



# IMF POLICY PAPER

May 2021

## 2021 COMPREHENSIVE SURVEILLANCE REVIEW— BACKGROUND PAPER ON THE SURVEILLANCE PRIORITY CONFRONTING RISKS AND UNCERTAINTIES

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- The **Staff Report**, prepared by IMF staff and completed on March 19, 2021 for the Executive Board's consideration on May 10, 2021.

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### EXECUTIVE SUMMARY

The coverage of risks has become more systematic since the Global Financial Crisis (GFC): staff reports now regularly identify major risks and provide an assessment of their likelihood and economic impact, summarized in Risk Assessment Matrices (RAM). But still limited attention is paid to the range of possible outcomes. Also, risk identification is useful only so much as to inform policy design to preemptively respond to relevant risks and/or better prepare for them. In this regard, policy recommendations in surveillance could be richer in considering various risk management approaches.

Following the outbreak of COVID-19, policymakers have been operating in a highly uncertain environment—a situation that may persist for years to come. Fund surveillance needs to adjust to better support our membership in designing policies that are robust to a full range of possibilities, including better-than-expected outcomes if concerted efforts on faster vaccination and building back stronger through structural reforms pay off. To this end, progress is needed on two dimensions:

- *Increasing emphasis on the range of potential outcomes to improve policy design.* This could be done through the greater use of scenarios or fan charts (leveraging the newly developed analytical tools), illustrating the impact of potential shocks—negative and positive—under various risk management policies. Considering such a range would help internalize risks in policy advice. Notwithstanding potential communications challenges, teams should also consider low-probability high-impact risks and ‘black swan’ events.
- *Encouraging more proactive policy advice on how to manage risks.* This includes advice on the relative importance and effectiveness of various risk management policies and tools. Fund surveillance should provide a meaningful analysis of alternative policy options, aiming to deliver a baseline policy advice that is robust to risks and, where relevant, contingency plans if risks were to already materialize (both calibrated to country-specific circumstances).

Efforts should continue to leverage internal and external resources to support risk analysis and advice in surveillance. This includes strengthening the engagement with

outside experts and—with the growing relevance of non-economic risks—expanding it to make risk identification more interdisciplinary. Internally, development and preservation of risk assessment and management expertise needs to be facilitated, including through internal training and by setting up knowledge sharing networks of experts across area and functional departments. Finally, capacity development should be an important element of risk-oriented surveillance, helping to deepen the dialog with member countries.

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