March 5, 2010
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 09/96-2

2:45 p.m., September 16, 2009

2. Statement of Surveillance Priorities—Revisions of Economic Priorities and Progress on Operational Priorities

Documents: SM/09/235 and Revision 1, and Revision 2

Staff: Erickson von Allmen and van der Willigen, SPR

Length: 1 hour, 32 minutes

Executive Board Attendance

J. Lipsky, Acting Chair

Executive Directors	**Alternate Executive Directors**
	G. Ukpong (AE), Temporary
	D. Sembene (AF), Temporary
P. Pereira (AG)	
	C. Legg (AU)
	S. Rottier (BE), Temporary
P. Nogueira Batista, Jr. (BR)	M. Agudelo (BR)
J. He (CC)	
R. Guzmán (CE)	
	S. O'Sullivan (CO)
	A. Ducrocq (FF)
	S. von Stenglin (GR)
	M. Patra (IN), Temporary
	F. Spadafora (IT), Temporary
	H. Yamaoka (JA)
	S. Rouai (MD), Temporary
A. S. Shaalan (MI)	
	W. Schilperoort (NE), Temporary
	J. Bergo (NO)
	A. Lushin (RU)
	A. Al Nassar (SA)
	A. Chua (ST)
	K. Zajdel-Kurowska (SZ)
M. Lundsager (UA)	
	J. Talbot (UK)

B. Esdar, Acting Secretary
J. Morco/I. Teodoru, Assistants

Also Present
Asia and Pacific Department: N. Chalk. Office of The Deputy Managing Director: J. Schiff. European Department: P. Doyle. External Relations Department: S. Nardin. Fiscal Affairs Department: J. Escolano. Legal Department: R. Leckow. Middle East and Central Asian Department: R. Sahay. Secretary's Department: P. Gotur, M. Yslas. Strategy, Policy, and Review Department: S. Bakhache, T. Bayoumi, J. Dauphin, U. Erickson von Allmen, N. Raman, T. van der Willigen. Technology and General Services Department: V. Wertman. Western Hemisphere Department: O. Celasun, R. Rennhack. Senior Advisors to Executive Directors: W. Abdelati (MI), M. Di Maio (AU), D. Kartikoyono (ST), J. Rolle (CO), R. Weber (SZ). Advisors to Executive Directors: J. Cardoso (IT), W. Chetwin (AU), J. Cova (CE), K. Fisher (UK), A. Gerdes (GR), T. Haruki (JA), J. Hukka (NO), P. Kanithasen (ST), L. Lephoto (AE), N. Liu (CC), J. Reynaud (FF), M. Sajkunovic (CO), D. Tartari (SZ), E. Uanguta (AE).

2. STATEMENT OF SURVEILLANCE PRIORITIES—REVISIONS OF ECONOMIC PRIORITIES AND PROGRESS ON OPERATIONAL PRIORITIES

Mr. Majoro submitted the following statement:

We thank staff for this paper, and welcome today's discussion which allows the Board to undertake its periodic consideration of how to strengthen the Fund's surveillance priorities. As we may recall, our Board statement last year cautioned the Fund to remain vigilant and flexible, and adjust to changes in the global economic environment to ensure that its accountability and delivery of surveillance services remain robust. In this context, we welcome the revised Statement of Surveillance Priorities, and consider that it would be instrumental in helping the Fund respond and deliver effectively on time-bound priorities.

The global financial crisis has demonstrated that the global economic and financial environment is changing rapidly. Therefore, a flexible, well-focused and timely adjustment of priorities is necessary to help focus Fund's surveillance work. We consider that well-timed and coordinated policies to ensure a sustained and balanced recovery are needed. We, therefore, agree with the proposed revisions and limit our comments to the issues for discussion.

Revised Economic Priorities

Although risks to the global financial and economic system have moderated, many risks are still tilted to the downside, necessitating strong policy implementation to support durable recovery. Such risks include loss of confidence in the financial sector, concerns about public debt sustainability in some countries, and high unemployment. In this regard, the revised economic priorities, which aim at supporting the economy and financial system, leave room for future policy maneuver, restore confidence in the financial system and promote orderly rebalancing of global demand are not only necessary but timely and merit support.

Operational Priorities

We consider progress made on operational priorities, which embody risk assessment, financial sector surveillance, multilateral perspective, and analysis of exchange rates as adequate and comprehensive. We would support the draft decision should a consensus emerge.

Mr. Shaalan and Ms. Abdelati submitted the following statement:

The proposed revisions to the set of economic priorities are well justified in view of the changes in global economic conditions since last October. The earlier concern with extreme financial market distress has abated as the concerted policy response has been successful in stabilizing markets. Instead, in the immediate period, policymakers need to maintain support measures for the recovering economy and financial system until the recovery is more firmly entrenched. Meanwhile, the longer-term implications of the crisis-related measures for debt sustainability and for public balance sheets deserve greater attention, as this will contribute to securing a lasting recovery. We therefore concur with the added references to the need to design exit strategies, which should be carefully communicated and well-timed to avoid disrupting the recovery.

Strengthening financial systems through upgraded regulation and supervision remains a critical area of concern. Now that the financial system is showing signs of recovery and risk appetites are somewhat restored, we see a growing threat of diminished drive for financial market reforms or that the process may be delayed or the agenda reduced in scope. We therefore see scope to strengthen the reference to regulatory reform in the bullet "restoring strength and confidence in the financial system." One way to do this is to underscore the need to take policy measures to "promote greater market discipline and prevent similar future crises."

With respect to global imbalances, we support the shift of focus from "promoting an orderly reduction of global imbalances" to "an orderly rebalancing of sources of global demand so as to sustain world growth." However, we think the last phrase under this bullet in the earlier Statement should be retained, namely, "while minimizing adverse real and financial repercussions."

We concur with staff that the operational priorities remain pertinent and need not be changed at this time. The list of actions undertaken by the Fund in the last twelve months aimed at achieving the previously agreed operational priorities is a useful addition.

Mr. von Stenglin and Ms. Gerdes submitted the following statement:

We thank the staff for the proposed adjustment to the Statement of Surveillance Priorities (SSP) and offer the following comments.

The promotion of an orderly reduction of global imbalances as a priority should be explicitly expressed in the revised SSP. We therefore propose to retain the wording agreed in October 2008 “Promote the orderly reduction of global imbalances.” In our view, this wording would avoid to be misinterpreted as implying that the Fund considers the crisis-related reduction of global imbalances to be a sustainable trend and ignores the fact that key structural problems remain or may reappear as a source of external imbalances.

With regard to the priority of rebalancing global demand, emphasis should be placed on addressing relevant market distortions and to pursue policies in deficit countries aimed to help avoid unsustainably low savings rates. In particular, exchange rate issues should be discussed.

We agree with staff, that the focus of policy considerations is already shifting to the design of exit strategies and policy requirements for sustaining global growth. Against this backdrop we are surprised that exit strategies did not show up explicitly as an economic priority. Moreover, while the objective of global growth is important, the necessity of achieving this within a context of macroeconomic stability should be better acknowledged in the draft text. As the text stands now, the staff seems to advocate short-term measures to increase global demand.

Against this backdrop, we would like to suggest the following modifications to the text:

“After the most severe slowdown since the 1930s, the global economy has begun to show tentative signs of recovery. The objective should be well-timed and co-ordinated policies to ensure a sustained and balanced recovery <u>in a stable macro-economic environment</u>, including through the design of exit strategies that allow for an orderly unwinding of crisis-related policy interventions. Priorities are to:

- Support the economy and the financial system as needed. Resolve financial market distress, and maintain measures to support demand and financial intermediation until recovery takes firm root.

- <u>Prepare exit strategies from crisis related measures in order to</u> ~~P~~preserve the room for future policy manoeuvre. In particular, pay due regard to <u>medium and </u>longer-term implications of crisis-related measures, including safeguarding public debt sustainability and broader public sector balance sheets as well as macro-economic stability.

- Restore ~~strength and~~ confidence in and strengthen the financial system. Upgrade regulation and supervision, promote greater market discipline, and strengthen the capacity of capital-importing countries to manage risks.

- Promote the orderly reduction of global imbalances and an orderly and sustainable rebalancing ~~of sources~~ of global demand through prudent macroeconomic policies and ~~so as to sustain world growth~~ by addressing relevant market distortions. In this context, maintain an environment of open trade and competition. Be ready to adjust to changes in commodity prices."

Mr. Bakker submitted the following statement:

The staff proposal rightly reflects the changed economic environment and I can support it. At the same time, it does not address the general topic of modernizing our surveillance, which should be discussed by the Board, possibly on another occasion. I would like to make two remarks in this regard.

First, while it is useful to discuss the immediate operational priorities in surveillance, I would argue to spend more time on the broader topic of what surveillance should look like in the future. For example, are we going to use IMF surveillance to monitor the follow-up of FSB and BIS recommendations? What reforms in surveillance are needed to improve the traction of IMF advice? Should the Board be less involved with bilateral, and more with regional and multilateral surveillance, including by discussing Regional Economic Outlooks? These are very relevant questions for the Fund to deal with in the coming year, relating to the more general question of what the role of the IMF should be after the crisis. If staff does not intend to address the topic of modernizing its surveillance as one of the operational priorities, can we expect it on the work program after the Annual Meetings?

Second, in addition to setting the priorities, the Statement could be used better to monitor whether the policy follow-up in the IMF has been satisfactory, and thereby increase the accountability of the Board, management, and staff. Building on the useful overview of table 1 regarding the policy initiatives undertaken in the IMF, I would argue for analysis on how these steps have actually helped to deliver on the priorities, and, consequently, what concrete steps are further needed to achieve the priorities.

The paper could also have addressed whether there are activities that should have been undertaken but have so far not been picked up. Providing such analysis would help to ensure continued added value of the Statement, especially in an environment where some of the proposals in SM/09/240 were adopted, in which case we would have a wide variety of instruments for setting the priorities and monitoring follow-up (strategic IMFC Communiqué, Board report to the IMFC, the work program, MDs umbrella report, the Statement, Triennial Surveillance Review).

Mrs. Zajdel-Kurowska and Ms. Tartari submitted the following statement:

We agree that operational principles remain appropriate. Given the recent developments, we also agree with the proposed revision of the economic surveillance priorities and have the following remarks to add:

The central economic priority, rather than an objective, should be the support of well-timed and coordinated policies to ensure a sustained and balanced recovery. A key element of the recovery—thus a key element of the priorities—is the design of exit strategies that allow for an orderly unwinding of crisis-related policy interventions.

A stronger language on the rebalancing of demand would be warranted. This could include reference to the need to contain payments imbalances at a sustainable level, as well as the reference to the support of prosperity referred to in the Articles of Agreement.

The staff’s wording on adjustment to changes in commodity prices is very vague. The staff’s comments on the timing and type of adjustment to changes in commodity prices are thus welcome.

On a procedural point, we would like to reiterate that the importance of this statement warrants a meaningful discussion and the endorsement by the IMFC prior to its publication. An IMFC endorsement, which will only be credible if discussed thoroughly, would give visible backing from the highest level for the future direction of the Fund’s surveillance.

Ms. Lundsager and Mr. Kaplan submitted the following statement:

We thank the staff for their update of the Statement of Surveillance Priorities. The authors’ approach of maintaining the Operational Priorities from the TSR, while updating Economic Priorities in view of the evolution of the current crisis, is sound.

We are not convinced of the staff's proposed substitution of "Promote the orderly reduction of global imbalances" with "Promote an orderly rebalancing of source of global demand so as to sustain world growth." We share the view of Mr. von Stenglin and Ms. Gerdes in this regard, when they suggest that the reformulation could be "misinterpreted as implying that the Fund considers the crisis-related reduction of global imbalances to be a sustainable trend and ignores the fact that key structural problems remain or may reappear as a source of external imbalances."

An alternative could be: "Promote the orderly reduction of global imbalances, in part, through an orderly rebalancing of sources of global demand so as to sustain world growth."

We can go along with reference to "maintaining an environment of open trade and competition." So doing is certainly a requirement to help emerge from the crisis, and a goal that we all support. However, we suggest that colleagues consider carefully whether trade concerns should be moved so prominently to the Fund's mandate for surveillance. The recent IEO review of the Fund's involvement in trade policy was useful for reminding the Board of the limits of the Fund's engagement in trade issues. Furthermore, a sentence of this nature threatens to become a permanent fixture of the SSP.

In October 2008, concern on the impact of commodity price inflation was prominent. As we know, the situation turned out quite differently. We agree that members should "be ready to adjust to changes in commodity prices," but we wonder whether this passive formulation merits inclusion in the SSP. We can accept consensus on the staff's drafting, but believe the reference to commodities detracts somewhat from the overall framing of the Economic Priorities.

Operationally, our remaining question relates to the implication for the analytical and research work of the Fund that would be expected to flow from the Statement. We would appreciate comment from the staff on how the Economic and Operational Priorities have led to budget reallocation, and decisions on how to prune the Fund's agenda for research and policy dialogue. In this context, we look forward to the IEO's review of the Fund's research.

Mr. O'Sullivan and Mr. Rolle submitted the following statement:

We welcome the recommendation from the staff for a realignment of the Fund's surveillance priorities, to refocus resources and activities on sustaining the global economic recovery and further strengthening the international financial system. As presented, the priorities acknowledge the unevenness of the recovery across countries and the continued need to ensure the stability and support for economies that still face significant risks. Now, we would also appreciate the staff's views on an appropriate governance framework that would enhance the effectiveness of surveillance activities.

Economic Priorities

We support the new emphasis in the economic priorities (EPs) on sustaining the global recovery, while continuing to minimize the real sector impact of the financial crisis. In particular, given a significant dependence on exports, many developing countries face the prospects of lagged recoveries, contingent upon sustained improvements in consumer confidence and demand in the major economies. To sharpen this focus, we invite the staff to consider the merits of designing exit strategies which balance the risks of either too early or too late a withdrawal of policy support. In this regard, we endorse the restatement of this EP as suggested by Mr. von Stenglin and Ms. Gerdes.

We support the emphasis made by the staff that the Fund's surveillance initiatives should encourage authorities to adopt credible programs to restore fiscal sustainability, once their recoveries begin. In this regard, we welcome the staff's acknowledgment that such frameworks should preserve some room for future policy maneuverability, as the adjustments will be difficult for many countries, given the need to maintain critical public services and public support for the adjustment policies required.

We agree with the third EP of restoring the strength and confidence in the global financial system. Indeed, this would stimulate increased private capital flows, and allow both public and private sector borrowers to lengthen the maturity of existing debt, and reduce refinancing risks. This priority, still calls for an overhaul of financial supervision, more market discipline, and risk management priorities for capital importing countries, which were endorsed by Directors in October 2008. In support of this approach, we suggest that the surveillance priorities should also note the importance of coordinated and harmonized approach to regulatory and supervisory reforms.

We endorse the staff's emphasis on continued need for the orderly unwinding of external imbalances articulated under the fourth EP. Similarly, we would suggest an explicit acknowledgement of the need to reduce the imbalances in both deficit and surplus countries, and to rebalance of public and private sector demand.

Operational Priorities

We commend the staff for both the targeted and broad initiatives started in support of the Board's operational priorities for surveillance. Noteworthy among these are progress with the capacity building exercises, the enhanced communication of the Fund surveillance activities and the efforts to improve the availability and sharing of information.

Governance Issues

We would welcome the staff's consideration on the establishment of an accountability framework for the independent evaluation of surveillance outputs. In particular should the staff be responsible for conducting surveillance, and the Executive Board, or a committee established by the Board, have a mandate to guide and evaluate surveillance activities?

Summary

In summary, we support the proposed refocusing of economic surveillance priorities, with the emphasis on polices to sustain the global recovery, promote the orderly unwinding of external imbalances, enhance the financial sector's resilience and support long-term fiscal sustainability. We encourage the staff to continue to advance the Fund's operational priorities, and invite their views on the design of an appropriate governance framework mechanism to ensure the accountability for surveillance, and the evaluation of the effectiveness outcomes.

Mr. Fayolle submitted the following statement:

We welcome the discussion on the Statement of Surveillance Priorities and thank staff for their paper.

The draft Statement of Surveillance Priorities provides, in our view, an appropriate change in the prioritization of surveillance objectives for the period ahead, given the current state of the global economy. We broadly support this statement and would like to make the following remarks.

We welcome the proposed shift in economic priorities which demonstrate the reactivity of the IMF. We concur with staff that we are approaching the turning point of the global financial and economical crisis and that surveillance priorities should be adapted accordingly.

We agree with staff about the focus on exit strategies. In this domain, the IMF has financially supported and advised many countries with falling revenues and current account deficits. It is therefore the Fund's responsibility to act as a major player in setting a framework, including timing, size, and pace of exit strategies.

We welcome the reference to "market discipline" in the third priority. While we recognize the importance of restoring financial markets' functioning and confidence, we also believe that market discipline alone will not be sufficient. We agree that there is a need for the Fund, together with other institutions, to promote sound practices and to enhance global supervision. However, we notice that the notion of market discipline is now being used in a much wider range than initially used as the third pillar of the Basel II principles. We would appreciate it if staff could be more explicit on their understanding of 'market discipline' in the context of the surveillance exercise.

On the third priority, we find missing a reference to the situation of low-income countries amongst capital-importing countries. As these countries are now affected by the global crisis and were mentioned in last year's statement on surveillance priorities, they should, in our view, be mentioned in the statement.

We would like to add the term "global imbalances" to the last priority. While we recognize that rebalancing the sources of global demand is the key issue, given that insufficient global demand could damper the recovery, we think that the term 'global imbalances' should appear in the statement, in light of the targeted audience and the importance of this notion in the international debate. In the same vein, we believe that mentioning exchange rate policies would have been useful, although we understand that it is included in the reference to open competition.

Finally, we support the reference to the IMFC discussion and endorsement made by Mrs. Zajdel-Kurowska and Ms. Tartari.

Mr. He and Ms. Liu Naji submitted the following statement:

We thank staff for their work on revising the Statement of Surveillance Priorities (SSP) and updating the progress towards the operational priorities. We welcome the well needed recalibration of the economic priorities and encourage further substantial actions to be taken towards implementing the operational priorities. As the mid-term guidance for IMF surveillance, SSP needs to be forward-looking and revised with full flexibility.

We notice that the international community has not reached a consensus on whether it is the right timing to design exit strategies. At this conjuncture, we support staff to keep "support the economy and the financial system as needed" as the core of the economic priorities while incorporating "preserve the room for future policy maneuver" into the watch-list, such as "pay due regard to longer-term implications of crisis-related measures, including safeguarding public debt sustainability and broader public sector balance sheets."

It is well acknowledged that micro factors in major financial centers have been important causes for the crisis, including pro-cyclical factors, problems of credit rating agencies, lending standards, excessive leverage and deficient corporate governance. It is critical for major financial centers with much more systemic importance to strengthen regulation and supervision to restore health of the financial system. We propose to keep "especially in major financial centers" after "upgrade regulation and supervision" in the third point of the economic priorities.

The risk of sharp commodity price volatility is still high, particularly in case of sharp U.S. dollar depreciation. The commodity price should remain on the watch list. Open trade and competition should be included in the fourth point of the economic priorities. Acceleration of structural reforms to raise productivity and potential growth in advanced economies should be an important part of the solution to global and fiscal imbalances. This perspective is preferred to be reflected in the fourth point of the economic priorities.

We welcome the recent revision of the operational guidance for implementation of the 2007 Decision as a temporary pragmatic step toward addressing the dilemma with implementation of the 2007 Surveillance Decision. However, fundamental defects of the Decision remain to be addressed. A prompt review is warranted.

Mr. Gibbs and Ms. Fisher submitted the following statement:

We thank staff for the paper and welcome the discussion on the Statement of Surveillance Priorities (SSP), an innovation we have strongly supported. A year after its introduction seems the right time to review progress and to make sure the SSP is up to date and performing the role envisaged at its inception.

Revisions to the Economic Priorities

Overall we think the revisions to the economic priorities are appropriate, and reflect well the different circumstances and challenges for the Fund's surveillance work in the coming period. The priorities reflect the fact that the severe global downturn is not completely over and done with, and there remains much to do, to deliver sustainable and balanced growth in the months and years ahead. We have the following specific comments:

On the third priority, to 'Restore strength and confidence in the financial system' we would prefer to retain the language from the previous SSP which refers to upgrading domestic and cross-border regulation. We also believe this priority should reflect the need to develop appropriate macro-prudential policies, to counteract pro-cyclicality and systemic spillovers. This priority should be re-drafted to say:

'Restore strength and confidence in the financial system. Upgrade domestic and cross border regulation and supervision, develop macro-prudential policies, promote greater market discipline, and strengthen the capacity of capital importing countries to manage risks.'

We believe that the final priority, to 'Promote an orderly rebalancing of sources of global demand so as to sustain world growth' should be strengthened, to reflect the importance of developing policies that minimize adverse cross-country spillovers and ensure the consistency of national economic policies. Here, we would support the text proposed by Mr. von Stenglin and Ms. Gerdes, but would buttress it further by adding the words 'mutually compatible' before 'macroeconomic policies,' such that this bullet would now read:

'Promote the orderly reduction of global imbalances and an orderly and sustainable rebalancing of global demand through prudent, mutually compatible, macroeconomic policies and by addressing relevant market distortions. In this context, maintain an environment of open trade and competition. Be ready to adjust to changes in commodity prices.'

We agree with the staff that it will be important to keep the SSP's economic priorities under review and that a further revision may be appropriate next year.

Progress Against the Statement of Surveillance Priorities

We are grateful for the material outlining actions against the operational priorities contained in the staff paper. We would also like to see this information augmented to provide a fuller assessment of progress against the SSP, and the effectiveness of the actions taken. Indeed, the SSP itself calls on the Managing Director to report regularly on ‘visible results.’ We think this is an area where the Fund has made significant progress over the past year or so, and should not miss the opportunity to say so.

Related to this, we would also be interested to hear about plans for the Managing Director’s regular progress report against the SSP to the IMFC, as called for by the IMFC at the 2008 Annual Meetings and in the SSP itself. Again, we believe there is a lot of positive information to share, and given current circumstances, progress reporting on an annual cycle would be appropriate. We would therefore hope to see a first update to the IMFC at the Annual Meetings in Istanbul. As we have stressed previously, we also think it’s crucial that policymakers take strong ownership of the Fund’s surveillance priorities and regular engagement and progress reporting is one important way to help this happen.

Mr. Nogueira Batista and Mr. Mori submitted the following statement:

Given the improvements in the global environment since October 2008, and noting that the acute phase of the crisis seems to be behind us, it would be reasonable to look for some changes in the Statement of Surveillance Priorities (SSP). We wonder, however, whether it is not premature to change all four economic priorities, as the adjustments in the international economy are still ongoing.

In light of the magnitude and unconventional nature of policy interventions, in particular in the advanced countries, we agree that it is important to “preserve the room for future policy maneuver.” However, this is a concern for the medium term as the recovery is far from consolidated. This second priority could conflict with the first one (“support the economy and the financial system as needed”—our emphasis). Therefore, we are of the view that setting such a priority at the current juncture would be premature.

We strongly prefer to retain the language of the previous statement of surveillance priorities on the financial system. As we are still at the beginning of the process of upgrading regulation and supervision, strengthening the financial system, especially in advanced economies, remains a priority.

Furthermore, two important elements are missing in the new draft: first, it does not mention explicitly the upgrading of cross-border regulation and supervision; second, there is no reference to major financial centers as in the previous version. The previous draft is more detailed and should be retained.

We support the other revisions and agree to keep the operational priorities unchanged.

Mr. Sadun and Mr. Spadafora submitted the following statement:

We welcome the revisions to the Statement of Surveillance Priorities proposed by staff, as they help to preserve its crucial role of strengthening surveillance and facilitating the assessment of its effectiveness. We thus broadly support the revisions and agree on keeping the operational priorities unchanged.

However, while we appreciate the additional reference to the need for rebalancing the sources of global demand in order to ensure sustained world growth, we join Mr. von Stenglin and Ms. Gerdes in supporting the retention of the wording "Promote the orderly reduction of global imbalances" in the fourth priority.

In the same vein, we too believe it is appropriate to include in the second priority an explicit reference to the importance of timely and well-designed exit strategies. This will clearly underscore their relevance in the current policy debate.

Mr. Yamaoka submitted the following statement:

We can broadly support the staff proposal. Regarding the design of exit strategies, we reiterate that the Fund's surveillance should pay due attention to the following aspects.

There is no single "best exit strategy" that can be applied to all member countries.

Exit strategies should fully reflect country-specific economic environments. One-size-fits-all strategies may fit no one.

"Coordinated policies" should not be misunderstood as "simultaneous" exit.

Neither coordinated policies nor exit strategies should sacrifice the stability of the economy and prices of each member country. For example, coordinated exit from blanket deposit guarantee should not mean that every country has to wait for the last runner. The shift of deposits from high-rated countries to low-rated countries would not be very likely even if deposits in low-rated countries are guaranteed by the government.

Although we fully understand the importance of exit strategies, the Fund should be cautious against attracting undue concerns over the exit procedures.

According to the stabilization of financial markets, a part of central banks' "crisis-related policy interventions" will be automatically unwound due to (a) the sunset clause of asset purchasing programs, (b) the maturity of assets, and (c) the decline in the attractiveness of central bank facilities for market participants. Such an automatic unwinding should not be regarded as a change in policy phases.

Mr. Chua and Mr. Kanithasen submitted the following statement:

We thank staff for their work on revising the Statement of Surveillance Priorities. It broadly reflects the changed economic circumstances. We would, however, propose one amendment:

In relation to the first priority, we believe that "resolve financial market distress" is an inadequate statement of the priority. Critical to a sustained recovery is the restoration of the smooth functioning of the financial sector in the crisis-hit economies. We need to go beyond alleviating distress to making sure that banks have sufficiently strong balance sheets to be able to provide credit in support of a recovery. We, therefore, propose the insertion of the italicized phrase below—"Resolve financial market distress and ensure the ability of banks to lend and support economic recovery."

Alternatively, this could be incorporated in the third priority.

We support the reformulation of the other priorities and agree with the shift in focus to exit strategies from policy stimuli and upgrades in regulatory and supervisory framework. On the latter, however, we wonder—in light of the lessons from crisis—whether the risk management capacities of only capital-importing countries would need to be strengthened.

Mr. Guzmán submitted the following statement:

We thank staff for the paper and welcome the discussion on the Statement of Surveillance Priorities (SSP). I support the revision of the economic priorities for the Fund's surveillance and will limit myself to a few remarks.

We support Mr. Gibbs' suggestion to change the language for the third priority 'Restore strength and confidence in the financial system' to refer to the IMF's surveillance contribution to upgrading domestic and cross-border regulation and to develop appropriate macro-prudential policies.

Like Mr. Bakker, although we are in a position to agree with the general and operational priorities as presented, we suggest that IMF surveillance in relation to the financial sector (and its connection to the real economy), its content, procedures and traction, should be thoroughly analyzed by the Board. In the aftermath of the crisis, we are concerned for instance with the risk of having the IMF contribute only from the sidelines to the revision of the international financial regulatory framework, a disconnect that would certainly have an impact on the sense of ownership and on the quality of our surveillance. More broadly, we can probably all agree in that the full integration of a more effective financial sector analysis into our traditional surveillance should be enshrined at the top of our priorities.

As a consequence, a sense of urgency in the empowerment of the Fund in financial sector issues is called for. At the operational priority level, as well as in terms of the capacity building and resource allocation actions, the IMF should consider financial sector issues above others where the amount of knowledge and human capital accumulated in the institution is much greater. This is of course consistent with calls to better integrate FSS in our bilateral and multilateral exercises. The next crisis might or might not develop the financial sector, it might be already brewing in advanced or in emerging economies, but the post-Lehman/post-Asian Crisis the IMF should not allow it to go undetected.

Mr. Pereira submitted the following statement:

We welcome today's discussion. This chair has long called for a fundamental revamp of the Fund's bilateral surveillance framework at the light of lessons from this crisis. We envisage this review of key economic priorities as a first step in the right direction. Considering the key findings and policy recommendations put forward in the WEO and the GFSR, we agree with the staff that changes in economic circumstances warrant a revision of the SSP. We, however, call on a comprehensive revision of the 2007 Surveillance Decision as the key overarching framework for the conduction of more evenhanded and targeted bilateral oversight. We support Mr. He and Ms. Liu Naji on the need of a prompt review.

One of the key lessons from this crisis is the need for more effective surveillance of systemically important advanced countries, international capital flows, and financial markets. The revised economic priorities seem to be consistent with that goal. In fact, the priorities put forward seem to match the key challenges facing major advanced countries, particularly regarding their need to resolve financial market distress or strengthening confidence in their financial systems while carefully managing the withdrawal of official support policies. That said, we see merit in the staff's proposal as a broad and common guide to the staff and the national authorities on key areas of critical importance and mutual cooperation.

Our reading is that the staff will assess in future Article IVs country members' policy actions to support both the economy and the financial system—when needed—at the light of this global crisis, bridging short-term support to medium-term policy actions aimed at safeguarding future fiscal and external stability. In doing so, the objective will be to ensure policy space and room for maneuver to adequately contain future external shocks. Specific attention will now be given to financial regulation and supervision, aimed at ensuring greater market discipline according to the stage of financial development of different countries. Specific consideration will be diverted to each country's strategies on how to better manage volatile capital flows. Finally, the staff will assess members' medium-term policies and their consistency with the goal of sustaining global growth and rebalancing global demand as needed. We understand that both the authorities and the staff will assess collectively the impact of policy stances on domestic growth and then appraise their contribution to sustain global demand.

We particularly see merit in changing the original first and third economic priorities, while giving priority to an orderly rebalancing of sources of global demand without restricting ourselves to the goal of reducing global imbalances. We support Mr. Nogueira Batista and Mr. Mori's comments regarding the need to preserve the focus of strengthened regulation and supervision in major financial centers, including cross-border regulation. We ask the staff to add both references in the proposed new third priority, as a key element for restoring confidence in the financial system.

Although we see merit in the thrust of the proposal, we claim that much will hinge on its implementation. We believe that policy surveillance can only be effective if country members voluntarily adhere to the mutually-developed rules and agree on the smooth functioning of the global economy. Progress have been made in achieving a better understanding of the challenges ahead, but both the revision of the 2007 Surveillance Decision and decisive efforts to strengthen the Fund's legitimate basis are still lagging behind. We therefore stress the importance of strengthening the cooperative nature of surveillance and underscore the need to avoid a one-size-fit-all approach in the Fund's policy advice. Critically, we reject the idea of a unique set of indicators to assess policy responses without due regard to countries' specific circumstances and state of development (e.g.: soundness financial indicators).

Finally, we support Mrs. Zajdel-Kurowska and Ms. Tatari's call for a Ministerial discussion on the merit of the proposed SSP and its endorsement, including operational priorities.

Mr. Kishore and Mr. Patra submitted the following statement:

We thank staff for the paper on surveillance priorities. We note that staff considers that changes in global economic circumstances, and in particular, 'tentative signs of recovery' warrant a revision in the economic priorities while it would prefer that operational priorities remain unchanged at this stage.

Rationale for Change

We agree with staff that the main factor driving the setting of economic priorities should be the need to 'ensure a sustained and balanced recovery.' On the other hand, we have misgivings with the corollary which is the design of exit strategies. In this context, we would emphasize the need for clarity on the following:

The Content of Exit Policies

Illustratively, while short-term liquidity facilities can be easily unwound, it is not certain as to how longer-term assets taken on to the balance sheets of central banks can be unloaded, and with what consequences for financial markets and economic activity. Furthermore, fiscal intervention in the compression of central bank balance sheets may be warranted. Unwinding of fiscal stimuli represents an even bigger challenge as several fiscal measures were undertaken without an announced tenor.

The Timing and Pace

We are unclear as to what is meant by ‘orderly.’ Does it mean simultaneous? That would be disastrous—until recovery has firmly taken hold, it is vital that some stimulus remains in play. Does it mean sequenced? Such a strategy could cause arbitrage opportunities to be exploited. For instance, if the Federal Reserve was to stop liquidity provision first , it is possible that market participants could rush to the ECB for liquidity eventually forcing the latter to shut off provision under sheer pressure of demand.

In our view, countries entered the crisis at different points of time and under differing circumstances, some affected by the financial turmoil and some pulled down by the economic downturn. Consequently, the content as well as the timing of stimulus measures differed from country to country. We believe that the exit from stimulus should also be country-specific, each country judging when it is firmly on the path to recovery.

Notable Omissions in the Revision

We note with concern that in the proposed revision, the emphasis on regulation and supervision in major financial centers has been omitted. We believe that this aspect of surveillance was an important lesson gleaned from the current crisis. We, therefore, strongly recommend that the focus on important financial centers and systemically important countries should be intensified, not diminished.

Mr. Rouai made the following statement:

We thank the staff for a concise paper. We generally support the proposed changes in economic priorities and would like to make a few general remarks before commenting on the proposed changes.

We consider that the statement of surveillance priorities (SSP) is still work in progress. In particular, we see the need for a better sequencing of the Board discussion of the SSP to take into account the conclusions of the GFSR and the WEO.

It is not clear if the SSP is a time-bound three-years exercise or a rolling three years’ one. In the preamble of the SSP it is indicated that “IMF surveillance will be guided through 2011 by the following priorities.” In the penultimate paragraph it is indicated that “these priorities look ahead three years.” These two references were consistent in 2008 when we launched the first SSP. They are no longer consistent now after the proposed updates. The staff’s clarifications are welcome.

The first SSP was adopted on October 7, 2008 by a Board decision. If the proposed SSP is to replace the one adopted last year, decision number 14182 needs to be abrogated since both cover the period through 2011. The staff’s comments are welcome.

We welcome Table 1 detailing progress under the SSP’s four operational priorities and agree that the operational priorities can remain unchanged until the time of the next Triennial Surveillance Review in 2011. This table should, however, include some indications on the progress made by Departments in integrating the SSP into their business plans and on the link with the medium-term budget.

Since the first SSP was endorsed by the IMFC and attached to its final Communiqué, one would expect that the updated statement would follow the same process. We suggest, in this regard, that Table 1 be annexed to the SSP.

Turning to the proposed changes, we have the following comments:

On the second bullet, replace “pay due regard to longer-term implications” by “address longer-term.”

On the third bullet, like a number of Directors, we prefer to keep the emphasis on the need to upgrade domestic and cross-border regulation and supervision in major financial centers. We also propose to replace “strengthen capacity of capital importing countries to manage risks” by “strengthen capacity of member countries, including low-income countries, to manage risks attached to capital flows.”

On the fourth bullet, we do not see the need to maintain the reference to commodity prices. Commodity prices may not be the most significant shock facing the membership, going forward. Changes in the pattern and conditions of trade and capital flows could be more significant. We suggest to delete the last sentence, or to replace it with “Strengthen the capacity to adjust to exogenous shocks.”

Finally, the priority to restore strength and confidence in the financial system should be moved up as the second bullet, as was the case in the first

SSP. The Fund should continue to press and highlight the urgency to repair financial systems. It is also consistent with the emphasis on greater integration of financial sector issues into surveillance.

Mr. Bergo made the following statement:

We broadly agree with the revised Economic Priorities proposed by staff, but see merit in some of the suggestions made by Directors.

First, we agree that the objective of orderly reduction in unsustainable global imbalances should be explicitly acknowledged and are open to the suggestions made by other chairs.

Second, the suggestion by Mr. von Stenglin and Ms. Gerdes to explicitly mention preparation of exit strategies in the context of "Preserving the room for future policy maneuver" would help a great deal in sharpening the Statement's focus.

Third, we were somewhat surprised that in a period when the need for international policy coordination is at its greatest, the Economic Priorities did not attach more emphasis on a multilateral perspective. We therefore agree with the suggestion by Mr. O'Sullivan and Mr. Rolle that the priorities should also note the importance of a coordinated and harmonized approach to regulatory and supervisory reforms.

Similarly, we would have wished to see the importance of policy coordination stressed also in the context of "Preserving the room for policy maneuver" and, in particular, preparing and implementing exit strategies. We certainly share the concerns expressed by some Directors that exits from public support need to account for country-specific circumstances and that a simultaneous "rushed" exit should be avoided. However, we would argue that such a risk is precisely the reason why close international collaboration and coordination, as appropriate, on the design and implementation of exit strategies is necessary to ensure the stability of the global economic and financial system on the whole.

We agree that the operational priorities from the last surveillance review remain appropriate. Table 1's reporting on actions taken is a useful addition, albeit rather cursory. An elaboration of these steps' effectiveness in improving Fund surveillance would have been helpful, since the reader is now left to make his/her own judgment. That said, we recognize that such analysis would be rather laborious and we should also avoid overburdening the present document. We therefore look forward to a more thorough assessment of the operational priorities in the context of the next Triennial Surveillance Review.

Finally, Mr. Bakker and Mr. Guzmán raised a set of important questions regarding the future of IMF surveillance. As of today, we are still somewhat in the dark regarding how exactly the Fund's role in some of the recent international initiatives will materialize. Moreover, as noted by Mr. Guzmán, a disconnect between the Fund's surveillance and the ongoing revisions to the international regulatory framework may entail risks to the sense of country ownership and quality of the Fund's work. We would therefore see merit in a strategic "umbrella paper" focusing on modernizing the Fund's surveillance, which could be included in the work program after the Annual Meetings.

Mr. Lushin made the following statement:

We can go along with the proposed text on economic priorities and would just like to make the following observations. In the second bullet, we support the explicit mentioning of exit strategies as proposed by Mr. von Stenglin and Ms. Gerdes. Also, in the second bullet, we are not clear what is meant by "safeguarding broader public sector balance sheets." Maybe it is better to replace "broader public sector balance sheets" by "price stability." This way, the second part of this sentence would read "including safeguarding public debt sustainability and price stability."

In the third bullet, we support including reference to domestic and cross-country regulation and supervision, and we strongly support the reference to "major financial centers" after "upgrading regulation and supervision."

Finally, in the fourth bullet, we are not sure why changes in commodity prices have been singled out as something that we should be ready to address. We should be ready to address many things, including changes in exchange rates and capital flows. Commodity prices are just one among other things, as there are even more serious risks that exist in the global economy. That is why I support Mr. Rouai's proposal either to delete this sentence or to make it broader, referring to exogenous shocks in general.

Finally, we do not want the IMFC to change the Statement of Surveillance Priorities, after it has been approved by the Board. Directors may recall that we had a long and heated discussion on this issue a few years ago. The decision was made at that time that the Statement of Surveillance

Priorities is a Board document and it is to be adopted by the Board. The IMFC is more than welcome to discuss and endorse it if it so wishes, but the final form of this Statement is being adopted by the Board.

Mr. Rottier made the following statement:

We thank the staff for this useful update of the Statement of Surveillance Priorities. On the economic priorities, we support the amendments proposed by Mr. von Stenglin stressing that it is important to prepare exit strategies and strengthen the financial system, and the need to reduce global imbalances in an orderly manner. Also, we agree with Ms. Zajdel-Kurowska and Ms. Tartari that the proposed wording on the adjustment to changes in commodity prices is too vague as it is now.

We agree with Mr. He and Mr. Nogueira Batista on the need to keep the reference to upgrading regulation and supervision. We also agree with Mr. Lushin on his reference to price stability.

On the operational priorities, we support the points made by Mr. Bakker and Mr. Guzmán, in particular on the full integration of the financial sector analysis into our traditional surveillance.

Lastly, we believe it is useful to specify in the heading of the Statement that it was updated in 2009.

Mr. Legg made the following statement:

I appreciate the opportunity to review the priorities, and I think it is clearly appropriate that we are doing so in the light of changed circumstances. I am broadly supportive of the thrust of the proposed changes to economic priorities but, like other Directors, I have some thoughts regarding nuance in areas of emphasis.

First, on a relatively minor and completely pedantic point, I do not think we need the word “exit” in the opening paragraph because it is redundant in the context of the rest of the sentence. However, turning to more substantive points, like other Directors, I do think that when we get to the second priority, we need to make it clearer that ensuring room for future policy maneuver means the eventual unwinding or removal of crisis-related measures.

We should be careful not to imply that it is somehow the Fund's role to prepare exit strategies; it is obviously a matter for financial authorities. So, I do not necessarily agree with the precise wording that Directors have suggested, and I share Mr. Yamaoka's cautionary words in terms of a general approach to dealing with exit strategies.

I also understand the concerns other Directors have about sending the wrong signals about timing. I thought that adding a phrase after "crisis-related measures" along the lines of "and strategies for their subsequent phased removal" could be appropriate. In any event, I think we need to be more explicit on this front.

My second, more substantive, point was that the third priority may not adequately capture the sense that we do not want to just return to the pre-crisis status quo. Rather, we want to ensure a more robust macro-financial framework. In that regard, I prefer Mr. von Stenglin's and Ms. Gerdes's formulation along the lines of "restore confidence and strengthen the financial system." Mr. Gibbs's and Ms. Fisher's explicit reference to cross-border regulation and supervision, and to macro-prudential policies mentioned explicitly is very useful.

I also wonder whether there would be merit in reversing the order of the second and third priorities. I know they are not necessarily a ranking. It is symbolic but, nonetheless, would help make clear that we are currently trying to restore confidence, and building policy room over the longer term. This may help address some of the concerns made by other Directors, including Mr. Nogueira Batista in his statement.

Let me comment on some of the other suggestions made by Directors that struck me reading through the grays. I do want to align myself with those who would like to see a reference to global imbalances in Priority 4.

I can live with the suggestions made by Mr. He and other Directors about retaining some reference to major financial centers in Priority 3, but clearly in a way that does not imply that somehow the need for regulatory reform is limited exclusively to such centers.

I understand Ms. Lundsager's and Mr. Kaplan's cautious words regarding the risks in associating trade issues with Fund surveillance. I think that is a fair point. But I cannot see how the Fund cannot acknowledge open trade as an important objective. I prefer to work on the basis that references like this will be interpreted in the context of the Fund's mandate relative to other IFIs and the WTO.

On the decision to be made not to make any changes to the operational priorities, I wondered, nevertheless, if there may be a case for considering some fine-tuning, because I do have the sense that there are operational implications from the way members' expectations of the Fund are evolving, particularly in the context of the role that members want the Fund to play in developing exit strategies. The design and timing of exit strategies are a matter for national authorities, but I think members are looking to the Fund to develop tools, indicators, and frameworks for thinking about exit strategies, and to help facilitate coordination, including through monitoring the implementation. So, I do not have a sense of which of the current four operational priorities the staff would somehow latch this on to. In fact, the staff may indeed want to consider a fifth priority, but the issue of exit strategies does seem to me to be something new operationally.

Finally, I very strongly agree with the points made by Mr. Bakker, Mr. Guzmán, Mr. O'Sullivan and Mr. Rolle regarding the need to set aside some time to think more deeply about the evolving approach to surveillance and related governance implications. I think it is important to sit down and have a discussion about this, including the issue of our role relative to the FSB.

I am rather cautious about how far the Fund should get into monitoring and somehow capturing in its surveillance all financial regulatory issues, which I think go into a level of depth that I am not certain is our comparative advantage. Nonetheless, I think we really have to have the discussion.

Somewhat related to that, like Mr. Gibbs and Ms. Fisher, I am interested in the plans on how we will report to the IMFC on the progress against the surveillance priorities. I understand there is a history of discussion about the relevant role of the Board and the IMFC. We have the legal right to decide these things, not the IMFC. Nonetheless, we are in a situation where we want to encourage more engagement from Ministers on these issues. Quite frankly, this goes to the heart of the broader tensions we have about governance, because clearly we need Ministers to buy into these things if we are going to be effective in getting traction on the outcome of the surveillance. So, I would be interested in knowing how management intends to deal with that.

Mr. Al Nassar agreed with the proposed changes to the economic priorities and stressed that priorities could be changed as economic and financial conditions evolve. Thus, those priorities that might become important in the future but were not currently critical should not be included in the Statement of Surveillance Priorities.

Mr. Guzmán made the following statement:

> I would like to strongly support what Mr. Lushin just said about the second priority. The concept of safeguarding public debt sustainability is understandable. The concept of broader public sector balance sheets is a more debatable issue. This morning, the Economic Counsellor's presentation attracted some debate, as it was surprising to some of us and less surprising to others. I have been blessed with having to deal with this public sector balance sheet approach to policymaking.
>
> The Board is not unaware of the fact that any approach to defining a public sector balance sheet is extremely judgmental and debatable, and whatever inputs you put into any such methodology deliver the result. I am capable, through two or three small changes in the assumptions, of delivering to you a graph that is perfectly incompatible to the one we saw this morning on several countries.
>
> The Statement of Surveillance Priorities is supposed to be an accountability instrument, where we set objectives for the IMF to focus on, and where we will be in a position to demand results. This is too much of a broad concept and too much of a debatable concept to have the institution focus on. Anybody could say or accuse the institution of not having paid enough attention to this particular balance sheet problem. Or, on thecontrary, we may pay too much attention to balance sheets when other developments, for example in the financial sector, were taking place that were not reflected in such a concept.
>
> Hence, I would strongly advise not to mention that concept and delete the sentence on the concept of safeguarding public debt sustainability, which implies a longer-term perspective but does not have all those inconveniences. I forgot this in my statement, because I went over the papers very quickly on a plane.
>
> The second issue I will address is financial sector surveillance. Mr. Bakker and several other Directors have echoed our concern about the insufficient emphasis in this document on the need to focus on this area. Table 1 presents specific actions toward operational priorities , including on

financial sector surveillance and real financial linkages. All these actions evolve around processes and procedures that we already have in place.

What I do not see that I would be in a position to require from the IMF is effective progress in terms of experts, methodologies, new resources, or reassignment of existing resources deployed in this particular area to strengthen and enhance the capacities of the departments of the IMF that deal with financial sector surveillance, and to improve the bilateral and multilateral instruments of surveillance we have in order to produce that integration. That would be the result I would want from this remit exercise.

Mr. Nogueira Batista made the following statement:

In this chair's gray in August 2007 on the setting out of surveillance priorities, we wrote that we were open to discussing the new instrument even though we had seen at that time no reason to believe that it would add value to the surveillance framework. I must say I continue to doubt that this exercise is adding much value to the surveillance framework, and I am skeptical about the usefulness of this.

If I may say so, this text here before us is rather trite and I do not really believe that we are making a great contribution. I would certainly be against taking this issue to the ministerial level, to the IMFC. We should not send it to Ministers because they would be a bit irritated with this. It is something that we really need to think carefully about. If we want to enhance the IMFC, we need to bring issues to Ministers that are of burning importance and not this sort of relatively empty statement.

In our gray we made two suggestions. We thought that the second priority could be premature, but we will not insist on that. If the consensus is to maintain it, we will go along. Where we do think we need a change is in the third priority to restore and strengthen confidence in the financial system. Let me suggest for your consideration that we had a better drafting for that in the previous Statement of Surveillance Priorities, which was the second economic priority then: "Strengthen the global financial system by upgrading domestic and cross-border regulation and supervision, especially in major financial centers, and by avoiding the exposure of capital-importing countries, including low-income countries, to excessive risks."

This previous version is better than the one we have before us now, because the new one has two important missing elements, as we stated in our gray. First, there is no explicit mention of upgrading cross-border regulation and supervision. Second, there is no reference to major financial centers, as in the previous version. We would agree with what is here, except that we would go back to the previous Bullet Point No. 2 in the previous SSP in substitution of Bullet Point No. 3 in the present one.

Mr. Talbot made the following statement:

We issued a gray and I will not repeat the points that we made in our gray. I just wanted to make a few points reacting to other Directors' grays and the comments that have been made this morning.

On the priorities themselves, we outlined our views in the gray. I think the one comment I would make following what I have heard today is that I would definitely not be in favor of deleting commodity prices from Priority No. 4. I think we have already collapsed that from what it was and I think we should not get rid of it altogether.

I join other Directors in supporting Mr. Bakker and Mr. Guzmán on their call for a fuller discussion of the future surveillance role of the Fund, particularly in the area of financial stability, as Mr. Guzmán has suggested. I think that is very important.

One thing that we did note in our gray was the disappointment that there was not more progress made on reporting in this document. I think the comments by Mr. Bergo and Mr. Guzmán today highlight this issue further. I think that there should be reference to how we have achieved our objectives rather than just a list of things we have done. I think there could have been more on that.

Finally, I would like to join the other chairs who suggested that we do not publish this document until it has been discussed at the IMFC. I see this issue in exactly the opposite way as Mr. Nogueira Batista. I think this is exactly the sort of thing that Ministers should be discussing at the IMFC. I think it is a good way to engage them, and I cannot think of many things more important than what the Fund is going to spend its time on in the field of surveillance. Hence, I think that we should discuss this at the IMFC and, as Mr. Legg said, an update from the Managing Director on how we have done relative to the priorities in the last 12 months would be entirely appropriate as well.

Mr. O’Sullivan made the following statement:

One of the great values of this particular document that we have today is that it is short and clear. I think it is necessary that we all resist the temptation to add to it. That said, I think we can all suggest a few improvements.

In relation to the second economic priority, which speaks of preserving room for future policy maneuver, I wonder if we should not perhaps talk about increasing room for future policy maneuver. Certainly, on the fiscal policy side, I think there would be broad agreement that there is inadequate room for maneuver at the moment. There are prospects for improving the room for future policy maneuver by tackling the effectiveness and efficiency of public expenditures, trying to deliver better value for money within the public sector, thereby improving public sector productivity, and freeing up resources to improve the room for fiscal policy maneuver.

I wonder if, instead of saying “preserve,” we might say “increase,” and that is analogous to a point which Mr. Legg has made in relation to Economic Priority No. 3. I would like to support his remark about switching the order of those two points.

Looking at the operational priorities, and again notwithstanding what I said about the value of a short document, I do think that one of the surveillance priorities for the next couple of years has to be around the question of potential output. We had a very interesting discussion this morning on the lessons that can perhaps be drawn from these 88 financial crises, and the impact that they have had on potential output.

I wonder if that type of information cannot be supplemented—that is essentially a backward-looking, top-down exercise. Is there scope for supplementing that kind of information by forward-looking, bottom-up exercises, the kind of information which can be gleaned from heads of mission who speak to individual countries about how they see potential output evolving in their own countries, and what are the particular policy measures they plan to take to try to boost potential output? Could we bring together in some way the backward-looking, top-down information that we get from an analysis of the impact of previous crises on potential output, and supplement that with a bottom-up approach from the country level filtering up into Fund management and Fund thinking? I do think that potential output has to be one of the priorities for surveillance exercises over the next couple of years.

The third point I wanted to make is with respect to the IMFC. I was very interested by Mr. Nogueira Batista's remarks about the possibility of a rotation. I think I would be prepared to court that risk. It would be our view that, at a minimum, these priorities need to go to the IMFC for endorsement. I am agnostic on whether there would be a meaningful discussion, as some have called for it, but I do think it is important that they should be aired and I think it would be of value if they could be endorsed by the IMFC.

Finally, I would like to echo some of the questions posed in Mr. Bakker's gray. I think he posed some interesting questions about the balance of surveillance between bilateral and regional and multilateral surveillance, and stressed that greater attention needs to be paid to Regional Economic Outlook documents.

Mr. He made the following statement:

First, I share the skepticism expressed by Mr. Nogueira Batista. At a certain point, we should review the usefulness of this Statement. , We spent so much time debating on the document and we missed the major risk. But, I am open to discuss all this, and maybe next time we can do better.

On Bullet Point 4, on the trade and commodity prices, some Directors have different views. This point misses the key thing. The key solution to rebalancing is to raise potential growth where it is low.

I fully agree with Mr. O'Sullivan that at a certain point we should look at the possibilities of how to not only estimate potential growth, but also how to make room for raising potential growth. That would also be consistent with a key purpose of the Articles of Agreement, to facilitate growth. The fundamental approach to achieve that is to promote structural reforms.

When I looked at the GDP contribution over the last four to five years, I found that, since 2005, the contribution of advanced economies to global GDP growth has never exceeded 34 percent. This suggests that we should really look at this large segment of the global economy, the advanced economies, and at what is constraining their contribution to GDP growth.

They are supposed to have good institutions and highly-educated people, as well as open trade and capital accounts. What is constraining their growth? Is there any room for increasing productivity and potential growth in this large segment of the global economy? I prefer that the structural element be kept in Bullet Point 4. It is much more critical than the two listed here.

Mr. Chua made the following statement:

First, I can support the call by Mr. Bakker for the Board to spend more time on the broader issues relating to what the Fund's surveillance should be. I think he raised very important questions in his gray.

Second, I do not support the insertion of the phrase "promote the orderly reduction of global imbalances." As I mentioned this morning, that should not be our objective. The dispersion of current account balances is an inherent part of globalization; it is not necessarily bad. It can in fact be an efficient means of allocating global savings.

Hence, I favor the staff's proposal to have more specific language about rebalancing the sources of global demand. It gets us closer to the issue that we are all concerned about. If we are going to insert the reference to global imbalances, I think we need to be even-handed. The surpluses and deficits are two sides of the same coin.

Part of the solution to global imbalances must be for the deficit countries to undertake structural reforms in factor markets, such as labor markets. So, we should insert a reference to the need for structural reforms to raise potential growth, as suggested by Mr. He and Mr. O'Sullivan.

Mr. Ducrocq made the following statement:

First, on the second priority, we very much support the proposal by Mr. von Stenglin to include the reference to exit strategies in this language since this is clearly seen as an important issue in the months ahead and also an issue where the Fund is expected to engage more deeply. On this second priority, however, I will not favor deleting the part about broader public sector balance sheets. I agree that that is going to be certainly a major issue, but it is something different obviously from what we tried to capture with this wording about public balance sheet issues.

We all agree that there are some important challenges associated with the large expansion in central banks' balance sheets in recent months. Hence, I think we should keep the reference to this because, as much as debt sustainability considerations will reduce the room for fiscal policy, the room for monetary policy could also be affected. We should be comprehensive on this.

On the third priority, I can fully support the language proposed by Mr. Gibbs regarding domestic and cross-border regulation and supervision.

On the fourth priority, we will not favor deleting the reference to commodity prices. Mr. Talbot was right in saying that this is clearly a major concern and also a major risk to the global economic outlook. We would favor keeping the language as proposed by the staff.

On the issue of what we should do with the Statement, as Mr. Legg said, we are discussing ways to strengthen ministerial and political engagement. It would be certainly useful for Ministers to engage in this discussion and at least endorse the Statement. Hence, like Ms. Zajdel-Kurowska in her gray, we very much support endorsement of these priorities in the IMFC Communiqué.

Mr. Lushin made the following additional statement:

Let me first of all support Mr. Nogueira Batista who invited us to consider keeping the previous bullet from the previous Statement of Surveillance Priorities on strengthening the global financial system, because it indeed sounds better than the current one, with maybe one addition from the latest version—"promoting greater market discipline" could be added to the bullet that we already adopted.

On a more general issue, I very much share the skepticism expressed by Mr. Nogueira Batista on this whole exercise. The reason why I did not mention it from the very beginning is because I have been quite outspoken on this issue on previous occasions, so I just decided to somewhat slow down this time. Since this discussion emerged anyway, I would just like to express my view.

We cannot be serious about thinking that what we write in this Statement will somehow result in the quality and effectiveness of the Fund's work. I view it mostly as a public relations exercise which makes the general public more aware of our goals, but I do not believe we should seriously see it as aremit for Fund staff that they should follow in their work.

Whatever we write in the Statement has no bearing on what happens. Mr. He's comments are very illustrative to this end that, having just invented this remit or Statement of Surveillance Priorities, we missed the largest crisis. Hence, it all boils down to the fact that the usefulness of all this exercise is limited.

Ministers may not be interested in doing what we are doing right now, I am very much afraid this will be an invitation for them to leave after just several minutes of a discussion of this sort. I would very much suggest that we do not burden the Ministers with this kind of discussions, because they may have much more serious issues to discuss.

Mr. Spadafora made the following statement:

Just a few remarks on top of what we wrote in the gray statement. On the second priority, maybe there is some room for improving the formulation of the last sentence, because my understanding is that there can be some misunderstanding about what the word “safeguarding” is referring to. I do not think that “safeguarding broader public sector balance sheets” is the meaning of this.

If the meaning is too vague with regard to the longer-term implications of crisis-related measures, we agree with including the expansion of central banks’ balance sheets, , but this should be reformulated in some way. Otherwise, it is not clear to me what “safeguarding broader public sector balance sheets” implies.

Regarding the calls on the part of some Directors to discuss the future of surveillance and, in particular, the role of financial sector surveillance, we are open to the idea, because it is so important for the Fund. But there will be the review of the FSAP next week and, in particular, the integration between the FSAP with Article IV surveillance. That is already an institutional occasion to discuss these issues.

Besides, how does the proposed discussion on the future of surveillance fit into the institutional occasion to review surveillance which is scheduled for 2011? My concern is that there can be a risk of proliferation of discussions on surveillance on the side of the institutional occasions to discuss surveillance.

If we have to discuss the future of surveillance, maybe it is still an opportunity to bring forward the 2011 surveillance review. Otherwise, it is not clear to me why we should discuss this important topic in parallel with the discussion of the FSAP or the future of the next review.

Mr. Patra supported the change proposed by Mr. Nogueira Batista on Bullet Point 3.

Mr. Pereira made the following statement:

We do see merit in the staff’s proposal, although we also underscore that much will hinge on the implementation and strengthening of the comparative advantages. We do think that this is a very timely revision and it will help focus our bilateral surveillance on this key priority. We used to say that we will resolve financial market distress as one of the first key priorities and now we go to a much broader concern, which is to support the demand through active policies. I think that is very welcome.

Equally, on the last priority, when we used to talk mainly about global imbalances, we moved to a much broader and more important concept, which is to rebalance global demand. Like Mr. Chua, I very much support the idea of moving in that direction.

Before coming to the Board, I was reading the governance report and the staff says clearly that we need to move away from the global imbalances through the prism of external stability, something that I believe is important. I do think that the staff’s proposed language on rebalancing global demand is much more constructive than simply stating that this is about reducing global imbalances. I think that I would stick to the language that the staff has proposed now.

I do see merit, and we say it in our statement, in the original formulation of how to strengthen the global financial system. I understand that the staff may try to streamline the proposal, but I do think that we may lose some concept when we get rid of the focus on major financial systems and cross-border regulation. I think that was very helpful in the past and will be very helpful to guide the staff in the conduct of surveillance, and to ensure a coordinated and consistent approach to regulatory and supervisory reforms that avoids regulatory arbitrage. I think that it would be very helpful to stick to the previous language.

On commodity prices, either we just delete the last sentence on the fourth priority or go to a broader formulation such as the one put forward by Mr. Rouai in terms of external shocks, nothing broader than specifically highlighting commodity prices.

On operational priorities, I do think that we all agree on the importance of coordination and concerted actions. So, perhaps strengthening the importance of multilateral surveillance in Article IVs—particularly from a regional and multilateral perspective—will be very important.

Finally, Mr. Bakker, I do agree that we need more discussions on surveillance. Mr. He and my chair have called for a revision of the 2007 Surveillance Decision. I think that that is in line with the main goal of surveillance and in terms of tackling the post-crisis challenges.

Mr. Rouai made the following statement:

On the issue of the Statement and endorsement by the IMFC, I would like to draw Directors' attention to the difficult understanding reached last time and summarized in the minutes of the Board meeting, which was basically constructed around three ideas. First, the Board agreed with the Statement, which would be issued through a Press Release. The SSP could then be included in the documentation by the MD to the IMFC. It is indicated that, if the IMFC wishes to endorse the SSP, that would also be welcome, with the clarification that the SSP was a document approved by the Executive Board. So, this is the understanding I have and this is why I am against a discussion of the document by the IMFC.

The only thing which remains unclear to me is what the relation of the updated Statement compared to the old one is. Is it a simple update or a replacement of last year's Statement? I would appreciate staff's clarification in this regard. Related to this, are we taking a decision which will replace the old one? Do we need to abrogate last year's decision? The staff's clarifications are welcome in this area.

Ms. Zajdel-Kurowska noted that the endorsement of the Statement by the IMFC had been controversial in the past and opposite views had been expressed on the matter and asked the staff how any changes to the Statement should be communicated. In the past, the IMFC had been informed by the MD and then the Statement had been attached to the IMFC communiqué.

Mr. von Stenglin made the following statement:

I agree with those Directors who advocate a more in-depth discussion of the Fund's future role in surveillance. From a governance perspective, I would like to underline that the SSP cannot and should not restrict the Board's role in the Fund's surveillance activities. I understand that the SSP can be modified at any time by the Board.

I think it is not necessary that the IMFC reopen the discussion again and the decision that had been taken by the Board. However, I think it is quite useful for the IMFC to endorse the SSP. Of course, the IMFC can send it back to the Board for clarity.

I have a few remarks on the economic priorities. I will start with the second priority. I did not understand the broader public sector balance sheet issue. I look forward to an explanation from the staff.

On the third priority, we proposed for linguistic and logical reasons to change the language to "strengthen" the financial system. I think the wording "restore and strengthen" implies that the financial system will be given back its former strength with all the deficiencies. Another point, and still on the third priority, is that I can support those Directors who suggested that the priorities should also mention the importance of a coordinated and consistent approach to regulatory and supervisory reforms that avoids regulatory arbitrage, fragmentation of markets, and protectionism.

On the first priority, we propose to insert the phrase "orderly reduction of global imbalances." Maybe we can insert in this proposal also the "orderly reduction of unsustainable global imbalances," to bring it closer to Mr. Chua's position.

I think that the Board not only sets the surveillance objective, but also ensures consistency with the Fund's mandate. I share Ms. Lundsager's concern regarding the prominent and potentially permanent mention of trade in the SSP. Nevertheless, in these extraordinary times, I support the notion of open trade and competition as a surveillance priority.

I think maybe we can come later to that discussion. I wish the staff well for combining all the nice proposals and for presenting a new Statement.

Mr. Talbot defended the Statement of Surveillance Priorities in response to criticism expressed by some Directors that, despite setting the priorities, the biggest financial crisis was missed. According to the paper, the priorities were brought in October 2008, at which point Lehman Brothers had already collapsed. The criticism that the Fund and other people missed the financial crisis was fair, but it could not be aimed at the Statement.

The staff representative from the Strategy, Policy, and Review Department (Ms. van der Willigen), in response to questions and comments from Executive Directors, made the following statement:

> Let me address some general points and questions in the grays and from this afternoon's discussion, and Mr. Erickson von Allmen will address more specific questions on the proposed drafting of the economic priorities.
>
> There were a number of questions on how this paper, both the Statement and the report on the operational priorities, fits into the broader picture, starting with the famous question about the process vis-à-vis the IMFC. Mr. Rouai stole my thunder in reminding us of the agreement that the Board reached after an intense debate last year. We do expect now to follow the same process as last year. We would expect the Board to adopt the Statement of Surveillance Priorities. It would be published as the Board's Statement before any discussion at the IMFC, with a Press Release explaining what we are doing. It will be presented to the IMFC as an IMFC background document to inform the discussion on surveillance, if people choose to find it interesting. Finally, we would hope that the IMFC would endorse it and that that would be noted in the IMFC Communiqué.
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> As Mr. von Stenglin pointed out, it is possible that, despite all the wisdom assembled in this room, the IMFC is going to come up with some supremely bright idea to change the Statement which, in turn, convinces the Board that the Statement needs to be changed, in which case it is open to you to revise it. The Statement is the Board's statement and we would expect the IMFC to endorse it rather than approve it or amend it.
>
> Another set of general questions related to whether we could do more thorough reporting on the operational priorities now. Unfortunately, I have to say that, in practice, the answer to that is largely no. I think anecdotally, we are all convinced—I hope Directors share my view—that there has been a lot of progress on the operational priorities, for instance, on financial sector surveillance and on taking more of a multilateral perspective. Certainly, several grays emphasized that they see that. Unfortunately, to establish this as a fact beyond anecdotal evidence requires a lot of work. It requires a Triennial Surveillance Review. You saw last year when we did that what a massive amount of work and paper it is, including for Directors to read and digest. So, producing such a review takes time. The review is not really worth starting until there has been time for the operational priorities to result in significant incremental progress, so we can measure that progress. That is why we are

reporting now on the actions and why the Triennial Surveillance Review will follow only in two years' time.

That said, I think it downgrades the table attached to this paper to think of it only as actions. There are things in the table that are shaded toward results, the Early Warning Exercise for instance. It is listed as an action, but the fact that we are doing the exercise and output is coming out of it, one could almost think of it as a result. Ultimately, the result is whether the Fund has an impact on the world economy. That is extremely difficult to measure even in a Triennial Surveillance Review. We are stuck with the constraints this year.

There were questions on whether the SSP has had an impact on the Fund's use of resources. Some Directors also worried more generally about its usefulness. I will address the question on whether it is having an impact on what we do, which is essential to having a wider impact.

Overall, the work has definitely shifted toward the operational priorities. This is not always immediately visible in quantitative budget numbers, like departmental budget allocations, because these numbers do not capture crucial changes in work at the country desk level. But recent area department output provides strong evidence of this shift. I would refer you, for instance, to the paper that you will discuss on Integrating Financial Sector Surveillance, where there is a box showcasing recent area department efforts to advance the work on financial sector surveillance and real financial linkages. Another example is the creation of cross-country working groups in MCD. MCD has created working groups—cross-country—within its Department targeting each of the operational priorities, and information can be found on that on their website. Let me just emphasize that plenty of efforts are being made in this direction in area departments. They are also visible in the strategies set out in departments' business plans. Just to quote a couple of examples, APD's business plan strongly emphasizes financial sector risk assessments and real financial linkages. The European Department emphasizes regional work on systemic countries. Often this needs to be tailored to what matters in particular regions. As a final example, MCM's business plan emphasizes a shift toward more global monitoring and cross-border linkages.

At an even broader level there were questions on the framework for surveillance more generally, and how the Statement of Surveillance Priorities relates to the sense we have that we may need to look at modalities of surveillance, and the overall framework for surveillance. The operational priorities are not intended to represent everything that is going on in terms of modernizing surveillance. They are intended to guide the implementation of surveillance under current policies. We have a lot of work ongoing at the same time in terms of policy reform. The FSAP review was mentioned today which is coming on Monday. Another example that is important for traction is the upcoming transparency review, which will come to the Board shortly after the Annual Meetings. The Work Program discussion will provide an opportunity to take stock of those efforts and discuss whether more is needed.

There was a question on the accountability framework for surveillance. The Statement of Surveillance Priorities, as Directors will remember, was intended to improve the accountability framework in the sense of crystallizing some objectives against which we could do tighter monitoring, in particular in the next Triennial Surveillance Review. We also have the IEO for independent evaluation, in addition to the Triennial Surveillance Review. But to the extent that the accountability framework involves questions about the respective roles of the staff, management, and the Board in conducting surveillance, I cannot address these here; those would naturally be part of the debate on governance where the role of the Board is being discussed.

Turning to the economic priorities, I will make a few general points. There was a worry about whether this is the right time to change the economic priorities. We would argue that we need to change them. The economic priorities were meant to have a longer-term orientation, but they were also meant to be revised in light of circumstances so that they remain relevant. The world has changed so much since a year ago that, if we did not revise them now, they would end up sitting on the shelf without a hope of providing a guide to surveillance. So, if we want these to work, we feel that we do need to revise them now. I think there is a good deal of agreement on that among Directors. It is true that we may need to revise them again before 2011, given the speed with which things are changing. That is always a possibility.

In response to Mr. Rouai's question this afternoon about the three-year time horizon, it is true that we are proposing to change the economic priorities, but not the operational priorities and so, in a sense, they are becoming a little unsynchronized. We felt that it was more useful to keep the cycle of reviews synchronized, so that 2011 would become a watershed for revising the whole thing, at the time of the next Triennial Surveillance Review. I take your point on drafting that having the title say 2008-11, valid for the next three years, may be a little confusing. We will have another look at that. Perhaps Mr. Rottier found the solution when he suggested putting Statement of Surveillance Priorities—"updated in 2009."

On Mr. Rouai's other point on whether we need to abrogate last year's decision, my Legal Department colleagues assure me that the previous Statement is automatically abrogated through a decision to adopt a new one.

I will make a final point on the economic priorities in general before I turn to my colleague. There were a lot of good suggestions about these, and I appreciate Mr. von Stenglin's wish of good luck in trying to deal with these suggestions. The process that we plan is that we will reflect on all the suggestions. We will, like last time, circulate a red-line version for any remaining comments, like a policy summing up, and then we would put forward a further version for lapse-of-time approval by the Board.

I do want to make one general point on all these suggestions. We have tried to keep the economic priorities simple. When we came to the Board a year ago, we were told rightly that what we had come up with was trying to build in too many subtleties and nuances, and had got too complicated. Usually, drafting by Committee complicates, but a year ago it actually helped us see that simplification was needed and that what really matters is what people can carry around in their head. If you cannot carry it around in your head, it is not going to affect what you are thinking about.

So, we will think very carefully about all the suggestions that were made. I am not saying that what comes back to you will not be a little more complicated, but I would just ask that you bear in mind, when you see the new version, that we may have tried to err a little on the side of simplicity to keep it "portable" in one's head.

The staff representative from the Strategy, Policy, and Review Department (Mr. Erickson von Allmen), in response to questions and comments from Executive Directors, made the following statement:

Having heard all the various comments on the economic priorities, my response is more to explain why we have it the way we have it. On the exit strategy, there were quite a few questions on why we do not have them explicitly mentioned in one of the bullets. The way we thought about it was: the whole change in the economic priorities was motivated by the fact that everyone is now talking about exit strategies, as opposed to the situation we had last year. So, we have exit strategies as an overarching, guiding motivation in the text before the bullets with more specific focus. We did not exit strategies in the specific bullets because we felt that elements of exit strategies exist in many of the bullets, not just in one.

On a specific point on what we mean by broader public sector balance sheets, I understand now that perhaps the paper was not so clear. We had in mind what Mr. Ducrocq referred to as concerns about the swelling of central bank balance sheets, not just the government's own debt sustainability.

There was also a question on what we mean by "orderly rebalancing" and there was a fear that we could mean all kinds of things. By orderly we simply mean that policies need to be tailored in such a way that they are not disruptive to markets or the global recovery, similar to what was discussed a month ago on the Baltics strategy in the Board, which stressed the importance of taking into account cross-country specifics, but also the need for coordination in unwinding these initiatives. In particular, on the point on coordination, it is important to avoid the kind of things that were pointed out by Mr. Kishore in his gray.

On commodity prices, the reference is vague. You will recall that last year there was a whole bullet on commodity prices. It was a much more prominent policy topic. This year this issue has become less pressing for policymakers. At the same time, we felt that one lesson from the past is that, as the economy recovers, at turning points, commodity prices might well resurface again as an issue so we felt a need to keep some spotlight on it. We heard many comments on how this reference may or may not work so we will need to consider how we keep it.

Mr. Chua wondered whether the focus on capital-importing countries was meaningful when we talk about risk management. Certainly, good risk management capacity is desirable for all countries and I think the economic priority already includes some points on upgrading regulation and supervision that is relevant for all members. I think some of the suggestions that were made on that bullet would perhaps add more to that. But the reason we have an explicit reference to capital-importing countries, and this was something that was also there last year, is that there is a strong sense that risk management practices in capital-importing countries are needed to build up resilience against not only shocks that are home-built but also shocks that get imported from somewhere else.

Finally, there was a question on what we mean by promoting greater market discipline. When the Board discussed early this year the initial lessons of the crisis, one of the conclusions was that the current financial crisis was rooted in a failure of market discipline in systemically important countries. The staff paper pointed to misaligned incentives, excessive leverage and risk-taking, and all that ultimately led to systemic risk. So, that is the backdrop to why we have a reference to promoting greater market discipline. It does not mean that we think that it would be in itself sufficient. Market discipline needs to be underpinned by regulation and supervision, and those are also mentioned in that same priority.

Mr. Schilperoort made the following statement:

I did not speak because my points were basically made by other Directors. Now that I hear that the staff will go back to reflect on the changes, let me add my support to the suggestion to go back to the original proposal for Priority 3 on financial stability. I think that addresses many concerns around this table. It addresses the point made by Mr. Gibbs and Ms. Fisher, supported by many Directors, to have cross-border regulation still addressed. It addresses the point of Mr. Kishore, Mr. Nogueira Batista, and other Directors who would like to keep a reference to advanced economies. It addresses the point of Mr. Fayolle on why low-income countries are no longer in the Statement, and also the point of Mr. Chua on why we mention only capital-importing countries. Hence, I think the advantage of the old sentence was that all groups are mentioned, including the important fact of cross-border regulation that was supported by many Directors today.

In doing so, I support Mr. Legg's suggestion to make it the second priority. I think restoring the financial sector is still key at this point. I would also support Mr. Lushin's comment to add "greater market discipline," which is new, to the old Statement.

Finally, I am very happy with all the comments by Ms. van der Willigen on what the Fund is already doing to improve financial sector surveillance, and how we can improve traction and work better with the FSB. However, it is always a little hard for the Board to control what is actually happening. I think we can trust management to a large extent and wait until the Triennial Surveillance Review. However, when we addressed this point in the past, we have asked whether we can see the departmental business plans, because we can then actually follow what the departments are doing. I might be mistaken but the answer is always, the Board will get to see the results. But, in the past year I have been here, I cannot remember discussing it, so maybe the staff could clarify that.

Mr. Talbot made the following additional statement:

Thanks very much to the staff for their answers. I just wanted to come back to a couple of points. On the point about Table 1 and whether it is sufficient, I fully understand what the staff is saying that we cannot undertake a Triennial Surveillance Review every year. But certainly when I shared this document to my authorities they drew my attention to the reference that the Managing Director will report regularly on actions toward priorities and readily visible results. They felt that the table was good on the actions but not so good on the visible results.

I wonder whether something in between the Triennial Surveillance Review and Table 1 might be possible to present. I have to admit when I read through Table 1, I saw things like setting up a Macro-Financial Unit or creation of internal country-specific SharePoint web pages and I immediately asked myself what the staff doeswith these. I do not know what the internal country-specific SharePoint web pages are and what they are facilitating. Hence, I wonder whether there should not be slightly more than there is in Table 1.

Second, I may have missed it, but I understand we agreed the process last year in terms of how we engage with the IMFC, and I think I heard Ms. van der Willigen say that this will go as a background document to the IMFC. Will there be a report from the Managing Director on how we have achieved these priorities? Again, to come back to what I said, the Managing Director is going to report regularly on progress on the priorities. So, will there be something more than this?

I certainly would emphasize again that my authorities thought this was a bit thin in terms of whether we have achieved these priorities. I think that we are at a very important juncture at the moment. The world is moving very fast. I think we need to assess what is going on and we need to assess whether we are achieving our priorities. Clearly, we cannot do a huge exercise, but I think we may be able to do slightly more than what is in Table 1.

Mr. Legg made the following statement:

I, too, would like to thank the staff for their answers. I was very impressed, like Mr. Talbot was, with the sense that behind this short paper there is plenty going on and I take a lot of comfort from that. I can understand those Directors who are concerned to get very short papers that seemed to collapse plenty of things down into very simple language and it may sound as if it is just a press relations exercise, but there seems to be some substance behind this. We seem to think there is because we spent some time trying to rewrite it. So, I am pleased by that.

I share Mr. Talbot's views about the reporting. I would like to know a little bit more. The way in which the staff has explained how this would be presented to Ministers was something I could live with, but we have just seen the IMFC draft agenda and there is reference to a discussion on surveillance.

I am not certain what Ministers are going to discuss on surveillance, but it would be strange if, when they have that discussion, they are not made aware by the Managing Director of the fact that this is how we are going to assess our priorities and we have just changed them because the global situation has changed. It would be strange if somehow the document sat in the background and was never actually drawn to their attention in some way.

So, I would be interested in knowing exactly how this Statement fits with the proposed discussion on surveillance, which I understand is on the tentative agenda.

The staff representative from the Strategy, Policy, and Review Department (Ms. van der Willigen), in response to additional questions and comments from Executive Directors, made the following further statement:

How will this Statement inform the IMFC discussion? It is hard for me to respond to that because I cannot manage the Managing Director, who will be leading the Fund's contribution to that discussion. Perhaps the First Deputy Managing Director could answer that better.

Both the Statement and the table are intended to be background issued for the discussion on surveillance that you see on the IMFC agenda. Obviously, there is also additional material issued by the Managing Director on the role of the Fund, which will also inform that discussion. As I said, quite how this will proceed is not for me to speculate on.

In terms of the reporting that we do, the table is intended to be the only formal report. I hear what you are saying that next time we need to push more toward the readily visible results. I think we were perhaps a little glib about how easy or difficult that would be when we said a year ago that we would do that. It is actually very difficult to point to readily visible results at the end of the chain of impact and, very quickly, if you move back up the chain, you get a laundry list. I understand your point that we should see what we can do next time to move toward showing results.

Of course, there are other inputs to the IMFC where some of the other things that we are doing will be brought up, including the more anecdotal evidence of what departments are doing.

The Acting Chair (Mr. Lipsky) responded that he believed that the discussion in the IMFC would be a high-level, forward-looking discussion on the role of the Fund looking toward a post-crisis environment. There would be a statement by the Managing Director to the IMFC that would be presented to the Board first, which would clarify that the discussion was not intended to be a narrow review of the Statement of Surveillance Priorities but rather a broader one.

Mr. Legg remarked that he did not see those principles presented in the Statement as being narrow, but forward-looking. The short document talked about something that was fundamental to what the Fund did. The priorities were a very broad set of objectives for a core part of the Fund’s work.

The Acting Chair (Mr. Lipsky) made the following statement:

They are indeed broad objectives, but what I said was that I did not anticipate that the tenor of that discussion was going to be a review of this document.

Thank you for your comments and suggestions. I think many of them were very good and very insightful. We will revise the Statement. I should say obviously that this subject is important. It is not easy to compress all these ideas into a compact Statement and make it meaningful and useful. We are doing our best.

We will revise the Statement of Surveillance Priorities in light of all your comments. Then as was described, we will circulate it back for your final review before sending it out for lapse-of-time approval.

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SIDDHARTH TIWARI
Secretary