



MONETARY AND CAPITAL MARKETS

CAPACITY DEVELOPMENT ANNUAL REPORT 2022

“Now, as the global community is tested again, the near universal membership of **the IMF offers a proven platform for countries to strive together**—to make the world economy work for everyone, especially the poorest.

Now, as we face another crisis on top of a crisis, **we will continue to step up and support our member countries in every way we can**—with financial resources, policy advice, and capacity development—working in collaboration with our international partners. And of course, supported by our tremendous staff.”

Capacity Development: To help countries develop and fine-tune policy tools, and better balance difficult trade-offs, we will further integrate CD with programs and surveillance, focusing on country-tailored CD. The Fund will continue to step up work on medium-term frameworks to build institutions for a more sustainable, resilient, and inclusive recovery. We are also increasing our CD on climate change and on enhancing cyber regulation and supervision, which will complement efforts to deepen surveillance. At the same time, we will improve our CD model by adopting blended delivery and expanding field presence, in coordination with our partners.”

Global Policy Agenda, Spring 2022

PREFACE



Gita Gopinath

First Deputy Managing Director,
International Monetary Fund

Capacity Development (CD), together with surveillance and lending, is one of the three main pillars of IMF work to help foster financial stability around the globe. CD helps member countries develop strong institutional and human capacity, underpinning the adoption of reforms and oversight of the financial sector. IMF CD also contributes to member countries' ability to implement and achieve the UN's Sustainable Development Goals (SDGs) and conduct more effective economic and financial policies.

The IMF's Monetary and Capital Markets (MCM) Department is a global leader in CD delivery in monetary and financial policies. Part of my role as First Managing Director of the IMF is to have oversight for CD, and I am extremely proud to be at the helm of such important work by the IMF. Throughout my interactions with country authorities, they continue to express their gratitude and appreciation for the support given by MCM staff and experts because of the provision of concrete solutions to complex institutional problems in their countries. Our CD support continues to be targeted to member countries

who need us the most, mainly to low and medium-income countries, with a strong emphasis on fragile and conflict-affected states (FCS). This critical support rendered to our member countries is not possible without the partnership and support from our donor partners.

During fiscal year 2022, the global pandemic hit MCM's CD work, like other departments. I am very proud of how MCM staff rallied and adjusted quickly to continue to engage virtually with member countries to make this possible. I am delighted that travel has resumed, and we are back in the field to provide even more support.

The FY2022 Annual Report showcases the comprehensiveness of MCM support to IMF CD during a period of disruption and opportunity. It showcases several projects and stories on MCM's core CD areas, as well as in the new and emerging CD areas. We hope that member countries, our donor partners, and the public will find the information in this Annual Report useful and will get a birds-eye view of this very important work.

PREFACE



Tobias Adrian

Financial Counsellor and Director,
Monetary and Capital
Markets Department

As I look back at FY2022, a time that was aptly described as a disrupted world, it gives me great pleasure to outline some of MCM's key accomplishments in the FY2022 MCM Annual Report. The depth and breadth of MCM's CD coverage continue to be appreciated and welcomed by member countries, which reflects our unwavering commitment to delivering top-notch CD.

Our staff remained committed to excellence in technical advice and assistance during the unprecedented disruptions in the global economy brought on by the COVID-19 pandemic, rising inflation, and the conflict in Ukraine. The FY2022 Annual Report highlights CD achievements spanning from the traditional core CD to the new emerging areas. We delivered over 800 country-tailored and demand-driven CD to close to 140 member countries and institutions in our traditional core CD areas as well as new and emerging areas such as digital money and finance, climate, gender,

and fintech. The AFR region is the largest recipient of MCM CD. Work on aspects of central banking and financial supervision forms two-thirds of the TA we deliver. We also have a strong field presence with long-term experts (LTXs) stationed at the 12 regional technical assistance centers and placed bilaterally in targeted countries.

The report highlights the importance of collaborative relationships in achieving all of this. Support was financed through our great partnerships with the donor community, who financed over 75 percent of our CD in FY2022.

On behalf of myself and the entire MCM management, I would like to express heartfelt thanks and gratitude to the MCM staff, long-term resident advisors in the field, and short-term experts who went beyond the call of duty to ensure that we quickly adapted our CD delivery to ensure the needs of our members are met and that we did it in the most efficient and effective way possible.

This report was prepared by the staff from MCM's Technical Assistance Strategy Division under the guidance and supervision of Aditya Narain and Jennifer Elliott. The core team comprised Maria Oliva, Kahoru Takei, Anastassiya Marina, Brenda Sylvester, Chloe Zhang, Katya Botsu, Natalia Naryshkina, and Jesseca Garcia. Many MCM staff provided input to the report.

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ACRONYMS AND ABBREVIATIONS

AD	IMF Area Department	CBUAE	Central Bank of the United Arab Emirates
AFRITAC	IMF Regional Technical Assistance Center in Africa	CCAMTAC	The Caucasus, Central Asia, and Mongolia Regional Capacity Development Center
AFC	AFRITAC Central	CD	Capacity Development
AFE	AFRITAC East	CDD	Capacity Development Delivery Departments
AFS	AFRITAC South	CEF	IMF Regional Training Center for Arab Countries
AFW	AFRITAC West	CDMAP	The Capacity Development Management and Administration Program
AFW2	AFRITAC West II	CDOT	IMF Capacity Development Office in Thailand
APD	IMF's Asia and Pacific Department	DMF	The Debt Management Facility
AT	Analytical Tool	DNB	Dutch Nederlandsche Bank
BCC	Banque Centrale Du Congo	DRC	Democratic Republic of the Congo
BCRP	Banco Central de Reserva del Peru	EAC	East African Community
BCRG	Central Bank of the Republic of Guinea	EBA	European Banking Authority
BIS	Bank for International Settlements	ECCU	Eastern Caribbean Currency Union
BoT	Bank of Tanzania	EFF	Extended Fund Facility
BROC	Bank Resolution Online Course	ELA	Emergency Liquidity Assistance
CAPTAC-DR	IMF Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic	FCS	Fragile and Conflict-Affected States
CARTAC	IMF Caribbean Regional Technical Assistance Centre	Fintech	Financial Technology
CBDC	Central Bank Digital Currency	FIRST	The Financial Sector Reform and Strengthening Initiative
CB	Central Bank	FMI	Financial Market Infrastructures

FPAS	Forecasting and Policy Analysis System	JVI	Joint Vienna Institute
FSAP	Financial Sector Assessment Program	KA	Financial Stability Board's Key Attributes for Effective Resolution Regimes for Financial Institutions
FSI	Financial Stability Institute	LCBM	Local Currency Bond Markets
FSSF	Financial Sector Stability Fund	LEG	IMF Legal Department
FSSM	Financial Sector Statistics Module	LLMIC	Low- and Lower-Middle-Income Country
FSSR	Financial Sector Stability Review	LIC	Low-Income Country
FTE	Full-Time Equivalent	LMO	Liability Management Operations
FY	Fiscal Year	LTX	Long-Term Expert
GDP	Gross Domestic Product	MAT	Monetary Aggregate Targeting
GFC	Global Financial Crisis	MCM	IMF Monetary and Capital Markets Department
HQ	IMF Headquarters	MEFMI	The Macroeconomic and Financial Management Institute of Eastern and Southern Africa
IADI	International Association of Deposit Insurers	MMF	Money Markets Funds
ICD	IMF Institute for Capacity Development	MNRW	Managing Natural Resource Wealth Thematic Fund
IOSCO	The International Organization of Securities Commissions	MTDS	Medium-Term Debt Management Strategy
IEO	IMF Independent Evaluation Office	NBG	National Bank of Georgia
IFRS	International Financial Reporting Standards	NBK	National Bank of Kazakhstan
IMF	International Monetary Fund	NBRNM	National Bank of the Republic of North Macedonia
IRBMPF	Interest Rate Based Monetary Policy Framework		
ITD	IMF's Information Technology Department		
JSA	Japan Administered Account for Selected IMF Activities		

NBU	National Bank of Ukraine	SDG	Sustainable Development Goal
NGFS	Network for the Greening of the Financial Systems	SECO	Swiss State Secretariat for Economic Affairs
NPL	Nonperforming Loan	SMP	Staff-Monitored Program
PFMI	Principles for Financial Market Infrastructures	SBP	Superintendency of Banks of Panama
PFTAC	IMF Pacific Financial Technical Assistance Centre	STA	IMF Statistics Department
PMA	Palestine Monetary Authority	STI	IMF Singapore Training Institute
RBM	Results-Based Management	STX	Short-Term Expert
RBZ	Reserve Bank of Zimbabwe	TA	Technical Assistance
RCDC	IMF Regional Capacity Development Center	UK DFID	United Kingdom Department for International Development
SARTTAC	IMF South Asia Regional Training and Technical Assistance Center	WAIFEM	West Africa Institute for Financial and Economic Management
SBE	Superintendency of Banks of Ecuador	WBG	West Bank and Gaza

SECTION I

CAPACITY DEVELOPMENT
IN CHALLENGING TIMES

A

STEPPING UP TO
THE CHALLENGES

Together with our member countries, we faced many challenges in the fiscal year 2022, with remarkable successes along the way. New waves of infections postponed the end of the global pandemic and rising geopolitical tensions and inflationary pressures dramatically changed the economic outlook and posed new downside risks. In the context of fast-changing conditions, MCM's capacity development program worked with our member countries to respond to capacity needs—continuing to build capacity for the medium term and addressing new and immediate needs. Our expertise in the financial sector and central banking was made available to member countries in many forms—virtual missions and training, long-term resident advisors in the field, webinars, and online courses and—beginning in March 2022—with in-person missions and training. Among many examples laid out in the report, we worked with financial supervisors to consider how to unwind COVID-related support measures, with central banks to build better tools to calibrate foreign exchange interventions, with financial stability units examining systemic risks to build climate risk into analytical toolkits and with debt managers to better plan

and execute debt issuance under challenging market conditions.

The report illustrates that demand for MCM CD in traditional core areas remains high—80 percent of our CD is offered in financial supervision, central banking, and financial market infrastructures, with another 15 percent in debt management and the rest comprising financial stability analysis, macroprudential and monetary policy, capital flows management and financial crisis management. However, the core areas are dynamic in nature—just as the expectations of financial supervisors and central bankers remain dynamic. MCM CD has also continued to grow in new areas with financial stability implications: climate-related financial risks, gender, fintech, digital money, and cyber risks. MCM is at the early stages of these efforts, but a large body of new analytical work supported by new expertise and collaborative partnerships is proving invaluable as these areas become embedded in the work of central banks, supervisory agencies, and debt managers.

Looking ahead, we see continuing strong CD needs from our member countries. The return of travel in Spring 2022 has increased demand across all workstreams. Topic areas

like central bank digital currency and climate-related financial risks are growing significantly. Our HQ staff and our 37 long-term advisors in the field, together with many hundreds of short-term experts, are all focused on meeting the moment. Fiscal year 2023 promises to be no less challenging and no less successful.

Stepping Up to the Challenges

The famous adage “In the midst of every crisis, lies great opportunity” could not be more applicable to the CD work MCM has been conducting in the past two years. COVID-19 brought major challenges to our work, but the crisis also fostered adjustments and out-of-the-box thinking that fostered innovation and business continuation. In the past two years, CD activity did not slow down. *How MCM delivered* and *what MCM delivered* changed, with new areas and forms of work surging.

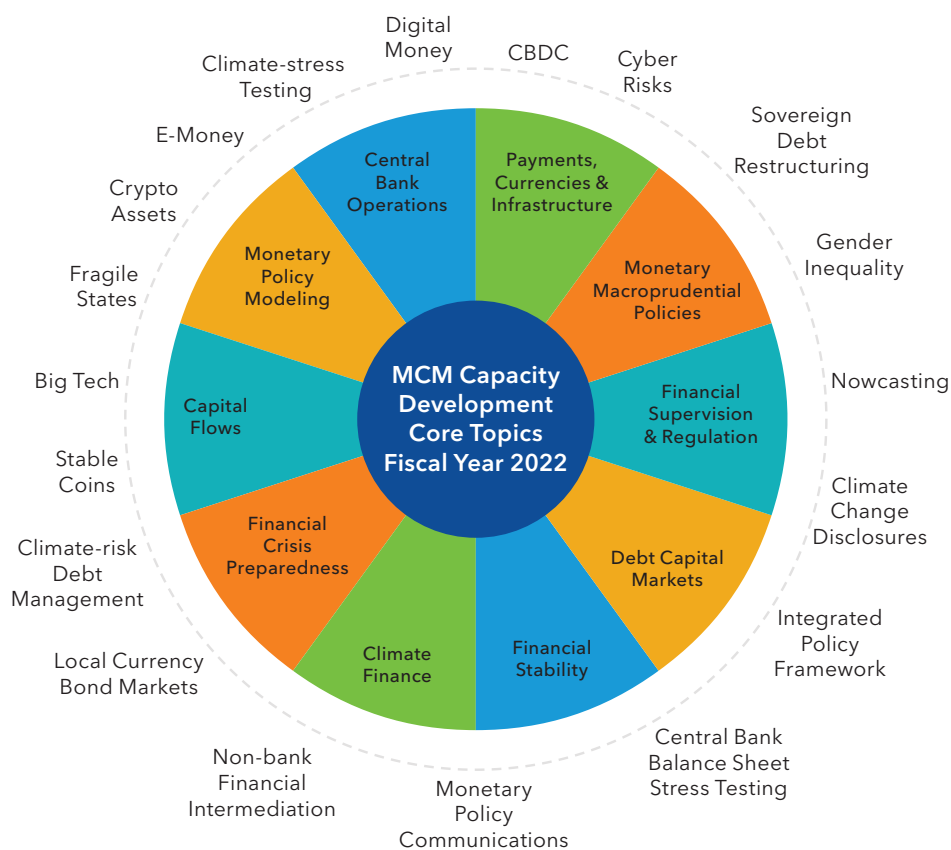
EXPANDING CD WORK TO NEW AREAS

From its roots and focus on central bank operations, MCM has evolved to provide a wide-range of support to central banks, financial supervisors,

and debt managers in both core and growth areas with financial stability dimensions (Figure 1).

- Financial Supervision and Regulation.** MCM delivers CD assistance on a wide range of financial regulatory and supervisory matters, including designing, implementing, and more recently unwinding COVID policy interventions; prudential regulation including implementation of international standards; risk-based supervision; securities markets; and insurance. Demand for CD on the regulation of crypto assets and cyber security supervision has increased significantly. Work on how to build climate-related financial risks into risk-based supervision frameworks has begun, with initial webinars providing a discussion platform to advance the authorities thinking, plans, and work in several regions. In FY22, MCM delivered workshops and webinars on climate risks in all our IMF's Regional Capacity Development Centers (RCDCs), insurance in SARTTAC countries, banking supervision (Iraq and Jamaica), securities and crypto assets (Kazakhstan and Albania), and financial conglomerates in Chile, to cite a few. Our long-term engagements with FCS (Haiti and Somalia) in strengthening supervision and the regulatory framework continued.
- Central Bank Operations.** Work continued in core operational areas such as monetary operations frameworks, foreign exchange operations, and risk management, including stress tests of central bank balance sheet, as well as central bank governance and transparency. For example, last year, MCM delivered CD on liquidity forecasting to Algeria, Botswana, and Namibia and on foreign exchange market development in Armenia. A new area of work expected to grow is CD engagement with central

FIGURE 1. MCM CD WORK AREAS, FY22



banks considering introducing new instruments (such as digital currency).

- Digital Money and Financial Markets Infrastructure.** A team of experts has also been supporting member countries in their thinking, design, and implementation (if so) of the central bank digital currencies (CBDC) and other digital money. Our work also targets retail and wholesale payment infrastructures. The teams delivered webinars on CBDC to the Caribbean region, regulatory and policy perspectives on digital payments to the countries in southern Africa and on CBDC in Asia Pacific countries, technical assistance on payment systems to Bosnia and Herzegovina, and improving oversight and supervisory framework for FMIs to the Gambia, for example.

- Monetary and Macroeconomic Policies.** Communications (e.g., AFRITAC East (AFE) members, Guatemala, Philippines, Uruguay), forecasting and policy analysis systems (FPAS) to help central banking decision-making (e.g., Botswana, Gambia, Malawi), and near-term projection techniques to assess the economic outlook (e.g., Rwanda, Tanzania) have dominated FY22 CD work in this workstream¹. CD also included assisting authorities in their transition to inflation targeting (e.g., Angola) and on macroprudential policy and frameworks (e.g., Panama, the Caribbean region, and Uzbekistan). CD demand to improve the approaches to communication of

¹ Some of this work results from collaborative efforts with other IMF departments, MCM, RES, and ICD.

monetary and financial stability policies has increased. For example, CD engagement covered the content and frequency of the Central Bank of Uruguay's interactions with the public and options to develop tiered communications to make communication more effective.

- *Capital Flows.* Management of capital flows, especially as the COVID shock and higher inflation increase market volatility, has become a focus of CD. MCM helped member countries in designing the capital account liberalization roadmaps and provided advice on the proper conditions to use capital flow management measures. The IMF's review of its "institutional view" in the liberalization and management of capital flows has heightened interest in this topic.
- *Financial Stability and Systemic Risk Analysis.* Work on developing macro-stress testing frameworks, risk heat maps, financial stability analysis, and financial stability reports were also significant this past year. Country recipients varied in their needs. For example, MCM assisted in the development of a stress testing model in Ecuador, conducted a diagnostic assessment in Aruba, worked on the heat map methodology in Chile and Turks and Caicos, and continued the support to enhance Mozambique's capacity in banking sector stress testing. MCM's collaboration with EBA was finalized in the first quarter of the fiscal year. Work on bringing climate-related financial risk analysis into stress testing frameworks—building on work done by staff in Financial Sector Assessment Programs (FSAPs)—is a new and growing area.

- *Debt Management and Capital Markets.* Core CD work in this area includes efforts to improve institutional arrangements for debt management, develop and implement debt management strategies, develop local currency bond markets, and improve debt recording, reporting, and monitoring. MCM also supported efforts to develop formal reform plans for debt management and climate finance.
- *Crisis management.* Providing support to resolution authorities and deposit insurers on strengthening bank resolution and deposit insurance regimes and enhancing operational capacity to manage failing banks and financial crises. MCM led the design and launch of an inaugural online course on bank resolution, the delivery of in-person training through the IMF's regional training centers (including at the Africa Training Institute), and continuing bilateral support, e.g., to Pakistan on bank restructuring, the Bahamas on the crisis management and bank resolution framework and operationalizing a new bank resolution legislation in Comoros.

ADJUSTING CD MODALITIES TO THE NEW REALITIES

Two years of experience working in conditions of a global pandemic have fundamentally altered our CD modalities and MCM is working to capture and sustain the best of virtual delivery as travel and in-person work resumes. Looking across our work program, remote delivery has several strengths—it saves travel costs, expands inclusivity also with simultaneous interpretation in different languages, with the potential of reaching larger audiences, and allows for greater flexibility and delivery stretched out in time. While in-person interactions—

a more confidential environment with more effective communication, less screen fatigue, and friendlier time zones—are a critical factor in the success of our work, MCM will carefully choose modalities as part of CD design to get the best of both worlds.

The consensus is that the future is for more hybrid (also referred to as "blended") delivery, which efficiently combines the advantages of virtual and in-person CD. Hybrid delivery can take several shapes:

- Mixing virtual and on-site engagements into a mission, typically having a more extended off-site preparation phase, collecting as much information as possible using the virtual mode, and being able to arrive on the ground for a shorter period but fully prepared for the hands-on delivery.
- Mixing on- and off-site presence in space, with only part of the mission team traveling, some others (e.g., specialists in some specific areas) joining in remotely.
- For longer projects consisting of several phases, on- and off-site missions may be efficiently combined to ensure greater flexibility and continuity.

It is too early to draw definitive conclusions about the optimal combination of the two delivery modalities, but innovative ways to be more effective and efficient rank high on the agenda. FY23 will be expected to be a transition to a new normal in MCM's CD delivery. Nevertheless, flexibility and country-specific needs/constraints will remain key variables at the core of the delivery design.

CD DELIVERY IN FY2022 AND TRENDS

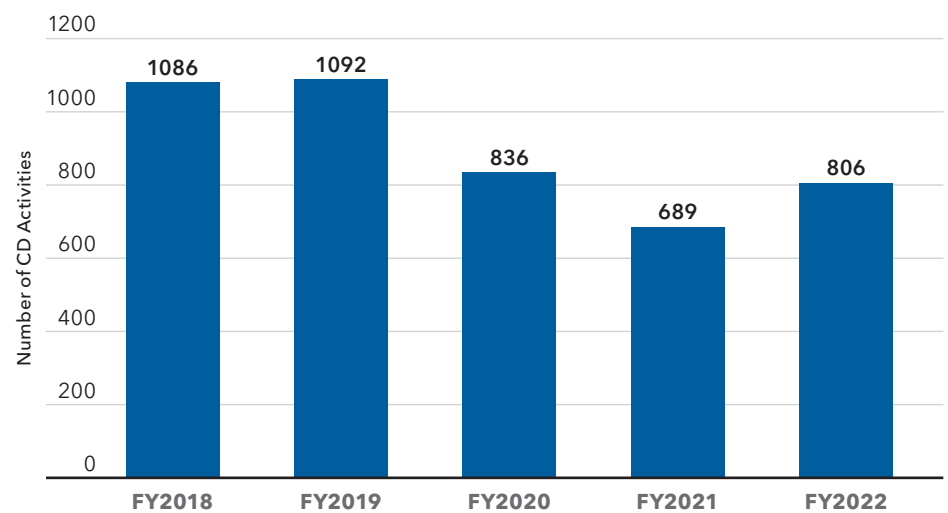
CD activity remained strong in FY22 with 806 engagements to 127 countries and 8 beneficiary institutions.¹ Our CD continues to be broad-based, with short-term engagements and sequenced hand-holding follow-up playing a significant role in the support provided to the membership. Analytical work to support CD significantly expanded, with spending increasing by over 65 percent. In FY22, MCM developed tools, Handbook references, and frameworks supporting our work in core and new growth areas (see Section *Responding to New CD Needs*).

Where Did MCM Deliver CD?

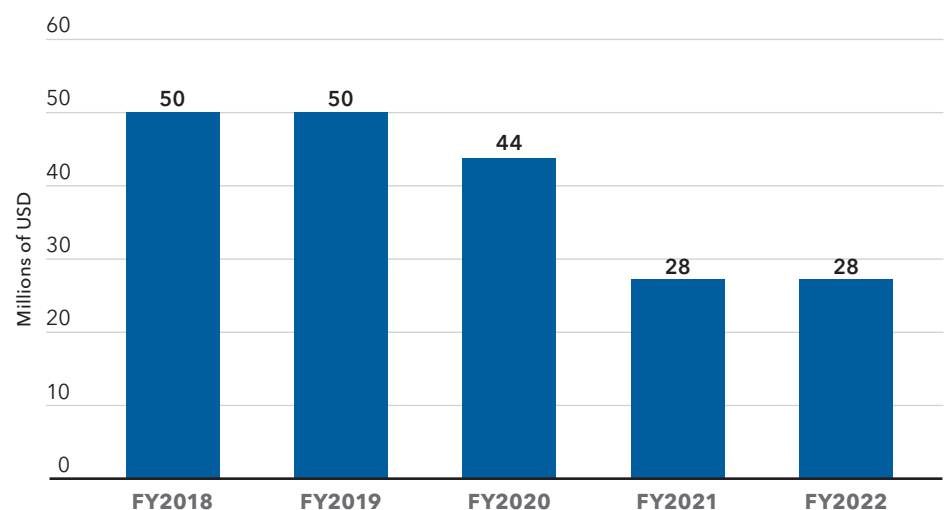
By region, Africa, with 39 percent of MCM CD direct delivery spending, continued to account for the largest share of MCM CD. Asia and Pacific Islands and Western Hemisphere followed with 19 percent and 18 percent of the total, respectively. The Middle East and Central Asia

¹ FY22 activity count includes direct delivery, management and administration, and analytics and development activity categories. The IMF adopted a new administrative system for planning and tracking CD, the Capacity Development Management and Administration Program (CDMAP). CDMAP introduced methodological changes to CD spending data that create a data series structural break.

FIGURE 2. MCM CD DELIVERY, FY18-FY22



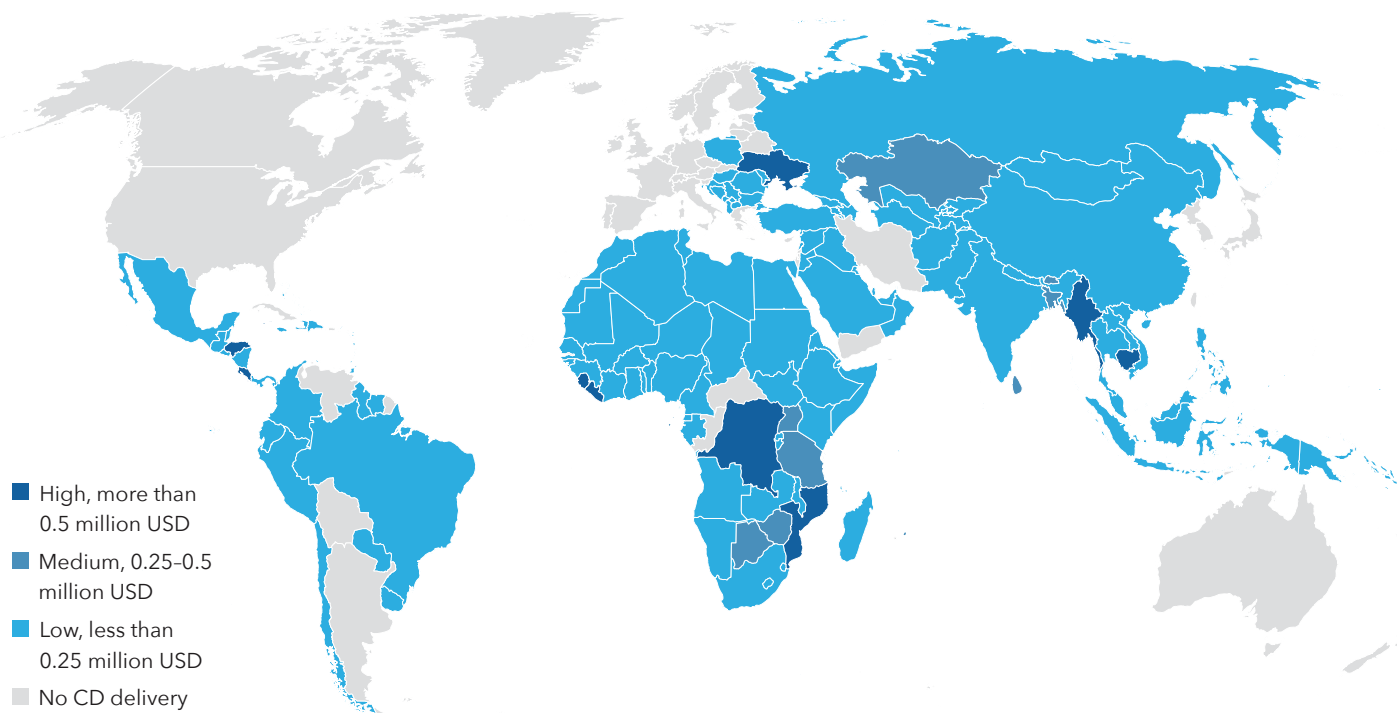
MCM CD DIRECT DELIVERY DOLLAR SPENDING, FY22



Note: Due to changes in the methodology for calculating direct delivery spending, spending after FY21 cannot be easily compared to spending in prior years.

Source: ACES; CDMAP for FY2022.

FIGURE 3. GLOBAL INTENSITY OF MCM CD DELIVERY, FY22



Sources: CDMAP data and IMF Staff.

and Europe accounted for 15 percent and about 9 percent of the total. A preference for in-person CD by some authorities, especially in Asia, explained the drop. In contrast, CD to Latin American countries expanded significantly (up from 14 percent of FY19 MCM CD).

What CD Did MCM Deliver in FY22?

By workstream, CD on financial supervision and regulation maintained the largest share 36 percent, followed by central bank operations with 21 percent. Demand for CD on financial stability risk analysis, payment systems,

and monetary policy frameworks TA significantly increased, with delivery expanding relative to FY21 levels, albeit from a low base.

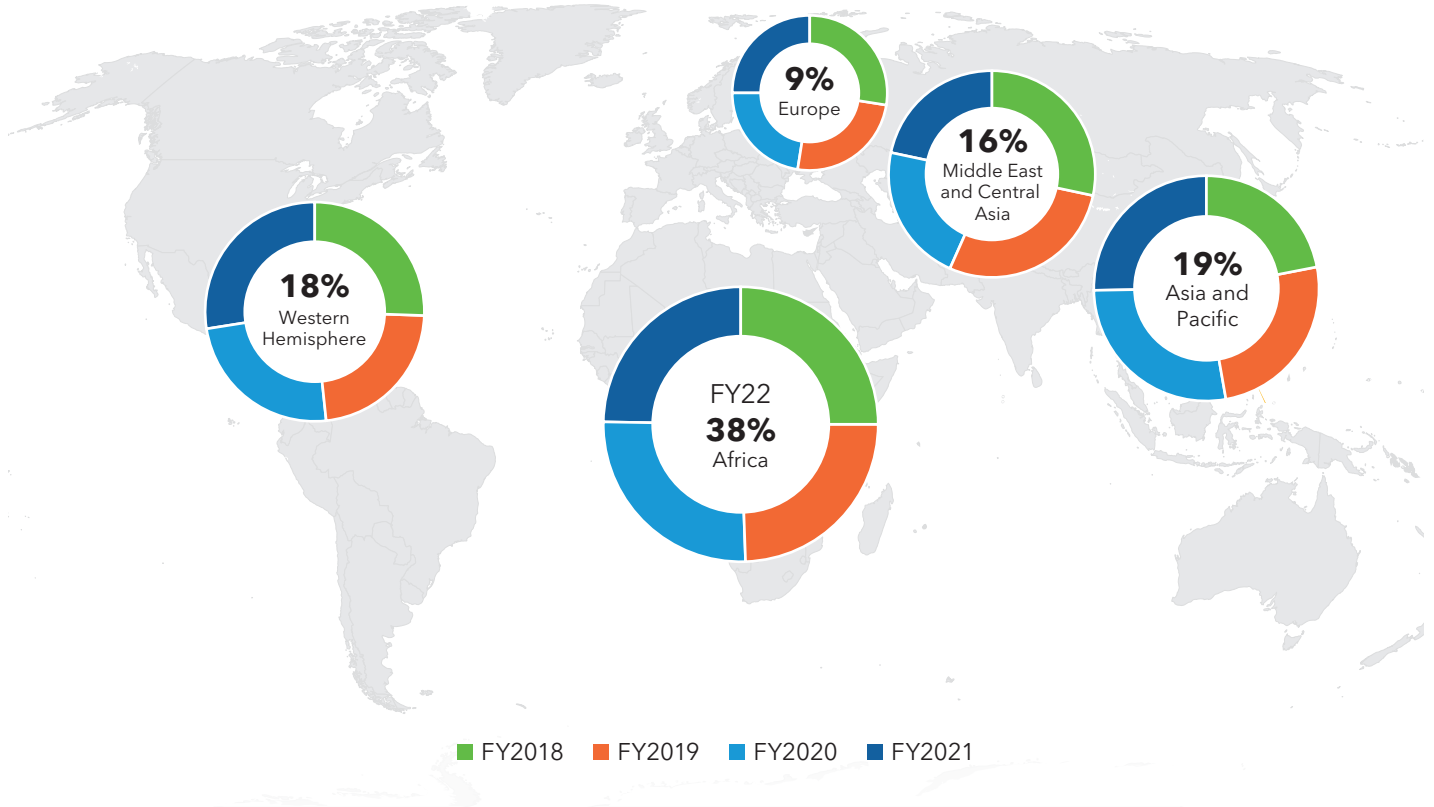
Working with Fragile and Conflict-Affected States.

In line with the Fund’s priority to support FCS, capacity building in FCS ranks high on the MCM agenda. In FY22, FCS were the beneficiaries of 25 percent of MCM CD (broadly in line with FY21). The need for hands-on and continued engagement proved particularly difficult in the virtual environment in FCS. By workstream, core CD areas

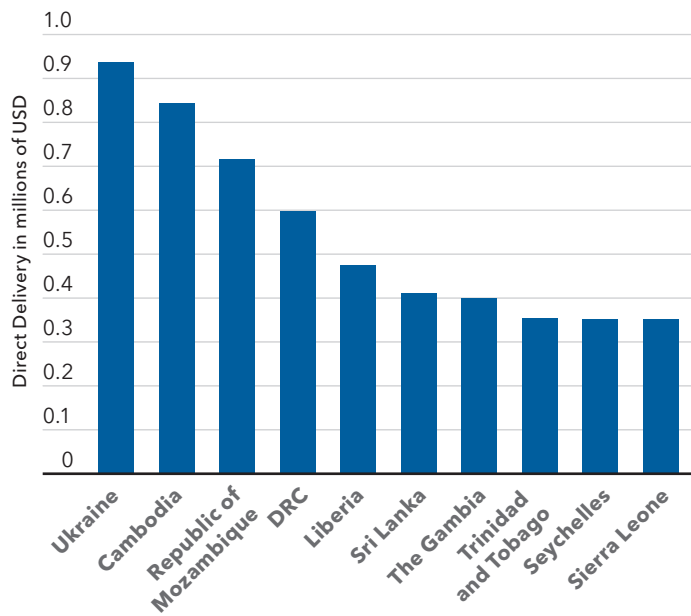
such as financial supervision and regulation accounted for over a third of MCM’s total CD delivered to FCS, followed by central bank operations. Work on monetary policy frameworks and tools and the development of sovereign debt markets were also high in demand.

Training. Training has played a big role during the COVID-19 crisis. The opportunities provided by the virtual environment, demand for foundational core work, and learnings on new growth areas have supported training.

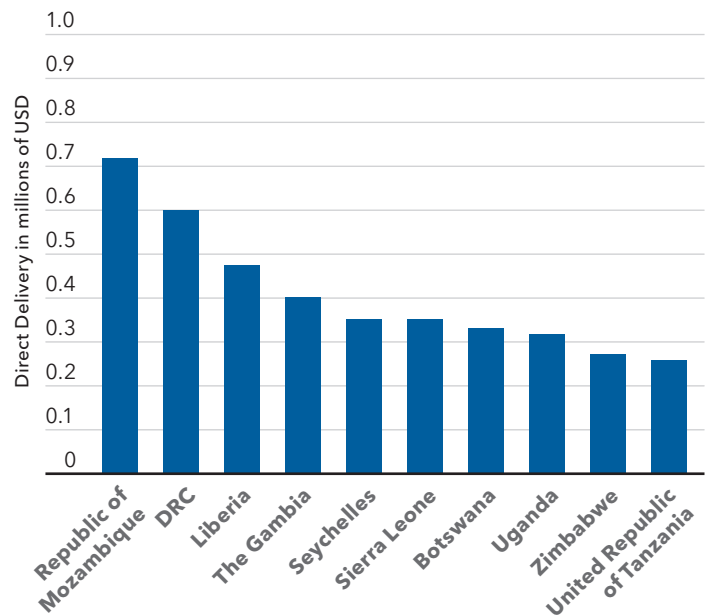
FIGURE 4. MCM CD DIRECT DELIVERY BY REGION, FY22



UKRAINE AND CAMBODIA REMAINED THE TOP MCM CD BENEFICIARIES

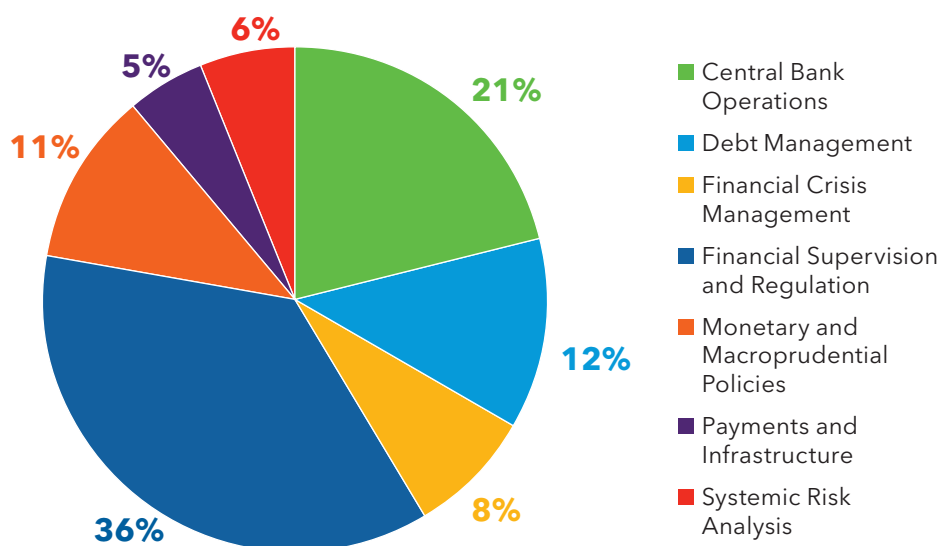


IN AFRICA, MOZAMBIQUE'S DONOR FUNDED CD PROGRAM AND THE DRC'S FSSR PLAYED A BIG ROLE



Sources: CDMAP data and IMF Staff.

FIGURE 5. MCM CD DIRECT DELIVERY BY WORKSTREAM, FY22



Sources: CDMAP data and IMF Staff.

BOX 1. TRAINING ACTIVITIES DURING COVID

MCM training ranges from the traditional classroom setting to bilateral and regional workshops and seminars, platforms for peer-to-peer exchange and learning, long-term advisors backstopped by HQ staff, and small and targeted advisory sessions for high-level officials at the Central Banks and other relevant agencies. Regional coverage of MCM training has been expanding to all the Regional Capacity Development Centers and Regional Training Centers operated by the IMF worldwide². MCM training is offered in multiple languages (e.g., French, Arabic, Portuguese).

MCM is also promoting knowledge dissemination through “learning by offering” online courses and “How-to” knowledge products. The online courses, developed and delivered in coordination with the IMF’s Institute for Capacity Development (ICD) and IMF

² Africa, Central America, the Caribbean, Europe, the Middle East and North Africa, Southeast Asia, the Pacific Region, and since early 2019, CCAMTAC, which covers the Caucasus, Central Asia, and Mongolia region.

regional training centers, have been very successful, with large attendance and excellent feedback. The volume of online training is expected to continue to grow as they allow greater flexibility and broader participation. Some widely used MCM online courses include the BIS-IMF Bank Resolution Online Course, the BIS-IMF Supervisory and Regulatory Online Course for Banking Supervisors, and Medium-Term Debt Management Strategy (MTDSx).

MCM offers training on a range of financial and monetary policy topics in collaboration and partnership with other departments (e.g., ICD, IMF’s Research Department, STA, LEG, and ITD) at IMF as well as with external partners (World Bank, BIS). The main areas of MCM training include supervision and regulation, bank resolution, debt management, stress testing, central bank operations, payment systems, capital flow management, and exchange rate arrangements. The coverage of MCM training expanded significantly recently to a range of emerging topics such as cyber risk supervision, cross-border

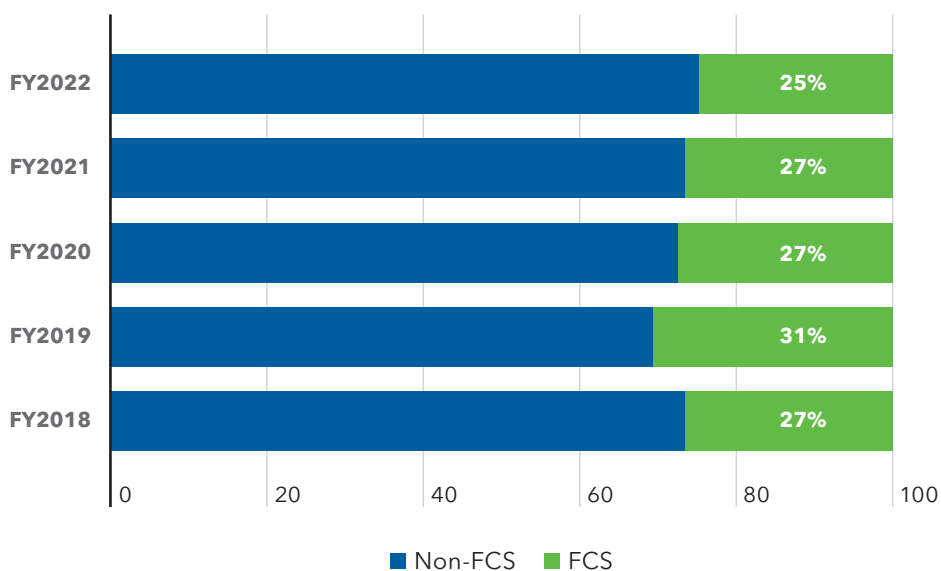
payments in the digital age, e-money and mobile payments, regulation of fintech and digital money, central bank digital currency, cash and debt management, debt management strategy through an annual borrowing plan, and frontier methods to model central bank’s systemic liquidity. Jointly with the World Bank and in partnership with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and with the Joint Vienna Institute (JVI), MCM delivers seminars and workshops on developing debt management capacity in AFR and EUR region.

Training is an integral component of MCM’s CD operations and is expected to grow further in the future. There is strong demand for learning about new growth areas and the “how to” implement recommendations provided under bilateral TA engagements. The expansion of online and virtual platforms for delivery will facilitate the integration of our training and technical assistance and become an integral part of our CD programs.

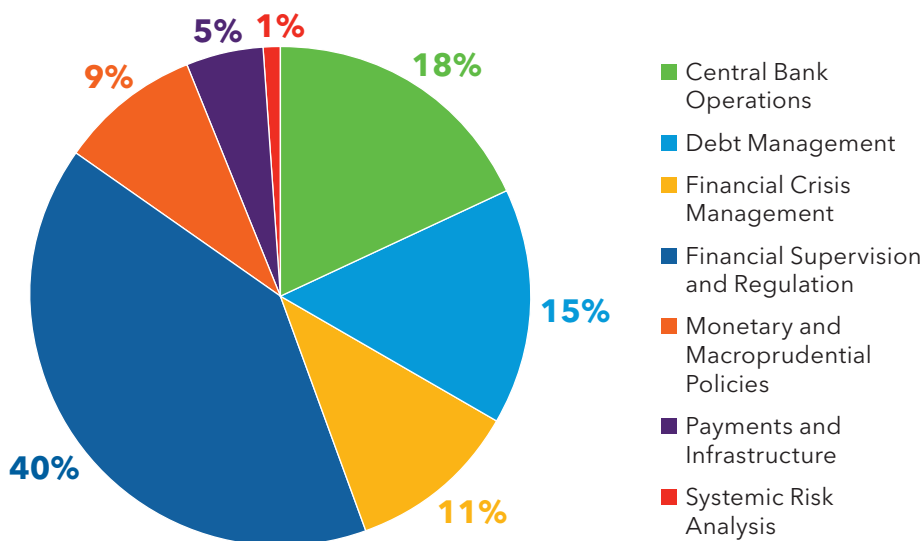
How does MCM deliver? Long-term resident advisors (LTXs) and short-term experts (STXs) are critical to our ability to deliver highly expert advice across a range of topics and regions. LTXs are engaged in each of our RCDCs and serve a group of countries in the region providing region-wide training as well as bilateral assistance. Their proximity to country authorities and immersion in the region help them tailor advice and expertise to the context, while their residency in the region provides the stability and continuity key to ensuring traction over the medium term. RCDC LTXs work on financial supervision, central banking, debt management, financial market infrastructures and financial stability. LTXs who work bilaterally inside central banks, ministries of finance, or supervisory agencies work day-to-day with one authority to provide support to an intense work program. These LTXs work in a breadth of areas including governance of state-owned banks, macroprudential policy, financial supervision, and central bank operations. STXs—drawn from partner central banks, debt management offices, ministries of finance and financial supervision agencies as well as individual consultants—complement MCM staff expertise and expand our ability to deliver CD.

FIGURE 6. MCM CD DIRECT DELIVERY TO FCS ECONOMIES, FY22

IN-PERSON CD IS PARTICULARLY IMPORTANT FOR FCS

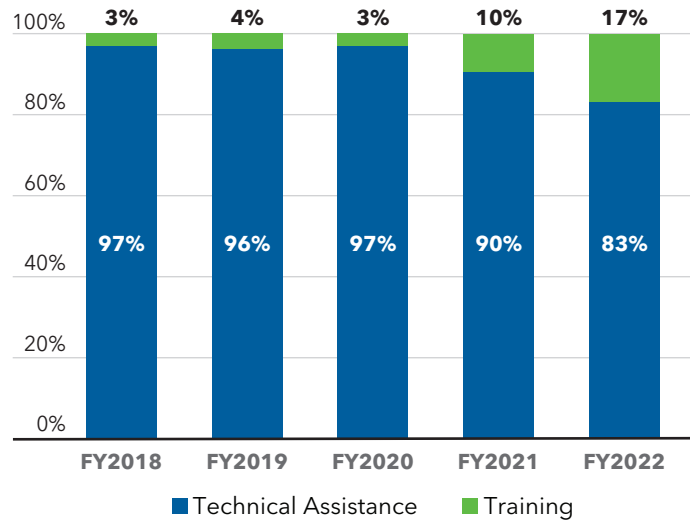


CORE CD WORK REMAINS CRITICAL IN FCS



Sources: CDMAP data and IMF Staff.

FIGURE 7. PERCENTAGE OF TA AND TRAINING IN OVERALL CD ACTIVITY, FY18-22

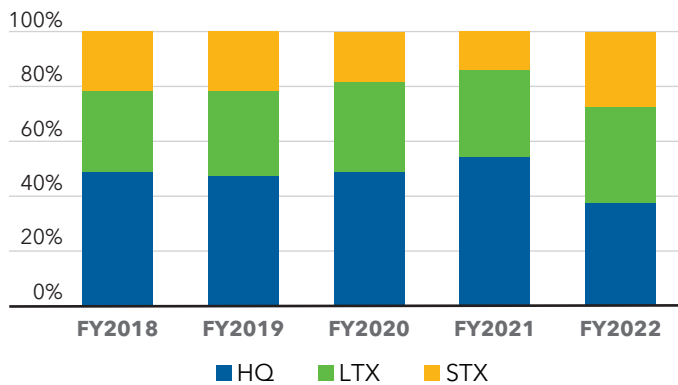


Sources: CDMAP data and IMF Staff.

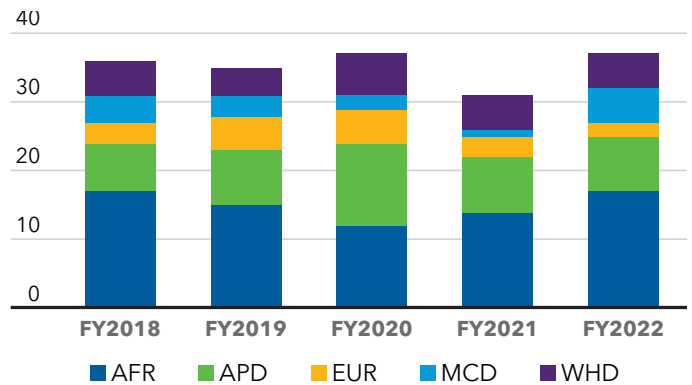
Note: FY22 CDMAP data does not provide a breakdown of TA and training. Data was proxied using multi-country CD data.

FIGURE 8. MCM CD DIRECT DELIVERY BY RESOURCE TYPE, FY18-FY22

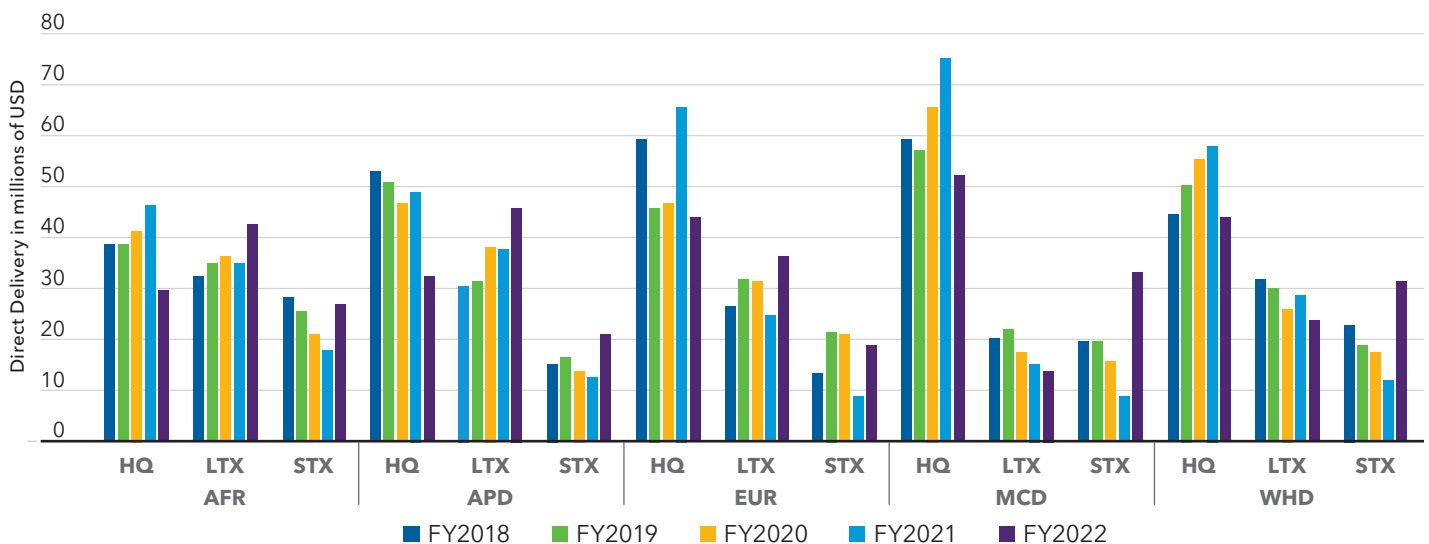
EXTERNALLY FUNDED EXPERTS DELIVER A SIGNIFICANT SHARE OF MCM CD ACTIVITIES (DIRECT DELIVERY IN PERCENTAGE)...



... ACROSS ALL REGIONS (LTX COUNT)



CD DIRECT DELIVERY PER RESOURCE TYPE BY REGION



Sources: CDMAP data and IMF Staff.

BOX 2. LTX WORKSHOP

In February 2022, MCM held its eighth annual LTX workshop. This was a virtual event that discussed the new MCM CD strategy and how to provide high-quality, effective CD in an era of disruption and change.

New focus areas of climate and digital CD garnered much interest, along with the need to continue focusing on core areas and institutional building. The event was a platform for LTXs and staff to exchange views on how to balance the work between new and emerging issues and core areas. Practical discussions on recruiting STXs, design of virtual CD for maximum engagement, and pacing CD implementation to match absorptive capacity were among many other issues discussed.

The panel session, “LTX Views from the Field,” was particularly engaging, featuring a discussion among LTXs on the challenges of delivering TA over the last two years and sharing lessons for future work in the new normal environment. A practical lesson from the discussion was the need to use more cost-effective remote interactions to complement better our mission work.

Panels with Fund stakeholders (representing the Africa and Middle East regions, MCM ICD, and the Fund’s Independent Evaluation Office) pointed to the need for continued deep engagement with authorities and country teams to ensure CD is well designed and sustainable. External donors (Japan, Netherlands,

Switzerland, and Sweden) emphasized the need to continue to tailor advice to country contexts and to assist authorities in managing technological change. Partner institutions (Bank for International Settlements, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Toronto Centre, and the World Bank) expressed support for MCM’s CD strategy and discussed complementarities in their strategies and avenues for collaboration. In her closing remarks, the IMF FDMD Gopinath emphasized the vital role LTXs play in CD and the need for continued integration of CD with surveillance and program work at the IMF.



WHO ARE OUR EXTERNAL PARTNERS?

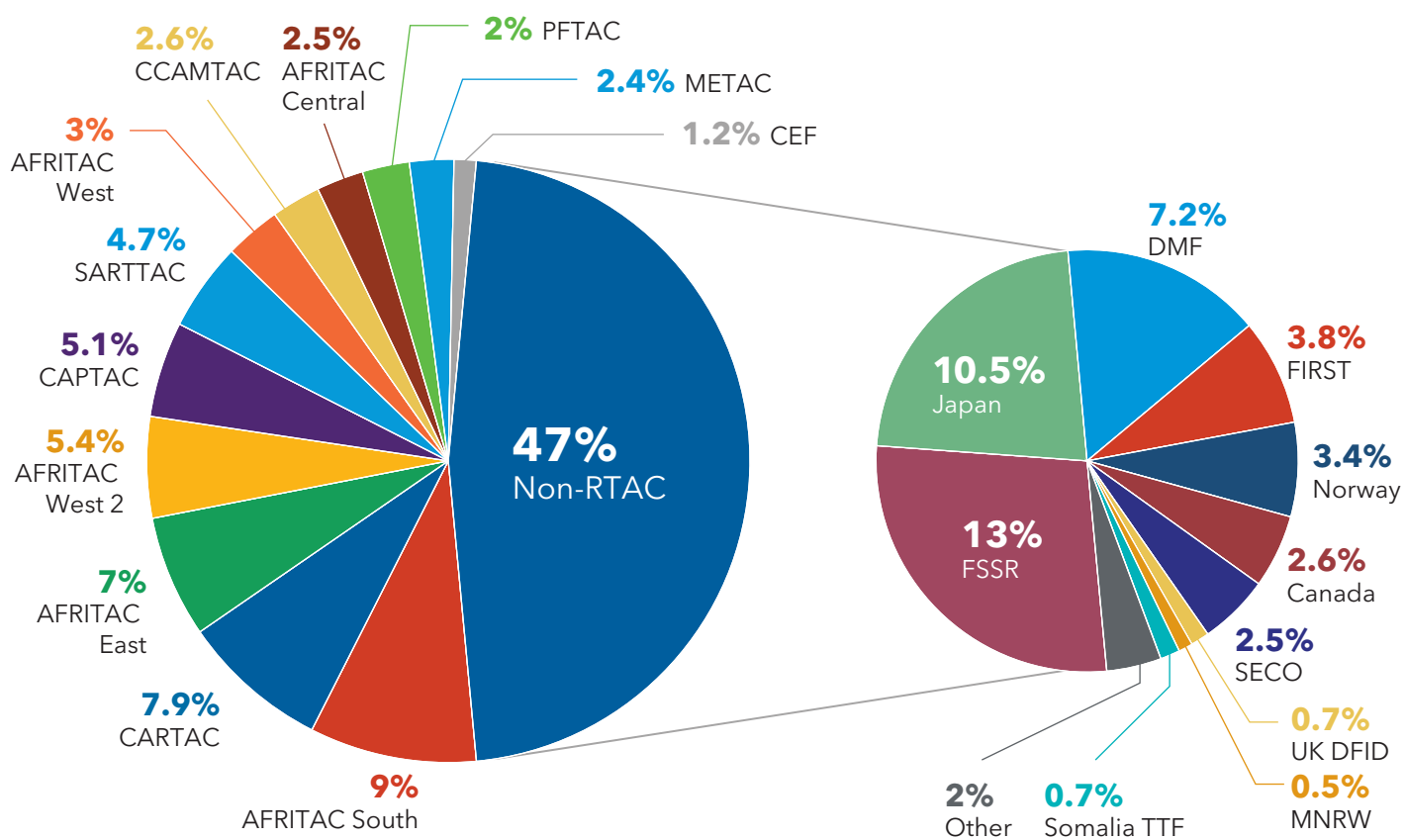
MCM CD has benefited from the generous support of external financing partners for many years. Thanks to the bilateral partners and multi-partner trust funds, MCM has been able to respond to the increasing and quickly evolving membership needs for financial sector CD.

In FY22, bilateral partners and multi-partner TFs helped fund over two-thirds of MCM's direct CD delivery and development of knowledge management products. Over half of MCM's external financing supports MCM CD delivered through RCDCs; multi-partner thematic trust funds make up about one-quarter of the MCM's non- RCDC financing.

MCM's CD delivery through the IMF's RCDCs continued to increase, with 23 LTXs in FY21 to 25 in FY22.³

³ The RCDCs' operational budgets are built on bilateral partner-financing and member- and host-country contributions. Multi-partner TFs—each itself financed by different agencies or government units, often by bilateral partners—support either a single-country CD on a broad range of topics or CD in a specific thematic area for a range of countries, including CD provided by RCDCs.

FIGURE 9. EXTERNALLY FUNDED ACTIVE MCM CD SPENDING, FY22









Sources: CDMAP data and IMF Staff.

BOX 3. PARTNERSHIPS

Japan has been the longest-standing and largest bilateral partner supporting MCM CD on a range of topics, especially in the Asia region. In the last two years, Japan's generous contributions has expanded to cover debt management in Africa and central bank digital currency CD worldwide. The new Digital Money CD Strategy, also supported by Japan, is expected to further support CD in this area in FY23-24. Canada, Norway, Switzerland, and the United Kingdom have also been committed partners of MCM for years. In FY22, their support has helped strengthen financial

stability and debt management frameworks as well as monetary policy implementation and operations in the Caribbean region, Ethiopia, Mozambique, and Ukraine. As needs continue to increase, bilateral partner support is expected to expand to more countries and strategic thematic priorities in the medium- to long-term. Further demands are anticipated to include CD to FCS as well as CD on CB governance and transparency practices, climate change-related topics, digital money, and other emerging topics.

In multi-partner trust funds, financing contributions have been vital in supporting MCM CD in RCDCs and thematic trust funds, including the Debt Management Facility (DMF), Financial Reform and Strengthening Initiative (FIRST), Financial Sector Stability Fund (FSSF), Managing Natural Resource Wealth Thematic Fund (MNRW), and Somalia Trust Fund. The share of the FSSF in the thematic partnerships has been the largest since FY20. It is expected to grow further in FY23-24 as the Financial Sector Stability Review (FSSR) follow-up projects continue advancing.

Bilateral Partners are development agencies or government units that finance single-country CD programs deemed priority by the IMF, partners, and CD recipients	
	Japan
	Norway
	Canada
	Switzerland
	United Kingdom
Thematic Trust Fund Partners	
	FSSF: China, European Investment Bank, Germany, Italy, Luxembourg, Saudi Arabia, Sweden, Switzerland, United Kingdom
	DMF: African Development Bank, Austria, European Commission, France, Germany, Japan, The Netherlands, Norway, Switzerland, United Kingdom, United States
	FIRST: Germany, Switzerland ¹
	MNRW: Australia, European Commission, The Netherlands, Norway, Switzerland, United Kingdom ²
	Somalia TF: Canada, Italy, United Kingdom ³

¹ The FIRST partnership in Phase IV will end in December 2022. Partners of Phase III, which ended in December 2020, included Germany, Luxembourg, The Netherlands, Switzerland, and United Kingdom.

² MCM's project under MNRW was completed by end-FY22.

³ These are the partners of Somalia TF Phase II, FY21-25. Partners of Phase I, which ended FY20, included Arab Fund for Economic and Social Development, Canada, European Commission, Italy, United Kingdom, and United States.

SECTION II

MCM TA STRATEGY
2022-2025
IMPLEMENTATION

A

PROGRESS AGAINST GOALS

Our CD delivery is informed by MCM's mandate and Fund CD policies, the IMF Managing Director's Global Policy Agenda (GPA), and the IMF's internal, interdepartmental Committee on Capacity Building regular reviews. Recommendations issued by the IMF's Independent Evaluation Office (IEO) have also played an important role in how to enhance our CD design and delivery. The Triennial MCM Capacity Development Strategies

launched since 2011 have provided direction for MCM CD over the years to ensure our CD remains agile, high-quality, and up-to-date in supporting the membership reform. Strategy documents, IEO evaluations, and periodic external evaluations have been critical in strengthening the value-added of MCM's CD work. The recipient authorities' feedback during the CD bilateral meetings during the Annual and Spring

Meetings are also important in shaping our work.

In February 2022, a new CD Strategy 2022-2025 *Supporting Financial Sector Resilience Through Disruption and Change* was published.

Progress Against Goals

This Section illustrates how MCM implemented the Strategy so far.

TESTIMONIAL

Koba Gvenetadze, Governor, National Bank of Georgia

"The support Georgia gets from the MCM CD is multidimensional. For the National Bank of Georgia, which requires specific skills that is not common to be found on the market, the CD trainings and missions proved to be very beneficial. We have received invaluable contribution from IMF experts in strengthening our financial stability framework, developing macroprudential strategy and enhancing policy communication. These together with the TA on stress testing was especially timely and helped us efficiently model COVID-19 shock impact on financial sector and plan immediate actions, resulting in resilience of the banking sector to pandemic-related shock. The TA mission on Foreign Exchange Policy Framework and Communications gave us useful and clear direction to enhance our communication and implementation of monetary and exchange rate policies. Furthermore, we are also benefitting from the MCM TA in the area of CBDCs, which, I believe, will be another example of successful cooperation between MCM and the NBG."

KEY ELEMENTS OF MCM CD STRATEGY 2022-25	STOCK TAKING
<p>ELEMENT 1</p> <p>MCM maximizes the impact of our capacity development work by providing demand-driven and country-tailored CD.</p>	<p>MCM continues to deliver CD based on the authorities' formal requests to ensure the authorities' buy-in, which is essential for the ultimate implementation of CD recommendations. Also, MCM has been tailoring the advice to ensure it is relevant to the country's context. Experts have been systematically engaging with the authorities in pre-mission scoping online engagements to better understand the context and have mutual understanding of the capacity development work required. At the same time, MCM has been trying to identify impediments to reforms (e.g., staff turnover, lack of resources, and absorption capacity, especially in FCS) and adjust the advice, materials, and the pace of the delivery with additional sequential CD providing incremental steps, training modules, and a programmatic approach where needed. The CD case studies for Guinea, the Democratic Republic of Congo (DRC), and the Caribbean (Section V) illustrate these efforts. CD design remains flexible, including its length, intensity, and modality in core and new growth CD areas. Other examples include the assistance to CB of Bosnia and Herzegovina in improving the resilience of the currency board, the CB of Haiti in its ongoing exploration of retail CBDC and potential implications to the macroeconomic outlook, legal framework, and financial integrity. MCM's support to the Bangko Sentral ng Pilipinas in their CBDC scoping work also followed a series of informal discussions and sharing of papers since 2020, resulting in a TA on wholesale CBDC in FY23. The regional stress testing training for CARTAC countries was adjusted to be more granular and factor in the high staffing turnover. Lastly, our CD can also be a rapid and targeted engagement. In the early summer of 2022, MCM delivered a joint MCM-Legal department webinar on crypto regulations in response to a new request made by the Ukraine authorities, and assistance to the authorities on proposed developments in Ukraine's capital and organized commodities markets, including trade and post-trade infrastructure reforms, under the so-called NEXT-UA project. The mission assessed the feasibility study findings to provide advice to the National Bank of Ukraine (NBU) on the role it should play in the reform efforts.</p>
<p>ELEMENT 2</p> <p>MCM provides highly expert and specialized CD across key financial sector topics and works continuously to maintain up-to-date knowledge and skills and develop new expertise to assist member countries in traditional and emerging areas.</p>	<p>In FY22, MCM continued delivering highly specialized CD that combines unique best practice operational experiences and expertise through a pool of short and long-term-experts that is periodically updated. MCM CD relies on in-house and a pool of external experts with years of relevant expertise from central banks around the globe. The testimonials received from our work in the United Arab Emirates and Guinea illustrate the points. The evaluations received from our webinars (e.g., regional webinars on the unwinding of COVID measures) and courses also show appreciation for the quality of our work. MCM continues making progress in expanding our expertise in emerging and growth areas. The next section on new CD areas showcases some of our initial achievements in these efforts.</p>
<p>ELEMENT 3</p> <p>MCM ensures high-quality CD output by recruiting staff and experts with significant hands-on experience and implementing strong quality control processes.</p>	<p>MCM relies on its staff and resident and short-term advisors with up-to-date and practical expertise in the workstreams of monetary and financial stability. As of July 2022, the number of LTX reached the highest in the past five years, at 37. Also, the virtual modality required under COVID-19 allowed us to access a wider pool of short-term experts. Language barriers, in some cases, continued to be a challenge for our supply. During the pandemic, several LTXs were successfully onboarded. For instance, the CDOT MCM Central Bank Operation LTX started in March 2021 and quickly built a virtual relationship with the National Bank of Cambodia (see the country cases section for more insights). The AFRITAC West financial regulation and supervision LTX also quickly onboarded and started meeting the region's demands in close and regular communication with HQ backstopping staff.</p>

KEY ELEMENTS OF MCM CD STRATEGY 2022-25	STOCK TAKING
<p>ELEMENT 4</p> <p>MCM provides CD that enhances overall economic reform by integrating its CD with the surveillance and IMF program activities and aligning its CD with IMF priorities.</p>	<p>In FY22, MCM furthered its efforts to integrate CD with the surveillance and program activities of country teams. The introduction of CDMAP in May 2021 formalized a central process of CD prioritization between CD delivery departments (CDDs), including MCM, and country teams. Both now have a bird-eye view of all CD engagements in the country. CD documentation (e.g., briefing papers and TA reports) is also reviewed by the country team and relevant CDD divisions, and where relevant, some TA recommendations are highlighted in the surveillance and lending works. This integrated approach has received praise from many authorities during Article IV consultation missions and the IMF Annual and Spring Meeting. In these events, praise is particularly effusive for our regional advisors. At the same time, MCM ensures that our role of trusted advisor to the membership is preserved. Careful and open communication with the country teams and the recipient authorities is critical in this regard.</p> <p>MCM has also seen signs of successful CD-surveillance integration, especially in FCS and LIC with the FSSR. After receiving the authorities' approval, Moldova, and the Democratic Republic of the Congo's FSSR diagnostic reports were published on the IMF website. Many of the TA roadmap recommendations of the Moldova FSSR are part of the authorities' own memorandum of understanding under the IMF program and are in the process of implementation.</p> <p>To assist Ukraine in implementing the SBA, in place in 2021, MCM conducted a remote two-part mission to develop the NBU's strategic planning for the banking supervisory function, including organizational restructuring plans. The mission made recommendations to address any gaps or weaknesses in the NBU approach compared with the international standard. Also, MCM facilitated technical discussions between the NBU and officials at De Nederlandsche Bank (DNB). DNB experts shared their experiences on the emergency liquidity support (ELA) operating system, in particular the provision aspects, and on the legal base of the DNB as a secured creditor in the process of withdrawal of banks from the market and their liquidation.</p>
<p>ELEMENT 5</p> <p>MCM employs a full range of CD modalities to achieve maximum impact.</p>	<p>COVID-19 continued to call for innovative ways in how MCM delivers CD to our membership. It fostered the mainstreaming of flexible, blended, hybrid modes of engaging with the authorities. In addition to bilateral, virtual mode TA delivery, MCM expanded the training outreach through regional workshops and new large-scale online courses such as the FIRST-funded Bank Resolution Online Course. Newly developed knowledge management products and toolkits such as the Cybersecurity Supervisory Toolbox, also funded by FIRST, and a TA handbook for monetary policy framework and central bank operation are now complementing our TA bilateral efforts. Leveraging on a virtual environment, MCM also uses small-scale CD engagements, which are very valued by our membership because they are more agile and flexible ways of engaging. This modality is not new but is now broadly used; it was also often chosen as a post-mission "aftercare" service by our LTXs and HQ-based staff supporting the authorities in implementing CD recommendations. Progress on Sao Tome and Principe's foreign exchange legislation was possible because of the expert's continued assistance through regular calls with the authorities.</p>

KEY ELEMENTS OF MCM CD STRATEGY 2022-25	STOCK TAKING
<p>ELEMENT 6</p> <p>MCM builds on external and internal partnerships in provision of CD work, allowing us to access and expand skills and resources and build synergies with all CD stakeholders.</p>	<p>External and internal partnerships continue to play a critical role in MCM's CD work. FY22 was a strong year in this regard; these partnerships allowed MCM to develop a range of CD knowledge management products and expand its CD coverage to areas complementing MCM's mandate. For example, the FIRST initiative supported the development of several knowledge-based products such as the Central Bank's Guide to IFRS, the Guidance Note outlining the framework for developing local debt markets, and the CB Legislation Framework and database. The TA handbook on monetary policy implementation is being developed with the support of MNRW, and the JSA COVID Window is supporting the production of the CDBC TA handbook. Given their complementary expertise, MCM also continues to collaborate with the World Bank and NGFS, among others, in our FSSR and climate-related financial risks webinars. Internal collaborations with the communications, fiscal, legal, statistics (STA), and information technology departments have also been frequently used. The partnering with the Toronto Centre and STA allowed covering gender-inclusive work in as part of an FSSR (DRC) for the first time.</p>
<p>ELEMENT 7</p> <p>MCM utilizes feedback processes to ensure high quality and continuous improvement of our work.</p>	<p>In FY22, MCM further updated the Results-Based Management (RBM) catalogue with newly expanded CD areas (e.g., capital flow management) and coverage to keep abreast with the most up-to-date work. MCM also now recommends as a best practice for our training courses and workshops to collect participants' feedback and analyze them. For example, the CARTAC stress testing seminar incorporated feedback from previous seminars. The Annual MCM LTX workshops also offered a venue for candid exchanges on how to continue to improve our work with the authorities. Each year's Annual Report includes stories about our CD, referencing how MCM designs the advice and challenges. The section provides further insights on how MCM is applying the RBM framework approach to CD projects throughout the CD life cycle.</p>

PROGRAMMATIC APPROACH TO CD

Programmatic Approach to CD

The FSSR has been helping low and lower-middle income countries (LLMICs) strengthen their financial sector infrastructures. Financed by a dedicated multi-donor trust fund—the Financial Sector Stability Fund (FSSF)—FSSRs consists of a diagnostic review of key components of the financial sector architecture including prudential frameworks and safety nets, a TA roadmap to address identified gaps in capacity or institutional arrangements, and a number of follow up TA projects agreed with the authorities to strengthen their capacity to address the gaps. A scoping work determines the coverage of the review; each FSSR is tailored to the needs of the recipient agencies and focuses on gaps and areas in the financial sector infrastructure that require further strengthening. The authorities play a key role in this regard.

Established in 2017, the FSSR has now become one of the main MCM CD programs. This has been facilitated by a strong demand from LLMICs for this structured CD program, and its alignment with Fund-wide CD priorities

and the MCM CD strategy.¹ The FSSF is currently the largest external funding vehicle of MCM CD activities, with FY22 total FSSF spending on MCM CD projects standing at 11.5 percent of the total donor-funded CD work.

As of FY22, FSSR activities spread across all regions ([Figure 10](#)). During FY22, MCM teams completed four diagnostic FSSRs, initiated three diagnostic reviews and continued to make progress in the delivery of follow-up TA projects. These are at various stages of implementation in 12 countries. There are 21 bilateral FSSR CD projects in total, of which nine are in countries currently classified as FCS. [Box 4](#) discusses the FSSR diagnostic work in the Democratic Republic of the Congo. Remote delivery also dominated the FSSR work agenda, but hybrid delivery is likely to become an effective modality for FSSRs given their sequency design.

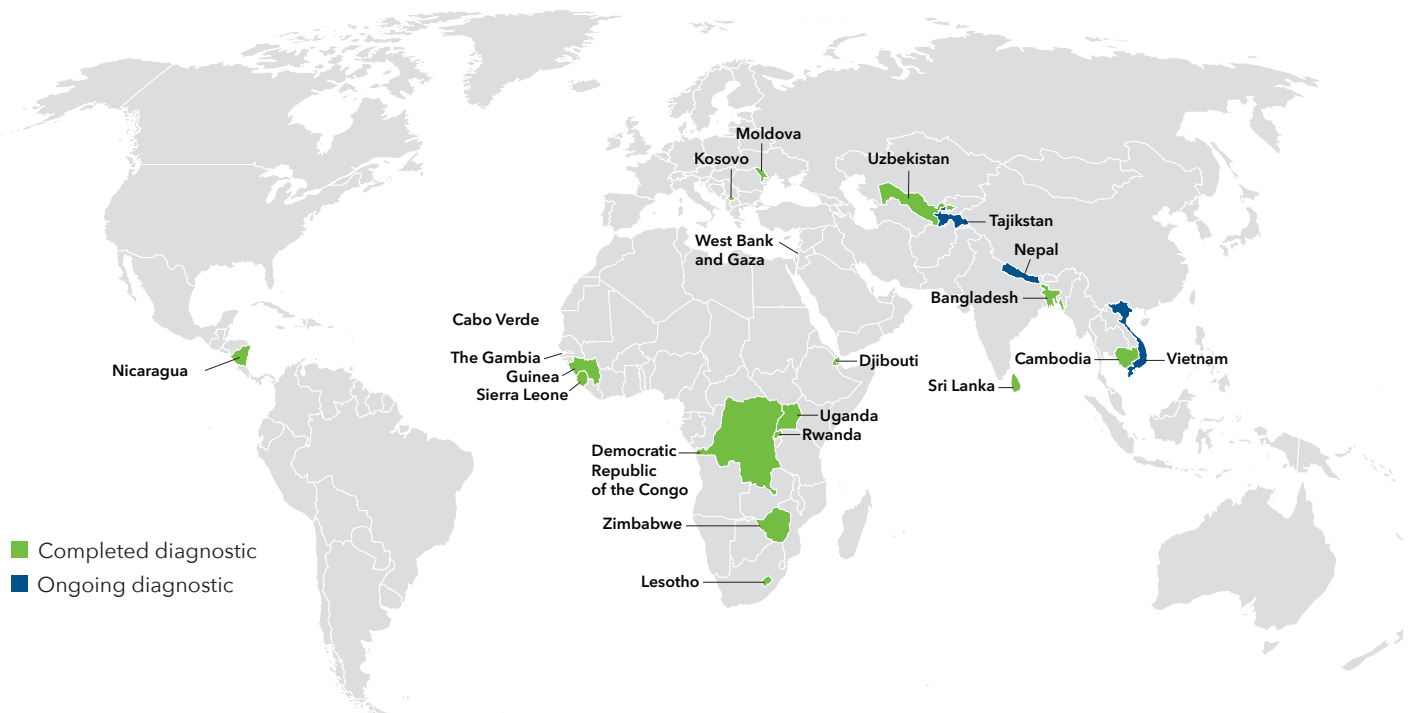
The FSSF has also supported the expansion in the number of LTXs in the field in FY22. The number of MCM LTXs working under the FSSF

CD projects increased to seven in 2022 from two in end-FY21.² With the easing of pandemic-related travel restrictions all LTXs are to be physically located in the central banks of CD-receiving countries. The LTXs' in-country presence facilitates a close and more regular follow-up of the implementation of reforms, with ongoing support as needed taking into consideration the local context and strong buy-in from the authorities. The LTX presence onsite also ensures smoother interactions with the authorities on a steadier basis without technological challenges observed in remote communication.

¹ [The Fund-wide CD strategy was adopted in 2013 and reviewed in 2018. The MCM CD strategy was adopted in 2011 and has been updated several times since then, with the last update as of early 2022.](#)

² The seven resident advisors will be in Cambodia, Djibouti, The Gambia, Rwanda, Sierra Leone, Sri Lanka, and Uzbekistan. By workstream, three LTXs specialize in bank supervision, three in macroprudential and financial stability, while one covers a broad range of responsibilities.

FIGURE 10. FSSR ACTIVITIES



BOX 4. DEMOCRATIC REPUBLIC OF THE CONGO FSSR AND GENDER INCLUSION

[The DRC FSSR](#) covered gender inclusion in the financial sector for the first time in any FSSR. MCM used this FSSR as a pilot exercise. The partnering with the Toronto Centre and the Statistics Department (STA) of the IMF permitted incorporating gender-inclusive work in the financial sector assessment, and the use of the Financial Access Survey (FAS) which includes gender disaggregated data since 2017.³ The partnership proved to be a successful experience for all three parties, and each party brought its respective expertise, the Toronto Centre building on their 'toolkit for

³ [The partnering with the Toronto Centre and the Statistics Department \(STA\) of the IMF permitted incorporating gender-inclusive work in the financial sector assessment and the use of the Financial Access Survey \(FAS\) which includes gender disaggregated data since 2017.](#)

supervisors' and STA building on their experience with collecting gender-disaggregated data under the FAS.

Experts from these two institutions, located in different countries, engaged in two days of virtual meetings with the central bank experts and managers and with the banking association, the banks, microfinance institutions, and mobile money firms operating in the country. This work also leveraged the knowledge of the financial system already acquired by the FSSR team and the relations built with the central bank and some CEOs from the financial sector.

The FSSR recommendations were adjusted to the BCC's limited capacity and competing priorities. The BCC staff were already aware of measures adopted by the authorities in other

African countries to mainstream a gender dimension into their supervision, which facilitated the discussions. The recommendations in the final FSSR report included: (i) defining the BCC's internal gender policies; (ii) analyzing information that the BCC already holds on the composition of boards and management bodies of financial services providers and incorporating this into the supervision process; (iii) mainstreaming gender in the upcoming supervision of consumer protection; and (iv) completing the internal review of gender-aggregated data collection and resuming reporting to the FAS. These recommendations are expected to be supported by MCM CD in partnership with the Toronto Centre and STA, given their complementary expertise proven during this pilot.



MAKING A DIFFERENCE WITH OUR REGIONAL ADVISORS SUPPORT



Oumar Dissou

Reintroducing Government Securities in the DRC After a 30-year Break

By Oumar Dissou (AFC)

The DRC ceased issuing government securities in 1991, as demand for domestic instruments dried up following the accumulation of arrears. This forced the government to rely on external issuance and non-marketable domestic borrowing. Only in the mid-2010s did the government re-considered and set debt management as a priority. With support from the AFRITAC Central regional advisor, a roadmap for resuming issuance was prepared in early 2015 and later endorsed by the authorities. The authorities established a working group composed of officials from the Ministry of Finance, the Debt Management Office, the Treasury Directorate, and the CB to oversee the project. CD was provided over the next four years in several areas including issuance policies and procedures for the primary market, infrastructure for the settlement and custody of government securities, and a governance framework for securities issuance. TA also included advice on the strategy for launching the domestic issuance program and

training on issuance techniques, characteristics, and pricing of T- bills and bonds, and investor relations. In addition to hands-on TA and training, peer-to-peer learning enabled four Congolese officials to learn more about the Tunisian experience in the development of the local currency securities market. In late 2019, the authorities reintroduced three-month T- bills, a significant milestone in diversifying their funding sources. However, COVID-19 constrained local domestic currency liquidity, and led to a significant FX depreciation, deterring participation in the T-bill market in a dollarized economy.

To address this problem, the resident advisor proposed the introduction of new currency-indexed (to the USD) securities. Financed by the Debt Management Facility, follow-up TA was tailored to prepare policies, systems, and processes for the indexed-security issuance, including settlement and repayment at maturity, and processes to accommodate the new instrument in the auction and debt recording systems. This was complemented with training to staff on pricing the securities, launching the new instrument, and educating market participants.

Since June 2021, the authorities have been regularly issuing three-month indexed T-bills. New maturities have been introduced to gradually reduce

refinancing pressures. CB work in the monetary policy front, in coordination with the IMF, supported these efforts. As a result of these integrated efforts,

the share of indexed securities has grown steadily to 4 percent of total government debt in March 2022.

TESTIMONIAL



“A la faveur d’une assistance technique soutenue d’AFRITAC CENTRE, la République Démocratique du Congo a repris en 2019, après plus de 20 ans d’interruption, les opérations d’émission des Bons du Trésor et des Obligations du Trésor.

Je voudrais ici exprimer mes vifs remerciements à AFRITAC CENTRE et à ses experts, qui ont travaillé durement avec mes services pour la réussite de ces opérations. L’esprit d’ouverture dont ils ont fait montre a permis de mettre en place des instruments adaptés, notamment en passant des titres non indexés aux titres indexés et à des titres à remboursement par amortissement. Ces derniers ont été la clé de voûte du succès des émissions des titres publics dans un pays fortement dollarisé.

Les défis en vue du développement de ce marché sont grands. Le Gouvernement compte davantage sur l’accompagnement d’AFRITAC Centre pour les relever.”

Nicolas Kazadi Kadima-Nzujii, Ministre des Finances



Ralph Lewars

The Eastern Caribbean Securities Regulatory Commission is, since February 2022, an Associate Member of the International Organization of Securities Commissions (IOSCO)

By Ralph Lewars (CARTAC)

Most business enterprises across the CARTAC member countries rely on the banking sector for financing. The development of their respective securities market for trading and investment is an important objective of most member countries. However, the level of capital market development is uneven across the region. Even in the more mature securities markets in Trinidad and Tobago, and Jamaica, efforts are underway to strengthen regulatory and supervisory oversight as well as manage the risks arising from interconnections with other regulated financial firms. In the Eastern Caribbean Currency Union (ECCU), the legal framework for the securities market was, until recently, outdated, and incomplete. Belize had no securities legislation in place to address the full scope of matters that international standard expect for securities market regulation and supervision.

CARTAC regional advisor support to the region has been quite intense in the securities regulation area in the past years. Since 2019 the regional advisor has provided support to the introduction of the new securities legislation in Belize and enhancing the regulatory and supervisory oversight of the securities markets in the Eastern Caribbean Currency Union (ECCU), Jamaica, and Trinidad and Tobago. The first phase of the project with Belize entailed the drafting of a new Securities Bill for securities markets and mutual funds. In 2022, CARTAC provided follow-up assistance on the drafting of regulations following the enactment of the new Belize Securities Industry Act, 2021. In the ECCU, experts reviewed and updated the Securities Bill and Investment Funds Bill to align with international standards and trained the staff of the Eastern Caribbean Securities Regulatory Commission (ECSRC) on the risks of the industry covered under their mandate for purposes of conducting adequate supervision. In 2022, follow-up assistance was provided on finalizing the regulations for both the Securities and Investment Funds Bill.

All these efforts have been paying off. The new securities legislation and accompanying regulations in Belize are expected to provide an adequate level of protection of market participants, while ensuring a fair, efficient, and transparent capital market by introducing disclosure requirements, and facilitating the licensing and effective supervision of market participants and intermediaries. The ECCU's revised Securities Bill has been enacted in five of the eight ECCU member countries and the Investment Funds Bill in four territories. This revised legislation will facilitate greater participation by individuals and corporates. In February 2022, the ECSRC became an Associate Member of the International Organization of Securities Commissions (IOSCO).





Jacques Loubert

Looking Back to Five Years of CD Delivery from the Field—Message for Future

by Jacques Loubert, Regulation and Supervision LTX at SARTTAC, 2017-2022⁴

Looking back at the five-year assignment as a long-term expert in the field in the SARTTAC region, it is the story of the glass half full or half empty.

The SARTTAC CD program on supervision and regulation had the overarching objective to support its member countries in strengthening their capacity for financial supervision. Most of the projects covered during my tenure were identified during my participation in a scoping mission to the six SARTTAC countries (Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka) back in March-April 2017, before joining SARTTAC. SARTTAC was a newly created RCDC, and members were very motivated and enthusiastic about the opportunities an RCDC in the region could bring. They understood the close presence in the field would reinvigorate the CD work in the South Asia region.

As a SARTTAC resident advisor, I was involved in every Financial Sector Supervision and Regulation (FSR) CD activity. For activities such as workshops and seminars or CD on specific technical areas such as insurance supervision, we also relied on short-term experts and MCM HQ staff support. Most CD consisted in building practical capacity with

⁴ Jacques Loubert joined MCM's CD program first as an advisor in METAC in 2005 where he spent two years before rejoining Banque de France as a bank inspector. He later served as an LTX in AFRITAC Central from 2007-10 (two-and-a-half years) and finally came back again for this five-year stint at SARTTAC. We are very grateful to Jacques and to our partner Banque de France for this wonderful support.

hands-on working sessions and requiring field presence.

The pandemic undoubtedly impacted the CD program delivery for almost two years. It also shifted the authorities' priorities to short-term crisis mode with CD demand geared towards short-term needs and the medium-to-long-term CD core issues (e.g., the strengthening of the risk-based supervision framework) temporarily postponed. SARTTAC quickly adapted its CD to support members' policy response to the pandemic. The MCM-prepared COVID-19-related policy notes provided the basis for SARTTAC offering regional webinars and tailored discussions for individual countries. These webinars facilitated staying connected with supervisory authorities and responding appropriately to the more pressing issues faced by supervisors (e.g., using the flexibility of the prudential framework, adapting and improving risk management, on-site and off-site work during the pandemic). Webinars were not a perfect substitute for on-the-ground missions but facilitated important policy discussions that help shaping responses to strengthen financial stability during a difficult period. We delivered webinars on insurance supervision and cybersecurity issues in the financial sector, but the bulk focused on banking supervision and regulation. Senior supervisory staff at the Reserve Bank of India's (RBI's) benefitted from customized activities covering regulatory and supervisory challenges.

The medium-term core CD program focused on strengthening capacity and implementing a "more risk-based" approach to supervision. Except for some virtual missions during COVID, most of the CD work launched pre-COVID-19 was put on hold, however. It was not until May 2022, only a few weeks before my assignment at SARTTAC ended, that in-person missions resumed with two missions in

Bangladesh and the Maldives. In the Maldives and Bhutan, the insurance supervision CD program contributed to implementing an RBS framework for the sector. The project is still in process, with more efforts needed to help supervisors foster their understanding of risk drivers and the depth of the qualitative analysis.

The main objective of my CD in banking supervision was the implementation of RBS frameworks, but the most significant achievement was building the foundations. Our efforts helped with the publication of new corporate governance regulations aligned with best international practices in two countries, and the

publication of risk management guidelines in three. In one of the member countries, the Governor recently informed banks of the implementation of an RBS framework, albeit most of the supervisory activities remained rules based. In another member country, after years of only sporadic progress, the Central Bank finalized the RBS framework during my last mission and agreed on an action plan to complete a pilot program by December 2022. Those limited but tangible successes remain fragile and will require further capacity building to ensure their sustainability—it is in this sense that the glass is half full and at the same time half empty.

The lesson learned from five years of intensive engagement is that capacity building requires lots of energy and passion from the LTX. Energy and passion are necessary for helping the authorities overcome the sometimes weak institutional frameworks that could discourage them from taking on reform efforts. Also, the lack of resources supervisors face could hamper their enthusiasm and eagerness to learn, which needs to be considered in the design of the work.

SARTTAC was only established in 2017—the tree has been planted, its roots have found stable and fertile ground, and now it is destined to grow and flourish.

SECTION III

RESPONDING TO
NEW CD NEEDS

A

INAUGURAL ONLINE COURSE
ON BANK RESOLUTION

This Section discusses new work developed by MCM in FY22 that is supporting the new needs of our membership. It covers new growth areas (e.g., fintech, cyber, climate) and new offerings in core areas such as bank resolution and central bank operations.

Inaugural Online Course on Bank Resolution

Bank resolution frameworks and safety net arrangements to protect depositors in case of bank failure came to prominence during the Great Financial Crisis. Reforms were adopted to reduce the likelihood and impact of failing systemic financial institutions and protect taxpayers from shouldering any resulting losses. One of these reforms was the Financial Stability Board's Key Attributes (KA) for Effective Resolution Regimes for Financial Institutions, which set out the essential features of resolution regimes to enable authorities to resolve failing institutions in an orderly manner.

The Bank Resolution Online Course (BROC) has helped broaden Fund support to capacity building in this area. With limited access to introductory materials on these

topics, especially for policymakers in developing economies and with financial stability concerns raising in the wake of the COVID-19 pandemic and the war, the course could not have been better timed—being successfully rolled out in FY22. This was a joint endeavor by the IMF, the Financial Stability Institute (FSI) of the Bank for International Settlement (BIS) and the International Association of Deposit Insurers (IADI). The course provides a comprehensive introduction of conceptual and operational issues related to the restructuring and resolution of weak banks.

The BROC's guiding objective is to explain the core components of bank resolution and deposit insurance frameworks and the arrangements and practices that the authorities need to establish to ensure that resolution powers can be used effectively to handle banking sector distress. More specifically, it

- (i) Explores the common drivers for bank failures and introduces participants to the KA.
- (ii) Enhances understanding of the main resolution tools and helps to develop skills on how these can be best utilized.

- (iii) Introduces the most important elements of resolution planning, including in a cross-border context, and enhances awareness about the roles of both home and host authorities in this process.
- (iv) Familiarizes participants with international standards on deposit insurance by IADI and the Basel Committee on Banking Supervision and their potential interplay with resolution frameworks; and,
- (v) Fosters a greater understanding of key aspects that need to be in place to make bank resolution operational, including mechanisms for resolution funding and valuing failing banks' assets.

The inaugural offering of the BROC took place in February-May 2022 and attracted around 260 participants from 74 countries, most of whom have a background in prudential supervision or resolution. Participants highly rated the course, and a rerun is anticipated for 2023. The BROC is expected to also pave the way for further bespoke and targeted CD delivery in the future.

CD ON FINTECH AND CYBER RISKS: THE ROLE OF REGULATION AND SUPERVISION

Supervision and Regulation CD on Fintech

The continuing growth of technology-driven innovation in financial services (fintech) across the membership has resulted in the considerable CD being delivered both multilaterally and bilaterally during the last 12 months. A key element of MCM's evolving strategy in this space is the greater capacity and ability to deliver targeted bilateral technical assistance across a range of topics, shaped and influenced by our broader regional training courses.

This year, requests for CD have covered broad ground, including the regulation of crypto assets, BigTech, electronic money, SupTech, and regulatory sandboxes. MCM delivered six regional training courses over the past year across the membership, working with 204 individuals from 59 regulatory authorities. While these courses vary in content to ensure they reflect the diverse growth of fintech across our membership, several core modules ensure MCM builds a foundation of knowledge across all members, including on the impacts of fintech on financial stability.

Our regional training courses have resulted in further engagement with individual authorities and jurisdictions. These bilateral engagements allow us to better tailor our content and provide bespoke assistance that reflects on the ground realities for those jurisdictions. Conversely, they also allow us to gather and disseminate best practices across member authorities. Given the rapid growth in fintech, it is inevitable that some jurisdictions are considerably further along their journey than others, and the ability to share knowledge through lessons learned at a domestic, regional, and global level forms an important part of our fintech technical assistance.

Our work with Ukraine has been a good example of bilateral technical assistance over the past 12 months.¹ MCM and LEG provided a three-day virtual CD workshop that covered three key elements: (i) the prudential and conduct regulation of crypto assets, (ii) regulation supporting financial integrity including anti-money

¹ Collaboration in FY22 covered a number of workstreams: banking supervision and regulation; developments in Ukraine's capital and organized commodities markets; facilitating peer learning exchange related to the use of emergency liquidity assistance, among others.

laundering and counter financing of terrorism, and (iii) in depth discussions to share ideas and information. Our assistance was based on standards set out by global standard setting bodies, international good practice, as well as IMF Fintech Notes on conduct and prudential supervision of crypto assets, issues around financial integrity, the underlying technology, and the possible use of crypto assets by BigTech entities. Over two hundred staff of the NBU and the National Securities and Stock Market Commission took part in engaging and broad ranging discussions.

Another example of bilateral engagement is training provided to Central Bank of Iraq on regulation and supervision of e-money institutions (EMI). Staff from the Bank Supervision, Payments, Information Technology and Non-Bank Financial Institutions Supervision Department took part in the training. The presentations covered the elements of the EMI regulatory framework, and offsite and onsite supervisory procedures and approaches that can be adopted to assess and enforce regulatory compliance. Daily quizzes encouraged discussion of good practices and an evaluation of training effectiveness.

An example of our regional CD has included a workshop in conjunction with the Africa Training Institute. This was a four-day virtual workshop that focused on the regulation and supervision of fintech. There were 43 attendees from 22 different jurisdictions. During the first day, each authority presented fintech developments in their jurisdiction, and any steps authorities have taken to manage the risks generated by fintech. This was followed by a high-level introduction to global fintech developments which introduced participants to key concepts and technologies used in innovation in financial services. The presentations were designed as a step-by-step guide through fintech regulation to ensure that all attendees were able to gather insights, regardless of their previous exposure to fintech. During the second day, the sessions explored supervisory responses taken by authorities to understand and manage new risks. Further topics included the prudential regulation of e-money institutions and key elements of crypto assets. On the third day, participants were introduced to emerging risks of BigTech in financial services, and the growing use of RegTech and SupTech. The final day covered the benefits and regulatory challenges from blockchain networks and crypto assets.

Cyber Risk Regulation and Supervision CD for AFS Member Countries

An AFS and MCM joint initiative on cyber risk regulation and supervision CD was established in 2021. The initiative included developing and implementing a comprehensive regulatory and supervisory framework for cyber risk. It has a distinctly regional approach, while also considering national circumstances, to efficiently utilize resources and encourage consistency in regulation across the region, which is significantly

Part A—Cyber Risk Regulation Capacity Development		
Cyber Risk Regulation Training	Develop/revise draft Cyber Risk Prudential Regulation	Finalize and issue Cyber Risk Prudential Regulation
Part B—Cyber Risk Supervision Capacity Development		
Cyber Risk Assessment Training—Classroom	Cyber Risk Onsite Examination program	Cyber Risk Assessment Methodology and Guidance

inter-linked by the dominant presence of regional banking firms. Regional consistency is essential in cyber risk as it will encourage regional cooperation in managing what is, in effect, a borderless risk that is best tackled by close stakeholder cooperation regionally and globally.

The initiative commenced with a sub-regional group of six AFS member countries (AFS Cyber Group)² and has two parts. Part A of the initiative—cyber risk regulation development—is assisting countries develop new or updated cyber risk prudential regulations. Part B of the initiative—supervision framework development—covers support to prudential supervisors on both off-site and on-site assessment of cyber risk, including data collection and analysis and on-site examination. The initiative has been guided by the principle of efficiently delivering proportional, tailored, tangible, and durable CD, with the *objective of developing/strengthening cybersecurity regulations and prudential norms—CSR*, aiming to *develop and implement a cybersecurity risk supervisory framework* for AFS member countries.

Since September 2021, there have been (i) three week-long regional training workshops (two virtually and one in-person) covering cyber risk

² Botswana, Mauritius, Mozambique, Namibia, Zambia, and Zimbabwe.

regulation development and cyber risk supervision, and (ii) six bilateral activities addressing the development and enhancement of cyber risk prudential regulations in line with current international best practice. Part B of the initiative commenced in June 2022 with the in-person workshop on cyber risk supervision and included the six participating countries. It was followed up with the first of 11 planned bilateral guided cyber risk on-site examinations.

Four participating countries have developed a new up-to-date, comprehensive regulations on cyber risk. The new regulations are currently going through industry consultations. One participating country is also reviewing its regulation, and it is under internal consideration. The finalization of the new and revised regulations is a key step in support for AFS member countries meeting the objective and is advancing regulatory frameworks in support of countries’ regulatory strategic aims.

The success of the initiative rests on three design aspects—(i) sub-regionality, giving sufficient scale, without losing ability to deliver hands-on, tailored practical reform; (ii) strategic and executive focus and commitment from participating countries; and (iii) structuring and implementing CD work via agreed medium-term CD plans.



CD ON DIGITAL MONEY AND FINANCIAL MARKET INFRASTRUCTURES

New technologies are accelerating the development and adoption of digital money. On the supply side, fintech and “Big Tech” firms are developing new services and business models, leveraging on data and network effects. On the demand side, user needs, habits, and expectations have accelerated to favor digital forms of money during the COVID-19 crisis. In this context policymakers are looking to digital means of payment to provide more efficient and inclusive services. They are also concerned with the macrofinancial implications of digital money—on monetary policy transmission, financial stability, financial market structure, and capital flows. Furthermore, policymakers are looking beyond digital money to review their national payment strategies and upgrade their financial market infrastructures (FMIs).

Demand for CD on digital money has been increasing (to over 20 countries in FY22), and CD demand on FMIs is starting to follow suit. CD requests are diverse by country and region, covering advanced economies, emerging market economies, as well as lower-income countries. The requests are equally broad in scope: retail central bank digital currency (CBDC), e-money, stable

coins, and crypto assets, wholesale CBDC, large-value payment systems, and other FMIs. Questions range from identifying the pros and cons of digital innovations to assistance in devising wholistic payment strategies, quantifying macrofinancial implications, and devising pilots to ascertain these effects.

MCM CD is assisting countries in the areas of digital money and FMIs and trying to address novel and complex questions the authorities are asking to the IMF. MCM, along with the information technology and legal departments has been joining forces in the delivery of bilateral and regional CD. This CD strives to provide tailored, actionable, innovative, and sound policy advice to countries, grounded in thorough analysis, experience, and lessons from the field. Moreover, CD delivery is increasingly leveraging synergies with surveillance (Article IV and Financial Sector Assessment Programs—FSAPs), also increasingly covering this type of work. The ultimate objective is to avoid a digital divide and improve the safety, cost, access, and efficiency of payment systems and FMIs, while managing risks as well as implications for the international monetary system.

Bilateral CD delivery has focused on

- Modernizing payment systems and deepening oversight capacity.** On modernization, topics discussed include devising medium-term payment strategies, evaluating payment system regulations and rules, reviewing access by non-banks, and enhancing public and private sector cooperation. On oversight, CD focuses on adopting the Principles for Financial Market Infrastructure (PFMI), for instance, on governance, risk management, and operational resilience.
- CBDC.** CD in this area varies depending on the country circumstances and familiarity with CBDC. Some countries are only starting to explore CBDC. For these countries the discussion covers, for instance, the drivers and purpose of CBDC and its pros and cons as well as alternatives. Other countries are more advanced and in the design phase. Topics then include selecting design features of CBDC (e.g., tiered wallets, data management, and offline functionality), public-private partnership, and the adequacy of legal and regulatory frameworks. For a few others who are even more advanced in the pilot or even in a

production phase, topics covered include finetuning governance and risk management arrangements and implementation considerations. Finally, an increasing number of countries are investigating the macro financial implications of digital money.

Regional training and workshops have focused on PFMI, e-money, CBDC, and crypto assets. Training on the PFMI has been provided to regional centers in Asia, Africa, and the Middle East. MCM has also hosted several regional workshops and training courses on CBDC, crypto assets and e-money in all major regions. These regional workshops and training courses were well attended, as the coverage of topics were wide ranging. For instance, on CBDC, topics include a broad overview, policy, and macro financial implications, legal, technology, and interoperability issues,

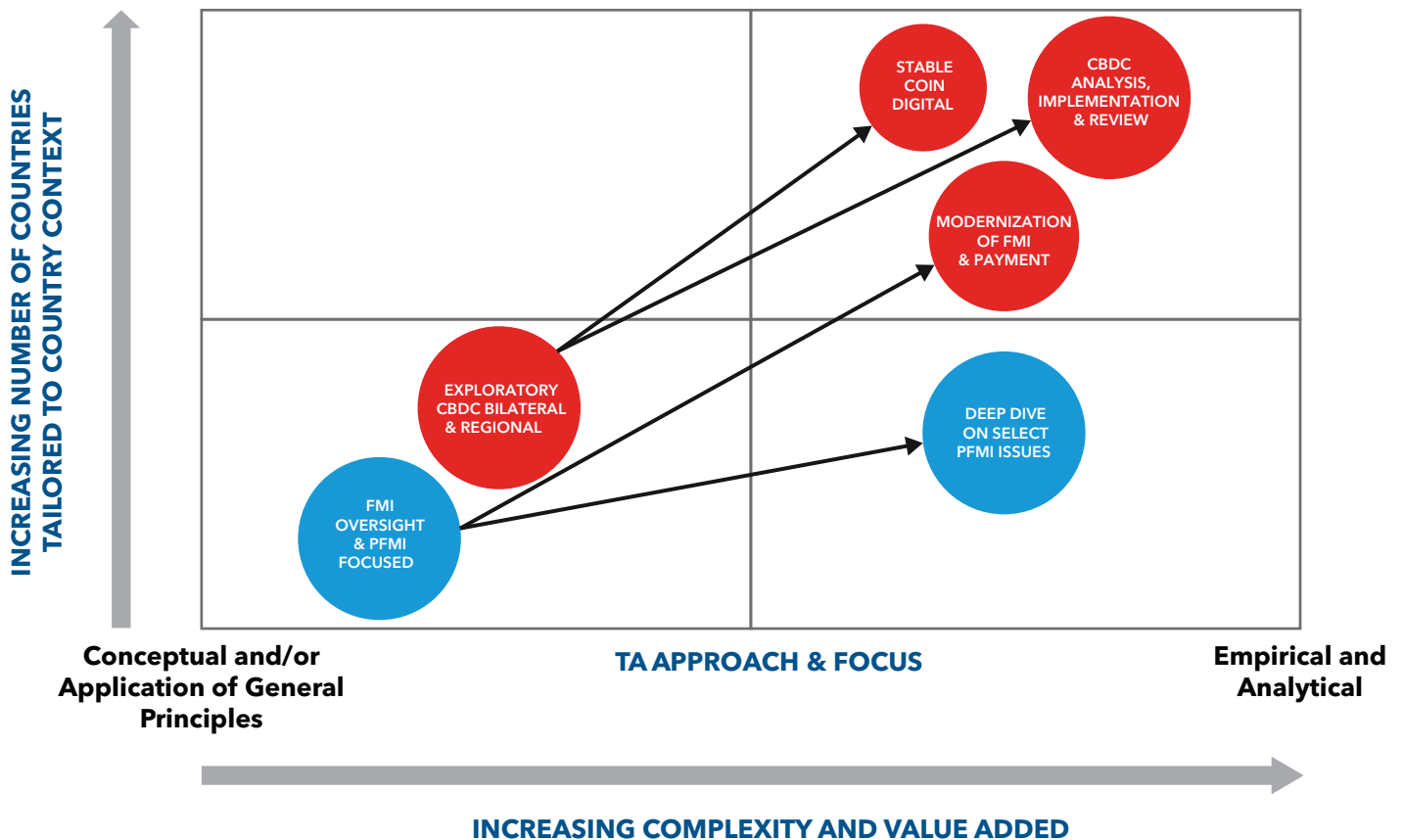
as well as country experiences in conducting pilots.

Analytical work on CBDC and crypto assets is ongoing. To support CD work, MCM is investing heavily in analytical work intended to strengthen and refine policy lines and provide empirical support. MCM is preparing a CBDC Handbook intended to be a foundational document for policymakers around the world. The Handbook will capture the more concrete and tested messages of practical relevance to countries. The Handbook will be a “live” document with new chapters being added at regular intervals and existing chapters being updated as new experience emerges and policy views evolve. At the same time, topics that are still in an exploratory or novel phase will be initially covered in other publications, such as Fintech Notes, Staff Discussion Notes, and Policy

Papers. In addition, MCM is leading a policy paper on crypto assets, which aims to lay out the elements for effective crypto policies.

MCM is also working to provide new CD on digital money and FMIs. New CD on digital money is to: (i) expand country coverage, (ii) shift into higher value-added CD that is more tailored to country circumstances, and more solidly anchored in empirical and analytical work, (iii) review pilots before launching CBDC, (iv) ramp up peer-to-peer learning, and (v) strengthen synergies with surveillance. On FMIs, new CD is to include: (i) deep dives on select principles and risks (such as governance and operational risks with new “decentralized FMIs”), (ii) oversight of new central bank payment schemes (e.g., CBDC), and (iii) oversight of regional cross-border arrangements (e.g., interoperable faster payment schemes).

TA APPROACH & FOCUS: SHIFTS OVER TIME



MODERNIZING CD ON CENTRAL BANK OPERATIONS

In FY22, MCM continued to develop its quantitative tools to help authorities improve the conduct of their monetary and foreign exchange policies.

The focus was placed on three key areas: liquidity forecasting, foreign exchange intervention, and stress-testing central bank balance sheets.

- The liquidity forecasting framework was extended to include 11 statistical models which are dynamically selected based on their out-of-sample performance. The framework was developed in collaboration with ITD and academics some of whom participated as short-term experts in bilateral CD work. The liquidity forecasting framework uses cutting edge forecasting techniques to ensure robustness and reliability and it has used in several CB missions. Supported by the publication of several TA reports, such as Jordan and the UAE, the framework is now routinely requested by central banks either to calibrate their monetary operations or to publish forward-looking information on liquidity conditions.
- MCM has also been strengthening its foreign exchange intervention work. The new work applies forecasting methods to inform foreign exchange

intervention, with the objective of identifying possible intervention trigger points by obtaining a short-term forecast of the distribution of the exchange rate. This framework also includes several forecasting models, which are customized to each country circumstances by adding locally relevant local variables. The best models are selected based on a dynamic process that assesses the models' out-of-sample performance and the outcome's robustness. CD missions have been discussed and are to be delivered in FY23.

- In recognition of the significant increase in the financial risks on central bank's balance sheets, MCM developed a stress-testing framework which was first used in Bosnia-Herzegovina CD. The objective was to assess *policy solvency*, that is, whether over the medium-term, a central bank under different macro-scenarios, is projected to have the financial resources necessary to achieve its policy mandate. The answer to this question is to inform advice on profit distribution and on whether there may need to be the re-capitalization of the central bank. With the growth in the size of some central bank's

balance sheets since the global financial crisis, interest rate risks have become sizeable, while foreign exchange and credit risks are also material for some central banks. This work permits assessing all these risks. The innovative component of this approach is that the assessment of the amount of required capital is based on macro-scenario-dependent expected capital developments rather than on a static assessment of the current level of capitalization.

In addition, the department has published two chapters in the central banking Handbook covering, reserve requirements and transitioning operating targets from reserve money to interest rates. This Handbook is available to central bankers across the globe and will support ongoing CD in this area.

CD RELATED TO CLIMATE-RELATED FINANCIAL RISKS

Central banks and supervisory authorities as well as debt managers have become increasingly aware of the materiality of climate-related financial risks as a threat to financial stability and price stability. The journey to tackle climate financial risks has just started, however.

In FY22, MCM start delivering some CD on tackling climate risks, which is now a growth CD area on the MCM agenda. In the coming years MCM plans to continue raising awareness about climate risks and stepping up CD on incorporating these risks into the regulatory and supervisory framework and in stability frameworks. A series of webinars on climate stress testing to ramp up in FY23 with four events covering Africa and the Middle East and Central Asia regions; the first webinar took place at CARTAC in FY22.

HOW SHOULD REGULATORS AND SUPERVISORS THINK ABOUT CLIMATE-RELATED FINANCIAL RISKS?

It is increasingly being recognized that there are financial stability risks associated with climate change and the transition to a low-carbon economy and these risks need to be effectively integrated into the regulatory frameworks and supervisory processes.

Jointly with ten IMF's Regional Capacity Development Centers (RCDCs)³ MCM facilitated seven workshops on climate risks from May 2021 to April 2022. The workshops had 534 participants from 85 countries from Africa, the Caribbean, the Middle East, Pacific Islands, Central America, and South Asia. The workshops raised awareness of climate-related risks and emerging supervisory standards and practices, facilitated experience sharing, and built the capacity of member countries to implement specific initiatives to incorporate these risks into their supervisory frameworks. The agenda incorporated:

- (a) Representatives from the Basel Committee and the Network for the Greening of the Financial System (NGFS) provided an overview of the ongoing initiatives to develop international standards and guidelines on climate-related risks, emerging supervisory practices, and progress and challenges in integrating

³ Regional centers—METAC, CARTAC, AFRITAC West, AFRITAC Central, AFRITAC East, AFRITAC West 2, AFRITAC South, PFTAC, SARTTAC & CAPTAC. Some workshops were jointly coordinated with more than one RCDC.

climate-related risks into prudential frameworks.

- (b) Several authorities⁴ shared their experiences and approaches to supervision of climate-related risks, practices within their supervised entities, and challenges impacting on supervision of climate-related risks.

The workshops and the response from the participating countries to a pre-event survey helped assess the progress of individual countries in incorporating climate risks into their supervisory processes and in identifying gaps in the capacity to supervise these risks.

BUILDING AWARENESS ON DEBT-FOR-CLIMATE SWAPS IN THE CARIBBEAN

Caribbean economies and Pacific islands are exposed to climate-related risks with implications for their debt position. MCM has started organizing events on how to cope effectively with the uncertainties and costs of

⁴ Bangko Sentral ng Pilipinas, South Africa Reserve Bank, Central Bank of Nigeria, Bank Negara Malaysia, Banco Central do Brazil, Reserve Bank of India, Bangladesh Bank, ACPR, and Bank al-Maghrib.

climate change and natural disasters and their impact on the sovereign debt portfolios.

As part of these efforts, CARTAC and MCM delivered an online debt-for-climate swaps seminar in April 2022 on innovative instruments for mobilizing or redirecting financing for climate-related objectives while keeping debt at sustainable levels. The seminar drew on cross-country experiences and recent IMF policy work on this topic. Panels consisting of capital market advisers, country representatives,

and IMF staff discussed the practical steps, preconditions, and challenges for executing debt swaps, as well as how these transactions had been negotiated (or are being considered), with varying degrees of success, in Belize, Antigua and Barbuda, Barbados, and other countries. The discussions provided better understanding of how debt-for-climate swaps can help both debtors and creditors. The event also underscored how these transactions remain a niche instrument since they require the alignment of financial and environmental objectives on

both sides, the availability of suitable projects, and often the provision of guarantees or funding from third parties.

The seminar was attended by debt managers and other officials from ten countries and regional organizations and helped strengthen the capacity of participants to design operations linking debt relief to resource mobilization for climate adaptation or mitigation, protection of nature, or environmentally sustainable or enhancing investments.

TESTIMONIAL

Blaise Ijebor, Director, Risk Management Department, Central Bank of Nigeria

“A big thank you to the organisers of the Climate Risk Workshop. It was a very informative and excellently organised program. It provided very useful feedback for assessing our Climate Risk program and highlighted potential areas for improvement drawing from the experience of other jurisdictions. Thank you.”

CD ON LOCAL CURRENCY BOND MARKET FRAMEWORK

Deep and efficient domestic government debt markets add resilience against shocks during financial turbulence. But developing domestic debt markets is a complex process that requires multiple and interdependent policy actions over a sustained period.

MCM, in collaboration with the World Bank, started rolling out the Local Currency Bond Market (LCBM) framework in FY22. The diagnostic framework, supported by an Excel tool, provides the basis for comprehensive assessments of the stages of development of the domestic debt market in countries to inform the policy actions required to deepen those markets. The [guidance note](#) behind

the framework filled a gap in the literature by going beyond merely recommending best practices to fully recognizing the obstacles that hamper the implementation of LCBM reforms.

The framework has been piloted earlier in the year in Bhutan and Uzbekistan through remote TA missions, and in June 2022, the IMF delivered in-person TA to the Kyrgyz Republic. In 2022, three regional workshops were delivered jointly with [MEFMI](#), [STI](#) and [WAIFEM](#) and a presentation made to the Asian Development Bank Roundtable on Local Currency Bond Markets. Further workshops and TAs are planned for this fiscal year to continue rolling out the activities on the framework.

SECTION IV

THE ROAD TO
ACHIEVING RESULTS

A

LEARNING FROM RESULTS-BASED
MANAGEMENT DATA AND
COUNTRY CD STORIES

Measuring progress and success in our CD delivery is a challenging task. Different circumstances can often help explain the status of a project. For instance, if a project is slowly advancing, with stop-and-go progress, and shifting in objectives because of a new outlook, should this project be classified as non-successful? This Section combines quantitative data and three qualitative stories to illustrate how MCM handled the implementation process and adjusted as needed to achieve results.

Learning From Results-Based Management Data and Country CD Stories

Results-based Management as the framework for monitoring CD impact and deriving feedback for CD design, has become an integral part of MCM CD work, ingrained in our CD projects' design, delivery, implementation,

and follow-up⁵. Each CD project has a logical framework (log frames) outlining objectives, outcomes, and milestones to be met. Briefing papers, back-to-office reports, and TA reports are systematically aligned with the RBM objectives discussed with the authorities at the onset of the project. Regular self-stocktaking through donor-funded CD reporting and mid-term and ex-post evaluations of outcomes are helping assess progress and identify areas for further improvement in CD design.

MCM CD builds public sector institutional and human capacity through knowledge and experience sharing. With this mandate in mind, measuring CD effectiveness at an aggregate level by region, workstream,

or modality is challenging.⁶ Assessing progress of such interventions requires not only consistency between quantitative and qualitative measurement tools but an in-depth understanding of projects, challenges, and circumstances around the projects. The operationalization of the IMF's RBM Framework has allowed MCM to build a database with information on objectives, outcomes, and milestones incorporated into the log frames of the projects delivered in the past years. When available, assessments and external and MCM evaluations have helped recover the circumstantial background and qualitative dimensions around the implementation of multi-year projects and the quantitative ratings assigned by the mission managers of the project.

A look at the data gives us an indication of how much efforts are being employed (by the authorities and CD teams) and results being

⁵ Decades-long of Fund-wide RBM collaboration culminated in the introduction of the RBM catalogues with standardized objectives, outcomes, and verifiable indicators in 2015. The Fund-wide rollout of the RBM Framework and its database (CD-PORT) followed in 2017. The new system of the IMF CD Management and Administration Program (CDMAP) in May 2021 is expected to help closer integrate MCM's CD and policy advice, strengthen CD management, and support CD administrative efficiency.

⁶ With the support of the IMF's Institute for CD (ICD) and along with the other CD departments in the IMF, MCM continues contributing to the harmonization of RBM catalogues—especially in the results measurement (variable indicators)—that can allow for a more meaningful aggregation across different RBM topics (objectives and outcomes) in the future.

achieved (by the authorities) in the implementation of CD recommendations as measured by rated outcomes across regions and overtime. Africa, as the largest recipient of MCM CD has the largest number of rated outcomes (Figure 11, top panel). The overall larger number of outcomes could also be partly explained by the greater presence of RDCs and bilateral LTXs in the region. A large number of outcomes remain rated as *partially achieved*, implying many reforms are still in process. The time series rating data on FCS's CD outcomes point to the challenging reality that countries in fragile situations need a longer time to achieve results from CD.^{7,8}

An additional tool to assess CD success on a qualitative basis are RBM project pilots. Below are three pilots on projects implemented in three different regions (Asia, Latin America, Africa) and three workstreams (monetary policy implementation, macro stress testing, and financial

⁷ An outcome rating is counted in FY if at least one milestone under the respective outcome was targeted for completion by end-FY.

⁸ The dip in the FY21 count of outcomes can be explained by shifting the priorities of CD recipients from medium-term capacity building to urgent policy advice and financing at the onset of the COVID-19 pandemic, thus pushing CD targets further to the future. Furthermore, in FY21, the Fund's CD administration transitioned to CDMAP. The renewed interest of country authorities in CD after addressing the COVID-19 crisis and a more granular CD design in CDMAP explain the relatively sharp increase in the FY22 count of rated outcomes.

sector supervision). These pilots zoom into specific multi-year projects and expand the quantitative analysis through the RBM lenses by adding the challenges and opportunities around the project, the authorities' reactions, and extracting lessons for future engagements. This level of analysis has two major benefits (i) getting a better sense of results translated into ratings; and (ii) distilling invaluable learnings to inform strategic CD prioritization and subsequent country CD design and implementation.

The three RBM CD pilots discussed next provide some important lessons already. Close collaboration with the authorities is essential to success. Ensuring a solid partnership with the senior authorities and technical teams' buy-in throughout the engagement is essential to success. Engaging early in the process is vital to ensure the project meets the needs and is tailored to the circumstances on the ground. A second important lesson is that collaboration needs to remain ongoing until the project ends. The continued engagement will help identify challenges in the implementation and avoid periods of inaction as a result.

In the strategic CD prioritization, RBM CD work combined with surveillance work should allow for an integrated, holistic engagement with the country. At a country level, RBM data complemented by stories can guide future CD design and implementation in several ways: (i) granularity and sequencing of result targets that proved more effective in certain circumstances, (ii) financial

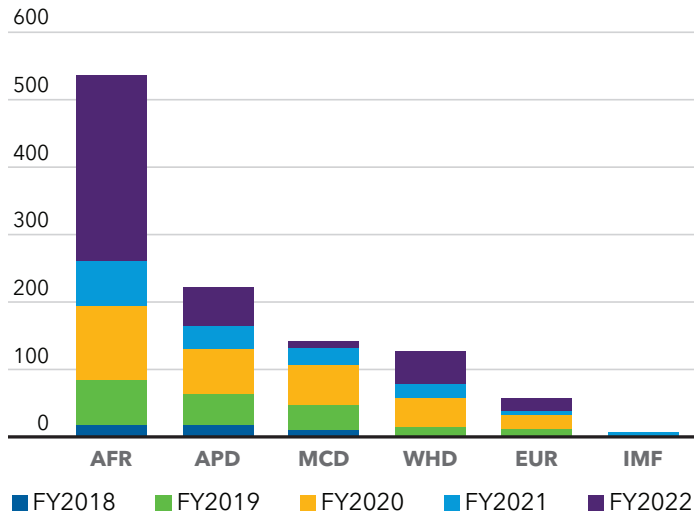
and human resources that might be needed to attain similar results in a country facing similar circumstances, or (iii) approaches to CD delivery and engagement with country authorities that proved successful in similar cases (e.g., conducting diagnostics to align CD objectives and outcomes with the authorities' strategic priorities and absorption capacity at an early stage of the project).

Going forward MCM will continue finetuning and enhancing the integration of RBM in our CD delivery by:

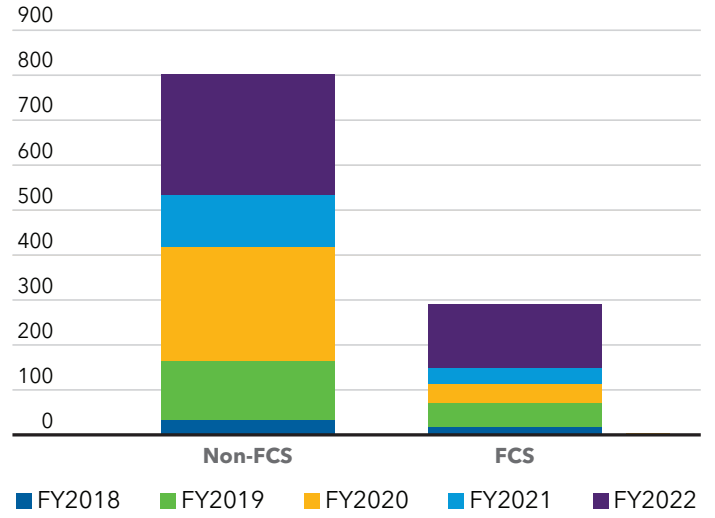
- (i) Incorporating lessons from pilots and RBM work into the design of CD. The expectation is to strengthen the operationalization of good RBM practices in our CD delivery and outputs within the department, and in our engagements with country authorities and Area Departments;
- (ii) Expanding the RBM storytelling to more country CD projects and programs both for the purpose of outcome ratings validation in the RBM quantitative analysis and to extract more learnings; and
- (iii) More systematically disseminating results and learnings from the RBM quantitative analysis complemented by stories internally in MCM and the IMF to help inform future CD.

FIGURE 11. RESULTS-BASED MANAGEMENT IN FIGURES

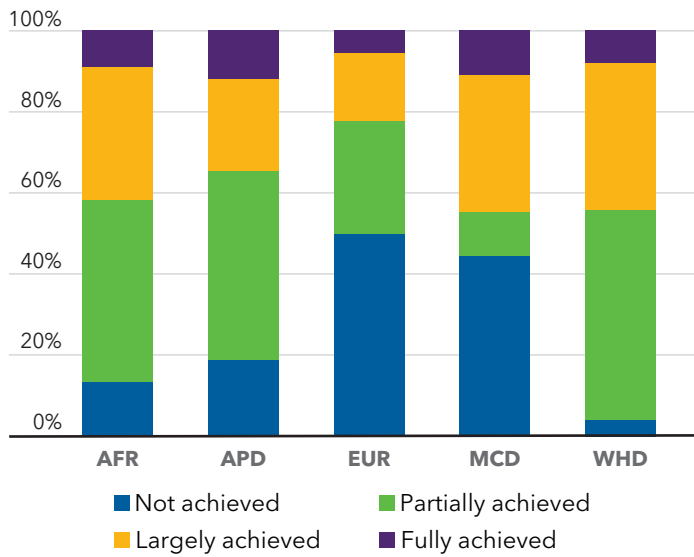
COUNT OF RATED OUTCOMES BY REGION OVER FY18-22



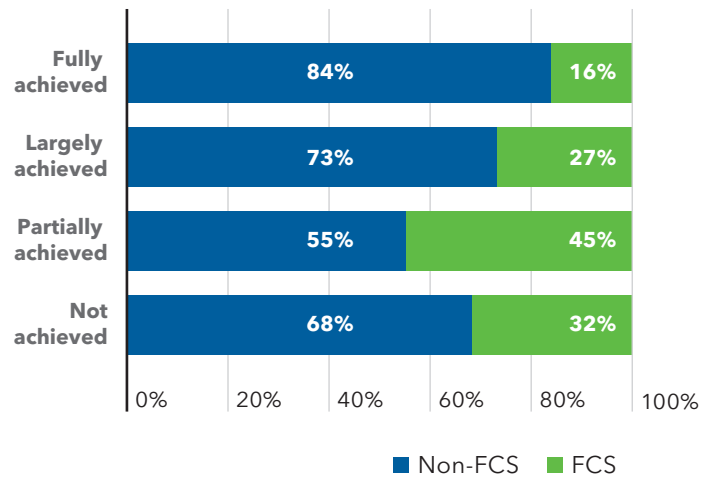
COUNT OF RATED OUTCOMES BY FCS OVER FY18-22



FY22 RBM RATINGS BY REGION



FY22 RBM RATINGS BY FCS



Sources: CDMAP data and IMF Staff.

Note: The not achieved outcomes in the EUR and MCD can be explained by the dominance of CD to Ukraine (EUR portfolio) and the start of new phases of CCAMTAC and METAC in FY21 and FY22, respectively, in the MCD region.

CDOT AND SARTTAC COUNTRY BENEFICIARIES AND THE PHILIPPINES: TRAINING ON MONETARY POLICY IMPLEMENTATION



Giorgi Barbakadze

Training on Monetary Policy Implementation

By Giorgi Barbakadze

The regional course—structured as a sequence of virtual training sessions—covering important segments of monetary policy implementation has been running since August 2021. The course leverages synergies between two RCDCs in the Asia-Pacific region: [CDOT](#) and [SARTTAC](#). The course is open to central banks beneficiaries under the monetary and FX operations CD programs of the two RCDC, plus the Philippines.

CD DESIGN AND IMPLEMENTATION

Searching for effective ways for continuous CD delivery in the challenging reality brought on by the COVID-19 pandemic, the two RCDC monetary and foreign exchange (FX) operations advisors partnered to develop a regional course. While there is significant heterogeneity in monetary policy regimes across and within the two regions, the advisors identified topics of common interest to all central banks in their constituencies and necessary for them to master independently of their monetary policy

practices. The advisors designed the course building on their own experience in monetary and FX operations as well as learnings from their bilateral and regional pre-COVID CD work.

The course is delivered in quarterly segments. Each course includes key topical lectures, country cases, and panel discussions. The course has covered five segments to date: (i) Interest rate corridor, August 2021; (ii) Liquidity monitoring and forecasting, October 2021; (iii) Central bank collateral framework, January 2022; (iv) Emergency Liquidity Assistance (ELA), April 2022; and (v) Reserve Requirements, July 2022. Fifty to eighty central bank staff have participated in each segment.

Given the high appreciation of the course and strong interest from participants for it to continue, CDOT and SARTTAC intend to carry on with quarterly training sessions. Two more segments are currently planned: Reference exchange rates (October 2022) and FX operations (January 2023).

CD RESULTS

By end January 2022, the project outcome “Operational framework with a clear operational target of the monetary policy is in place” had been fully achieved.

The course has been well received, with survey results on the course’s main objective of sharing knowledge and experiences on the topics under each segment showing high scores—averaging 4.5 out of a maximum of 5.0. In their comments, participants also valued the mix of lectures with country presentations and ample time dedicated for questions and answers by both the experts and country case presenters. More importantly, many participants appreciated the direct relevance of the training topics to their day-to-day work.

The course has also allowed the advisors to follow up bilaterally with CD

counterparts to help translate training into central bank operations. After the training segment on the interest rate corridor and follow-up TA, the National Bank of Cambodia introduced the overnight marginal lending facility—ceiling of the interest rate corridor.

LEARNINGS TO INFORM FUTURE CD DESIGN AND IMPLEMENTATION

- **Design training based on current practices and latest developments.** The course has helped effectively share knowledge and experiences through presentations by IMF staff experts, guest speakers from other countries, and peer-to-peer discussions among participants. Learning from other countries’ experiences was particularly valuable. Additionally, the presentation of the recently developed tool for liquidity forecasting generated interest for

bilateral customized TA of a few central banks that want to learn how to use the tool to further improve their liquidity management frameworks in the medium-term.

- **Adapt CD to the authorities’ absorption capacity.** Concentrating on one topic at a time allowed going into detail and having enough time for questions, which motivated active discussions and further knowledge.
- **Follow up with bilateral technical engagements**—many participants mentioned limitations of the virtual training modality in the training survey. Bilateral follow-up contacts further indicated that many would appreciate help adapting training topics—theory and other country experiences—to their operations in in-person technical engagements.

TESTIMONIALS

Selected comments by CDOT-SARTTAC Training participants

“This training is really helpful for my job.”	“Requirement of interest rate corridor for central banks and its importance along with country specific case examples were helpful in terms of enhancing the knowledge on the specific topic.”	“The country presentations were helpful and informative. They helped show how other central banks employ reserve requirements, and the lessons will be useful as [our central bank] continues to refine its own reserve requirement policies.”
“The course provided an overview on how to monitor and forecast liquidity, which is very helpful and applicable to central bank work.”	“The topics are very relevant and appropriate in that context that most of the developing countries are on the path of modernizing their monetary policy framework and are pursuing flexible monetary targeting policy strategy.”	“The course lays out ELA mechanism in a well laid out manner and simplifies it for the benefit of all. The course brings out when to provide ELA to banks and the importance of government support to ELA”
“Strength [of the training] was gathering people who work with the issue hands-on in real life, and the instructors, who have real-life experience. We learned from the discussions a lot.”	“All of the discussions on the collateral framework are very useful especially as we have only recently started issuance of our own central bank bills.”	“Thank you, everyone, for giving great presentations. I think this program will really help me in the near future.”



ECUADOR'S SUPERINTENDENCY OF BANKS: REVAMPING STRESS TESTING MODELS



Francisco Vazquez

Ecuador's Superintendency of Banks: Revamping Stress Testing Models

By Francisco Vazquez

In 2021, MCM provided a virtual CD to the Superintendency of Banks of Ecuador (SBE), focusing on the development and implementation of stress testing models of credit and liquidity risk. The CD led to a substantial overhaul of SBE's quantitative tools, supporting the ongoing adoption of risk-based supervision and complementing a previous CD provided by the Toronto Center.

CD DESIGN AND IMPLEMENTATION

The SBE and MCM teams agreed on the implementation plan in early 2021, aligning the CD objectives with the authorities' strategic priorities and exploring existing models and available supervisory data. The CD covered three areas: (i) compiling supervisory data to estimate fundamental credit risk parameters, (ii) developing satellite and core models to assess bank solvency under alternative macroeconomic scenarios, and (iii) implementing a model to assess liquidity risk using the Basel Liquidity Coverage Ratio.

Frequent virtual meetings with the SBE (two times a week) throughout the year facilitated the gradual development of the models by the SBE team under MCM advice; these proved more effective than a standard two-week in-person visit. The long-term engagement allowed the SBE to learn by doing and own the resulting tools. While the SBE suffered from a staff rotation, a core group was retained, fulfilling the CD objective.

Parallel to building the analytical tools, the CD involved discussions between off-site and on-site supervisors to help back-test and finetune the models developed. At the initiative of the SBE, the CD also included bilateral meetings with the risk modeling units of supervised banks to discuss their internal models and the projected quality of their credit portfolios. These exchanges were useful for understanding bank risk modeling practices. Going forward, these meetings need to be maintained regularly and extended to other stakeholders (i.e., the Central Bank of Ecuador and the Financial Stability Council) to improve the quality and timeliness of financial sector policies.

MCM's engagement with the SBE continued after the CD ended last

year, allowing the monitoring of further achievements of the SBE in its implementation of the stress testing models developed under the CD.

CD RESULTS

By end-2021, the SBE had completely revamped the data and models used to assess bank solvency and financial stability at the system level. By June 2022, the project outcome “Stress testing model(s) in place and used for their intended purpose(s)” had been fully achieved.

The SBE is now focusing on translating the annual stress test models into quarterly frequency tests and refining

the modules used to estimate interest rate risk under alternative macroeconomic scenarios. The SBE is also developing a new supervisory template to collect bank liquidity data. This is critical to set the basis for subsequent implementation of the Basel-recommended Liquidity Coverage Ratio.

LEARNINGS TO INFORM FUTURE CD DESIGN AND IMPLEMENTATION

- **Engage with CD recipients** on CD design and implementation at the earliest possible, and to the extent possible, engage on a continuous basis throughout and post-CD.

- **Engage with other stakeholders**, beyond the direct CD recipients. Explaining the reforms to stakeholders in the country that would be affected by the reforms and getting their buy-in also helped the authorities throughout the process. In this case, meetings with bank representatives included discussions around current bank practices on credit risk assessments and the new stress model results against those derived by the banks in their bottom-up exercises.

- **Build upon and complement previously provided CD** and apply learning-by-doing modality in CD delivery.



SBE stress testing team, July 2022

TESTIMONIAL

Rosa Matilde Guerrero Murgueytio, Superintendente de Bancos

“La Superintendencia de Banco del Ecuador, expresa su agradecimiento al Fondo Monetario Internacional (FMI) y a su equipo de técnicos de alto nivel, por la contribución que han brindado al fortalecimiento de los procesos de Supervisión Basada en Riesgos («SBR») mediante el desarrollo e implementación de herramientas como el stress testing, riesgo de crédito y riesgo de liquidez; a la vez que, la aplicación en forma transversal de los mismas a todos los Sistemas Controlados, a más de la metodología relacionada con el control de delitos financieros. Todo lo anterior con la finalidad de contribuir a preservar la Estabilidad del Sistema Controlado, el resguardo de los recursos de los depósitos, afiliados, pensionistas, partícipes y, contribuyentes, así como, velar por que se defiendan los derechos de los usuarios financieros.”

RESERVE BANK OF ZIMBABWE: STRENGTHENING BANKING SUPERVISION



Aldona Jociene

Reserve Bank of Zimbabwe: Strengthening Banking Supervision

By Aldona Jociene

The MCM's FSSR, conducted in November 2018, identified areas in financial sector prudential policymaking in which the RBZ needed to make reforms and strengthen its capacity. The FSSR developed a TA roadmap that was agreed upon with the RBZ, and a TA project, financed by the Financial Sector Stability Fund, was planned to run through April 2024. This CD supports the RBZ, specifically in strengthening the legislative framework for prudential regulation; enhancing risk-based supervision of banks, implementing Basel II/III standards; strengthening consolidated supervision; and building capacity in the RBZ Banking Supervision Division staff.

CD DESIGN AND IMPLEMENTATION

When the TA project started in the spring of 2019, the Zimbabwean banking sector was already affected by severe macroeconomic imbalances, e.g., a deep economic contraction, very high inflation, extreme local currency volatility

(including two re-denominations in two years), and serious drought. The TA implementation started with the IMF's support in enhancing the legislative framework—the RBZ Act, the Banking Act, and the Deposit Protection Corporation Act. At the time, the project responded to the RBZ's priorities and needs against ever evolving, challenging macroeconomic circumstances. However, the CD focus shifted to banking supervision issues in the fall of 2019.

Following this shift in scope, several TA missions focused on enhancing the RBZ's overall supervisory capacity, strengthening the institutional setup, and further improving off-site and on-site supervision approaches. Thorough discussions with the RBZ Banking Supervision Division management and strong engagement with the central bank have been key to finding the best way forward. Additionally, the technical advice was complemented with targeted training to all supervisors (over 50 supervisors) on fundamentals and areas for improvement.

A similar approach has supported the RBZ in implementing Basel III liquidity standards. Two TA missions helped the RBZ to finalize the Liquidity Coverage

Ratio (LCR) and Net Stable Funding Ratio (NSFR) regulations. During these missions, all activities were designed to build local capacity and ensure that RBZ staff were ready to lead the implementation of the new liquidity framework. Additionally, a workshop with representatives of all banks (over 100 participants) helped to disseminate the importance of implementing international liquidity standards in Zimbabwe.

CD RESULTS

By end of the fiscal year, the three outcomes of the project “Strengthened institutional structure and operational and procedures for RBS implementation,” “Supervisors monitor banking groups and their prudential ratios on consolidated basis” and “Legislation/regulations on liquidity developed/strengthened including maintaining adequate liquidity positions to withstand crises and shocks in short-term and to retain stable funding resources to finance their longer-term assets,” remained partially achieved.

The RBZ implementation of the TA recommendations has contributed to increasing effectiveness of its banking supervision. The RBZ introduced more structure to supervision, including a new approach to annual planning; enhanced the on-site and off-site supervisory processes

and procedures; improved the identification of current and emerging risks; and increased focus on building capacity of supervisors. While the COVID-19 pandemic changed the priorities of supervisors and thus the implementation of some recommendations took longer than expected, the RBZ is now progressing well in launching an approval process of new regulations under the new liquidity framework.

LEARNINGS TO INFORM FUTURE CD DESIGN AND IMPLEMENTATION

- ***In-depth review of key financial sector vulnerabilities and authorities’ capacity prior planning a medium-term CD project.*** The FSSR’s TA roadmap laid down a structured framework for the RBZ and MCM to identify and prioritize objectives and outcomes for the follow-up TA project.
- ***Adapting CD to the absorption capacity of authorities and country circumstances.*** The project design and technical advice to the RBZ have been pragmatic, tailored to the country’s fragile circumstances, and oriented to the needs and priorities of the immediate CD recipients, the RBZ’s supervisors.
- ***Close collaboration through continuous engagement with CD recipients.*** Every mission’s purpose,

tasks, agenda, and expected results are always agreed upon with the RBZ, effectively setting the CD recipients’ expectations for each stage of the project. All missions include extensive discussions with the RBZ’s senior management to explain and debate findings and key recommendations, including priorities and timeline. The meetings are a good opportunity to hear from the RBZ on their readiness to implement the mission’s recommendations and discuss eventual concerns and the priorities for the next steps. Close and thorough engagement between missions to support and monitor the implementation of the recommendations is also key.

- ***Blended modalities to achieve CD objective and outcomes.*** Capacity building through targeted training and extensive discussions with staff is essential to secure ownership of the reforms and, as a result, to continue making progress against the CD objective and three outcomes of the project.
- ***Experienced experts.*** The use of highly capable experts, with deep practical and theoretical knowledge, and their willingness to understand the issues faced by Zimbabwe and closely engage with the RBZ’s supervisors have been key in delivering CD results.

SECTION V

CD COUNTRY CASES

A

CHILE: FINANCIAL REGULATORY EFFORTS AND MONEY MARKET FUNDS



Richard Stobo



The global financial crisis put the spotlight on mutual funds and money market funds, in particular, and how they are regulated. International standard setters have tried to address the risks inherent to these vehicles and instruments for years. National regulators are bringing these standards into local frameworks. The Comisión para el Mercado Financiero (CMF), the Chilean regulatory agency of banks, securities, and insurance markets requested a work-at-home review of the regulatory framework for money market funds (MMFs) in Chile. As part of this review, the mission held discussions with the Banco Central de Chile (BCC), the Chilean Association of Mutual Funds (CAMF), and some other participants in the Chilean MMF sector.

Chile's financial sector is highly developed, with financial assets at 300 percent of GDP. While banks are the dominant players, particularly on credit provision, Chile ranks amongst the 29 FSB-monitored countries whose banking sector has the highest dependence on nonbank financial institutions (NBFIs)' funding. Chile's MMF sector is systemic, with assets under management of about

U.S. \$40 billion, and plays an important role in medium-sized banks financing (MMFs hold around 10 percent of deposits). Improvements to the regulatory and supervisory framework for MMFs, a key segment of Chile's NBFIs, will enhance the resilience of the financial sector as a whole.

The TA accounted for the growing importance of the MMF sector in Chile. The rules for MMFs were modified in 2012 toward the mark-to-market valuation of MMF portfolio assets. However, considering the evolution of global best practices in this area (notably through the International Organization of Securities Commissions and the Financial Stability Board (FSB)) and the increasing interconnectedness of the sector domestically, the CMF was keen to review its approach. The design also reflected the high level of expertise at the CMF, its staff's willingness to envisage material reforms and the specific characteristics of the MMF sector in Chile. The mission coordinated with the FSAP to avoid overlaps and ensure consistency of messaging.

The TA project found the Chilean regulatory regime robust in many of its features, both in terms of the regulatory framework applied and

the supervisory practices. However, the mission identified areas for improvement in areas of related to the financial stability of the Chilean financial system. In particular, the CD recommended changes, including the mark-to-market pricing, which should add to the resilience of the Chilean

financial system by reducing the risk of shock amplification through the MMF sector.

The level of engagement was very high, as further demonstrated by the authorities' willingness not only for the IMF to publish the TA report, but

also to publish it on their own website. The publication of the technical analysis and recommendations will be of interest beyond the Chilean market, as other peer countries seek to upgrade their approach to regulation of MMFs.



IMF Photo/Tamara Merino

COOK ISLANDS: FORMULATING A MEDIUM-TERM DEBT MANAGEMENT STRATEGY



Briar Ferguson



The newly placed resident debt management advisor at PFTAC

(position funded by the JSA project) provided capacity development to the Cook Islands in October 2021. The assistance focused on enabling the authorities to develop a draft debt management strategy using the Medium-Term Debt Management Strategy Analytical Tool (MTDS AT) and framework.

Like many of the Pacific Island countries, public debt management in the Cook Islands is in its infancy, with policies, frameworks, and capacity at varying levels. The Cook Islands has followed a conservative debt financing path, with considerable grant funding, and as such, is yet to develop a comprehensive and formalized debt management policy framework and build capacity among debt managers. The debt stock doubled as a result of the COVID-19 pandemic, with debt to GDP increasing to 47 percent in 2022. In the past, the debt management strategy was mainly guided by fiscal rules and the undertaking of a debt sustainability assessment for new borrowing. However, there was no formalized plan for borrowing which takes into consideration alternative

financing options, market conditions, and a risk analysis of the debt portfolio. Its recent graduation to high-income status would potentially mean reduced financing options and a higher cost of funding, requiring an informed strategy to navigate debt management in the post-pandemic environment.

The PFTAC mission team provided training to officials from the Ministry of Finance in 2021 on analyzing country debt data, preparing the required data for use in the MTDS AT, helping the authorities to analyze the cost-risk characteristics of the current debt portfolio while identifying key risks to be managed, and identifying potential financing sources. The training used the MTDS AT to run scenarios and produce cost-risk outputs for analysis, identifying a preferred debt strategy, and then preparing a strategy document for publication.

Using the training, the Cook Islands authorities were able to produce a draft debt management strategy document with a preferred strategy, articulated within a cost-risk framework. The debt management strategy provides a formalized plan for debt financing, including debt portfolio cost-risk indicators that provide clear performance management in all debt

reporting undertaken. In undertaking this process, the Government has taken steps to identify alternative financing sources that may assist in reducing the cost of debt and align the debt

portfolio to the target risk indicators. The first debt management strategy is expected to be finalized and published in the very near future.



istockphoto/AsianDream



JORDAN: STRENGTHENING CAPACITY ON LIABILITY MANAGEMENT OPERATIONS



Samer Saab



Jordan was one of the Fund's member countries to be

hit by the COVID shock and changes in financial conditions. Although Jordan's IMF-supported Extended Fund Facility (EFF) arrangement remained on track, Jordan faces large rollover risks from the redemption of its Eurobonds as a regular issuer of Eurobonds in the international market. At end-2020, outstanding Eurobonds amounted to 21 percent of its total government debt (equivalent to around 20 percent of GDP). An MCM team carried out a remote mission to Jordan from May 26–June 4, 2021, to help the authorities update their public debt management strategy and provide technical guidance on the potential scope of liability management operations (LMOs). In this TA, the authorities wanted to evaluate options for LMOs for outstanding Eurobond issues that would mitigate refinancing risks.

During the mission, the IMF team introduced a simplified qualitative and quantitative framework to a diverse group of Ministry of Finance (MoF) and Public Debt Department (PDD) staff. This framework is to help the authorities to evaluate different options ex-ante, including an option to buy-back existing Eurobond(s) ahead of redemption, complemented by a traditional refinancing of the remaining amount due, under a specific set of assumptions on pricing and timeline. The TA helped the authorities develop an understanding of the usefulness of LMOs and their technicalities.

Based on the TA provided, the authorities now need to develop a policy document setting out a framework for LMOs, embedded within an overall Debt Management Strategy. The LMO framework should set out the modalities and cost-risk objectives and be prepared in consultation with Jordan's financial and legal advisors. Once developed, Jordan will be able to use LMO operations for future management of refinancing risks.

KAZAKHSTAN: BANK STRESS TESTING



Fabian Lipinsky



Sujan Lamichhane



The development of granular data on corporations required to

conduct stress tests and assess financial stability has been the focus on technical assistance to central banks and financial regulators, in recognition of the risks posed to the financial stability by the corporate sector. Seeking to better understand and monitor these risks, the National Bank of Kazakhstan (NBK) requested TA

The stability of the financial system in the Kazakhstan is materially dependent on the financial health of the corporate sector. Through a virtual engagement, the team worked on quantifying underlying credit risks in the corporate sector and the consequent impact on the banking system. They explored two very rich corporate micro data sets: (i) the balance sheet and profit and loss (P&L) statements for over 1,700 companies over 14 years, and (ii) corporate credit registry data with more than 240 million rows of loan-level information on companies, over eight years.

In estimating credit risk, one of the key challenges was developing a suitable approach that would allow combining the available rich datasets to conduct

financial stability analysis. Also, both datasets were starkly different, providing different dimensions to corporate sector vulnerabilities. Given the challenges, the team opted for developing two complementary approaches: (i) prediction of the probability of default for each firm covered in the corporate sector balance sheet and P&L database, and (ii) prediction of credit status for each borrower covered in the credit registry.

The two newly developed credit risk modeling approaches led to the development of two methods for projecting credit losses of the Kazakh banking system linked to the corporate sector exposures. These credit loss projections served to create a robust scenario-based financial system stress testing framework. The framework allowed projecting losses of the financial system under different adverse macro-economic conditions. Such a capacity is pivotal for informing financial policymaking, calibrating capital buffers, and measuring the financial sector's stability.

This was a significant step in the right direction, but more is to be done. The newly developed frameworks need to be regularly updated, and the macroeconomic scenarios customized

to accommodate global and domestic developments. Also, new risk channels emanating from households and sovereign portfolios, for example, should help broaden the scope of the financial stability work.

One of this CD's key achievements has been the highly motivated NBK team took ownership of this work and fully operationalized the new framework during the TA. The NBK team is already working on incorporating

the results obtained during the mission in the upcoming financial stability report. Furthermore, the newly developed methods will help evaluate financial stability and support macroprudential policymaking.



istockphoto/Aureliy

PANAMA: STRENGTHENING MACROPRUDENTIAL POLICY IMPLEMENTATION



Paavo Miettinen



Panama is tightly connected with the international financial system.

Despite strong pre-pandemic economic growth, the authorities asked for support to strengthen their regulatory and supervisory framework in line with international standards and practices. The support included different dimensions. In FY22, the work focused on enhancing the macroprudential policy framework and design of additional instruments. There were two consecutive activities to implement this part of the project.

The first mission in August 2021 assisted the Superintendency of Banks of Panama (SBP) in developing a macroprudential policy roadmap. The SBP has broad powers to direct macroprudential policy tools and collect information and conducts systemic risk assessments for policy decisions. The experts recommended tightening the link between policy objectives, assessments, and tools, producing, and publishing a macroprudential strategy to clarify the main indicators and tools

corresponding to the policy objectives, and enhancing communication by making more use of the Financial Stability Report (FSR).

The end-2021 follow-up mission provided feedback to the SBP on progress in the implementation of the recommendations. The mission commended the SBP's comprehensive approach to implementing the recommendations from the first mission, reflecting its strong ownership and management support. Also, by going through the specifics of the household sector, the experts were able to further support the SBP's ongoing formulation of the overall macroprudential policy strategy.

Progress allowed the experts to suggest new recommendations on the design of borrower-based measures as well as their implementation and communication. These draw on key principles, other countries' analyses, and experiences (e.g., Ireland, Portugal, Romania, and Slovenia), as well as Panama's specific circumstances, which were also informed by discussions with the private sector.

The team also followed up on importance of filling the remaining data gaps to support SBP's analysis and regularly update statistics and analysis to assess the need for

policy adjustments and be able to communicate policy decisions with supporting evidence. In this mission, the authorities were also able to leverage on the IMF's Macroprudential

Policy Survey and iMaPP database with cross-country information, after a hands-on training that was incorporated into the TA mission.

James Thomas, Unsplash



PERU: CENTRAL BANK DIGITAL CURRENCY



Arif Ismail



An MCM December 2021 mission provided guidance to Banco Central de

Reserva del Peru (BCRP) on the feasibility of issuing a central bank digital currency (CBDC). The BCRP, which has regulatory oversight of the payment system, has a vision for all citizens to have safe, convenient, and efficient access to digital payments and reduce dependence on a largely cash-based environment. Even though numerous digital payment systems do exist, nearly half the population is still unbanked, but uptake is low. The main challenges lie both on the demand and supply side. Demand side factors include high informality, low levels of financial literacy, unperceived costs of cash, and distrust in the financial system. On the supply side, there are limited mobile and internet coverage penetration and access points such as Automated Teller Machines (ATMs) and Point-Of-Sale (POS) terminals in rural areas. Lack of competition has also led to high fees for merchants and a lack of interoperability between retail payment instruments. In combination, these significant and complex issues kept a dependence on and stickiness to cash. BCRP sees digital payments as a means

to improve the welfare of citizens through more efficient payment systems.

With the emergence of CBDC, the BCRP sees the opportunity to provide a platform built as a public good without dependency on legacy systems to address the digital divide. This was the basis for the authorities requesting MCM CD to strengthen their capacity to assess the feasibility of CBDC through developing an approach, frameworks, and tools to aid the assessment.

Unlike our CD in other areas, where there are established practices and sequences of reform, CBDC work is the work of discovery and iteration. The atypical nature of this activity—a feasibility study premised on an underlying assumption, required creativity, with the alignment of focus groups and use of online tools and resources (mural, creative lab) to support a design thinking approach—all within a virtual environment. These innovative solutions required the IMF to devote time to provide training on the tools and an understanding of the design thinking approach.

The mission's approach resulted in greater buy-in and expanded

engagement with various stakeholders. The team invested time understanding problem/s by stepping back, asking tough questions, and openly challenging the underlying assumptions. The mission successfully workshopped issues, deploying design thinking techniques, such as abstract laddering, stakeholder mapping, and creative solutions. The BCRP and the mission developed a deeper appreciation for different stakeholder perspectives and alternate solutions that were incorporated as part of the mission findings.

Two parallel research studies investigated stakeholder perspectives on the current state of the environment and gathered insights into their daily

payments experience and behaviors. The findings showed concerns for high costs, the preference for informality, low ubiquity of current solutions, and related low perceived benefits of digital solutions persist. Interactions shed light on the indirect costs of digital payments: in the voice of one the stakeholders, *“The lady from the bank told me that they had an app, but my cell phone doesn’t have much storage. Also, if I wanted to download it, I would have to purchase an internet plan on my cell phone.”*

Based on the study and further workshops with the BCRP, the mission recommended to increase digital payment adoption and have key pre-conditions in place—i.e., foundational

enablers and catalytic factors to support adoption and usage. Also, an agile, iterative, and experimental approach was encouraged. Moving gradually from proof-of-concept (PoC) to prototypes to pilots before production was strongly recommended. Finally, the importance of stakeholder inclusion, involvement, and commitment to resolving the digital divide was emphasized.

The main learning from the TA effort is to cast the “solution-net” wider to improve chances of success. The mission was successful and is now the basis for a larger engagement. The next phase of CD is to partner with the BCRP to develop a methodology for traversing the PoC stage.



IMF Photo/Ernesto Benavides

SMALL STATES: STRENGTHENING STRESS TESTING PRACTICES FROM CARTAC



Marianna Endresz



Building strong financial stability units in

small states requires thoughtful TA design. CARTAC has been working intensively within the Caribbean region to improve the capacity of financial stability units to analyze and monitor financial sector risks.

Financial Stability (FS) Units in Caribbean countries are often small and face staff shortages. Further, staffing turnover or the departure of a senior member can significantly impact daily work operations. To achieve sustainable TA, the team focused on knowledge transfer, through manuals and refreshment courses that build institutional memory. Analytical tools and templates developed to address financial stability assessments required tailoring to the needs of authorities with very limited capacity and data dealing with sometimes very dynamic private sector financial sectors that operate across borders and sometimes non-complex systems. In this context, tailored training and adjusting tools to the information available while building new data sources has been important.

A recent example of CARTAC's works is the development of a new bank solvency Stress Testing (ST) framework

and the launch of related training(s). CARTAC members used a one-period solvency ST framework for banks, similar to the IMF Stress Tester 3, for years without updates. A new template was developed by considering the lessons and findings of previous TA and FSAPs. Key changes included: (1) including more granularity of data and alignment with Basle II Pillar 1 regulation (e.g., differentiates between investments in the banking and investment book); (2) consideration of several sources of initial under-provisioning or overestimation of initial buffers; these had been detected in FSAPs (misclassification of loans, failure to comply with provisioning rules, improperly accounting for investments' credit rating, related lending, and double gearing); (3) including a dynamic credit model linking non-performing loans to GDP growth to calibrate the size of an NPL shock; (4) incorporating sovereign shocks - to account for banks' large sovereign exposures in the region; (5) introducing flexibility in allowing user-specified assumptions and inputs as an alternative to in-built calculations; (6) producing numerous graphs and tables to help assess results (decomposition of the impact on the capital adequacy ratio (CAR), results

with and without pre-shock adjustment on CAR, the role of buffers versus stress losses).

The training helped participants familiarize themselves with the new template, systemic risk analysis, scenario selection, credit risk modeling, shock calibration, and

the treatment of sovereign risk in ST. Despite the difficulties of remote delivery, the mix of presentations and exercises and the intensive use of the template made the training successful and greatly appreciated by participants. One country (Guyana) received a follow-up TA mission to further the work.

As travel resumes, online trainings, webinars, and peer-to-peer exchanges are to remain important CD modalities. The authorities highly value when they can learn from each other's experiences.



IMF Photo/Kim Haughton

Managing Director Kristalina Georgieva participates in the CARTAC 20th Anniversary Forum Event titled “Capacity Building Priorities for a More Sustainable, Resilient, and Inclusive Caribbean” moderated by Western Hemisphere Department Director Ilan Goldfajn with Prime Minister Mia Mottley and ECCB Governor Timothy Antoine at the Lloyd Erskine Sandiford Centre.



TANZANIA: CD TO FORMALIZE THE INTEREST RATE-BASED MONETARY POLICY FRAMEWORK



Carel Hugo



A November 2021 mission guided the Bank of Tanzania (BoT) in their

transitioning from monetary aggregate targeting (MAT) to an interest rate-based monetary policy framework (IRBMPF). The transition efforts were partly driven by the current deadline for full harmonization of East African Community (EAC) monetary policy frameworks in the fiscal year 2023/24. This work also addressed challenges with the MAT, such as the unpredictability of the velocity of money and the money multiplier, influenced by financial sector innovations, contributing to divergence in the growth of money supply and inflation. The BoT has usefully introduced facilities to manage systemic liquidity and meet banks' liquidity needs that have stabilized short-term money market rates. However, there were concerns regarding the downward stickiness of bank lending rates despite liquidity easing measures. A key requirement for the complete transition to an IRBMPF is the setting of a monetary policy rate which should reflect the monetary policy stance, anchor interbank pricing, and facilitate an effective monetary

policy transmission, provided monetary policy operations are conducted at the policy rate, as well as financial market development. The FX regime is regarded as free-floating even though BoT has intervened to deal with shocks and maintain exchange rate stability. BoT does not have an official FX intervention policy.

To support sustainable growth of the economy and maintain the primary objective of monetary policy (price stability), the BoT considers inflation targeting as an appropriate monetary policy framework. This CD was to assist the authorities with the strengthening of the operational framework to be appropriate for an IRBMPF and to make recommendations to this effect. The work had some challenges, though. For example, a key precondition before the internal policy rate could be formalized was the need to strengthen internal modeling and forecasting capabilities and enhancing exchange rate flexibility. The former was conducted separately through another EAC-lead CD activity delivered last February 2022. Further formalizing the current internal policy rate and its publication was required to introduce functional standing facilities.

The mission's approach resulted in greater buy-in from the authorities and expanded engagement with various stakeholders. A key factor for success was the team parked the solution and spent time understanding problem/s and interrogating the remaining hurdles in the evolution to an IRBMPF. The project has not yet been finalized, however. TA will be provided during

September 2022 to assist the BoT with formalizing an FX intervention policy. Continuous engagement with the authorities on operational and technical issues will be necessary to ensure the implementation of mission recommendations.

The main learning from the TA effort was the importance of being prepared

and obtaining the relevant information and data from authorities prior to the start of the mission; engaging all internal and external stakeholders during missions and remaining engaged post-mission completion. Involving member countries in regional workshops is important for peer learning and a basis for follow-up engagement.



IMF Photo

GUINEA: DEBT ISSUANCE AND CAPITAL ADEQUACY RATIO



Chaker Soltani



MCM has provided significant assistance to Guinea to a

broad range of workstreams—financial sector regulation and supervision, debt management, central bank operations, and crisis management preparedness. CD delivery modalities encompassed desk reviews, virtual TA and training, and two in-person CD activities were delivered as travel resumed. Guinea’s case is not an outlier, but one of many examples of the type of needs MCM often identifies in low-income countries—core MCM areas, with a focus on institution building. CD delivery has come from both HQ and AFRITAC West (AFW) where one resident advisor provides support on banking supervision and another resident advisor, funded by Japan, covers debt management. The 2019 FSSR undertaken in Guinea helped design a multi-year, sequenced and prioritized CD workplan of reforms to strengthen the financial sector prudential frameworks and safety nets. The resulting CD roadmap helps frame and sequence the CD provided both by AFW and HQ.

FIRST BOND ISSUANCE THROUGH AUCTIONS

by Chaker Soltani

AFW supported the Guinean authorities in developing and implementing a Reform Plan to improve the domestic market for government securities. Guinea has issued Treasury (T-) bills and two-year syndicated treasury bonds in the domestic market. However, a key challenge to developing the debt market in Guinea was moving the issuance of T-bonds to a market-based auction mechanism, which could facilitate more domestic financing for the government.

TA provided by AFW in 2020–21 helped the authorities to prepare the prerequisites for the T-bond auction initially scheduled for 2021. The work included a review of the legal framework for government securities; developing the issuance process to address gaps and inconsistencies in the current rules; drafting the operating procedures and tasks related to the arrangement and management of T-bond auctions; and training staff from the Debt Directorate, Treasury and Central Bank on the issuance process.

The military coup of September 2021 forced the postponement of the first auction and put the project on hold. Nevertheless, in 2022, CD work resumed with a virtual TA to help the authorities develop a strategy for issuing government securities, including T-bonds, a communication

program for investors, and for market consultation. The work included training on bond auctions to officials from the Ministry of Finance, Central bank, and commercial banks and two test auctions using the Central Bank platform dedicated to securities auctions. The Treasury successfully

carried out its first 5-year T-bond auction in April 2022. CD is expected to continue supporting the authorities' efforts to produce a periodic auction calendar for bills and bonds and its regular publication.



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IMPLEMENTATION OF THE BASEL FRAMEWORK-COMPLIANT NEW CAPITAL ADEQUACY RATIO



Jean-Charles Normand

For several years the Central Bank of the Republic of Guinea (BCRG) has been making steady efforts to align its financial regulatory and supervisory framework to international standards and best practices. These efforts have been partly motivated by the expectation the Republic of Guinea supervision frameworks should converge to the West African Monetary Zone (WAMZ)'s common rules and supervision process, especially regarding the Basel framework. The BCRG Governors' strong engagement in the reform process also played an important role.

The revision of various components of the capital adequacy standards began in 2019 with an initial review of the definition of own funds by the resident advisor. In FY22, still under the COVID-19 pandemic, the resident advisor further stepped up its support to the country using different means. The COVID-19 pandemic limited the opportunities for close on-site interactions, one of the key strengths of having CD resident advisors in the region, especially when working on confidential data. To overcome this challenge, the resident advisor established regular virtual engagements with the BCRG in-between missions. The supervisory

resources at the BCRG were tight at a time when structural reforms (e.g., implementation of IFRS 9) and day-to-day banking supervision had to be carried out simultaneously. This challenge is shared by many countries, particularly fragile and conflict-affected states. In this case, BCRG teams stepped up efforts and ownership of the reforms to compensate for the lack of resources, but the situation faces a sustainability challenge. Finally, the operational capacity of the banking sector to comply with the new rules was also in question, and the quality of banks' initial reported data made it difficult to assess the impact of the reform. The resident advisor responded to all these practical challenges on the ground, facilitating the BCRG's explanation of the new rule to the banking sector and flexibly adding a new mission to help assess the impact of the reform.

The draft regulations can now be considered finalized, after the impact study and the consideration of comments from the banking industry in June 2022. At each stage of TA, feedback was provided to the Director General in charge of the supervision of financial institutions and to the Governor or Vice-Governor

of the BCRG, who supported the whole process, which is an essential success factor.

The definition of regulatory capital was not a technically complex issue in a local context where common shares and reserves constitute almost all equity. Instead, the work focused mostly on the calculation of risk-weighted assets and the denominator of the capital ratio. The main challenges were categorizing exposures and adapting Basel's definitions to existing local ones, determining risk weights, and detailing eligible guarantees. One of the notable results of the impact study was to show the relative importance of the requirements related to operational

risk (18 percent of the total capital requirements) due to a limited lending activity of some banks that focus more on banking services than on the financing the economy.

The new framework will improve the alignment between risks and capital requirements and, as a result, strengthen banks' solvency. The BCRG will also benefit from enhanced supervisory instruments to address potential shocks to the banking sector as the BCRG's and industry's abilities to assess the loss absorption capacity of the sector are enhanced. Additional fine-tuning work will be needed to adapt IT tools to collect prudential reports and update internal procedures for processing, controlling,

and analyzing reports (e.g., the annual rating and the Supervisory Review Process). The BCRG will also have to develop methodologies to calibrate countercyclical and systemic buffers and, if necessary, to set individual Pillar II guidelines and requirements.

Key factors to success included: high-level managers' support, team involvement, and reform ownership, and the flexibility of CD providers to adapt to unforeseen obstacles. Complex reforms also benefit from early engagement with the banking industry; the industry needs to be part of the process and be informed of the planned changes and technical aspects to ensure the timely implementation of new rules.

TÉMOIGNAGE DE LA DIRECTION DE LA SUPERVISION BANCAIRE SUR LES TRAVAUX MENÉS SUR LE RATIO DE SOLVABILITÉ ET LEUR ADAPTATION AUX BESOINS DE LA BCRG

“La relation entre Banque Centrale de la République de Guinée (BCRG) et AFRITAC de l’Ouest continue de se renforcer et de produire de très bons résultats à la satisfaction des deux parties, particulièrement dans le domaine de la supervision bancaire où nous avons découvert et apprécié les compétences spécifiques de M. NORMAND Jean Jacques.”

“Nous notons sans réserve que la finalisation dans un délais rapide et acceptable des travaux sur le nouveau ratio de solvabilité est une preuve éloquent de l’efficacité de M. NORMAND.”



THE REPUBLIC OF NORTH MACEDONIA: UPGRADING THE MONETARY OPERATIONAL FRAMEWORK USING NEW INTEGRATED QUANTITATIVE AND PRACTICAL APPROACHES



Claney Lattie



At the core of central banking is the implementation of monetary policy

to achieve an objective for inflation, price stability, economic growth, exchange rate stability—or sometimes a combination of objectives—as specified in the central bank law. In turn, the central bank’s monetary operational framework is at the heart of an effective monetary policy framework, and its workings largely depend on the macroeconomic context and the level of financial market development. The monetary operational framework needs to fulfill three requirements: (1) to define a set of monetary instruments suitable for meeting the overall objective, (2) to ensure that the interactions among the range of instruments are suitably aligned with the broader objectives and facilitate clear communication for monetary policy, and (3) to organize and calibrate the instruments using high-quality and reliable liquidity forecasts.

The key objectives of the recent capacity development (CD) engagement with the National Bank of the Republic of North Macedonia (NBRNM) were assessing the three monetary policy framework

requirements. The MCM mission provided a comprehensive assessment and recommendations for a modernized monetary policy operational framework, including a systematic review of the reserve requirement framework that relied on the conceptual framework outlined in the recently published chapter titled Reserve Requirements from the [MCM TA Handbook](#). The Handbook provides a comprehensive review of reserve requirements within the monetary operations framework from the conceptual context to their practical use. Guided by this framework, the mission outlined the basis for the NBRNM to simplify and streamline the instrument to minimize the costs and distortions from using reserve requirements. Once reforms are completed the parameters for the reserve requirements should be more aligned with its primary role for monetary policy and make it more consistent with international practices documented in the Monetary Operations and Instruments Database (MOID).¹

¹ The IMF conducts this periodic survey of central banks’ use and organization of monetary instruments. The results from the last survey in 2018 are accessible to all contributing central banks and to select international financial institutions.

In addition, the NBRNM is among the first TA recipients to fully implement the new liquidity forecasting toolkit. To adequately calibrate its monetary operations, accurate and timely liquidity forecasts are essential for the NBRNM. Accordingly, this new liquidity forecasting toolkit comprises a suite of state-of-the-art models and quantitative tools that are readily available to the NBRNM to improve its forecasting capabilities; equipping the central bank with the capacity to prepare timely forecasts for the autonomous liquidity factors for varied horizons for the central bank operation and conducting aggregation and validation across the autonomous

liquidity factors. As the central bank trains the models, it can identify the most suitable model suite that captures the dynamics of liquidity developments within the country context. In due course, the NBRNM will have sufficiently accurate, consistent, and unbiased liquidity forecasts that it can eventually publish to help financial institutions improve their assessment of liquidity conditions, ultimately enhancing the effectiveness of monetary policy.

These improvements can help to deepen monetary policy transmission and better support the stability of the Macedonian denar that is

used to anchor expectations for price developments. In addition, proceeding with the reforms in the operational framework can help the NBRNM improve its communication about monetary policy. Finally, this CD engagement can further advance the transparency practices of the NBRNM for monetary policy, as *The CB Transparency Code Review for the Republic of North Macedonia* indicates that the NBRNM has a comprehensive transparency framework for its core monetary policy mandate that is well established to cover decisions, analysis, and related reporting on outcomes.

THE UNITED ARAB EMIRATES: STRENGTHENING THE LIQUIDITY MANAGEMENT AND FORECASTING FRAMEWORKS



Joëlle El Gemayel



Romain Lafarguette



Over the course of 2020 and 2021, the Central Bank of the United

Arab Emirates (CBUAE) revamped its monetary policy implementation framework. Under the new Dirham Monetary Framework, a floor interest rate corridor system was implemented to steer the overnight interbank rate towards the policy rate set at a level consistent with the currency peg. It was complemented by the conduct of open market operations (OMOs) to drain the structural liquidity surplus and support money market development.

A virtual MCM TA mission, conducted from June 28 to July 26, 2021, supported the authorities in further strengthening their liquidity management and forecasting frameworks. The mission was led by IMF staff, and mission members were carefully selected with the perspective of leveraging both academic and professional expertise in central banking. The mission reviewed the newly introduced operational framework and assisted in the design and calibration of the: (i) central bank bills' issuance, (ii) various fine-tuning monetary instruments; and (iii) reserve requirements. Moreover, the mission provided hands-on training

and delivered a complete liquidity forecasting infrastructure, using cutting-edge statistical methods, to project the three main central bank autonomous factors.

One important innovation of this modeling work is to integrate forecasting risks, to anticipate large swings in liquidity conditions and therefore improve liquidity management. The mission also modeled the demand for banks reserves using non-linear semi-parametric methods with cross-validation. The model identifies the impact of short-run market-driven fluctuations and the reserve requirements regime on the demand for central bank liquidity. This new approach estimates the optimal overnight liquidity surplus target the CBUAE should maintain to maximize its monetary policy traction and support the money market development. The TA mission also provided a quantitative framework to calibrate the operational mix between the different liquidity absorptions instruments. Finally, the mission investigated the functioning and structure of the UAE money markets.

The implementation of the TA will contribute to the overall enhancement

The authorities were greatly appreciative of IMF's support especially the thrust of the mission's findings, recommendations, and training. They qualified this technical assistance mission as "the best technical assistance mission they have received so far". They have subsequently agreed on the publication of the full [TA report](#).

of monetary policy implementation in the UAE through (i) the expansion of the appropriate monetary instruments for fine-tuning operations, while ensuring overall consistency with the operational framework, and (ii) the buildup of a robust short-term liquidity forecasting framework to calibrate the optimal size of the overnight liquidity surplus, the optimal size of reserves requirement and operational mix across the different instruments. This transparent approach will support the CBUAE staff in their day-to-day work and provides clear guidance for the policymakers. It ensures robustness and consistency over-time to the new Dirham monetary framework.

This TA engagement with the CBUAE will also help inform future CD on liquidity management and forecasting under a fixed exchange rate arrangement and capital mobility in other member countries. Main learnings are:

- Close collaboration with the authorities is key In-depth discussions with the authorities ahead of the mission on the scope and tasks to be accomplished is critical as it provides a great opportunity to motivate the data

and information request. Close collaboration throughout the mission through in-depth discussions of the findings and recommendations is key to gauge their absorption capacity, secure ownership of the reforms, and maintain the traction throughout the mission and beyond.

- Successful CD lies in blended modalities. Building capacity requires an appropriate mix of extensive discussions with the authorities as well as targeted training to ensure a good absorption of the technical knowledge and policy decisions. Wherever applicable, the delivery of an open-source software infrastructure tremendously facilitates the quick adoption of the recommendations and, as a result, the achievement of the CD objective and outcomes.
- Experts' inputs can be leveraged by combining both academic and professional backgrounds. The use of highly capable experts, with deep practical and theoretical knowledge, along with a willingness to understand the idiosyncratic issues faced by the CBUAE have ensured engagement with the authorities and achievement of great results.

WEST BANK AND GAZA: IMPROVING FRAMEWORKS FOR FINANCIAL CRISIS MANAGEMENT AND BANK RESOLUTION



David Blache



The 2018 Financial Sector Stability Review (FSSR) for West

Bank and Gaza (WBG) recommended improvements to the framework for financial crisis preparedness and management, including upgrading their toolkit for handling distressed banks in line with international best practices. Revisions of the Banking Law under preparation encompassed the establishment of a special resolution regime, providing the

Palestine Monetary Authority (PMA) resolution tools.

During FY22, MCM delivered three TA missions to the PMA on bank resolution and financial crisis management, in line with the multi-year TA road map set out in the FSSR:

- (i) An MCM- Legal (LEG) department joint virtual mission reviewed the resolution-related amendments to the Banking Law; this joint desk review was followed by a second mission by LEG experts to support the PMA experts in drafting a draft legislation,
- (ii) TA on the governance of the new resolution function of the PMA, including the separation between the existing banking supervisory tasks and its new resolution responsibilities.
- (iii) TA on developing a financial crisis management plan.

Despite significant operational challenges during the COVID-19 pandemic, PMA officials showed strong buy-in, commitment, and flexibility—PMA top senior management, the exceptional commitment of PMA, and IMF short-term experts. The collaboration with the PMA



involved various delivery modalities: short-term, virtual engagements early in the pandemic that evolved into longer missions. Relationships built through in-person missions prior to the closing of borders helped ensure continuity of the work. The authorities

made good progress, with the PMA now having more expert staff allocated to resolution, both on the legal and the operational side; completed the new resolution regime; and started to prepare resolution plans for the systemic domestic banks. Coordination

with the deposit insurance scheme also improved, with the latter being empowered to support resolution measures under the statutory regime. Future missions will continue to implement the work program outlined by the FSSR.

LETTER FROM THE GOVERNOR TO THE MANAGING DIRECTOR OF THE IMF

"In particular the PMA highly appreciates the IMF's contribution to the Financial Stability Review, technical assistance missions related to the development of the Recovery and Resolution Regime, and Crisis Management.

The MCM support has immensely contributed to the growth and development of the PMA policies and future strategies, as well as played a major role in strengthening financial stability in Palestine."

APPENDICES

APPENDIX I.

IMF Regional Capacity Development Centers

RCDC	Location	Member Countries
AFRICA		
AFRITAC Central (Central Africa Regional Technical Assistance Center)	Libreville, Gabon	Burundi, Cameroon, Chad, Central African Republic, Congo, Democratic Republic of the Congo, Gabon, Equatorial Guinea, and Sao Tome and Principe.
AFRITAC South (Regional Technical Assistance Center for Southern Africa)	Ebene Cybercity, Mauritius	Angola, Botswana, Comoros, Eswatini, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia, and Zimbabwe.
AFRITAC West (West Africa Regional Technical Assistance Center)	Abidjan, Côte d'Ivoire	Benin, Burkina Faso, Cote d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.
AFRITAC West II (second African Regional Technical Assistance Centre in West Africa)	Accra, Ghana	Cabo Verde, The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.
East AFRITAC (Regional Technical Assistance Center for East Africa)	Dar es Salaam, Tanzania	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, South Sudan, Tanzania, and Uganda.
ASIA AND PACIFIC		
PFTAC (Pacific Financial Technical Assistance Centre)	Suva, Fiji	The Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, Vanuatu.
SARTTAC (South Asia Regional Training and Technical Assistance Center)	New Delhi, India	Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka.
IMF Capacity Development Office in Thailand (CDOT)	Bangkok, Thailand	Myanmar, Lao P.D.R., Cambodia, and Vietnam. Select capacity development projects based in CDOT also cover other countries in Southeast Asia and the Pacific Island region.
MIDDLE EAST		
METAC (Middle East Regional Technical Assistance Center)	Beirut, Lebanon	Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, West Bank and Gaza, and Yemen.
CCAMTAC (Caucasus, Central Asia, and Mongolia Technical Assistance Center)	Almaty, Kazakhstan	Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan.
WESTERN HEMISPHERE		
CARTAC (Caribbean Regional Technical Assistance Centre)	Bridgetown, Barbados	Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Sint Maarten, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos Islands.
CAPTAC-DR (Central America, Panama and the Dominican Republic Regional Technical Assistance Center)	Guatemala City, Guatemala	Costa Rica, The Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

APPENDIX II.

MCM Long-Term Resident Expert Placement (as of April 30, 2022)

Affiliation	Location	Topic	Donor Partner
AFRITAC Central	Gabon	Banking Supervision and Regulation	Multi-Donor
AFRITAC Central	Gabon	Debt Management	DMF
AFRITAC East	Tanzania	Banking Supervision and Regulation	Multi-Donor
AFRITAC East	Tanzania	Forecasting and Policy Analysis Systems	Multi-Donor
AFRITAC East	Tanzania	Monetary and Foreign Exchange Operations, and Financial Market Infrastructures (FMI) and Payments	Multi-Donor
AFRITAC South	Mauritius	Banking Supervision and Regulation	Multi-Donor
AFRITAC South	Mauritius	Monetary and Foreign Exchange Operations	Multi-Donor
AFRITAC South	Mauritius	Payment Systems / FMI / Fintech	Multi-Donor
AFRITAC West	Cote D'Ivoire	Banking Supervision and Regulation	Multi-Donor
AFRITAC West	Cote D'Ivoire	Debt Management	Japan
AFRITAC West 2	Ghana	Banking Supervision and Regulation	Multi-Donor
AFRITAC West 2	Ghana	Monetary and Foreign Exchange Operations	Multi-Donor
Bank of Mozambique	Mozambique	Central Bank Modernization	Norway
Bank of Sierra Leone	Sierra Leone	Banking Supervision and Regulation	FSSF
Bank of Sierra Leone	Sierra Leone	Monetary Policy and Financial Stability	FIRST
CAPTAC-DR	Guatemala	Banking Supervision and Regulation	Multi-Donor
CAPTAC-DR	Guatemala	Monetary and Foreign Exchange Operations	Multi-Donor
CARTAC	Barbados	Banking Supervision and Regulation	Multi-Donor
CARTAC	Barbados	Debt Management	Multi-Donor/Canada
CARTAC	Barbados	Financial Stability	Multi-Donor
CCAMTAC	Kazakhstan	Monetary and Foreign Exchange Operations	Multi-Donor
CCAMTAC	Kazakhstan	Financial Supervision and Regulation	Multi-Donor
CDOT	Thailand	Monetary and Foreign Exchange Operations	Japan
Central Bank of Sri Lanka	Sri Lanka	Macroprudential Policy and Stress Testing	FSSF
Central Bank of The Gambia	The Gambia	Banking Supervision and Regulation	FSSF
METAC	Lebanon	Banking Supervision and Regulation	Multi-Donor
METAC	Lebanon	Monetary and Foreign Exchange Operations	Multi-Donor
Ministry of Finance, Ukraine	Ukraine	State-Owned Banks Governance	SECO
National Bank of Cambodia	Cambodia	Banking Supervision and Regulation	Japan
National Bank of Cambodia	Cambodia	Macroprudential Policy/Stress Testing	FSSF
National Bank of Rwanda	Rwanda	Banking Supervision and Regulation	FSSF
National Bank of Ukraine	Ukraine	Banking Supervision and Regulation	Canada
National Bank of Uzbekistan	Uzbekistan	Macroprudential Policies	FSSF ¹
PFTAC	Fiji	Banking Supervision and Regulation	Multi-Donor
PFTAC	Fiji	Debt Management	Japan
SARTTAC	India	Monetary and Foreign Exchange Operations	Multi-Donor
SARTTAC	India	Banking Supervision and Regulation	Multi-Donor

¹ The position was filled in end-FY22; the expert officially started on July 5, 2022.

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See you next year!

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