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The Chairman's Summing Up at the Conclusion of the 1985 Annual Review of the Implementation of Surveillance
Executive Board Meeting 85/49, March 25, 1985

Directors once again emphasized the great importance that they attach to the role of the Fund in the area of surveillance. They welcomed the emphasis of this year's review on questions related to the effectiveness of surveillance, particularly in view of the current international economic environment. Directors stressed in particular the need for a continued evolution of surveillance procedures to enhance the ability of the Fund to carry out its responsibilities in this area in an effective and evenhanded way, and made a number of suggestions for improvements in the way surveillance is implemented.

1. The Effectiveness and Evenhandedness of Surveillance

The discussion of the question of the effectiveness of surveillance was wide ranging and we have heard some very thoughtful comments on this subject. The views expressed on the extent to which surveillance can be considered to be evenhanded in its implementation were particularly noteworthy, and I shall begin with an attempt to draw together the common threads of that discussion.

Directors all agreed that evenhandedness was essential to the effectiveness of surveillance. They noted the widely held view that the Fund was much stricter in its oversight of the policies of deficit developing countries than of those of other countries. Several Directors indicated their support for this view, but most agreed with the staff paper that this interpretation resulted from an insufficient distinction between the function of surveillance and other functions of the Fund, such as those involved in conditionality and jurisdiction over exchange restrictions. It was true that conditionality did involve particularly detailed attention to the policies of member countries engaged in Fund-supported adjustment programs. When countries faced financial crises, however, it was clear that policies needed to be corrected immediately, and in any case, the Fund was obliged to see that appropriate use was made of its resources. Most Directors thus agreed that surveillance, as such, had been evenhanded in its application. They stressed, however, that surveillance also needed to appear to be evenhanded, and for that to be the case it must be seen to be effective with respect to the large industrial countries. Given the effects that developments in such countries had on the rest of the world economy, moreover, it was particularly important that it be effective for those countries.

Directors considered that surveillance in fact had been much less effective than it should have been. Directors did note the important role that surveillance had played in bringing key policy issues to the attention of the authorities and keeping them under active discussion. It was also possible to cite many instances where policy decisions in member countries clearly had taken account of the views expressed by the international community through the Fund's surveillance process.

More generally, however, it was clear that there remained substantial divergences between the policies actually pursued by some member countries and those advocated by the Fund membership collectively. A number of references were made by Directors to the fact that fiscal policy in the United States continues to diverge from what in the view of those Directors would be optimal in terms of its effects on the world economy, as well as on the U.S. economy itself. The continuing inadequacy of corrective policies in other industrial countries and in many developing countries was also stressed. Some Directors expressed the view that what was needed was more explicit guidance for members on the types of exchange rate and other policies that were consistent with the objectives of the Fund than was provided in the surveillance decision or, indeed, in the Articles themselves. Directors underlined the fact that while we must continually endeavor to sharpen our analysis and to improve our procedures, the basic issue was not procedural. Rather it was the willingness of member countries to adapt their policies in light of the views expressed by the international community.

Before turning to Directors' views on the major ideas for enhancing the effectiveness of surveillance in this area noted in Section VI of the staff paper, I will sum up the discussion of various issues emerging from the experience in 1984 with the implementation of surveillance.

2. Issues Arising from the Implementation of Surveillance in 1984

(i) The Analytical Basis of Surveillance

Directors considered that the analytical framework provided by the World Economic Outlook exercise continued to be an extremely useful basis for evaluating the global impact of the economic policies of the major countries. They welcomed the increasing emphasis, both in the World Economic Outlook and in Article IV consultations, on the medium-term implications of members' policies. Directors also noted the desirability of further development of analytical techniques in the key policy areas. In this connection, they stressed the need for more comprehensive analysis of the international implications of country policies. They also noted the need for a better understanding of the ways in which financial policies, and problems of structural adjustment, interacted internationally to affect exchange rates.

(ii) Article IV Consultations

Directors considered that Article IV consultations were the key element of the surveillance process. They welcomed the increased coverage in Article IV staff reports, both of important policy issues and of technical aspects, such as the quality of statistics and relations with the World Bank. They nonetheless encouraged the staff to be economical in reporting, to avoid blurring the focus of staff reports on the key issues. Many Directors felt that, given the heavy workload, the staff should be free to experiment with abbreviated reports on recent economic developments (REDs) in some cases.

Directors welcomed the improvement in consultation scheduling that has occurred since the implementation in 1983 of the system of advance specification of consultation cycles. In this connection, Directors considered it important that the Fund focus its efforts on those situations most in need of attention, and suggested that more differentiation in specification of cycles would be appropriate. In particular, all of the largest countries (several figures have been mentioned to define this group, and on that basis, I would say at least the 25 largest members) should be on the standard cycle. On the other hand, for small countries (other than countries with programs with the Fund or where there were questions about balance of payments viability), longer cycles up to two years would generally be appropriate, although where such members valued annual discussions with the Fund, they should be entitled to request the standard cycle. Some Directors suggested that informal staff visits for policy discussions midway between full consultations might be a useful way to accommodate the preferences of some members in such cases, while still keeping the workload within manageable proportions.

(iii) Monitoring of Exchange Rates

Directors considered that experience had been broadly satisfactory with the system of monitoring exchange rate developments through notifications to the Executive Board of changes in exchange arrangements and through information notices relating to large movements in real effective exchange rate indices, although some Directors cautioned against the temptation to rely too heavily on mechanical indicators of that sort. Many Directors felt that exchange rate developments in large industrial countries deserved perhaps more frequent attention, and a number of Directors supported a reduction in the threshold for information notices for such countries. But after having looked at the tally, I would conclude that the Board has not called at this point in time for a change in the information notice system.

3. Suggestions for Improving the Effectiveness of Surveillance

I turn now to the discussion of the major ideas described in Section VI of the staff paper. In general, Directors believe that we should explore every possible avenue for improving the effectiveness of surveillance.

First, while some Directors were quite negative with regard to the use of objective indicators, there was a broad-based interest in exploring the idea of making greater use of objective indicators as an instrument of Fund surveillance, particularly vis-à-vis major industrial countries. Most Directors stressed, however, that there would be considerable difficulty in establishing such indicators and agreeing with members on appropriate values for them. Directors therefore urged the staff to take an experimental approach in terms both of further development in the conceptual approach to be followed and of exploration of the concept with interested authorities. I conclude that, for the time being at least, the use of such indicators in particular cases where they might be appropriate and acceptable would be limited to providing a basis for reviewing, in the course of an Article IV consultation, developments against the background of the conclusion of the previous one.

Second, most Directors reacted negatively to the idea of a major move toward greater publicity in connection with Article IV consultations. They emphasized that the confidential relationship between the Fund and its members has been one of the most important elements of the consultation process, and they believed that publicity would involve a change in that practice that could have serious consequences for the candor and frankness of the policy discussions between the Fund and its members.

In the same vein, most Directors expressed reservations--although some of them were very interested in the idea--about the release of staff reports, and were concerned that such a practice could adversely affect the frankness and usefulness of these reports. For I think similar reasons, the reaction was negative at this point in time to the idea of the Managing Director making public statements following the conclusion of Article IV consultations. At the same time, I noted the Board's general support for the manner in which I have been expressing my views and positions on matters of Fund concern in my public addresses. I should also note that most Directors were open to the wider release, including publication, of REDs with the approval of the member concerned.

Third, Directors believed that there was considerable scope for expanded follow-up to consultations on the side of both the Fund and country authorities. They considered that the current practice in Article IV staff reports of including reviews of developments against the background of the previous consultation should be further developed as a means of assessing the effectiveness of the consultation process, by giving indications of the weight the authorities attached to the views of the Fund. Directors strongly supported more "internal publicity" among the authorities of member countries themselves for the findings of the Fund. It was noted approvingly that in many member countries authorities at the ministerial level participate in the final policy discussions with the mission. The staff will continue the practice of listing in its reports the principal representatives of the member country taking part in the discussions.

It was also considered desirable that management communicate directly with Ministers of Finance regarding the outcome of the Fund's review, but only in carefully selected cases where the Executive Board felt high-level consideration to be particularly important because of the urgency of the policy views expressed. In that context, it was noted that the Managing Director frequently has contacts with the highest authorities of member countries, in Washington or abroad, as well as through exchanges of communications and telephone conversations, which will of course continue.

Fourth, Directors encouraged the use of supplemental consultations with member countries in selected circumstances. A wide range of detailed views were expressed on this subject. Several Directors suggested that supplemental consultations might be appropriate for members in arrears to the Fund, members without current programs but with large financial obligations to the Fund, or members making prolonged use of Fund resources. Supplemental consultations could, in the view of several Directors, also be triggered as a result of major policy actions by members. At their discussion on March 18 on trade policies, Directors asked that the Board be notified of major new developments in that area, and such notifications, as with the current exchange rate information notices, could well lead to supplemental consultations if Directors so requested. They could also take place some time following the conclusion of an Article IV consultation that left serious doubts about the appropriateness of a member's policies.

Finally, there was a wide ranging discussion of various issues involved in enhanced surveillance of the policies of member countries involved in multiyear rescheduling arrangements. Directors believed that the Fund should be selective in acceding to requests for enhanced surveillance, and some Directors cautioned against the involvement of the Fund in such arrangements for too long a period of time. A number of them considered that in practice the procedure would be appropriate mainly for countries where strong adjustment policies were well under way. Otherwise, the Fund would continue to consider the endorsement of the country's adjustment program in the context of a stand-by or an extended arrangement as the normal means of providing the necessary signal to commercial banks and other sources of finance. Most Directors considered that release of staff reports to banks in such cases would be acceptable if the country requested it and if it was necessary for the restructuring to take place. Directors emphasized that staff reports provided to commercial banks in cases of enhanced surveillance should not be, and should not be seen to be, of such a character as to provide on/off signals from the Fund. Directors, moreover, reiterated the view expressed during the Board's discussion on March 20 of external indebtedness that commercial banks should take full responsibility for their country-risk assessments. More generally, Directors cautioned that, under enhanced surveillance, the Fund should not be seen as either formally endorsing the member's policies or intervening too deeply in the relations between debtor countries and commercial banks. We have taken very careful note of the many issues raised by Directors regarding the access to and procedures for enhanced surveillance. The staff will reflect on them and we will return to these matters as experience is gained on a case-by-case basis.

In the course of their discussion, Directors indicated their awareness of the difficulties of embarking on new procedures at a time when Board, management, and staff all face very heavy work loads, and urged that ways be found to mitigate the burden. Some of the ideas supported by the Board today could be implemented without too much difficulty, but others would involve some considerable effort. What I would propose is that over the next few months management and staff consider Directors' ideas both to gain experience with how they could be implemented in practice and to explore their implications for the work load and for the budget.

The Executive Board will return to the matter of surveillance, taking stock of all the ideas that have been explored, and of suggestions put forward by Directors, including the issue of publicity.