INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

May 2021

2021 COMPREHENSIVE SURVEILLANCE REVIEW—OVERVIEW PAPER

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 10, 2021 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on April 7, 2021 for the Executive Board's consideration on May 10, 2021.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/136

IMF Executive Board Concludes the 2021 Comprehensive Surveillance Review

FOR IMMEDIATE RELEASE

- The review provides the strategic direction for the IMF's surveillance and aims to make it more timely, topical, targeted, interconnected, and better informed.
- A macroeconomic landscape characterized by elevated uncertainties about the recovery from the COVID-19 pandemic creates 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—affect economic sustainability and present opportunities and challenges.
- Against this background, the priorities that will guide IMF surveillance are confronting risks and uncertainties, preempting and mitigating spillovers, fostering economic sustainability and a unified approach to policy advice.

Washington, DC – May 20, 2021: On May 10, 2021, the Executive Board of the International Monetary Fund (IMF) concluded a comprehensive review of the IMF's surveillance activities. The 2021 Comprehensive Surveillance Review (CSR), which takes place in the context of the global crisis resulting from the COVID-19 pandemic, provides the strategic direction for the Fund's surveillance work for the coming years.

The review identifies key surveillance priorities, which are informed by the major trends impacting on the global economy. The priorities that will guide the IMF surveillance are confronting risks and uncertainties, preempting and mitigating spillovers, fostering economic sustainability and a unified approach to policy advice. The priorities should better position Fund engagement and policy advice to help the membership confront the challenges posed by the emerging macrofinancial landscape. The review aims to strengthen the practice of Fund surveillance by making it more timely, topical, targeted, interconnected, and better informed.

The CSR's main findings on trends, policy challenges, surveillance priorities are reflected in the Overview Paper, while the paper on Modalities for Modernizing Surveillance outlines how surveillance will change in practice.

The Fund's comprehensive surveillance review builds on extensive background work, including in-depth analysis of Confronting Risks and Uncertainties, Preempting and Mitigating Spillovers, and Ensuring Economic Sustainability. Additional background papers are dedicated to Integrating Climate Change into Article IV Consultations and Systemic Risk and Macroprudential Policy Advice in Article IV Consultations. The review was further informed by analysis on the Traction of Fund advice, Scenario Planning exercises that informed the priorities, and a report on the Stakeholder Surveys.

Executive Board Assessment

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

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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.

INTERNATIONAL MONETARY FUND

April 7, 2021

2021 COMPREHENSIVE SURVEILLANCE REVIEW—OVERVIEW PAPER

EXECUTIVE SUMMARY

Fund surveillance needs to evolve to face the economic and financial challenges that will shape the global landscape for years to come. Building on previous reviews, this paper takes stock of the current economic and financial context and provides the broad strategic direction for how surveillance should adapt to meet the challenges of the future. The ultimate objective is to enhance the quality and traction of Fund surveillance to better help the membership navigate the challenges and trade-offs of the next five-to-ten years and achieve sustained, inclusive, resilient growth, and macroeconomic stability.

This paper first takes stock of the current economic and financial landscape. The global economy, still reeling from the COVID-19 pandemic, faces a highly uncertain outlook and uneven recovery. As risks and imbalances grow in key sectors, policymakers face difficult trade-offs and limited room to maneuver. Against this backdrop, key secular trends—in digital technology, climate change, inequality, demographics, and geopolitics—are shifting the economic and financial landscape in dynamic ways, presenting opportunities and challenges.

To better serve the membership in this context, Fund surveillance should be prioritized around four key priorities: (i) confronting risks and uncertainties: policymakers will need to actively manage the risks of a highly uncertain outlook; (ii) preempting and mitigating adverse spillovers: shifting patterns of global economic integration will bring about new channels for contagion and policy spillovers; (iii) fostering economic sustainability: a broader understanding of sustainability to better account for the impact of economic and non-economic developments on stability; and (iv) unified policy advice: better accounting for the trade-offs and synergies among different policy combinations in the face of limited policy space and overlapping priorities, tailored to country-specific circumstances. These mutually supportive priorities are broad enough to capture a wide range of country-specific challenges facing the membership while remaining grounded in the Fund's mandate. These priorities should further enhance the traction of Fund surveillance.

The practice of Fund surveillance will need to adapt to respond these priorities. As outlined in the companion paper on Modalities for Modernizing Fund Surveillance, a modern surveillance framework needs to be:

- ***Timely, topical, and targeted:*** to make policy advice more granular and tailor it to country-specific circumstances, identify lessons from cross-regional policy-relevant issues, and more focused on topical issues. Making better use of technology to support engagement with the membership will be a key component of the strategy.

- ***Better interconnected*:** with strengthened incorporation of macrofinancial analysis into Article IV consultations, supported by closer FSAP integration and expanded macrofinancial talent. Greater use of contingent policy advice to assess a range of potential outcomes, more mindful of spillovers, further integration of capacity development into surveillance and enhanced collaboration with external partners would also help to strengthen the Fund's policy advice.

- ***Better informed*:** with revamped training, better analytical tools, and more and better data to strengthen fact-based analysis, supported by ongoing efforts to interconnect digital technology into the workplace and leverage country information produced by the Fund.

These changes in modalities will need to be adapted to country-specific circumstances in the post-COVID landscape and will require both additional resources and reprioritization. The companion paper provides some initial considerations in this regard, which should be taken up further in the context of the Fund's overall budget discussions.

The CSR comprises this Overview Paper, the paper on Modalities for Modernizing Surveillance (SM 21/50), and eight background papers. Three of these background papers elaborate on one surveillance priority each, specifically on Confronting Risks and Uncertainties (SM 21/36), Preempting and Mitigating Spillovers (SM 21/49) and Ensuring Economic Sustainability (SM 21/35). The background paper on Integrating Climate Change into Article IV Consultations (SM 21/48) deepens the discussion of climate change in surveillance as one dimension of economic sustainability. Similarly, the background paper on Systemic Risk and Macroprudential Policy Advice in Article IV Consultations (SM 21/40) highlights macrofinancial aspects of Adopting a More Unified Approach to Policy Advice, the fourth surveillance priority. The other background papers provide additional analysis on the Traction (SM 21/37) of Fund advice, Scenario Planning (SM 21/38) exercises that informed the surveillance priorities and stress-test their robustness, and report on the Main Findings from the Stakeholder Surveys (SM 21/34) conducted in the context of the CSR.

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CONTENTS

CONTEXT 6

SURVEILLANCE LANDSCAPE 2021–2030 9

A. The Starting Point 9

B. Major Trends and Uncertainties with Implications for Growth and Stability 14

C. Priorities for Surveillance 19

SURVEILLANCE PRIORITIES—IN DETAIL 22

A. Confronting Risks and Uncertainties 22

B. Preempting and Mitigating Spillovers 25

C. Fostering Economic Sustainability 27

D. Adopting a More Unified Approach to Policy Advice 29

E. Bringing It All Together 34

ENHANCING TRACTION 34

HOW SURVEILLANCE NEEDS TO CHANGE IN PRACTICE 39

CONCLUSION AND NEXT STEPS 40

ISSUES FOR DISCUSSION 41

ANNEX

Views from the External Advisory Group 42

BOXES

1. 2018 Interim Surveillance Review: Summary of Main Findings 6
2. The Surveillance Mandate 8
3. Coverage of Fund Surveillance 21
4. Spillovers and Domestic Mandates 26

FIGURES

1. Pre-Pandemic Medium-Term Growth Projections 9
2. Global GDP 10
3. International Income Convergence 10
4. Central Bank Policy Rates 11
6. Evolution of Risk of Debt Distress 12
5. Historical Patterns of General Government Debt 12
7. Climate-related Natural Disasters (1980–2017) 16
8. Impact of Pandemics on Inequality 17
9. Demographic Projection 2020–30 18
10. Recurring Volatility and Crises 23
11. Policy Reactions, Mar–Oct 2020 29
12. Staff Reports with a Well-Articulated View on Systemic Financial Risk 31
13. Use of Macroprudential Measures 32
14. Measurements of Traction 37

References **46**

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External Advisory Group

The CSR has, from its inception, benefited from valuable insights and advice from an External Advisory Group (EAG) constituted by the Managing Director. The group comprises eminent academics, policy makers and practitioners from around the world serving in their individual capacities. While the EAG’s reflections have helped shape the overall direction and thrust of the CSR, the views represented in the papers are solely the responsibility of the staff. High-level comments on the main CSR papers provided by the EAG are summarized in Annex I. The members of the EAG are: Svein Andresen, Diana Farrell, Joshua Gans, Austan Goolsbee, Gertrude Tumpel Gugerell, Yiping Huang, Eric Xiandong Jing, Timothy Murphy, Dani Rodrik, Ellen Johnson Sirleaf, Rodrigo Valdes, and Guntram Wolff.

CONTEXT

1. The CSR is the first comprehensive review of IMF surveillance since the 2014 Triennial Surveillance Review (TSR). The 2014 TSR took place amid a still fragile global recovery from the 2008–09 global financial crisis (GFC). The TSR guided surveillance towards deeper and more integrated risks and spillover analyses and measures to support sustainable growth and resilience. The 2018 Interim Surveillance Review (ISR), which took stock of progress in advancing the TSR's recommendations (Box 1 and IMF, 2018c), identified some areas for further improvement: giving greater prominence to spillovers, further leveraging cross-country policy lessons and better integrating capacity development (CD) into surveillance.

Box 1. 2018 Interim Surveillance Review: Summary of Main Findings

The ISR concluded that Fund surveillance had become better adapted to the global conjuncture, and more integrated and risk-based. Bilateral and multilateral surveillance discussions were underpinned by a deeper understanding of global interconnectedness and linkages across sectors. Progress was made in core areas on risk, fiscal, external sector, macrofinancial, and macro-structural analysis. The Fund's ability to support members more effectively was enhanced by efforts to take a more risk-based approach to surveillance.

However, continuing efforts in some areas were still needed to advance surveillance ahead of the CSR: Completing planned refinements to external sector assessments, sustaining progress on macrofinancial surveillance, addressing data gaps, and incorporating lessons from pilot efforts (e.g., macrostructural and emerging issues). Efforts to meet challenges in low income countries should continue. Outward spillover work, particularly from the largest economies, should receive greater prominence in Article IV reports. Further work was needed to make policy advice more persuasive by better leveraging cross-country policy experiences and integrating technical assistance.

Institutional changes to implement the TSR's recommendations are ongoing. Investments have been made to deepen the analysis that supports surveillance, with an increase in the range of available analytical approaches and tools. The Fund's internal processes have proven flexible enough to deliver on key areas but will require continual adaptation to keep pace with evolving challenges. Ongoing work in human resources, capacity development, knowledge management, and data and statistics should further reinforce surveillance priorities.

2. The CSR is a forward looking exercise that seeks to provide the broad strategic direction for the Fund's surveillance work for the next 5 to 10 years. It is taking place against a backdrop of the largest global economic shock since the Great Depression caused by the COVID-19 pandemic. With a tentative and uneven recovery underway, there is significant uncertainty over what the global economic landscape will look like in the years ahead. Nevertheless, this review seeks to identify key surveillance trends and priorities that will be robust to different futures. At the same time, in such an environment there is a need to remain flexible and adaptable.

3. The overarching objective of this review is to enhance the quality and traction of Fund analysis and policy advice to help member countries meet the challenges of the next decade. To accomplish this, the CSR:

- Establishes bilateral and multilateral surveillance priorities that are robust to alternative futures, focusing on promoting strong, sustainable, and inclusive growth by seizing opportunities and mitigating risks;
- Refines the modalities of engagement with member countries to support the surveillance priorities, strengthening the Fund's dual roles of facilitator of peer surveillance and trusted advisor; and
- Calibrates other modernization efforts (e.g., capacity development, data, digital strategy, human resources, and knowledge management) as they pertain to surveillance, and in close coordination with the Financial Sector Assessment Program (FSAP) Review.

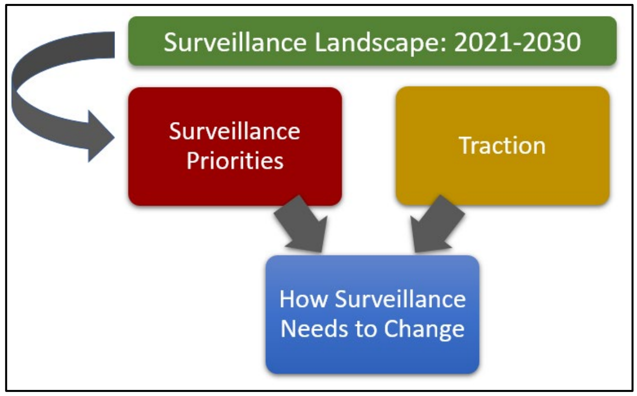
4. Part of this effort will involve modernizing how the Fund conducts surveillance, to take account of new challenges and novel ways of working while preserving what works best. Certain trends have been accentuated/accelerated by the COVID-19 pandemic, including greater use of technology to communicate with the membership, a need to be nimble and responsive in the face of new developments, and to learn from the experience of others. At the same time, there is a need to identify operational efficiencies to support more effective surveillance work.

5. The CSR is also a formal review of the decision governing the Fund's surveillance mandate, the Integrated Surveillance Decision (ISD). Overall, staff has found that the ISD is sufficiently flexible to allow for the proposed changes to the surveillance priorities and modalities outlined in the CSR, as motivated by the likely changes in the surveillance landscape. Accordingly, no changes to the ISD are proposed.

6. The review draws on many inputs. This paper synthesizes the inputs from extensive outreach efforts, including internal workshops; surveys of authorities, the Executive Board, mission chiefs and Civil Society Organizations (CSOs);[1] consultations with external experts and CSOs; and seminars at the Annual and Spring Meetings, among others. The CSR also draws upon existing Fund workstreams, such as the 2018 CD Strategy Review, the Integrated Policy Framework, various IEO reports, strategic foresight, and ongoing work on climate change, digitalization, inequality, and systemic risk, to name a few examples. It incorporates feedback received from the membership at several informal Board meetings held over the past two years.

7. The CSR is coordinated with several other ongoing institutional reviews. In parallel to the CSR, the FSAP Review (IMF 2021a) aims to further increase the FSAP's impact, including through synergies with the Article IV surveillance process to increase the traction of both products. The CSR also informs, and is informed by, ongoing reviews of the Fund's work on systemic financial risk, macroprudential advice and climate change. The forthcoming Review of Data Provision to the Fund for Surveillance Purposes (DPF) and 10th Review of the Fund's Data Standards Initiatives will be guided by the CSR's main conclusions.

[1] See "2021 CSR—Background Paper on Main Findings from the Stakeholder Surveys for more details" (IMF 2021i).



8. This paper is structured as follows. The following section discusses the broad contours of the current global macrofinancial landscape and identifies key surveillance priorities. The next section elaborates on those priorities through the lens of the Fund's surveillance mandate (Box 2) and discusses what is needed to strengthen the Fund's work in these areas. The paper then defines traction in the Fund context and assesses how it can be strengthened. The paper concludes with an overview of how surveillance will need to change in practice to deliver on the CSR's priorities and enhance traction. Details on these proposals are provided in the companion paper, "2021 CSR—Modalities for Modernizing Surveillance" (IMF, 2021j).

Box 2. The Surveillance Mandate

The Fund's surveillance over member countries' economic policies is legally grounded in the obligations of Article IV of the Articles of Agreement. Under Article IV, Section 1, "…each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section."

Under Article IV, Section 3(a), "the Fund shall oversee the international monetary system in order to ensure its effective operation (multilateral surveillance) and shall oversee the compliance of each member with the above obligations (bilateral surveillance). In order to fulfill these functions, "the Fund shall exercise firm surveillance over the exchange rate policies of members and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of Article IV. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members" (Article IV, Section 3(b)).

Under the above framework, the Fund's bilateral surveillance must be conducted by the Fund (i.e., the Executive Board), and surveillance must assess the member's compliance with its obligations under Article IV. The Board adopted in 2012 the Integrated Surveillance Decision (ISD) to guide its surveillance.

Box 2. The Surveillance Mandate (Concluded)

The ISD integrates bilateral and multilateral surveillance, making the Article IV consultation a vehicle for both, and lays out principles to guide exchange rate policies, domestic economic and financial policies. The ISD makes stability the organizing principle of surveillance. "Systemic stability" refers to assuring orderly exchange arrangements and promotion of a stable system of exchange rates. Systemic stability is achieved by each member adopting policies that promote its own balance of payments (BOP) stability and domestic stability. "Balance of payments stability" refers to a BOP position that does not, and is not likely to, give rise to disruptive exchange rate movements. "Domestic stability" is defined as orderly economic growth with reasonable price stability and the avoidance of erratic disruptions. Within these parameters, the ISD provides considerable flexibility with respect to surveillance priorities and modalities. The ISD expressly recognizes that Fund surveillance should adapt to the needs of the international monetary and financial system as they develop.

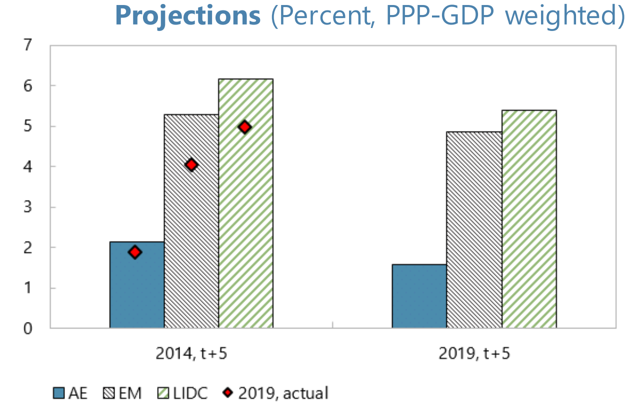
SURVEILLANCE LANDSCAPE 2021–2030

9. This section identifies global trends and policy challenges that are likely to shape the landscape for Fund surveillance. It first sketches the current macrofinancial backdrop, then considers how new trends and sources of uncertainty could affect countries' policies. The section concludes by identifying four key priorities for surveillance.

A. The Starting Point

10. The global economy, already facing subdued growth prospects, has been hit by a massive economic shock. Pre-pandemic medium-term potential growth prospects were lower for all income groups relative to the last major surveillance review, in 2014 (Figure 1). The subdued outlook for GDP and jobs growth coincides with a falling labor share of income and rising inequality. Against this backdrop, the COVID-19 pandemic caused the greatest global economic shock since the Great Depression. In addition to the significant loss of life and wellbeing, the health crisis has caused a steep decline in global economic activity (Figure 2), with a disproportionate effect on poor households, unskilled workers, and women (WEO, April 2021, Chapter 2). Moreover, this crisis may have potentially long-lasting scarring effects on certain individuals, firms, and industries. Some

Figure 1. Pre-Pandemic Medium-Term Growth Projections (Percent, PPP-GDP weighted)

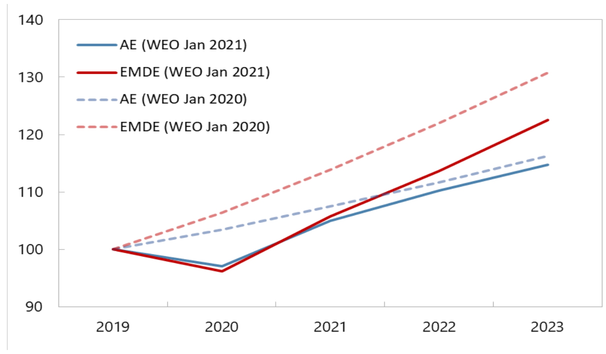


Source: WEO.

countries' growth models (e.g., tourism-based economies) may need to be fundamentally reconsidered.

Figure 2. Global GDP

(2019=100; in USD billions)



Source: WEO.

11. **Just as the economic impact of the pandemic has been uneven, so too will be the pace of the recovery.** Countries' capacity to rebound from the crisis will depend on, among other things, the availability of policy space, financing, institutional capacity, health infrastructure and access to vaccines. For example, even as the initial health impact of the crisis on low-income countries (LICs) has been modest, the pandemic is expected to have a long-term impact by lowering actual and potential GDP growth, straining fiscal and debt positions, reversing gains made in poverty reduction, and damaging human capital, particularly among women, children and vulnerable populations. In these countries and elsewhere, prospects for reaching broader development goals, including the SDGs, have weakened. These issues are particularly acute where there are high levels of fragility as the flow of remittances and official aid may well be diminished in the recovery phase.

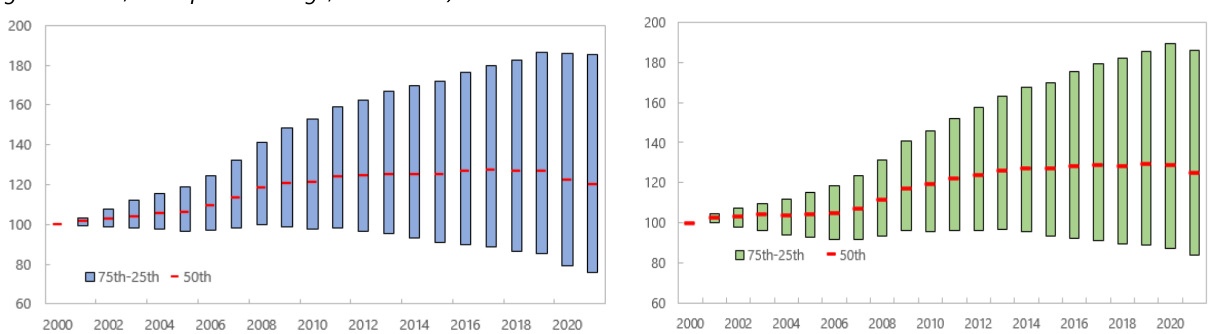
Figure 3. International Income Convergence

Economic Convergence, Emerging Markets

(ratio of EMs Real GDP per capita at PPP to that of U.S., growth rate, interquartile range, 2000=100)

Economic Convergence, LIDCs

(ratio of LIDCs Real GDP per capita at PPP to that of U.S., growth rate, interquartile range, 2000=100)



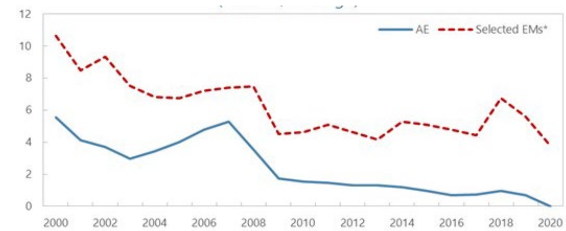
Source: WEO.

12. **Many emerging market and developing economies (EMDEs) are struggling to close the gap with advanced economies.** Despite significant progress in reducing inequality across countries over the previous decade—mainly driven by a handful of large countries—the pace at which EMDEs are converging towards advanced economy income levels has slowed on average (Figure 3). This trend will likely be exacerbated by the staggered recovery from the pandemic. The slowing, or even reversing, of economic convergence could increase fragility among those falling behind, which in turn could be a potential source of instability and spillovers.

13. Structurally low global real interest rates pose new challenges. A prolonged period of low long-term neutral interest rates (Figure 4) reflects several structural factors, including global population aging, slower productivity and potential growth. Efforts to adopt structural and other policies that boost potential growth have been uneven and are unlikely to pay off quickly. As such, policymakers may need to adapt to a world where equilibrium interest rates remain "low for long." Especially if inflation also remains low, this leaves less room for central banks to lower interest rates in the event of future recessions. It also raises distributional concerns, as prolonged periods of low interest rates disproportionately benefit the owners of certain financial assets, potentially exacerbating wealth inequality (Bonifacio et al., forthcoming).

Figure 4. Central Bank Policy Rates

(Percent; Average)



Source: Haver Analytics.

*Selected Ems include Turkey, South Africa, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Saudi Arabia, India, Indonesia, Malaysia, Philippines, Thailand, Russia, China, Serbia, Hungary, Croatia, Macedonia, Poland and Romania.

14. Easy financial conditions, while supportive of aggregate demand, have raised financial vulnerabilities. Such vulnerabilities may be lower owing to post-GFC financial sector regulation and expanded macroprudential toolkits, which have strengthened the capital and liquidity buffers of financial institutions within the regulatory perimeter. But risks from higher leverage and ebullient asset valuations have expanded in unregulated sectors (e.g., in corporates and non-bank financial institutions). In addition to limiting conventional monetary policy space, the "low-for-long" real interest rate environment has contributed to rising financial vulnerabilities as debt levels rise and investors search for yield from riskier assets.

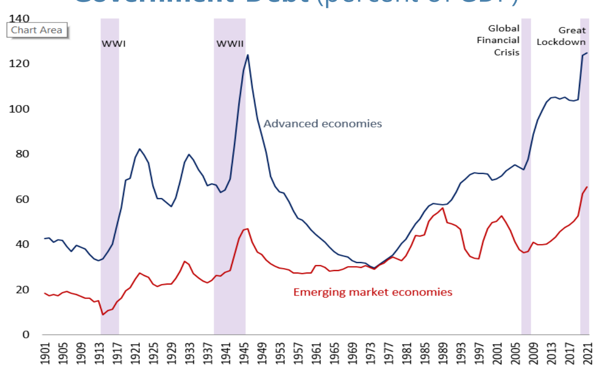
15. There are persistent excess external imbalances, which could amplify shocks and spillovers. Despite a decline in excess flow imbalances in recent years, about 40 percent of current account surpluses and deficits were assessed as excessive in 2019. These excesses point to underlying economic distortions that pre-date the current crisis. While the outlook for external positions remains highly uncertain, a worsening in risk sentiment could increase the chance of an external crisis in key debtor economies. Such a crisis could, in turn, spill over to the rest of the world, although the increased concentration of external debtor positions in reserve-currency issuing advanced economies mitigates these risks somewhat (IMF, 2020b).

16. Socio-economic tensions are on the rise, reflecting, among several factors, persistent income and wealth inequality and a perception that the benefits from economic reforms have been unevenly shared. While income inequality between countries has declined overall, inequality within many countries has widened further over the past several decades (Milanovic, 2016). The COVID-19 health crisis has further exacerbated inequality within countries, having a disproportionate impact on the poor, vulnerable, female and lower-skilled workers. More generally, rapid technological change and factors associated with globalization—the growing power of capital over labor and increases in the cross-border flow of people—while supportive of growth, have exacerbated distributional effects in some countries, particularly in the absence of policies to alleviate the impact on those most affected. The combination of these factors has played a key role in fueling a political backlash against reform in some countries, and a rise in populism in others (Rodrik, 2018).

17. Most policymakers find themselves with increasingly limited room to maneuver. The policy response to COVID-19—while necessary and in most cases appropriate—has combined with pre-existing macroeconomic and financial vulnerabilities to increase overall fragilities and limit the policy space available to respond to the next shock.

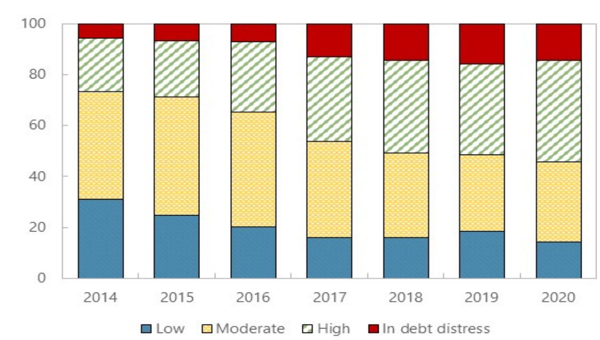
- ***Fiscal.*** Public debt levels are trending towards record highs as the response to the pandemic led to a sharp fall in revenues and—at least for those governments with fiscal space—large increases in public spending (Figure 5). Lower interest rates for some (mainly advanced) economies helps offset the risks but managing higher debt loads will be a key feature of the macroeconomic landscape for years to come. By contrast, financing constraints are still binding for some EMs and many LICs. The risk of debt distress in PRGT-eligible countries is growing (Figure 6). Raising fiscal capacity and securing access to financing on sustainable terms will be critical for these members in the period ahead.

Figure 5. Historical Patterns of General Government Debt (percent of GDP)



Source: Fiscal Monitor, October 2020.

Figure 6. Evolution of Risk of Debt Distress (Low-Income Countries with DSAs)



Source: LIC DSA database.

- ***Monetary.*** Monetary policy in major advanced economies is constrained by the effective lower bound. The unprecedented policy support deployed in response to the pandemic, including the use of unconventional policy measures, has significantly expanded central bank balance sheets in many AEs. Some EMDE central banks have deployed similar measures, benefitting from strengthened institutional credibility and the easy monetary stance in AEs. This extraordinary response may further constrain monetary policy space for future downturns. The use of unconventional measures also carries additional risks—for financial stability, institutional credibility, inequality, and cross-border spillovers.

- ***Financial.*** While near-term financial risks have been contained, vulnerabilities are rising (particularly in the non-bank sector) and the outlook is highly uncertain. The disconnect between financial markets and the economy persists as markets have rebounded from the crisis more quickly than economic output, raising the risk of a correction. In addition, the systematic loosening of financial regulations across the membership places policymakers and regulators in relatively unchartered waters. When combined with the ongoing impact of the economic shock on banks' profitability and borrowers' capacity to repay, there is elevated uncertainty regarding the nature of systemic financial stability risks in the medium-term. The underdevelopment of policy tools (e.g., macroprudential measures, MPMs) to target specific balance sheet vulnerabilities—such as non-financial corporates and non-bank financial institutions—limits policymakers' capacity to address identified financial vulnerabilities.

- ***External.*** Since the onset of the health crisis, external sector imbalances have corrected somewhat in terms of flows, but the overall stock of external imbalances remains high. This represents a potential channel for spillovers to domestic balance sheets, possibly stemming from an asynchronous global recovery, that constrains policy space. In addition, concerns about capital flow volatility serve as constraint on more forceful domestic responses by EMDEs to the health crisis.

18. At the global level, economic policy coordination has been increasingly characterized by rising tensions and unilateral actions. While there was notable progress in the completion of a few new multilateral trade deals, recent years have seen a spike in trade uncertainty combined with the slow progress in reforming the global trade architecture. The response to COVID-19 poses a further challenge for multilateral cooperation as the need for a coordinated global response to the pandemic is balanced against governments' focus on securing enough vaccines for their domestic populations. These developments risk amplifying economic policy complexity and uncertainty in the years ahead.

19. In this context, policymakers will need to strike difficult balances in the years ahead. The sharp rise in debt levels has made the standard fiscal trade-offs more acute for many members. While some advanced economies may continue to be able to borrow on very favorable terms if global interests rates stay low, most of the membership face hard choices when it comes to ensuring fiscal sustainability while also making needed investments in public services to raise potential growth, address development needs, and support inclusion. With the burden of business cycle management having fallen primarily on central banks in recent years, monetary policy has become increasingly constrained. This will generate a more complex calculus for policy coordination, particularly to prevent longer spells of recessions and unemployment.

20. Sound policymaking in this context will require a firm grasp of the complementarities and trade-offs of a given policy mix across time. For example, as countries start to exit from the unprecedented policy support provided during the first phase of the pandemic, there is a need to shift towards more targeted support for those who need it most, while at the same time enabling efficient reallocation of labor and capital from shrinking sectors to growing sectors. Striking the right balance at the right pace in a highly uncertain environment will be a major challenge in the years ahead. The tradeoffs will likely be much higher in countries with constrained resources, such as many LICs. This places a premium on a mix of fiscal, monetary, financial, and structural policies that support one another over the medium-term while managing downside risks.

21. The nature of these challenges reinforces the importance of multilateralism, but there are important hurdles to cooperation. From elevated debt levels in LICs to the global rollout of vaccines in support of a full and rapid recovery from the health crisis, many of the challenges identified above would be most effectively supported by strong multilateral cooperation. Nevertheless, domestic political economy constraints and geopolitical competition (discussed below) pose further challenges for policy makers seeking to navigate difficult tradeoffs.

B. Major Trends and Uncertainties with Implications for Growth and Stability

22. Overlapping with this macrofinancial conjuncture are major global trends, both secular and brought about by past policy choices. Their impact on surveillance is expected to be significant, but in what way remains to be seen. These trends also represent key risks and uncertainties in the landscape and are a potential source of spillovers.

Digital Technology

23. Looking ahead, it is clear that technological developments—such as digitalization and automation—will have a major impact on future economic outcomes. The diffusion of new technologies has historically been a major driver for long-term growth, enhanced productivity, higher quality goods and services, and greater means to enhance inclusiveness. For example, automation can alleviate labor shortages in aging economies, and digitalization can allow firms to grow rapidly with fewer employees, a smaller amount of tangible capital, and a more limited geographical footprint. Digital technology has the potential to substantially broaden access to knowledge and credit, which in turn could contribute to more inclusive economic growth. If anything, the COVID-19 crisis has accelerated and incentivized the adoption of new technologies and modes of working that better leverage digitalization.

24. At the same time, the productivity gains from technological advances may be slow to materialize and can generate significant costs in the interim. Despite major technological breakthroughs, productivity growth data has been disappointing (Adler et al., 2017), suggesting that significant investments in intangible, organizational, and human capital are needed to reap the full benefits of new technologies. Rising market power of large (mostly tech) companies and the declining labor share of income has macroeconomic implications. There are also adverse distributional effects, as workers without the necessary skills risk being left behind. Indeed, the pandemic may have widened the gap between those with access to digital infrastructure and those without. Left unaddressed, these challenges can amplify inequality, social tensions, and challenges for macroeconomic stability.

25. Digital technology has the potential to reshape entire industries and sectors. Low-income countries—with higher growth potential and less legacy infrastructure—could leverage new digital technologies to make significant leaps forward in their economic development. In more established markets, developments in fintech may disrupt the traditional financial industry, enhancing competition, efficiency and inclusiveness of the financial sector. At the same time, network effects in fintech, while increasing efficiency, may lead to greater concentration and market power. Over time, this could reduce consumer welfare, amplify systemic financial risk and make regulation more complex. Greater reliance on digital finance, artificial intelligence, and other new technologies is also likely to challenge prudential policies, consumer protection, and data policy frameworks. Cyber risks and AML/CFT concerns will take on new dimensions.

26. Digitalization will also shape the international monetary system. Developments such as the rise of digital assets—including crypto assets and central bank digital currencies (CBDCs)—and novel forms of financial intermediation across borders, such as mobile payments, transfer systems, and peer-to-peer (P2P) lending, can fundamentally alter the global macrofinancial landscape. These innovations may well have an impact on global macrofinancial stability if they start to change capital flows, global imbalances, reserve assets and the Global Financial Safety Net (GFSN). They could also give rise to cross-border spillovers.

27. In the government sector, digitalization promises to reshape public finance and other policy frameworks by changing how governments collect, process, share and act on information. Digitalization could help improve not only policy design for tax and spending, but also tax administration systems, public service delivery, administration of social programs, and public financial management. Real-time enhanced monitoring would allow for much more timely responses to emerging signs of stress (Misch et al., 2017). However, digitalization could also bring additional risks that could be heightened by institutional and capacity constraints, including cyberattacks, fraud and evasion, privacy infringement, and disruptions to service delivery (IMF 2018d).

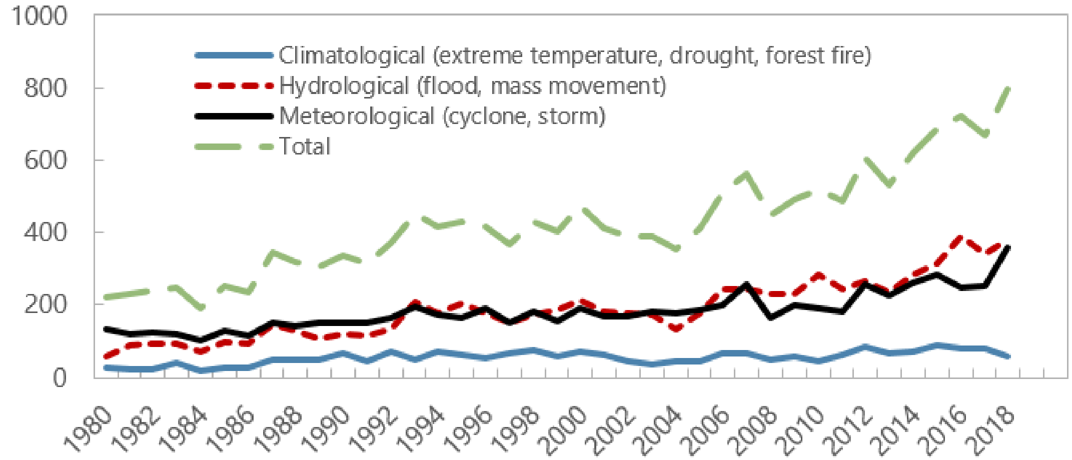
Climate Change

28. Climate change is a potentially existential threat with significant macroeconomic and financial implications.[2] Without meaningful action towards mitigation, adaptation, and transition to low-carbon economies, changes in climate are likely to reduce productivity and growth prospects while increasing fiscal sustainability risks. The costs and consequences of climate change will be uneven. For example, it will amplify migration pressures in countries with relatively high average temperatures, mainly low income, fragile, and small states (IMF, 2017b). Volatility and uncertainty associated with greater risks of large-scale natural disasters could also dampen investment and increase financial stability risks (Figure 7). The impact may also be non-linear, as the changes brought about by a warming planet may accelerate once certain thresholds are passed.

[2] See for example IPCC, World Bank, WHO, and Munich Re's NatCatSERVICE data on inflation-adjusted losses.

Figure 7. Climate-related Natural Disasters (1980–2018)

(Number, in each year)



Source: Munich Re.

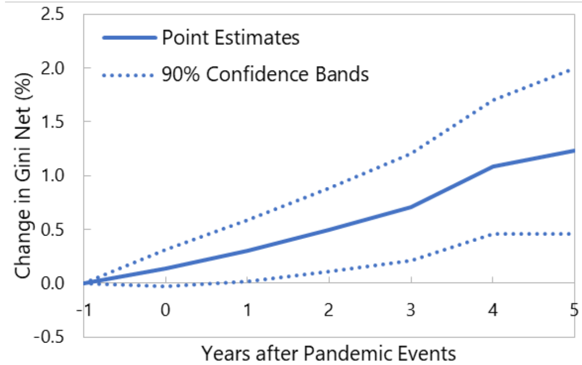
29. Policies to tackle climate change will also have fiscal and financial consequences. Adaptation strategies can help reduce the longer-term impact of climate change, but can also be costly in the short-term (e.g., building resilient infrastructure, investing in energy efficient technology, creating fiscal and external buffers, developing social safety nets and financial markets to share and transfer risk) (IMF, 2018a). Carbon pricing, research and development, and investment in new energy and efficient technologies could also play an important role in climate change mitigation efforts. In addition, measures would be needed to relieve vulnerable groups, including where high carbon charges are required to meaningfully affect fossil fuel consumption choices (IMF, 2019b).

30. The impact of climate change on IMF member countries may include tail-risk scenarios that are not fully captured in forecasts. Indeed, extreme scenarios should matter (e.g., loss of industries or arable land) and be built into models on the effects on climate change. These risks, while low probability, represent existential threats to some member countries that may require more ambitious adaption and mitigation efforts now. There could also be devastating areas of impact that climate change experts may not currently know or understand, calling for impact analysis to evolve over time to integrate new assumptions and scenarios. "2021 CSR—Background Paper on Integrating Climate Change into Article IV Consultations" discusses these issues and the Fund's role in greater detail (IMF 2021e).

Inequality

31. Inequality has been on a rising trend within many countries. There has been a rise in the share of income going to top income groups, particularly in advanced economies. Wealth is even more unevenly distributed, pointing to the persistency of income inequality across generations. This reflects differences in opportunities and access to basic public services, such as health, education, electricity, water, or internet. Macroeconomic shocks (e.g., financial crises) and technological change (discussed above) also play a role.

Figure 8. Impact of Pandemics on Inequality



Source: Furceri et al. (2020).

32. COVID-19 can be expected to exacerbate inequality trends going forward. Years of poverty reduction is at risk. The World Bank estimates that the economic shock is expected to push over 100 million people back into extreme poverty (Aguilar et al., 2021). Within countries, the health and economic impact of the pandemic has tended to fall more heavily on the poorest and most vulnerable, including youth and women. Empirical evidence from past pandemics result in large increase in inequality in subsequent years (Figure 8). Without offsetting policy interventions, the pandemic may lead to persistently higher inequality and wider skill gaps as access to education, jobs, and healthcare is unevenly distributed during the recovery.

33. Persistently high levels of inequality are macroeconomically relevant. High levels of inequality are correlated with slower and less sustainable economic growth. This can be due in part to the concentration of wealth and income among top earners, who spend a lower share of their earnings. This has the effect of lowering aggregate demand, disincentivizing investment, and contributing to external imbalances and balance of payments instability. Inequality can further hinder growth by hampering human capital accumulation among the less advantaged, which can reduce entrepreneurial investment. Inequality can also lead to political and social tensions and thus threaten macroeconomic stability.

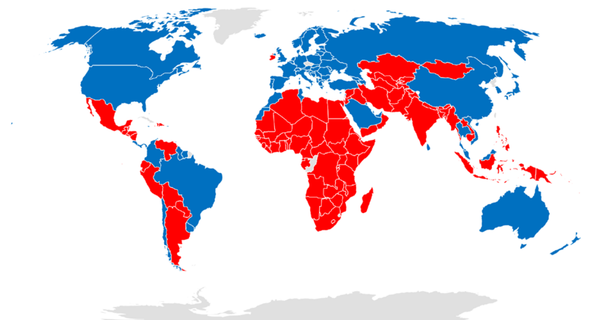
Demographics

34. The world is undergoing a stark demographic transition and overall growing older. Steady improvements in health and longevity, combined with declining fertility rates, have led to a faster reduction in the ratio of working-age population (15–64 years old) to total population in most major advanced and some emerging market countries (Figure 9) (IMF, 2019d). In fact, a majority of the G-20 economies have passed or are passing their peak working-age population. For some emerging markets (including Russia, China, Brazil, and Turkey), this turning point is being reached before they converge towards the per-capita income levels of advanced economies.

35. Population aging will have serious macroeconomic implications unless policy adapts. Absent an increase in productivity and later retirement, aging will result in lower potential growth and a higher fiscal burden from rising dependency ratios. Aging-related outlays for health care and pensions will further strain fiscal space everywhere while changes to saving-investment dynamics could drive down interest rates further. Relatedly, there are implications for the balance of payments as capital flows out of aging countries to those with younger populations (Clements et al., 2015). Migration patterns and the flow of remittances will also shift as demographic developments interact with the availability of economic opportunities.

Figure 9. Demographic Projection: 2020–30

Red: Working-age population ratio expected to increase
Blue: Working-age population ratio expected to decrease



Source: UN, and IMF staff calculations.

36. By contrast, members facing a demographic boom could see dramatic payoffs, if managed well. Countries such as India, Mexico, and most parts of Sub-Saharan Africa will continue to experience increases in the share of the working age population. This could yield significant economic payoffs if integrated with policies to increase private sector competitiveness and jobs; investments in infrastructure, education and skills; and fiscal reform to ensure effective public service delivery. By contrast, a failure to provide economic opportunities for growing populations could generate socio-political pressures, and emigration, depriving countries of the benefits of population growth. This challenge has been made more acute by the COVID-19 crisis, which has disproportionately affected the economic and educational opportunities for the young. Growing populations can also amplify strains on the environment and natural resources, posing a challenge for sustainability.

37. Technological developments will influence how these demographic changes play out. For instance, labor saving technologies could alleviate growth challenges in aging economies while exacerbating the challenge of creating enough jobs in others (IMF, 2018d). Another key challenge will be to adapt the workforce to future requirements as technological change generates new employment growth opportunities (e.g., in services). These trends could incentivize the reallocation of resources, including for example, increased FDI to regions with growing labor supply or greater migration pressures to regions with aging populations. Depending on circumstances, such a reallocation could bring economic benefits to all regions or further intensify political tensions and fragility.

Shifting Global Economic Power

38. The world has become more multi-polar, with new actors gaining influence. EMDEs' share of global economic activity will likely increase further, driven by the catching-up process and demographic trends. Despite recent tensions, global trade linkages remain high, and global financial networks across banks, debt and equity markets have deepened further (IMF 2021a). China is replacing other major economies as a key partner in global trade and is systematically increasing its overseas lending activities. Corporations, particularly tech and financial services ones, are also becoming more dominant in both AEs and EMs.

39. Pressures on existing international "rules of the game" will continue to build. As more countries with differing historical experiences, economic management approaches (e.g., market versus state-led capitalism), or preferences (e.g., on labor standards or digital privacy) gain systemic importance, they will demand changes to the status quo rulebook. Unless resolved in mutually beneficial ways, these tensions could undermine globalization (by restricting the flow of ideas, goods, and services), and international economic and financial stability. A more fragmented global economy, with a weakened multilateral trading system, would diminish prospects for income convergence for EMDEs. At the same time, the market power of large global corporations could further increase, complicating policymaking through tax competition and heightened special interest influences on regulatory frameworks, among others (Díez et al., 2018).

C. Priorities for Surveillance

40. To better position Fund surveillance and help the membership confront the challenges posed by the emerging macrofinancial landscape, the CSR proposes four surveillance priorities for the period ahead:

- **Confronting risks and uncertainties.** Policymakers will need to actively manage the risks and uncertain implications of the major underlying trends (discussed above) on growth prospects and economic and financial stability. In this context, Fund surveillance should take account of these risks more explicitly. This will require a better understanding of risk-reward trade-offs, supported by contingency planning and policies geared towards risk management, including taking advantage of upside risks.

- **Preempting and mitigating adverse spillovers.** The nature of cross-border spillovers is evolving and intensifying. Shifts in global economic integration are already visible in changing patterns in the trade of goods and services, global value chains, new types of financial intermediaries, relocation of foreign direct investment (FDI), and new patterns for migration and remittances. The COVID-19 pandemic vividly demonstrated how increased global interconnectedness can amplify the global economic impact of outbreaks of disease. Digital and financial technologies could also result in more rapid policy and risk transmission, with cyber risk a new frontier for spillovers. These changes imply the potential for new and less well understood channels for contagion and policy spillovers to emerge. Fund surveillance will need to prioritize the identification of potential sources of adverse spillovers, as well as approaches to pre-empt and/or mitigate them.

- **Fostering economic sustainability**. A broader understanding of economic sustainability is necessary to better account for how different economic and non-economic developments can come to bear on the Fund's stability mandate. With elevated public and private debt levels, the twin task of boosting growth while building buffers will entail difficult tradeoffs across time. In addition, slow-moving trends (e.g., demographics and climate change), distributional considerations, and the quality of governance and institutions are increasingly recognized as being critical for sustainable economic growth and stability. Accounting for these and other political-economy-related considerations may require applying a wider lens or a longer horizon to assessments of stability than is typically the case in Fund surveillance (i.e., 5 years).

- **Adopting a more unified approach to policy advice.** Balancing different priorities with limited policy space will require advice that better accounts for the tradeoffs and synergies among different policy combinations (fiscal, monetary, macrofinancial, and macroprudential). By doing so, IMF policy advice could become more coherent to support strong and sustainable economic growth. Greater coherence would not, however, imply a one-size-fits-all approach: country-specific circumstances would still need to be taken into account.

41. These priorities were identified and refined through an iterative process involving internal and external stakeholders. The priorities were informed by surveys, workshops with staff and members of the Executive Board, and consultations with external experts. The robustness of the surveillance priorities was stress-tested using a structured scenario planning that used a few plausible but distinct scenarios to illustrate the robustness of the Fund priorities in different future states of the world (see "2021 CSR—Background Paper on Scenario Planning" for more details, IMF 2021h).

42. IMF engagement with members on issues or policies related to these priorities will continue to be grounded in the 2012 Integrated Surveillance Decision (ISD). The ISD outlines the core areas of policy advice (i.e., fiscal, monetary, financial, and external) as well as the importance of discussing risks and spillovers. Coverage of other emerging issues in bilateral surveillance will continue to be guided by the principle of macro-criticality (Box 3).

43. The application of these priorities will naturally vary depending on country specific circumstances. Clearly, spillover analysis differs for spillover producers and receivers. While all countries will want to reap the benefits from digital transformations, not all may be similarly equipped to identify and mitigate risks. For climate change, adaptation is an existential priority for some members, while the transition to low-carbon economies is more urgent for others. Capacity and data issues may also be limiting factors in some cases.

Box 3. Coverage of Fund Surveillance

This box outlines the scope of IMF surveillance. Bilateral surveillance is guided by the principle of macro-criticality, a concept related to stability. Examples are provided to illustrate how macro-criticality can be assessed and approached in practice, including in determining the boundaries of coverage. Multilateral surveillance covers global economic and financial developments and the outlook for the global economy, including risks to global economic and financial stability, and spillovers from individual members' policies that may impact the effective operation of the international monetary system (IMS).

Bilateral surveillance covers issues that are "macro-critical." An issue or policy is macro-critical in bilateral surveillance if it significantly affects a country's present or prospective domestic or balance of payments stability.[1] In practice, this means exchange rate, monetary, fiscal, and financial sector policies will always be covered, including the macroeconomically relevant structural aspects of those policies. Other issues and policies will be examined only if they meet the macro-critical threshold.

Whether an issue or policy (beyond those identified above) meets the macro-criticality threshold can only be determined in context and on a case-by-case basis. The assessment will require staff to identify channels through which an issue or policy could affect stability. Staff would use these channels as a guide to develop policy advice (see examples below). The assessment will necessarily depend on specific country circumstances, including the members' development level, structural characteristics, institutional capacity, and other relevant socio-economic factors.

Multilateral surveillance, which also forms a part of Article IV consultations, is guided by a separate standard. Namely, the Fund will focus on issues or policies that may impact the effective operation of the IMS, including spillovers from members' economic and financial policies that may significantly influence the effective operation of the IMS, for example by undermining global economic and financial stability. Global economic and financial developments and the outlook for the global economy are covered in multilateral surveillance reports, such as WEO, GFSR, Fiscal Monitor.

Coverage in both bilateral and multilateral surveillance must be selective, evenhanded, and apolitical. First, not all macro-critical issues will be covered in the same depth for each country every year. Instead, timing and depth of coverage will depend on the issues' relevance, severity, and urgency. Second, a similar approach would be applied to members in similar circumstances, consistent with the uniformity-of-treatment principle (i.e., evenhandedness). And finally, the Fund will avoid interfering in the domestic or foreign politics of a member or expressing views on the design of particular political systems. Applied appropriately, the relevant standards give Fund surveillance a clear focus as well as necessary flexibility—both in terms of coverage and time horizon—to prepare for the evolving surveillance landscape.

Example 1. Social spending. Social or political pressures related to demographic changes (aging or increasing youth populations), rising inequality, and poor access to health and education could undermine macroeconomic stability. Social spending to address these pressures could be macro-critical through three key channels: fiscal sustainability, spending adequacy, and spending efficiency.[2] Using these channels as a guide, staff should close any analytical gaps, develop advice in consultation with the authorities and collaborate with development institutions in the design of social programs. However, implementation and delivery would be left to others.

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[1] IMF, 2012 "Decision on Bilateral and Multilateral Surveillance," July 2012.

[2] IMF, 2019, "A Strategy for IMF Engagement on Social Spending," IMF Policy Paper, June 2019.

Box 3. Coverage of Fund Surveillance (Concluded)

Example 2. Climate change. Climate change can affect balance of payments and/or domestic stability through various channels, including its impact on economic growth, fiscal sustainability, and financial system stability. Climate change and climate-related policies (or lack thereof) can also be a source of cross-border spillovers and affect global economic and financial stability. Climate change *adaptation* and *transition management* policies are primarily a bilateral surveillance issue as they involve domestic policy challenges that often have fiscal and financial considerations. Climate *mitigation* is a theme for multilateral surveillance, as mitigating climate change is a global public good. Mitigation coverage would focus on the largest emitters of greenhouse gases. The purpose of such coverage would be discussing ways to contain damaging spillovers from insufficient mitigation policies, which implies openness to different policy approaches. The starting point for an assessment of a members' climate mitigation efforts will typically be their National Determined Contribution under the Paris Accord, but additional context and assessments against peers can be provided. The Fund should provide specific policy advice on how to integrate the macro-critical elements of climate change policy into a sustainable macro-fiscal framework, for example: the integration of climate transition risks; the design, cost and financing of climate mitigation and adaptation measures (such as carbon pricing); and fiscal buffers.[3] Expert advice on individual climate-resilient infrastructure projects, for example, would be left to other institutions. See IMF 2021e for more detail.

Example 3. Demographics. Demographics can influence both domestic stability and economic growth (through its impact on the working-age population) as well as balance of payments stability (through current account balances and capital flows). Cross-border migration induced by demographic change (e.g., from countries with high population growth to aging countries) can also create spillovers and influence global economic stability. The Fund could identify economic policy levers to harness the positive impact or reduce adverse impact of such cross-border migration and should offer specific policy advice.

[3] IMF, 2019, "Fiscal Policies for Implementing Paris Climate Strategies—From Principle to Practice," February 2019.

SURVEILLANCE PRIORITIES—IN DETAIL

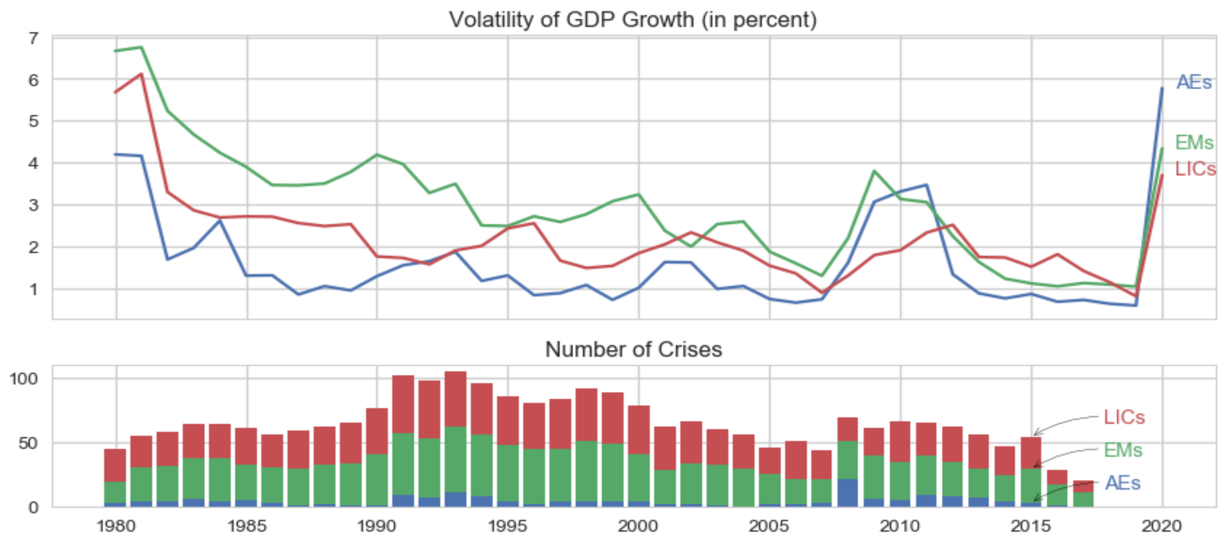
44. This section elaborates on the four surveillance priorities identified in the previous section, outlining the nature of the issue and how to address it.

A. Confronting Risks and Uncertainties

The Issue

45. Risk identification and mitigation, a key objective of Fund surveillance, is as relevant as ever. As discussed in the landscape section, the nature of macrofinancial risks is evolving due to the uncertain interactions between existing vulnerabilities and major global trends. Moreover, the past several decades have been increasingly characterized by periods of apparent macroeconomic stability punctuated by large and costly crises, of which the COVID-19 pandemic is only the latest illustration (Figure 10). This puts a premium on Fund surveillance's capacity to identify, mitigate, and manage risks. It also suggests that the process by which the Fund conducts surveillance (i.e., its surveillance modalities) needs to be adaptable to a range of potential outcomes.

Figure 10. Recurring Volatility and Crises



Sources: WEO and IMF (2020a).
Notes: Volatility is constructed as percent deviation around 3-year one-sided moving average of GDP growth.
Crises cover external, financial, and fiscal crises as defined in the Vulnerability Exercise; See IMF (2020a) for definitions.

46. Risk management goes beyond mitigating downside risks to include support for resilient growth. Risk identification is useful only so much as to enable policy design to better take into account the likely range of possibilities. In this context, recent history has shown the importance of finding a careful balance between supporting the recovery and achieving medium-term sustainability when navigating through a crisis. For example, after the GFC, an initial overemphasis on fiscal tightening may have slowed the nascent economic recovery, leaving countries in weaker economic position for the next shock. Therefore, a more complete assessment of risks should consider the potential for upside scenarios and the opportunity costs of risk mitigation measures.

47. Fund work on risk and uncertainty in surveillance has evolved significantly since the GFC. The ISR documented considerable progress in the Fund's ability to map risks and vulnerabilities and greater consistency between identification and discussion of risks (see also IEO, 2019a). Article IV staff reports now regularly identify major risks and provide an assessment of their relative likelihood and economic impact (summarized in Risk Assessment Matrices (RAM)), and debt sustainability analyses (DSAs) include a rigorous and quantitative discussion of risks to fiscal sustainability. The development of new quantitative tools (e.g., growth-at-risk and related models) are now regularly used to assess global macrofinancial risks as well as in a growing number of country-specific applications.

48. Despite good progress, the assessment of risks in Article IV surveillance can be somewhat narrow and is often not fully integrated into the outlook and policy advice. Some of the key recommendations from previous surveillance reviews remain outstanding: (i) there has been limited progress toward quantification; (ii) policy recommendations often lack depth in considering various risk management policies and tools, as well as the tradeoffs among them; and (iii) risk assessments are not well integrated throughout staff reports, which tend to focus predominantly on the baseline. In addition, further effort is needed to enhance the quality of communication around risks.

What Is Needed

49. Both the content and format of the Fund's risk analysis needs to evolve to better support our membership in a highly uncertain global landscape. In terms of content, further progress is needed along several dimensions (see "CSR 2021—Background Paper on the Surveillance Priority Confronting Risks and Uncertainties" for further details, IMF 2021b):

- ***Increasing emphasis on the range of potential outcomes.*** Country teams should be encouraged to pay greater attention to possibilities beyond the baseline, including low-probability high-impact risks. This could be supported by greater use of analytical tools (old and new) to better quantify risks, as well as scenario analysis to assess the robustness of baseline policy advice. Collaboration with outside experts can assist in the development of such tools. Where quantification is difficult (e.g., in many low-income and fragile countries), a qualitative discussion of alternative scenarios would still be very useful in illustrating potential outcomes.

- ***More proactive advice on how to mitigate and manage risks.*** Risk identification is useful only to the extent that it informs policy advice to preemptively respond to relevant risks and/or better prepare for them. This requires analysis and advice on policies to mitigate and manage risks, including the use of contingency planning. A discussion of trade-offs and complementarities across policy responses would help create more informed judgements on the balance between risk and reward. The aim should be to deliver advice that confronts the most important risks (reflecting vulnerabilities and exposures to shocks) with policies that are calibrated to country-specific circumstances (including policy implementation capacity). Better leveraging the Fund's technical expertise, including through the integration of this analysis with capacity development, will help teams identify and manage risks more effectively.

- ***More quality data.*** More and better quality data in high-priority areas can help serve as inputs to risk assessments. For example, assessments of fiscal risk need to be supported by broader coverage of public sector debt data as well as more granular data on the composition of debt.

50. In addition, elevated uncertainty suggests the need for Fund surveillance to be nimble and adaptable to new environments. The COVID-19 pandemic demonstrated how events can rapidly change the macroeconomic landscape, leaving policymakers facing difficult decisions in an environment with no clear historical precedent. In such cases, agility, experimentation and timely peer learning are vital. To best support the membership, the practice of Fund surveillance should evolve towards leveraging peer learning and cross-cutting lessons more effectively, including by drawing on experiences and expertise from outside the Fund.

51. Finally, clear communication regarding risk and uncertainty is essential, but challenging. In part, this will require strengthening the link between risk analysis and policy advice in Fund surveillance reports and external communications. It will also require staff to be clear about the nature of risks, the costs of addressing them, and associated growth-stability trade-offs. In doing so, staff will need to frame discussions appropriately to avoid unintended consequences from candid risk discussions in Fund documents on real world outcomes.

B. Preempting and Mitigating Spillovers

The Issue

52. The scope for spillovers from policies that may significantly influence the effective operation of the international monetary system will likely increase. As global interconnectedness continues to deepen and evolve, the sources and channels of spillovers have increased and expanded beyond traditional areas of Fund expertise (e.g., migration, climate, technology, etc.). COVID-19 has highlighted the uncertainty about future sources (exit from crisis policies, unconventional policies, health, digital currencies) and channels (services, travel) of spillovers and thus the need to be nimble and broad in our approach and toolkit. In an environment of multispeed recoveries and normalization of policies, the scope and intensity of spillovers can be further amplified.

53. Fund efforts to strengthen the coverage of spillovers have grown in recent years. Since spillovers were identified as a priority in the 2014 TSR, the Fund's flagship surveillance reports have included a) extensive coverage of macroeconomic policy-induced inward and outward spillovers, including through financial market, capital flow, and trade channels; and b) underlying spillovers through technology diffusion and migration. Institutional work on spillovers was further energized in response to the IEO's evaluation of IMF's work on unconventional monetary policy (IEO, 2019b). Article IV staff reports often discuss inward policy spillovers via similar channels. In response to the ISR's call for more prominent coverage of outward spillovers in systemic countries' staff reports, recent reports have discussed outward spillovers from various policies. In some cases, spillover considerations also factor into policy recommendations.

54. However, there is a need to further strengthen the coverage and consistency of the Fund's spillover work, especially in Article IV consultations. Coverage of outward spillovers remains a challenge. Spillover coverage could also be more consistent across sectors, regions, and income groups. And there is a need for guidance on how to engage on new types of spillovers that fall outside of the Fund's mandate and expertise.

What Is Needed

55. Fund surveillance will need to strengthen its analytical work on spillovers, drawing on better data, tools, and information-sharing frameworks. There is a need to further improve spillover identification, analysis, and engagement. Analytical work programs should aim to address gaps and uncertainties in the existing literature. Fund efforts to address relevant gaps in data and tools should continue. In addition, further work is needed to strengthen information-sharing, peer learning, and internal coordination by ensuring easy access by staff to a centralized repository of spillover case studies and policy responses.

56. The scope for Fund coverage of spillovers in surveillance should be further clarified. Establishing a rigid threshold for spillover coverage would be unhelpful. Depending on the changing macrofinancial landscape, there is a need for agility and flexibility in terms of what spillovers are covered, when and how. The Guidance Note on Surveillance Under Article IV Consultations should be updated to account for new work (e.g., the Integrated Policy Framework, IPF). In addition, there may be merit in developing an institutional level understanding on the types of spillovers that are relevant to consider at a given juncture, and the channels through which they are likely to operate. This would strengthen the link between bilateral and multilateral surveillance.

57. Beyond analytics, the quality of Fund dialogue with the membership on spillovers also warrants careful attention. Discussion about outward spillovers with spillover-producing countries in the Article IV context will continue to be challenging, given the primacy of domestic mandates for national authorities (Box 4). This is further complicated by the fact that IMF country teams in Article IV consultation with spillover-producing countries may not be knowledgeable enough to have a meaningful dialogue about the spillover-receiving countries. Nevertheless, there is room for the Fund to better leverage its convening power to encourage a robust dialogue between the membership regarding outward spillovers. The "2021 CSR—Background Paper on the Surveillance Priority Pre-empting and Mitigating Spillovers" provides a more detailed discussion of these proposals (IMF 2021c).

Box 4. Spillovers and Domestic Mandates

Under the Fund's legal framework, Article IV reports should examine outward spillovers from a member's policies in two circumstances: (i) if a member's policies are not promoting its own stability; or (ii) if the member's policies are promoting its own stability, but they could nevertheless significantly influence the effective operation of the international monetary system, for example by undermining global stability. In such cases, Article IVs should examine the most significant actual and potential outward spillovers, irrespective of the policies (i.e., exchange rate, economic, or financial) that generate such spillovers and transmission channels. Members are obliged to discuss these spillovers with the Fund and provide relevant data. The Fund cannot require members to change their policies when these promote the member's own stability but adversely affects global stability. However, it may recommend policy alternatives that would improve global stability, while continuing to promote the member's own stability. Members are only obliged to change their policies for the promotion of their own stability. Where there is a conflict between policies needed to promote a member's own stability and those needed to minimize outward spillovers, the member's own stability will take precedence.

C. Fostering Economic Sustainability

The Issue

58. Economic sustainability is closely tied to the Fund's stability mandate. For the purposes of Fund surveillance, economic sustainability can be defined as a set of conditions that, under realistic assumptions, will support sustained, balanced and inclusive economic growth without requiring large or disruptive adjustments to domestic or balance of payments stability. Therefore, sustainability is required for stability.

59. However, stability—as typically assessed in short to medium-term horizons in Fund surveillance—need not always result in sustainability. There are cases where economic conditions that appear stable in the near-to-medium term may prove to be unsustainable over the longer term and lead to potential *future* instability. For instance, steadily rising global temperatures may appear relatively stable on a year-to-year basis, but over a longer time horizon could lead to catastrophic effects for some members. Standard macro-economic indicators and policy settings can miss, or even contribute to, such sources of instability, especially when they are of non-economic nature. What appears to be stable in the short-run could generate instability in the long-run.

60. In addition, non-economic factors are increasingly shaping economic and financial sustainability over time. Whereas Fund surveillance typically focuses on sustainability from a standard macroeconomic perspective (i.e., through fiscal, financial and external channels), Section II identified several examples of how slower-moving trends in key non-economic areas (i.e., digital technology, climate, inequality, demographics, and geopolitics) can, in some specific cases, impact domestic and balance of payments stability. "2021 CSR—Background Paper on the Surveillance Priority Ensuring Economic Sustainability" provides further details on the channels through which these trends and issues can have an impact on prospective stability and sustainability (IMF, 2021d). In the near-to-medium term, the factors driving these and other non-economic trends may not be captured by standard macrofinancial indicators and thus may be overlooked in Fund surveillance.[3] These tensions will be amplified in the post-COVID environment of high debt burdens, particularly for countries without adequate policy space or institutions to deal with such challenges (e.g., small states and adapting to repercussions of climate change).

61. Fund work in these areas is underway, but more needs to be done. There is already a considerable body of work by IMF staff looking at the macroeconomic impact of the various trends and issues mentioned above (see the background paper for details). However, it will be important to raise the profile and deepen the understanding of these topics given their growing importance to shaping the macrofinancial landscape of the future. The Fund should also seek to better understand

[3] The Integrated Surveillance Decision (ISD, 2012) helps to account for this by requiring the Fund to consider any issue that affects members' stability. The ISD requires the Fund to focus on member policies that can significantly affect present or *prospective* stability, bearing in mind country-specific circumstances.

the channels through which they influence economic sustainability, which in turn would support relevant policy advice.

What Is Needed

62. **For the reasons noted above, Fund surveillance will need to pay greater attention to salient issues and broad trends that shape economic sustainability, including their interactions with one another.** Coverage of these issues may require a broader perspective and longer time horizon than is typical for Fund surveillance, particularly in Article IV consultations (i.e., 5 years). While there are examples of individual country teams moving in this direction,[4] the Article IV guidance note should provide clear and specific guidance on circumstances in which it would be appropriate to focus on these issues, and how to do so in an evenhanded way.

63. **Further work is needed to incorporate political economy, institutional, and capacity constraints into Fund advice.** A broader understanding of sustainability may lead staff to better account for socio-political and institutional constraints and reflect those in Fund policy advice. In addition, the closer integration of capacity development with surveillance would help sharpen the focus on how capacity constraints shape the implementation of Fund advice.

64. **At the same time, Article IV surveillance should continue to be selective and focused, with the choice of coverage made on a case-by-case basis guided by country circumstances.** The choice of a topic and the depth and timing of the coverage should reflect its relevance and urgency, informed by a dialogue between Fund country teams and member country authorities and other relevant organizations (e.g., civil society, international financial and development institutions, and the private sector). Moreover, the revised Article IV guidance note should clarify that there is no requirement for all of these surveillance topics to be covered in the same depth from year-to-year, to avoid over-burdening the surveillance dialogue with authorities.

65. **For areas where Fund expertise is underdeveloped, stronger collaboration is needed with relevant IOs, supported by the development of in-house skills.** It would be important to avoid duplicating efforts with other organizations and overstretching Fund staff's capacity. Therefore, tailored collaboration with other organizations will be critical.[5]

66. **Comprehensive data and indicators would improve staff's capacity to assess the impact of these trends on sustainability.** Some relevant indicators of economic sustainability are already available from other institutions, such as the World Bank and the United Nations. However, accumulating additional data in these areas may be challenging for some members and the relevance of different trends varies from case-to-case. Therefore, at this point, it would not be practical to require all IMF members to report on a common set of indicators related to economic

[4] E.g., Japan's 2019 Article IV consultation focused on demographics

[5] One example of where this is already being done is the Fund's joint work with the World Bank on climate change. However, there is not one-sized-fits all model for collaboration. The nature of a collaborative partnership should reflect both the topic, distribution of expertise, and mandates of the institutions involved.

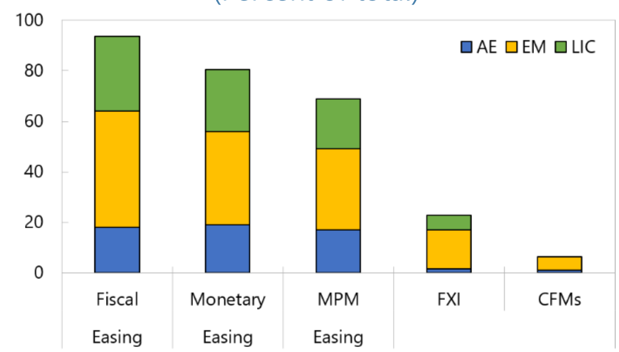
sustainability. Rather, a more pragmatic approach would be to continue to rely on data available from external sources to the extent possible. Staff will need to exercise judgement in identifying and using relevant indictors as appropriate.[6] Where possible, Fund surveillance should draw on publicly available data.

D. Adopting a More Unified Approach to Policy Advice

The Issue

67. The surveillance landscape shows the need for a more unified, holistic approach to policy advice. The policy trade-offs that became apparent amidst large economic shocks and a narrowing of traditional policy space has prompted a growing number of countries to employ a variety of policy tools simultaneously. For example, in the initial response to the COVID-19 crisis, a significant number of AEs, EMs, and LICs not only eased monetary policy, but also used foreign-exchange interventions and macroprudential measures at a significant scale (Figure 11). These kinds of multi-faceted policy responses are becoming increasingly common.

Figure 11. Policy Reactions, Mar–Oct 2020
(Percent of total)



Source: IMF COVID-19 Policy Survey and Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic.

68. In recognition of this, a more unified approach to policymaking would capture more elements of the policy mix in a coherent way. This approach holistically considers the joint activation of multiple instruments to achieve multiple objectives. It recognizes that the choice of the policy mix should: (i) depend on the shocks buffeting the economy as well as cyclical and structural conditions; (ii) exploit the potential complementarities between policy instruments; and (iii) minimize their trade-offs and unintended consequences while aiming for growth, stability and internal and external balance. The policy mix would thus need to be tailored to country-specific circumstances.

69. Such an approach is firmly anchored in the Fund's surveillance mandate. The ISD requires the Fund to focus on whether a members' economic and financial policies, taken as a whole, are fostering balance of payments and domestic stability. Despite good progress, there is still a need to strengthen the effort to capture all relevant aspects of the policy mix in a unified way, including by drawing on specific examples of where this has been done well.

[6] See IMF 2021d for examples of indicators related to sustainability in key trends. The Fund's policy on the *Use of Third-Party Indicators* covers data not provided by member countries or estimated internally at the Fund.

What Is Needed

70. To meet this challenge, Fund surveillance needs to develop:

- A better understanding of synergies between different policies in the recovery;
- A better understanding of the appropriate policy mix and policy coordination (e.g., monetary-fiscal, monetary-regulatory, fiscal-structural), including sequencing; and
- Safeguards to policy interactions that maintain good governance (e.g., the independence of fiscal-monetary-regulatory authorities).

71. There are several areas where the Fund could raise the quality and coherence of advice regarding the policy mix. These include: (i) fiscal and structural policies; (ii) integrating macrofinancial advice; (iii) monetary policy and macroprudential measures; and (iv) policies to respond to external shocks. Each area is described below. This list is not exhaustive. As policymakers respond to the crisis with limited policy space, new aspects of policy coordination, for example, between fiscal and monetary policies are surfacing. Further research is warranted how, and under what conditions, fiscal and monetary policy can be more effectively coordinated to support the recovery.

(I) Fiscal and Structural Policies

72. Subdued prospects for growth suggest that structural policies will need to play an important role in delivering strong, sustainable growth. Concerns about persistently sluggish growth amid high public debt, mounting long-term demographic pressures and dwindling monetary policy space have brought structural reforms to the fore (Gaspar et al., 2016; Aiyar et al., 2019). However, structural reforms cannot be designed and implemented in a vacuum. Advice needs to be integrated while considering the current policy space and the impact of structural policies on the evolution of future policy space (Banerji et al., 2017). This is often done successfully in IMF surveillance, but not always and not consistently.[7]

73. There are several aspects to the joint consideration of structural and fiscal policies: (i) identifying structural policy gaps; (ii) evaluating the impact of proposed structural reforms on growth and the fiscal position (e.g., debt dynamics); (iii) the role of fiscal policy supporting/inhibiting the potential growth impact of structural reforms; and (iv) political economy considerations, including the appropriate sequencing of reforms. These issues are particularly pressing for countries with limited fiscal space and large structural reform needs to make progress in achieving income convergence and SDG milestones.

74. Advancing this agenda will require further work in several areas. This includes reducing gaps in knowledge and using new tools and analysis that integrates structural reforms, fiscal policies

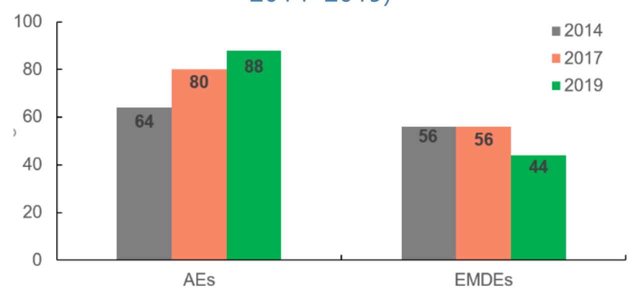
[7] See the experience with macrostructural pilots discussed in the 2018 Interim Surveillance Review.

and their joint impact. It would also benefit from greater participation of experts in Article IV missions when appropriate and feasible, including through better integration of CD provision in surveillance, as well as collaboration with external partners.

(II) Deepening Integration of Macrofinancial Analysis

75. There has been significant but uneven progress in integrating macrofinancial analysis into Article IV staff reports. Following the 2014 TSR's call for additional efforts to fully embed macrofinancial analysis—defined as the analysis of macrofinancial linkages and systemic financial risk—into Article IV consultations, the Fund has sought to strengthen its financial surveillance activities.[8] Both a 2017 staff paper[9] and the 2019 IEO evaluation of the IMF's financial surveillance recognized that the integration of macrofinancial analysis in Article IV consultations had expanded but that progress in raising its quality and impact has been uneven. In part, resource constraints have slowed the buildup of needed financial and macrofinancial expertise. Fund Management's response to the Board-endorsed IEO recommendations included a commitment for the CSR, in coordination with the FSAP Review, to propose initiatives to strengthen integration of macrofinancial analysis in Article IV surveillance. To this end, an assessment of the depth and integration of systemic financial risk analysis and macroprudential policy advice in Article IV consultations finds significant progress, particularly for advanced economies and in areas such as bank- and credit-related risks. However, progress has been uneven across countries (Figure 12). For a detailed discussion, see "2021 CSR—Background Paper on Systemic Risk and Macroprudential Policy Advice in Article IV Consultations" (IMF 2021f).

Figure 12. Staff Reports with a Well-Articulated View on Systemic Financial Risk
(Percent of staff reports in each income group, 2014–2019)



Source: 2021 CSR—Background Paper on Systemic Risk and Macroprudential Policy Advice in Article IV Consultations.

76. The assessment identifies several areas where additional effort could help deepen systemic financial risk analysis and macroprudential policy advice in Article IV surveillance. Suggestions include setting expectations for Article IV staff reports to include a well-articulated view about systemic financial risk grounded in a rigorous analysis of vulnerabilities; 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 (see next section). Importantly, expanding the pool of macrofinancial talent at the Fund is needed to deepen all dimensions of macrofinancial analysis in Article IV surveillance. The assessment also points to the

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[8] The Fund published the guidance note to operationalize the macroprudential policy framework (IMF, 2014a), released updated guidance for surveillance under Article IV consultations (IMF, 2015) and launched the macrofinancial integration initiative.

[9] "Approaches to Macrofinancial Surveillance in Article IV Reports" (IMF, 2017a).

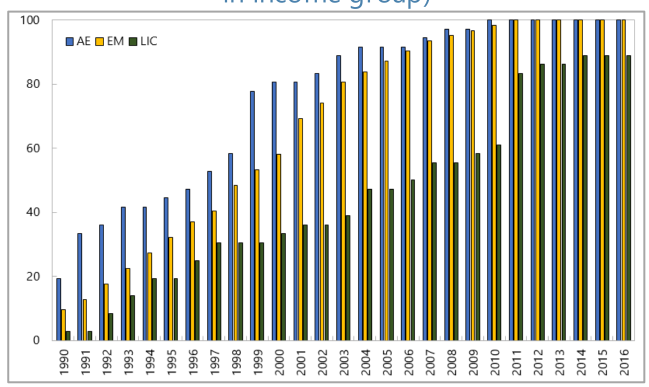
need for approaches to assess financial stability risks from emerging areas of importance such as climate, fintech, and cyber.

77. The need to address gaps in the Fund's financial surveillance has become more urgent in the post-COVID-19 environment. Financial leverage has been amplified by the credit and liquidity support measures introduced by governments and regulators in response to the crisis. This trend, combined with the growing intermediation role of the non-bank financial sector, will impact macrofinancial stability if not carefully monitored.

(III) Monetary and Macroprudential Measures

78. As new financial stability risks emerge in the landscape, there may be a case for coordinating monetary policy and macroprudential measures (MPMs). Monetary policy should focus on macroeconomic stability while MPMs focus on financial stability, each mindful of their impact on the other.[10] Where monetary policy needs to remain accommodative, this puts a premium on strong macroprudential responses to contain the build-up of financial vulnerabilities. On the other hand, where MPMs are weak or subject to leakage, this could force monetary policy into leaning against financial sector risks, at potentially much greater cost to output. It is then essential to work to strengthen the available macroprudential policies. For instance, as the financial system becomes more complex, banks see their role encroached by new entities, and new sources of systemic financial risk emerge (e.g., from market-based finance and corporate sector leverage) some MPMs may need to be applied more broadly to remain effective.

Figure 13. Use of Macroprudential Measures
(Countries that have used MPMs, percent of countries in income group)



Source: iMaPP database by Alam and others (2019); IMF calculations.

79. There is a need for a better understanding of the implications the joint activation of monetary policy and MPMs on other variables. For example, monetary policy can have important distributional implications through its impact on employment, savings, and asset prices. MPMs can also have important impacts on inequality, e.g., in as much as housing measures disproportionately affect people with limited savings and/or low income. It will be important to identify and offset any adverse side-effects through the broader policy mix.

80. To integrate the framework effectively into surveillance, important questions will need to be settled: (i) the empirical evidence on effectiveness of MPMs is still preliminary; if effective,

[10] Monetary policy, by affecting the cost of borrowing, has an impact on leverage and the composition of assets and liabilities, domestic asset prices and exchange rates. MPMs may in turn have side effects on inflation and unemployment.

MPMs reduce the probability of a future negative growth shock by lowering financial sector vulnerabilities; (ii) complementarities between monetary policy and MPMs may be exploited due to different timeframes in which the two are effective; and (iii) understanding costs and benefits of monetary policy and MPMs and their interactions.

(IV) Countering External Shocks

81. **The surveillance landscape suggests the need for a unified approach to managing external shocks.** Elevated uncertainty and new spillover channels have the potential to increase the salience of capital flows in the period ahead. Under the right conditions, cross-border capital flows offer significant benefits. But external shocks, both real and financial, may cause large surges and reversals in capital flows. Such volatility can impact growth and inflation and pose challenges for financial stability, and Fund members use a variety of policy tools to manage these risks.

82. **The Integrated Policy Framework (IPF) workstream aims to provide a systematic analytical approach to selecting an appropriate policy mix for achieving macroeconomic and financial stability.** It jointly considers the role of monetary, exchange rate, macroprudential and capital flow management policies and their interactions with each other and with other policies. The IPF workstream includes the development and dissemination of richer models with financial market frictions and other imperfections. This will help surveillance provide a more complete assessment of the wide range of tools used by many EMs and small-open AEs and should strengthen the coherence of policy advice in this area.

83. **The IPF highlights that optimal policy combinations depend on the nature of shocks, country characteristics, and initial conditions.** They do not take the form of complete reliance on exchange rate flexibility under all circumstances for all countries. Neither do they take the form of "anything goes." Balance sheet mismatches, the depth of foreign exchange markets, and the currency in which export prices are set are key characteristics considered in IPF models, but other factors may be relevant as well for the choice of optimal policies, including their long-term impact. Persistent use of certain IPF tools may perpetuate the very vulnerabilities that rationalize their deployment.

84. **Making the IPF operational requires additional work.** Ensuring robustness, developing metrics to assess country characteristics, and assessing the ability of countries to use multiple tools in a clear and credible manner will all be key in translating the framework's findings into implementable policy advice. Establishing the right balance between short- and long-term benefits and costs of using various tools—including to take account of multilateral implications—is also a critical remaining challenge. New models and analysis are needed to support teams in analyzing such trade-offs and design alternative packages. Clear guidance will facilitate defining country characteristics and types of shocks. Safeguards are needed to minimize the risk of inappropriate use of IPF policies will be essential.[11] Better and more timely foreign exchange intervention data are

[11] For the time being, IMF policy advice continues to be guided by the existing frameworks, including the IV. The IV review is ongoing and IPF findings will be a key input.

needed to exercise surveillance over exchange rate policies. Timely peer-learning would strengthen staff capacity in this area. New insights from the IPF, in conjunction with the IEO review on capital flows, will also inform the upcoming review of the Institutional View (IV). In addition, incorporating fiscal considerations more fully into the analysis and exploring more deeply the multilateral implications of IPF policies would further support the unified approach.

E. Bringing It All Together

85. Fund surveillance shaped by these four priorities will ensure that Fund advice remains relevant and useful for the membership. In general terms, for a given surveillance product we would expect to see:

- Analysis and advice that integrate a richer discussion of the distribution of risks using a wider use of models suitable for policy analysis. Baseline policies should be robust to different outcomes or complemented by a discussion of how policy should respond under different scenarios, balancing the trade-offs across different potential policy combinations, and including more frequent consideration of contingency planning for tail risks.

- A sharper focus on understanding the sources of spillovers, how they are propagated, their potential impact and policy implications. Article IV coverage of spillovers would be enhanced by bringing in more cross-country perspectives. Analysis would be supported by early engagement with authorities on spillover issues and greater use of the Fund's convening role for constructive dialogue between spillover producing and receiving countries.

- Assessments of macroeconomic stability that are based on a broader understanding of economic sustainability, informed by a wider range of indicators, political economy considerations, and longer time horizons, where appropriate.

- 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.

86. A greater emphasis on these priorities should help achieve the primary goal of surveillance: to increase the quality and traction of Fund advice. The next section looks at the question of traction more closely, developing a shared definition of traction and various approaches for how to measure and strengthen it.

ENHANCING TRACTION

87. A main objective of Fund surveillance—and of the CSR—is to enhance the traction of Fund advice in support of its mandate. In order to do so, it is first necessary to define what is meant by traction.

Defining Traction

88. Traction is the relevance and value-added of the Fund's analysis and advice in support of domestic and balance of payments stability. Traction involves both dialogue and action. It includes both (i) the extent to which the Fund and its members engage in a constructive policy dialogue; and (ii) the extent to which Fund advice influences policy making or results in policy action. Therefore, the implementation of the Fund's policy advice—typically reported in Article IV reports—is one input for gauging traction, not its equivalent.[12]

89. Traction derives from different sources and can take place on multiple levels of engagement. Fund advice must be grounded first in high-quality analysis to identify key issues, trends, and risks facing the membership, paired with robust policy options. While sound analysis is necessary, it is not sufficient. Traction also requires the perception of evenhandedness in the application of the Fund's advice, tailored to country circumstances. The nature of this two-way dialogue with the membership and global community goes well beyond Article IV staff reports to include all surveillance products, as well as interactions between Fund staff and management with authorities, the Board, and other stakeholders through various forums.

Measuring Traction

90. Since the TSR, progress has been made in adopting new approaches to support and monitor traction. Staff engages in annual surveys of Executive Directors, which have recently been expanded to include country-by-country responses to monitor the membership's satisfaction with Fund engagement, including through surveillance. Principles of evenhandedness of Fund surveillance were established in 2016, supported by a new evenhandedness mechanism in 2017. The Fund's Transparency Policy also helps strengthen the legitimacy of the Fund's surveillance by providing the public with access to Fund views and allowing for greater outside scrutiny and accountability.

91. Building on these achievements, this paper considers a variety of complementary approaches to assess the traction of the Fund's surveillance. This includes an analysis of the implementation of past Fund advice, surveys of authorities' views, case studies, sentiment analysis,

[12] Implementation status does not necessarily represent the degree of usefulness or value-added of Fund advice. For example, even if a policy advice is implemented only partially, when it is ambitious and takes time to implement, partial implementation may add significant value to the members. On the other hand, full implementation of a marginal (non-ambitious) policy advice may not add as much value.

and an assessment of the uptake of Fund surveillance products and relevance in local policy debate.[13] See "2021 CSR—Background Paper on Traction" for more details (IMF 2021g).

92. The findings from this work confirm that the traction of Fund advice is reasonably strong and has risen over time. Some 80 percent of authorities and 60 percent of Executive Directors feel that IMF advice influences national policy making (Figure 14, panel 1). In addition, Fund advice induces positive sentiment among authorities and EDs more than three-quarters of the time, with sentiment improving in the past two decades across all income groups (panel 2). A stricter benchmark—the implementation of Fund advice—suggests that more than half of all Fund recommendations are typically implemented fully or partially. Positive leaning towards Fund advice also induces eventual implementation, even if not immediately: some 70 percent of the advice that received positive reception was fully or partially implemented over time, with some variation by sector (panel 3). Finally, the uptake of Fund surveillance products is strong, with this uptake also rising in the last several years (panel 4).

93. However, longstanding challenges of relatively weaker traction in some parts of the membership have remained. Even though Fund advice is taken up at broadly similar rates across advanced and emerging market and developing economies, receptiveness as measured by sentiments has been systematically lower in advanced economies (Figure 14, panel 5). Similarly, traction is relatively weaker for larger and financially open economies, confirming previous studies that pointed to lower traction in G20 economies.[14]

94. Traction is also uneven among different policies. The findings suggest that Fund advice is more well-received for fiscal and financial sector policies, and less so for monetary and external sector issues (Figure 14, panel 6). This could reflect several factors: member countries may already have access to high-quality analyses and expertise in some areas (e.g., monetary policy in AEs); true disagreement on policy perspectives; political-economy considerations; or Fund advice that is not tailored to respond to country-specific needs.

95. The COVID-19 pandemic offered an opportunity to reassess how different forms of engagement can foster traction. The health crisis intensified the bilateral dialogue for most members of the Fund, despite the temporary suspension of Article IV consultations. The global appetite for the Fund's surveillance products also saw a notable increase. Among the new products developed by the Fund to help members navigate the crisis, the policy tracker was particularly popular. In terms of the content of Fund advice, follow-up surveys of the membership indicated that, in addition to listening to authorities and providing cross-country experiences, members found the Fund's insight into global and regional development and the greater use of remote communication technology as highly relevant. Mission chiefs appreciated the candor of policy discussions and the

[13] While a large part of the analysis was completed pre-COVID, some sections have been updated to evaluate how traction evolved post-COVID, including updates on the uptake of the new products developed by the Fund in light of the pandemic, follow-up surveys with the membership on what makes surveillance more helpful during the crisis, as well as updates to the country cases of good traction on engagement post-COVID.

[14] TSR, 2011.

more frequent engagement with authorities during the crisis. However, in terms of the engagement process itself, the use of technology to allow for virtual engagement proved useful under the circumstances but was seen as an imperfect substitute for in-person missions.

Figure 14. Measurements of Traction

Source: IMF Staff Reports, CSR Survey, Traction Database, staff's calculations.

What Is Needed

96. The gaps in traction could be addressed in part through higher quality analytical underpinnings supporting Fund advice or by bringing in relevant cross-country experiences. The greater focus on, and resources dedicated to, monetary policy and financial stability issues in the Fund's analytical and operational work following related IEO recommendations is a forward step to increase the depth of the Fund's work in these areas.[15] Indeed, the relatively higher traction of Fund advice in fiscal, structural, and financial sector areas provides some reassurance that the considerable investment in the Fund's expertise on these issues has paid off for some member countries. Fund engagement with the broader community (other IFIs, CSOs, private sector), and peer-learning are also important elements of supporting greater traction.

97. The bilateral dialogue with authorities should focus on responding to country-specific challenges in a continuous way. Country teams should engage with authorities' own policy priorities in a candid and balanced way, discussing alternative policy options and tradeoffs. Fund advice should seek to be pragmatic and cognizant of the constraints facing the member country, including political economy constraints. Management involvement (most notably in G20 countries) and longer tenures of mission chiefs were in some cases credited with building trust and ensuring a continuous relationship with the authorities.

98. Better integrating policy advice with capacity development is another priority area. Sentiment analysis showed that Fund CD in the fiscal and monetary areas and FSAPs helped improve the authorities' overall receptiveness towards Article IV advice. The case studies of good traction confirmed that the specificity, credibility, and effectiveness of Fund advice significantly improved with CD.

99. Engagement could be strengthened through continuous dialogue, both inside and outside Article IV cycles, leveraging new technology and complementary modalities of Fund surveillance. While the use of technology cannot fully substitute in-person relationship-building, there is scope to build on the positive lessons from the pandemic experience in this area. Digital technology can strengthen traction by supporting more regular two-way dialogue with members, where desired and where capacity exists. In addition, the modalities of Fund surveillance should seek ways to improve cross-country information sharing in a timely way.

100. Finally, public communication is key for the Fund to contribute to the ongoing national or international debate. Surveys to gauge readership of Fund products revealed that a significant share of those who did not use Fund surveillance reports were either not aware of these products, stressing the need for broader outreach, or that they found them too technical with unclear key messages, suggesting that there is room to improve the readability of surveillance reports as well as candor and specificity of key messages and Fund advice. The analysis also showed that traction can be higher when surveillance was supported with extensive outreach, including through management visits. At the same time, it is important to recognize that synergies work both

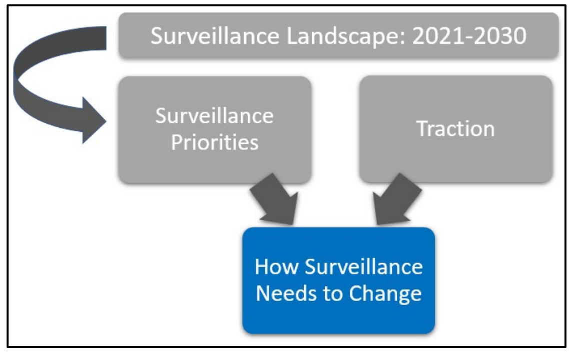
[15] IEO 2019a, 2019b.

ways (i.e., the strength of the Fund's voice in public and international fora also depends on the quality of Fund advice).

101. In sum, measures to enhance traction should combine timely high-quality analysis that is relevant to the authorities, greater attention to country-specific issues including through integrating CD in Fund advice, continuous dialogue with country authorities, and stronger public communication.

HOW SURVEILLANCE NEEDS TO CHANGE IN PRACTICE

102. To deliver on the surveillance priorities and support the membership as they face difficult challenges and trade-offs over the next five-to-ten years, modern Fund surveillance needs to be:



- **More Timely, Topical and Targeted.** The pandemic has underscored the need for surveillance to be nimble and responsive to emerging priorities, and to develop targeted advice that draws on Fund-wide learning but is tailored to country-specific circumstances. Fund surveillance should be able to continuously inform the membership and provide "real time" policy advice. Indeed, a more continuous dialogue on the most relevant issues facing the membership would greatly increase traction, as noted in the previous section. This will require finding a balance between comprehensiveness and selectivity.

- **Better Interconnected.** A modern surveillance framework can better integrate key aspects of the Fund's work by tapping into knowledge dispersed across the Fund and beyond. This includes the core areas of macrofinancial surveillance, assessment of risks and contingency planning, and capacity development, as well as new topics related to economic sustainability, like climate change and inequality. External expertise will need to be married with a more relevant staff skill-mix to respond to this challenge in a resource conscious manner.

- **Better Informed.** The Fund must take full advantage of new technologies and data availability and management to modernize business practices and enhance the relevance of surveillance. Recent experience with virtual engagement shows that Fund surveillance can be supported by new technology and tools. Better systems and production processes—supported by strengthened peer-learning and by leveraging technology—are needed to deliver time-sensitive work on cross-cutting themes and emerging risks. New analytical tools, expanded sources of quality data, and knowledgeable staff will ultimately deliver more relevant and cost-effective surveillance. Surveillance products, and Fund communication more generally, need to reach a broad set of audiences to enhance traction.

103. The companion paper, "2021 CSR—Modalities for Modernizing Surveillance" (IMF 2021j), fleshes out specific proposals for modalities to ensure that Fund surveillance can meet these objectives. Costing implications for some proposals are also provided, alongside initiatives that are already funded (e.g., IDW and iData), to be implemented within the existing envelope through reprioritization (e.g., training, development of new tools), or to be taken up in the context of other Fund workstreams (e.g., climate and digital currencies).

CONCLUSION AND NEXT STEPS

104. The review calls for a measured but marked shift in the nature of Fund surveillance as it is manifested in Article IV staff reports. The structure of Article IV staff reports should be more flexible to take into account shifting policy priorities, while still covering all the required elements. They need to better surface issues of strategic and cross-cutting importance to the individual member as well as to the membership at large. By integrating analysis across workstreams (such as FSAPs and CD), they should build on all of the Fund's strengths to help members better tackle emerging challenges. Finally, they should be better informed by expanding staff skill, new tools, and better data across several categories.

105. Full implementation of the CSR proposals will serve as an important risk mitigation tool for the Fund and for Fund surveillance. *First*, the proposed surveillance priorities—which are aimed at the Fund being more responsive to members' growth and stability objectives in a world characterized by elevated uncertainties, extensive spillovers, and strains on countries' policy space, and pay systematic attention to outward spillovers and emerging topics that impact economic sustainability in the longer term—would mitigate surveillance risks, and in turn the risks to the use of Fund resources. *Second,* supporting the drive toward better integration of CD and surveillance will ensure that the IMF provides operational guidance. Similarly, macrofinancial policy advice in surveillance will be strengthened by better identification of vulnerabilities and closer integration of Article IVs and FSAPs. *Third*, enhancing traction by developing timelier, topical, and targeted engagement will improve both CD and policy recommendations, which will in turn mitigate reputational risk. This focus would also improve the Fund's strategic alignment with members' challenges as they emerge from the COVID-19 crisis, thereby lowering strategic direction risks. And *finally*, updated surveillance modalities will strengthen the Board's strategic guidance and provide opportunities to learn from best practice in good engagement. This would mitigate risks to the processes of the Fund's core business. These outcomes hinge on adequate resourcing, the success of other Fund modernization initiatives, and full implementation of the proposals, which are complementary in nature. A fragmented approach could create new risks rather than mitigating existing ones. At the same time, given the unprecedented uncertainty induced by the pandemic, these proposals should be implemented in measured steps to allow for adaptive learning in the post-COVID landscape.

106. The current ISD is adequate to accommodate these changes. Staff believe that the ISD is sufficiently flexible to allow for the proposed surveillance priorities and changes to modalities outlined above, as motivated by the likely changes in the surveillance landscape. Accordingly, no modifications to the ISD are proposed.

107. Following the completion by the Executive Board of this surveillance review, and taking account of Executive Directors' guidance, staff will prepare an updated guidance note for surveillance in Article IV consultations. In addition, other Fund workstreams will take aspects of the CSR priorities forward. To highlight a few: the FSAP Review, the Review of Data Provision to the Fund for Surveillance Purposes, the Integrated Policy Framework and ongoing Fund workstreams on integrating macrofinancial analysis and climate change into Fund surveillance.

108. The ongoing COVID-19 crisis suggests the need for a gradual approach. Elevated uncertainty about the medium-term outlook implies the need for flexible and open to revisiting aspects of the CSR should the crisis take a new turn. Even after the CSR is formally concluded, the operationalization of the CSR priorities will proceed in gradual steps allowing room for substantial experimentation, to incorporate learning and efficiency gains, while operating in a tight budget constraint. An interim review is proposed in about two years' time to take stock of progress and adjust as required.

ISSUES FOR DISCUSSION

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

- 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?

- 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?

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

Annex. Views from the External Advisory Group

A. Background

1. Two external advisory groups were established to support the CSR. The groups comprise senior policy makers, academics, and practitioners from around the world. The External Advisory Group on Surveillance engaged with Fund staff on the priorities and strategic direction of the review. The External Advisory Group on Digital Technology also informed the priorities and strategic direction and in addition, provided guidance on the potential macro-economic consequences and policy implications from important technological trends that are underway. This annex summarizes their independent views as communicated to the staff in the context of preparing the CSR.[1]

B. Surveillance Priorities, Strategic Challenges, and Opportunities for the Fund

2. Advisors broadly agreed that the main trends dominating the surveillance landscape and proposed CSR priorities identified by the staff were appropriate. Advisors saw the need for the thinking on a range of emerging trends and priorities to be broadened, and suggested emphasis on the following:

- **Global protectionist trends.** Increasing fragmentation—in political power, international relations, and economic policies (including less of a shared understanding of how policies work)—could undermine global stability. For example, the potential for digital fragmentation driven by geopolitical competition could impose barriers to trade in goods and services and increase regulatory uncertainty for businesses. Fund surveillance will need to consider how to strategically manage the ensuing heterogeneity of approaches to economic management, and new forms of multilateral cooperation may be required.

- **Broader coverage of trends affecting growth and productivity.** Advisors noted the need to deepen the coverage of key trends that are increasingly becoming significant determinants of medium-term growth, even though some of these may be outside the Fund's traditional areas of expertise. For example, closer attention needs to be paid to demographics due to ageing and migration trends, as well as the need for sustained increases in living standards in LICs where population growth could exceed GDP growth. Advisors also suggested that the CSR place emphasis on the impact from digital technology on the "future of work," the labor share of income, and how GDP and productivity are measured.

[1] The summary is prepared by staff on the basis of several engagements with the Advisory Groups through video conferences and bilateral exchanges throughout the process of preparing and finalizing the CSR. They reflect staff take-aways as a whole and do not necessarily reflect the views of all Advisors, or of any individual advisor, on any specific issue that is highlighted. Advisors have seen this write-up and any specific comments received have been incorporated.

- **Digitalization cuts across the surveillance priorities**, as a source of opportunities (e.g., to promote financial inclusion or, as demonstrated by Covid-19, to increase resilience), risks (e.g., of upending the international monetary system and financial markets), and spillovers (e.g., through cryptocurrencies or cyber-attacks). For example, the tech-driven progress affects prospects for the manufacturing industry, and central bank digital currencies could re-shape monetary policy. Fintech should be considered more broadly to include cryptocurrencies, which could have major implications for the transmission of financial risks.

- **Systematic coverage of inequality issues and distributional effects of policies.** Many Advisors agreed that income gaps would widen between those who participate in the digital services economy and those who do not (as the former's productivity will rise faster). But they also noted the uncertainty of income convergence in the context of digitization. One view was that digital technology can make finance more inclusive, connecting EM firms to global trade with outsized impact on small- and medium-sized enterprises. This could lead to more sustainable growth and less inequality in EMs. At the same time, it is not clear whether production and consumption of online content will yield different cross-country inequality outcomes and/or intensify within-country income polarization.

- **Crisis preparedness.** In the context of strategic challenges facing the Fund in the CSR horizon, Advisors noted that the Fund's crisis preparedness framework should include: new channels of contagion to help the global system build resilience (e.g. technology may amplify traditional cross-border spillovers); a framework to identify emergent, but high impact risks (e.g. unregulated fintech); and for prioritizing various sources of spillovers.

C. How the Fund Can Adapt to the Challenges in the CSR Horizon

3. Looking ahead, Fund surveillance will need to adapt to evolving challenges. Advisors underscored the value that Fund surveillance through Article IV consultations provides to individual countries and the global community. They urged the Fund to undertake the necessary investment to include emerging issues that have implications for the global financial system and the stability of member countries in surveillance. In addition, Advisors offered advice on how the Fund can position itself to meet emerging challenges and provide value to its members:

- **More deliberate consideration of uncertainty in the baseline while promoting resilience.** Advisors noted that there are no clear technical answers to the problems facing the membership. Uncertainties remain about the ability of economies to transform and experience green, digital, and inclusive growth, and how policy makers can effectively use policy space to facilitate the transition. Thus, the Fund will need to be flexible with its policy advice to help countries correctly assess the trade-offs of different policy paths (e.g., the near-vs. medium-term implications of emerging trends) and better tailor policy advice to country circumstances. Shocks cannot be fully predicted, so it is important to be prepared through reducing vulnerabilities, stress-testing, contingency planning, and other exercises to preserve agility. Where possible, this needs to translate to consistent and actionable advice (including in flagships) on the policy response to risk tradeoffs. Longer-term trends may be slow moving but cause bouts of volatility, so the Fund needs to be very engaged even while realizing it does not have full expertise yet. For example, collecting data and analysis first can be useful while the expertise needed to provide advice is developed.

- **Advisors recognized that, to be useful, Fund advice would need to take a longer-term view and enhance shared interest.** As growth prospects are being held back by trends that are longer-term in nature—demographic factors and weak productivity growth—the Fund will need to focus more on these issues even if they are outside the Fund's typical surveillance horizon of 3 to 5 years. In this context, efforts to engage non-traditional counterparts (e.g., large corporations or cyber-security experts) on macro-critical issues will support the understanding of emerging risks and improve the quality and relevance of Fund advice. In the same context, Advisors called for a more evenhanded approach to surveillance that enhances shared interest. As unconventional policies, such as quantitative easing (QE), become part of policy toolkit to be used in a downturn, so should policies that help insulate countries on the receiving end of capital flow volatility.

- **Leveraging advances in technology can impact many dimensions of Fund surveillance.** Internally, the Fund will face pressure to speed up the delivery of its analysis and views. The Fund's role as a repository and disseminator of high-quality data will become more important as unique, superior data could allow the Fund to maintain, if not increase, its influence. Externally, Advisors emphasized the fast pace at which digitalization is transforming our economies and the need for the Fund to stay ahead, including by monitoring and reporting in the context of surveillance. Members will look to the Fund for advice to manage challenges associated with technological advancements and the changing nature of business, industry, and skills, drawing attention to the risks and opportunities associated with disruptive technology. In this way, technology may both catalyze and support a more continuous, engaged surveillance relationship with members.

- **Intersectoral linkages and spillovers analysis will strengthen crisis preparedness.** Advisors noted that Fund surveillance is critical to help resolve the immediate crisis and to mitigate risks and spillovers over the longer term by strengthening the dialogue between spillover producers and receivers. Surveillance will need to remain attuned to risks that can emerge from unanticipated directions. In this context, Advisors identified the alignment of messages across Fund products as a priority for enhancing the depth of specific recommendations and improving the consistency between identification and discussions of risks in multilateral and bilateral surveillance.

- **A sharp focus on policies that need collective action.** Advisors saw a role for the Fund in coordinating policies where national authorities will not be able to shape the industry without international cooperation. The Fund has a unique position in terms of being able to set clear and transparent expectations on international rules of the game. It can build on the success of the FSAP model, applying it to new areas, such as: risk management frameworks, spillovers from policy withdrawals as we exit from the pandemic at divergent speeds, data standards, financial inclusion, and preventing digital fragmentation. Advisors also raised concerns about the general trend of data politicization (i.e., data objectivity being crowded out for political expediency). Data used for Fund programs or advice that require countries to restructure, privatize, or change behavior could be most at risk of politicization. In such circumstances where regulatory cohesion and globally consistent policy responses are paramount, the Fund can play a central coordinating and convening role.

D. EAG Members

4. Members of the External Advisory Group on Surveillance:

- **Mr. Yiping Huang.** Professor of Economics, National School of Development, Peking University.
- **Mr. Dani Rodrik.** Ford Foundation Professor of International Political Economy, John F. Kennedy School of Government, Harvard University.
- **Ms. Ellen Johnson Sirleaf.** Former President of Liberia. Joint winner of the 2011 Nobel Peace Prize.
- **Ms. Gertrude Tumpel Gugerell.** Associate, Austrian Institute of Economic Research (WIFO).
- **Mr. Rodrigo Valdes.** Former Finance Minister of Chile. School of Government, Catholic University
- **Mr. Guntram Wolff.** Director of Bruegel.

5. Members of the External Advisory Group on Digital Technology

- **Ms. Diana Farrell.** Former and Founding President and CEO of the JPMorgan Chase Institute.
- **Mr. Austan Goolsbee.** Robert P. Gwinn Professor of Economics, the University of Chicago Booth School of Business.
- **Mr. Svein Andresen.** Former Secretary General, Financial Stability Board.
- **Mr. Eric Xiandong Jing.** Executive Chairman and CEO, Ant Financial Services Group.
- **Mr. Timothy Murphy.** General Counsel, Mastercard.
- **Mr. Joshua Gans.** Professor of Strategic Management and the Jeffrey S. Skoll Chair of Technical Innovation and Entrepreneurship, the Rotman School of Management, University of Toronto.

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