

SM/09/123  
Correction 1

May 27, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **The 2007 Surveillance Decision—Revised Operational Guidance**

The attached corrected version of Attachment II to SM/09/123 (5/1/09) has been provided by the staff to correct a technical error in the redlined text.

Questions may be referred to Ms. van der Willigen (ext. 34294) and Mr. Erickson von Allmen (ext. 34764) in SPR; and Mr. Leckow, LEG (ext. 34799).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



## INTERNATIONAL MONETARY FUND

**Implementing the 2007 Surveillance Decision**  
**Revised Interim Guidance Note**

Prepared by the Strategy, Policy, ~~Development~~ and Review ~~Department~~ and the Legal  
Departments

In consultation with other Departments

Approved by ~~Carlo Cottarelli~~Reza Moghadam and Sean Hagan

~~June~~ May 1, ~~28~~2009~~7~~

1. This note ~~replaces the provides~~ interim guidance on implementing the 2007 Surveillance Decision issued on June 28, 2007 (SM/07/228), focusing on the coverage of discussions with the authorities and staff reports, and is complemented by the Frequently Asked Questions on the 2007 Surveillance Decision (FAQs).<sup>1</sup> It complements the existing Surveillance Guidance Note, (SGN) and will be integrated into the upcoming revision of the SGN which, in time, will be revised to fully reflect the provisions of the Decision. Missions are strongly encouraged to read the Decision, Summing Up, ~~and~~ supporting Board documents, and the FAQs on the Decision, which are all available on PDR's-SPR's website under "Surveillance Decision."
2. The 2007 Decision establishes *the following expectations* for the coverage of discussions with the authorities and of staff reports.<sup>1</sup> ~~Elements marked with an arrow are ones that need especially careful attention in the early days of implementation. Other elements are already virtually universal practice or are areas where greater discretion is involved in determining whether the expectation has been met.~~
3. Consistent with the requirements of the Decision, these elements focus on an assessment of the economic situation of the member, ~~including the extent to which the member is in a state of external instability, including fundamental misalignment~~; an assessment of the member's domestic policies to ~~determine~~examine whether they are

<sup>1</sup> Similar expectations would apply to summings up, as it is the Board that conducts the assessment under surveillance.

promoting domestic stability; and an assessment of the member's exchange rate policies to ~~examine~~ determine whether they are promoting external stability.

#### **A. General**

- A discussion of policies through the prism of external stability as the central focus of surveillance;
- ~~An assessment of~~ discussion of whether policies are promoting external stability, and to the extent ~~where~~ they are not, a discussion of recommended adjustments;
- An evaluation of developments in the balance of payments;
- Frank and open dialogue, candor, evenhandedness, due regard to country circumstances (including implementation capacity and the authorities' objectives aside from external stability), attention to inward and outward spillovers, and a medium-term perspective (including a discussion of medium-term objectives and planned policies, including possible policy responses to the most relevant contingencies).<sup>2</sup>

#### **B. External stability**



- A clear assessment of the current account and the exchange rate level;<sup>3</sup>



~~, and, if fundamental misalignment—causing external instability—is present beyond “any reasonable doubt,” a clear statement that this is so.~~<sup>2-3</sup>

~~Where staff assesses that there is, beyond reasonable doubt, fundamental misalignment, the term “fundamental misalignment” should be used in the staff report.~~

<sup>2</sup> ~~A forthright assessment of the level of the exchange rate is already a requirement of the Surveillance Guidance Note.~~

<sup>3</sup> ~~Clearly, the degree of confidence with which fundamental misalignment can be assessed will depend on the state of knowledge. There may be cases (e.g., among exporters of nonrenewable resources, where analytical problems are especially difficult) where it is not possible to come to a clear conclusion at present, but, based on additional analysis, a different conclusion might be reached in future.~~

~~Otherwise, where staff has concerns, these should be discussed. In particular, it should be clear in these cases that the exchange rate is assessed to be over- or undervalued.~~

~~Where staff's judgment is that the exchange rate is broadly in equilibrium, this should be substantiated.~~

- ~~• If there are concerns about sources of external instability other than fundamental misalignment (i.e., A clear assessment of risks arising from the capital and financial account, including from the composition of inflows and balance sheet mismatches), a discussion of these concerns, and if such external instability is present beyond "any reasonable doubt," a clear statement that this is so.~~

~~The same drafting considerations apply in these cases to the term "external instability" (perhaps in the form of "other/capital account-based sources of external instability") as for "fundamental misalignment."~~

### *C. Domestic policies*

- ~~• An assessment discussion of whether domestic policies are promoting domestic stability, and to the extent they are not, a discussion of recommended adjustments;~~
- An examination in this context of monetary, fiscal, and financial sector policies (both their macroeconomic and macroeconomically relevant structural aspects);
- An examination of domestic policies other than fiscal, monetary, and financial sector policies only to the extent that they significantly influence external stability, and, in particular, an examination of policies to promote high levels of potential growth only in those cases where this significantly influences prospects for domestic and external stability;
- In cases where the link of these policies to domestic and external stability is not self-evident, it needs to be explained (not just stated). In cases where it is self-evident, no statement about linkage is needed.

### *D. Exchange rate policies*

- ~~• If one of the Principles for the guidance of Where there are concerns, a discussion of how the members' s exchange rate policies may need to be adjusted, in the context of the overall policy mix. The Principles in the Decision provide guidance to members for the conduct of their exchange rate policies and to the Fund in conducting surveillance over these policies;~~

~~Should a Principle is not be observed—which is expected to be rare—, a statement to this effect an analysis of this issue and a clear finding in the staff appraisal, that the Principle is not being observed; or if questions might arise about observance of one of the Principles, an analysis sufficient to conclude that there are no grounds for concern.<sup>4</sup>~~

~~For Principles B-D the wording needs to referring to the 2007 Decision and the relevant recommendation, either by referencing a named Principle or its by referring to the content, and in the case of of the Principle.~~

~~If it is determined that Principle A including a statement of is not observed, the staff appraisal needs to set out the staff's view that the member is not observing Principle A and is in breach of obligation under Article IV, Section 1 (iii):-~~

•

~~If no questions arise about observance of a Principle, nothing needs to be said in the staff report about it.~~

➤ ~~—— If one of the indicators in paragraph 15 of the Decision (see Box 2) is triggered present, a discussion of this fact and its implications.~~

- The discussion does not need to make reference to “indicator [x] in the 2007 Decision” or use the specific wording in the Decision, but does need to be clear on the concepts being discussed.

---

<sup>4</sup> ~~Of course, a finding of nonobservance of a Principle also means that the staff report should discuss recommended policy adjustments in order to bring policies into observance. This falls under the heading of a discussion of recommended policy adjustments, see above.~~