

SUR/84/32

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The Chairman's Summing Up at the Conclusion of the
Review of the Document "Surveillance Over Exchange Rate Policies"
and Annual Review of the Implementation of Surveillance
Executive Board Meeting 84/40 - March 12, 1984

In our review, Directors once again indicated the great importance they attach to the Fund's role in the field of surveillance. They also stressed that effective surveillance requires the full cooperation of members and that it must be conducted in an effective and evenhanded way.

The discussion encompassed two reviews: the biennial review of the basic document setting out the principles of surveillance and the annual review of the implementation of surveillance. I shall refer first to Directors' remarks on the key issues encountered in the conduct of surveillance that can be related to the principles and procedures set out in the documents. Second, I shall refer to the remarks relating to the various methods through which surveillance is carried out: the multilateral aspects, Article IV consultations, and exchange rate monitoring.

I. Key Issues in the Conduct of Surveillance

In focusing on the substance of surveillance, a number of Directors stressed that the Fund should be more energetic in its efforts to make surveillance effective, evenhanded, and symmetrical. The following conclusions emerged from the discussions.

First, while many Directors recognized that the assessment of exchange rate policies was a very complex task, they stressed that it was incumbent on the Fund to form a view on the appropriateness of members' exchange rate policies, irrespective of the exchange arrangements chosen by individual members and of the member's need for Fund financial support. This principle is the core of Article IV. In practice, it is often difficult to determine with quantitative precision the magnitude of an exchange rate's "out-of-lineness." But if the Fund is convinced that a rate is out-of-line, it must express that view in the first instance to the authorities of the countries directly involved. A few Directors held the view that the staff sometimes seemed insufficiently flexible, and somewhat dogmatic in its views with regard to exchange rates, with a tendency to overestimate the effectiveness of exchange rate depreciation, particularly in developing countries and centrally planned economies.

Second, the staff's determination of the adequacy of the exchange rate policy in an individual country is not merely an econometric exercise; it is something that touches on the functioning of the international monetary system. Thus it is important that when the Fund staff is convinced of a maladjustment in exchange rates, it should seek agreement of the membership on that judgment and on the necessary policy changes. It can

happen that national authorities have domestic goals and constraints that may result in an inappropriate exchange rate in the judgment of the Fund. In such instances, through Article IV consultations and other reviews, the matter is brought to the attention of the Executive Board; after discussion and Board agreement with the staff position, the country is informed. Beyond that, the effectiveness of the Fund's surveillance procedures requires that the members of this institution give active and broad support to the positions taken by the Fund.

Third, Directors supported the view that many of the international economic difficulties of recent years have been associated with the pronounced swings in exchange rates between major industrial countries, and with the repercussions of the low levels of economic activity and high interest rates prevailing in these countries on the rest of the world. Many Directors noted that to some extent these developments resulted from domestic policy stances in major industrial countries that, in their view, did not sufficiently promote the convergence of favorable economic conditions, and that failed to take account of the implications for other countries and for the international monetary system as a whole. Most Directors felt that this failure to integrate international interests, rather than any deliberate attempt to manipulate exchange rates or the international monetary system, was the real problem. Therefore, the Fund had to form a view on the domestic policies needed to foster a smooth working of the system and had to attempt to persuade its members to follow such policies. On the basis of these considerations, Directors agreed that the experience in the implementation of surveillance does not call for a revision of the principles and procedures set out in the documents, but calls for more active implementation.

II. Methods of Surveillance

Multilateral Aspects

Directors considered that the World Economic Outlook provided a valuable framework for analyzing global surveillance issues, and indeed considered it indispensable for evaluating the global effects of the economic policies of major countries. They welcomed the increasing emphasis on a medium-term approach and in particular on the development of medium-term balance of payments scenarios. They also called for increased analysis of the interaction of individual members' domestic policies, including the regional consequences of individual members' policies.

Directors considered it important that the Fund continue to place public emphasis on surveillance through different channels, such as publications and statements by the Managing Director. They also considered the more active role of the Fund in looking for solutions to the problems of external debt and protectionism in multilateral contexts to be essential. With regard to trade matters in particular, a number of Directors emphasized that the Fund's work could usefully enhance the GATT's activities while fully respecting the responsibilities of that institution.

Article IV Consultations

In view of the Fund's obligation to form a view on the exchange rate policies of members, Directors generally endorsed the practice in staff reports of providing clear appraisals of exchange rate policies. Several Directors felt that the Fund staff was still less explicit in its exchange rate policy pronouncements for large industrial countries than it was in the case of smaller countries. The view was also put forward that an appraisal of the exchange rate policy of a member in an Article IV consultation should be made, whenever appropriate, in a multilateral framework.

Directors welcomed the recent emphasis on medium-term scenarios in the analysis of external debt and encouraged the staff to make further progress in presentation and analysis, with possibly alternative scenarios on debt, and to make more explicit the assumptions that underlie these projections and the sensitivity of the scenarios to changes in assumptions. Directors also called for increased emphasis on the medium term when assessing underlying payments balances as part of the appraisal of members' policies even when external debt or the financing of external imbalances was not a major concern.

The need for continued development of staff analyses in consultation reports of issues related to protectionism and export subsidies was stressed by many Directors. These analyses should cover the practice not only of individual members but also, if necessary, of groups of countries and customs unions. It was felt that to the extent possible the economic costs of protectionist measures taken by individual countries or groups of countries since the last Article IV consultation should be quantified and that the impact of protectionism on domestic adjustment should be examined in relevant cases.

In the course of the discussion, a number of suggestions were made for further improving the analytical coverage in consultation reports of structural aspects, capital flows, openness of capital markets, the size and structure of government revenue and expenditure, barriers to direct investment, the noncentral government public sector, structural adjustment problems, aid to ailing industries, and labor markets. A number of Directors also proposed that consultation reports should follow up the main points made in the summing up of the previous consultation. These reports should recall the main recommendations of the Board as contained in the summing up and indicate whether appropriate measures had been taken.

As in the recent discussion of "Coverage and Currentness of Data" (EBM/84/28, 2/22/84), Directors emphasized the crucial role of accurate data in consultation reports.

The marked increase in consultation frequency was welcomed by all Directors, who noted particularly the improved coverage of countries with Fund-supported programs. Directors recognized the efforts made in the

last 18 months to reduce the backlog of overdue consultations, and considered that at the present time the problem of overdue consultations had been largely solved. Leaving aside cases involving security problems, at present only one member country was significantly behind in the consultation cycle. Directors reiterated their view that consultations should not be delayed on account of discussions on the use of Fund resources. A number of Directors believed that the Board should consider the Article IV consultation before turning to a request for use of Fund resources in those cases where the consultation was overdue. This is a very important policy recommendation.

Directors emphasized the need to carry out consultations on a timely basis in the future. In this regard, the system of advance specification of consultation cycles provides a useful framework. To help ensure that consultations are completed on time, we shall report to the Board on problems that may arise on a semiannual basis.

Directors broadly endorsed current practices in specifying consultation cycles. The suggestion was made that the criteria for the one-year consultation cycle be expanded to include members that wish to be kept on that cycle. Directors recognized that with such a work load, special efforts would be necessary to maintain the quality of consultation work. Therefore, the staff would continue to combine requests for use of Fund resources and periodic reviews with consultation reports. Some Directors supported the practice of selectively shortening, or even omitting, the papers on recent economic developments, particularly for countries on which economic information was amply available; but a number of other Directors stressed the importance of those papers for members individually and collectively, and they were opposed to any reduction in the role or importance of these documents.

Directors encouraged the staff to bring consultations on closely related countries to the Board simultaneously, in order to avoid duplication of effort on common features and to better understand the interaction aspect.

Exchange Rate Monitoring

Directors considered that both the quarterly reports on indicators of real effective exchange rates and the notices on individual countries provided useful information, although, of course, the developments have to be carefully analyzed before reaching any policy directed conclusions. Most Directors considered that the threshold for issuing information notices should continue to be 10 percent. Some questions were raised regarding the benchmark date.

Directors welcomed the staff's intention to continue making improvements in the information notice system, and attached importance to making the coverage of the system as comprehensive as possible. In view of the importance of price, exchange rate, and direction of trade data for policy formulation, it is incumbent on country authorities, in consultation with the staff, to obtain the necessary data and to provide it to the Fund.

In sum, the Board felt that surveillance is an essential tool for the stability of the international monetary system. It considers that, despite the progress realized in the Fund's work in this field, the insufficient convergence of economic conditions throughout the world requires, not necessarily changes in Fund procedures but, rather, strong political support from the membership.

There are still large differences of views on the way the exchange rate system is working and even larger differences of views on the way it should function. There are also differences of views on the way economic policies interact and, thus, affect the setting of prescriptions by the Fund. In a collective institution, these prescriptions can sometimes be difficult to express and even more difficult to implement.

We should continue to improve the quality and the persuasiveness of our analysis of policy interactions. It is only through the quality of these analyses that the Fund will enlist support for its recommendations. The Executive Directors can help the staff and management in this task by maintaining the high standards of their interventions relating to all surveillance matters.