

August 1, 1994

Statement by the Staff on Issues and Developments
in the International Exchange and Payments System
Executive Board Seminar

Executive Directors have before them a staff paper that surveys developments and issues in the Fund membership's exchange and payments systems that cut across a broad range of the institution's functional and jurisdictional interests and purposes. These pertain especially to the areas of progress made in the acceptance of the obligations of Article VIII and currency convertibility that have been cited by the Managing Director as involving important policy objectives for the Fund in ensuring further progress in developing the international monetary system.

Issues that arise in the context of exchange system developments are summarized in Section VIII of SM/94/202 (8/1/94), under the relevant headings. As a further aid to help focus the discussion in the Executive Board seminar, the following paragraphs lay out possible priorities that might be given to these issues.

The issue of accelerating members' acceptance of Article VIII obligations is clearly a subject to which Executive Directors may wish to give particular attention, as it is in the nature of "unfinished business". Although recent experiences with the establishment of full current and capital account convertibility have underlined the feasibility of full convertibility for a broader group of the Fund's membership than had previously been expected, adoption of Article VIII status is clearly of immediate relevance for an important share (one third to almost one half) of the Fund's membership. In many cases, acceptance of Article VIII obligations is dependent on the lifting of exchange restrictions evidenced by external payments arrears--the elimination of which is itself a key objective of Fund-supported economic programs and technical assistance. (One quarter of Fund member countries have both arrears and Article XIV status.) Directors may therefore wish to comment especially on the paper's proposals to sustain the progress evident in acceptance of Article VIII of over the past 18 months.

The Executive Board has on several occasions raised questions regarding the role of the Fund in the assessment of capital controls that are "necessary to regulate international capital movements" (Article VI, Section 3). The paper under discussion summarizes the recent experience since the last discussion of Fund jurisdiction over multiple currency practices applicable to capital transactions in 1985, and examines the possibility of setting a terms of reference for an updated review of the broad aspects of capital convertibility, say, in early 1995. Such a review would involve in-depth analysis of the experiences with convertibility, and

the Fund's role in this area in relation to that of other international and regional organizations, as well as that of its own Article VIII jurisdiction.

General issues for the role of exchange rate regimes in the international system were recently discussed by the Executive Board on July 25 (*Improving the International Monetary System - Constraints and Possibilities*, SM/94/70 (7/1/94)). The paper being considered today documents developments in specific forms of regimes and the role of technical assistance in ensuring that the markets are efficient and stable, within the regime chosen by the member in accordance with Article IV. Fund policies regarding the risks associated with nonmarket forward and multiple regimes are restated in the paper, and their confirmation by the Executive Board is sought.

Finally, regionalism and bilateralism in members' payments arrangements were last reviewed in the Executive Board in 1982 (*Review of Bilateral Payments Arrangements, 1976-81*, SM/82/169 (8/17/82), EBM/82/123 (9/20/82)). The present paper provides an update of developments and a summary of the Fund's policies to date toward the full multilateralism envisaged in Article I of the Articles of Agreement. Executive Directors may wish to consider the continued relevance of these policies, and provide views on any re-emphasis that may be required given the accession to Fund membership of the previous CMEA regional members and the continuing payments regionalism elsewhere that is documented in the paper.