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December 2, 2022

**Statement by Mr. Palotai, Mr. Just, Mr. Mert, and Mr. Marek on Safeguards
Assessments - 2022 Review of Experience
(Preliminary)
Executive Board Meeting
December 7, 2022**

We thank staff for the insightful Staff Report, and the External Expert Panel for the Advisory Report. The Safeguards Assessment is a critical part of the Fund's tools to prevent the misuse of its resources and misreporting of program monetary data. **We broadly support staff's proposals as laid out in the Staff Report**, particularly to establish a standalone governance pillar in the Safeguards Framework, as well as to emphasize the coverage of financial risks in the central banks' risk management functions and enhance the conduct of Fiscal Safeguards Reviews (FSRs). We thank staff for their commitment to thoroughly conducting the Safeguards Assessment under conditions of high demand for the Fund's resources.

The proposal for establishing a standalone governance pillar in the Safeguards Review is well warranted. While governance issues are considered non-legal in their nature, the quality of an internal institutional setting in central banks have critical implications for sound decision-making and the clear division of roles and responsibilities. It is also instrumental in strengthening central banks' capacity to withstand political pressures, as well as to maintain their integrity and independence. Central banks should be institutionally sound to deliver on their mandate. We consider the governance pillar particularly important for the conduct of the safeguards assessments in Fragile and Conflict-affected States, where the central banks operate in an uncertain and volatile political environment.

We support the suggestion to extend the Risk Management Assessment beyond foreign exchange reserves to include the whole balance sheet. This is particularly relevant for central banks at the risk of engaging in quasi-fiscal operations and monetary financing. We also agree that Central Bank Digital Currencies, albeit in many instances at the early stages of their development, warrant close scrutiny, owing to their implications for financial stability as well as integrity and potential cyber security risks. *As in some central banks a proportion of the balance sheet is held in equity as part of asset purchase programs, we*

would welcome staff's comments whether they also envisage to assess the central banks' conduct of shareholders' rights.

The proposal to broaden the range of instances when a Safeguards Assessment is mandatory is a step in the right direction. We see merit in the mandatory requirement for a Safeguards Assessment in cases where countries have a concurrent Policy Coordination Instrument or Policy Support Instrument with access to the Resilience and Sustainability Trust (RST), as well as for the access under Rapid Credit Facility/Rapid Financing Instrument Food Shock Window. *We would welcome staff's clarification if they consider that the current scope of the Safeguard Reviews are adequate for RST disbursements, given their potential project financing nature.*

We support the proposal to enhance staff's conduct of the FSR. Ensuring that the Fund's direct budget support is managed diligently is of the utmost importance, particularly in countries with weak public financial management. We see merit in the proposed stand-alone in-person review, allowing more in-depth engagement with the authorities and also more systematic follow up work in subsequent country engagements. In this context, we put premium on a more systematic coverage of the FSR's findings in staff's country reports and any potential program conditionality. If feasible, we would see merit in aligning the FSR internal processes and procedures to the ones for CB Safeguards Assessments. For a combined drawing under the General Resource Account and Poverty Reduction and Growth Trust resources, we agree that High Combined Credit Exposure cases with significant proportion of resources directed to budget financing should be subject to the FSR.

While we acknowledge the significant burden on staff's conduct of safeguards reviews in crises circumstances, we have concerns about weakening the protection of the Fund's resources. We can go along with the proposed postponements for Safeguards Assessments by introducing the Exceptional Event clause, considering staff's substantial workload in crises circumstances. At the same time, we caution against further weakening the proposed deadlines for the Safeguards Assessment completion going forward, and encourage staff to seek solutions based on beefing up staff capacity, such as through reprioritization.