



IMF POLICY PAPER

2021 COMPREHENSIVE SURVEILLANCE REVIEW— OVERVIEW PAPER

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

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

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes the 2021 Comprehensive Surveillance Review

FOR IMMEDIATE RELEASE

- The review provides the strategic direction for the IMF's surveillance and aims to make it more timely, topical, targeted, interconnected, and better informed.
- A macroeconomic landscape characterized by elevated uncertainties about the recovery from the COVID-19 pandemic creates difficult trade-offs for policymakers as they seek to achieve inclusive and sustainable growth and stability. Important trends—in digital technology, climate change, inequality, demographics, and geopolitics—affect economic sustainability and present opportunities and challenges.
- Against this background, the priorities that will guide IMF surveillance are confronting risks and uncertainties, preempting and mitigating spillovers, fostering economic sustainability and a unified approach to policy advice.

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

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

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

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

Executive Board Assessment

Executive Directors broadly agreed with the main conclusions of the Comprehensive Surveillance Review (CSR). They noted that the CSR will serve as a blueprint for Fund

surveillance to help the membership navigate the challenges of the next five-to-ten years, informing forthcoming work on capital flows, climate change, and data, among other issues. Directors agreed that Fund surveillance needs to be better interconnected, more timely, topical, and targeted, and welcomed the CSR's ambitions to modernize surveillance modalities.

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

Directors agreed with the four proposed surveillance priorities:

Confronting risks and uncertainties. Directors generally welcomed better integrating risks and uncertainties in the Fund's surveillance, including by increasing the emphasis on the range of potential outcomes relative to the baseline and offering more contingent policy advice, although some Directors cautioned against making surveillance excessively risk-centric. Directors welcomed the emphasis on clearer communication on risks, although the communications should be carefully framed to avoid unintended consequences.

Pre-empting and mitigating adverse spillovers. Directors agreed that the Fund should continue to strengthen its work on spillovers, drawing on better data, tools, and information-sharing frameworks, while strengthening the dialogue with the membership. Directors broadly agreed that the Spillovers Tool and the Spillovers Forum would help in this regard.

Fostering economic sustainability. Directors welcomed a broader focus on sustainability, which can be affected by factors such as demographics, digitalization, inequality, socio- and geopolitical developments, and climate change under certain circumstances. They supported incorporating the macro-financial and distributional impacts of policies, where macro-economically relevant, while considering country-specific political economy, and institutional and capacity constraints. At the same time, Directors recognized the need for Article IV consultations to remain selective and focused in their coverage of new topics and cautioned against over-stretching Fund surveillance. They called on the Fund to coordinate closely with other organizations and better leverage outside expertise whenever possible.

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

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

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

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

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

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

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

Directors welcomed the proposed flexible and gradual approach to implementing the new modalities, which revolve around the principle of experimentation, adaptation, and flexibility, while working within the confines of existing formal frameworks. They looked forward to a revised surveillance guidance note, and sought Board engagement on implementation of

modalities as well as coordination across departments in advance of the guidance note and in the context of the semi-annual work program discussions.

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

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



April 7, 2021

2021 COMPREHENSIVE SURVEILLANCE REVIEW— OVERVIEW PAPER

EXECUTIVE SUMMARY

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

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

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

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

- **Timely, topical, and targeted:** to make policy advice more granular and tailor it to country-specific circumstances, identify lessons from cross-regional policy-relevant issues, and more focused on topical issues. Making better use of technology to support engagement with the membership will be a key component of the strategy.
- **Better interconnected:** with strengthened incorporation of macrofinancial analysis into Article IV consultations, supported by closer FSAP integration and expanded macrofinancial talent. Greater use of contingent policy advice to assess a range of potential outcomes, more mindful of spillovers, further integration of capacity development into surveillance and enhanced collaboration with external partners would also help to strengthen the Fund’s policy advice.
- **Better informed:** with revamped training, better analytical tools, and more and better data to strengthen fact-based analysis, supported by ongoing efforts to interconnect digital technology into the workplace and leverage country information produced by the Fund.

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

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

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Interdepartmental Contact Group

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External Advisory Group

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