The pandemic, I believe, has highlighted the importance of an integrated approach to policy analysis, to identify not only the policy trade-offs but also synergies. I was struck a couple of weeks ago in a meeting

with the European Central Bank that we had at our annual meeting. A colleague from the Bank put it in a quite striking way. We have learned from the pandemic that the assignment principle—in other words, that we need a tool for each objective—does not work anymore. Think about unconventional monetary policy. To get our outcome, we have used all possible a panoply of instruments. And the issue is that, how they work together. So, this is a very important rule to keep in mind.

Also, I would like to stress two elements in this integration: the importance of integrating systemic risk analyses with macro-financial policy advice and spelling out the direct implications for macroprudential policy. That is one.

The other obvious one is the need to broaden the Integrated Policy Framework (IPF) to cover fiscal policy. At this juncture, after the history of the last two years at this point, there is a need to have an integrated approach that covers all fiscal issues because those have been the focus, the crux of policies. And we cannot talk about the other policies if we do not consider fiscal policies.

On modalities, we vastly agree with taking a very gradual, flexible approach to implementing the new modalities. Like my colleagues, I am curious to see how the things will evolve with the three new proposals. I will not list them. And I agree also on the need to have a mid-term review of the instruments.

The Acting Chair (Ms. Sayeh):

Mr. Fanizza's points on risk and the analysis of risk, of course, are well taken, but I think it is fair to say that the excellent work that the staff has done on this issue in the CSR does not amount to just a list of risks and pitching, throwing that out without analyzing the implications and having policy advice related to those risks. So, we are very much on the same page, I think, on that issue.

Mr. Hosseini:

We have issued a gray statement but would like to mention a few points for emphasis.

We broadly agree with the assessment of the evolving macro-financial landscape and major trends, including digit advancement, climate change, rising income, and gender inequalities, demographic change and migration, and shifting global economic power. These factors, put together, could dramatically reconfigure the global economy and financial landscape over the next decade.

We support the staff's proposal to make IMF surveillance more targeted, topical, timely, and better interconnected, and agree with the four surveillance priorities identified in the review. We concur with the proposals for modernizing the Fund's surveillance modalities in a gradual and flexible manner to ensure greater Fund responsiveness to the evolving needs of the membership.

We welcome the substantial progress made by the staff on the analysis of cross-country spillovers. However, the strong and evolving cross-country linkage and contagion channels call for enhanced spillover coverage and understanding, as well as closer multilateral engagement and cooperation. We agree that surveillance should focus on relevant risk scenarios for cases where the baseline hinges on preemptive and mitigating policies, trade-offs, and synergies of an assortment of means and tools to support countries suffering from limited policy space.

We strongly support the efforts to further improve the quality and traction of Fund policy advice and look forward to additional progress on the integration of FSAP and IPF into Article IVs to ensure more strengthened and effective macro-financial policy advice.

Finally, the need for greater integration of surveillance with capacity development is more pressing now than ever before, especially for LICs and fragile states.

The Acting Chair (Ms. Sayeh):

All of those points are very well noted, including this last one, where Mr. Hosseini is joining others on underscoring the importance of the integration of CD with surveillance, on which we have recently issued very clear guidelines to the staff on surveillance and lending, the integration of CD, that I think Directors will find very helpful in taking this work forward.

Ms. Shortino:

I thank staff for these extensive reports and for the regular engagement with Board members over the course of this process. The CSR has been a long-time coming, but the final outcome, in our view, is quite positive. We issued a gray statement, so I will just make three points for emphasis.

First, on climate, we strongly support the inclusion of climate in surveillance, and we see the proposal to cover the 20 largest emitters as very reasonable and well within the Fund's mandate. I also agree with Mr. Buissé that the NDCs should remain the standard against which countries are measured against.

Mr. Tanaka phrased it very well in his gray statement, by noting that the Fund does not need to cover everything with its in-house skills. Ms. Riach also made a good point, that we are not calling for additional collaboration merely for collaboration's sake. I think a clear framework, as referenced by Ms. Levonian, for engagement would be helpful in supporting when the staff need to engage other institutions. So, I guess, to that end, I would ask a question in terms of: What steps will management take to incentivize increased collaboration with other organizations? And is a framework something that they would consider pursuing? In general, we look forward to the discussion on next steps on the IEO report on World Bank and IMF collaboration.

Second, we strongly agree with many Directors—and we also welcome Chair's opening remarks on the importance of the fact that analytical work on new and developing issues should not crowd out the core macroeconomic and financial sector analysis. I liked the proposal from Mr. Moreno, that at least half of the report should cover these issues as a rule of thumb. I would also echo others, that we were a little bit surprised to see not more direct mention of debt sustainability as part of the core surveillance. Clearly, it falls underneath those, but it is also going to be a key area for Fund work in the coming years. As nearly every Director has mentioned in their gray statements, we support better efforts to integrate and follow up on FSAP recommendations in Article IV surveillance.

Third, on modalities, we support the proposals in the paper to increase the use of lapse of time, introduce CMM meetings, and create a new GPI; but the effectiveness of these tools will clearly depend on how we go about implementing them. Therefore, we would strongly encourage Board engagement every step of the way, from the selection of what topics to be covered in CMMs, to early notice on proposed lapse of time Article IVs, and to updates on which Article IVs will be considered focused Article IVs. I also want to reiterate the importance of leveraging the OIC in supporting the implementation of these changes, in particular, with regard to educating the staff and supporting the staff in implementing these new proposals.

We would see benefits from an informal or staff technical briefing in the coming weeks or months to provide an update on the timing and phasing of implementation and consult the Board and seek Board feedback. And, of course, we would recommend that the staff continue to take feedback from the Board and find ways to adjust even ahead of the two-year review, as noted by Mr. Ronicle.

The Acting Chair (Ms. Sayeh):

Just to say, on the issue of collaboration, the guidance note is going to be very clear about some of those issues as we take it forward. Directors will see, I think, very clear guidance on the issues that they are concerned about.

We will have, of course, an opportunity to sink our teeth into World Bank/IMF collaboration issues and MIP and, from there, take away the lessons that we need to further integrate in our work.

As we do already, leveraging the OIC amidst significant change, institutional organizational change and ways of working, is how we have already responded to the pandemic, especially, but have been doing so for some time. And, clearly, in a very different set of ways of working around surveillance, we will be doing that as well, as the staff tried to outline in the responses to the technical questions.

Ms. Mahasandana:

We are strongly supportive of the work to make Fund surveillance more timely, topical, targeted, as well as better interconnected and informed, as we believe that this is the right direction to make surveillance more effective and responsive to the membership's needs.

We also support enhancing the strategic role of the Board, focusing more on cross-cutting issues with policy implications. We already issued a comprehensive gray statement in support of the proposal. In addition to our gray statement, we would like to offer three comments today.

First, we ask that the staff keep the Board closely engaged on the implementation of the CSR proposal. We recognize that the staff do not have a full, complete picture of how to implement all proposals at this point, and some of them will need to be experiment, learn from experience, and adjusted along the way, especially in view of the ongoing crisis and evolving risks.

We are prepared to give staff the space to try things out and see how it goes, but we also would like to be updated on the implementation status of the proposal.

We also would like the staff to engage the Board on the implementation plan of emerging areas where further work is needed, including digitization, inequality, and demographics. Further work and discussion to gain broad agreement on how to implement climate change priorities are also needed, particularly on the Fund's role, the appropriate policy advice, and the determination of the top emitters. We, therefore, look

forward to the Board's discussion on the strategy for engagement on climate this summer. We also welcome the CSR interim review in two years' time.

Second, we welcome the Spillover Forum as a platform for dialogue between spillover producers and receivers. To ensure constructive dialogue, the authorities need to know what to expect at the forum, especially for session in 2022. As such, we expect the staff to brief the Board well in advance on the topics for discussion and the format of the meeting so that we can convey to the authorities.

Third, we emphasize the importance of traction for Article IV surveillance. It is crucial to encourage actual policy implementation to achieve the expected outcome of the Fund's policy advice. To be able to select relevant topics for Article IV effectively and provide tailored and practical policy advice to gain traction from the members, the mission team not only has to have a good understanding of the country context but also needs to know the background and history on which topics have been covered previously and to follow up accordingly.

While we recognize that mission chief turnover may be inevitable because of the career movement, we emphasize the need for a good knowledge transfer within the country team to ensure continuity and that institutional knowledge on the country is well retained within the team.

The Acting Chair (Ms. Sayeh):

I could not agree more on the need for transitional arrangements to ensure that departing mission chiefs, of course, are able to pass on institutional knowledge and issues of the country at hand in an effective way that will make sure that we continue to take forward the knowledge gained in the perspective tenures of mission chiefs. That is, indeed, the work that we have been seeking to do. As the staff has outlined, there has been some progress made on the tenure issues. There are still some challenges there at times, including, as Ms. Mahasandana said, on career progression. But it is an area of great focus and reporting by HRD to ourselves on what is happening and what can be anticipated.

Mr. Chodos:

We think the report is very worthwhile, and it is a very important policy process that we are going through in this area. We issued a gray statement, so I wanted to focus on three or four specific items that we think are important to focus.

First, we think that the issue of focusing and having a greater look at both inequality and climate change are critical, especially because they are

totally linked to growth, much more than were thought before. For instance, in the case of inequality, there is a very clear driver and dependence between the idea of inequality and the idea of growth. We have not been focused on that in the Fund for quite some time. So, refocusing on these aspects—not only in and of themselves because they are worth it but because of their connection to growth—would make us have to have both retraining and collaboration. For instance, if we think of the last financial crisis and growth, we were always overoptimistic that just macro adjustments would deliver growth. It never did. And if we do the charts of what was the forecast for countries, it always was more optimistic than it should have been. And then if we had been more rationale regarding the effects of inequality and growth, we would have been more sober. So, we think that the retraining part is critical; and the openness to now collaboration, it also is. And maybe it is time that we relink ourselves with the United Nations or the International Labour Organization (ILO), which have more of a track record of expertise in these areas.

Last, but not least, we want to echo also the words of Ms. Shortino regarding the importance of increasing the profile of debt sustainability in the surveillance process.

Mr. Huh:

I would like to highlight a few points for emphasis.

First, the proposed surveillance priorities are comprehensive and well-focused. Considering the fast-changing environment during the pandemic, we need a comprehensive approach to properly capture the context of the various issues. However, an excessive expansion of the Fund's work on emerging issues may undermine the coverage of core surveillance topics. Therefore, it is important to keep the macro-criticality and to actively leverage the expertise of other institutions. Also, we share the concerns of Mr. Moreno and Mr. Palotai on the possibility of unintended side effects in the case of too strict risk management.

Second, the consistent and customized policy advice is critical but challenging. On the policy advice, the Fund should keep the principle of evenhandedness, as well as the flexibility of customization. Through various policy advice tools, it is not so easy to keep the consistency of policy advice in the short- and long-term. In this process, we ask the staff to take a practical approach to facilitate the implementation and the country ownership. If policy recommendations do not align with the authorities' goals or the implementation costs are too high, even well-unified policy advice could hardly take effect properly.

Third, we welcome strengthening surveillance on spillovers and agree on the need to closely monitor emerging issues, such as digitalization, for

potential large spillovers. We continue to encourage the staff to further work on the operationalization of the IPF and look forward to a Board discussion on this soon.

Finally, surveillance should play a pivotal role as a platform for the integration of CD, as well as FSAPs. The implementation of the CD strategy should be fast-tracked and supported by mainstreaming best practices in the integration of CD in surveillance. In the case of the Pacific island states, we urge the staff to strengthen the engagement modalities and the field presence for easy access and more effectiveness, along with a longer tenure of mission chiefs, as many Directors already mentioned. In addition, establishing a hybrid model for bilateral surveillance could deliver more frequent and timely surveillance to vulnerable member countries with less cost. In particular, the Pacific island states are under serious pressure because of the rapidly changing global environment, climate change, correspondent banking relationships, capacity constraints of international compliance requirements, and data requests.

Mr. Bhalla:

We genuinely agree with the broad trends that have been identified, especially the suggestion for preemptively responding to relevant spillover risks and to prepare for them. I will emphasize just four brief points.

First, we believe that the macroprudential macro-financial risk analysis should continue to occupy center stage in surveillance, given that the costs imposed by financial crises are too large and spread over several years. It may be critical for the Fund to further enhance its engagement with other relevant international bodies and market regulators to take advantage of their specific expertise. This will bring in greater synergies and different work streams and could help in the process of undertaking an in-depth assessment of financial system vulnerabilities. The priority should be to focus on the forward-looking analysis to anticipate and explore the buildup in different markets, different sectors, and different geographies, and advise the membership during the incipient buildup of vulnerabilities.

Second, we also feel that the Fund's member countries at different stages of development differ a lot in terms of their exposure to these challenges; and, therefore, their policy priorities could also be divergent. To improve the traction of the Fund's policy advice, bilateral surveillance reports should be relevant from a country-specific macro perspective as well. This calls for greater flexibility in the CSR to incorporate the policy priorities at the individual country level.

Third, we support the idea of continuously informing the membership and providing real-time policy advice. This can be done if country

surveillance draws on Fund-wide learning which is then tailored to country-specific circumstances. At the same time, given the unprecedented uncertainty induced by the pandemic, the acceptable proposals in the CSR documents should be implemented in measured steps to allow for adaptive learning in the post-COVID landscape.

Fourth, on climate change, we do not prefer the use of the term “the largest emitters” to evaluate or describe countries based on their current absolute shares in CO2 emissions. A more appropriate yardstick to define the largest emitters could be per capita emissions, both historical and current. Such calculations will be more objective about the reality of climate damage. In contrast, categorization as the largest emitters ignores the carbon space already exhausted by the advanced economies, which limits the scope of low per capita income developing countries to grow and improve their living standards. We believe that the Fund should provide a balanced picture, both total emissions and per capita emissions, even when looking at the emissions issue in a prospective sense. It is also important to assess the historical contributions of individual countries to the public bad we know today as climate change.

Mr. Andrianarivelo:

I will limit my intervention to a few points for emphasis, since we have issued a gray statement, in which we broadly support the efforts made to ensure that the strategic direction of surveillance remains relevant to enhance the quality and traction of Fund analyses and policy advice.

First, we are of the view that the papers identify well the major trends and policy challenges that will shape durably the macroeconomic and macro-financial landscape faced by the membership in the next decade. The Fund’s surveillance should evolve and adapt to the developments taking place in the membership. The staff should be commended for the comprehensiveness and the quality of their work in this regard.

Second, among the trends and challenges identified, we reiterate our concern regarding the uneven space of recovery from the COVID-19 pandemic and the fact that low-income countries face the risk of being left behind. The crisis has reversed the progress made in recent years in terms of growth prospects, human capital development, and poverty reduction. This crisis has made the achievement of the Sustainable Development Goals even more challenging. In addition, all this is taking place in a context of diminished remittances and official aid flows which exacerbates the shortfall in the financing of SDGs, spending that already existed prior to the pandemic. As noted by the staff, rising fiscal capacity and securing access to funding on sustainable terms will be critical for LICs in the period ahead. We call on the

IMF and other institutions to pursue their efforts to provide more concessional financing to LICs to help address fiscal challenges.

Third, the Fund's surveillance work in LICs for the next decade should focus, notably, on revitalizing growth, developing human capital, and reducing poverty but, specifically, Debt Sustainability Analyses, as it has been stressed by Ms. Shortino and Mr. Chodos. We concur that this will require increasing fiscal space, upgrading institutional capacities, and facilitating access to vaccines. The CSR will also need to adapt to other data trends, including digital technology and climate change, which have become macro-critical. Therefore, strong cooperation among international institutions will be essential in this regard as well. Also, like Mr. Pösö, Mr. Buissé, and others, we are of the view that surveillance and capacity building should be closely linked to support traction, particularly in fragile and small states.

Finally, we support the recommendations made to modernize the Fund's surveillance. However, this will be a complex and challenging process. We agree that the implementation will need to be incremental and experimental. We encourage management to ensure that the resources provided much the ambitions of this central undertaking in the Fund's activities. We look forward to a detailed guidance note on surveillance and to reviewing the progress made in a period of two years.

Mr. Jin:

I thank staff for the insightful and comprehensive set of reports and the further explanation in their feedback. In addition to my written gray statement, I would like to focus on three points in my intervention.

First, the COVID and the potential scarring effect is still one of the most important factors in shaping the global landscape in the coming years. The Fund's surveillance should sufficiently focus on measures to contain COVID, boost the recovery, and promote a universal vaccination in order to achieve a more synchronized global recovery. Preventing a scarring effect is crucial. The decline in labor force participation and the increase of zombie firms across countries, et cetera, are issues that deserve attention. We also suggest that the staff appropriate evaluate and recognize countries' efforts in enhancing the green finance system and promoting green investment.

Second, regarding climate change, we support the Fund to integrate climate change analyses into surveillance in a way to serve its core mandate. Many emerging market and developing countries need to improve their carbon-related measurement and statistics, develop its national emissions trading system, and evaluate various carbon pricing and taxation options. The Fund can make a contribution in capacity building in bottleneck areas. Concerns regarding the social impact of a dramatic carbon reduction and the

global repercussion effect of carbon cross-border adjustments, et cetera, should all be kept in mind in this new dimension of surveillance.

I would echo Mr. Bhalla, that both per capita and total emissions should be counted, and that technology and financial support is critical for a carbon reduction in emerging market and developing countries.

Outdated technologies were not invented by the current users. New technologies are always more efficient in reducing input for a given output or in producing output for a given input. It will be contradictory for people to require a country to achieve a dramatic carbon reduction while restricting the trade of green technologies. The Fund should evaluate if a country's external environment is favorable or obstructive to its carbon reduction efforts.

Third, mitigating spillovers. It is key for the staff to identify the appropriate spillovers to cover; therefore, we encourage the staff to fully engage with member countries and listen to the opinions of relevant countries. Spillovers of extremely low interest rates for a long period, the economic impact of high-level government expenditure measured by fiscal expenditure over GDP ratio, and the externalities of infrastructure investment are all good candidates to be monitored and analyzed. On the other hand, we should not demonize all spillover effects because it reflects the interdependence and cooperation between countries, and that mutual reliance is an insurance for world peace.

Finally, country matters can be better addressed in the existing Article IV consultations and the multiple and regional surveillance framework. Therefore, special country matters meetings look to be possibly redundant and not evenhanded.

Mr. Palei:

We thank the CSR team for their work, which is partially reflected in the 10 papers we received for this meeting. The previous Comprehensive Surveillance Review took place seven years ago, so the Comprehensive Surveillance Review is a rare occasion and an important one. Indeed, the staff, in their report, said that we should aim at a horizon between 5 to 10 years.

The last time we had a Comprehensive Surveillance Review, if my memory serves me well, we ended up with AIM. The acronym "AIM" stands for agile, integrated, and member-oriented. So this time around, we added that surveillance has to be topical, targeted, informed; and, of course, there was a separate paper on traction, which unifies all of these improvements in order to make the surveillance to be member-oriented and serve the membership well. So, in a sense, this surveillance review is a continuation of what we discussed seven years ago and what we did over the past seven years.

We support the objective to make Fund surveillance more timely, topical, targeted, better interconnected, and better informed. This can require additional flexibility to adapt to the rapidly evolving demands. At the same time, we note that some of the key modalities proposed under the Comprehensive Surveillance Review are not well defined yet. Experimentation and learning by doing will need additional discussions down the road. In this context, we welcome the proposal to review in two years the newly suggested surveillance vehicles, including an expanded reliance on the country matters meetings, Granular Policy Initiative, Spillovers Forum and Spillovers tool, and contingent policy advice. We believe that the Board should play a prominent role in evaluating the effectiveness of any innovations, significant experience, and pilots.

And here, again, it is worth remembering that, over the past seven years, we have had quite a few innovations at the Fund. For example, the Fund came up with the Fiscal Transparency Evaluation. I think this exercise is on par with the FSAP, for which we will discuss a special review very soon. But we also had the PIMA exercise, two different reports on state-owned enterprises, and quite a few other innovations. We believe that all of them have to be monitored, and appropriately accountability should lead us to having some kind of reflection at the Board level in formal discussions—in discussions that are formal. Let me make sure I express myself clearly.

Now, it is a cliché, but Article IV consultations should remain the bread and butter of the Fund's surveillance. Sometimes we hear that the Article IV reports are boring, that they resemble, a box-checking exercise, and so on. When we hear this, we just think that if the staff or Directors find Article IV reports to be overloaded with excessive requirements, the Board should explicitly consider which requirements could be streamlined or relaxed. The topical approach to Article IV reports should not lead to a possible overlooking of the important sectors and/or a diminishing focus on the Fund's core issues. I believe that most Directors are very clearly in favor of maintaining our focus on the core issues.

The Fund needs to strengthen its expertise on climate issues to limit economic damages, manage risks, and address distributional aspects. The lack of mitigation efforts might cause spillovers to the international monetary system. However, any coverage of these spillovers should be well balanced, account for the country's track record, and the authorities' opinion on the most appropriate approaches to deal with the issues. We believe that the Fund should tread carefully in the so-called emerging areas of interest. We also should remind ourselves that the Fund was rather active in the areas of addressing equitable income distribution, climate change, and digitalization in the past, so our goal here is to develop these approaches, to take them further, and maybe to generalize some lessons we derive when we consider them.

Again, here, we believe that the key to success is to have proper accountability. And I think it is important to have accountability at the level of the Board of Directors, once again.

Finally, we agree that the operationalization of the Comprehensive Surveillance Review's priorities should proceed in gradual steps. We understand that surveillance modernization and the more profound expansion of the Fund's work on the emerging priorities require additional resources. We believe we need to discuss them very attentively. And we expect that the issue of resources will be addressed during the Board's upcoming discussions on the Fund's role in climate, digitalization, fragile states, and it will be addressed expeditiously under the budget's structural augmentation.

Mr. Mohieldin:

We issued a gray statement, in which we supported the four priority areas. Just for emphasis, I am picking six very brief points.

The first one is about sustainability and how we define it. And we see, really, the transition to a net-zero emissions and climate-resilient economy bringing a broad range of economic and environmental benefits, but there are risks, major risks and challenges which need to be understood, including the distributional impact of such a transition and actions by governments under pressure in such an environment of uncertainty that pushes some governments not just to pick winners but to select themselves as the winners for investment. So, we are seeing kind of a return of bureaucrats in business. These are complicated issues in the response to the crisis. And what we argue here is basically managing the transition and considering the distributional impact and being mindful to government reactions in times of crisis.

The second point, which is basically emphasizing why we are always emphasizing that the Paris Agreement is important. But equally important are the SDGs and the commitments of the Paris Agreement are fully integrated within that framework of the Sustainable Development Goals. And the fact that the COVID-19 crisis cost us what we managed to do, of improvement on many goals, including extreme poverty. So, unfortunately, today we stand at the same level we were in back in 2015. Five, six years of hard work has been lost because of COVID-19, by having more than 100 million people thrown into the traps of extreme poverty.

The other point here is basically about the kind of advice that we are providing in coordination with different institutions. We are seeing a great deal of competition. While competition is healthy, but the lack of coordination is compromising lots of the gains when it comes to overwhelming governments with limited resources on different toolkits, different data sets.

Like many Executive Directors mentioned today, there are objectives for collaboration at the global level, but the implications of that at the country levels cannot be undermined. And in whatever we say about encouraging collaboration with the World Bank, with the UN system—and I am happy with what Mr. Buissé mentioned today, about collaboration with NGOs as well—that will help, at the end, not just to enrich our knowledge and technical assistance but to minimize the costs on governments in getting adequate policy advice.

A further point is what we need to pay attention more for, which are basically countries categorized as with low-income or middle-income, fragile countries, and small states. They require further assistance, given that their domestic capacities may not really be there to handle the risks and uncertainties mentioned in the different policy documents we have.

So, the call here is basically for integrating and improving the integration of capacity development, which we see as crucial to increase traction and help deliver on priorities, including through the elaboration of a CD country strategy and the support of the CD management and administrative programs. That all means more resources. There will be opportunities, as mentioned before by different Directors, that we will revisit the issues related to the adequacy of the budget and resources in order to make sure that our institution has the adequate and deep knowledge and technical assistance required for supporting the countries, especially the countries that are more in need of such support.

The final point is basically about the operationalization of the CSR. We take note that it will occur, as expected, gradually.

The Acting Chair (Ms. Sayeh):

There is quite a bit to reflect on, of course, and to come back as the Board, as all of Directors have underscored the need to keep the Board informed and to review the progress being made, even in advance of the two-year time frame we see for the interim evaluation of the CSR. There will be quite a number of opportunities in the discussion of different issues in the months ahead to do so. And we will, of course, consistently focus on taking away lessons from what is being implemented and the challenges and opportunities emerging.

We will now turn to the staff for their responses to a number of issues that a few Directors have raised that will require a response.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Panth):

Thanks for the very rich discussion today but also all the engagements that we have had over the last couple of years.

We take pride in the fact that the Board found our extensive engagement to have been very useful, without which, obviously, we could not have done this work. We tried to do that in a nimble way. And I just wanted to pick up on where the Chair finished, by assuring Directors that, looking ahead, while the formal conclusion of the CSR is an important landmark in the process, it is by no means the end of the process, in the sense that we would walk away, and the Board would not hear from us again until two years from now when we have the interim review.

There are many things coming up that will follow from the CSR, on the policy side including, for example, when we look at the Institutional View or look at data provision, which came up in the discussion today. There are also discussions coming up on climate, digital, etc., where the new priorities will need to be played out. And those all provide the opportunities. There is also the periodic Board work program discussions. We have been innovative in the past in terms of using different formats of engaging, and we will continue doing that. And we are very mindful as we prepare our work on the guidance note to keep ourselves available and open to your input.

Finally, just to note that the regular Article IVs that will be coming to the Board also provide additional opportunities for the Board to note how Directors see progress with implementation and for us to take note of what the Board says in this regard as we go forward.

With that, I would like to stop there and turn to Ms. Duttgupta and Mr. Bornhorst to answer some of the questions that Directors have raised.

The staff representative from the Strategy, Policy, and Review Department (Ms. Duttgupta):

I will not try to answer all the many perspectives Directors brought today, besides all the engagement we had earlier. Let me just pick maybe three topics.

On risks, on concerns about how we interpret traction and on inequality. On risks, we fully agree that an overemphasis on risks is not useful. The intention is really for highlighting critical risks within the surveillance horizon. The main motivation for that is to prepare policies, to either preemptively or ex post handle those risks, so that these policies are resilient in alternative states of the world that may not be completely aligned with the baseline. Let me add that this is not just for downside risks but also

upside risks, which we are seeing a lot in the current crisis, where some countries are growing at a faster clip than we had initially forecasted.

Related to this, maybe to clarify the point that Mr. Mouminah raised on contingent policy advice. This is also not for all possible risks but only the critical risks. The essence is to stress that acknowledging and preparing these risks ahead will also assure the rest of the world that these risks are on the horizon of the authorities and the Fund's radar screen, in contrast to not acknowledging them at all.

Perhaps as an example, let me note that the importance of these contingencies have played out in this current crisis, where a lot of staff reports that the Board has already discussed stress not only about how policies should be deployed in the baseline but also how they may need to pivot if the pandemic takes longer to bring under control. So that is the essence of our contingent policy advice. That said, we fully agree with the importance of carefully communicating and acknowledging that, at times, the details of the discussion may have to be confidential in nature.

Moving on to the issues on traction, it is not about communication. It is about the usefulness and the effectiveness of our policy dialogue with the authorities in helping them reach their main growth and stability goals. And it needs a multidimensional approach to looking at it. This is the first surveillance review in which we have tried to do that. The underlying work does show that traction can be high, even if there is not a one-to-one mapping between what was advised and what was implemented. And understanding, for example, that authorities' constraints is important, as is sometimes the elements of how to do it, decisions on what to do, which suggest a holistic integration of capacity development with surveillance.

Going forward, on the G-20 having enough capacity, I hear the point, but we do feel that improving traction for all member countries is important. And this is one sort of segment of the membership where we could do more and—one, because they are equal members but, also, they play a very important role in the Fund's views on broader surveillance issues.

Perhaps let me also say a few words on inequality. Many raised this as a very important area that needs more work and more thought. We could not agree more. In fact, this is one of the key trends that we added in the main CSR paper after the pandemic, which was not there before in our midpoint discussion because of the macro salience of the developments we are seeing. In a way, this particular trend will permeate to affect all four surveillance priorities that have been identified.

Just to give an example, a big focus will be on unified policy advice, where the essence of that priority is to see how policies can be combined in

order to achieve the objectives of both growth and inclusion. So, approaches to strengthen fiscal balances, for example, through taxation or the removal of energy subsidies need to be also accompanied by other measures to make sure that sustainability and inclusion are also aligned with reaching sustainability in fiscal balances.

Now, we will expect to do more work on this, including by building on the guidance note that was prepared on social spending after COVID-19. This work will also feed into the revised guidance note for surveillance, to sensitize staff even more about looking at the side effects of their macro policy advice.

The staff representative from the Strategy, Policy, and Review Department (Mr. Bornhorst):

I would like to respond to one set of questions about CD integration and how the demand-driven nature of CD integration can be better integrated with the surveillance priorities. And I would like to make three brief points here.

The first is that the priorities for CD are identified in the CD country strategy notes. Those notes are the result of a discussion between member country authorities and the surveillance teams and the CD-providing departments. As such, they are an important vehicle to contribute to the alignment of the priorities. There is also the CDMAP tool, which is a repository of all CD demands and, therefore, presents a comprehensive list that can help with the identification of the priorities.

The second point is that the review process leading up to Article IV consultations is an important vehicle also to ensure the alignment.

And then finally, as mentioned by the Chair, the recently approved management guidelines on CD integration will be another important element in ensuring that the surveillance priorities are better aligned and integrated with the CD strategy.

The Acting Chair (Ms. Sayeh):

We have heard a strong message of support for the direction in which we are headed and for the surveillance priorities outlined in the papers and have also heard an openness to experimentation and this learning-by-doing that is necessary amidst the uncertainty that we also face. And that, in the context of adapting the modalities of surveillance, along with a perfectly understandable desire from Directors as well to see more details and concrete examples in the months ahead. So, we are certainly committed to making sure that that is the case.

I also want to emphasize, as Mr. Panth just did, that the CSR represents a major milestone in our efforts to strengthen surveillance, but it is not the end of the process, nor of opportunities to hear further from Directors. Indeed, we very much look forward to engaging with the Board as we implement some of these changes. Directors know that the CSR will also inform our forthcoming budget discussions planned for the fall. The staff will start working promptly on the revised guidance note, incorporating what we have heard today. And we also have important upcoming discussions with the Board on topics that will be informed by the CSR, such as data provision to the Fund, the IPF, and other discussions that Mr. Panth also flagged. The semiannual Board work program is one of them. And that provides an opportunity to discuss further how initiatives, such as the country matters meetings and the Spillover Forum, are being implemented ahead of the planned Interim Surveillance Review in a couple years' time.

Maybe a last word from me on an issue a number of Directors raised as well, on the use of the lapse of time procedure. I very much hear their views that it has to be done in a way that is respectful of the existing criteria for LOT. That is precisely what we want to do. We think there is room for doing more lapse of time cases and want the Board's openness to trying to do more with a view to just helping with the huge amount of overbooking of the Board's time as well. And then, as modest as they may be as signals in the responses to the technical questions, it is still the case that a fully planned and executed Board discussion does require a significant investment on the part of staff as well. While preserving all, of course, that has been decided in terms of the criteria used, we want to seek to do better and more LOTs.

It is proposed that the paper will be published together with the background papers as well.

The Acting Chair (Ms. Sayeh) adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

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GRAY/21/1140

May 4, 2021

**Statement by Mr. Moreno, Mr. Guerra, Mr. Romero Tarazona, Mr. Lopez, and Ms. Moral Betere on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the excellent and comprehensive set of papers to ground the review of the Fund's surveillance mandate. The world economy is facing a historic moment. The COVID-19 crisis is probably the first purely exogenous global shock that we've experienced in decades, with dramatic health, social and economic effects that could have long-lasting consequences. Moreover, this crisis has exacerbated some previous structural trends in the global economy and created new challenges. In the current junction, where we are starting to see the light of the recovery at the end of this devastating pandemic, we must be mindful of the importance of our work in surveillance, lending, and capacity development to promote a resilient, sustainable, and inclusive future.

Fund's analysis and policy advice should widen its scope from macroeconomic and financial stability, into broader economic sustainability and mitigating risks and vulnerabilities. We welcome staff's work on the CSR and concur with its main objectives of enhancing the quality and traction of Fund surveillance to help members meet their challenges for the next decade. Incorporating major macro-critical trends that include social, environmental and digital considerations will be crucial to this end. Moreover, to reach this goal, the Fund's analysis and policy advice should put equal emphasis on seizing the opportunities of the recovery and structural trends, as well as mitigating the risks and vulnerabilities the world economy is facing with the aim of building a more sustainable growth. This balanced approach would add real value to our surveillance and enhance traction to our engagement with authorities. As staff, we believe the ISD is flexible enough to frame any changes needed in surveillance priorities and modalities and, accordingly, we support the proposal of no change to the ISD at this stage.

Learning-by-doing surveillance. The CSR implies a major and much welcome overhaul to surveillance. We understand that a flexible approach will be required, since a number of elements will have to be judged and assessed as developed, including the new surveillance modalities, but also the more focused Article IV reports (the centerpiece of the Fund's surveillance). We note that the next step is the revised Surveillance Guidance note and we

welcome a review of the CSR in two years to evaluate and finetune the CSR. Next, we will structure our comments around the issues for discussion proposed by staff.

1. Surveillance landscape

The COVID-19 crisis has dramatically impacted economies and societies, especially the most vulnerable and exposed groups, sectors and countries. Decades of economic convergence between countries and poverty reduction have been suddenly diluted. As recognized by staff, prospects for reaching SDGs goals have weakened and many LICs and MICs will struggle to recover past convergence gains. According to the latest flagship reports, the recovery will be uneven between and within countries, creating a risk of divergence, while vulnerabilities in the fiscal, monetary, and financial systems are increasing. Countries with limited access to vaccines, institutional capacity, and constrained policy space will lag in the recovery, adding new challenges to policy management as financial conditions normalize at different speeds.

In the short run, surveillance should be closely linked to the economic recovery from the COVID-19 pandemic, as well as to its scarring effects. The crisis has brought to the front some areas that will shape our surveillance in the years ahead: high levels of public and private debt, higher vulnerabilities in the financial system, and increasing social challenges related to poverty, inequality, and social development. Due to limited policy space in many countries, the Fund should adapt its surveillance to a broader and more dynamic approach to policy space, particularly to fiscal sustainability in AEs in a context of “low-for-long” interest rates. This approach must include a bigger focus on building sound institutions and policy frameworks, improving governance, fighting corruption, analyzing spending prioritization and growth-friendly budget composition, and exploring ways to foster private-public cooperation, including a major role of the private sector in achieving the SDGs.

Additionally, pre-pandemic secular trends and challenges to the membership persist or have been exacerbated by the crisis. We share staff’s analysis on pre-pandemic structural global trends, including aging, migration, inequality, digitalization, technology and automatization, and the importance of prominent challenges related to climate change. All these trends reinforce the need for multilateral cooperation and policy coordination in many areas, starting from vaccination efforts and extending to trade, financial regulation, international taxation, climate mitigation and adaptation, or SDGs financing.

2. Surveillance priorities

We broadly agree with staff on the four-top priorities of Fund surveillance, which should be based on the principles of macro-criticality, evenhandedness, and country-specificity. The complexity of the surveillance landscape calls for a reinforcement of surveillance in different macro critical areas and for a holistic and integrated approach to policy advice, including a deeper analysis of risks and spillovers, as well as their policy implications. Enhanced collaboration with external experts and institutions is critical to leverage their expertise and improve our policy advice. **We share staff’s view on the importance to integrate capacity development and surveillance,** which will also enhance traction, and the need to improve data collection and transparency to better inform risks analysis and policy advice.

(i) Confronting risks and uncertainty

We warn against the unintended consequences of turning surveillance into an excessively risk-centric exercise. We agree with staff that in the current juncture, identifying, mitigating, and managing risks are key priorities of surveillance. Nevertheless, an excessive focus on risk-scenarios may complicate the engagement with authorities—eroding the role of trusted advisor—and the clarity and nature of the policy advice. It could also make it more difficult to adequately communicate to the public the rationale and connection between policy recommendations and different risk scenarios, as well as create communication risks related to “self-fulfilling” prophecies.

Baseline scenarios that integrate potential risks and vulnerabilities in a coherent manner are the best way to engage with authorities. Additionally, the advice could be complemented by discussions on trade-offs of different policy responses, based on country-specific circumstances, and candid dialogue on different “less-likely” risk scenarios, insurance, and contingency planning to create more robust policy frameworks. To mitigate communication risks and traction concerns, these discussions on “less-likely” risk scenarios, such as the Contingency Policy Advice proposed by staff, should remain confidential.

We emphasize that the role of the Fund surveillance should not be constrained to confronting risks but, more positively, to help build resilience. Equally important is the Fund’s advice role to reap the benefits of any upside risk, and the possibilities to adapt to secular changes. In this regard, we welcome the way staff presents risk management and mitigation in the report as a tool to confront threats and opportunities.

(ii) Preempting and mitigating spillovers

Coverage of spillovers in surveillance should be enhanced and expanded, especially in Article IVs, including the coverage of data gaps and analytical tools. The prospect of a divergent and multispeed recovery from the pandemic across countries calls for a deeper and more systematic discussion of spillovers in both producing and receiving countries. Moreover, while new contagion channels have emerged (i.e. tourism, climate change or technology), former channels have been reinforced (i.e. capital flows, migration, remittances, or oil prices). *In this regard, we would have appreciated an identification of priority areas of spillovers—for example, the OEI Report on “unconventional monetary policy” recommends the IMF to prioritize the analysis of financial spillovers. Staff’s comments are welcome.* Again, the Fund’s advice role should not be limited to the mitigation of spillover risks, but also expanded to best policies and practices through peer-learning to reap the benefits of positive spillovers. Additionally, due to the complex interconnectedness at a global level, stronger multilateral discussions and cooperation is needed.

We recognize that engagement with spillover producer countries may be constrained by their own national goals. We understand that outward spillover discussions in the Article IV context will continue to be challenging, given the primacy of domestic mandates for national authorities, although this policy dialogue could be reinforced with a deeper treatment of the role of potential spillbacks. *Regarding the Spillovers Forum proposed by staff, we would appreciate staff’s comments on the value-added of this proposal regarding the discussion on risks and spillovers versus the debate contained in the flagship reports or the EWE.*

(iii) Fostering economic sustainability

We welcome staff’s proposal to revamp surveillance with a prominent focus on a broad sustainability concept. We welcome the broad understanding of sustainability that comprises broader definitions of inclusion –social, financial, or technological– and inequality –intergenerational, labor, education, health, or gender–, along with other dimensions such as governance and institutional development, digitalization, and climate.

These topics should be included in bilateral surveillance, according to country-specificity and macro-critical relevance. Sustainability analysis will require broader data availability and the use of external indicators in accordance with current Fund’s policies, notwithstanding the importance of reinforcing the cooperation with other institutions with higher expertise in specific issues. Again, in this area, the coordination between CD and surveillance is a key element of the Fund’s mission. Accounting for all fundamental constraints to policy design and implementation, including the socio-political environment and institutional capacity, will be crucial to provide relevant and tailored policy advice and technical assistance.

We support the systematic integration of climate change in bilateral and multilateral surveillance. Within its areas of expertise and when considered macro-critical, the Fund should play a key role in helping countries to design policies to support mitigation, adaptation and transition. The inclusion of mitigation in multilateral surveillance is fully justified, given its global relevance. Regarding bilateral surveillance, we support the pragmatic approach proposed by staff to expect the inclusion of climate change discussions in Article IVs for top emitters, including assessments on ambition, effectiveness, and spillovers of mitigation policies. For the rest of the membership, the inclusion should be voluntary although gradually extended, according to its macro-criticality to ensure evenhandedness.

(iv) Adopting a More Unified Approach to Policy Advice

Fund’s advice should be based on a holistic approach considering policy complementarities and political economy considerations. The main aim of Fund’s advice is to improve resilience of the economy and design stronger policy frameworks to build resilience and better manage risks. Given the current surveillance landscape, the Fund should explore how the IPF and broad policy agendas work together, including the interactions and trade-offs between monetary, fiscal, financial, and structural policies, while ensuring sound governance and institutional independence. This holistic approach could mitigate some of the current policy constraints, provide additional policy space, and help in managing external shocks. To increase effectiveness and traction, political economy considerations and institutional capacity should be considered when designing an integrated policy response and structural reforms. Furthermore, adequate coordination, sequencing, and prioritization must be incorporated in our policy advice to help successful implementation of reforms.

Strengthening integration of macro-financial analysis in Article IV is a priority. We especially call for a bigger engagement of Fund surveillance and CD on macrofinancial issues in EMEs. We underscore the need for a deeper understanding of the interlinks between monetary and macroprudential policies, within a broader integrated policy framework, to mitigate emerging vulnerabilities and financial stability concerns, including from new cross-cutting areas. In this regard, more granular and reliable data would benefit the analysis and mitigation of risks, especially when analyzing the non-banking and non-financial sectors.

3. Enhancing traction

As a general principle, the Fund’s advice should be guided by the authorities’ concerns, tailored to country-specific circumstances, and strengthened where it has more value-added. Traction is more effective when surveillance is adapted to the authorities’ priorities and is mindful of country specificities and political economy considerations. Further, it is only natural that traction is larger in countries with less developed analytical capacity. In this respect, we have doubts about an excessive focus of surveillance on larger advanced economies, where the value-added of Fund’s analysis and advice could be more limited; especially, if it is done in detriment to a more value-added engagement with capacity-constrained countries. That said, as staff notes, traction is lower regarding monetary and external sector issues. Therefore, enhancing traction in these issues is relevant in the context of spillover surveillance. In this regard, we see the discussion on surveillance modalities as another key element to enhance traction, including adapting reports and topics to country specific circumstances, considering authorities’ specific needs.

We would warn against focusing on external communication as the main instrument for traction. Communication policy should be balanced against the role of the IMF as a trusted advisor. In this respect, we welcome the information provided by staff on different measures and proposals to enhance traction, particularly through improvements in the analytical foundations of Fund’s advice; more evenhanded advice tailored to country-specificities and political economy considerations; better integration of surveillance and CD; and more frequent engagement with authorities, including through virtual meetings –this said, we maintain our support to in-person visits to foster close relationships and trust between the Fund and the authorities. As staff, we are of the view that while useful, virtual engagements are an imperfect substitute to in-person missions.

Traction also depends on the quality of the IMF analysis. In the future, an evaluation of the effectiveness of Fund’s surveillance could be undertaken, similar to the one carried out to assess program effectiveness in 2018. The evaluation should distinguish countries with and without subsequent programs, along with the type of program involved (UCT, preventive or signaling programs), and the occurrence of exogenous shocks. *Staff comments are welcome.*

4. New modalities of surveillance

We would warn against Article IV reports losing their GO-TO nature. We share staff’s principles that Fund surveillance should be more timely, topical, targeted, interconnected, and better informed. More streamlined and focused Article IV reports could help better adapt to increased uncertainty and faster global change. Nevertheless, Article IV reports should retain their comprehensive nature and maintain the core elements in annual cycles (outlook, fiscal, monetary and financial policies). Providing value-added with thematic macro-critical issues when appropriate can complement our policy advice but never at the expense of our core mandate. For many countries, Article IV reports constitute the GO-TO report for analysts and policy makers, and we should not undermine this important global good. Specificity in policy advice should be assessed based on macro-criticality and country-specific circumstances.

We welcome the new modalities of surveillance as well as the learning-by-doing approach proposed by the staff. We concur with staff that more discussions on selective cross-cutting issues and richer cross-country policy insights could be instrumental to enhance

surveillance and policy traction. In this regard, we welcome the proposed new sets of Board meetings: Country Matters Meetings and Thematic Briefings. Nevertheless, we believe more clarity is needed regarding all new modalities, including the Spillover Tools, or the Country Portal. Therefore, we would favor undertaking a stock-taking exercise in a two-year period—or earlier at individual level if needed—to validate the merits of the different proposals. We look forward to the revised Surveillance Guidance note for a better understanding of the implementation details and would caution against the increased use of LOT procedures.

Finally, we also support proposals for reinforcing financial surveillance and FSAP integration in all Article IV reports. We welcome a more interconnected approach in surveillance that would help to provide a more unified policy advice, increase traction and leverage on existing resources. In particular, FSAP integration and follow-up of its recommendations in Article IV consultation would allow a better assessment of systemic risk related to the financial system.

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GRAY/21/1141

May 4, 2021

**Statement by Mr. Mozhin, Mr. Palei, Mr. Potapov, Mr. Tolstikov, Mr. Biriukov, and Mr. Shestakov on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

- 1. We thank staff for the opportunity to discuss the Comprehensive Surveillance Review (CSR).** We hope that the key proposals under the review will help the Fund strengthen the quality of its work and policy advice, improve traction, and enhance the dialogue with the membership. A gradual approach to the CSR operationalization, as well as careful and evenhanded experimentation with the new surveillance modalities, should provide sufficient flexibility in the current uncertain environment. While supporting flexibility and experimentation, we welcome staff's assurances that they did not propose any revolutionary changes in the modalities of the Fund's work. The Integrated Surveillance Decision (ISD) remains the main guiding document; the Article IV reports supported by insightful chapters in the Selected Issues papers (SIPs) represent the bread and butter of the Fund's work; and the Board continues to play a central role in the Fund's surveillance.
- 2. We welcome the proposal to review in two years the newly suggested surveillance vehicles, including expanded reliance on the Country Matters Meetings (CMMs), Granular Policy Initiative (GPI), spillover forum and tool, and contingent policy advice.** More generally, we believe that the Board should play a prominent role in evaluating the effectiveness of any innovations, significant experiments, and pilots.
- 3. The Fund should strike a right and realistic balance between the core and emerging issues in its surveillance.** The 2021 CSR is a forward-looking exercise identifying the broad strategic direction for the Fund's surveillance for the next 5 to 10 years. In our view, the key proposals under the CSR are designed to better capture the major trends and support expansion of the Fund's work on climate change, digitalization, and inequality. At the same time, the review has been conducted against the unprecedented crisis in the global

economy that aggravated vulnerabilities in the Fund's members, including subdued growth prospects, record public and private debt levels, rising financial vulnerabilities, and the lingering challenges to multilateralism. *These issues remain critical for the Fund's surveillance and its members. Their analysis cannot be streamlined as a trade-off in taking up of the new priorities. Surveillance of emerging issues should not come at the expense of weaker surveillance in the core areas.*

4. **The Fund should not be overly optimistic about growth prospects and debt problems in advanced economies and presume that they do not need deep structural reforms and adjustment.** Most of AEs have been experiencing low growth and low inflation since the global financial crisis, pointing to the lack of progress in necessary fiscal and structural reforms and the rising share of non-viable companies. We recall that over the past decade expectations of reforms in this group of countries had been downgraded many times. Negative interest-growth differentials should also not be taken for granted. Public borrowing costs can rise sharply, especially if interest rates were to increase again. The Fund needs to better articulate its view on how to deal with the large public debt burdens and address the implications of the expanding central bank holdings. The moderate traction of the IMF's policy advice implies the need to further strengthen the Fund's expertise in its other core areas, including monetary policy and the external sector issues.

5. **The CSR's priorities are sufficiently broad to cover both traditional macroeconomic issues and the emerging topics, while remaining grounded in the ISD and being guided by the principle of macro-criticality.** We broadly support increased focus on risks, spillovers, economic sustainability, and unified policy advice.

6. **On risks,** we agree that in the current environment, more attention to risks and risk mitigation is needed in the Fund surveillance. We support the call for improved consistency between Risk Assessment Matrices and staff advice in the main body of Article IV reports. At the same time, we warn against possible proliferation of the risk scenarios and would advise to move ahead carefully, building on best practices in the scenario analysis in the past. The Fund needs to develop necessary tools and methodologies while testing them on a limited number of members. Scenario analysis is intended to highlight the key points of staff's analysis, it is not aimed at an exhaustive coverage of all imaginable risks. *Given the proposals to make Article IV reports more focused and concise, we wonder how the description of several shock scenarios and various policy responses could be incorporated into the main body of a report.*

7. **On spillovers,** we take note of staff's analysis that the Fund could discuss a much broader scope of spillovers stemming from health, climate change, technological advances,

and migration. We believe that the Fund should remain realistic in its ambitions to tackle these tasks. We recall that in the past the progress in the Fund's work on spillovers from the macroeconomic policies in AEs was hampered by deep-seated complexities, gaps in the Fund's expertise, and the lack of members' responsiveness. Hence, addressing spillovers may require extensive experimentation and timely reflection by the Board on the effectiveness of various approaches. *Staff comments would be appreciated.*

8. **On economic sustainability**, we believe that macro-criticality and the Fund's own sufficiently developed expertise should remain the key conditions for its deeper engagement in a widening range of issues, such as climate change, technological progress, demographics, inequality, and socio-political developments. Proper collaboration with the World Bank and other IOs should also help tap into the existing knowledge and to avoid duplication of efforts. When collaborating with others, the Fund should carefully assess the risks of using unreliable sources of information, including the so-called third-party indicators, and guard against superficial and unreliable data and analysis.

9. **Consequences of the climate change have become macro-critical in many countries and the Fund needs to strengthen its expertise to provide policy advice to limit economic damages, manage risks, and address distributional aspects.** The lack of mitigation efforts might cause spillovers to the international monetary system. However, any coverage of these spillovers should be comprehensive and account for the countries' track record in pollution, as well as preservation of carbon sinks such as rainforests. If there is no agreement between the authorities and the IMF country teams on whether the mitigation efforts should be covered in Article IV reports, the Fund's publications on multilateral surveillance might be used for expressing various points of views.

10. **Greater attention should be given to the Fund's macrofinancial expertise, as well as to broadening the Fund's macrofinancial analytical toolkit.** We agree with staff that the scope of systemic risk analysis should go beyond banks and cover non-banking financial sector and nonfinancial corporates. The analysis of real-financial linkages can also provide better policy recommendations if they will be grounded in a forward-looking analysis of risks. We continue to strongly support the call for additional resources for macrofinancial work at the Fund.

11. **The Fiscal Transparency Evaluations (FTEs), Public Investment Management Assessments (PIMA), and SOE diagnostics are among the most prominent innovations since the previous CSR.** These products seem to be similar in nature to the FSAP, and their popularity among membership calls for greater reliance in surveillance, not just capacity development. *Could staff elaborate on their vision of improvements in this area?*

12. **We support the efforts to strengthen the modalities of the Fund surveillance.** We agree that the Fund needs to provide timely, focused, and relevant advice to its members. This can require additional flexibility to adapt to rapidly evolving demands, while strengthening the analysis of cross-cutting issues and knowledge exchange within the Fund and between the Fund and its members. In our view, there are still many unknowns about the key modalities proposed under the CSR. Experimentation and learning-by-doing with proper accountability would be critical going forward. At the very least, the Interim Surveillance Review (ISR) in two years will provide an important opportunity to reassess the effectiveness and gaps of the new surveillance modalities.

- **Focused Article IV consultations.** Article IV consultations should remain bread and butter of the Fund’s surveillance. If staff find Article IV reports to be overloaded with excessive requirements, the Board should explicitly consider which requirements could be streamlined. We remain concerned that a topical approach could result in staff overlooking important sectors and the risks facing a specific country and could dilute the focus on the key issues in line with the Fund’s mandate. We continue to believe that the SIPs present an excellent platform for the deep dives into specific topics. At the same time, we agree that a more risk-based approach in some cases, where the IMF policy advice has not changed in a substantial way, could benefit the membership by providing more relevant and country-specific recommendations. In this context, a decision to incorporate a wider list of emerging topics into Article IV consultations should consider the members’ needs and the authorities’ views rather than to rely on a “checklist” approach.
- **Country Matters Meetings (CMMs).** We are broadly supportive of the proposal to experiment with the use of CMMs in the IMF surveillance toolkit. This mechanism could offer the Board timely insights into vulnerabilities and crosscutting themes, including how different countries are tackling similar challenges. CMMs should not impact the regular cycle of the Article IV process. *We would appreciate additional comments on a topic selection process for CMMs. Another issue is related to the establishment of a virtuous feedback loop from CMMs into more formal discussions on policy issues and future Article IV reports. Could staff elaborate on how to balance the tensions between a possible top-down approach and the authorities’ needs and priorities?*
- **Granular Policy Initiative (GPI).** We understand that the GPI aims to establish a live repository of key lessons organized by topic, Article IV consultations, and the Fund’s policy dialogue in public fora. *Could staff elaborate on the related attempts to strengthen peer learning and cross county analysis at the Fund, as well as to organize internally topical information (databases) on the Fund’s work, including the development of knowledge exchange?*

- **Knowledge management, tools, training, and data.** For many years we have been actively calling for expeditious improvements in various knowledge platforms to facilitate and speed up the dissemination of knowledge, policy advice, tools, and best practices across the Fund and its members. In this context, we welcome further efforts in this area. At the same time, we continue to believe that broader access to the Fund's knowledge and expertise should be provided for the authorities and public. We also support the plans to revamp the internal economics program to help staff improve skills and knowledge, including on the new priorities.
- **In-person dialogue & virtual engagement.** We agree that the Fund's surveillance can leverage on the complementarity of virtual engagement. However, in-person dialogue remains indispensable to build relations and traction, gather comprehensive and confidential information, and reach out to the high-level countries' representatives.

13. **The available costing information does not allow the Board to make an informed decision about the budget implications of the CSR.** We thank staff for providing preliminary estimates of the resources needs for expanding macrofinancial talent, CMMs, the GPI, and the new spillovers initiative. At the same time, the budget implications of the Fund's enhanced work on climate change, digitalization, and inequality remain uncertain. The costs of implementing the new country portal are also left to the medium term. In case of the lack of resources for the CSR operationalization, including no support for the budget structural augmentation, the Board should have an opportunity to revisit the CSR conclusions sooner than the next ISR.

14. Finally, while the CSR did not address the issue of its appropriate periodicity, we wonder whether a return to triennial and more streamlined reviews would serve the Fund better in setting the strategic path for the medium term. *Staff comments would be appreciated.*

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GRAY/21/1147

May 5, 2021

**Statement by Ms. Riach, Mr. Ronicle, and Mr. Chrimes on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

The IMF’s bilateral surveillance needs to be engaging, thought-provoking and persuasive – now more so than ever. The current approach has too often generated “formulaic and stale” reports that lack traction. The Integrated Surveillance Decision (ISD) and its focus on macro-criticality remain the right guide. But as the Comprehensive Surveillance Review (CSR) articulates, the challenges that members face are evolving. If IMF surveillance is to guide the membership, it needs to engage members and address the right issues. The CSR is our opportunity to achieve that, and we strongly support the final recommendations.

We thank staff for the suite of papers and their close and frank engagement over the duration of the review. Their thinking has been wide-ranging. We strongly support their vision for analysis and advice that is “more timely, topical and targeted”, “better interconnected” and “better informed”, delivered clearly and concisely, while maintaining the rigor for which the institution is known. We look forward to that ambitious vision being put into practice – and to seeing the results over the coming months and years.

The proposals in the CSR sharpen delivery of the Fund’s surveillance mandate. Fundamentally, surveillance is the first line of defence in promoting macroeconomic and financial stability. To be effective, that depends on offering meaningful analysis and advice to members in a timely, flexible and impactful way that addresses major current and upcoming challenges. Appropriate coverage of the identified emerging priorities, where these are macro-critical, is not about deviating from the core mandate, but delivering against it.

I. SURVEILLANCE THAT BETTER ENGAGES THE MEMBERSHIP

More streamlined, issues-focused Article IV reports will resonate more with policymakers. We agree that the ISD continues to provide an appropriate framework and

minimum standards for topic coverage – but we also agree with staff that there is a need to “rebalanc[e] comprehensiveness and selectivity”, to ensure that surveillance focuses on the biggest challenges where it can have the most traction. We want to avoid long tick-box exercises that repeat themselves year-on-year and offer diminishing value to authorities. Instead, we hope that country teams will be empowered by CSR changes to produce more dynamic and influential assessments, enhancing engagement and traction. We share staff’s view that the ISD offers sufficient flexibility here. Indeed, there are some positive examples of this flexibility being partially deployed already in Article IV consultations, including in response to the COVID-19 crisis, and we look forward to further evolution.

We support a more strategic role for the Board on surveillance, and we see Country Matters Meetings and the Granular Policy Initiative – *if done well* – as complementary vehicles for helping to deliver this. To add real strategic value, these discussions will need to involve new thinking and concrete policy decisions for the Board, rather than just presenting completed analytical work. They will need to add insights which could not easily be delivered through the flagships or through individual country surveillance, and will require frank discussion of country cases, not group averages. While Country Matters Meetings are framed as covering conjunctural policy-relevant developments facing a group of countries, we understand that the Granular Policy Initiative would be a forward-looking, policy-first instrument. Establishing proofs of concept through compelling early examples will be important. There should also be some agency for the Board on how topics are selected – most obviously through a substantive discussion about the work program – and clear consequences from Board views, such as revisions to guidance notes, the acceleration of policy reviews, or identifiable changes in staff advice. As possible early examples, we could see value in: a discussion of Fund advice to tourism-dependent economies during pandemic recovery; advice to oil exporters in the light of increased action on climate change; consideration of the recent experience of debt operations.

This chair continues to believe in more proactive use of the existing Lapse of Time procedure for Article IVs to support more strategic engagement from the Board. This is not about reducing the Board’s influence: Board members would still be able to put views on the record through written statements, and could call for full Board discussions where needed. But some Board discussions on Article IV reports add little to buff and gray statements. Refocusing towards more strategic issues would free up staff and Board time to focus on the engagements that add most value.

II. ADJUSTING SURVEILLANCE PRIORITIES TO BETTER REFLECT THE MANDATE

We agree with the key surveillance priorities identified by staff. It is a credit to staff’s initial broad thinking that the priorities originally identified for the CSR remain relevant despite the pandemic shock. This strengthens our confidence that – if well-implemented – they will be robust to a wide range of possible outcomes. Greater consideration of **risks and**

uncertainties should be part of staff dialogues with country authorities; we continue to see value in at-risk tools, which have been used to good effect – albeit sporadically – to identify risks and develop mitigating policies. **Pre-empting and mitigating adverse spillovers** is an important part of the Fund’s mission. If it does not already exist, we wonder whether an internal, staff-level equivalent to the proposed informal spillovers forum could help address concerns about knowledge gaps for mission chiefs, and thus may help foster more meaningful dialogues about spillovers with country authorities in Article IV discussions. More **unified policy advice** is also a worthy objective: in addition to the importance of linking fiscal and structural analysis, or macroprudential and monetary policy advice, Article IV reports could more consistently join up advice on fiscal, monetary and external advice and how they feed into desired *outcomes*, as opposed to focusing on policy levers: too often, staff reports approach policy levers in siloes, without articulating the read-across, the interactions, or the reasons why one lever is emphasized at the expense of another.

Fostering economic sustainability is, in our view, the most important of the identified priorities: while there are understandable reasons for the three-to-five-year time horizon that has traditionally underpinned IMF surveillance, we cannot afford to delay engaging with slow-moving risks – by the time a risk crystallizes, it is likely to be too late to address.

Staff have thoughtfully articulated the Fund’s surveillance role on climate change, and we strongly support their proposals. More systematic coverage of climate change in macroeconomic and financial surveillance – spanning mitigation, adaptation and transition risks, and a range of policies to address them – is crucial to the Fund delivering effectively on its mandate, both for individual members and at a global level. On mitigation, we continue to support the plan to “strongly encourage” mitigation coverage in Article IVs for the 20 largest emitters as a pragmatic way forward, even though we see a logical argument that such coverage *should* be mandatory for these economies, given the macro-critical implications globally. We welcome the plan to “encourage” mitigation coverage for other countries too. As several chairs have noted in recent discussions, smaller high-emitting economies should not be overlooked: like any public good, mitigation action is potentially vulnerable to free-riding.

We also particularly support improved integration of analysis of systemic financial risks and macro-financial linkages into bilateral surveillance. This substantively delivers on the IEO’s recommendations in this area and complements the Financial Sector Assessments Program (FSAP). We welcome the promise of enhanced coordination between Article IV and FSAP teams. The talent-building proposal reflects the right scale of ambition, though we would welcome further detail on how the country gaps assessment was arrived at, and – particularly in the context of the large additional resources sought for other priorities – we expect to consider all resourcing proposals in the round as part of the request for a structural budget augmentation later in the year.

III. TURNING THE VISION INTO REALITY

The ambitions of the Comprehensive Surveillance Review cannot be delivered simply by writing a new guidance note, even if this will be crucial, so we endorse staff’s call for “experimentation, adaptation and flexibility”. This needs to be done carefully, with sharing of both intentions and emerging experiences. Some experimentation and “learning by doing” will be necessary, and a sandbox approach seems a pragmatic way forward. Board members will need a good understanding of how decisions under the new approach will be taken. This applies to Article IV consultations themselves (so that authorities also know what to expect), to broader Board engagements, and to wider initiatives. We are not asking for all the answers now, but there should be no late surprises. We see the logic for an interim review in around two years to take stock of progress, but we also encourage staff to share experiences and evolving plans regularly, in a more informal and dynamic way, in the interim.

Given the cultural shift required to deliver on the CSR’s ambitions, the guidance note will need to strike a careful balance between giving staff enough guidance to engage on new topics and deploy new modalities, while at the same time not being overly constraining. As staff explained ahead of the mid-point discussion, “making policy advice less rigid” but also “more coherent” is not straightforward. Nor is delivering streamlined Article IV reports that also pivot to better address slow-moving systemic macroeconomic challenges without sacrificing the Fund’s core responsibilities under the ISD. Even the modalities of new thematic initiatives will bring challenges. But we believe that they *can* all be delivered effectively, to make IMF surveillance more compelling and influential, and to better deliver on the Fund’s mandate. This will require clearly-articulated support for the new approach from management, backed up by written guidance for staff. There are several areas where the guidance note could usefully elaborate on some of the proposals in staff papers, including: collaboration; capacity development; traction; and the Fund’s role on some aspects of economic sustainability.

On economic sustainability, we agree that inequality, demographics, digital technology and shifting global economic power *can* have macro-critical dimensions which merit attention in IMF surveillance. However, in comparison with the detailed thinking on climate change, we remain somewhat less certain on the precise role for the Fund in these other areas. As with climate change, staff must consider the institution’s comparative advantage in providing analysis and advice, and work by other international bodies. The need for clear guidance for country teams on how and when the Fund should engage on these issues – and how to do so coherently, consistently and meaningfully – has been highlighted in our engagement with civil society organizations.

The papers give good attention to the importance of collaboration (both with other international institutions and internally), but at this point stop short of offering

compelling practical solutions. We are not advocating collaboration for its own sake, and we acknowledge that it is not always easy, but – particularly where Fund analysis is exploring emerging macrostructural themes (e.g. climate change, demographics, inequality, technological change) in which other institutions also have expertise – there is a premium on coordination to maintain credibility, ensure value-add and avoid duplication. Guidance notes have a key role to play in setting a meaningful but light-touch framework for staff. More generally, while we accept that effective collaboration is often driven from the bottom up and relies on buy-in from both institutions concerned, top-down messaging is also important, and we encourage management to consider how good collaboration can be incentivized.

Another area where we hope to see further development is on better integration between surveillance and capacity development. Again, the papers set out clear benefits in principle, but proposals to deliver on these worthy ambitions are somewhat lacking. For countries with significant capacity constraints, country capacity development strategies should be prioritized, with mission chiefs closely involved in their formulation, evolution and execution. Article IVs could include a capacity development plan which prioritizes technical assistance needs linked to policy recommendations: this would help make overall policy advice more coherent and would enhance country ownership.

Similarly, we strongly agree with staff on the importance of traction, but we underscore the need to think creatively about how to achieve it in practice. Without traction, surveillance has little real-world value. Yet different countries need different things from IMF surveillance, based on their circumstances. That does not mean staff should duck difficult questions in engagements with authorities. What it does mean is that staff need to consider a country's circumstances in calibrating their approach on both substance and modalities, consistent with both the ISD and CSR principles. Evenhandedness does not imply uniformity, but instead a differentiated approach that treats individual members fairly according to their situations.

Enhanced traction requires a difficult balancing act, and mission chiefs will need to carefully consider what is of most use to individual members. For example, small states with lower capacity sometimes draw heavily on staff assessments and projections for their budgets and other planning: streamlining of their Article IV consultations and reports will need to account for that. We note that in a world of more dynamic surveillance, which may have more noticeably different coverage from one Article IV report to the next, continuity on country desks will be crucial; we therefore reiterate our concerns about mission chief turnover for smaller and more vulnerable members (especially those on 24-month Article IV cycles).

Overall, we reiterate our strong support for the vision that staff have set out as part of the CSR. We look forward to its implementation so that the Fund can deliver on its surveillance mandate as effectively as possible over the next five to ten years.

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May 5, 2021

**Statement by Ms. Levonian and Ms. Vasishtha on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the comprehensive papers which present ambitious proposals to enhance the quality and traction of Fund surveillance. We fully agree that the Fund's approach to surveillance needs to adapt to the changing global landscape for it to be more relevant and useful for members. The projected multi-speed recovery from the pandemic will likely lead to increased heterogeneity in economic outcomes across countries, thereby reinforcing the importance of having a more flexible and tailored surveillance model. We broadly support the main proposals for the review and encourage staff to remain closely engaged with the Board as implementation proceeds.

We maintain our support for the four main surveillance priorities which have clearly become more relevant in the context of the pandemic. We particularly support making surveillance more risk-centric by better integrating analyses of risks and spillovers and a thorough consideration of country-specific circumstances. We welcome several key features of the review, notably: the focus on increased opportunities to share cross-country experiences; a more streamlined and tailored approach to Article IV consultations combined with sufficient safeguards to ensure evenhandedness across countries and adequate coverage of core surveillance areas; better integration between capacity development (CD) and surveillance; strengthened integration of financial sector issues in Article IVs; and expanded data and analytical tools.

The successful implementation of the proposals will depend on several factors, including a supportive organizational structure. It will be critical to ensure that country teams have the needed skills and experience, adequate access to the necessary tools and data as well as a clear understanding of how to implement the new surveillance priorities. We would like to see additional details regarding the mechanics of some of the proposed

procedures and processes, including timelines for implementation, as well as more detailed budgetary implications of the proposed changes.

Surveillance priorities

Confronting risks and uncertainties. A deeper and more holistic approach to risk assessment is needed. We strongly support greater emphasis on the range of potential outcomes to improve policy design and on proactive policy advice on managing risks. We agree that risk assessments are often not well integrated throughout staff reports, which tend to focus predominantly on the baseline. Policy advice needs to shift towards providing actionable advice for different risk scenarios. At the same time, communication of policy advice and risk scenarios should be improved, including by ensuring more systematic coverage of risks across all staff reports and highlighting the advantages of addressing risks preventatively.

Pre-empting and mitigating spillovers. Despite progress on spillover analysis in recent years, significant scope remains for strengthening the analytical work on spillovers as well as the quality of consultations with country authorities. We appreciate staff's careful reflection on the underlying factors constraining progress on this front, including operational considerations. We welcome the various proposals for updating the spillover modalities, notably establishing a Spillover Forum to facilitate engagement with the membership by providing a platform for sharing cross-country lessons and timely communication between spillovers-producing and -receiving countries. *Could staff comment on the envisaged timeline for rolling out the Spillover Forum?* Additionally, we encourage timely progress on operationalizing the Integrated Policy Framework (IPF) and look forward to more unified policy advice based on a close consideration of trade-offs across various policy tools.

Fostering economic sustainability. We welcome the ambition to develop a broader and deeper understanding of economic sustainability, including by relying on a wider set of indicators for surveillance, paying greater attention to inter-temporal tradeoffs, and applying a longer-term horizon than the standard five years. Some of the developments relevant for sustainability (such as demographics, technological change, inequality, socio-political and geopolitical developments, climate change etc.) are non-economic in nature and outside of the Fund's traditional mandate. While these developments warrant close consideration, it will be important to keep the Fund focused on its core priorities and avoid 'mission creep' into too many areas outside its mandate. To that end, we would welcome a more clearly articulated policy for how particular topics will be chosen.

On inequality, we welcome broadening the concept of inequality to include the dimensions of gender and education and encourage further analytical work on inequality and distributional issues. Gender inequality is detrimental to sustained growth and calls for policies to provide more equal opportunities. Regarding climate change, we reiterate that climate change

considerations, when deemed macro-critical, should feature in both bilateral and multilateral surveillance products. Climate stress testing and scenario analysis should be routinely included in FSAPs.

A more unified approach to policy advice. The pandemic has brought to the fore policy tradeoffs, the need for better coordination, and a more unified approach to policy advice. In particular, we welcome the proposals to strengthen macrofinancial surveillance in Article IVs. Staff teams should have access to sufficient financial expertise to allow them to meaningfully pursue financial stability issues and the tools to support better integration with FSAPs. Significant gaps remain in terms of coverage, depth of risk analyses, and provision of advice where vulnerabilities are identified, particularly among EMDEs. Given long standing issues with data availability for EMDEs, the ongoing ‘Review of Data Provision for Surveillance Purposes’ provides a timely opportunity to help address these gaps.

Modalities

We welcome the range of initiatives being proposed to make surveillance more timely, topical and targeted, better interconnected, and better informed. As noted by staff, the proposed modalities should avoid a one-size-fits-all approach and consider country-specific circumstances and constraints, particularly for LICs, fragile states and small developing states.

We strongly support opportunities for more cross-country learning and cross-cutting discussions. However, within this context, it will be important to ensure continued coverage of the core areas of surveillance, along with appropriate guidance to country teams to preserve evenhandedness. Topics for issues-based products should be carefully selected in close consultation with authorities. The *Country Matters Meetings* provide a good forum for focusing on conjunctural policy relevant issues pertinent for a group of countries and for engaging with authorities on a more frequent basis. It would be helpful to better understand how such briefings will inform bilateral surveillance.

We welcome efforts to streamline Article IV reports in order to make surveillance more timely, topical and targeted. Close consultations with authorities will be essential for country teams to decide on the criticality and selection of issues to be covered, which in turn will lead to more pertinent policy advice. At the same time, exchange rate, monetary, fiscal, and financial sector policies should continue to be covered in all reports. To ensure timeliness, we support streamlining internal review processes to reduce the lag between staff missions, Board discussion, and publication of staff reports. We concur with staff that proposals will need to strike an appropriate balance so as not to overburden authorities, staff or the Board. In addition, we reiterate our support for greater and more effective use of Lapse of Time (LOT) procedures under the current LOT policy as a means of reducing bunching in

the Board calendar, providing more time for strategic discussions at the Board, and freeing up staff resources.

The practical implementation of the reform proposals must incorporate the different roles played by bilateral surveillance in different member countries. We agree with staff that a more focused issues-driven approach to surveillance will be most appropriate where extensive information is already available. On the other hand, for members with limited data availability or low capacity, the Fund may be the sole provider of comprehensive coverage - providing important information not only to the member, but also to donors and investors. Further, while we recognize the importance of data for surveillance, we note that members with very low capacity face challenges in meeting current data requirements, let alone enhancements. Significantly increased data requirements - as part of the 'Review of Data Provision for Surveillance' - may place undue additional demands on such member countries. In these cases, tailor-made CD would need to accompany new requests for data provision.

We continue to strongly support better integration between CD and surveillance, including for LICs, small developing states and fragile states who are heavy users of CD. Staff's case studies of good traction confirm that the specificity, credibility, and effectiveness of Fund advice significantly improve with CD. For countries with capacity constraints, policy advice needs to be practical and accompanied by well-sequenced and well-coordinated TA as needed. We urge staff to expedite the implementation of the *Capacity Development Strategy*, complemented by mainstreaming of best practices in the integration of CD in surveillance. Article IV reports should include a CD plan, which is clearly linked to policy recommendations and can be updated in subsequent reports. We also see merit in the proposal to strengthen integration between CD and surveillance through targeted cross-mission participation, which has proven effective during recent virtual engagements.

Traction

We welcome the assessment of traction as a fundamental part of the CSR since it is critical for understanding whether surveillance is ultimately effective or not. Fund advice should be based on a holistic approach that takes into account policy complementarities and political economy considerations. To enhance traction, staff should be open to listening to the authorities' views and concerns and adapt its advice to measures that can be realistically implemented in light of country-specific circumstances. In this context, we welcome the emphasis placed by staff on the importance of understanding and better integrating capacity, institutional, and political economy considerations in strengthening traction in surveillance.

Consistency and expertise in country teams plays a critical role in building traction. *The IEO's Evaluation of IMF Advice on Unconventional Monetary Policies* provided striking insights into the impact that rapid turnover of country assignments has on developing deep relationships with member countries and, hence, on traction. This, of course, goes beyond monetary policy issues and affects the traction of advice more generally, particularly so for small states. We, therefore, welcome staff's acknowledgement of the importance of continuity of mission chiefs and staff team tenure as factors influencing traction. The Fund must be able to continue to attract and incentivize high-quality, dedicated staff with the right skills, and support a variety of career paths - both specialist and generalist. We think tackling these issues is of the utmost importance. We agree that recent reforms implemented by HRD, including tracking and reporting on average mission chief tenure and a mobility framework emphasizing experience in LICs and fragile states, will help in monitoring and improving incentives for responding to members' needs. HR practices should be continually reviewed to ensure that they are not too rigid and don't come at the expense of traction with member countries.

We strongly support more cross-country learning in Article IVs and "listening to authorities' concerns and alternative views" as key priorities for strengthening traction. There is an implicit link here between the CSR and the IPF which could have been brought out more clearly since the two workstreams should take a consistent and holistic approach in this regard. Furthermore, the huge popularity of the policy tracker also highlights that authorities appreciate insights from cross-country experiences. Further, we appreciated the insights from country examples of good traction in recent years. *Has there been any analysis of cases where there is a lack of traction, including consideration of the role of staff turnover during the pandemic?*

Resource Implications

Resource implications for the CSR and the FSAP review should be considered in the context of the overall medium-term budget envelope to allow the Board to take informed decisions on resourcing and appropriate trade-offs. We thank staff for providing the tentative cost of new proposals that have significant budgetary implications, notably expanding macrofinancial talent. We note that some proposals can be absorbed within the existing envelope and encourage staff to proceed with implementation through appropriate reprioritization and resource reallocations to conduct surveillance in a more efficient and cost-effective manner. *Could staff elaborate on how much of the additional cost of new proposals will need to be incorporated in the structural budget augmentation?*

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GRAY/21/1151

May 5, 2021

**Statement by Ms. Mannathoko, Mr. Garang, Ms. Maidu, and Mr. Essuvi on
Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

1. We welcome the excellent work presented in this surveillance review. We value the analysis and broad thinking in the various background papers. The review makes a robust effort to define reforms needed to modernize and enhance the quality and traction of Fund surveillance in the post-COVID-19 era. We appreciate the broad consultation and the fact that various concerns we have raised at the Board over the past year or so are addressed therein. We expect the measures proposed to help member countries navigate challenges emanating from both the COVID-19 pandemic, and other emerging trends that have significant macroeconomic and financial implications.
2. **We agree with staff's assessment of major trends and the macro-financial landscape over the next decade, and broadly support the strategic direction outlined for surveillance.** The COVID-19 pandemic has transformed the backdrop against which the Fund's surveillance will occur, elevating pre-existing risks and uncertainties and introducing regional divergence into global economic recovery prospects. The pandemic has interrupted development, raising poverty, inequality and macro-financial risks, even as countries continue to contend with limited policy space, vulnerabilities, and structural rigidities. At the same time, the pandemic has accelerated some trends, that will continue to shape surveillance, the adoption of digital technologies being the most obvious. We face a world characterized by rapid technological change alongside elevated uncertainties, wide-ranging spillovers, multiple shocks in some regions and strains on countries' policy space. Surveillance over the next decade has to reflect this with a risk-based focus and reframing to limit outward spillovers from systemic countries, especially outward spillovers to the most vulnerable regions prone to current and capital account shocks. Surveillance also has to be adequately equipped to help countries leverage opportunities presented by technological advances and climate change. In this regard, the four priorities identified, namely; confronting risks and uncertainties, preempting and mitigating adverse spillovers, fostering economic sustainability, and adopting unified policy advice, are appropriate and will better position Fund surveillance to help member countries navigate the challenges posed by the emerging economic landscape.

The Four Priorities

3. **The surveillance priorities identified will likely enhance the quality of Fund surveillance, preparing it to confront more frequent risks and longer periods of uncertainty.** In countries prone to frequent commodity price and health shocks, and those facing high climate risks due to excessive temperatures and frequent disasters, surveillance has to be able to guide efforts to build resilience in a manner that supports and does not suppress growth. When spending plans divert resources away from pro-growth spending that also builds resilience, countries risk economic deterioration over time and a return to dependency on IMF resources. Surveillance will also need to assess cybersecurity preparedness in a more structured manner, especially in more vulnerable regions where cyber-security risks are highest, as well as in systemic economies. Similarly, rising inequality increases risks from social unrest. We welcome efforts to deepen staff awareness and knowledge on all these issues.
4. **Closer attention to negative spillovers to poorer, more vulnerable regions is important.** We look forward to the operationalization of the Spillovers Forum and the envisaged benefits. *We are supportive of a Forum that ensures that the interests of developing regions like SSA are well represented.* To the extent that planning by systemic economies in areas such as climate, trade and finance among others, can take into account the spillover consequences from the design and structuring of policies, and seek to moderate negative spillovers, this will help reduce persistent shocks in poorer, more vulnerable regions and slow the current divergence in economic prospects of poorer regions. We concur with staff on the need to strengthen analytical frameworks for both inward and outward spillovers in a consistent manner. For developing countries with elevated financial vulnerabilities arising from capital flow reversals, we urge staff to strengthen analysis around financial and capital flow management, ensuring that analytical assumptions adequately accommodate market imperfections. Deepened country-level and global analysis to support the Fund's policy advice will be important to minimize spillovers and build the resilience to shocks needed for durable, inclusive growth. *Could staff elaborate on the envisaged design of the Spillover Forum and on ensuring adequate representation of the views of developing regions in the Forum?*
5. **We support the intent to improve and modernize surveillance, while retaining the core elements required under the Integrated Surveillance Decision and the principle of macro-criticality.** The proposed changes will allow a focus on important issues while ensuring surveillance remains well-targeted, timely, better informed, coordinated, and forward-looking. We also support better integration of financial surveillance with Article IVs, as macro-financial challenges are likely to grow in the wake of the pandemic. Broader scenario analysis and contingency planning around macro-critical issues will also be important to account for risk and uncertainty. *Regarding multilateral-bilateral surveillance linkages, are staff satisfied with the current level of integration of insights and guidance in flagships relating to trends in trade, migration, digital currencies, demographics, and climate, among others, into bilateral surveillance? Can more be done to enhance this? Could this better support the collective action and complementarity needed to ensure a strong but fairer global recovery?*
6. **Economic sustainability is an increasingly important factor that needs to be prioritized and addressed upfront in surveillance.** Elevated public and private debt levels amidst

increased uncertainty could hamper efforts to boost growth while building buffers, thus the design of IMF surveillance advice and support will, among other things, require the flexibility needed for intertemporal tradeoffs across a longer time horizon. Surveillance also needs to have the flexibility to better accommodate emerging priorities as digitalization rapidly pervades all aspects of economic activity, and as climate impacts and risks continue to grow. Like staff we expect digital technology to aid fiscal policy and public administration, while expanding access to financial services, and reshaping the financial industry and monetary policy. In addition, we agree that climate change, distributional considerations, and demographic shifts, alongside the quality of governance and institutions will be increasingly critical for sustainable economic growth and stability. This in turn will require enhanced knowledge in IMF staff alongside effective collaboration in some areas, and flexibility in surveillance both to accommodate developments and to provide a longer - term perspective in the design of surveillance advise.

7. **Economic sustainability is also impacted by the effectiveness of social contracts between citizens and the state, and this effectiveness is in turn affected by the design of economic systems.** In the global arena, the rise of corporate power that has accompanied digitalization, and the concentration of wealth and influence in a few private entities needs ongoing attention, with the IMF providing the analysis needed to guide the design of a new, fairer, global economic architecture where democracy and economic welfare for the majority are not usurped by corporate power. As this chair has indicated in Board discussions over the past two years on international corporate taxation and corporate power, even organizations representing major private sector corporations are now highlighting the flaws in a dogged approach to Milton Friedman’s shareholder supremacy doctrine, which has created the current unsustainable economic system that evolved to concentrate and reward wealth at the expense of the broader population, reflected in part in an underutilized global labor force and broadening social dissatisfaction. Staff scenarios illustrate how emerging trends in the surveillance landscape, including digitalization and climate change could be exacerbated by the diminished role of governments, and IMF analysis and advice has to be able to guide change and articulate the cost of inaction on this issue.

8. **A more unified and holistic approach to policy design and advice would be beneficial.** An underlying structure is needed to better understand policy trade-offs, as multifaceted policy responses are adopted by more countries. Therefore, we welcome the consideration of the macro-financial aspects of adopting a more unified approach to policy advice in the background paper. We urge equal attention in this work stream to the different types of shocks affecting different member countries, as this will be necessary to ensure effective tailoring of advice to country-specific circumstances. We look forward to upcoming Board discussions on macroprudential and external sector policies, including on the IPF. In the same vein, we welcome the planned integration of FSAP and IPF into Article IVs, which should be structured to ensure that macro-financial policy advice is strengthened and more effective. We also hope to see more work on macroeconomic frameworks that effectively back transformational policies needed to achieve diversification in commodity dependent economies, as a means to contain the impact of external shocks. *Could staff comment on this and on progress made in meeting past IEO recommendations such as those in 2018 evaluation “The IMF and Social Protection,” that called for a clear strategic framework to guide the Fund’s involvement in social protection and for tailored advice based on in-depth analysis of the country contexts? As staff acknowledges that LICs and fragile states will likely struggle with the impact of the crisis and that modalities to overcome these challenges should*

recognize country peculiarities, we look forward to updates on specific work underway to assist these members under the surveillance framework.

Flexibility in rolling out CSR reforms, and addressing traction

9. **Given some of the challenges discussed above, we agree on the importance of a flexible approach to rolling out the CSR that allows for revisiting aspects of surveillance should the crisis take a new turn.** We also consider that the speed of technological change and adoption enabled by digitalization may require us to rethink some aspects of surveillance as we proceed. A gradual approach to the operationalization of the CSR, allowing room for substantial experimentation and piloting while incorporating learning and efficiency gains, makes sense.
10. **On whether the CSR proposals will enhance the traction of the Fund's surveillance work, we believe key considerations here are trust and mutual respect, alongside the adequacy of systems for implementing reforms.** While we support the intent to enhance traction by developing timelier, topical, and targeted engagement, we would also add, however, that in our constituency, the main lesson we have learnt is that traction requires mutual respect and trust, whether in a program or surveillance setting. Thus, internal reforms in the IMF that monitor and further enhance trust-building and mutual respect are likely to be beneficial. Staff need to invest more in building relations with country authorities and strengthening interpersonal engagement and social intelligence. We also note the current rotation of the country teams, including resident representatives, and the attendant implications for country-specific knowledge, relationship building and traction. *Could staff advise if there are plans to survey authorities and assess the effectiveness and impacts of the 3-year rotation cycle of mission chiefs and resident representatives, in surveillance and programs, as we have found that high turnover of staff can erode hard-earned trust and undermine effective relations, especially in program countries?*
11. **The adequacy of systems in countries to implement reforms can also affect traction of Fund advice, thus integration of capacity development with surveillance will need to be deliberately structured to increase traction.** First, CD could be structured as a series of sessions with the same committees of country participants over a couple of years until their respective systems are fully operational, with participants reporting back to their peers and the panel on progress and sharing experiences. This would moderate costs when the first best option of CD comprising experienced resident expertise that helps authorities build up-to-date systems and processes over time, is not possible due to resource constraints. Second, effective advice also entails adequate understanding of countries' initial conditions and context, as well as political economy constraints and appropriate assumptions. Continuous engagement with country authorities and knowing how to encourage ownership of advice and optimize the role of mission chiefs, also matters. *Staff views are welcome.*
12. **We hope the review will find ways to further support ongoing efforts to expand digital systems in countries and boost data provision.** The forthcoming Review of Data Provision to the Fund for Surveillance Purposes and the tenth Review of the Fund's Data Standards Initiatives, should both ensure that there is more and better data that strengthens fact-based analysis in surveillance. More adequate data would support enhanced tools for surveillance, including on cross-cutting issues, while improving knowledge management and better informing risk management. The proposed Granular Policy Initiative and upgraded country portals will further strengthen knowledge management and Fund advice, including by better

leveraging lessons from cross-country experiences. We also encourage work under the G20 Data Initiative, as it helps authorities provide timely, quality data for surveillance and policy making. *Could staff elaborate on work underway towards the reimagined country portal?*

13. **The modernization of surveillance has been partially costed while the Fund remains within the flat real budget envelope.** However, given the uncertainties on the transition costs, including on experimentation and new ways of working, we underscore the need to carefully identify the budget resource and make the trade-offs clear, while ensuring that resources are not diverted away from current support levels for developing countries. Staff propose streamlining the number of existing Article IV consultations should cost overruns occur; we emphasize that this should not be at the expense of developing regions like SSA that faces the lowest growth globally this year and is struggling to avoid divergence. Given limited research available on SSA countries, we also emphasize the importance of country-specific analysis in selected issues papers for developing countries. *Could staff provide the selection details for the proposed experimentation over the two-year period?*

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GRAY/21/1152

May 5, 2021

**Statement by Mr. Mouminah, Mr. Alhomaly, Mr. Keshava, Ms. Al Saud, Ms. Alaqla, and
Mr. Rawah on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the excellent set of papers on the 2021 Comprehensive Surveillance Review (CSR) and for their continuous engagement on this important work. We have the following preliminary views on issues for discussion.

I. Macrofinancial Landscape

The COVID-19 pandemic has upended the landscape for Fund surveillance in the near-to medium-term, which underlines the need to remain flexible and adaptable. In the wake of a massive economic shock, economic and financial vulnerabilities have risen across the membership and deserve close attention in Fund surveillance in the period ahead. These include high debt levels and financing needs, resulting in elevated risk of debt distress; financial vulnerabilities, particularly in the corporate sector and non-bank financial institutions; central bank balance sheet growth in both AEs and EMs with EM central banks resorting to unconventional monetary policy for the first time, including asset purchase programs; and high capital flow volatility. Other issues such as digital technology, climate risks, inequality, and demographics could also have implications for growth and stability depending on country-specific circumstances.

II. Surveillance Priorities

Given a highly uncertain outlook and uneven recovery, the key goal of surveillance should be to help members achieve an inclusive and resilient recovery while building adequate buffers. In this context, advice should include how to manage the unwinding of extensive policy measures implemented during the crisis. This would require a sharp focus on the Fund's core activities and areas of expertise given the magnitude of economic and

financial scars. In this regard, we consider that the four key surveillance priorities remain relevant and endorse the recommendation that Fund engagement with members on these priorities continue to be grounded in the 2012 Integrated Surveillance Decision (ISD), which provides sufficient flexibility. This would require continued coverage of fiscal, monetary, financial, and external topics in bilateral surveillance, including the macroeconomically relevant structural aspects of these topics. Furthermore, coverage of any emerging issues should continue to be guided by the principle of macro-criticality depending on country circumstances. The choice of a topic should be fully informed by a dialogue between Fund country teams and country authorities.

We support efforts to improve the Fund’s risk analysis, including in collaboration with outside experts. Indeed, understanding the possibilities beyond the baseline, including low-probability high-impact risks; conducting scenario analysis to assess the robustness of baseline policy advice; and taking measures to mitigate and manage risks, including the use of contingency planning, will be steps in the right direction in the current highly uncertain environment. *In this context, we would welcome staff elaboration on what steps will need to be taken to address communication challenges regarding Contingent Policy Advice to avoid unintended consequences.*

On spillovers, we agree that Fund surveillance will need to further strengthen the coverage and consistency of the Fund work while remaining mindful of the primacy of domestic mandates for national authorities. In this context, it is important to provide clear guidance to staff on the coverage of spillovers, so that it falls within the Fund’s expertise and mandate. *On the proposed Spillovers Forum, we wonder whether it would only consider the pressing spillover issues identified in the flagship reports? We would also appreciate if staff could provide a few examples of incipient spillovers on the horizon at the current juncture, which could be considered relevant for possible consideration by the Spillovers Forum.*

Greater attention to economic sustainability issues in surveillance would require effective collaboration with relevant IOs. Indeed, the Fund must be selective and focus on those macro-critical areas where it is best placed to support the membership while deferring to other IOs on issues outside its core mandate and areas of expertise. In this respect, we look forward to the MIP on the IEO evaluation on collaboration with the World Bank on Macro-Structural Issues. *Does the point made in ¶22 of the modalities paper that “collaboration will only work when incentives and timetables align sufficiently” reflect difficulty in reaching an agreement with the World Bank? Staff comments would be appreciated on how this issue is being resolved to ensure greater collaboration.* On data provision related to economic sustainability indicators, we support the proposal to rely on external sources, which would avoid duplication of efforts.

The planned Board meeting on the Fund’s Climate Strategy this summer will be a good opportunity to converge views on the role of the Fund in combating climate change challenge in a holistic, integrated, and inclusive manner. Where macro-critical, we envisage a role for the Fund in advancing the agreed global agenda on climate change, in line with its core mandate and in cooperation with relevant IOs, consistent with the principles of Paris Agreement and the sustainable development goals’ integrated framework. Surveillance must not focus on a specific policy advice, like carbon pricing or carbon border adjustment, as the panacea to achieving Nationally Determined Contributions (NDCs) and solving global warming problem. If there are other instruments and other policies identified by countries to achieve their NDCs, they must be recognized and encouraged, including circular carbon economy approach that may cover technological developments to help countries in carbon management and reaching net carbon neutrality/net-zero energy systems with the use of Carbon Capture, Utilization, and Storage (CCUS) technology. This will also require expanding staff’s expertise on these issues. On the metrics used to determine systemic emitters of greenhouse gases, we continue to have reservations. A more balanced approach would be to take into account past emissions, which brought great economic gains and social welfare in a subset of the membership. We also underline that Fund surveillance needs to pay due attention to the growing energy needs of developing countries especially given the lack of fiscal space in the wake of the COVID-19 pandemic, which could be generated from cleaner and green sources. To address the needs of developing countries, flagship reports should regularly cover how developed countries are meeting their financial commitment of USD 100 billion per year. This will help give prominence to this important topic.

The Fund should accelerate its work in collaboration with other IOs on issues related to technological transformation, including growing digitalization, which is a macro-critical emerging topic. Fund advice in this area will be helpful to the membership especially EMDEs in adapting to the new technological environment. As rightly underlined in the background paper, fiscal and social spending policies can benefit from digitalization to improve efficiency and transparency, as witnessed during the COVID-19 pandemic. In addition, continued work on central bank digital currencies is essential, given its potential to reshape monetary policy.

Adopting a more unified approach to policy advice would help appropriately reflect various aspects of the policy mix in a coherent manner. Certainly, this must not imply a one-size-fits-all approach, as country-specific circumstances would remain critical. To this end, we strongly support efforts, including in relation to a joint consideration of fiscal and structural policies, deepening integration of macrofinancial analysis, coordinating monetary policy and macroprudential measures, and managing external shocks. In this

connection, the Integrated Policy Framework (IPF) workstream is an important undertaking to provide guidance on an appropriate policy mix for achieving macroeconomic and financial stability and we look forward to further progress in this area. We also welcome the emphasis on incorporating fiscal considerations more fully into the analysis and exploring more deeply the multilateral implications of IPF policies.

III. Enhancing Traction

We strongly support efforts to further improve the traction of Fund advice. In this context, we agree on the importance of timely high-quality analysis on country-specific challenges while being cognizant of the constraints facing the member country. This is important as the survey results show that weaker traction in some parts of the membership have remained while traction is less for some policies such as monetary and external sector issues. Better integrating policy advice with CD is another important area to enhance traction, which we discuss later. In addition, longer tenures of mission chiefs, a continuous dialogue with the authorities, and stronger public communication should help strengthen traction.

IV. Modalities for Modernizing Fund Surveillance

We are in principle supportive of a shift towards focused Article IV consultations to allow coverage of important issues where the Fund can add the most value, as well as the new initiatives such as Country Matters Meetings (CMMs) and Granular Policy Initiative (GPI). In this context, we take comfort that even a focused report will cover the core elements, including fiscal, monetary, financial, and exchange rate policies. In addition, external sector and debt sustainability assessments and analysis of macrofinancial linkages should always be part of the report. We note that the proposed CMMs aim to incorporate Board views into forthcoming bilateral surveillance engagements. *It is however not clear how the country authorities' views are going to be included in CMM reports.* The proposed GPI on a limited set of topics will be useful for country teams in bilateral surveillance and we would encourage informal Board engagements on this initiative as the work on it advances.

We see virtual engagements continuing to play an important role as a complement to in-person country visits. They are particularly relevant in facilitating more continuous dialogue with authorities and providing real-time policy advice. In addition, they provide more opportunities for regular dialogue with wider government beyond the Ministry of Finance and Central Bank. In our view, these two-way dialogue with members should start virtually prior to in-person country visits, which can help staff understand issues in more depth. Such an approach will make in-person staff visits more focused. Striking a right balance between in-person visits and virtual meetings depending on country-specific circumstances would

facilitate continuous dialogue and help build strong relationships, thereby strengthen the Fund's role as a trusted advisor.

We reiterate our strong support for deepening financial surveillance, which has become even more critical considering the elevated financial vulnerabilities. Here, we concur with the staff's proposal to better integrate FSAP's findings and recommendations into bilateral surveillance as well as to follow a more forward-looking systemic risk analysis with wider coverage of vulnerabilities beyond the banking sector. To allow for such advancements to take place, there is a significant need for resources towards expanding macrofinancial expertise, as noted by staff. We therefore support concrete steps in this direction, including through additional hiring and training.

Strengthening interconnection between surveillance and CD has become even more important against the backdrop of large macroeconomic shock. Indeed, we agree that this can greatly increase traction and help deliver on the surveillance priorities. To this end, we take positive note of the planned steps as outlined in the paper to facilitate improved integration. We also see the importance of this as part of the CDMAP to help facilitate prioritization.

We strongly support development of Country Portals to serve as a "one-stop shop" for all Fund content on that country. There is also a great scope for improving readability of Article IV reports by following latest trends and best practices, including through greater use of data visualization tools. This will help magnify the impact of staff work through stronger public communication.

Finally, we agree with the proposal to adopt a gradual approach to implementing the new modalities of Fund surveillance in view of the ongoing COVID-19 crisis and high work pressures. In this connection, we look forward to an interim review in about two years' time to take stock of progress and adjust as required. *In this connection, we were wondering how the OIC is going to be involved in implementing the new modalities given the ambitious goal to make Fund surveillance more targeted, topical, and timely? Also, how the changes will be communicated internally beyond an updating of the guidance note for surveillance as well as more importantly with the membership?*

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GRAY/21/1153

May 5, 2021

**Statement by Mr. Huh, Ms. Johnson, and Mr. Yoo on Comprehensive Surveillance
Review
(Preliminary)
Executive Board Meeting 21/45
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?*

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GRAY/21/1154

May 5, 2021

**Statement by Mr. Chodos, Mr. Herrera, Mr. Hendrick, Mr. Lischinsky, Ms. Bustillo, and
Mr. Corvalan Mendoza on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for a clear and concise overview paper, as well as the companion paper on *Modalities for Modernizing Surveillance*, and the comprehensive set of background papers.

We welcome the proposals in the 2021 Comprehensive Surveillance Review (CSR) for strengthening Fund surveillance amid an evolving and uncertain global landscape. While we acknowledge that the quality of the Fund's surveillance has improved significantly over the years, the 2021 CSR makes a compelling case that a more flexible and responsive framework will be needed to monitor the emerging risks and uncertainties, as well as encompassing the diversity of member countries.

We concur with the staff's views on the key trends and issues that are likely to dominate the surveillance landscape for the next decade, including the legacies of the COVID-19 crisis, climate change, digitalization, inequality, aging populations, and geopolitical tensions, among others.

We agree that the new priorities—risks, spillovers, sustainability, and unified policy advice—are sufficiently broad and ambitious to strengthen the quality and traction of Fund surveillance in the years ahead. **In the short run, however, we stress that surveillance and policy advice should focus as much as possible on helping low-income and middle-income countries to recover from the pandemic crisis, limiting scarring effects, creating additional fiscal and monetary capacity, preventing adverse spillover effects from systemic countries, as well as filling the significant gaps in the articulation of macro-financial issues into Article IV consultations.** New salient issues, such as climate change and digitalization, should be added to the surveillance agenda in a gradual and flexible manner, with due consideration of their macro-criticality and the availability of resources.

We support the key proposals for the modernization of Fund surveillance practices, including focused Article IV consultations, better integration of macrofinancial work into bilateral surveillance, provision of contingent policy advice, better integration of surveillance and capacity development, new engagement modalities such as *Cross-Country Matters* meeting or the *Spillovers Forum*, new

products as the *Granular Policy Initiative*, as well as a revamped training program, new data requirements and the development of innovative analytical tools to support these new modalities.

We stress that an increased resource envelope will be needed to meet the priorities set by the CSR and implement the new surveillance modalities. We highlight that the costing exercise indicates that the most significant pressure on resources does not stem from new salient issues, but rather from the urgency of attracting new talent to improve the coverage of systemic risk and macroprudential policies in Article IV consultations. **This will be an important input to consider in the upcoming review of the medium-term budget strategy.** At the same time, it will be very important to lean on external partners on emerging issues that are further removed from the Fund's traditional competencies to avoid duplications and make an efficient use of limited resources.

Surveillance landscape

We agree with staff on the main trends and aspects that are likely to dominate the surveillance landscape in the next decade. Although the COVID-19 crisis is still unfolding, it will leave a daunting social, financial, and economic legacy that will require close attention. Also, structural trends stemming from climate change, digitalization, aging populations, inequality, and slow income convergence have become more pressing and will require intensifying the efforts to address their macroeconomic consequences. These challenges will set the Fund's agenda for the next decade.

Increased economic and financial vulnerabilities in the aftermath of the pandemic crisis. The COVID-19 crisis will leave a legacy of large public debt, limited monetary and fiscal space, and vulnerable firms. Policy makers will have less room for maneuver in the event of further adverse shocks. Addressing the legacies of the COVID-19 crisis should be the main priority of surveillance and policy advice in the near-term, including rebuilding fiscal capacity and buffers, addressing emerging financial vulnerabilities in the private sector, and better coordination between structural, fiscal, monetary, and macroprudential policies.

Slower convergence between and within countries. Advanced economies (AEs) are expected to quickly return to their pre-pandemic trend, while the recovery of emerging market and developing countries (EMDCs) will be slow and incomplete due to limited policy space, slow vaccination, and scarring effects. Within countries, contact-intensive sectors will remain depressed for some time, limiting job opportunities for youth, women, informal, and low-skilled workers. Income inequality and poverty are likely to rise in the aftermath of the pandemic, increasing socio-economic tensions. In the medium term, rapid technological change, and digitalization could accentuate some of the distributional conflicts within the countries. Likewise, climate change and climate policies can also exacerbate economic differences between regions across the world, as well as regions and sectors within countries. Structural reforms to boost economic growth, mobilize fiscal resources and address inequality will be critical to maintain social cohesion, meet social demands in a balanced and sustainable manner, and achieve a transformational recovery.

International policy coordination and cooperation will be at the forefront in the next decade.

The multi-speed recovery of the COVID-19 crisis will create strains in the international monetary system. Multilateral surveillance of policy exit strategies in AEs will be critical to preempt and mitigate adverse financial spillovers in those EMDCs lagging. In addition, some members will face greater financial constraints in the coming years, thus requiring greater liquidity support from the international community accompanied by strengthened bilateral surveillance. It will be also important to strengthen multilateral cooperation and coordination to ensure that rising tensions in the emerging multi-polar

world are resolved in a mutually beneficial way, without jeopardizing the prosperity and stability of the international economy. Multilateral coordination will also be a key element to address climate change adaptation, transition, and mitigation policies effectively and fairly among countries.

Surveillance priorities for the next five years

We support the tighter integration of risk identification and mitigation within surveillance and policy advice, especially in Article IV consultations. Since the global financial crisis, the coverage of risks has become more systematic in multilateral and bilateral surveillance. New tools for risk management have been developed, including Risk Assessment Matrices (RAM), Debt Sustainability Analysis (DSA), as well as Growth at Risk (GaR) and related models. We support further integration of risk management into Article IV consultations to increase their traction, including more emphasis and clear communication on the range of possible outcomes, as well as further discussion on contingent policy options and their associated trade-offs.

We stress that the Fund's surveillance function must remain flexible and agile to adapt rapidly to emerging risks in the coming years. Complex and uncertain interactions between existing vulnerabilities and major global trends are creating new sources of risks. There is a high degree of uncertainty about how these trends will play out in coming years. We welcome the addition of strategic foresight tools to scan the future for “unknown unknowns” in a flexible and innovative way, as illustrated in Annex II of SM/21/36. New surveillance modalities such as *Focused Article IV*, *Cross Country Matters* and the *Granular Policy Initiative* will also help in this regard.

We support the drive to strengthen analytical work on spillovers, including tools, data, and information sharing frameworks. We agree with staff that there is a need to further strengthen the coverage and consistency of the Fund's spillover work, especially in Article IV consultations. At the same time, we highlight that new sources and channels of global spillovers have increased in complexity and sometimes go beyond the Fund's traditional areas of expertise. For example, some aspects of the analysis of climate change, digitalization, and migration require expertise not currently available at the Fund. These limitations call to be selective in choosing the topics to include in the spillover assessments, providing staff with sufficient resources to adequately fulfill these new mandates and, when possible, leveraging on partnerships with other international organizations.

We support the need for further clarification on the scope for Fund coverage of spillovers, as well as the nature of their discussions with authorities in spillover-producing countries. The Guidance Note on Surveillance Under Article IV Consultations should be updated. We agree with staff that clarification is needed to strengthen the link and consistency between bilateral and multilateral surveillance. We take notice that the discussion of the outward spillovers with systemically important countries remains a challenge. While we understand that the Fund cannot require members to change their policies, when policies promote the member's own stability even if they could adversely affect global stability, **the Fund has a unique role to provide relevant and objective analysis on these spillover effects and encourage a constructive policy dialogue across the membership to minimize adverse spillovers.** *What are the main challenges that staff envisages to achieve this institutional view, and make a sound judgment about what spillovers are covered, when, and how?*

We agree that sustainability is essential for macroeconomic and financial stability, and that the Fund will need to pay greater attention to salient issues and broad trends over longer time horizons. Since sustainability is essential for stability, the Fund's surveillance toolkit should broaden

its thematic perspective and time horizon to consider salient issues. We welcome the integration of climate change issues, including climate risks and climate policies, in macroeconomic and financial surveillance and its enhanced coverage in future Article IV consultations when these issues are macro-critical. **At the same time, we stress that the Fund must remain selective and focused when choosing the sustainability issues to be addressed in Article IV consultations.** The choice of topics, depth, and timing should be guided by country specific circumstances and strict adherence to the macro-criticality test. The agenda should be informed by the continuous dialogue between country teams, authorities, and other relevant stakeholders. Also, coordination and partnerships with other international organizations is warranted.

We stress that there is room for improvement in the integration of macro financial analysis into Article IV staff reports. This topic sits at the core of the Fund's surveillance mandate. As staff recognizes, progress has been uneven across countries, and challenges remain to recruit talent in the field. We agree that additional efforts are needed to improve systemic financial risk analysis and macroprudential policy advice. The relevance and urgency of these issues will increase in the post COVID-19 landscape.

We support the adoption of a more unified approach to policy advice. The use of multiple instruments to achieve multiple objectives by AEs, EMs and LICs has been a practice in several EMs for some time, including some countries in our constituency. The Fund must catch up. We encourage more emphasis on the requirement in the Integrated Surveillance Decision, that the Fund should focus on whether a member's array of economic and financial policies foster external and domestic stability. **The Integrated Policy Framework (IPF) is a good starting point.** We agree that operationalizing the IPF requires additional work. However, we encourage management and staff to gradually incorporate some of the lessons that have already been learned, while recognizing that the IV remains valid.

Modalities for Modernizing Surveillance

We agree that a modern surveillance framework requires a more flexible approach that allows a more timely and targeted discussion of relevant topics rather than covering all macro areas for every country. The paper on *Modalities for Modernizing Surveillance* makes a clear case that pre-pandemic surveillance modalities need to evolve to better respond to emerging risks and country-specific needs. We commend staff for preparing a comprehensive set of specific proposals and explaining how they are linked to the four CSR priorities.

We broadly support the idea that modern Fund surveillance needs to be more timely, topical, and targeted, better interconnected, and informed, and the steps proposed to this end. Staff presents several interesting proposals including adopting more focused Article IV consultations, new engagement modalities as the Country Matters Meetings (CMMs), and new products as the Granular Policy Initiative (GPI). These proposals will allow better synchronization of Fund surveillance and advice with national policy initiatives, as well as to respond with greater agility to countries' priorities. However, we would add emphasis on ensuring that this differentiated and flexible approach does not undermine the principle of evenhandedness across member countries.

We support the staff proposals to promote a more integrated surveillance, including a better articulated view about macro financial risks in Article IV reports, closer FSAP integration, more clearly articulated discussion of risks and contingent policy advice, with emphasis on the growth-stability trade-offs in developing MICs and LICs. *Staff's comments are welcome on how the GRAM would be*

integrated in these new surveillance modalities. In addition, new tools, and engagement modalities, as the Spillover Tool and the Spillover Forum, can help to improve the quality and traction of the discussion on policy spillovers and strengthen the link between multilateral and bilateral surveillance. Similarly, a closer integration of surveillance with capacity development can significantly improve traction of the Fund's policy advice in those areas and countries where capacity gaps are significant.

We support that a better-informed surveillance will require a revamped training program, new analytical tools, and enhanced data provisions. In this regard, upgrading staff skills including research assistants is as needed as upgrading members counterparts, when requested, through CD including TA. We support, in this regard, the measures proposed in Box 6, Box 7, and Box 8.

The implementation of the CSR proposals, including modernization modalities, will require more resources. In some key areas, such as better integration of macro financial issues, the Fund will need to increase its pool of talent to achieve these goals. In other emerging priorities, the Fund will need to step up its collaboration with external partners, including the World Bank, regional and subregional institutions among others, which could also help close information gaps on policy-relevant issues, particularly on MICs and LICs/FSs.

Finally, we look forward to receiving an early update on “the revised Surveillance Guidance Note” to better understand the detailed implementation aspects not covered in this paper.

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GRAY/21/1155

May 5, 2021

**Statement by Mr. Bhalla and Mr. Singh on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank the Staff for their comprehensive set of papers and their perseverance and hard work spread over several months.

Issues for Discussion

Do Directors agree with this paper's broad assessment of the major trends and aspects of the macro-financial landscape that will define Fund surveillance work over the next decade?

- We generally agree with the broad trends that have been identified, especially the suggestion for pre-emptively responding to relevant spill-over risks and/or better prepare for them. However, we also believe that adequate focus on the role of non-banking finance will be needed. The non-banking finance channel has become an important source in the propagation of spillovers and would benefit from Fund surveillance and policy suggestions.
- Another important fault-line exposed by the current crisis is the stark deficiency in the soft infrastructure in the developing world. Key elements of soft infrastructure – institutions such as the financial system, education system, health care network, digital communication – will determine the transformation of the developing world in the coming decade. Progress or lack of progress on these could strongly influence the macro-financial landscape in the developing world and may have implications for the Fund surveillance.
- The Fund could also take a more balanced view on scenario-building keeping in view the geo-political realities to meaningfully guide its members on surveillance priorities.

Do Directors agree that the proposed surveillance priorities are sufficiently broad and ambitious enough to strengthen the quality and traction of the Fund's surveillance work as it seeks to support the membership in the years ahead?

- The quality of policy traction would significantly improve if the outlined priorities are embedded with micro-prudential characteristics of the country under surveillance.
- We believe that the macro-financial risk analysis should continue to occupy the center stage in the surveillance given that the costs imposed by financial crises are too large and spread over several years. The financial sector tends to run much ahead of the regulations in the age of technology-enabled innovations/disruptions. Thus, it may be critical for the Fund to enhance its engagement with other relevant international bodies and market regulators to take advantage of their specific expertise. This will bring in greater synergies in different workstreams and could help in the process of undertaking an in-depth/insightful assessment of financial system vulnerabilities. The priority should be to focus on a forward-looking analysis to anticipate and explore the risk build-up in different markets, sectors, and geographies, and advise the membership during the incipient build-up of risks and vulnerabilities.
- We feel that Fund's member countries, at different stages of development, differ a lot in terms of their exposure to these challenges and, therefore, their policy priorities could also be divergent. To improve the traction of the Fund's policy advice, bilateral surveillance reports (i.e., Article IV), should be relevant from a country-specific macro perspective. This calls for greater flexibility in the CSR so that Fund's policy advice adequately recognizes the policy priorities at the country level.

Do Directors agree with the direction of the proposed modifications of Fund surveillance modalities to make them more timely, topical, targeted, better connected and better informed?

- We would like to understand how the 'Country Matters Meetings' (CMM) will bring additional benefits of focused Article IV consultations given that we already have the Selected Issues Papers which do a deep dive into focus areas for each specific country. Curtailing the detailed analysis of the fiscal, monetary, financial, exchange rate policies, the external sector, and debt sustainability assessments, and macro-financial linkages could have implications for the Fund's effective surveillance. In this regard, we would draw reference to the Overview Report, which observes that following the IEO recommendations, greater focus and resources have been dedicated to monetary policy and financial stability areas and considerable investment in the Fund's expertise in fiscal, structural, and financial sector areas have yielded higher traction of Fund advice in member countries.
- In principle, the suggestion in the staff paper for more unified policy advice is welcome. In the absence of any agreed and accepted framework on unified policies, the suggestions in the paper may entail the risk of more subjective assessment and policy advice, which could, in turn, affect the traction. Once the work on Integrated Policy Framework (IPF) is

completed, Fund's policy advice under bilateral and multilateral surveillance would have a firmer and more informed basis.

Do Directors support the proposal for a gradual approach to evolving the modalities of Fund surveillance?

- We support the idea to continuously inform the membership and provide "real-time" policy advice. This can be done if country surveillance draws on Fund-wide learning which is then tailored to country-specific circumstances. However, given the resource constraints, such 'real time' policy advice provision could be adopted gradually. At the same time, given the unprecedented uncertainty induced by the pandemic, the acceptable proposals in the CSR documents should be implemented in measured steps to allow for adaptive learning in the post-COVID landscape. We support the proposal of an interim review in about two years to take stock of progress and adjust as required.

Climate Change in Surveillance

- Though discussions under the surveillance mandate of the IMF can be carried out, the ensuing recommendations should not be binding on member nations and at best may be advisory and the UNFCCC should continue to be the overarching structure to deliberate and negotiate on climate change commitments of countries.
- While it is evident that climate change results from insufficient mitigation action, and that insufficient mitigation puts global economic and financial stability at risk, establishing which countries contribute "significantly" to this risk – as opposed to those that do not – is not straightforward and needs to account for other development priorities, especially in EMDEs. Therefore, efforts to mitigate climate change at present should also take into consideration the growth imperatives of the developing nations, and should also strive to reduce international income skewness, apart from protecting the climate.
- We would prefer the use of the term "country shares in total emissions" rather than the presently used terminology "the largest emitters" and also country shares of the cumulative *stock* of emissions. A more appropriate yardstick to define the largest emitters could be per capita emissions, both historical and at present. Such calculations are more objective about the reality of climate damage; in contrast, categorization as "the largest emitters" ignores the carbon space already exhausted by the advanced countries, which limits the scope of low per capita income developing countries to grow and improve their living standards. We believe that the Fund should provide a balanced picture – both total emission and per capita emission – even when looking at the emission issue in a prospective sense. It is also important to assess the historical contributions of individual countries to the public bad we know today as "climate change".
- Climate finance is an obligation of the developed countries as a part of their historical responsibilities being the major contributors to the stock of greenhouse gases (GHG). The Paris Agreement also reaffirms that developed countries should take the lead in providing

financial assistance to countries that are less endowed and more vulnerable, while also encouraging voluntary contributions by other Parties, which needs to be emphasized.

Spillovers

- We understand that EMDEs face larger economic and financial risks emanating from global factors. It is emphasized that Fund's surveillance must enhance coverage of outward spillovers in bilateral surveillance reports of AEs.
- Developments in the field of cryptocurrencies such as bitcoin and CBDCs can have implications for the global monetary policy, as it could change the reserve currency composition for central banks and need innovations in the regulatory landscape due to potential financial stability concerns and spillovers to other economies. While additional mechanisms such as spillovers forum, and greater institutional level understanding on the types and channels of spillovers could be useful, it must be understood that in the past the Fund has had mechanisms like Multilateral Consultations on Global Imbalances, and the Spillover Report. However, these were all short-lived and were discontinued though neither spillovers nor global imbalances have disappeared. The proposed mechanisms should be placed on a firmer footing, not discontinued abruptly, and should be able to guide the proposed exercise on simulating the impact of potential shocks – negative and positive – under various risk management policies and accordingly improve the policy design, especially in EMDEs.

Systemic Risk and Macroprudential Policy Advice in Article IV Consultations

- The CSR addresses the issue of the existing gap between the assessment of systemic risks and the policy advice on relevant macroprudential tools required to address the same. However, the biggest challenge in this regard may be the heterogeneity of the formal frameworks for macroprudential policy across jurisdictions. While the assessment of systemic risk has received an impetus over the past few years, the formalization of the policy frameworks to address the same may still require more work and time.
- In this context, the broad template to be agreed for macroprudential policy advice as part of Article IV needs to explicitly provide necessary leeway for country-specific situations and be duly informed by the possible inter-linkages with other policies.
- The framework to be adopted by the IMF must ideally dovetail with the work of other standard-setting bodies, particularly the Financial Stability Board (FSB), as far as specific policy recommendations are concerned.

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May 5, 2021

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Dogan on Comprehensive
Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the extensive set of reports which will set the direction of the Fund's surveillance for the next 5-10 years. We agree with many of the ideas and proposals, a number of which, such as on interconnectedness and spillovers or better integrated and more focused surveillance, aim to address long-standing issues which the Fund's surveillance has been grappling with. We appreciate staff's efforts to tackle many of the perceived shortcomings head on, try to capture the complexities and challenges economies are confronted with and put forward some creative ideas on the modalities to conduct surveillance in practice. At the same time, we have a feeling that surveillance could be overfitted thematically and the many new formats of surveillance could risk blurring the relevance of our products for country authorities and the public.

The macro-financial landscape and the Fund's surveillance

In the environment of quickly **emerging risks and challenges** including climate change, digitalization, inequality, demographics and geopolitics which affect global macro-economic stability, the Fund should evenhandedly adapt its surveillance work based on these developments' macro-criticalities within its core mandate while taking into account country specific circumstances. Standard surveillance has to become more parsimonious and nimbler especially when applying the macro criticality test. It also has to continue to be smart by collaborating and cooperating with other international organizations in the respective areas to leverage on their broader expertise.

Considering the economic and financial impacts of **climate change**, we agree with staff's call for a more systematic approach to integrate climate change into Article IV (AIV) reports and Financial Sector Assessment Programs (FSAPs) supported by targeted CD on the transition to a low carbon economy. Climate change will be a particular challenge for the Fund in view of its complexity and interdisciplinary character and the temptation to be to all-encompassing instead of focusing on the areas which are within the Fund's purview, in particular fiscal. The Fund's work will also need to be mindful of political economy realities as this transition will not be frictionless. We support the ongoing work on climate stress

testing and scenario analyses to adequately include climate related risks and provide more granular policy advice taking into account country specific cases and spillover effects. *We would welcome more details on the criteria for the selection of countries where climate change should be assessed against macro-criticality and how country authorities' preferences will be taken into account to ensure evenhandedness and effectiveness of the overall Fund strategy in this area.*

Digitalization will prospectively significantly alter most aspects of economic activities and will have multi-pronged implications for monetary and fiscal policy as well as financial market and production chains, therefore it should also be included into surveillance within the macro-criticality perspective. While we are making progress on developing a strategy on digital money, we are wondering how other aspects of the digital economy, including data and governance will be addressed going forward. *Staff's comments would be welcome.*

Surveillance priorities

We concur with the four **surveillance priorities** outlined in the CSR. Given the high-risk environment and uneven global outlook, we agree that strengthening the risk management framework and reconsidering scenario analysis and improving growth-at-risk models are warranted to keep pace with evolving risks and future challenges. A proper discussion of risks should be front and center in surveillance, as well as of (fiscal) policy paths and authorities' contingency planning for these risks. In this vein, the adaptation to the proposed priorities and modalities will require improving data quality for emerging issues where deemed macro critical. While the Fund's data collection is critical for conducting surveillance efficiently, data requests need to be prioritized, use existing data sources and formats and focus on core areas of its mandate, to avoid placing too much administrative burden on the authorities and minimize duplication of work.

In terms of **pre-empting and mitigating adverse spillovers**, we agree with staff that deeper and more integrated surveillance to manage risks would also support sustainable growth and resilience. While the use of unconventional measures has temporarily helped economies to respond to the pandemic crisis, these measures also created potential cross-border spillover risks. In that vein, many countries have recently shifted their policy focus from tackling the COVID-19 crisis fallout to addressing medium-term challenges of reinvigorating productivity and inclusive growth and building resilience. Therefore, we strongly support enhanced spillover analyses and further leveraging cross country policy lessons in surveillance.

A more **unified and holistic** approach to the policy advice in surveillance to sustain macroeconomic stability is critical. Therefore, we underscore that improving the Fund's current unified policy approach with potential complementarities and tools would help to better account for the trade-offs and tailor country specific circumstances as well as enhance the quality of financial and macroeconomic surveillance. The progress towards providing a unified policy advice should proceed gradually in line with the Fund's capacities, be realistic and respect the relevance of macro financial issues for each country.

Staff rightly identifies the room for deepening the **systemic financial risk** analysis and its further integration into macroprudential policy advice in AIV consultations in line with the findings of the IEO evaluation. In our view, this room has widened and become more

significant, while financial vulnerabilities are increasing, and formulating macroprudential policy responses are getting more complex. We agree that strengthened systemic financial analyses would help contain these vulnerabilities and bolster the resilience of the international monetary and financial system. Relatedly, we also call for a more inclusive collaboration between FSAP and AIV team members to capture systemic risks. Better integration of financial sector issues into Article IV surveillance has been a long-standing demand by the membership. *Staff's comments on how the current proposals will make a material difference would be welcome.*

We underscore that higher indebtedness of non-financial corporates and households is becoming a significant factor when assessing systemic vulnerabilities and requires more attention in sectoral policy design and structural reforms to limit systemic risks. The focus should also include more granular consideration to provide better advice on the appropriate policy mix for macro financial analyses. *Could staff comment on how to provide better advice on country-specific contingency planning in surveillance?*

We reiterate our support for the work on the **Integrated Policy Framework (IPF)** which will serve to strengthen the Fund's surveillance efforts with a more holistic perspective on monetary and exchange rate policies, as well as capital flow and macroprudential measures within the Institutional View on the Liberalization and Management of capital flows. Sound macroeconomic and financial policies, as well as strong institutions should remain the first line of defense.

We also agree that the surveillance priorities identified in the CSR should be adopted within a forward-looking approach to make the Fund more agile. In this vein, we see merit in establishing strategic workstreams considering the resource implications of these surveillance priorities, including the budget framework, capacity development, human resources, and information technology. *We wonder whether there is an envisaged timeline for an updated guidance note for surveillance in AIV consultations.* We also note that the Fund should avoid further complexity and duplication in surveillance, while implementing the emerging priorities. *Could staff comment on their simplification approach in surveillance work?*

Modalities for modernizing surveillance

Enhancing **traction** should remain the main objective of Fund surveillance which requires high- quality and relevant Fund advice. We emphasize that risk-based country specific prioritization and effective communication with the authorities could help gain traction for which we see regular AIV consultations remaining the pillar. More frequent engagement with authorities over and above the normal consultation cycle needs to be well justified and purposeful. We stress the importance of aligning with national budgetary cycles to maximize traction of staff's advice as well as the need for a more thought through communication strategy for the Fund's country analyses and recommendations in the context of virtual engagements. We see a tension between the different modalities proposed which seek to give the Board a greater strategic role and would be cautious against approving a larger number of AIV in LOTs, given that the Board's engagement positively contributes to strengthening the legitimacy of the Fund's surveillance.

As the ongoing COVID-19 crisis inevitably calls for a gradual operationalization of the CSR priorities and necessitates fine tuning over the course of the implementation, an interim

review in two years is appropriate to assess progress and needs for adjustment. This interim review should in particular focus candidly on whether the proposed new surveillance tools such as CMMs and GPIs have contributed to more targeted policy advice.

We would have welcomed more clarity on resource implications of the proposed changes as part of the surveillance review. *Could staff provide details on the resource implications from the increased use of LOTs, reduced travel, and shorter Article IV reports? Could the accumulated savings from FY20 and FY21 be deployed to cover transition costs in FY2022? Moreover, we would also appreciate more clarity on the distribution of requested new resources across area departments, regions, and income groups, in particular for the additional 24 FTEs with macro financial expertise. Would the new FTEs support the FSAP work in a substantive way?*

Directors have repeatedly called for longer tenure of mission chiefs, in particular for small and low- income countries but the current CSR does not propose specific measures to that avail. Staff comments are welcome.

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GRAY/21/1158

May 5, 2021

**Statement by Mr. Andrianarivelo and Mr. Diakite on Comprehensive Surveillance
Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the comprehensive set of papers and welcome this review of the Fund surveillance. A core mandate of the Fund is to assess whether members' economic developments and policies are consistent with sustainable growth and macroeconomic stability. In this respect, the Fund must periodically adapt to meet the evolving economic and financial challenges that the membership will face in the next five to ten years. The Comprehensive Surveillance Review (CSR) provides an opportunity to improve Fund surveillance in this regard. We broadly support the efforts made to ensure that the strategic direction of surveillance remains relevant to enhance the quality and traction of Fund analysis and policy advice vis-à-vis its member countries primarily as well as other organizations and fora.

1. Surveillance Landscape 2021-2030

The Covid-19 pandemic has impacted the global economy in ways that will undoubtedly shape the macroeconomic and macro-financial landscape of the membership for years to come. We believe that the main paper appropriately identifies the major trends and policy challenges associated with the crisis and beyond, including the need to address scarring and policy spillovers. We are particularly concerned about the uneven pace of the recovery and the risk that low-income countries (LICs) could be left behind. We appreciate the paper highlighting that while the health impact in LICs has been modest initially, the long-term economic consequences will be devastating, notably for growth prospects, human capital development, and poverty reduction.

The crisis has reversed some of the progress made in these areas by LICs and significantly undermined their chances of meeting the sustainable development goals (SDGs). In this regard, it is regrettable to note the risk of diminished remittances and official aid flows in a context where the shortfall in domestic and external financing of SDG spending was already significant prior to the Covid-19 crisis. As noted in the paper, raising fiscal capacity and securing access to financing on sustainable terms will be critical for LICs in the period ahead. The Fund surveillance work in LICs for the next decade should be framed in light of the need to revitalize growth, accumulate human capital and reduce poverty. We concur that this will require increasing fiscal space, upgrading institutional capacities, and facilitating access to vaccines. We also agree that international cooperation on these issues remains essential.

Moreover, we note the rise of socioeconomic tensions fueled by persistent wealth and income inequality across member countries. The opposition to reforms in many parts of the world, driven by perceptions that benefits are not equitably shared, is also a reality that the CSR should help confront.

Debt vulnerabilities and the related sovereign-financial nexus should be a key area of surveillance focus in the period ahead. Addressing fiscal challenges, including through emphasis on domestic revenue mobilization, should remain central domain of Fund intervention. In addition, policy advice should also be geared towards supporting developing countries on closing the existing digitalization gaps with the rest of the world. We also strongly support greater integration of FSAPs—with increased incentives for voluntary assessments for non-systemic centers as needed—into Article IV surveillance.

We also agree that the CSR will need to adapt to other vital trends, including digital technology, population aging, and climate change. These trends are now emerging as macrocritical for achieving sustainable and inclusive growth and macroeconomic stability. We particularly appreciate the companion paper on Integrating Climate Change into Article IV Consultations as another strong case for considering this global challenge as a key dimension of economic sustainability if need be. The Fund should continue to approach these issues based on its core areas of expertise—i.e. macroeconomic and financial policies—and further collaborate with other partners with a comparative advantage in other macro-relevant matters.

We share the view that, in conducting bilateral surveillance, the Fund should continue to be attentive to country- and country income-specific challenges (e.g. reduced remittances, withdrawal of correspondent banking relationships, etc. for some LICs).

2. Priorities for Surveillance

Fund surveillance must remain focused on providing relevant policy advice to help the membership increase resilience and mitigate future crises. We agree that to strengthen quality and traction, the surveillance priorities should be broad enough to accommodate the membership's needs while being ambitious. We consider the priorities proposed in the paper to be broadly appropriate to enable Fund surveillance to better meet the evolving macro-financial landscape. The emphasis on *confronting risks and uncertainties* is essential given the pandemic environment and policy uncertainties and risks faced by the membership. Policy advice should be supported by robust risk assessment associated with contingency planning to mitigate the impact of future shocks.

Preempting and mitigating spillovers while adopting a more unified approach to policy advice are also important and would require maintaining strong research within the institution and leveraging more outside expertise. In this regard, the integrated policy framework (IPF) could be a helpful tool. *However, we wonder about the prospects of timely articulation of the IPF with surveillance. The IPF is not yet operationalized, and significant work needs to be done to integrate fiscal aspects. Staff's comments would be appreciated.* We also view the focus on *fostering economic sustainability* as particularly significant. The concept of sustainability should also be broadened to include non-economic factors and political economy considerations to better comprehend and assess developments in many countries, including fragile states.

3. *How Surveillance Needs to Change in Practice*

We are in broad agreement with the proposed modernization of surveillance modalities to make them more timely, topical, targeted, better connected, and better informed. Enhancing the quality and traction of surveillance will require the Fund to be agile to provide real-time advice that addresses the concerns of the moment while signaling also rising vulnerabilities. Furthermore, more outreach to country authorities through conferences, seminars, and exchanges would help in this regard. We also stress the need for surveillance to be targeted and take into account country-specific circumstances to make policy advice relevant. We acknowledge that the trade-off between comprehensiveness and targeting will continue to be challenging. In this regard, we find the *Granular Policy Initiative (GPI)* interesting if it can effectively identify the membership's common issues while tailoring policy advice to the specific circumstances of countries, including LICs, fragile countries, and small states. We look forward to concrete results from this GPI.

The implementation of the modernization process of surveillance is bound to be complex. In this regard, we very much welcome the experience-based and learning-by-doing approaches

proposed and believe that the Fund should capitalize on lessons learned from cross-country and regional experience to improve its surveillance's quality and traction.

This modernization will require adequate resources that the Fund should stand ready to provide. Given the central function of surveillance in the Fund's activities, resource implications identified in the CSR should be integrated into the medium-term budget. We continue to underscore the limitation of further reprioritization after a decade-long real flat budget and considering the addition of significant issues to the Fund work agenda and the stressed staff during these exceptional times.

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GRAY/21/1160

May 5, 2021

**Joint Statement by Mr. Buissé, Mr. Fanizza, Mr. Hilbers, Mr. Pösö, and Mr. Merk on
Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We welcome the 2021 Comprehensive Surveillance Review (CSR), and support the overall objective of enhancing the quality and relevance of Fund surveillance to help the membership navigate the challenges and trade-offs of the next five-to-ten years. We underline the importance of candid Fund surveillance as a crucial contribution to crisis prevention and strengthening resilience. Surveillance practices, e.g. staff visits, can also capitalize on the positive experience of virtual engagement during the pandemic.

Major trends and aspects of the macro-financial landscape defining Fund surveillance work over the next decade.

We agree with the main macroeconomic and macro-financial challenges facing the Fund's membership, as well as with the underlying trends expected by Staff to shape the Fund surveillance in the next decade.

We see merit in staff's proposal to include rising inequality among the major trends, given the significant impact of the crisis on poverty, inclusiveness, health, and education. We agree that persistently high levels of inequality can be macro-economically relevant and may hamper a sustainable economic growth.

We see important scope for further integrating macro-critical climate change related issues, including mitigation, adaptation, and transition management in Fund's surveillance. The Fund should systematically provide its membership with analysis and advice on the policy actions to address climate change related issues, stimulate the green recovery and foster the transition towards a sustainable economic growth model. The European Union (EU) is implementing its Green Deal, setting an overall climate target of 30% of the total expenditure

from the EU budget 2021-27 and Next Generation EU, which is the main instrument for implementing the EU recovery package.

Climate change considerations, when deemed macro-critical, should feature in both multilateral and bilateral surveillance products. Adaptation, mitigation and transition policies should be included systematically into multilateral and bilateral surveillance, taking into account spillovers and individual country characteristics. Climate change mitigation issues should be mandatorily included into bilateral surveillance reports for a large enough group of top emitters, to then shift towards a broader inclusion to ensure an ambitious and even-handed treatment of IMF members.

In keeping with the Fund's mandate, macro-critical climate-related risks and spillovers should be systematically integrated into Article IV consultations and Financial Sector Assessment Programs (FSAPs). We agree with staff that FSAPs should cover both climate change related physical risks, and transition risks for financial stability. Climate stress-testing and scenario analysis should be further developed to ensure adequate risk identification.

Surveillance priorities

We agree with the four surveillance priorities identified in the Review. In terms of confronting risks and uncertainties, we support the proposal to strengthen the risk-management approach and enhance the recourse to quantitative tools such as scenario analysis and growth-at-risk models. Tail risks, including those concerning public health, should be properly incorporated in the assessment of macroeconomic stability and sustainability. We also underscore the importance of quality data for informed surveillance of macro-critical issues and risks.

We support the Fund's efforts to strengthen the coverage and understanding of spillovers, including those stemming from the set-up of new institutional settings. In the case of EU Member States, the Fund's surveillance should fully take into account the degree of interconnectedness and the specific institutional arrangements and policy frameworks of the Fund's Members participating in economic unions or in monetary unions. In this context, the Banking Union and the Capital Markets Union are particularly relevant, as is the temporary Next Generation EU package.

We agree that a more unified policy advice by the Fund could help policymakers when facing important trade-offs, and notably when shifting from the unprecedented policy packages adopted at the beginning of this crisis to more targeted support. The role played by fiscal policy to cushion the economic and social impact of this crisis has been much greater than in past episodes. We believe that there is room for further integrating macroeconomic

forecasts, structural reforms and fiscal surveillance considerations - including by projecting the expected beneficial effects of structural reforms on growth. This can be particularly important during the implementation of the Next Generation EU package, as the expenditure financed by the Recovery and Resilience Facility -worth up to €672.5 billion- will provide a substantial fiscal support to the economy of the EU Member States, and incentives to undertake relevant structural reforms in the coming years.

We support additional efforts to strengthen the integration of macro-financial analysis in Article IV surveillance. The past decade has shown the relevance of macro-financial linkages in the assessment of systemic risks, which should thus form an integral part of the broader assessment of economic developments. The Covid-19 crisis has reinforced the need to deepen systemic financial risk-analysis (including beyond the banking system) and macro-prudential policy advice in Article IV surveillance. We also call for continued attention to governance issues in the financial sector.

We welcome the work on the Integrated Policy Framework (IPF) as a way to improve the articulation of the Fund's policy recommendations to countering external shocks. The first line of defence should remain sound macroeconomic and financial policies, as well as strong institutions. Other tools may also contribute to preserve financial stability, depending on country circumstances. We look forward to the 2021 review of the IMF Institutional View on the Liberalization and Management of capital flows and agree that the IPF could serve as a valuable input to the review.

Modalities of Article IV surveillance

We agree that in accordance with already established practice, in cases where members have transferred their responsibility for policies to the supra-national level, a complementary but separate assessment of supranational policies in the context of the regular consultation on "Euro Area Policies" is warranted.

We agree with the objective to increase the quality and traction of the Funds' advice, including by making surveillance more agile, focused, timely, and forward looking. Board discussions of Article IV consultations, regularly conducted on an annual basis, will prevent the emergence of gaps in surveillance and will remain central in terms of peer review, legitimacy, and traction of the Fund's advice. We recall that the Fund's recommendations on core policies (i.e. exchange rate, monetary, fiscal, and financial sector policies) should continue to be appropriately covered in all reports and discussed by the Board, while emerging issues should be selected on the basis of macro-criticality as well as country-specific circumstances. Moreover, further integration of Capacity Development into surveillance would also help to strengthen the Fund's policy advice.

Intensified engagement and dialogue with members and relevant stakeholders, as well as Board Country Matters Meetings (CMMs) on conjunctural policy issues relevant for a group of countries, will be key for successfully implementing the proposals to increase traction, and in line with the objective to improve cross-country information-sharing in a timely way. At the same time, we stress the importance of even-handedness in selecting the country samples to ensure a consistent coverage of the Fund's membership. Placing a greater focus on the strategic and cross-cutting analysis at the Board could be helpful especially in a regional context, where targeted policy advice and learning from comparing cross-country experience may be even more important after the current crisis and could allow for a better coverage of spill-overs among countries and policy areas.

In this context, we welcome staff's proposals for further integration of FSAP and Article IV advice. To this end, a more systematic participation of FSAP team members in Art. IV missions and vice-versa, and a more consistent follow up of FSAP recommendations in Article IV reports, could further facilitate this integration.

We also encourage further work to enhance consistency in the advice provided in multilateral (e.g. recommendations from WEO, GFSR, FM, ESR), regional, and national surveillance products (e.g. recommendations from regional and national FSAPs, Euro Area Policies and national Article IV reports). In particular, the IMF regional surveillance, such as surveillance over common Euro Area Policies and euro area FSAPs, should adequately benefit from national surveillance and vice versa.

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GRAY/21/1163

May 5, 2021

**Statement by Mr. Trabinski and Ms. Wehrle on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
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.

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GRAY/21/1165

May 5, 2021

**Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, and Mr. Nagase on Comprehensive
Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the set of informative reports on the 2021 Comprehensive Surveillance Review (CSR), including extensive Background Papers. We commend staff for their hard effort to make detailed reports, which reflected broad inputs such as the discussions made by the Board and external experts, amidst the continuing exceptional and uncertain circumstances.

In order to enable the Fund to continue to serve as a trusted advisor of the member countries and help them achieve sustainable, inclusive and resilient growth, continuous efforts to review and improve the priorities and modalities of the surveillance are critical, especially in the current crisis which the member countries are facing huge difficulties to both address the pandemic and ensure economic recovery, while steadily addressing their medium- to long-term challenges. As pointed out in the reports, the current crisis may have potentially long-lasting scarring effects, thus the member countries will need tailored and well-calibrated policy advices from the Fund more than ever. From this point of view, **we broadly concur with the thrust of the staff's assessment and proposals in the reports** and would like to offer following comments for emphasis.

Major Trends and Surveillance Priorities

We welcome the paper depicts Surveillance Landscape 2021-2030 which covers major trends and uncertainties. Staff's assessment of the major trends and proposed four surveillance priorities would be sufficiently broad and appropriate enough to strengthen the quality and traction of the Fund's surveillance work. As we have expressed in the past board meetings, we believe the Fund should continue to focus on its traditional core areas and we understand major trends and key priorities are corresponding to the mandates of the Fund and have macro-criticality. We note staff delineate the difference of nuance between

macroeconomic-criticality and macro-economically relevant criticality, latter of which would widen the scope of the surveillance.

Risk identification and mitigation is as relevant as ever, as a key objective of Fund surveillance. The nature of macro-financial risks is evolving due to the uncertain interactions between existing vulnerabilities and major global trends. Elevated uncertainty suggests the need for Fund surveillance to be nimble and adaptable to new environment. In this sense, the Fund should continue its effort to confront risks and uncertainties by leveraging peer learning and cross-cutting lessons.

The sources and channels of spillovers have increased and expanded, as global interconnectedness continues to deepen and evolve. We duly take note there is a need for agility and flexibility in terms of what spillovers are covered, when and how, depending on the changing macro-financial landscape. Preempting and mitigating spillovers through the multilateral surveillance such as the Flagship Reports as well as the Early Warning Exercise (EWE) would be increasingly important.

Steadily tackling slow-moving trends which could have significant consequences as well as emerging issues is critical for the member countries to foster economic sustainability. To this end, it is important for us to try to grasp possible impacts of both economic and non-economic developments on the economic sustainability and take preemptive policy actions. For example, we agree with staff's view that closer attention needs to be paid to demographics due to ageing, which was focused in Japan's 2019 Article IV consultation, in the other member countries as a difficult medium- to long-term challenge. Digitalization, especially the issues related to digital money, including the CBDC, can also fundamentally alter the global macro-financial landscape. Therefore, we welcome that staff's proposal to put more focus on these issues.

Especially, we support the integration of climate change into Article IV consultations. In addition, we can support staff's pragmatic approach and proposal to focus especially on the mitigation efforts of the 20 largest emitters of greenhouse gases as well as view on adaptation. In this regard, we strongly encourage staff to make close collaboration with relevant international organizations, such as the World Bank, to tackle this area because the Fund does not necessarily have broad knowledge of this issue, nor there is need to cover everything by in-house skills of the Fund. Furthermore, given the fact that circumstances surrounding member countries are different, the Fund should try to provide well-tailored policy advices to the countries based on close dialogues with the authorities and deep analysis without falling into the one-size-fits-all approach.

Adopting a more unified approach to policy advice will help the member countries implement better policy mix and manage external shocks. More unified policy advice that discusses the appropriate policy mix and associated trade-offs, including across fiscal and monetary policies, fiscal and structural policies, monetary policy and macroprudential measures, and policies for managing external shocks. In this context, we support the staff's effort on the Integrated Policy Framework (IPF) workstream and encourage them to deepen their analysis on this front, including the integration of the impact of fiscal policy and structural reforms into the framework.

Surveillance Modalities

We broadly agree with the direction of the proposed modifications of Fund surveillance modalities to make them more timely, topical, targeted, better connected, and better informed. We are supportive of staff's proposal to introduce novel ways of Board engagement. Especially, we welcome the shift towards focused Article IV consultations which will enable the Board to have more intensive and efficient discussions. Moreover, we prefer to have an opportunity for the Board to discuss each item in principle while we understand the usefulness of utilization of LOT and choosing this format may be warranted in some cases. We also welcome staff's initiatives like Country Matters Meetings (CMMs) and Granular Policy Initiative (GPI), and we would like staff to continue their efforts to make them informative and less resource intensive by setting clear objectives and brushing up their framework.

Among three pillars of the Fund's function, surveillance and lending have been regarded as both sides of the coin. In addition, closer integration of surveillance with Capacity Development (CD) has become even more critical for the Fund to enhance its traction and effectively support the member countries. Well-tailored bilateral surveillance for the member countries from the ordinary times will enable the Fund to swiftly provide appropriate support, including lending programs when needed. We reiterate that providing well-calibrated and effective policy recommendations and CD to the member countries by the Fund based on high-quality analysis will help them minimize risks and realize economic stability.

Clear and careful communication is paramount for the Fund to contribute to the ongoing national or international debate and to be a trusted adviser of the member countries. We note that the surveys revealed that the Fund surveillance reports have rooms for improvement and encourage staff to continue their effort on this front. In addition, we would like to reemphasize the importance of communication based on the good balance of bilateral and multilateral surveillance. Given the current huge uncertainty, the international society is closely watching the information and messages provided by the Fund. In this regard, while the COVID-19 is a common challenge to the member countries, we need to

well take into account the fact that situations of pandemic infection, economy and public finance are different, and divergent among countries. Based on this understanding, we believe the Fund should conduct analysis and provide policy recommendations in accordance with divergent situations among countries not only through bilateral surveillance, but also multilateral surveillance.

Given elevated uncertainty about the medium-term outlook, we support to take a gradual approach to evolving the modalities of Fund surveillance. *We took note that staff will prepare an updated Guidance Note for the surveillance in Article IV consultations reflecting the discussion of the CSR. We would like staff to elaborate the possible timeline on this matter, including the timing to use it in consultations.*

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GRAY/21/1168

May 5, 2021

**Statement by Ms. Mahasandana, Mr. Nghiem, Mr. Bautista, and Ms. Yoe on
Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the comprehensive papers and the intensive engagements with the Board to develop the proposals. Overall, we are pleased with the review and the proposals are broadly in line with the Board's guidance over the past two years of engagement.

We support the overall direction and ambition of the CSR proposals to make Fund surveillance more flexible and timely so as to better support the membership in adapting to shifting policy priorities and in navigating the risks and challenges of a highly uncertain global landscape for the next decade. We would like to offer the following comments.

Surveillance landscape 2021-2030

We broadly agree with the assessment of the current state of the global economy and the major trends including growing adoption of digital technology, climate change and natural disasters, rising inequality, demographics changes in member countries, and shifting global economic power, that will likely shape the global economic and financial landscape in the next decade. The complex interactions of these trends, which need more theoretical and empirical analysis by staff, present a wide range of risks and uncertainties that policymakers will have to navigate and balance the trade-offs in the years ahead.

In particular, we encourage the Fund to pay greater attention to the macro-financial landscape that is rapidly evolving in light of the impact of the COVID-19 crisis, the increasing geopolitical and trade tensions and US-China technological de-coupling, as well as the impact of inward-looking policies such as reshoring and shift away from global to national supply chains. Such trends could reverse the progress of multilateralism and international cooperation that was made over the years. global supply chain will remain resilient to future shocks. The Fund has a key role to play in highlighting the systemic and macroeconomic implications of these developments including trade policies of major economies both at the

bilateral and multilateral level so as to promote open global trade and to support resilient and even recoveries for the membership.

We also suggest taking a closer look at cybersecurity issues and the safeguards to potential threats that could undermine the digitalization trends. Digital technology will have even greater influence in the coming years, which includes but is not limited to the reshaping of macroeconomic policies and institutional arrangements, employment, economies of scale, industries, information systems, measurements of productivity and output or GDP, and even the international monetary system and governments.

Surveillance priorities

The proposed surveillance priorities are broad and ambitious enough to capture the range of outcomes and challenges that the membership could face in the years ahead. The COVID-19 pandemic has provided a real-world test which ascertained that the surveillance priorities remained relevant and have become more urgent. As such, we expect Fund surveillance to remain primarily focused on the challenges and policy priorities arising from COVID-19. Where surveillance priorities move into the emerging areas such as climate change, digitalization, demographic and inequality, it will be important to ensure that staff have sufficient guidance on the application of the macro criticality criteria.

In this highly uncertain environment, we agree that Fund surveillance needs to be risk-centric, paying more attention to tail events in scenario analysis and contingency planning. With regard to the challenge of striking a delicate balance between providing clear and candid discussions of risks and uncertainty while avoiding unintended consequences in real world outcomes, *can staff elaborate on how the mission team will be guided on how to strike the balance in the staff reports and external communications?*

We also agree on the need to strengthen Fund surveillance on spillovers and economic sustainability, especially as countries are designing their policy responses to exit from the crisis and to secure resilient and sustainable recovery in the longer term. To support countries in better shape to exit from crisis policies, the Fund will need to strengthen policy advice on how to exit policy support in a way that can meet domestic objectives while minimizing outward spillover. At the same time, exit from prolonged period of accommodative monetary policy by advanced economies (AEs) can trigger spillover effects on the emerging market and developing economies (EMDEs) in the areas of exchange rate, inflation and financial stability. We thus look forward to the upcoming review of the Institutional View (IV) on capital flows and the implementation of IPF findings as soon as possible to provide policymakers with greater flexibility to deploy the full range of policy tools to deal with capital flow volatility. We also support the Fund adopting a more unified and comprehensive approach to policy advice that sufficiently considers the trade-offs and synergies of various tools to support countries with limited policy space (due to “low for long” interest rates, high debt, rising financial vulnerabilities particularly in nonbank segments) to deal with multiple priorities.

On the integration of climate change into Article IV, we emphasize that it should be guided by macro-criticality, conducted within the Fund mandates and in close coordination with its partners, leveraging on the expertise of the World Bank and other international financial institutions. With regard to Fund surveillance on climate mitigation, we note that policy recommendations should be in line with well-accepted international agreement such as the Paris Agreement. On managing transition risks, the Fund should provide practical and tailored advice that takes into account country specific circumstances such as the stages of development and policy priorities of the members.

Modalities

We agree with the direction of the proposed modalities to make Fund surveillance more topical, timely, targeted and better connected. They are steps in the right direction to enhance the quality and traction of Fund advice to better help the member countries navigate the challenges and trade-offs in a highly uncertain global landscape. We also support better integration of Fund surveillance and CD to further enhance traction of Fund advice.

We support the proposal for a gradual approach to evolving the modalities of Fund surveillance and are open to experimentation so as to incorporate learning and to adapt the modalities to changing needs and circumstances along the way. However, we would like more details on how the experimentation would work in practice. When experimenting and implementing the new modalities amid the ongoing pandemic, staff should be mindful of the resource constraints and work pressures of the authorities, particularly in low-income countries.

We welcome the new initiatives to better surface cross-cutting issues that are of strategic importance for the Board's attention. We agree that the *Country Matters Meetings (CMMs)*, if well implemented, will allow the Fund to be more forward-leaning on policy issues as emerging risks and cross-cutting issues, including spillovers and unintended consequences of policies from countries/region to others, can be brought up for discussion at the Board in a more timely manner. It is useful to note that the Fund already has the practice of engaging the Board on key policy issues (e.g. correspondent banking relations, housing market challenges) on an ad hoc basis, and the CMMs is helping to regularize such Board engagements. In particular, we welcome that the Board will have a say on the topics and nature of the CMMs in advance in the semi-annual board work programs.

We also welcome the *Granular Policy Initiative (GPI)* to the extent that it serves to distill and disseminate emerging policy lessons for the membership in a timely manner so that cross-cutting issues can be easily identified without having to go through the detailed staff reports of individual countries. *However can staff elaborate on what topics will be covered by the GPI or how will the topics be selected? Where country case studies or experience are featured in the GPI, will the authorities get to review and reflect their views in the publication?* To rebalance Board surveillance towards more cross-cutting and strategic issues, we support a greater use of LOT for individual Article IVs on a risk-based approach.

We are supportive of a shift towards focused Article IV but stress that the coverage and selection of topics should be decided in close consultation with the authorities. We are pleased to note that there will be flexibility for mission teams to calibrate the scope of Article IV consultations according to country-specific needs and circumstances. We reiterate that smaller countries without annual Article IV cycles or those with minimal analyst coverage of their macroeconomic frameworks may prefer to continue with more comprehensive Article IVs. In particular, DSA and external sector assessments are important for many smaller countries, as development partners and other IFIs rely on Fund surveillance in these areas to inform their decisions on grants and financing for these countries. We look forward the differentiated approach that staff will developing to ensure evenhandedness in surveillance of countries in similar circumstances while taking into account country circumstances.

To address the concern that streamlining the coverage of Article IV will require changes in surveillance practices and expectations across the Fund, **we suggest that the Fund should conduct a few pilot Article IV consultations and the experience can inform us on whether and how to implement focused Article IV more widely across the membership.** We think it is useful to start with a few pilot Article IV consultations with the agreement of the authorities, and the experience can provide important learning lessons for the mission team on how to calibrate the scope of the Article IV consultations so as to balance evenhandedness, how to communicate to the changes to the authorities to manage their expectations, and how to adjust the reviewing process or get buy-in from the reviewing department. *We welcome staff's comment on how they intend to provide guidance to mission teams and to manage expectations.*

We see merit in having greater use of virtual modalities for off-cycle meetings to complement in-person visits so as to facilitate more continuous engagements, but emphasize that the exact modality will need to be decided on a country-by-country basis depending on authorities' preference and adapted to the constraints in the post-pandemic landscape as well as logistical and technological challenges. *Can staff elaborate on whether there will be guidelines for mission teams on how to balance between virtual engagements and in-person visits? Do staff have plans to take advantage of the Fund's Resident Representative Offices by enhancing their role in Article IV consultations?*

We welcome having the Spillover Forum and Spillover Tools to foster more candid policy discussion of spillovers. The relatively weak coverage of outward spillover, in particular from the perspective of major source countries, has been a longstanding gap in the Fund's surveillance framework. In this regard, the Spillover Forum offers a good platform for source countries to develop a better understanding of their policy actions on the global system and for recipient countries to better understand the policy direction of source countries so as to anticipate and safeguard against spillovers. While we recognize the primacy of domestic mandates in policy making, there is room for the Fund to play a stronger role in presenting alternative policies, including the communication strategy, that minimizes

external spillovers to spur policy debates. To enhance traction, we also encourage the Fund to point out how outward spillovers can result in spillbacks onto source countries.

We agree that having better tools and the appropriate expertise are important to the Fund's effort in delivering on the surveillance priorities. In this regard, we encourage the Fund to continue analysis to deepen our understanding on how emerging trends including technology, inequality, geopolitical developments will impact macro stability and economic sustainability. While it is important to close data gaps in areas with immediate data needs to enhance Fund surveillance, the Fund should be mindful that imposing new data requirements at this time where many member countries are focused on addressing the crisis could place undue burden on the authorities and distract them from crisis priorities. The Fund should also provide stronger justification and a clear roadmap on how the data will be used to enhance Fund surveillance as well as assurance of strong confidentiality safeguards in order to gain traction and cooperation from member countries in data provision. At the same time, we welcome the planned upgrade to the External Balance Assessment. We emphasize that there remains large unexplainable residuals and inconsistency in the results from different assessment models (EBA and REER), and both are likely to have been exacerbated by the COVID-19 trends. These should be addressed to enhance the Fund's credibility and to enhance traction.

Resource implications for the CSR and FSAP review should be considered holistically in the context of the medium-term budget to allow the Board to take informed decisions on resourcing and appropriate trade-offs. The Fund should cautiously balance the expanded coverages with the required resources to achieve the ambitious CSR goals. Clear prioritization and objectives of new surveillance areas are needed to ensure that the Fund will continue to deliver the relevant, practical and appropriate policy advices that will lead to high traction.

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GRAY/21/1170

May 5, 2021

**Statement by Ms. Shortino and Mr. Westphal on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

Surveillance is a key pillar of the Fund's mandate and cornerstone of the institution. Fund surveillance also provides a global public good, helping to promote sound global and domestic macroeconomic and financial sector policies supported by tangible policy recommendations. The comprehensive surveillance review (CSR) is critical to ensuring that surveillance remains effective and responsive to the Fund's membership needs. We thank staff for these helpful reports and bilateral engagement over the past two years. We broadly agree with the four priority areas for Fund surveillance, and we welcome that the proposals for modernizing surveillance modalities are aimed at making the Fund a more nimble and responsive institution.

It will be critical that the proposed changes do not detract from the ability of the Fund to deliver on its core mandate, which includes surveillance of fiscal, monetary, external, and financial sectors. We take note that the operationalization of the CSR will occur gradually, and we would appreciate greater clarity on the timing for phasing in each of these changes. We look forward to reviewing in two years how the proposed changes are working in practice, and we call for regular updates to the Board in the meantime on the timeline and implementation status for each recommendation.

Surveillance Priorities

We support the proposed priorities but stress that full implementation will take time and may require significant adjustments in the way the Fund currently does business. We agree with the proposals to strengthen analysis of risks in surveillance and make greater use of contingency scenarios, while keeping the core of the Fund's policy advice directed to the baseline. We are open to exploring new ways to incorporate spillover analysis into bilateral surveillance, including through a new Spillover Task Force. However, to be effective, spillover analysis must extend beyond the effects of the monetary policies of major central banks and should incorporate policies that have both positive and negative spillovers. Further, Fund advice should include policies that countries can implement to mitigate the impacts of negative spillovers on their domestic economies. We are skeptical of the need for

a standalone Spillover Forum during the Annual and Spring Meetings and would suggest instead holding them on an as-needed basis, limiting their occurrence to once per year, or incorporating this discussion into the Early Warning Exercise (EWE).

We strongly support staff proposals to integrate climate-related adaptation and mitigation into Fund surveillance. We welcome bilateral surveillance coverage of adaptation efforts for countries most vulnerable to climate change and mitigation efforts for the 20 largest emitters. We agree that this surveillance should include policy advice to help countries meet mitigation targets based on nationally determined contributions under the Paris Agreement. The advice should focus on the potential economic implications of a range of policies and strategies to reach climate targets. As staff note, assessing the adequacy of mitigation objectives goes beyond the Fund’s expertise and mandate; any benchmarking of mitigation objectives should be presented for informational context and in a neutral and balanced manner, consistent with the Fund’s role. With regard to other emerging issues such as digital technology, inequality, and demographics, we are open to further coverage of these issues in surveillance so long as they meet the bar of macro-criticality and help to inform staff’s policy advice on core macroeconomic topics. We also continue to encourage robust collaboration with other institutions on all of these emerging topics.

Modalities for Surveillance

Focused Article IVs and Granular Policy Initiative (GPI): We agree that more focused Article IVs and cross-cutting policy advice could help to strengthen Fund surveillance. While we appreciate the desire to pare back coverage of topics that are already well understood, we would welcome more specificity on the process for selecting topics for more intensive surveillance and identifying areas that can be deprioritized in a given year. We also stress the value in Article IV coverage of persistent macroeconomic weaknesses, even if they are well understood and persist from year to year, to underscore the need for policies to address these issues. *Could staff provide more information about the GPI, particularly regarding resource requirements and how the Board should consider tradeoffs with other surveillance priorities?* As we move forward with the implementation of these two proposals, we ask that the Board be engaged and regularly informed on the identification of which countries will undergo focused Article IVs and the application of the GPI.

Country Matters Meetings (CMMs): We are open to greater use of CMMs, particularly if they include tangible, country-specific policy recommendations. We would also like to see a more formal mechanism for Board members to request topics for review. For example, we would be interested in cross-country surveillance on topics such as Brexit, foreign exchange intervention, and tourism-dependent countries in the wake of the pandemic. We recognize that, to provide space for CMMs, staff expect to use the Lapse of Time (LOT) procedure for more individual countries’ Article IV surveillance. We caution that there is a risk of LOT reviews being allocated to smaller economies, low-income countries, and fragile states, which could create disincentives for staff to work on these countries. We would see merit in a system whereby Management shares on a quarterly basis a proposed list of upcoming LOT reviews, allowing Board members additional time to call for full Board meetings as necessary and to demonstrate that LOT reviews occur for countries of various circumstances.

Financial Sector Surveillance: We welcome that the Fund has made significant strides to deepen its financial sector expertise since the global financial crisis. We strongly support the proposals to continue to deepen the Monetary and Capital Markets department's (MCM's) expertise and to incorporate recommendations from the Fund's financial sector surveillance into its broader engagement with countries, including Article IV surveillance and capacity development. We will consider the proposal for MCM to hire additional full-time employees as part of broader discussion on a structural augmentation to the budget. We reiterate that for financial sector surveillance the Fund should follow the standards and guidance from the financial sector standard-setting bodies and avoid offering conflicting recommendations.

Data and Tools: We appreciate the context for how the additional data portals and the integrated digital workforce initiative fit into the broader CSR. We would appreciate more information about the proposals to launch new training programs for staff—particularly regarding what these trainings will entail, when they will be completed, and how much they will cost. While we support providing staff with tools to do their jobs well, we note that pursuing so many major data and training initiatives will need to be considered in the broader context of Fund resources.

Implementation of the CSR

Once fully implemented, the proposals in this CSR could significantly alter the tools, delivery, and final outcomes of Fund surveillance. These changes will also necessitate a culture shift for staff, management, and the Board in terms of the way we do business. The process for implementation needs to be carefully designed and calibrated as we move forward, and Management should be careful to leverage key tenets of change management when putting these changes into effect. *We would welcome more information about how Management will use the Innovation and Change division to facilitate the transition while maintaining staff morale.*

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GRAY/21/1171

May 5, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Merhi on Comprehensive
Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the excellent and comprehensive set of papers as well as for their outreach to our office. This Comprehensive Surveillance Review (CSR) appropriately aims to strengthen the effectiveness and traction of Fund surveillance in a highly uncertain environment. Given that policymakers are navigating through an uneven recovery blemished by risks and uncertainties, the Fund should provide timely, targeted, and tailored advice that is geared to ensuring economic recovery while maintaining macroeconomic and financial stability across the membership.

Impact of the COVID-19. The pandemic has significantly impacted the world economy which has witnessed its biggest recession since the Great Depression, exacerbating macroeconomic challenges and vulnerabilities, that will need closer attention in the period ahead. Public debt levels are expected to reach their highest point since WWII, translating into growing fiscal sustainability concerns for some EMDCs and many LICs. Conventional monetary policy has become increasingly constrained, and while unconventional monetary policies have been broadly effective in both advanced and emerging market and developing economies, they carry risks for cross-border spillovers and financial stability. Moreover, financial vulnerabilities have increased in the corporate sector and non-bank financial institutions. The current crisis has also derailed progress toward basic development goals and may have pushed about 100 million people into extreme poverty in 2020 alone according to the World Bank. Many MICs and LICs are still struggling to exit the crisis safely and are at risk of reversing hard-won gains. We agree that countries' capacity to rebound from the crisis will depend on the availability of policy space, financing, institutional capacity, and access to vaccines.

We agree with the broad assessment of the major trends that will define Fund surveillance work over the next decade, with greater focus on reducing fragility, inclusive growth, digitalization, and climate change. In this regard, the post- COVID-19 recovery is an opportunity to strengthen the green, digital, and inclusive agendas. Significant investments will be needed to reap the full benefits of new technologies. The rise of digital assets—including crypto assets and central bank digital currencies (CBDCs)- can fundamentally alter the global macrofinancial landscape. Work on climate change falls within the broader objective of supporting member countries in their goal towards achieving the SDGs and overall economic stability and must fall within the principles of the Paris agreement. Moreover, the transition costs involved in achieving climate objectives, particularly for hydrocarbon-producing countries, must be thoroughly assessed. Special consideration should be given to vulnerable low-income and middle-income countries, small states, as well as countries hosting large refugee populations—including through tailored IMF policy advice, capacity development, and financing.

Surveillance priorities. Surveillance should continue to cover the core surveillance areas as indicated in the Integrated Surveillance Decision (ISD). We support the broad priorities which have become more relevant and pressing since the COVID-19 crisis to strengthen the quality and traction of the Fund’s surveillance work. The ongoing COVID-19 crisis suggests the need for a gradual approach to evolving the modalities of Fund surveillance. We need to remain flexible and, in this regard, appreciate staff’s view that the operationalization of the CSR priorities and modalities will proceed in gradual steps to allow for adaptive learning in the post-COVID-19 landscape. We stress that appropriate guidance will need to be provided to country teams to preserve evenhandedness. Staff should also remain open to revisiting aspects of the CSR should the crisis take a new turn.

- **Confronting risks and uncertainties** remain a top priority. In this context, contingency planning will be key, supported by policies geared towards risk management. Preparing alternative scenarios could advance the dialogue on risk-reward tradeoffs of policies, risk management measures, and contingency planning. However, we caution against excessive risk assessment which could raise unintended market reaction.
- **Pre-empting/ mitigating spillovers.** The Fund is uniquely placed to monitor and assess economic and policy spillovers in both producing and receiving countries, and staff should continue to identify gaps in spillover analysis. In Article IV surveillance, we need to further strengthen the coverage and consistency of the Fund’s spillover work, drawing on better data, and information-sharing frameworks. We support the proposal to enhance synergies between global and

country-specific spillover coverage, to allow for a more coordinated and evenhanded surveillance of spillovers.

- **Fostering economic sustainability** is key to achieving the IMF’s surveillance mandate of maintaining current and prospective balance of payments and domestic stability and assuring orderly exchange arrangements. We welcome the background paper which highlights the setbacks to economic sustainability due to COVID-19, creating a wake-up call for global action; and recognizes that IMF surveillance needs to be selective and focus on macro-critical issues. We fully endorse the emphasis placed on the multi-faced aspects of economic sustainability and consider this a very important part of the Fund’s work going forward. *Given that all SDGs are of macro-critical importance to the vast majority of countries, we wonder how the integration of economic sustainability will be operationalized and how will staff prioritize among SDGs?*
- **Adopting a more unified approach to policy advice** including through the Integrated Policy Framework, would help reach a better understanding of the synergies between different tools used in crisis response and in the recovery. We emphasize the merit of developing a Granular Policy Initiative that would build on the Policy Tracker to help tailor policy advice to country specific circumstances and catalyze Fund policy views on cross-cutting issues. It would be important in this regard to consider country-specific needs and constraints, including for Low Income Countries/Fragile States as well as Middle Income Countries. To enhance the traction of Fund advice, both analytical improvements as well as deeper understanding of country perspectives are needed. For bilateral surveillance, evenhandedness remains an important concern.
- **We strongly support deepening financial surveillance and FSAP integration into Article IVs**, especially in view of rising financial sector vulnerabilities. Greater attention is also needed to address country-specific issues including through better integrating policy advice with capacity development. We support staff proposals to have a more consistent follow up of FSAP findings and recommendations, more forward-looking systemic financial risk analysis, expanding the analysis of vulnerabilities beyond banks, and deepening knowledge on the intended and side effects of macroprudential policy and its interaction with other policies. We underscore the need to expand the pool of macro-financial talent at the Fund to deepen all dimensions of macrofinancial analysis. It will be also important to assess financial stability risks from emerging areas of importance such as climate and fintech.

We support the proposed modifications of Fund surveillance modalities to make them more timely, targeted, better interconnected, and better informed.

We welcome the efforts to streamline Article IVs and have more focused reports without jeopardizing its core elements. We see merit in the proposal to have a Spillover Tool for major policy spillovers. **Improved integration of Capacity Development** (CD) would increase traction and help deliver on priorities, including through the elaboration of a CD Country Strategy and the support of the CD Management and Administrative Program (CDMAP). Collaboration with External Partners is important and would strengthen the Fund's understanding of issues outside its core areas of expertise. To this end, further leveraging the expertise of other institutions would be important. We also support all efforts to enhance the availability of more and better data through Data Provision to the Fund and see merit in upgrading the Country Portals in order to serve as a "one-stop shop".

Resource implications. These proposals hinge on adequate resourcing. We take note of the proposed costing included in the background paper. The Fund budget should be adequately resourced to fulfill its mandate, including responding to exceptional COVID-19-related demands and emerging areas to best support the recovery. We reiterate our support for a structural increase in the budget to allow the institution to respond to the needs of the membership in a satisfactory and timely manner. We look forward to more details in the upcoming discussions on the budget implications of the Fund's enhanced work on climate change, digitalization, and inequality.

Finally, we look forward to the revised Surveillance Guidance note that will include more details on the implementation of the modalities of surveillance. We also welcome the proposal to have an interim review in about two years' time to take stock of progress and adjust as required.

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GRAY/21/1176

May 5, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, Mr. Velloso, and Mr. Barroso on
Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the comprehensive and thoughtful materials and thorough engagement with the Board leading to the 2021 Comprehensive Surveillance Review (CSR). We broadly agree with the assessment of the macrofinancial landscape and major trends relevant for Fund surveillance. Overall, we welcome the push towards breaking silos to leverage and integrate knowledge within the institution, exploring thematic and geographic interconnectedness of macroeconomic, financial and other macro-critical issues; enhancing the quality and timeliness of data provision without overburdening country authorities; and boosting traction by providing more focused, topical, and country-specific analysis and advice. We agree that the proposed surveillance priorities (i.e., confronting risk and uncertainty, pre-empting and mitigating spillovers, fostering economic sustainability, and unified policy advice) are an adequate response to the landscape and relevant underlying trends. We also welcome, with the caveats below, the bulk of the proposed modifications to Fund surveillance modalities to address those priorities, with proper focus on better targeted, connected and informed approaches. The improvement in surveillance modalities should be gradual, budget conscious, and subject to review in the next couple of years.

Fund surveillance must be cognizant of macrofinancial risks emerging from the current economic landscape and underlying social-economic trends. The economic outlook has become more uncertain and policy space more constrained after the global pandemic. Indeed, after unprecedented policy accommodation to cope with the pandemic, several jurisdictions now face higher vulnerabilities. High public debt and low neutral rates constrain both fiscal and monetary policies, at the same time private sector leverage and stretched valuations increase financial stability risks. Also, the pandemic could impact slow moving trends. For instance, inequality and social tensions tend to worsen after the pandemic, while momentum for digital transformation tends to accelerate.

Confronting risk and uncertainty should be duly grounded on plausible scenarios and country-specific policy dialogue. We agree that surveillance should ideally identify relevant

risk scenarios around the baseline and discuss preemptive and mitigating policies, including policy tradeoffs. Yet, we remain concerned that rebalancing away from the baseline could add undue tension to policy dialogue, reduce traction of advice – if becoming too speculative – and pose complex communication challenges. The “strategic foresight” approach should therefore be used only in close coordination with authorities. We are also concerned that the focus on off-the-shelf probabilistic models could come at the cost of closer attention to country-specific characteristics. The convenience of modeling tools for generating quantitative risk statements should not come at the expense of meaningful policy dialogue and discussions of the sources of risks. The upcoming guidance note for Fund surveillance should have explicit warnings and mitigating strategies to ensure plausibility of scenarios and country-specific parameters in risk models.

Preempting and mitigating spillovers is another priority in Fund surveillance, and multilateral approaches remain key to addressing outward spillovers. We welcome the background paper on spillovers, highlighting the challenges of a highly interconnected global economy. The paper correctly argues that a country’s own stability has precedence in bilateral surveillance – in full accordance with the Integrated Surveillance Decision (ISD). This seems to leave a somewhat narrow range for the analysis of outward spillover. We support the development of spillback assessment tools to facilitate bilateral policy dialogue and equip country teams to have meaningful policy discussions. Yet, many spillover issues comprise multilateral equilibrium and coordination problems better addressed by multilateral approaches. We therefore continue to support the development of multilateral surveillance tools and publications, along with the consolidation of existing and development of new multilateral high-level and technical fora to address evolving spillover concerns.

Our view on spillover policies equally applies to climate change considerations of relevance to the CSR. To be clear, we recognize the adverse and macro-critical effects of climate change to many national economies and the global economy. That said, the background paper on climate change should emphasize the voluntary nature of bilateral surveillance in this area and the central role played by multilateral surveillance. The current proposal does not seem to be fully in accord with the ISD and could have unintended effects, including disturbing existing delicate coordination mechanisms. Moreover, with restricted resources, embracing emerging issues on which Fund’s capacity to add value is limited may crowd out core issues for which there are no multilateral substitutes. Fund surveillance must remain grounded on its expertise and focused on where it has a clear mandate, not trying to replace the work of other dedicated institutions and forums. Venturing beyond those lines would risk stretching limited resources too thin, compromising the institution’s longstanding reputation, and weakening the traction of its policy advice.

Fostering economic sustainability requires coordination with outside partners and focused approaches that leverage on Fund’s comparative advantages. We welcome the coverage of relevant trends, including demographics, technological change, inequality, socio-political and geopolitical developments, and climate change. We take note of the effort to identify trend-specific channels of relevance for economic sustainability and, as a result, for macrofinancial stability. Clear identification of economic channels is instrumental to bring

such diverse themes under the umbrella of Fund's expertise. Nevertheless, a proper coverage of sustainability topics will require close coordination with outside partners with proper know-how, including of relevant data and modeling approaches. Also, Fund policy advice will have to incorporate underlying socio-political constraints to avoid ill-informed policy advice and ensure proper traction. The slow-moving nature of the trends and lack of in-house expertise call for a more paced approach from surveillance.

Stepping up surveillance entails significant challenges and changes should be undertaken carefully not to undermine the core public good provided by the Fund. The crucial point is that surveillance needs to be less descriptive and more forward looking, attentive to authorities' views, responsive to shifts in baseline and risk scenarios, and fully aware of policy interaction and spillovers. Along those lines, focused surveillance should not come at the expense of proper coverage of key traditional areas of surveillance, which should remain at the center of the Article IV consultations. Many of the proposed initiatives to make surveillance nimbler and more responsive to both country circumstances and critical cross-cutting themes are welcome, particularly the Country Matters Meetings and the Granular Policy Initiative. That said, the temptation of shortcuts and homogeneous top-down approaches must be averted.

A critical component of improving surveillance is to fully leverage in-house knowledge and tap into outside expertise, as needed. Further deepening the integration of macrofinancial expertise into bilateral surveillance is one of the key aspects of this review. We support expanding macrofinancial talent in the institution, but caution that a more efficient use of resources, including through virtual engagement in on-site missions, will be necessary. It is hard to conceive that, given the wide range of specific issues, highly specialized financial experts would be available to join every country team. Closer integration of FSAPs into surveillance is a critical piece of this effort. While we broadly support the proposals put forward for consideration in this area, we will elaborate further in the Board discussion of the FSAP review. We support the development of the Spillover Tool and the proposed Spillover Forum as ways to promote multilateral dialogue and cooperation on such issues. We also strongly support further integration of capacity development and surveillance, especially through the "CD Country Strategy". Of course, collaboration with external partners will be key to ensure that the main sustainability risks outside the Fund's expertise are properly understood and accounted for in surveillance, if deemed macro-critical.

Surveillance will continue to rely on adequate human capital and information. We welcome the deployment of better tools to support information dissemination. We have, however, concerns about the "Revamped Internal Economics Training," as core areas of Fund expertise need to be prioritized and time-tested training programs should be preserved or updated. The Fund should not venture into highly specialized areas such as climate, demography, political science, and other non-conventional areas, at least not beyond a general knowledge needed to support the understanding of relevant economic transmission channels. It seems to be more cost effective to incorporate external expertise and human capital to tackle these issues, as needed.

We look forward to more detailed discussions on the CSR's budgetary implications and updates on implementation efforts. We are particularly concerned with the budget implications of the proposed tools, information requirements and training needs linked to providing enhanced surveillance modalities. In particular, we fear that trying to expand the scope of surveillance to incorporate emerging issues may lead to unduly preying on resources critically needed to carry out the Fund's core mandate. Finally, we look forward to discussing the Guidance Note on Surveillance Under Article IV Consultations before its adoption and to frequent progress reports on ongoing experimentation to modernize surveillance modalities.

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GRAY/21/1181

May 6, 2021

**Statement by Mr. Jin, Mr. Zhang, and Mr. Bai on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for the insightful set of reports, which provide a comprehensive assessment of the global landscape and present concrete new proposals to modernize Fund surveillance. We concur with staff that efforts are needed to enhance the evenhandedness, consistency, and transparency of the Fund's surveillance work, while taking into account country-specific circumstances. Therefore, we broadly support staff's proposals to make IMF surveillance more targeted, topical, timely, and better interconnected, and encourage staff to keep close engagement and communication with members in implementing proposed workstreams.

We broadly agree with staff's view on the four surveillance priorities and would like to limit ourselves to the following points.

I. Confronting risks and uncertainties

COVID and the potential long-term scarring. In addition to the long-term trends mentioned in the staff report, the COVID and the potential scarring effect is still one of the most important factors in shaping the global landscape in the upcoming 5-10 years. Since the Spring Meetings, global recovery continues to gain momentum. However, the pace of vaccination in most Emerging Markets and Developing Countries (EMDCs) is lagging, many low-income countries (LICs) are facing severe fiscal constraints for vaccine procurement, and the recent surge in COVID cases due to virus mutations makes the global near-term economic outlook even more fraught and uncertain. Against this backdrop, the Fund's surveillance should focus on measures to contain COVID, boost recovery, and promote a cooperative, balanced, and inclusive vaccination and recognition process across countries, in order to achieve a more synchronized global recovery.

Climate change. We support the IMF to integrate climate change issues into the bilateral and multilateral surveillance, and step up efforts in climate-related capacity development for member countries. All the Fund's climate-related work should be conducted in an even-handed manner, based on its mandate and aligned with its expertise in a demand-driven way, and we encourage the IMF to closely cooperate with other international institutions according to each other's comparative advantages.

Surveillance on climate change should pay special attention to the adaption measures' impact on people's livelihood and employment, and provide advice on related risk management and mitigation. Attention should also be attached to the sources of technologies currently used by major emitters, the bottlenecks in obtaining new technologies for EMDEs, and whether the environment for international cooperation is friendly. In addition, the difference in countries' marginal carbon emission costs should also be taken into account in the Fund's discussion on **carbon pricing policies**. It is necessary to ensure member's carbon pricing measures are in line with WTO rules, and prevent abuse for the purpose of trade protection.

While there is a consensus that the Fund should play an important role in tackling climate change, different opinions remain regarding the below issues: *1) Based on what criteria should staff cover a country's climate issue in its Article IV consultation? What is the focus of climate-related assessments in bilateral surveillance? Should it focus on the effectiveness of mitigation policies, or advice on specific policy actions? 2) To what extent should one country disclose climate-related information? Is the climate disclosure on a voluntary basis or on a mandatory basis? 3) What kind of role should the IMF play in mobilizing green financing while MDBs are major players to provide development financing? 4) How should the IMF facilitate technology transfer to improve the accessibility and affordability of energy-effective and advanced technology for EMDCs?* **We would like to hear staff's views on these issues and encourage staff to further their analysis.**

II. Preempting and mitigating spillovers

To effectively implement this work, it is key for staff to identify the appropriate spillovers to cover. Therefore, we encourage staff to fully engage with member countries and listen to the opinions of relevant countries. For example, adverse spillovers of extremely low interest rates for a prolonged period in advanced economies should be assessed. We also encourage staff to analyze and facilitate discussions on positive spillovers of infrastructure investments.

Earlier withdrawal of supportive policies in advanced economies (AEs) could be another important source of spillovers. However, the current reports lack sufficient discussion on the above-mentioned spillovers.

Moreover, in the background paper, it mentions that “potential spillovers from the banking sectors in Europe and the UK were additional concerns alongside Fintech and **the increasing footprint of China, especially if it were to open up its capital account.**” China’s further integration into the global financial markets is in line with the Fund’s previous advice.

III. Fostering economic sustainability

We broadly support staff to better leverage the FSAP to strengthen the Fund’s macrofinancial surveillance in Article IV consultations. Article IV consultations and FSAPs should complement each other. As pointed out in the latest FSAP review report, however, some authorities have expressed concerns about the burden for the authorities in terms of preparatory work and the number of meetings. *What are the proposals to streamline the work for the authorities to the extent possible, while strengthening the Fund’s surveillance?* We also emphasize that staff should be mindful of the potential data requirements for conducting stress-testing exercises, particularly new requirements related to climate change, and avoid overburdening authorities in the process.

For the proposed board Country Matters Meetings (CMMs), we suggest staff focus on common policy-relevant issues faced by various members, such as the role of government in the economy. When assessing the effect of government intervention in the economy, staff should avoid making preconceived judgments based on a country’s political system and take the fiscal expenditure/GDP as a criterion to evaluate government intervention in the economy. With the launch of President Biden’s new stimulus plan, the US government’s intervention in the economy has further increased, and European countries’ fiscal budgets have always accounted for an even higher proportion of GDP. *How effective are these government interventions? Do these interventions have distorting effects on trade?* Government intervention in the economy is a common issue for both EMEs and AEs, and staff should bring it into a common framework for analysis.

IV. Adopting a more unified approach to policy advice

We are supportive of staff’s proposal to adopt a more unified approach to policy advice. Further sharpening of the Fund’s analytical tools is welcome. At the same time, we caution against getting too caught up with developing overly complex models that are hard to apply and understand. The development of analytical tools and monitoring indicators would also need to be complemented by efforts to deepen

country-specific knowledge, such that appropriate judgement can be applied when interpreting model outcomes and figures.

We support staff to take full advantage of new technologies and data availability in order to achieve a better-informed surveillance and enhance its relevance. Meanwhile, as pointed out during the Review of Data Provision to the Fund for Surveillance Purpose earlier this year, some issues related to the proposed new data requirements deserve more discussion. More specifically, we agree that more granular **public debt data** would be helpful for sustainability analysis. At the same time, the Fund needs to clarify that the provision of information should obey normal non-disclosure agreements and protect confidential commercial information. **On the foreign exchange intervention (FXI)**, FXI data are highly market sensitive. Actually, the staff can make a very close estimation on FXI based on the changes of official foreign exchange reserves. **On the macro-financial analyses**, it will facilitate member's efforts in data provision if the parameters of the new data requirement, like sectorial breakdowns, could be consistent with what has already been provided and other international organizations.

Last but not least, we agree that upgraded human capital is important in modernizing the Fund's surveillance. We look forward to discussing the CSR's budgetary implications, and welcome staff to update the progress on implementing new proposals in the reports.

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GRAY/21/1183

May 7, 2021

**Statement by Mr. Hosseini and Mr. Badsì on Comprehensive Surveillance Review
(Preliminary)
Executive Board Meeting 21/45
May 10, 2021**

We thank staff for comprehensive and timely set of papers on Comprehensive Surveillance Review (CSR), supplementing the previous updates, including Triennial Surveillance Review and Interim Surveillance Review. As the Fund's core business function seeking to achieve sustained, inclusive, resilient growth, with macroeconomic stability, the current CSR is being conducted against a backdrop of high uncertainty.

I. Macro Financial Landscape

For many countries (mainly LICs), the pandemic has reversed the economic and welfare gains achieved in the past decades and is expected to leave lasting scarring in the years to come. The least we could say is that ensuring a gradual and sound recovery requires adequate availability of policy space, adequate financing, strong institutional capacity, and a robust health infrastructure. The availability of sufficient vaccines and quick rollout is the overriding priority. Due to underlying structural factors, the long-term expectations for inflation and interest rates continue to favor of low for long interest rate and anchored inflation expectations, which in turn has encouraged risk taking. We endorse the staff's assessment that the risks of shocks and spillovers inherent in persistent excess external imbalances have increased. While we recognize that bolstering multilateral cooperation to address the COVID-19 pandemic is crucial, there are still domestic political economy challenges and geopolitical considerations that may constrain the progress.

We agree that most countries will likely experience reduced capability to cope with subsequent shocks because of the depletion of policy space due to preexisting vulnerabilities that have been significantly aggravated by the pandemic. We also are concerned by the increased risk of debt distress in low-income countries and the rapid deterioration of their long-term fiscal sustainability. In addition, we believe that a prolonged period of very easy monetary conditions, loosening of financial regulations and persisting disconnect between

the financial markets and the real economy would encourage risk taking and aggravate the existing financial vulnerabilities.

We agree with the staff's broad assessment of major trends and aspects of the evolving macro financial landscape, including digital technology, climate change, inequality, demographics, and geopolitics, which collectively provide a roadmap for strategic guidance for the Fund's surveillance over the next decade. We are of the view that the impact of inherent risks and uncertainties will be significant on Fund' surveillance. We recognize that digitalization plays a major role in fostering inclusive growth while promoting significant economic spin-offs for industries, sectors, international monetary system, and public finance. Conversely, we note that against the backdrop of the COVID-19 crisis, new technologies may widen the gap between digitally trained workers and those lacking training, thereby marginalizing unskilled workers. Climate change mitigation and adaptation is another major global concern. There is overwhelming evidence that climate degradation is caused by human activity. Swift climate adaptation strategies, including preventive and corrective action have become a vital challenge to ensure a smooth transition towards low-carbon economies. Like digitalization, tackling climate change can also be costly in the short term, but the substantial longer-term benefits are undisputable. Financing mitigation should consider the social and equity costs of the climate challenge. Income disparities and poverty gaps that have been widening continuously across and among income groups are likely to worsen across generations going forward, especially in the wake of the COVID 19 crisis. We note with concern the severe population ageing in some major AEs with its consequential impact on global demand and output. Technological advances may be a double-edged sword, unless the younger workforce can adapt quickly to the new technology and the evolving demand for skills with the support of government's active labor market policies. Geopolitical risks and the general retreat from globalization (although risks have abated somewhat recently) add additional layers of uncertainty.

II. Surveillance Priorities

We broadly agree with the proposed surveillance priorities which we hope will further bolster the quality of the Fund's surveillance and improve traction of its policy advice. Emphasis on macro-criticality, country-specificity, and evenhandedness in policy should always remain the core guiding principles.

We positively note that the staff analysis drew lessons from previous crises, including the importance of Fund surveillance's capacity to identify, mitigate, and manage risks. We agree on the need to build a holistic risk assessment framework to strike a prudent balance between supporting the recovery and achieving medium-term debt sustainability. We welcome the progress in mapping risks and vulnerabilities, but in our view further sharpening of the content or format of risk analysis, presentation of a range of possible outcomes, and quality data are needed.

Despite the substantial progress in staff analysis to capture inward and outward spillovers, the strong and at times evolving cross-country linkages and contagion channels call for enhanced spillover identification and analysis, as well as closer multilateral engagement and cooperation. The outcome of this work should inform the update of the Guidance Note on Surveillance Under Article IV Consultations.

We share the staff's view that in addition to the standard macroeconomic analysis, reliable assessment of economic sustainability may require careful consideration of other external factors discussed earlier, such as digital technology, climate change, inequality, demographics, and geopolitics. Expanding the scope of this analysis may avoid jeopardizing both long term sustainability and prospective stability, especially in the post-COVID environment of high debt burdens. We take comfort in knowing that work is underway in these areas, and we fully agree with the need to deepen our understanding of the channels through which they influence economic sustainability. The work should be geared toward prominent issues with wide-ranging implications for economic sustainability that require countries-specific advice, also drawing on the expertise of other international partners.

Against a backdrop of limited policy space, more unified and holistic approach to policy advice is warranted, given the multi-faceted policy responses adopted by many countries to address large economic shocks. We look forward to the upcoming review of the institutional view and support the proposed approach which should be supported by a well calibrated policy mix with the objective of creating mechanisms to fostering balance of payments and domestic stability. This is at the core of the Fund's surveillance mandate for which greater consistency and complementarity is needed between fiscal and structural policies, macro financial advice, monetary policy and macroprudential measures, and external shock management.

III. Traction and Modalities for Modernizing Fund Surveillance

In an environment of mounting risks and imbalances, one of the most challenging tasks is to increase traction of the Fund's policy advice in support of domestic macro and balance of payments stability. We welcome the progress that has been made and look forward to the implementation of the planned complementary assessment approaches. We agree with the direction of the proposed shift towards focused Article IV consultations to make them more timely, topical, targeted, better connected, and better informed. We strongly support further efforts to tackle the remaining challenges, during the current crisis and beyond, through analytical and operational support with country-specific recommendations, capacity development integration, dialogue with CSOs and effective public communication.

Lastly, in view of constraints posed by the ongoing COVID-19 crisis, we are supportive of a more flexible and gradual approach to evolving the modalities of Fund surveillance.

2021 Comprehensive Surveillance Review

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/21/45—May 10, 2021

Risks and Uncertainties

- 1. Given the proposals to make Article IV reports more focused and concise, we wonder how the description of several shock scenarios and various policy responses could be incorporated into the main body of a report.**
 - The use of scenarios should support key policy recommendations rather than simply illustrate a range of possible risks, with the purpose of ‘stress testing’ the baseline policy advice to make it more robust to risks. Scenario-contingent policy advice would be expected to be discussed only in the case of selected critical risks.
- 2. With regard to the challenge of striking a delicate balance between providing clear and candid discussions of risks and uncertainty while avoiding unintended consequences in real world outcomes, can staff elaborate on how the mission team will be guided on how to strike the balance in the staff reports and external communications?**
- 3. In this context, we would welcome staff elaboration on what steps will need to be taken to address communication challenges regarding Contingent Policy Advice to avoid unintended consequences.**
 - The papers stress that staff will need to frame discussions appropriately to avoid unintended consequences from candid risk discussions on real world outcomes.
 - Addressing this communication challenge requires a careful, country-specific approach to select critical risks that would require deviations from the baseline advice. Such a selection should consider pre-emptive policies toward risks already included in the baseline advice (developing baseline advice that is more robust to risks is an important element of more comprehensive approach to risk management).
 - Formulating contingent policy advice may help alleviate communication challenges from the risk assessment itself because such policies may be highly effective in reducing the impact of identified risks.
- 4. 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?**
 - In the context of surveillance through Article IV consultations, the selection of relevant risks should be determined by country-specific circumstances, including country’s exposure to inward spillovers, and consistent with the global risk assessment.
- 5. Staff’s comments are welcome on how the GRAM would be integrated in these new surveillance modalities.**

- GRAM risks—reflected in Risk Assessments Matrices in staff reports—are already a focal point of risk assessment. New surveillance modalities will aim to strengthen this assessment by quantifying GRAM risks through numerical scenarios and evaluating their impact on individual countries—where feasible, using streamlined methodologies. The objective would be to help make the baseline policy advice more robust to risks and, when necessary, help the evaluation of contingent policy responses.
- 6. Could staff comment on how to provide better advice on country-specific contingency planning in surveillance?**
- The proposed new tools in the background—ranging from quantified risk scenarios to strategic foresight methods to assess low-likelihood but high impact risks—would be helpful to strengthen country-specific contingency planning.

Sustainability

7. Given that all SDGs are of macro-critical importance to the vast majority of countries, we wonder how the integration of economic sustainability will be operationalized and how will staff prioritize among SDGs?

- While there are many macro-critical issues and trends for each member, selectivity, and focus, depending on country-specific circumstances, remain key for the Fund to continue delivering effective surveillance. For operationalizing the surveillance priority on economic sustainability, leveraging the expertise of other organizations, strengthening the efforts on capacity development, enhancing analytical tools and data for surveillance will be also important.

8. 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.

- Debt sustainability issues are discussed in the CSR Overview Paper and, as a core area, are well captured by the Fund's existing surveillance framework. The background paper, in turn, focuses on other dimensions of economic sustainability, which could impact the Fund's stability mandate and have macroeconomic relevance, including due to the impact on debt. For instance, the background paper touches on the impact of demographics on debt sustainability through an increase in health and pension expenditures, and there are many other channels through which key trends and issues highlighted in the CSR will influence debt sustainability, including the impact of climate change, implications of digitalization for taxation, the relationship between socio-political developments and social spending. As emphasized in the CSR, fiscal institutions and governance are important elements to ensure economic sustainability.

Spillovers / Spillovers Forum

- 9. In this regard, we would have appreciated an identification of priority areas of spillovers—for example, the OEI Report on “unconventional monetary policy” recommends the IMF to prioritize the analysis of financial spillovers. Staff's comments are welcome.**

- As highlighted in the background note, the scope for spillovers that may significantly influence the effective operation of the international monetary system is increasing and the pandemic has highlighted new and unexpected sources of spillovers. Thus, rather than prioritizing in advance, the CSR aims at strengthening the set of spillover modalities to allow for rapid identification, prioritization and analysis of spillovers and policy responses, coupled with a timely engagement with authorities. That said, financial spillover analysis is likely to stay at the forefront of the Fund's priorities, while over a longer term, trends such as climate change and digital currencies can also be important sources of spillovers.
- 10. Hence, addressing spillovers may require extensive experimentation and timely reflection by the Board on the effectiveness of various approaches. Staff comments would be appreciated.**
- While we note the increasing necessity of covering a broader scope of spillovers, we also recognize the challenges. Thus, increasing the scope should be gradual, diagnosed through the core channels specified in the ISD, supported by existing internal processes, and informed by new spillover modalities, and in consultation with country authorities.
- 11. While we understand that the Fund cannot require members to change their policies, when policies promote the member's own stability even if they could adversely affect global stability, the Fund has a unique role to provide relevant and objective analysis on these spillover effects and encourage a constructive policy dialogue across the membership to minimize adverse spillovers. What are the main challenges that staff envisages to achieve this institutional view, and make a sound judgment about what spillovers are covered, when, and how?**
- As highlighted in the background note on spillovers, many modalities are already in place and work to ensure sound judgements about what is covered when and where (e.g., the GRAM, WEO forecasting process, coverage in flagships and the spillover taskforce). To further sharpen the identification of new spillovers, and to achieve a consistent discussion of spillovers across the institution, better coordination, further developments of tools, data, as well as more practical guidance are necessary steps.
- 12. Regarding the Spillovers Forum proposed by staff, we would appreciate staff's comments on the value-added of this proposal regarding the discussion on risks and spillovers versus the debate contained in the flagship reports or the EWE.**
- 13. On the proposed Spillovers Forum, we wonder whether it would only consider the pressing spillover issues identified in the flagship reports? We would also appreciate if staff could provide a few examples of incipient spillovers on the horizon at the current juncture, which could be considered relevant for possible consideration by the Spillovers Forum.**
- 14. Could staff elaborate on the envisaged design of the Spillover Forum and on ensuring adequate representation of the views of developing regions in the Forum?**
- 15. Could staff comment on the envisaged timeline for rolling out the Spillover Forum?**

- The proposed Spillover Forum would add value by serving as a platform for dialogue between and among spillover-producers and -receivers. Developing economies are important spillover-receivers, making them important participants in this exchange. The high-level closed-door forum would be anchored around one to two pressing spillover issues, which could draw from flagship reports. By focusing on incipient spillovers on the horizon, they could induce forward-leaning policy discussions. They would also complement, rather than substitute for the EWE exercise, which has both a wider scope and greater focus on tail risks.
- Potential topics could, for example, include spillovers from unwinding of unconventional monetary policy, fiscal policy, or digital currencies. The topics could be selected through a process of inter-departmental consultation anchored by the spillover task force.
- A first Spillover Forum could take place at the time of the 2022 Spring Meetings.

Unified Policy Advice

16. However, we wonder about the prospects of timely articulation of the IPF with surveillance. The IPF is not yet operationalized, and significant work needs to be done to integrate fiscal aspects. Staff's comments would be appreciated.

- Progress on new analytical work and key areas required for operationalization of the IPF will be presented in an Informal Board meeting scheduled for May 24, 2021. The brief will specifically report on how fiscal policy and multilateral spillovers have been incorporated into the IPF models, how the analysis has been extended to consider intertemporal tradeoffs and other pertinent considerations, and will describe the effort to compile a set of metrics to reflect relevant country characteristics and to develop safeguards against inappropriate use of IPF instruments.

17. Regarding multilateral-bilateral surveillance linkages, are staff satisfied with the current level of integration of insights and guidance in flagships relating to trends in trade, migration, digital currencies, demographics, and climate, among others, into bilateral surveillance? Can more be done to enhance this? Could this better support the collective action and complementarity needed to ensure a strong but fairer global recovery?

- In general, we believe there is adequate integration between flagships and surveillance through Article IV consultations on conjunctural and emerging topics. Beyond the critical consistency ensured by the WEO forecasts, during the pandemic, bilateral surveillance has benefited from the discussion of recovery policies at the multilateral level in the flagship reports, a trend that is expected to continue as the recovery materializes. In turn, the resumption of surveillance through Article IV consultations has surfaced policy issues that influence the flagship discussions.

18. Could staff comment on this and on progress made in meeting past IEO recommendations such as those in 2018 evaluation "The IMF and Social Protection," that called for a clear strategic framework to guide the Fund's involvement in social protection and for tailored advice based on in-depth analysis of the country contexts? As staff acknowledges that LICs and fragile states will likely struggle with the impact of the crisis and that modalities to overcome these challenges should recognize country peculiarities, we look forward to updates on specific work underway to assist these members under the surveillance framework.

- An IEO evaluation found that the IMF has made significant progress in advancing its engagement on social protection issues but saw room to do better. Management supported all recommendations, and the Fund subsequently prepared a strategy that clarifies the scope and boundaries of its engagement in social spending. The strategy: (i) supports a more effective IMF engagement guided by an assessment of macro-criticality, based on fiscal sustainability, spending adequacy, and spending efficiency; (ii) calls for closer collaboration with IDIs and other stakeholders; (iii) highlights the importance of protecting social spending in IMF-supported programs; and (iv) lays out the Fund's position on the debate on the appropriate use of universal and targeted transfers.
- Staff are currently supporting country teams in operationalizing the strategy. Staff guidance on engaging on social spending issues in the context of the COVID pandemic has been provided ([How to Operationalize IMF Engagement on Social Spending during and in the aftermath of the COVID-19 Crisis](#)). A series of background papers (on pensions; social safety nets; health; and education) are being prepared by FAD/SPR to provide more granular advice on IMF engagement in each of these areas.
- In FY21, FAD focused on providing immediate assistance on social spending to country teams in the context of COVID, including: (i) developing, disseminating and supporting a Social Protection Tool for country-level engagement; (ii) development and delivery of a new course on IMF Engagement on Social Safety Nets to IMF staff; joint FAD/World Bank seminars on country-level engagement on social protection during COVID and beyond, tailored specifically to different IMF area departments; (iii) a series of COVID fiscal notes on policies for protecting vulnerable groups from the adverse economic effects of COVID; and (iv) a formal monitoring through the review process of IMF engagement on social spending issues prior to and during COVID.

19. While we are making progress on developing a strategy on digital money, we are wondering how other aspects of the digital economy, including data and governance will be addressed going forward. Staff's comments would be welcome.

- Staff is undertaking work on the broader macrofinancial implications of digitalization. Namely, a [2019 SPR Departmental Paper](#) offered a review of the literature on the Economics of Data, concluding that data proliferation in the economy may have important implications for growth, equity and stability, and identified the case for a series of policy interventions to affect data flows. An inter-departmental team from SPR/MCM/STA/LEG is undertaking further work on the macrofinancial implications of data in the digital age. While staff's work on data policy frameworks remains in the conceptualization stage, it will provide a framing for future engagement on related issues in surveillance in cases where these policies are deemed macro-critical. Board engagement will be critical to identifying areas where the Fund should seek to develop its expertise.

CD Integration

20. 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?

- The CD Strategy Review found that CD integration was much stronger in programs with conditionality than surveillance. While the SMP, PCI and PSI do not involve Fund financing, they include periodic quantitative and structural benchmarks on key policy targets that build on CD

recommendations. As such, integration is likely to be strong. Moreover, management have recently approved detailed operational guidelines for better integrating CD with lending and surveillance, which will also apply, as relevant, for countries with non-financial instruments.

21. The adequacy of systems in countries to implement reforms can also affect traction of Fund advice, thus integration of capacity development with surveillance will need to be deliberately structured to increase traction. Staff views are welcome.

- Fund CD is increasingly based around structured medium-term engagements with the authorities that fosters strong relationships with core counterparts. Such strong relationships facilitated the continuation of CD delivery through virtual means over the last year. Where these are not yet possible, RCDCs provide a means of regular engagement with key counterparts in member countries, and they also provide regular opportunities for peer-to-peer exchanges of experiences.
- On the issue of adequate understanding of a country's initial conditions and political economy constraints, we agree that improved integration of CD is key. Area department country teams have a high-level strategic perspective which can inform CD design, while the expert knowledge of CD providers can identify capacity gaps which can impede the take up of policy advice. Moreover, management has approved operational guidelines for the production of CD Country Strategy Notes (CSN) that underscore the importance of taking account of initial conditions, political context and traction when designing the CD strategy. The CD-CSN also reflects the authorities' perspective on CD priorities, which should assist with ownership of the CD agenda.

Macrofinancial analysis

22. Better integration of financial sector issues into Article IV surveillance has been a long-standing demand by the membership. Staff's comments on how the current proposals will make a material difference would be welcome.

- The proposals (which are designed to address the gaps identified in the background paper on Systemic Risk and Macroprudential Policy Advice in Article IV Consultations) are expected to mutually reinforce each other. If implemented as a package, the proposals can have a material impact on deepening and further integrating systemic risk analysis in Article IV consultations. The inclusion of a well-articulated view about systemic risk, grounded on a rigorous analysis of vulnerabilities, seeks a more even integration of this analysis across staff reports to help better anchor macroprudential policy advice. Strengthening integration and depth of systemic risk analysis in Article IV consultations would be further supported by closer integration of FSAP findings and recommendations, including through the proposal for a new process for early interaction between Article IV teams and MCM well ahead of the Article IV Policy Consultation Meeting. This objective would also be supported by proposals in the FSAP review for cross-mission participation and for additional tools for financial risk analysis that would be made available to Article IV teams. The impact of these initiatives would be further enhanced by the proposal to increase the pool of macrofinancial talent which would better equip Article IV teams with the needed macrofinancial expertise to deepen systemic risk analysis and macrofinancial analysis more broadly.

Climate Change

23. We would welcome more details on the criteria for the selection of countries where climate change should be assessed against macro-criticality and how country authorities' preferences will be taken into account to ensure evenhandedness and effectiveness of the overall Fund strategy in this area.

- For the largest emitters of greenhouse gases, macro-criticality is presumed due to the spillovers that insufficient mitigation policies could trigger for global macroeconomic and financial stability. As a result, periodic coverage of these countries' mitigation policies is strongly encouraged. For all other countries, the assessment of macro-criticality needs to be made on a case-by-case basis in consultation between country authorities and IMF country teams, reflecting a country's specific circumstances.
- For example, coverage of adaptation and resilience building would seem macro-critical when a country is vulnerable to economic damage from natural disasters; the 2019 Board Paper on "Building Resilience in Developing Countries Vulnerable to Natural Disasters" identified about 60 countries as especially climate vulnerable. Similarly, the transition to a low-carbon economy seems relevant when a country needs to adapt macroeconomic policies to achieve its Nationally Determined Contribution under the Paris agreement; or when a country faces a sizeable loss of export receipts in case of a demand shift away from fossil fuels.

24. 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?

- Climate change mitigation is part of a global effort, which suggests a focus on those countries that are most important for this effort. Transition management is a domestic policy challenge. However, while this distinction is important conceptually to sort out climate coverage under the IMF's multilateral vs. the bilateral surveillance mandate, in practical terms coverage is likely to be fairly similar. The main difference is that mitigation coverage would place the policy discussion more into the global mitigation context.

25. Based on what criteria should staff cover a country's climate issue in its Article IV consultation? What is the focus of climate-related assessments in bilateral surveillance? Should it focus on the effectiveness of mitigation policies, or advice on specific policy actions? 2) To what extent should one country disclose climate-related information? Is the climate disclosure on a voluntary basis or on a mandatory basis? 3) What kind of role should the IMF play in mobilizing green financing while MDBs are major players to provide development financing? 4) How should the IMF facilitate technology transfer to improve the accessibility and affordability of energy-effective and advanced technology for EMDCs?

- For the 20 largest emitters of GHGs, criteria for mitigation coverage are spelled out in the CSR background paper. For all other countries the focus would depend on the country context: if a country is vulnerable to natural disasters, the focus naturally would be on macro-policies for resilience building, for example. If a country needs to modify policies to achieve their NDCs under

the Paris agreement, the focus would be on the adequate policy mix to achieve these targets while maintaining the government's other policy objectives.

- The papers do not discuss any disclosure requirements of climate-related information.
- Article IV consultation reports can analyze financing needs and potential financing sources, however. More generally, the Fund encourages more climate financing to low-income and climate-vulnerable countries and will continue to make the case for this in its public communication. IMF staff is also doing some conceptual work, for example as part of a World-Bank led working group on facilitating the use of debt-for climate swaps.

Traction

26. In the future, an evaluation of the effectiveness of Fund's surveillance could be undertaken, similar to the one carried out to assess program effectiveness in 2018. The evaluation should distinguish countries with and without subsequent programs, along with the type of program involved (UCT, preventive or signaling programs), and the occurrence of exogenous shocks. Staff comments are welcome.

- Precisely identifying the effectiveness or impact of IMF policy advice in the context of surveillance is difficult due to the co-existence of other factors that influence stability and the difficulty of isolating the effect of IMF surveillance from other confounding factors on macroeconomic outcomes. Moreover, effective surveillance is not focused on a pre-determined set of specific targets such as performance criteria provide in programs. As such, the methodologies used in the the 2018 Review of Conditionality paper are not entirely transportable to surveillance. In view of all this,, the CSR assessed traction by looking at it from multiple angles (implementation, sentiment, etc.) and our recommendation is to continue assessing traction of surveillance in a multidimensional and holistic manner.

27. Has there been any analysis of cases where there is a lack of traction, including consideration of the role of staff turnover during the pandemic?

- The analysis in the CSR focused on good cases of traction during certain time periods to highlight key lessons learned and tease out the ingredients of successful traction. It is too early to assess traction during the pandemic, including because of the suspension of Article IV consultations for several months.

28. Could staff advise if there are plans to survey authorities and assess the effectiveness and impacts of the 3-year rotation cycle of mission chiefs and resident representatives, in surveillance and programs, as we have found that high turnover of staff can erode hard-earned trust and undermine effective relations, especially in program countries?

29. Directors have repeatedly called for longer tenure of mission chiefs, in particular for small and low- income countries but the current CSR does not propose specific measures to that avail. Staff comments are welcome.

- A minimum mission chief tenure is indeed desirable, but the average mission chief turnover has to be aligned with other HR policies, especially on mobility. In addition, some moves are unavoidable because of resignations, retirements, and promotions. HRD has been monitoring mission chief turnover closely and is reporting to heads of department and to management at

least twice a year. Over the last few years, average turnover has improved, especially in departments that had experienced higher turnover. The reporting takes into account staff turnover, including related to promotions and other factors. HRD is also looking at the distribution of mission chief turnover across departments and reporting to management as well. Finally, HRD is looking at this metric with a view of reformulating it in the near future to make it more aligned with internal mobility and career development policies while ensuring robust knowledge transfer practices in country teams.

New Ways of Working and Innovation

30. What options have staff considered (as part of the New Ways of Working) about how a hybrid model for bilateral surveillance will be adopted?

31. Can staff elaborate on whether there will be guidelines for mission teams on how to balance between virtual engagements and in-person visits? Do staff have plans to take advantage of the Fund's Resident Representative Offices by enhancing their role in Article IV consultations?

- In the context of the CSR we note that virtual engagement offers opportunities to enhance surveillance, but also has limitations, and that a no one-size-fits all as country circumstances are an important aspect. In this context, the December 2020 Staff Sentiment Survey shows that staff particularly value the ability to include other staff and experts, as well as the opportunity to more frequently engage authorities when conducting virtual missions. At the same time, the lack of informal contacts with authorities and the difficulties associated with scheduling meetings are two of the top challenges.

32. In this connection, we were wondering how the OIC is going to be involved in implementing the new modalities given the ambitious goal to make Fund surveillance more targeted, topical, and timely?

33. We would welcome more information about how Management will use the Innovation and Change division to facilitate the transition while maintaining staff morale. (Shortino).

- OIC is engaged with SPR to determine the best ways to support this iterative process using OIC's established methodology. Further discussions are planned on this subject following the completion by the Board of the Review.

CMMs

34. We would appreciate additional comments on a topic selection process for CMMs. Another issue is related to the establishment of a virtuous feedback loop from CMMs into more formal discussions on policy issues and future Article IV reports. Could staff elaborate on how to balance the tensions between a possible top-down approach and the authorities' needs and priorities?

35. It is however not clear how the country authorities' views are going to be included in CMM reports.

36. 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.

- CMMs would cover conjunctural topics that are policy relevant for a subset of members and that are not typically covered by the flagship publications, at least not with the same expected level of country specificity. Participating country teams would be partners in this process, ensuring that the topics align with the authorities' needs and priorities, and that their views are reflected when the topic entails country-specific policy recommendations. Discussions could take place in the context of the Article IV engagement, or through ad-hoc discussions, as needed.
- The key differences to existing surveillance formats are that CMMs (i) would capture cross-regional issues (ii) would provide a vehicle for the Board to formulate the Fund's views about new cross-cutting themes, and (iii) would allow the incorporation of the Board's views into forthcoming Article IVs and thus allow for strategic guidance.
- Specific proposals on forthcoming CMMs could be made in the context of the semi-annual Board work programs.

GPI

37. We understand that the GPI aims to establish a live repository of key lessons organized by topic, Article IV consultations, and the Fund's policy dialogue in public fora. Could staff elaborate on the related attempts to strengthen peer learning and cross county analysis at the Fund, as well as to organize internally topical information (databases) on the Fund's work, including the development of knowledge exchange?

38. However can staff elaborate on what topics will be covered by the GPI or how will the topics be selected? Where country case studies or experience are featured in the GPI, will the authorities get to review and reflect their views in the publication?

39. Could staff provide more information about the GPI, particularly regarding resource requirements and how the Board should consider tradeoffs with other surveillance priorities?

- The GPI would be an internal process to surface pressing policy questions of common interest, and not for publication in itself. The results would feed directly into Article IV consultations, and possibly other surveillance products. As such, the Board and the public would primarily see the results of the GPI through timelier and more granular policy advice.
- The GPI would build on existing coordination between functional and area departments. For example, targeted surveys to country teams would allow for a more systematic identification of common policy questions across the membership. The GPI will also increase the visibility into the existing collaboration between functional and area departments. Over time, the GPI could be used to synthesize trends, enable peer learning, and inform surveillance and CD priorities.
- The estimated costs for the GPI reflect the collection and selection of policy questions and efforts to periodically summarize lessons learned. Importantly, it assumes that functional departments will continue to provide support within their current resource envelope.

Other Surveillance and Other Modalities

40. We also note that the Fund should avoid further complexity and duplication in surveillance, while implementing the emerging priorities. Could staff comment on their simplification approach in surveillance work?

41. 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?

- Surveillance will continue to be guided by the ISD and other Board endorsed requirements. As such, core issues in monetary, external, fiscal, financial will continue to be covered. However, selectivity and focus remain key for the Fund to continue delivering effective surveillance. The macro-criticality criterion will be central to determine the issues to prioritize in consultation with the country-specific authorities, which will differ across members and over time
- Internal processes and policies, including the review process, promote evenhandedness of the application of the surveillance framework while reflecting country specific circumstances.
- The CSR priorities and proposed changes to surveillance modalities, to be further articulated in the revised surveillance guidance note, will encourage country teams to adopt a more integrated approach to Article IV consultations.

42. The Fiscal Transparency Evaluations (FTEs), Public Investment Management Assessments (PIMA), and SOE diagnostics are among the most prominent innovations since the previous CSR. These products seem to be similar in nature to the FSAP, and their popularity among membership calls for greater reliance in surveillance, not just capacity development. Could staff elaborate on their vision of improvements in this area?

- FTEs, PIMAs and SOE fiscal risk tools are all important parts of FAD’s capacity development (CD) toolkit.
- **Fiscal transparency evaluations** (FTE) are the IMF’s principal fiscal transparency diagnostic tool. It provides countries with a comprehensive assessment of their fiscal transparency practices based on the IMF’s Fiscal Transparency Code, which was updated in 2019 to include a pillar on natural resource management. So far, 33 FTEs have been carried out (28 published), with the most recent ones done remotely. Another 3-4 FTEs are expected in FY2022. FTEs provides input to Fund surveillance through exposing weaknesses in public finance management (PFM) institutions, which can impact fiscal outcomes. The FTE provides prioritized, easily accessible findings and recommendations, which in many cases have fed into IMF country teams’ policy notes and staff reports in the context of Article IV consultation or other surveillance related work.
- Since its introduction, **public investment management assessments** (PIMAs) have been carried out in 65 countries. The PIMA provides a diagnostic assessment of a country’s infrastructure governance strengths and weaknesses and a sequenced reform implementation plan. These recommendations and plans are utilized by IMF country teams in country

surveillance work, in addition to informing capacity development. Looking ahead, demand from the membership for PIMA assessments remains strong. FAD is also working with countries to strengthen the integration of climate change into public investment management and is working to develop a PIMA climate change module.

- SOEs often play a dominant role in the public sector and can be a potential source of fiscal risk. FAD has developed two new **SOE practical tools**, as part of a broader Fiscal Risk Toolkit, to help IMF country teams and country authorities assess the performance, financial vulnerabilities and fiscal risks posed by SOEs.
 - The **SOE Health Check Tool** assesses a set of financial vulnerability indicators and risks emerging from individual SOEs and helps to identify those SOEs that pose higher risks, and that may require more intense monitoring or targeted interventions to strengthen performance. The tool has been used by country teams to support surveillance and has, thus far, been used in capacity development missions across more than 20 countries to support analysis and disclosure of SOE related fiscal risks.
 - The **SOE Forecasting and Stress Test Tool** examines the resilience of an SOE's financial position under a range of alternative scenarios and assesses the impact of shocks on its cash flows, liquidity and debt servicing ability, the likelihood of contingent liability realizations and implications for public finances. The tool can also be used to benchmark an SOE's performance to peers. The tool is being applied in capacity development missions to help assess the resilience of macro-relevant or large SOEs in countries and inform risk mitigation strategies.
- FAD plans to use these tools to help build capacity in countries to better assess and monitor risks related to SOEs, identify those SOEs that may require reform measures to strengthen performance or reduce the fiscal risk they pose, and to support improved transparency and disclosure of SOE liabilities and fiscal risks. These tools are part of a broader Fiscal Risk Toolkit, which has been upgraded and further expanded following the COVID-19 pandemic to help countries better understand their fiscal risk exposures, improve fiscal risk management and disclosure, reduce debt vulnerabilities and contribute to more resilient public finances.
- As part of the forthcoming review of the DPF and as mentioned during the recent informal meeting on the subject, debt data requirements on the Non-Financial Public Sector, including SOEs, are being discussed to better understand risks in this area. We are working to finalize staff proposals ahead of the Board meeting on the DPF which will follow the CSR.

43. Does the point made in ¶22 of the modalities paper that “collaboration will only work when incentives and timetables align sufficiently” reflect difficulty in reaching an agreement with the World Bank? Staff comments would be appreciated on how this issue is being resolved to ensure greater collaboration.

- Aligned incentives and timelines are important for all collaboration and with all partners and the reference is not an allusion to anything specific. In the context of our work on the MIP on the Bank-Fund collaboration on macro-structural issues, the modalities of collaboration between the Bank and Fund in the key priority areas are being discussed at the management/staff level between the two institutions. The MIP will provide further details.

44. Could staff elaborate on work underway towards the reimagined country portal?

- The CSR presents the Country Portal as a vision for the medium-term, and seeks the Board's views; no work on this is currently underway. Further conceptualizing and costing the Country Portal would require further work involving area, functional, and support departments.

45. Given limited research available on SSA countries, we also emphasize the importance of country-specific analysis in selected issues papers for developing countries. Could staff provide the selection details for the proposed experimentation over the two-year period?

- No changes are being proposed to the current surveillance guidance on selected issues papers.

46. How effective are these government interventions? Do these interventions have distorting effects on trade?

- Economic policies in systemic economies will continue to be discussed in the context of multilateral and bilateral surveillance. Strengthening the set of spillover modalities would also allow for rapid identification, prioritization and analysis of spillovers and policy responses, coupled with a timely engagement with authorities.

Resource Implications and Budget

47. The talent-building proposal reflects the right scale of ambition, though we would welcome further detail on how the country gaps assessment was arrived at, and – particularly in the context of the large additional resources sought for other priorities.

- An assessment of Systemic Risk Analysis and Macroprudential Policy (MPP) Advice in Article IV Consultations found that about half of staff reports assessed did not include a well-articulated view about systemic risk linked to macroprudential policy advice supported by analysis—about 59 reports every year. 24 FTEs would help cover gaps in about 80 percent of the reports.

48. Could staff elaborate on how much of the additional cost of new proposals will need to be incorporated in the structural budget augmentation?

- The CSR proposals to enhance macrofinancial surveillance through expanding macrofinancial talent are currently expected to be reflected in the proposed structural budget augmentation request (24 FTEs).
- The remaining CSR proposals (CMM, GPI, Spillover Forum and Tool) are currently expected to be part of the FY23 budget process (5-7 FTEs).
- While the CSR lays out the strategy to operationalize climate change in Article IV consultations, to deepen the discuss of other priorities such as digitalization, fragile states, and inclusion, the costing of these initiatives is not part of the CSR and will be discussed in upcoming briefings to the Board.

49. We would have welcomed more clarity on resource implications of the proposed changes as part of the surveillance review. Could staff provide details on the resource implications from the increased use of LOTs, reduced travel, and shorter Article IV reports? Could the

accumulated savings from FY20 and FY21 be deployed to cover transition costs in FY2022?

- No changes to the LOT policy are being proposed in the CSR; it is worth noting that staff savings from moving a country from a stand-alone discussion to LOT are modest.
- Focused Article IV does not equate directly with the length of the staff report.

50. Moreover, we would also appreciate more clarity on the distribution of requested new resources across area departments, regions, and income groups, in particular for the additional 24 FTEs with macro financial expertise. Would the new FTEs support the FSAP work in a substantive way?

- The proposal envisages an external hiring component and an internal mobility component between MCM and area departments. In the steady state, the number of staff would increase in both MCM and area departments. These resources would not directly support FSAP work but by expanding the pool of macro financial talent, particularly in area departments, would help strengthen macrofinancial analysis in Article IV consultations. Inter alia, they would bridge the knowledge gap and ensure continuity and follow-up to FSAP policy recommendations. A precise allocation across regions and income groups will depend on where the needs are most pressing

Guidance Note, Interim Review, and next steps

51. We think it is useful to start with a few pilot Article IV consultations with the agreement of the authorities, and the experience can provide important learning lessons for the mission team on how to calibrate the scope of the Article IV consultations so as to balance evenhandedness, how to communicate to the changes to the authorities to manage their expectations, and how to adjust the reviewing process or get buy-in from the reviewing department. We welcome staff's comment on how they intend to provide guidance to mission teams and to manage expectations.

- The CSR indeed proposes a gradual approach. Guidance will be developed following the conclusion of the CSR.

52. Finally, while the CSR did not address the issue of its appropriate periodicity, we wonder whether a return to triennial and more streamlined reviews would serve the Fund better in setting the strategic path for the medium term. Staff comments would be appreciated.

- The Integrated Surveillance Decision provides for periodic reviews of the legal framework and the implementation of surveillance. At the conclusion of the 2014 Surveillance Review the Executive Board decided to move comprehensive reviews of Fund surveillance from the then three-year to a five-year cycle, with an interim progress report in between. Key considerations for moving to a five-year cycle were the time needed to effectively implement surveillance reforms and the resource intensity of these review.
- These considerations continue to be relevant today. In addition, staff considers that the current frequency remains appropriate because sufficient time is needed to implement and experiment with the CSR's proposals before conducting a formal evaluation. The interim review in about two years will allow for opportunities to adapt and correct course if needed.

53. 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.

- The form and format of the interim review has not been decided but would be expected to draw on feedback, including from the Board, from early efforts at modernizing surveillance modalities.

54. We wonder whether there is an envisaged timeline for an updated guidance note for surveillance in AIV consultations?

55. Also, how the changes will be communicated internally beyond an updating of the guidance note for surveillance as well as more importantly with the membership?

56. We took note that staff will prepare an updated Guidance Note for the surveillance in Article IV consultations reflecting the discussion of the CSR. We would like staff to elaborate the possible timeline on this matter, including the timing to use it in consultations.

- Work on the Guidance Note will commence immediately after the CSR Board meeting. A consultative process is necessary to ensure buy-in of staff, the Board, and other stakeholders. We are currently planning finalization in Q1 2022.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States