

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

MASTER FILES

ROOM, 04120

01.

SM/83/43
Supplement 1

March 21, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Annual Review of the Implementation of Surveillance

The attached supplement to the paper on the annual review of the implementation of surveillance provides more detailed estimates for recent years of the number of cases for which the circulation of information notices on changes in real effective rates could have been required.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Annual Review of the Implementation of Surveillance
Supplementary Material

Prepared by the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by C. David Finch

March 18, 1983

I. Introduction

The "Annual Review of the Implementation of Surveillance" (SM/83/43, 3/1/83) reported (p. 23) on staff simulations of the number of information notices that would have been required to advise the Board of changes in real effective exchange rates exceeding a certain threshold. It was indicated that a 5 per cent threshold for changes in real effective exchange rates would have resulted in recent years in 25-30 additional communications each year for the 41 currencies that currently are governed by more flexible exchange arrangements or participate in cooperative arrangements. One third to one half that number would have been required with a 10 per cent threshold. The purpose of this supplement is to set out the basis for these estimates and to include estimates relating to pegged currencies and currencies displaying limited flexibility relative to another currency.

II. Methodology

1. Country coverage

All 41 countries classified as maintaining flexible exchange arrangements or involved in cooperative arrangements at the end of 1982 were included. For countries which, at the end of 1982, either maintained pegged exchange rates or maintained rates for their currency with limited flexibility relative to another currency, 69 countries (out of 105) were included. The lack of readily available data on the direction of trade or on domestic prices prevented the inclusion of the remaining 36 countries, most of which play a small role in world trade.

2. Index of competitiveness

The index used to monitor changes in competitiveness is a monthly import-weighted real effective exchange rate index calculated using average 1978-80 non-oil import weights, consumer prices and monthly

average exchange rates (Data Fund line rh). In cases where monthly consumer price data were not available for the whole period covered by the study (January 1979-December 1982), actual data were used up to the last date available and estimates derived from the annual projections for each country underlying the latest World Economic Outlook were used for the remainder of the period. Similarly, when only annual or quarterly indices of consumer prices are available, monthly series were interpolated from annual or quarterly series.

This particular index was chosen for the simulation because it could be calculated from a readily available data base in a standard form. In practice, as noted on p. 24 of SM/83/43, a number of indicators could be used, and it would be necessary to select for each member the best available indicator(s).

3. Consultation cycle and other Board discussions

For purposes of the simulation, all countries were assumed to be on a 12-month consultation cycle with a consultation in December of each year. Since the proposed reporting procedure pertains to changes in competitiveness between consultations, a longer average cycle would tend to increase the number of information notices. The actual average cycle of 17-20 months that obtained in 1979-82 would thus have resulted in a larger number of information notices. As reported in the Annual Review of Surveillance, however, it is planned to observe a stricter consultation schedule in the future.

For each currency, changes in the real effective rate were measured relative to the most recent Board discussion of the country's situation: either a discussion of a member's request for the use of Fund resources (original request, program review or waiver) or the hypothetical consultation in December of the preceding year. Thus, both the frequency of consultations and the number of requests for the use of Fund resources, including the frequency of reviews, influence the number of information notices.

4. Monitoring of changes in real effective rates

Monthly changes in real effective rates were monitored. If a change exceeded the threshold (5 per cent or 10 per cent) in any month, an information notice was assumed to be circulated to the Board and the monitoring was restarted from the new base. To reflect the proposal that information notices be circulated only when the change is clearly in excess of the threshold the simulation excluded changes that were quickly reversed; that is, those that were not maintained in the following month.

III. Simulated Frequency of Information Notices

Simulation results over the period 1979-82 are summarized in Tables 1 and 2 for flexible currencies and pegged currencies, respectively. In each case the results for both a 5 per cent and 10 per cent threshold are presented. Detailed results for each country are shown in Tables 3 and 4.

In the case of currencies that currently are governed by more flexible exchange rate arrangements or participate in cooperative arrangements, changes in real effective rates would have exceeded the 5 per cent threshold in 35-55 cases per year, and the 10 per cent threshold in 15-25 cases per year. The number of information notices from the staff, however, would have been significantly lower. As indicated in Table 1, in many cases the thresholds were exceeded around the time of Board discussions of financial programs or at the end of the year (the time of the hypothetical Article IV consultations). In these cases, it would be expected that the staff report itself, or any necessary supplement, would inform the Board of the change in the real effective exchange rate. In other cases, notifications were in fact issued to the Board under the existing procedures for notification of changes in exchange rate policy, discrete changes in exchange rates, or policies of changing the exchange rate on the basis of a preannounced schedule. Excluding these, the simulations indicate that, if the 5 per cent threshold had been in place during this period, some 25-30 information notices each year would have been required. In the case of the 10 per cent threshold, 8-14 information notices would have been required.

For pegged currencies and currencies maintaining limited flexibility in terms of another currency (Table 2), changes in the real effective rate since the last Board discussion or staff notice would have exceeded the 5 per cent threshold in 55-100 cases during the period of the study, and the 10 per cent threshold in 15-45 cases. Excluding cases that were notified under existing procedures or when thresholds were exceeded shortly before Board discussions of programs for the use of Fund resources or to conclude the hypothetical Article IV consultations, the 5 and 10 per cent thresholds would have given rise to, respectively, 30-70 information notices and 10-30 information notices. The variability of the number of information notices in the case of pegged currencies and currencies maintaining limited flexibility relative to another currency results from the fact that changes in real effective rates for these currencies reflect, to a large extent, the degree of stability of the exchange rate of the currencies to which they are pegged. Thus, in 1981 and 1982, the number of information notices for pegged currencies in the simulations was much larger than in earlier years because of large fluctuations in the exchange rates for the major currencies.

Table 1. Simulated Frequency of Information Notices on Changes in Real Exchange Rates, 1979-82: More Flexible Arrangements and Currencies Participating in Cooperative Arrangements

	1979	1980	1981	1982
<u>Threshold 5 per cent</u>				
Countries	21	27	32	28
Cases <u>1/</u>	37	41	48	55
less:				
Concurrent with Board discussion of program <u>2/</u>	(2)	(5)	(12)	(4)
Concurrent with Article IV consultation <u>3/</u>	(9)	(10)	(3)	(9)
Notified under existing procedures	(<u>2</u>)	(<u>1</u>)	(<u>7</u>)	(<u>13</u>)
Information notices	24	25	26	29
<u>Threshold 10 per cent</u>				
Countries	14	15	11	15
Cases <u>1/</u>	21	19	17	25
less:				
Concurrent with Board discussion of program <u>2/</u>	(3)	(3)	(5)	(4)
Concurrent with Article IV consultation <u>3/</u>	(6)	(6)	(--)	(1)
Notified under existing procedures	(<u>2</u>)	(<u>1</u>)	(<u>4</u>)	(<u>6</u>)
Information notices	10	9	8	14

1/ Reflects the fact that there may be two or more occurrences for the same country.

2/ Criterion exceeded either in the same month or in the month preceding Board discussion of member's program (original program, review or waiver) or purchase under the compensatory facility.

3/ Criterion exceeded in eleventh or twelfth month.

Table 2. Simulated Frequency of Information Notices on Changes in Real Exchange Rates, 1979-82: Pegged Currencies and Currencies Maintaining Limited Flexibility in Terms of Another Currency

	1979	1980	1981	1982
<u>Threshold 5 per cent</u>				
Countries	38	35	54	43
Cases <u>1/</u>	56	53	98	77
less:				
Concurrent with Board discussion of program <u>2/</u>	(12)	(5)	(12)	(10)
Concurrent with Article IV consultation <u>3/</u>	(12)	(14)	(10)	(6)
Notified under existing procedures	(<u>3</u>)	(<u>1</u>)	(<u>6</u>)	(<u>7</u>)
Information notices	29	33	70	54
<u>Threshold 10 per cent</u>				
Countries	13	12	29	28
Cases <u>1/</u>	16	16	44	37
less:				
Concurrent with Board discussion of program <u>2/</u>	(2)	(3)	(6)	(5)
Concurrent with Article IV consultation <u>3/</u>	(2)	(2)	(4)	(6)
Notified under existing procedures	(<u>3</u>)	(<u>1</u>)	(<u>3</u>)	(<u>5</u>)
Information notices	9	10	31	21

1/ Reflects the fact that there may be two or more occurrences for the same country.

2/ Criterion exceeded either in the same month or in the month preceding Board discussion of member's program (original program, review or waiver) or purchase under the compensatory facility.

3/ Criterion exceeded in eleventh or twelfth month.

Table 3. Month in Which Cumulative Change in Real Exchange Rate from End of Preceding Year or from Preceding Notice Exceeds 5 per cent 1/

	1979	1980	1981	1982
Pegged currencies				
U.S. dollar				
Bahamas	7		5	10
Barbados			6	7
Bolivia	11	12	1,5	<u>2,4,6,8,11</u>
Burundi	1,4,9*	5,11	7,11	3,8
Dominican Republic	9*,11	2		
Ecuador			3,6	<u>6,10</u>
Egypt	<u>1</u>	2	3,6	<u>2,6</u>
El Salvador			3	3
Ethiopia	5,12*	3,6	2	6*
Guatemala			2	
Haiti		2	2,7,12	1
Honduras				10*
Jamaica		5,11		
Liberia		3,6	3,7*	6*
Nepal	10		5,7,9	3,6,8,12
Nicaragua	4*	4	1,3,6,10	6,12
Panama				8
Paraguay	6,9,12	7	2,4,10	2,7
Romania	9*		1,5*	2,6*
Rwanda	2		4,7,11	2,7
Sudan	5*	11*	2,4*,7,9,11	1*,6,9,11
Suriname			5	3
Syrian Arab Rep.	7	2,6,12	4,7	2
Trinidad & Tobago	11		6	b
Venezuela	11	11	5	5
Yemen Arab Rep.	5		4	3,7
Yemen, P.D.R.			5	2,6,10
French franc				
Benin				
Cameroon	7*	12	6,10	
Central African Rep.		9		
Chad	9	9	9	
Congo		3		
Gabon		12		
Ivory Coast	5		6,9*	
Mali			11	
Niger	12		6,10	
Senegal			4	
Togo			11*	1,10
Upper Volta	9	1,7	1,5,9	
Other currency				
The Gambia	7,10*		4	
SDR				
Burma	6	2,9		7
Jordan	4,11	5	1,3	
Kenya	7*		<u>10,12*</u>	
Malawi				5
Mauritius	10*,12		9	10*
Somalia	1,5	4,8*,12	1,4,6*,11	1,7*
Zaire	<u>1,5,7*,12</u>	2,5*	1,4,6*,8,10	6,8,11
Zambia		9	4*	4,10
Other composite				
Austria				
Bangladesh	7*,10	12*		12
China, People's Rep.	11	11	2*	
Cyprus				
Fiji		12		
Finland				
Madagascar	12	11	4*,8,12	2,5,7*,10
Malaysia		4		8
Malta			<u>5</u>	
Mauritania		11	<u>4</u>	7

Table 3 (concluded). Month in Which Cumulative Change in Real Exchange Rate from End of Preceding Year or from Preceding Notice Exceeds 5 per cent ^{1/}

	1979	1980	1981	1982
Norway	7		12	
Singapore			6	
Sweden			<u>10</u>	
Tanzania	1	3,9*,12	4	6, <u>10</u>
Tunisia			4*	
Flexibility limited				
Single currency				
Afghanistan	2, <u>5</u>	4,8	1,5	2,7
Bahrain	5	5	6,11	2
Ghana	4,6,11	3,6,10,12	1,3,5,8,12	2,6,10
Guyana			2	6,10*
Indonesia	2,5		6	1
Thailand	8	3,9	3	3,10*
Cooperative arrangements				
Belgium		11	5	<u>3</u>
Denmark	12	11		
France				<u>7</u>
Germany		8	7	
Ireland		11	9	
Italy	8		4	12
Luxembourg		10	<u>12</u>	<u>3</u>
Netherlands		11	5, <u>10</u>	
More flexible				
Adjusted according to a set of indicators				
Brazil	9,12	11	<u>4</u>	2,7, <u>10</u>
Chile	11	4,10	5	<u>7,9,12</u>
Colombia	5		4	3
Peru	4		1,6	12*
Portugal			10	<u>6</u>
Other managed floating				
Argentina	<u>2,6,8</u>	3,8,10	<u>4,6,10</u>	<u>1,4,7,9</u>
Australia			6	
Costa Rica			<u>1,3,6*,10,12</u>	<u>1,3,6,11*</u>
Greece	1,11	5		
Iceland	4	7	2	<u>1,8</u>
India				
Korea	3,11	1,6*	6,12*	
Mexico		<u>3,12</u>	4	<u>2,5,8,10,12*</u>
Morocco		11*		
New Zealand				
Nigeria	4	8	1	
Pakistan		11*	7	3,12
Philippines	4,11	5	7*	7,12
Sierra Leone	5		3*	3,6,10
Spain	4	5,12		12
Sri Lanka		3,9	3,9	6
Turkey	3,6*,9	1*	1*,8*	6
Uganda	2,5,8*,11	4,6,8,11	2,4,6*,9*	2
Western Samoa	<u>6</u>	4,12	1,4*	9
Yugoslavia		6*,10	1*,8*	6,10*
Independent floating				
Canada			11	
Israel				8,10
Japan	3,8,11	6	7	2,7,12
Lebanon		3		6,9,12
South Africa	8	7,11	9	
United Kingdom	4,7	2,7	7	12
United States			6	3,10
Uruguay	5,9,11		6*	6,11

^{1/} For purposes of Tables 1 and 2, cases marked * are assumed to be communicated to the Board through staff papers presenting requests for use of Fund resources and other cases occurring in the eleventh and twelfth months through staff reports for Article IV consultations. Other cases that were communicated to the Board under existing procedures are identified by -.

Table 4. Month in Which Cumulative Change in Real Exchange Rate
from End of Preceding Year or from Preceding Notice Exceeds 10 per cent 1/

	1979	1980	1981	1982
Pegged currencies				
U.S. dollar				
Bahamas				
Barbados				
Bolivia			1,6	<u>2,4,7,9,11</u>
Burundi	4	6		6
Dominican Republic				
Ecuador			5	<u>6,10</u>
Egypt	<u>1</u>	3	4	3
El Salvador			7*	
Ethiopia			3	
Guatemala				
Haiti			6	
Honduras				
Jamaica		8		
Liberia			6	
Nepal			6,11	6
Nicaragua	4*	5	3,7	11
Panama				
Paraguay	9		4	<u>7</u>
Romania			<u>1</u>	6*
Rwanda	4		<u>5</u>	6
Sudan			4*,7,9,11	2*,7,12
Suriname				
Syrian Arab Rep.		3	4,11	
Trinidad & Tobago				10
Venezuela				9
Yemen Arab Rep.			6	6
Yemen P.D.R.			7	6
French franc				
Benin				
Cameroon				
Chad				
Congo				
Gabon				
Ivory Coast				
Mali				
Niger			7	
Senegal				
Togo				
Upper Volta			1,6,9	
Other currency				
The Gambia				
SDR				
Burma		9		
Jordan				
Kenya			<u>10</u>	
Malawi				<u>5</u>
Mauritius			9	
Somalia	4	4,8*	2,6*	2*,7*
Zaire	<u>1,5,8*</u>	<u>3,5*</u>	4,6*,10	7,11
Zambia				7
Other composite				
Austria				
Bangladesh				
China, People's Rep.				
Cyprus				
Fiji				
Finland				
Madagascar			9	11
Malaysia				
Malta				
Mauritania		12	5*	10

Table 4 (concluded). Month in Which Cumulative Change in Real Exchange Rate from End of Preceding Year or from Preceding Notice Exceeds 10 per cent ^{1/}

	1979	1980	1981	1982
Norway				
Singapore			11	
Sweden				11
Tanzania	1	8*	5*	8
Tunisia				
Flexibility limited				
Single currency				
Afghanistan	5	5	2,5	6
Bahrain	7		7	7
Ghana	7,11	3,9,11	1,4,7	10
Guyana				8
Indonesia	4			6
Thailand	11			10*
Cooperative Arrangements				
Belgium				
Denmark				
France				
Germany		11		
Ireland				
Italy				
Luxembourg				
Netherlands				
More flexible				
Adjusted according to a set of indicators				
Brazil	12	12	6	4
Chile		10		8
Colombia			6	8
Peru	7*		5	
Portugal				
Other managed floating				
Argentina	4,8	4,10	4,6	1,5,7,9
Australia				
Costa Rica			1,3,6*,10	1,5,9
Greece	11			
Iceland	11		3	8
India				
Korea	5	1		
Mexico		8		3,8,12*
Morocco				
New Zealand				
Nigeria	8	11		
Pakistan			7	4*
Philippines	5*			
Sierra Leone				4,8
Spain		12		
Sri Lanka			6*	
Turkey	4,6*,10	1*		
Uganda	3,6,11	4,7,11	2,6*,10*	3*
Western Samoa	6	10		
Yugoslavia		6*,12*		
Independent floating				
Canada				
Israel				10
Japan	4,11	12		6
Lebanon				8,10
South Africa		9		
United Kingdom	6	4	9	
United States				8
Uruguay	8,12		6*	7*,11

^{1/} For purposes of Tables 1 and 2, cases marked * are assumed to be communicated to the Board through staff papers presenting requests for use of Fund resources and other cases occurring in the eleventh and twelfth months through staff reports for Article IV consultations. Other cases that were communicated to the Board under existing procedures are identified by -.