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

This review of safeguards assessments is timely and important. The safeguards assessments remain an essential embedded risk management function of the Fund's overall risk management framework. The review proposes refinements that will contribute to strengthening this framework. We welcome that it also covers the episode of high emergency financing in the context of the Fund's response to the COVID-19 pandemic. The Fund's rapid and unconditional crisis lending has raised concerns about governance, spending transparency, and potential misuse of funds that need to be reflected in the Fund's lending safeguards. On a related note, we look forward to the IEO report evaluating the Fund's pandemic response.

We consider safeguard assessments and monitoring to be effective in mitigating the risks of misuse of Fund resources and misreporting of monetary data under Fund arrangements. We welcome the review's conclusion that central banks have improved controls and processes over time but note that there is room for improvement in several areas.

We agree to establish a standalone governance pillar in the framework for safeguards assessments. The report indicates that vulnerabilities related to governance arrangements were a risk factor in about a third of the assessments. Moreover, the Expert Panel noted that the current fragmentation of governance over the ELRIC pillars does not allow for a deeper and more consistent analysis of the governance structure, processes, and practices. Given that governance is a common theme throughout the five pillars, a separate pillar will allow for a more holistic view of governance and a clear delineation of responsibilities within central banks. A standalone governance pillar will also allow to better tailor the assessments to central banks' capacity and level of maturity in the development of governance functions.

We agree to broaden the coverage of financial risk management. The emergence of central bank digital currencies and the purchase of government securities by central banks present new challenges for the identification and monitoring of risks. A broadening of the focus to include the whole balance sheet of central banks is thus warranted. In this context, the use of the GELRIC framework seems particularly suited for reviewing CBDC-related activities, given that the ensuing risks are of technical, operational, and governance nature. We acknowledge the importance of tailoring the risk assessment to the level of development of the risk management function in central banks. In this context, broadening the coverage of financial risk management should be preceded by necessary capacity development at the country level.

We agree that the policy requirements on safeguards assessments should be extended. They should also pertain to non-financing instruments that qualify a member to request an RSF arrangement, namely the PCI and the PSI. Likewise, the requirements should also apply to members that access the food shock window under the RCF and RFI.

We support staff's proposals to enhance fiscal safeguards reviews (FSR). The measures outlined in paragraph 43, in particular a systematic monitoring of FSR recommendations, will helpfully strengthen this tool. We also agree that the amended FSR-rulebook should fully apply to High Combined Credit Exposure cases. With respect to the current threshold of 25 percent budget financing in exceptional access (EA) cases, we note that only four mandatory assessments have been conducted since 2015. While we agree that a large portion of Fund resources provided for budget purposes was thereby covered, this fact primarily reflects concentration risks in lending. Governance-related risks in all the other EA programs were not lessened through FSR. We would thus be open to proposals aimed at more scrutiny of IMF direct budget support in EA cases and possibly more broadly.

Finally, we agree to introduce an exceptional event clause, allowing a relaxation of the normal policy deadlines to perform safeguards assessments.