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SM/83/43  
Correction 1

March 22, 1983

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

The following corrections have been made in SM/83/43 (3/1/83):

Page 20, first full para., penultimate line: for "in between those changes...to communication. 2/" read "in between those large changes, however, implementation of a policy of gradual depreciation involved almost daily changes that were too small to be subject to communication. The largest of these was 3 per cent in effective terms; none of the others exceeded 1 per cent. 2/"

Footnote 1, line 2: for "the present paper and are reviewed in greater detail in the Annex." read "the present paper."

A corrected page is attached.

Att: (1)

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Department Heads

particularly important to experiment with ways of reducing the staff time devoted to the preparation of REDs, to the extent that is possible without sacrifice of essential information.

In many cases, it should not be essential in 1983 to issue full REDs. Such an approach would be consistent with suggestions that have been made to issue an RED paper only at every second consultation for countries on the 12-month cycle. In that case it would be necessary to add some factual material to the staff report. Alternatively, a shorter RED could include an analysis of selected topics and the usual tables on the external sector, together with many of those relating to fiscal and monetary developments, but would minimize the presentation of other statistics. The text of such reports could be limited to any necessary interpretation of the tables. In the longer term, the practice could be adopted of issuing such brief REDs in alternate years.

While adaptations such as these will mitigate the increase in staff resources occasioned by the transition to a stricter schedule, some additional staff would clearly be necessary. The number of consultations, in terms of staff missions, would be expected to increase by about 15 in 1983 and remain close to the new level in future years. On average an Article IV consultation takes up the equivalent of one man-year of staff time, when allowance is made for preparatory work before a mission and report writing after the mission. The exact implications for staff resources of stricter scheduling is being examined.

#### V. Methods of Surveillance over Changes in Exchange Rates or Exchange Rate Policies

The Fund's general responsibilities for surveillance over exchange rate policies are normally discharged through the regular Article IV consultations and, in broader fashion, through general papers for Board discussion such as the World Economic Outlook, which is a particularly important vehicle for surveillance with respect to the major industrial countries. From time to time, however, issues arise with respect to individual countries that call for special attention. The principles of Fund surveillance over exchange rate policies state the developments that might indicate a need for discussion with a member. This section describes the existing procedures and practices for fulfilling this aspect of the Fund's surveillance function and proposes certain adaptations suggested by recent experience.

##### 1. Current procedures and practices

###### a. Notifications

Under the procedures set out in Section IV of "Notification of Exchange Arrangements under Article IV" (SM/77/277, 11/28/77) members are required to notify the Fund of changes in exchange arrangements, and

over time practices have evolved on what constitutes a change requiring notification. 1/ In some cases the notification is communicated to the Executive Board by the Executive Director for the country concerned; in other cases the staff, upon notification of a change in exchange arrangements, communicates it to the Executive Board.

Any change in the nature of the member's exchange arrangement is a matter for notification. Where a member pegs its currency, notifications of all changes in the peg are also communicated to the Board, as are large discrete changes for currencies with more flexible arrangements. For the latter, however, changes in exchange rates often take place almost continuously, and while the cumulative change over even relatively brief periods can be large, discrete changes are usually so small that it has not seemed necessary to communicate them to the Executive Board. For example, sizable discrete depreciations of the Icelandic krona took place in August 1982 and January 1983, both of which were communicated to the Executive Board; in between those large changes, however, implementation of a policy of gradual depreciation involved almost daily changes that were too small to be subject to communication. The largest of these was 3 per cent in effective terms; none of the others exceeded 1 per cent. 2/

In addition to communications on individual members, the staff prepares, for the information of Executive Directors, a quarterly paper on exchange arrangements maintained by members. That paper summarizes developments in members' exchange arrangements during the previous quarter, shows the latest classification of exchange arrangements as known to the staff, and indicates changes in exchange rates of countries including those following more flexible arrangements.

b. Staff assessments

The procedures on notification indicate that if the change in exchange arrangements is significant, the normal practice is that the communication to the Board be followed promptly by a staff paper describing the context of the change in policy and giving the staff's assessment.

In many cases changes have occurred shortly before or after staff visits in connection with regular Article IV consultations, or in relation to the adoption of programs supported by the use of Fund resources. In such cases the communication to the Board has generally included a statement that the staff's assessment would be incorporated in the staff report

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1/ Recent developments in this area are summarized in Section II of the present paper.

2/ The question of what is "too small" is clearly a matter of judgment; in practice, a change of less than 5 per cent for any of the 51 nonpegged currencies is seldom communicated to the Board. The impracticality of adopting a significantly lower limit is indicated by the fact that there are almost daily changes for many of the currencies with flexible exchange arrangements and frequent small changes for other currencies with such arrangements.