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Concluding Remarks by the Acting Chairman for the Seminar on Issues and Developments in the International Exchange and Payments System
Executive Board Seminar 94/10, November 16, 1994

We have had a very wide-ranging and interesting seminar discussion on several issues that are at the core of our traditional responsibilities under the Fund's Articles. This is the first time that this biennial series of Fund publications has been the subject of a Board seminar, and a number of Directors commented on its relevance for guiding related discussions in Article IV consultations. Also, from their attendance and active participation, I suspect that Directors found this useful.

Directors generally welcomed the accelerated trend toward liberalization of members' exchange systems even though a number of Directors noted the large percentage of member countries that have not yet accepted Article VIII. Directors agreed, generally, that the procedures adopted in 1993 to accelerate progress toward current account convertibility, made explicit by members' acceptance of the obligations of Article VIII, had been successful. They endorsed the established policy that before assuming Article VIII status, members are expected to eliminate as far as possible measures that require the approval of the Fund, and to satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future.

Directors drew attention to the importance of Article VIII accession as a signal of members' commitment to an open policy stance. They agreed that the staff should continue to make intensive efforts to foster the acceptance of Article VIII obligations. Some Directors supported the view that representations by Fund management and/or the Executive Board to the authorities of countries availing themselves of the transitional arrangements of Article XIV might be beneficial. However, most Directors felt that active persuasion is better than formal representation and that the procedures instituted in 1993 remain appropriate.

Directors noted that several members continue to maintain exchange restrictions subject to Fund jurisdiction. They expressed particular concern regarding the increase in ad hoc restrictions on international payments and transfers evidenced by the increase in external payments arrears. They emphasized that efforts should continue to be made to reduce these arrears, which seriously compromise the system of international payments. Several Directors expressed concern that one sixth of the countries that had accepted the obligations of Article VIII had later reimposed controls, and they encouraged the staff to seek the early elimination of exchange restrictions or multiple currency practices by countries that had acted in this way.

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When discussing issues relating to capital account convertibility, a number of Directors noted: the continued increase in the relative importance of capital account transactions in foreign exchange markets; the benefits that arise from the free movement of international capital; and the general ineffectiveness of controls in limiting capital flows, both inward and outward. Some Directors drew attention to the linkage between capital account convertibility and strong inflows of capital.

Some Directors expressed support for an extension of the Fund's jurisdictional responsibility in the area of capital account transactions, noting that we now live in a world that is very different from that faced by the Fund's founding fathers. They noted that, although the Fund does not have formal jurisdictional responsibilities over capital controls, the Fund's surveillance of members' exchange rate policies extends to capital account transactions. Other Directors were willing to contemplate the possibility of amending the Articles of Agreement to make this jurisdiction more explicit. Some other Directors, however, expressed reluctance, noting that, in some circumstances, the use of capital controls could play a useful role in dealing with exchange rate pressures.

Directors noted the distortions that arise from multiple exchange rate regimes and welcomed members' reduced recourse to such regimes. However, some Directors noted that, in some cases, multiple currency practices had been used as a transitional measure to more liberal exchange rate regimes, albeit at the expense of consequent distortions. Directors, therefore, supported the continuation of the present approval policy for multiple currency practices, which calls for the unification of the exchange rate over a specific and appropriately brief period.

When discussing the increased incidence of bilateral and regional arrangements that accompanied the accession to membership by countries of the former Soviet Union, a number of Directors agreed that these arrangements may have a brief transitional role where multilateral payments instruments are poorly developed. Nonetheless, since such arrangements often give rise to exchange restrictions and multiple currency practices, many Directors supported a continuation of the Fund's existing policy. Accordingly, the elimination of bilateral payments arrangements inconsistent with Article VIII will normally be included as a performance criterion under upper credit tranche stand-by and extended arrangements of the Fund. Directors looked forward to the legal paper on jurisdictional issues relating to bilateral payments arrangements, and several Directors supported the view that the Fund should continue to keep under review regional payments arrangements and the use of countertrade arrangements.

From Directors' comments, it is clear that the issue of the Fund's potential role in monitoring capital account restrictions and encouraging capital account liberalization gives rise to a wide range of questions. Several Directors requested that the staff undertake a more detailed review of these issues for subsequent Board consideration. We shall seek to expand the April 1995 paper to address the issues that were raised. Some of these issues will also be addressed in the legal paper on Fund relations with the World Trade Organization.